Ruth Nettles

090079-EI
090144-EI
090145-EI

From: Lynette Tenace [ltenace@kagmlaw.com]
Sent: Monday, September 14, 2009 3:42 PM
To: Filings@psc.state.fl.us
Cc: swright@yvlaw.net; rick@rmelsonlaw.com; cecilia.bradley@myfloridalegal.com; jay.brew@bbrslaw.com; Katherine Fleming; Keino Young; Caroline Klancke; Erik Sayler; Charles Rehwinkel; DTriplett@CarltonFields.com; dmoore@esgconsult.com; Ljacobs50@comcast.net; jmcwhirter@mac-law.com
Subject: Docket No. 090079-EI, 090144-EI, 090145-EI
Attachments: FIPUG Notice of Service Errata to Testimony of J. Pollock 09.14.09.pdf

In accordance with the electronic filing procedures of the Florida Public Service Commission, the following filing is made:

a. The name, address, telephone number and email for the person responsible for the filing is:

Vicki Gordon Kaufman
Jon C. Moyle, Jr.
Keefe Anchors Gordon & Moyle
118 North Gadsden Street
Tallahassee, FL 32301
(850) 681-3828
vkaufman@kagmlaw.com
jmoyle@kagmlaw.com

b. This filing is made in Docket No. 090079-EI, In re: Petition for increase in rates by Progress Energy Florida, Inc.; Docket No. 090144-EI, In re: Petition for limited proceeding to include Bartow repowering project in base rates, by Progress Energy Florida, Inc.; Docket No. 090145-EI, In re: Petition for expedited approval of the deferral of pension expenses, authorization to charge storm hardening expenses to the storm damage reserve, and variance from or waiver of Rule 25-6.0143(1)(c), (d), and (f), F.A.C., by Progress Energy, Florida, Inc.

c. The document is filed on behalf of Florida Industrial Power Users Group.

d. The total pages in the document are 14 pages.

e. The attached document is FIPUG's Notice of Service of Errata to Testimony and Exhibits of Jeffry Pollock.

Lynette Tenace

NOTE: New E-Mail Address
ltenace@kagmlaw.com

Keefe, Anchors Gordon & Moyle

Keefe, Anchors, Gordon and Moyle, P.A.
The Perkins House
118 N. Gadsden St.
Tallahassee, FL 32301
850-681-3828 (Voice)
850-681-8788 (Fax)
www.kagmlaw.com

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ECR ____
GCL ____
OPC ____
RCP ____
SSC ____
SGA ____
ADM ____
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for increase in rates by Progress Energy Florida, Inc.	DOCKET NO. 090079-EI
In re: Petition for limited proceeding to include Bartow repowering project in base rates, by Progress Energy Florida, Inc.	DOCKET NO. 090144-EI
In re: Petition for expedited approval of the deferral of pension expenses, authorization to charge storm hardening expenses to the storm damage reserve, and variance from or waiver of Rule 25-6.0143(1)(c), (d), and (f), F.A.C., by Progress Energy, Florida, Inc.	DOCKET NO. 090145-EI Filed: September 14, 2009

NOTICE OF SERVICE OF
THE FLORIDA INDUSTRIAL POWER USERS GROUP'S
ERRATA TO TESTIMONY AND EXHIBITS OF JEFFRY POLLOCK

The Florida Industrial Power Users Group (FIPUG), by and through its undersigned attorneys, hereby files revised pages 4, 6, 42, 43, 44, 49, 51, Exhibit JP-6 Revised, Exhibit JP-9 Revised (pages 1-2), and Exhibit JP-10 Revised (pages 1-2) to the testimony of Jeffry Pollock filed on August 10, 2009 by Electronic Mail and U.S. Mail on this 14th day of September, 2009.

s/ Vicki Gordon Kaufman

Vicki Gordon Kaufman
Jon C. Moyle, Jr.
Keefe, Anchors, Gordon & Moyle
118 North Gadsden Street
Tallahassee, FL 32301
(850) 681-3828 (Voice)
(850) 681-8788 (Facsimile)
vkaufman@kagmlaw.com
jmoyle@kagmlaw.com

