

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

Docket No. 090079

Submitted for filing:
August 31, 2009

**DIRECT TESTIMONY OF
VINCENT M. DOLAN**

ON BEHALF OF PROGRESS ENERGY FLORIDA

DOCUMENT NUMBER - DATE

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**DIRECT TESTIMONY OF
VINCENT M. DOLAN**

1 **I. Introduction and Summary.**

2 **Q. Please state your name and business address.**

3 A. My name is Vincent Dolan. My business address is 299 1st Avenue, North, St.
4 Petersburg, Florida 33701.

5
6 **Q. By whom are you employed and in what capacity?**

7 A. I am employed by Progress Energy Florida, Inc. ("Progress Energy" or the "Company")
8 as its President and Chief Executive Officer. In this role, I have overall responsibility for
9 the operations of Progress Energy Florida.

10
11 **Q. Please describe your work experience and educational background.**

12 A. I previously served as vice president - External Relations, Progress Energy Florida. In
13 that role, I managed Florida regulatory affairs, public policy, community relations,
14 economic development, commercial, industrial and governmental sales and service, state
15 and federal public affairs, and energy policy and strategy. I have been with Progress
16 Energy and its predecessor Florida Power Corporation since 1986 in positions of
17 increasing responsibility in the areas of operations, strategic development, customer
18 services and regulatory affairs. Prior to joining the company, I worked for the Foster
19 Wheeler Energy Corporation, an international engineering and manufacturing firm.

20 I hold a bachelor's degree in mechanical engineering from Rutgers University.
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Q. Have you submitted pre-filed direct testimony in this matter?

A. I have adopted the direct testimony of Jeff Lyash, my predecessor as PEF President and CEO, which was filed in this docket on March 20, 2009.

Q. What is the purpose of your rebuttal testimony?

A. I outline the areas of our initial filing with which the Interveners take no issue. I also address the impact on the Company and its customers if the Commission were to adopt the Office of Public Counsel's ("OPC's") position that PEF should decrease its rates by \$35 million annually.

Q. Do you have any exhibits to your testimony?

A. No, I do not.

Q. Please summarize your rebuttal testimony.

A. Interveners recognize and take little issue with the fact that Progress Energy Florida has had superior performance – both operationally and in managing our costs – the result of which has been stable and generally flat base rates for more than a quarter century. Interveners take no issue with the Company's load and sales forecasts. Interveners do not dispute that the Bartow Repowering Project is a reasonable and prudent investment, and that the costs incurred are reasonable and prudent. Interveners do not dispute that the Company's Crystal River Unit 3 steam generator replacement project is a reasonable and prudent investment and that the estimated costs are reasonable. Interveners do not dispute that the electrostatic precipitator project is a reasonable and prudent expense and

1 should be included in rate base. Interveners do not dispute that PEF has incurred
2 legitimate pension expenses.

3
4 Notwithstanding this agreement, OPC and several Interveners argue that PEF is not
5 entitled to any increase in base rates; rather the Company should reduce its rates by
6 approximately \$35 million. The Interveners arrive at this number by (1) inappropriately
7 making adjustments to depreciation, (2) inappropriately reducing O&M expenses by
8 about \$133 million, and (3) inappropriately reducing the Company's requested return on
9 equity ("ROE") by roughly 275 basis points. As discussed in greater detail in the rebuttal
10 testimony of Messrs. Sullivan and Toomey, and Dr. Michael Vilbert, adoption of the
11 Interveners' arguments would be financially damaging to the Company, would be
12 difficult to maintain existing service levels to customers, and would adversely affect the
13 Company's ability to raise the capital, at reasonable costs, necessary to fund and
14 implement the Company's sizable future capital expenditure program. Finally, it is
15 important to note that the outcome of this case will not only have a clear impact on the
16 ultimate financial health of the Company, but also on PEF's ability to meet the
17 Legislature's and Governor's energy goals, including building new nuclear plants.

18
19 **II. ISSUES OPC AND THE INTERVENERS DO NOT DISPUTE**

20
21 **A. Progress Energy Florida's Superior Performance**

22 **Q. How has Progress Energy Florida performed over the last several years?**

1 A. Progress Energy Florida's performance has been superior in all key areas: cost
2 management; safety and reliability; power production; customer service; and storm
3 response.

