

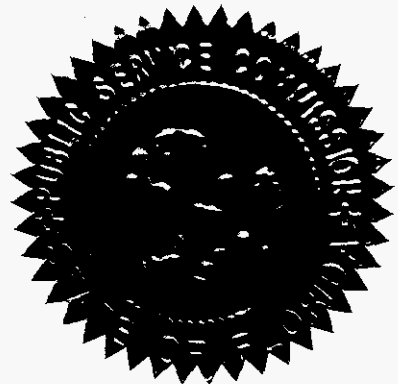
BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

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PETITION FOR INCREASE IN DOCKET NO. 090079-EI  
RATES BY PROGRESS ENERGY  
FLORIDA, INC.

PETITION FOR LIMITED PROCEEDING DOCKET NO. 090144-EI  
TO INCLUDE BARTOW REPOWERING  
PROJECT IN BASE RATES, BY  
PROGRESS ENERGY FLORIDA, INC.

PETITION FOR EXPEDITED APPROVAL DOCKET NO. 090145-EU  
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.



VOLUME 3

Pages 195 through 287

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COMMISSIONERS  
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COMMISSIONER LISA POLAK EDGAR  
COMMISSIONER KATRINA J. McMURRIAN  
COMMISSIONER NANCY ARGENZIANO  
COMMISSIONER NATHAN A. SKOP  
  
DATE: Monday, September 21, 2009

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PLACE: Betty Easley Conference Center  
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PARTICIPATING: (As heretofore noted.)

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## P R O C E E D I N G S

1  
2 (Transcript follows in sequence from  
3 Volume 2.)

## CONTINUED CROSS-EXAMINATION

4  
5 **BY MR. MOYLE:**

6 **Q.** If you assume for the purposes of this  
7 question that your company is rated higher, meaning --  
8 is rated higher than Tampa Electric, would you agree  
9 that the higher rating would indicate that the  
10 investment community believes that your company has less  
11 risk as compared to Tampa Electric Company?

12 **A.** No, I wouldn't agree with that.

13 **Q.** What would you believe that the rating -- the  
14 higher rating would indicate?

15 **A.** You know, I am probably not the expert to  
16 comment on ratings, and I think it is really, you know,  
17 there -- the rating reflects, you know, in some  
18 circumstances a point in time, and then I think the  
19 agencies look at future investments and other things.  
20 Again, I'm straying beyond my specific individual  
21 knowledge on credit ratings, so I will stop there.

22 **Q.** Okay. And I will ask this one final question,  
23 I believe, and then try to move on to something else,  
24 but you would agree as a matter of economic theory that  
25 the more risk presented by a company, the higher rate of

1 return that an investor would seek to invest his or her  
2 capital, correct?

3 **A.** Yes, I would generally agree with that.

4 **Q.** And you would also agree with the converse,  
5 the less risk presented by a company, the less return  
6 that may be desired by that investor?

7 **A.** I would say, yes, generally those tend to be  
8 somewhat symmetrical.

9 **Q.** If we could turn to some of your testimony on  
10 specific pages and lines. And you have testified and  
11 you made clear with Mr. Rehwinkel that the company is  
12 spending money in part to meet goals or directions set  
13 by the Legislature, and the Governor, and the PSC,  
14 correct?

15 **A.** No, I think what I said was two-fold. That  
16 the money that we are spending today is consistent with  
17 the needs of our business as it exists today. I think  
18 there is some secondary benefit for policies that may be  
19 enacted in the future, and I think I cited Bartow as a  
20 specific example of that. So I think it's -- you know,  
21 there are rules and statutes in place today that we  
22 follow, and I think there is also -- we try, to the  
23 extent we can, to factor in our decision-making on the  
24 longer range investments policies that may evolve in the  
25 future.

1           **Q.**    If I could just refer you on Page 3 to Line 7,  
2           and I will quote.  You state on Line 7, "As the company  
3           is embarking on the largest most aggressive capital  
4           expenditure campaign in its history and in the history  
5           of the state for an electric utility, to meet these  
6           goals," and you go on to talk about the company's  
7           financial health being maintained.  The goals that you  
8           are referring to, are those the ones that are  
9           articulated above and found on Lines 4 through 7?  
10          Actually 4 through 6, I'm sorry.

11           **A.**    Well, I would say no.  I would respectfully,  
12          Mr. Moyle, back you up to -- I would back you up to  
13          probably starting at Line 1.  I think there are existing  
14          and potential future goals from the Legislature, the  
15          Governor, and this Commission.  So, as an example, when  
16          we are planning for our Levy nuclear power plant, we are  
17          planning it in a way to meet some goals, and rules, and  
18          statutes that exist today related to fuel diversity,  
19          related to reliability, related to sufficiency of  
20          reserves.  So when you look out, as an example, in our  
21          Ten-Year Site Plan, that is new generation necessary to  
22          serve customer demand.

23                    It also has a secondary benefit.  That  
24          secondary benefit is a carbon free source of generation.  
25          So, whether it be the Governor's executive order related

1 to greenhouse gas, or whether it be potential pending  
2 legislation coming from the federal government that some  
3 believe will come in the near future, I think it serves  
4 multiple purposes.