John W. McWhirter, Jr.
P.O. Box 3350
Tampa, FL 33601-3350
(813) 505-8055 (Voice)
(813) 221-1854 (Facsimile)
jmcwhirter@mac-law.com

Attorneys for FIPUG

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Florida Industrial Power Users Group's Errata to Testimony of Jeffry Pollock was served via Electronic Mail and First Class United States Mail this 14th day of September, 2009, to the following:

Robert Scheffel Wright/John T. LaVia III
Young van Assenderp, P.A.
Florida Retail Federation
225 South Adams Street, Suite 200
Tallahassee, Florida 32301
swright@yvlaw.net

Richard D. Melson
705 Piedmont Drive
Tallahassee, Florida 32312
rick@rmelsonlaw.com

Cecilia Bradley
Office of Attorney General
The Capitol, PL01
Tallahassee, Florida 32399-1050
cecilia.bradley@myfloridalegal.com

James W. Brew/F. Alvin Taylor
Brickfield Law Firm PCS Phosphate – White Springs
1025 Thomas Jefferson Street, NW
Eighth Floor, West Tower
Washington, D.C. 20007-5201
jay.brew@bbrslaw.com

Katherine E. Fleming
Senior Attorney
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850
keflemin@psc.state.fl.us
kyoung@psc.state.fl.us
cklancke@psc.state.fl.us
esayler@psc.state.fl.us

J.R. Kelly/Charles Rehwinkel
Office of Public Counsel
111 W. Madison Street, Room 812
Tallahassee, Florida 32399-1400
Rehwinkel.Charles@leg.state.fl.us

J. Michael Walls/Dianne M. Tripplett
Carlton Fields Law Firm
Post Office Box 3239
Tampa, Florida 33601-3239
DTriplett@CarltonFields.com

Dan Moore
Association for Fairness In Rate Making
316 Maxwell Road, Suite 400
Alpharetta, GA 30009
dmoore@esgconsult.com

s/ Vicki Gordon Kaufman
Vicki Gordon Kaufman

- Class cost-of-service study;
- Class revenue allocation;
- Rate design, including the design of the interruptible credit;
- Depreciation-related matters (*e.g.*, the estimated life spans of PEF's coal and combined cycle units and further ratemaking adjustments to reduce the $646 million surplus depreciation reserve); and
- The appropriate common equity ratio for determining PEF's cost of capital.

Q ARE OTHER WITNESSES PROVIDING TESTIMONY ON FIPUG'S BEHALF?

A Yes. Mr. Martin Marz will address the storm reserve, incentive compensation and other test year issues.

Q ARE YOU FILING ANY EXHIBITS IN CONNECTION WITH YOUR TESTIMONY?

A Yes. I am filing **Exhibits JP-1** through **JP-14.** These exhibits were prepared by me or under my direction and supervision.

Q IN SOME OF THESE EXHIBITS, YOU HAVE USED PEF'S CLAIMED REVENUE REQUIREMENTS. DOES THIS CONSTITUTE AN ENDORSEMENT OF THE COMPANY'S PROPOSALS?

A No. My use of PEF's claimed revenue requirements is strictly for illustrative purposes and should not be interpreted as an endorsement of the proposed base revenue increases.

- No rate should receive an increase higher than 150% of the system average base rate increase; and
- No rate should receive a decrease.

Third, PEF's proposed rate design should be revised to:

- Assign no increase to non-fuel energy charges to more closely align the demand and energy charges to reflect the corresponding demand and non-fuel energy-related costs; and
- Increase the Interruptible Demand Credit to at least $10.49 per kW-Month to reflect the costs PEF avoids by providing this service.

Further, the Interruptible Demand Credit should not be load factor adjusted because load factor is not a reasonable proxy for the amount of capacity that a customer curtails, and because curtailments can occur at any time, not just during the hour that PEF's monthly coincident peak occurs. In lieu of measuring the amount of load curtailed, the Credit should not be less than $7.13 per kW-Month of billing demand, which recognizes that the interruptible class has an average 68% (12CP-to-Billing demand) coincidence factor.

