BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for increase in rates by Progress Energy Florida, Inc.

DOCKET NO. 090079-EI

Submitted for filing: August 31, 2009

REBUTTAL TESTIMONY

OF

JACKIE JOYNER

On behalf of Progress Energy Florida

PROGRESS ENERGY FLORIDA

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DOCKET NO. 090079-EI

Petition for Increase in Rates by Progress Energy Florida, Inc.

REBUTTAL TESTIMONY OF JACKIE JOYNER

August 31, 2009

Q. Please state your name and business address.

A. My name is Jackie Joyner. My business address is 299 First Avenue North, St. Petersburg, Florida 33701.

Q. By whom are you employed and in what capacity?

A. I am employed by Progress Energy Florida, Inc. ("PEF") as Vice President of Distribution.

Q. Have your duties and responsibilities remained the same since your testimony was last filed in this docket?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address certain assertions and conclusions made by the Office of Public Counsel ("OPC") witness Helmuth Schultz and Florida Industrial Power Users Group ("FIPUG") witness Martin

Marz in their direct testimony filed on August 10, 2009 in Docket No. 090079-EI.

Q. Are you sponsoring any exhibits to your rebuttal testimony?

A. No.

Q. Would you please summarize your testimony?

A. My testimony addresses the statements made by Mr. Schultz and Mr. Marz in reference to Distribution's 2010 Operation and Maintenance ("O&M") expenditures request. Mr. Schultz and Mr. Marz advance two relatively simple arguments that are easily dismissed as inaccurate when subjected to analytical scrutiny. First, Mr. Schultz alleges that PEF Distribution has a $7.7M variance in its O&M request that cannot be explained and should therefore be denied. My rebuttal testimony, however, shows that this alleged $7.7M variance is a product of Mr. Schultz's lack of understanding of supporting Minimum Filing Requirements ("MFR") and documentation rather than a true variance.

Next, Mr. Schultz and Mr. Marz both imply that PEF has "heavy loaded" its 2010 test year expenses for distribution by deferring storm hardening expenses until 2010. However, my rebuttal testimony shows that contrary to their assertions, PEF Distribution has actually lowered 2010 expenses through its prioritized vegetation management plan, a fact that neither of these witnesses apparently investigated prior to filing their testimony.

DISTRIBUTION O&M EXPENSES

Q. Mr. Schultz contends that PEF has a $7.7M O&M variance that PEF cannot explain or account for. Do you agree with Mr. Schultz's statement?

A. No.

Q. Please explain why you disagree.

A. Mr. Schultz's testimony suggests a lack of familiarity with the methodology behind the MFR Schedules. The MFR Schedules themselves were created by the Florida Public Service Commission and are used to establish PEF's 2010 Adjusted Test Year O&M of $144.9M. I will explain the breakdown of the $144.9M which, in turn, demonstrates that the alleged $7.7M gap cited by witness Schultz does not exist.

MFR C-6, Pages 69 and 71, represent the historical detail of our O&M expenditures broken down into nineteen separate and distinct FERC accounts (FERC's 580 – 598). Schedule C-6 is used to derive the "Base Year Adjusted O&M" found on MFR C-37 (Page 141, Column D). It's important to note that in the base year of 2006, PEF's actual O&M expenditures total $114.4M, which represents the sum of $66.3M (FERC 580 accounts on C-6, Page 69) and $48.1M (FERC 590 accounts on C-6, Page 71). The 2006 Base Year Adjusted O&M of $114.4M is multiplied by a compound multiplier of 1.1415 found on MFR C-40 (Page 147, Column H). The methodology for determining the compound multiplier was established by the Florida Public Service Commission and represents the percentage change in PEF's average total customers and average CPI since 2006. Multiplying the 2006 Base Year Adjusted O&M of $114.4M by the compound multiplier of 1.1415 yields the 2010 Test Year Benchmark of $130.6M, which is reflected on MFR C-37 (Page 141, Column F). The variance between the 2010 Test Year Benchmark of $130.6M and the 2010 Adjusted Test Year O&M of $144.9M is $14.3M which is reconciled on MFR C-41 (Page 156, Lines 16-20).