5 But, first and foremost, you know, we apply  
6 this against how we want to run our business today, but  
7 with a mind towards the future as well in some of these  
8 longer term investments.

9 Q. Is it your testimony that your company is  
10 trying to meet all energy goals as set forth by the  
11 Governor via executive order?

12 A. Well, I would have to -- I mean, I think we  
13 would have to go through each of those individually. I  
14 think I would have to say no to your question. I think  
15 our first objective is to run our business consistent  
16 with our obligation to serve.

17 Q. Let's just talk about the goals, because I  
18 think the way I read the testimony is a lot is being  
19 driven by the goals, and Mr. Rehwinkel asked you about  
20 the goals. I just want to make sure I understand.  
21 Reduced greenhouse gas. What is your understanding as  
22 to the current state of affairs in Florida regulatory,  
23 legal -- the regulatory and legal scheme in Florida with  
24 respect to reducing greenhouse gas?

25 A. My understanding of that is as follows, we



1 have an executive order from the Governor setting forth  
2 certain targets; I believe the DEP is moving forward  
3 with rulemaking associated with that; so we certainly  
4 give, you know, a fair amount of weight to that. My  
5 understanding at the federal level on greenhouse gas is  
6 that the House has passed legislation that the Senate  
7 will take up probably early in 2010. The new  
8 administration, President Obama is very interested to  
9 move comprehensive energy legislation of which  
10 greenhouse gas regulation will be a part of that. So  
11 certainly that is part of our thinking.

12 **Q.** Okay. But you are aware that as we sit here  
13 today there is no state or federal requirement to reduce  
14 greenhouse gases, correct?

15 **A.** I'm not sure I would agree with that. I think  
16 we have the executive order from the Governor that is  
17 subject to rulemaking at the DEP. I think we might  
18 disagree about how much weight we might want to assign  
19 to that today. But, I think we anticipate that that is  
20 going to continue to move forward, and I think we see  
21 the actions at the federal level, as well. So certainly  
22 that enters into our thinking.

23 **Q.** At the federal level, the House of  
24 Representatives has passed a bill, but the Senate has  
25 not, correct?

1           **A.** Yes, that's correct.

2           **Q.** And at the state level, the Governor has  
3 issued an executive order, but that doesn't bind you,  
4 does it? I mean, the Governor entering an executive  
5 order is not the same as a statute or a rule of this  
6 Commission with respect to the conduct of your company's  
7 business, correct?

8           **MR. GLENN:** Objection, asked and answered.  
9 And this is the exact same line of questions that OPC  
10 has gone over for about 15 minutes.

11           **CHAIRMAN CARTER:** To the objection, Mr. Moyle.

12           **MR. MOYLE:** I don't think -- I don't think he  
13 answered. I think he touched on it, but I don't think,  
14 you know, he answered either yes or no. The Governor's  
15 executive order is the same tantamount to a statute or a  
16 rule or, no, it is a policy direction directive. I  
17 don't think we got a clear answer to that.

18           **CHAIRMAN CARTER:** Ms. Gervasi.

19           **MS. GERVASI:** I think that counsel has a right  
20 to have the witness answer the question that he asked as  
21 opposed to just having touched on the subject matter  
22 through another party's counsel.

23           **CHAIRMAN CARTER:** Okay. Overruled.

24           **THE WITNESS:** Could you repeat the question?  
25 I'm sorry, Mr. Moyle.

1 **BY MR. MOYLE:**

2 **Q.** The question is you would agree that the  
3 Governor's executive order related to greenhouse gas  
4 does not require this company to take action to reduce  
5 greenhouse gas in the same way that a statute or a rule  
6 of this Commission would require such action, correct?

7 **A.** Yes, I would agree that -- this is what I  
8 would agree with. I would agree that it has a different  
9 weight and meaning than a statute or rule of this  
10 Commission.

11 **Q.** And are you also aware that the Florida  
12 Legislature has passed legislation that expressly says  
13 to DEP no rules related to greenhouse gas are going to  
14 go into effect unless and until this Legislature  
15 ratifies those rules?

16 **A.** Yes, I am aware of that.

17 **Q.** So the fact that DEP has put rules in place,  
18 unless the Legislature acts, those rules do not require  
19 this company to take any action, correct?

20 **A.** I'm not sure I would agree with that. I  
21 think ultimately that is where the ratification will  
22 come. I think -- I guess we just perhaps assign a  
23 different weight to the executive order from the  
24 Governor and the rulemaking at the DEP. So I think we  
25 factor that into our thinking.

1 I won't disagree with your premise about  
2 legislative action that will be required. I think we  
3 take the steps that have come to this point fairly  
4 seriously as well as what we are seeing at the federal  
5 level.