Finally, with respect to revenue requirements, I recommend:

- Reductions in depreciation expense based on longer life spans for PEF's coal (at least 55 years) and combined cycle (at least 35 years) units. Further, PEF should reduce the depreciation reserve by $100 million per year to correct the very large ($646 million) surplus in the depreciation reserve to restore generational equity; that is, current ratepayers should be charged only for the assets that are consumed to provide electric service.
- Rejection of PEF's proposal to impute debt associated with purchased power agreements. This would change the common equity portion of PEF's capital structure to 50% on an adjusted basis. A 50% equity ratio is in line with the equity ratios of other comparably-rated electric utilities.

PEF's Depreciation Study

Q HAVE YOU REVIEWED THE DEPRECIATION STUDY FILED BY PEF IN THIS PROCEEDING?

A Yes.

Q WHAT DOES THE DEPRECIATION STUDY SHOW?

A The study recommends higher depreciation rates, which would generate an additional $97.4 million of depreciation expense (*Direct Testimony and Exhibits of Earl M. Robinson,* Exhibit EMR-2, Table 1F). Of this amount, $70 million of the increase is due to increased production depreciation rates, which can be attributed to assumed life spans for production investments.

Q WHAT ELSE DOES PEF'S DEPRECIATION STUDY SHOW?

A The study also shows that, based on the assumed average and remaining service lives of its investments and the projected book value as of December 31, 2009, PEF's book depreciation reserve is $646 million higher than the "theoretical reserve." (*Id.* at Table 5F). The theoretical reserve is the amount necessary to allow recovery of the existing investments over their projected remaining life spans. In other words, PEF has accrued a $646 million reserve surplus.

Q IS THERE ANYTHING NOTEWORTHY ABOUT THE $646 MILLION DEPRECIATION RESERVE SURPLUS?

A Yes. The $646 million surplus reserve is dependent on PEF's proposed life and salvage parameters. The theoretical reserve calculation is based on PEF's

remaining life proposals. If the remaining life is understated, the theoretical reserve will be overstated causing the reserve surplus to be understated. My testimony will address two areas where PEF has understated the remaining lives of assets causing the reserve surplus to be even higher than stated.

Q WHAT IS THE SIGNIFICANCE OF THE SURPLUS?

A The purpose of depreciation is to recover capital investment, including removal costs. Such recovery should, to the extent possible, come from the customers that use the utility service. With the large depreciation surplus, the current generation of ratepayers has paid a disproportionate share of the assets consumed to provide utility services. Thus, PEF's depreciation rates are neither fair nor equitable.

Life Spans

Q HAVE YOU REVIEWED THE LIFE SPANS THAT PEF USED TO DETERMINE ITS PROPOSED DEPRECIATION RATES?

A Yes. PEF's proposed life probable retirement years for coal and CC units are shown in Exhibit EMR-2 (Table 2-Loc-Total, p. 2-125 through p. 2-130, and p. 9-60, p. 9-71) and produce average life spans summarized below:

Plant Type	PEF's Proposed Average Life Spans
Coal	52
Combined Cycle	31

Q ARE PEF'S PROPOSED LIFE SPANS APPROPRIATE?

A No. PEF has understated the life spans for these plant types.

Q **ON WHAT DO YOU BASE YOUR OPINION THAT PEF'S PROPOSED LIFE SPANS ARE SIGNIFICANTLY UNDERSTATED?**

A My opinion is based on actual plant lives, life spans used by other utilities for similar assets, and decisions by regulatory commissions.

Q **WHAT LIFE SPAN DOES PEF ASSUME FOR ITS COAL UNITS?**

A PEF owns Crystal River Units 1 and 2 and Crystal River Units 4 and 5. The depreciation study assumes that these facilities will be retired in 2020 and 2035, respectively (*EMR-2* at p. 2-125 through p. 2-126). This translates into an average life span of 52 years.

Q **HAS PEF PROVIDED ANY JUSTIFICATION FOR THE PROPOSED LIFE SPANS?**

A No. The Company has not indicated when it will retire these units (*PEF's 2009 Ten-Year Site Plan*, Schedule 1).