MFR C-41, Pages 157-158, provide a detailed explanation for the variances associated with Vegetation Management, Environmental, Operational Cost Efficiencies & Re-organization, and FERC Account Reclassifications with respective amounts of $13.9M, $2.6M, $(6.3M), and $4.1M.[1] These variances equal $14.3M. Adding the $14.3M variance to the 2010 Test Year Benchmark of $130.6M yields the requested $144.9M Adjusted 2010 Test Year O&M amount. Thus, Mr. Schultz's assertion that PEF has an unexplained variance of $7.7M is simply incorrect as the

[1] In 2008, the TRIP program, which was recoverable via the Environmental Cost Recovery Clause ("ECRC"), came to a close. This shifted maintenance costs from ECRC recovery to base rates resulting in the additional increase of $2.6M to the Distribution O&M expenses in 2010.In addition, the FERC re-class from Transmission are costs that in 2006 were reflected in Transmission FERC accounts 566 and 556. These costs are now accounted for in Distribution FERC accounts 582 and 592, which reflects an increase of $4.1M.

exercise above shows and as Table 1 below demonstrates.

TABLE 1: BREAKDOWN OF DISTRIBUTION O&M FOR 2010

FERC 580	66.3			
FERC 590	48.1			
Base Year Adjusted O&M		114.4		
Compound Multiplier		x 1.1415		
Test Year Benchmark			130.6	
Vegetation Mgmt		13.9		
Environmental		2.6		
Op Efficiencies & Re-org		-6.3		
FERC Reclasses		4.1		
Variance from Benchmark			14.3	
Adjusted Test Year O&M				144.9

STORM HARDENING AND VEGETATION MANAGEMENT

Q. Mr. Marz claims that Storm Hardening initiatives were in place in 2006 and therefore should not cause an increase in costs to PEF's Storm Hardening and Vegetation Management costs. Do you agree?

A. No.

Q. Why do you disagree?

A. First, there is no question that since 2005, the year of PEF's last rate case settlement, PEF has spent more money on vegetation management due to hurricane hardening regulatory requirements. Prior to those requirements being enacted, PEF spent approximately $14M per year on vegetation management. Spending increased from about $14M in 2005 to an average of about $19M from 2006-2009. This increase represents about

$21M over the four year period ending in 2009. In other words, PEF spent approximately $21M more on tree pruning during these years under the hurricane hardening requirements than was provided for under the 2005 rate case settlement.

Q. Mr. Schultz suggests that PEF did not trim the required miles during 2006 – 2008 thus creating a shortfall in 2010. He contends that the significant increase in costs from 2009 to 2010 are purposely being deferred to the 2010 projected test year. Do you agree with this assertion?

A. Absolutely not. The vegetation management plan for 2010 includes miles necessary to keep pace with a 3-year backbone cycle and complete the fifth year of a 5-year lateral cycle. What Mr. Schultz doesn't address is that PEF has spent over $20M additional dollars during 2006 – 2009 as discussed above. Therefore, by increasing the amount spent for vegetation management from 2006-2009, PEF was able to meet the 3-year backbone cycle requirement in 2008 and reduce the number of miles that would otherwise be needed in 2010 to meet the required 5-year cycle for laterals. Because of this effort, PEF has actually reduced the amount that would otherwise be needed in 2010 to meet the Commission's 3/5 year cycle requirement, the exact opposite of the result that Mr. Schultz alleges.

Q. Why are PEF's Vegetation Management costs projected to be higher in 2010?

A. The vegetation management plan for 2010 includes miles necessary to keep pace with a 3-year backbone cycle and complete the fifth year of a 5-year lateral cycle.

Feeder backbones are 3-phase trunk lines that serve large numbers of customers and have the greatest impact on system reliability. Backbones are typically located along major roads and are relatively accessible to tree crews and pruning equipment. Feeder laterals are branch lines extending from backbones that serve fewer customers. Laterals extend for many miles and are typically less accessible than backbones. In many instances, lateral lines are located in back-lot areas far removed from roads, which necessitates climbing and manual pruning. The cost to prune a mile of line varies widely across PEF's system and is driven by factors that include accessibility, density of vegetation, and man-hours required to prune and remove vegetation material. Feeder backbones and accessible laterals generally yield a higher reliability benefit per dollar spent than inaccessible lateral lines.

In 2006, PEF began implementation of the Commission's hurricane hardening rule. The hardening rule includes a requirement to complete tree pruning on a 3/5 cycle. Based on this rule, feeder backbone miles must be trimmed every 3 years and feeder lateral miles every 5 years. When enacted, the rule identified an increased required scope of work, but it did not provide additional maintenance dollars that are required to be spent over those established in the 2005 rate case settlement.

Accordingly, tree pruning in all years has been prioritized based upon expected impact to system performance. Annual schedules were established by PEF to yield maximum reliability benefit and customer satisfaction for each dollar spent. Prudent spending on vegetation management has been a major factor in PEF's sustained and consistent reliability performance. By increasing the amount spent for tree pruning, instead of "heavy loading" 2010, as witness Shultz and Martz suggest, PEF was able to meet the 3-year backbone cycle requirement in 2008 and actually reduce the number of miles that would otherwise be needed in 2010 to meet the required five year cycle for laterals.