6 Q. Now, the Governor also entered an executive  
7 order on renewable energy, did he not?

8 A. Yes, he did.

9 Q. Okay. And you're familiar with that, with  
10 that executive order?

11 A. Generally, I am, yes.

12 Q. Is the company taking steps to meet the  
13 suggestions as set forth in that executive order?

14 A. I would say, yes, we are.

15 Q. Okay. As we sit here today, how many  
16 megawatts does Progress Energy Florida have on its  
17 system, its ability to generate or procure through  
18 purchased power agreements?

19 A. I believe, and, again, I would --

20 Q. Not hold you to --

21 A. Subject to check, okay. I would say that  
22 either existing or prospectively under contract, and  
23 some of these I think are pending matters, it is in the  
24 range of 300 to 400 megawatts.

25 Q. Okay. And with respect to all of your

1 generation, how much generation do you have on your  
2 whole system?

3 **A.** We have -- our peak is in the ballpark of  
4 10,000 megawatts. I think we have about -- 90 percent  
5 of that is company-owned generation, the rest is  
6 purchased.

7 **Q.** So, if we use 10,000 megawatts and  
8 400 megawatts of renewable, is that right?

9 **A.** Yes.

10 **Q.** Then you would agree that the company has  
11 approximately 4 percent renewable energy?

12 **A.** Doing that math as you -- isolating that set  
13 of megawatts, yes, I would agree with your math on that.

14 **Q.** And the goal is 20 percent, correct, of  
15 renewable energy as set forth in the Governor's  
16 executive order?

17 **A.** Yes.

18 **Q.** Am I correct, then, that just prior to adding  
19 new megawatts for renewable energy, the company's  
20 renewable energy percentage was less than 2 percent?  
21 And it might help, I am referring to Page 9, Lines 13  
22 through 16.

23 **A.** Yes.

24 **Q.** Okay.

25 **A.** Well, let me make sure I am understanding your

1 question and being responsive to it. The existing  
2 megawatts -- that looks like the right number for  
3 existing megawatts currently under contract and then  
4 there are additional megawatts in the queue.

5 Q. And just so we are clear, 173 is existing and  
6 367 is new in the queue?

7 A. Yes.

8 Q. You have touched on Levy and new nuclear. The  
9 costs associated with new nuclear are not present in  
10 this rate case, correct? I mean, those costs are  
11 recovered through the nuclear cost-recovery clause?

12 A. Yes, I think that is correct.

13 Q. And do you know -- do you know approximately  
14 when -- I mean, you have not yet made a decision as to  
15 whether to move forward in a go/no go decision with  
16 respect to building the new nuclear at Levy, correct?

17 A. Yes.

18 Q. Assume that things worked out and you were to  
19 move forward with Levy. At what point in time would you  
20 be starting construction on Levy?

21 A. I think -- the reason I am hesitant to answer  
22 your question, Mr. Moyle, is we are working back through  
23 the paces right now in light of the change in the  
24 schedule with the NRC decision. So we are working  
25 through that. So I am just trying to do the math in my

1 head.

2 I would say it is probably the 2014 time frame  
3 may be the right ballpark. One of our other witnesses  
4 may be able to answer that better. I know this was a  
5 matter of discussion at the hearing in the last week or  
6 two, but that is probably a reasonable time frame.

7 Q. Sort of a best case scenario, that is when you  
8 might be doing construction?

9 A. Well, you say best case, I don't know that I  
10 would agree with that. I think -- I think it is still  
11 pending, you know, we are working through. I think what  
12 we know, what we know to be factual is that we have a  
13 20-month slip in our schedule. Beyond that I am  
14 hesitant to say how that schedule may ultimately fall  
15 out to a start construction date.

16 Q. And with respect to that, let's assume for the  
17 purposes of this question that it is five years, 2014.

18 A. Okay.

19 Q. That would be the point in time, would it not,  
20 that your company would be going into the market largely  
21 to secure capital to build the nuclear Levy project,  
22 correct, shortly in advance of that?

23 A. No, not necessarily. I think that is going to  
24 depend on the contract terms and conditions. There may  
25 be -- you know, I just think -- well, I will just say

1 that, it is going to depend on the contract terms and  
2 conditions. There may be different cash flows that  
3 would make sense where we would have to go in early and  
4 raise money that would provide long-term benefits. So  
5 to speculate as to when that capital would be expended,  
6 I am hesitant to do that. I think our folks -- that is  
7 probably a matter that you may have delved in a little  
8 more deeply in the nuclear recovery hearing.

9 Q. Well, again, I don't want to get into, you  
10 know, the weeds necessarily. I was under the impression  
11 that typically because debt and equity both cost money,  
12 that from a business perspective you would go into the  
13 markets to get debt and equity shortly before you begin  
14 construction to pay for the construction. Is that not  
15 your understanding?

16 A. Well, I think -- I would say, yes, to your  
17 question in this regard: As you move towards  
18 construction, expenses are going to rise, so you would  
19 be in the market. But, where I would disagree is it  
20 doesn't necessarily mean you won't be in the market  
21 earlier. And, again, we are just isolating the Levy  
22 project.