4
5 **Q. Do the interveners dispute this fact?**

6 A. No. For example, interveners do not dispute that despite upward cost pressures, which
7 have affected nearly all other industries, the Company has not increased base rates since
8 1993, with the exception of adding the Hines 2 and 4 units in 2007, and in fact lowered
9 base rates in 2002. With respect to service and reliability, no one disputes that since 2001
10 we have reduced our OSHA injury rate by 75%, or that we have been at or near top
11 quartile in the industry since 2003, and improved to top decile in 2007. Similarly, no
12 party disputes that we have reduced customer system average outage minutes by 39%
13 over the last ten years, and have maintained SAIDI below 80 since 2004, which is
14 outstanding given the size and diversity of the Company's service territory, and the often
15 violent weather in Florida. No party disputes that our response to major storms has been
16 second to none, which we showed repeatedly during the 2004 and 2005 hurricane
17 seasons.

18
19 **B. The Bartow Repowering Project**

20 **Q. What is the status of the Bartow Repowering Project?**

21 A. The Company completed the project on schedule with the repowered Bartow Plant going
22 commercial on June 1, 2009. As Mr. Kevin Murray discussed in his direct testimony,
23 this project satisfies the Power Plant Efficiency Improvements Policy recommended by
24 the Governor's Action Team on Energy and Climate Change as part of Florida's Energy

1 and Climate Change Action Plan. The repowered plant is generating more than twice the
2 amount of power as the 1950s 450 MW oil-fired plant, but is producing significantly less
3 sulfur dioxide and nitrogen oxide emissions than the original facility. It is also increasing
4 the efficiency of the Company's energy production, as the Company's newest and most
5 efficient power plant now on the system. No one disputes any of these points.

6
7 **Q. Does any intervener dispute that the Bartow Repowering Project is a reasonable
8 and prudent investment?**

9 **A.** No. No intervener takes issue with this investment or with Mr. Murray's direct
10 testimony.

11
12 **Q. Does any intervener claim that the costs of the Bartow Repowering Project should
13 not be recovered by PEF in rates?**

14 **A.** No.

15 **C. The Crystal River Unit 3 Steam Generator Replacement Project**

16 **Q. What is the status of the Crystal River Unit 3 Steam Generator Replacement
17 Project?**

18 **A.** The project is on schedule to be completed during the scheduled outage this fall. CR3
19 currently is the Company's only nuclear generation unit. As Mr. Young explained in his
20 direct testimony, CR3 provides customers with base load, around-the-clock, energy
21 generation from the lowest cost fuel source currently available to the Company. The
22 Company's CR3 operations have provided customers hundreds of millions of dollars in
23 annual fuel cost savings compared to the Company's next most efficient base load
24 generation alternative. With the completion of the steam generator replacement,

1 customers will continue to realize fuel savings from the operation of CR3 far into the
2 future. To continue to achieve these fuel savings, however, the Company must incur the
3 costs of the steam generator replacement. No one disputes these points.
4

5 **Q. Does any Intervener dispute that the Steam Generator Replacement Project is a**
6 **reasonable and prudent investment?**

7 **A.** No. No intervener takes any issue with Mr. Young's testimony regarding the steam
8 generator replacement project, including its need, or that it is a reasonable and prudent
9 investment by the Company.
10

11 **Q. Does any intervener claim that the costs of the Steam Generator Replacement**
12 **Project should not be recovered by PEF in rates?**

13 **A.** No.
14

15 **D. Electrostatic Precipitator Upgrade Project**

16 **Q. What is the status of the environmental control equipment projects at the Crystal**
17 **River Energy Units 4 and 5 coal plants?**

18 **A.** At our Crystal River Energy Complex, we are installing \$1.3 billion in environmental
19 control equipment on two of our coal-fired units, which will significantly lower the
20 Company's air emissions, including carbon emissions. This project, undertaken pursuant
21 to our Commission-approved environmental controls plan, will be completed this year.
22 Related to this project is our upgrade to the electrostatic precipitator or ESP, which is a
23 large piece of equipment that removes particulate matter from the exhaust air. That
24 project is underway and on schedule to be completed this fall.

1
2 **Q. Does any intervener dispute that the ESP Project is a reasonable and prudent**
3 **investment?**

4 **A.** No.

5
6 **Q. Does any intervener claim that the costs of the ESP Project should not be recovered**
7 **by PEF in rates?**

8 **A.** No.

9

10 **E. PEF's Sales Forecast**

11 **Q. Has PEF filed a sales forecast in this docket?**

12 **A.** Yes. Mr. Ben Crisp submitted the Company's sales forecast as part of his direct
13 testimony in this matter. It is my understanding that in response to OPC's Interrogatory
14 118, the Company provided an updated sales forecast.

15

16 **Q. What did the updated sales forecast show?**

17 **A.** The updated sales forecast is lower than the forecast submitted by Mr. Crisp on March
18 20, 2009. In terms of revenue requirements, the updated forecast shows that the company
19 is unlikely to earn its requested return on equity in the test year, or even in 2011, by
20 approximately \$95 million annually.