Q. Will PEF's Vegetation Management requirements decline after 2010?

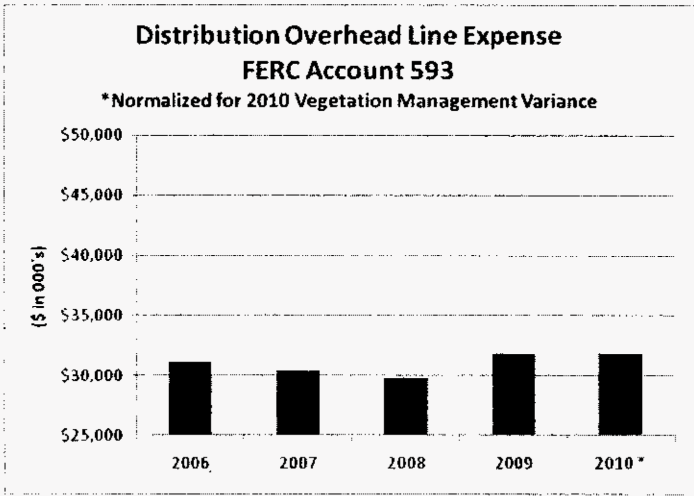
A. Annual costs fluctuate up and down for the reasons stated previously and it is possible that the annual O&M needed to remain compliant with the Commission's 3/5 cycle could decline after 2010, just as it is possible for those costs to remain constant or increase. However, the fact remains that $34.5M is required in 2010 to meet regulatory obligations, and PEF will continue to aggressively manage costs and prioritize pruning miles for optimum reliability and customer satisfaction in2010 and beyond.

Q. Do you agree with Mr. Schultz's suggested reduction of $8.9M to PEF's Distribution O&M expense budget?

A. No. Mr. Schultz's proposed reduction is arbitrary at best and does not attempt to address or acknowledge how distribution systems must be maintained and operated. PEF needs the amount of funds it has requested to meet the required 3/5 year cycle for distribution's backbone and lateral circuit miles, and unfounded reductions to those funds will do nothing expect prevent PEF from meeting its regulatory requirements as well as hamper PEF from providing the safe and reliable service that our customers expect and enjoy.

Q. Do you agree with Mr. Marz's suggested reduction of $13.9M of O&M expense for FERC Acct. No. 593 – Distribution Overhead Line Maintenance?

A. Not at all. On page 15 of his testimony, Mr. Marz includes a bar graph which purports to show an unexplained spike in costs for Account 593 in 2010. However, the entire variance cited by witness Martz is accounted for at length in the preceding discussion of 2010 Vegetation Management dollars needed to meet the Commission's 3/5 year requirement, and Mr. Marz does nothing to acknowledge this fact in his testimony. With the $13.9M Vegetation Management variance removed, 2010 FERC account 593 is equal to the 2009 value of $31.9M. Thus, unlike the misleading chart in Mr. Marz's testimony, the chart below properly illustrates2010 FERC account 593 normalized for the 2010 Vegetation Management variance.



Q. Has PEF taken steps to limit rising vegetation management costs?

A. Yes. Several factors, including double digit increases to fuel and labor rates, have driven vegetation management costs higher in 2010 compared to 2006. PEF has taken steps to reduce and stabilize rising costs. These steps include:

- Staffing a Vegetation Management organization with dedicated Foresters and Field Inspectors to ensure quality work at least cost.
- Development of an annual work plan, pre-inspection of vegetation densities, and solicitation of unit based contracts to stabilize the contract work force. This limits rising cost by matching planned work to the least cost resource.
- Work-in-progress and post inspection for quality assurance and a continued focus on prioritization to ensure pruning miles with greatest impact to system reliability and customer satisfaction.

- Investing and leveraging technology for improved inspections, data management, and work planning. By increasing the level of system data collected, cost is reduced through improved understanding of vegetation density and optimized pruning resource compliment (i.e. machine vs. manual pruning).

CONCLUSION

Q. Do you have any concluding remarks regarding the issues that Mr. Schultz and Mr. Marz raise?

A. Yes. PEF presently manages and has historically managed a reliable distribution system through prudent maintenance and compliance with FPSC required initiatives and programs. PEF has accomplished this while balancing the need to prudently manage O&M costs. To continue providing safe and reliable service to our customers and to continue our ability to comply with all of our regulatory requirements, PEF needs the funds that it has requested in this case, and the two unfounded assertions that Mr. Marz and Mr. Schultz have made do nothing to contradict this fact.

Q. Does this conclude your testimony?

A. Yes it does.