23 We will have other capital needs in that same  
24 time frame for new generation and transmission and  
25 distribution. But as to your question, I think



1 ultimately that is going to be a function of the contract  
2 terms and conditions.

3 Q. Okay. And, you would agree that asking this  
4 Commission today to try to make judgments with respect  
5 to things like return on equity and capital structure  
6 for something that may or may not happen five years  
7 henceforth, is -- you know, there is a lot of potential  
8 intervening events between here and there, correct?

9 A. There are, but I wouldn't agree that it  
10 shouldn't be a factor in the consideration. I would not  
11 agree with that.

12 Q. A couple of other things on the goals.  
13 Increasing energy efficiency, is it your understanding  
14 that that is accomplished largely through a clause, the  
15 conservation and efficiency clause? I may not have it  
16 right, but increasing efficiency, is that something that  
17 you understand is dealt with in clauses or not?

18 A. I would say generally speaking that is true.  
19 There are efficiencies that could be gained in the grid  
20 system that would not necessarily be part of the energy  
21 efficiency clause. There is also -- there is also a  
22 consequence with energy efficiency in terms of energy  
23 utilization, and there are some -- there are some states  
24 that are moving to a different structure related to that  
25 in terms of incentives related to energy efficiency.

1           The Commission could choose to deal with that  
2           in the energy efficiency docket or they could choose to  
3           deal with that in some of the other components of how we  
4           manage our business. But I would agree with you, Mr.  
5           Moyle, that -- and that is a parallel docket. I know it  
6           is still pending, that a lot of the efforts related to  
7           energy efficiency was a matter of a hearing recently,  
8           and I think we are awaiting a Commission decision in  
9           that regard.

10           **Q.** Does your company have a preference as to  
11           whether to recover money through clauses or base rate  
12           cases?

13           **A.** Do we have a preference? I guess -- I'm  
14           not sure we have a preference. I think what we have is  
15           the system as it exists today, and I think we work  
16           within that system, and we know what expenses we deal  
17           with in the base. We know about how we deal with fuel.  
18           I think we are -- I wouldn't say we have a preference,  
19           necessarily, I don't know that I would agree with that.  
20           I think we accept the system as it is and we try to run  
21           our business consistent with the rules as they exist.

22           **Q.** And you would agree in the last ten years or  
23           so the amount of monies recovered through clauses as  
24           compared to base rates has increased, correct?

25           **A.** I would agree with that, yes.

1           **Q.**    Would you also agree that that presents less  
2 risk to the company in terms of recovering monies?

3           **A.**    No, I would not agree with that.

4           **Q.**    Now, I asked you -- I think we talked about  
5 the greenhouse gases and renewable energy. The  
6 renewable energy, as we sit here today, you would agree  
7 that there is not a state law, a state statute that  
8 requires utilities to have a certain percentage of its  
9 generation come from renewable energy resources,  
10 correct?

11          **A.**    Yes, I would agree with that.

12          **Q.**    And you would also agree that there is not a  
13 Commission rule that requires there be a certain  
14 percentage of renewable energy, correct, that has been  
15 adopted?

16          **A.**    Yes, I would agree that there is not a  
17 specific Commission rule that sets forth a percentage on  
18 renewable. What I would also add is there is, perhaps,  
19 a variety of opinion as to how to interpret the existing  
20 rules related to renewable, and there are some cases  
21 that are pending to be decided about how we deal with  
22 certain renewable energy with avoided cost tariffs and  
23 those sorts of things. So I think -- I think there is a  
24 little bit of gray in the rules as they exist today, but  
25 there is not a specific mandate for 10 percent or

1 15 percent.

2 Q. Let me direct you to Page 5 of your testimony,  
3 Line 8. You talk about fleet equivalent availability,  
4 and you indicate that it has exceeded the NERC average.  
5 What is your company's fleet equivalent availability?

6 A. You know, I hate to hazard a guess. I  
7 probably would defer to Mr. Sorrick on that. What I do  
8 know is that we've made some pretty good strides in  
9 terms of improving that through recent time. But I  
10 would resist hazarding a guess on a specific number on  
11 that, Mr. Moyle.

12 Q. But you do know that it exceeds the NERC  
13 average?

14 A. Yes.

15 Q. Do you know what the NERC average is?

16 A. Again, the numerical equivalent, no, I don't  
17 have that off the top of my head.

18 Q. Okay. How about the same question with  
19 respect to forced outage rates, do you know what your  
20 company's forced outage rate is, or the NERC average for  
21 the forced outage rate is?

22 A. I don't know those specific numbers off the  
23 top of my head, no. But I'm sure Mr. Sorrick will.

24 Q. I want to ask you some questions about storm  
25 hardening and vegetative management. That is contained

1 in your testimony a little bit. But the company has  
2 embarked upon storm hardening and vegetative management  
3 improvement, correct?

4 **A.** Yes.

5 **Q.** Has the company made any efforts to try to  
6 ascertain how the storm hardening and the vegetative  
7 management has reduced its risk to damage from  
8 hurricanes?