Q **ARE 52-53 YEAR LIFE SPANS REASONABLE FOR COAL UNITS?**

A No. PEF's proposed life spans are shorter than the average lives of coal-fired plants as determined in proceedings. For example:

- 60 years for Indiana-Michigan Power company's Tanner Creek Units 1 through 4 and for its Rockport Unit 1 (Indiana Utility Regulatory Commission, Cause No. 43231, *Interim Order,* 6/13/2007);
- 55 years for coal plants operated by Southwestern Public Service Company (New Mexico Public Regulatory Commission, Case No. 07-00319-UT, *Order*, August 26, 2008);
- 59 to 68 years for coal units owned by AmerenUE (Missouri Public Service Commission, Cause No. ER-2007-0002, *Order,* May 22, 2007);

Q SHOULD THE COMMISSION TAKE ANY FURTHER STEPS TO RESTORE GENERATIONAL EQUITY?

A Yes. To compensate for the huge reserve surplus, the Commission should order PEF to implement a $100 million annual depreciation expense adjustment. That is, PEF should credit depreciation expense and debit to the bottom line depreciation reserve by at least $100 million per year. This treatment should continue until PEF files its next depreciation study. Assuming PEF's next depreciation study is filed in 2013 (four years from the filing date of this case), the book reserve would be reduced by an additional $400 million. This would still leave $286 million in excess book depreciation reserve.

Q IS THERE ANY PRECEDENT FOR REQUIRING PEF TO TAKE MEASURES NECESSARY TO ELIMINATE THE HUGE (OVER $646 MILLION) SURPLUS IN ITS DEPRECIATION RESERVE?

A Yes. My recommendation to correct a reserve surplus is the same in concept as prior Commission actions allowing Florida Power & Light Company (FPL) and Progress Energy Florida (PEF) to correct reserve deficiencies. For example:

- FPL was to book $126 million (in accord with preliminary implementation approved in Order PSC-95-0672-FOF-EI), an additional $30 million commencing in 1996, and additional expense in 1996 and 1997 equal to 100% of base rate revenues produced by retail sales between its "low band" and "most likely sales forecast" for 1996, and at least 50% of the base rate revenues produced by retail sales above FPL's most likely sales forecast for 1996 to correct a $175.3 million deficiency in the nuclear depreciation reserve and to correct the reserve deficiency existing in FPL's other production facilities, which was calculated to be $60.3 million as of January 1, 1994 (Docket No. 950359-EI, *Order No. PSC-96-0461-FOF-EI*); and
- PEF was ordered to amortize the gain realized from the sale of a combustion turbine from Port St. Joe to be used to offset the

6. CAPITAL STRUCTURE

Q WHAT CAPITAL STRUCTURE IS PEF PROPOSING IN THIS PROCEEDING?

A PEF's proposed regulatory capital structure is shown in the first column of the chart below:

Component	MFR Schedule D-1A	PEF Test Year Adjusted for PPA	PEF Test Year Unadjusted for PPA
Long-Term Debt	42.28%	45.10%	48.61%
Short-Term Debt	0.62%	0.66%	0.71%
Common Equity	50.52%	53.90%	50.31%
Preferred Stock	0.32%	0.34%	0.37%
Customer Deposits	1.81%		
Deferred Taxes	4.40%		
Investment Tax Credits	0.06%		

The first column is the proposed jurisdictional regulatory capital structure. The common equity percentage reflected in this column includes an adjustment for off-balance sheet obligations associated with purchased power agreements (PPAs). The second and third columns reflect PEF's adjusted 2010 capital structure, which exclude customer deposits, deferred income taxes, and investment tax credits. The second column shows PEF's adjusted capital structure with the imputed PPAs. The PPA obligations are removed in the third column.

Docket No. 090079-EI
Transmission Plant Allocation
Exhibit JP-6 Revised

PROGRESS ENERGY FLORIDA

Derivation of Production Plant Allocation Factors
Summer/Winter CP Demand Allocation Method
Test Year Ending December 31, 2010

Line	Rate Class	Winter Peak (MW)	Summer Peak (MW)	Average (MW)	Summer Winter CP Factors
		(1)	(2)	(3)	(4)
1	Residential	5,722	4,930	5,326	64.31%
2	General Service Non-Demand	249	322	285	3.45%
3	General Service 100% LF	10	10	10	0.13%
4	General Service Demand	2,031	2,542	2,286	27.61%
5	Curtailable/Interruptible	373	369	371	4.48%
6	Lighting	5	0	3	0.03%
7	Total Retail	8,391	8,172	8,282	100.00%