21

22 **Q. Have any interveners challenged the Company's sales forecast?**

23 **A.** No. As Mr. Toomey and Mr. Crisp discuss in their rebuttal testimony, Intervener
24 Witness Martz implicitly accepts the company's sales forecast.

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III. THE IMPACT OF INTERVENERS' RATE REDUCTION PROPOSAL ON THE COMPANY

Q. What is your understanding of the interveners' rate reduction proposal in this case?

A. Based on my review of OPC's and other intervener testimony, the interveners believe that the Company should be forced to reduce its rates by \$35 million annually.

Q. What would be the financial impact on the Company of such a rate reduction?

A. Any rate reduction, especially one of that magnitude, would be damaging to the financial health of the Company. As Messrs. Toomey and Sullivan, and Dr. Vilbert discuss in greater detail, adopting OPC's position would have a number of adverse impacts on the Company. First, reducing rates by \$35M would likely cause credit rating agencies to downgrade the Company, which, in turn, would increase the Company's cost of capital and ultimately increase the cost of service to our customers. In addition, the Company would have a harder time attracting the capital necessary to run its business. It is common sense that an investor will invest in other utility companies who have higher returns than PEF.

Q. What would be the impact on PEF's cash flows if interveners' rate reduction proposal were adopted by the Commission?

A. There would be a significant reduction in cash flow. Our business is one of the most capital-intensive industries in the world. With significantly less cash flows coming in, as proposed by the interveners, we will be forced to borrow more money at higher interest

1 rates or to curtail necessary capital expenditures. Lower cash flows, as Mr. Toomey and
2 Mr. Sullivan show, will also significantly reduce the Company's flexibility not only in
3 deploying capital, but in funding storm response costs, hedging fuel costs, which requires
4 large amounts of capital, and in responding to unanticipated events.

5
6 Perhaps most important, investor confidence in the Florida regulatory climate would be
7 shaken significantly. Florida has long been viewed as a stable regulatory climate, which
8 has inured to the benefit of customers for many years. Reversing course and mandating
9 an unsubstantiated rate reduction – particularly within several months of awarding a
10 modest rate increase to Tampa Electric – would increase investor worries in an already
11 skittish and capital constrained market, and further increase our cost of capital and
12 increase cost to our customers.

13
14 **Q. What impact would the interveners' rate reduction proposal have on PEF's ability**
15 **to construct the Levy Nuclear Project?**

16 **A.** Denying some or all of PEF's rate request will affect the Company's financial strength
17 and potentially have an adverse impact on the timing and ultimate construction of the
18 Levy Nuclear Project. Reducing rates, as proposed by interveners, would unquestionably
19 jeopardize the project. Without the necessary cash flows to fund the day-to-day business,
20 it would be hard to see how the Company could move forward with a \$17 billion
21 investment.

22
23 **Q. Has any argument raised by the interveners caused the Company to believe its rate**
24 **request is unwarranted?**

1 A. No. We do not take lightly submitting a request for a rate increase, and we would not be
2 before this Commission unless an increase was necessary. We cannot continue to meet
3 the State's energy goals and provide the level of service our customers expect and
4 demand under our current rates. With the exception of adding the Hines 2 and 4 power
5 plants in rates beginning in 2008, the Company has not had an increase in base rates since
6 1993. In fact, the Company substantially reduced its base rates from 2002 through 2007
7 as a result of the settlement of its last two base rate proceedings. Our base rates have
8 essentially remained flat for the past quarter century and are roughly the same as they
9 were in the early 1980's. Since 2005 increases in the total price paid by customers have
10 been driven primarily by escalating fuel costs, which have increased dramatically in the
11 last few years, despite the Company's best efforts to mitigate the impact of the increases
12 on its customers. Increases in the cost of fuel, of course, are largely outside the control of
13 any utility, including the Company. PEF's residential base rates have increased by only
14 1% since 1984. By contrast, the consumer price index has increased by 106%, housing
15 has increased 113%, food has increased by 115%, and medical care has increased by
16 253% over the same time frame. These cost escalation figures demonstrate the
17 Company's ability to hold base rates relatively constant by controlling its costs during a
18 period of time when costs were otherwise rising in the rest of the economy. The
19 Company has accomplished this while continuing to provide customers with superior
20 service.

21 In an era of ever increasing costs and lower growth, however, we cannot continue to
22 provide superior service and reliability and meet the energy goals as mandated by the
23 Legislature and Governor at our current rates.
24

1 **Q. Does this conclude your testimony?**

2 A. Yes, it does.

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