9 **A.** I would say, yes, and I would -- as far as the  
10 specifics on that, I would probably defer to Mr. Joyner,  
11 who is very close to that, our distribution witness.  
12 But I think the money that we are investing in  
13 hardening -- I mean, we all remember the '04/'05  
14 hurricane season, so the steps that we have taken since  
15 that time is absolutely aimed at trying to improve our  
16 system in a way that will be helpful during storms.

17 **Q.** Okay. Just assume for me that 133 million is  
18 the right amount of money to have in the kitty for  
19 hurricane repair, okay. Assume that to be the right  
20 number for the purposes of this question.

21 **A.** Just for purposes of this question?

22 **Q.** Yes.

23 **A.** Okay. I will assume that.

24 **Q.** And I assume that that number was the right  
25 number before storm hardening and vegetative management

1 efforts were undertaken, okay?

2 A. Okay.

3 Q. You would agree that as a result of your  
4 expenditures and your efforts on storm hardening and  
5 vegetative management, that the level of risk of damage  
6 resulting from storms should have been reduced, correct?

7 A. No, I would not agree with that.

8 Q. You can't agree with that. So then am I  
9 correct in concluding that the storm hardening efforts  
10 and the vegetative management efforts have done nothing  
11 to reduce the risk of damage from hurricanes when they  
12 hit?

13 A. No, you are not correct.

14 Q. Why am I not correct?

15 A. You are not correct because that is one  
16 dimension of how we assess risk for storm. Keep in  
17 mind, our system has grown since the period in time.  
18 The probability changes as you go through time. You  
19 know, I think the years that you go by without a storm I  
20 think heightens the probability that you will have one  
21 in future years. So I think, again, this is an issue  
22 that we do have an expert witness that will talk about  
23 how we arrived at the appropriate storm reserve  
24 calculation. And I am, you know, certainly comfortable  
25 with where we are on that.

1           But, again, Mr. Moyle, just to clarify, you  
2 are isolating one dimension of a much larger complex  
3 study, and that is what I am in disagreement. I'm not  
4 in disagreement with that isolation, necessarily, but I  
5 think there is a lot more factors that go into the storm  
6 reserve calculation than your specific example.

7           **Q.** So given your point of clarification, that you  
8 are not comfortable with the isolation, if we agreed,  
9 everything else being equal and you were comfortable  
10 with the isolation, you would agree that the storm  
11 hardening and vegetative management would have a  
12 reduction on the possible damage associated with  
13 hurricanes, correct?

14           **A.** Just so I am clear, if you isolate that one  
15 dimension and all other things are equal, which they are  
16 not, then you might draw that conclusion. But I think  
17 it is not necessarily the right way to think about it,  
18 because there is a lot of other moving parts related to  
19 storm costs.

20           **Q.** And you are saying your system has increased.  
21 From what point in time are you talking about?

22           **A.** Well, if you go back to the '04 season, you  
23 know, we have had customer growth. We have seen some  
24 trail off of late. We are doing a couple of things. We  
25 are adding -- we added customers, number one, but we

1 have also added facilities, we've added transmission,  
2 we've added local distribution, so there are a number of  
3 different things that have occurred. And, again, I  
4 would defer to our Witnesses Joyner and Mr. Oliver on  
5 that on the transmission side to talk about facilities  
6 expansion that has occurred since the last series of  
7 hurricanes in '04.

8 Q. Do you know as we sit here today -- I mean,  
9 currently you buy insurance for your generating assets,  
10 correct?

11 A. You know, I would have to -- I may have to  
12 defer on that one. We used to be able to. I am just  
13 not sure of the current state of the insurance world.  
14 We have tried off and on to get insurance for some of  
15 our other assets and have been unsuccessful given the  
16 cost.

17 Q. Do you have a notion by how much your  
18 transmission and distribution assets have grown from a  
19 mileage standpoint?

20 A. I don't. I would defer to Mr. Oliver on that.

21 Q. Previously there was a ruling announced  
22 related to confidential salary information. And as  
23 President of Progress Energy Florida, ultimately the  
24 buck stops with you, does it not, with respect to  
25 salaries for your employees?



1           **A.** Yes. Of course no pun intended on your part  
2 on the bucks, right?

3           **Q.** My bad. You are aware of the economic  
4 circumstances in Florida. You mentioned it in your  
5 opening, it's a tough economy. We're in the middle of a  
6 recession or, hopefully, toward the tail end of a  
7 recession, correct?

8           **A.** Yes.

9           **Q.** Okay. And with respect to what you are asking  
10 for in the test year, you have asked for increased  
11 salaries, correct?

12          **A.** Yes.

13          **Q.** Do you know how much?

14          **A.** I believe it is in the range of 3 percent.

15          **Q.** Do you have any information with respect to  
16 the confidential documents that show projected salaries  
17 that are responses to interrogatories served by staff?

18          **A.** The only information I have is what  
19 Ms. Bradley provided me earlier.

20          **Q.** Okay. So the answer would be no?

21          **A.** No, sorry.

22          **Q.** As we sit here today, did you make a  
23 judgment -- how did you determine that you think  
24 3 percent is a proper amount for raises in 2010, if you  
25 made that judgment?