Source: MFR Schedule E-9

PROGRESS ENERGY FLORIDA
Recommended Class Revenue Allocation
Average and Excess Method
Test Year Ending December 31, 2010

Line	Rate Class	Base Revenues at Present Rates ($000)	Recommended Allocation Amount ($000)	Recommended Allocation Percent	Relative Increase
		(1)	(2)	(3)	(4)
1	**Residential**	$900,586	$317,516	35.3%	103%
2	**General Service**	64,691	11,278	17.4%	51%
3	**General Service 100% LF**	2,639	522	19.8%	58%
4	**General Service Demand**	365,172	138,537	37.9%	111%
5	**Curtailable/Interruptible**	48,403	24,871	51.4%	150%
	Lighting:				
6	Energy	6,225	3,199	51.4%	150%
7	Facilities	60,750	0	0.0%	0%
8	Total Retail	$1,448,466	$495,924	34.2%	100%

PROGRESS ENERGY FLORIDA
Recommended Class Revenue Allocation
12CP-1/13th AD Method
Test Year Ending December 31, 2010

Line	Rate Class	Base Revenues at Present Rates ($000)	Recommended Allocation Amount ($000)	Recommended Allocation Percent	Relative Increase
		(1)	(2)	(3)	(4)
1	**Residential**	$900,586	$305,361	33.9%	99%
2	**General Service**	64,691	10,187	15.7%	46%
3	**General Service 100% LF**	2,639	692	26.2%	77%
4	**General Service Demand**	365,172	151,615	41.5%	121%
5	**Curtailable/Interruptible**	48,403	24,871	51.4%	150%
	Lighting:				
6	Energy	6,225	3,199	51.4%	150%
7	Facilities	60,750	0	0.0%	0%
8	Total Retail	$1,448,466	$495,924	34.2%	100%

PROGRESS ENERGY FLORIDA

Summary of Class Cost-of-Service Study Results
At Present Rates and Recommended Class Revenue Allocation
Average and Excess Method for Production Plant,
Summer/Winter Coincident Peak Method for Transmission
Test Year Ending December 31, 2010

		Present Rates			Recommended Allocation		
Line	Rate Class	Rate of Return	Relative ROR	Subsidy ($000)	Rate of Return	Relative ROR	Subsidy ($000)
		(1)	(2)	(3)	(4)	(5)	(6)
1	**Residential**	4.31%	100	$100	9.28%	101	$4,795
2	**General Service**	6.29%	146	7,640	9.28%	101	287
3	**General Service 100% LF**	4.97%	116	102	9.28%	101	11
4	**General Service Demand**	4.08%	95	(6,103)	9.28%	101	1,977
5	**Curtailable/Interruptible**	2.30%	53	(8,002)	8.53%	93	(2,708)
6	**Lighting:**						
7	Energy	-3.68%	-85	(4,808)	1.63%	18	(4,564)
8	Facilities	9.30%	216	11,072	9.30%	101	202
9	**Total Retail**	4.30%	100	($0)	9.21%	100	($0)

PROGRESS ENERGY FLORIDA

Summary of Class Cost-of-Service Study Results
At Present Rates and Recommended Class Revenue Allocation
12CP-1/13th AD Method for Production Plant,
Summer/Winter Coincident Peak Method for Transmission
Test Year Ending December 31, 2010

		Present Rates			Recommended Allocation		
Line	Rate Class	Rate of Return	Relative ROR	Subsidy ($000)	Rate of Return	Relative ROR	Subsidy ($000)
		(1)	(2)	(3)	(4)	(5)	(6)
1	**Residential**	4.44%	103	$8,684	9.25%	100	$2,804
2	**General Service**	6.53%	152	8,585	9.25%	100	168
3	**General Service 100% LF**	3.95%	92	(55)	9.25%	100	7
4	**General Service Demand**	3.61%	84	(18,653)	9.25%	100	1,173
5	**Curtailable/Interruptible**	2.43%	57	(7,566)	8.58%	93	(2,533)
6	**Lighting:**						
7	Energy	0.87%	20	(2,066)	6.19%	67	(1,821)
8	Facilities	9.30%	216	11,072	9.30%	101	202
9	**Total Retail**	4.30%	100	($0)	9.21%	100	$0