1           A.    Well, I didn't -- I guess I didn't per se make  
2 that judgment, not being in the role. I certainly  
3 support it in this regard, and it goes back to the  
4 discussion we had earlier, I forget with who, it may  
5 have been with Ms. Bradley, that I think we try to  
6 operate, and Mr. DesChamps will expand on this, a fairly  
7 consistent and steady compensation philosophy within our  
8 company, and we don't deviate from that whether it is  
9 the go-go times of the '90s or the situation we find  
10 ourselves in today.

11                    We have -- we are in sort of a unique  
12 business. There are some unique positions within our  
13 business that companies compete for. So what we try to  
14 do is deal with our employees fairly, and we try to take  
15 a long-term view of that. And I know that, you know,  
16 that we know that there will be cycles, both good and  
17 bad throughout that period of time. But we are trying  
18 to make decisions consistent with that philosophy that  
19 is in the long-term best interest of the company and our  
20 customers, to keep that in balance, and that is our  
21 philosophy.

22                    I think you will find that if you look at our  
23 information in our statistics, that that information is  
24 consistent with that philosophy and where we target for  
25 our employees. I would be concerned in some regards if

1 we were to make certain decisions and we lose critical  
2 employees that that would be potentially harmful to how  
3 we operate our business over the long-term. So I am  
4 comfortable with the philosophy.

5 I will also say that last year we did some  
6 differentiation within our employee groups, and I  
7 suspect we may continue that philosophy to make sure  
8 that the folks that are closest to our customers that  
9 are doing the work out in the field day in and day out  
10 feel good about their job and feel good about the work  
11 that they are doing. So in that regard, we may see  
12 consistent application of that philosophy to  
13 differentiate between different levels in the  
14 organization, and I am comfortable with that approach.

15 Q. You have also had salary increases from '09 --  
16 from '08 to 09, correct?

17 A. We did, yes.

18 Q. Okay. And let me refer you to Page 11 of your  
19 testimony, Line 12. You say, "Despite aggressive cost  
20 management." You would agree, would you not, that the  
21 aggressiveness of the cost management is subject to  
22 being questioned given the fact that in these  
23 recessionary times that salaries have gone up both from  
24 '08 to '09 and '09 to '10 for Progress Energy employees?

25 A. Mr. Moyle, yes, I would agree that everything

1 in this case is going to get examination and question.  
2 So we are certainly -- that is what we are here for.  
3 And I think our employees are prepared to answer the  
4 questions as they are asked.

5 Q. And with respect to the number of employees in  
6 your test year, 2010, it is also true that the number of  
7 employees has increased in your test year, correct?

8 A. Yes. Well, I shouldn't say that so quickly.  
9 I think there are some new employees in there that are  
10 associated with the Levy project, and those will be  
11 dealt with in the course of that proceeding.

12 As far as the specifics, I guess I would defer  
13 to Mr. DesChamps to get the statistics exactly right.  
14 There may be some puts and takes there. I'm not as  
15 familiar with the specific numbers, but if you have  
16 specific numbers I would be happy to respond to that,  
17 but I think he may be the better one to talk to you  
18 about that.

19 Q. I just want to make sure that you --

20 A. Or Mr. Toomey, I'm sorry, he may have that, as  
21 well. My apologies.

22 Q. I just want to make sure you have a general  
23 understanding that the number of employees is going up  
24 in 2010 as compared to 2009. I think you have answered  
25 yes.

1           **A.**    Yes.  I think it may be up slightly, yes.

2           **Q.**    Now, also on Page 11 you talk about with the  
3 exception of adding Hines 2 and 4.  Mr. Brew in his  
4 opening comments talked about increases related to  
5 nuclear, and you would agree that there have been  
6 increases in consumers' bills related to your nuclear  
7 efforts, correct?

8           **A.**    Yes, there have, consistent with the statute  
9 in Florida, yes.

10          **Q.**    And you also added Hines 2 and 4 to rates in  
11 2008, correct, as set forth in your testimony?

12          **A.**    Well, no, that is not correct.  We added Hines  
13 2 prior to that, I think.  I would have to get the  
14 settlement agreement out to understand the specific  
15 date.  I think we put Hines 2 in as part of the terms of  
16 the settlement earlier than that.

17                    What we did in '08 is we moved both Hines 4,  
18 the new unit, and Hines 2 from one method of recovery  
19 over to base rates.  I think Hines 2 was in prior to --  
20 significantly prior to 2008.  I'm sorry, Mr. Moyle.  It  
21 just got moved over to base rates at that time.

22          **Q.**    Do you know what the revenue requirements  
23 associated with Hines 2 and 4 that were moved over in  
24 2008, what those revenue requirements were?

25          **A.**    I don't know the precise number.  What I

1 recall about Hines 2 from the settlement agreement was  
2 in the range of about 35 million, perhaps, and I think  
3 also we had a requirement as part of that agreement to  
4 have offsetting fuel costs associated with that unit.  
5 So it was price neutral at least for the first two  
6 years. I don't have a specific number in my head for  
7 Hines 4, Mr. Moyle, I'm sorry. I could -- we could --  
8 I'm sure others will have that number.

9 Q. Let me refer you to Page 13 of your testimony.  
10 And before I focus in, you had talked about pluses and  
11 minuses -- in response to a question I believe from  
12 another counsel that any rate case such as this would  
13 have pluses and minuses. I interpreted that to be kind  
14 of, you know, give and take. That, you know, you may  
15 get some things, but you may not get everything. Did I  
16 misinterpret what you were talking about when you were  
17 saying pluses or minuses?

18 A. You will have to remind me of that specific  
19 question. I'm not sure what question that was.

20 Q. Well, would you agree that -- you know, in a  
21 rate case it is very unlikely that a utility would  
22 recover every dollar that they seek?

23 A. Well, I would say we certainly would like  
24 consideration for our case as filed. Ultimately, the  
25 Commission will decide, you know, what is appropriate

1 against what we have asked for.

2 Q. And as we sit here today, it is your belief  
3 that 499 million is the least that this Commission can  
4 do in terms of responding to your rate request?

5 A. I would say no. I think this Commission is  
6 free to make whatever decision they choose. What we --  
7 what I said earlier was I think we propose what we think  
8 is the appropriate amount to run our business the way  
9 our customers and the Commission expects.

10 Q. Let me refer you to 13, Line 20. You state,  
11 "If the company is hamstrung by a low ROE." What do you  
12 consider to be a low ROE?

13 A. Something less than 12.54.

14 Q. So it is your testimony that an ROE of 12  
15 would hamstring the company?

16 A. No. I think to clarify this, I think our -- I  
17 wouldn't isolate individual dimensions. So I think  
18 ultimately the Commission will decide this case, and  
19 that will suggest to us our financial capabilities  
20 coupled with our operational metrics on how to operate  
21 the business going forward. So individually, I don't  
22 think I would comment, you know, on individual items.  
23 But collectively, I think we will have to look at the  
24 result, and we will have to, you know, factor that into  
25 how we would like to, you know, operate and provide

1 service and reliability as we move forward.

2 Q. Yes, sir. And I would just -- you know, given  
3 our discussion on Exhibit 264, if you consider that to  
4 be credible evidence, you would agree that an ROE of  
5 10.51 would not be a low ROE, given the recent decisions  
6 in the past year across this country, correct?

7 A. No, I wouldn't agree with that. I think, you  
8 know, as an example, the ROE is not just a stand alone  
9 dimension of financial health. It depends on what your  
10 capital structure is, as well. So I think you would  
11 have to sort of lay out a series of financial dimensions  
12 to make a judgment, if you will, about what is low or  
13 what is high along any of that.

14 I think we would look at it in total, you  
15 know, in a way that, you know, that would be -- put us  
16 in a position to judge whether or not we feel like we  
17 have the right financial strength to go into the market  
18 to borrow the money that we need to borrow to operate  
19 our business on a day-to-day basis, to have the  
20 appropriate cash flow to run our business, those sorts  
21 of things. So I am not going to sit here and speculate,  
22 Mr. Moyle, with you what is low or high. I think what I  
23 do know as a fact is we think what we filed for is what  
24 is appropriate.

25 Q. As we sit here today, sir, would you agree



1 with me that Progress Energy Florida is in sound  
2 financial shape?

3 A. No.

4 Q. Is it fiscally in jeopardy today?

5 A. I think we will be in a better position to  
6 answer that question depending on the outcome of this  
7 case. I think we have serious issues today. We sought  
8 interim relief this year because of that. We had a  
9 floor of 10 percent in our settlement agreement that all  
10 the parties in my judgment recognized that that is a  
11 threshold that is serious enough to where the company  
12 should have the ability to go in and seek relief. And I  
13 don't think we are going to get to that threshold at the  
14 end of this calendar year. So in my judgment I think we  
15 do have financial issues, and I think that is in large  
16 part the reason that we are here.

17 Q. Have you -- given your answer to my question  
18 about soundness of the financial company, have you  
19 indicated to Wall Street or anyone that it is your  
20 belief that as we sit here today that Progress Energy  
21 Florida is financially unsound?

22 A. No, I don't think we would make that  
23 statement. I think you are dealing with a situation.  
24 Your question was how we feel about the company today,  
25 if I understood it correctly. So we are at a point in

1 time in 2009 that if that was to continue along the path  
2 that we are on right now, I think there would be serious  
3 questions both inside the company and outside the  
4 company. That is why we are here. We are here to  
5 remedy that situation to get us in a position to move  
6 forward.

7 I would also say that, you know, the overall  
8 strength of our company is not just the utility in  
9 Florida. We have operations beyond just the state of  
10 Florida. So there are a number of things that factor  
11 into that. But, I think to answer your question about  
12 Progress Energy Florida, we have some trends going on  
13 right now that are not good and that is why we are here  
14 in part.

15 Q. Okay. But I just want to make sure I am  
16 clear. As we sit here today, what is your opinion --  
17 no, I'm not going to ask it that way.

18 As we sit here today, you do believe that  
19 Progress Energy Florida is in sound shape financially  
20 today, correct?

21 A. Well, I don't know that I would agree with  
22 that, and it is for the reasons I have already stated.

23 Q. And I'm not asking you to project beyond today  
24 into the future, I am just asking you to, you know, look  
25 at today.

1           **A.**    Yes, I would say -- I guess, Mr. Moyle, I  
2 would say no.  If you look at our ROE today, as an  
3 example, single digit in the, you know, 8 to 9 percent  
4 range achieved today.  Okay.  Even considering trailing  
5 12, and I will let our specific witnesses talk about the  
6 actual numbers, that to me doesn't suggest good  
7 financial health.  And as I said earlier, that is in  
8 part why we are here.  We think we have got to remedy  
9 that situation substantially if we are going to have the  
10 ability to go do the things that we would like to do in  
11 the future.

12           **Q.**    Do you believe that Progress Energy Florida  
13 was a sound financial company in fiscal year 2008?

14           **A.**    I would say we were more sound than we are in  
15 '09.  Again, I would have to get back -- I mean, I would  
16 have to go back through and look at some of the numbers.  
17 I think we started to see some of the deterioration  
18 begin in 2008, so I am hesitant to agree with your  
19 premise.  So I think as you go back in time, back to '05  
20 where we had our last settlement agreement, I think we  
21 were in pretty good shape there.  I think we have seen  
22 sort of a slide in a different direction since that  
23 period of time.

24           **Q.**    Do you know what Progress Energy Florida's  
25 return on equity was for 2008?

1           **A.** For 2008, I believe it was somewhere between  
2 9-1/2 and 10 percent. It was 9-point something. I  
3 don't have the precise number.

4           **Q.** Was the company able to provide dependable,  
5 reliable electric service to its customers in 2008?

6           **A.** In 2008, I would say, yes, we were.

7           **Q.** Was Progress Energy able to raise capital in  
8 2008, both debt and equity?

9           **A.** Progress Energy Florida, is that your  
10 question?

11          **Q.** Yes.

12          **A.** I believe we did some. Again, I would defer  
13 to Mr. Sullivan on the specifics around that.

14          **Q.** As we sit here today, do you know what, you  
15 know, the base rates collected by your company from  
16 ratepayers in Florida, what that number is, give or  
17 take?

18          **A.** Total revenue, is that your question?

19          **Q.** Yes, sir.

20          **A.** I believe it is about 1-1/2 billion in the  
21 base.

22          **Q.** And you are aware that the consumers are  
23 suggesting that this Commission should decrease that  
24 number by 35 million, correct?

25          **A.** I am aware of that, yes.

1           Q.    You would agree that 35 million out of  
2 1.5 billion is a very, very small percentage, correct?

3           A.    Are you asking me if that is a small  
4 percentage as a mathematical answer?

5           Q.    Yes, sir.

6           A.    As a mathematical answer, yes.  It is  
7 certainly not the right answer in this proceeding.

8           **MR. MOYLE:**  If I could have just a minute,  
9 Mr. Chairman.

10           **CHAIRMAN CARTER:**  Absolutely.

11           **BY MR. MOYLE:**

12           Q.    Mr. Dolan, I had referenced you to -- we  
13 talked about Hines 2 and 4, and we skipped over Hines 3.  
14 Wasn't Hines 3 -- that came into service, correct?

15           A.    Yes.

16           Q.    And you didn't seek to recover the capital  
17 costs associated with Hines 3 in any kind of rate case  
18 or special proceeding, correct?  Wasn't that -- wasn't  
19 that absorbed by growth within the company's business?

20           A.    No.

21           Q.    How was Hines 3 addressed?

22           A.    Hines 3 was dealt with in the context of a  
23 comprehensive settlement.

24           Q.    Okay.  And with respect to that comprehensive  
25 settlement, didn't your company agree that it would not

1 seek relief from this Commission as long as its ROE  
2 remained above 10 percent?

3 **A.** Are you asking me we wouldn't seek general  
4 relief, or -- I'm not sure I understand your question.

5 **Q.** Was there a provision -- do you have an  
6 understanding of the settlement agreement as to what was  
7 in the settlement agreement with respect to an ROE?

8 **A.** Yes.

9 **Q.** And what was your understanding?

10 **A.** My understanding is we did not have a target  
11 ROE for base revenues because we had a revenue sharing  
12 incentive plan. We had a floor that if our business  
13 dropped below 10 percent that in my judgment the parties  
14 recognized that that would be a serious situation  
15 financially for the company, that that would be the  
16 trigger that would allow us to come in for relief. We  
17 also had one other dimension related to ROE, and that  
18 was that our ROE for investments in any of the clauses  
19 would be calculated at 11.75 percent ROE.

20 **MR. REHWINKEL:** Would it be appropriate for me  
21 to object on Mr. Dolan making -- giving legal advice  
22 here? I had an objection lodged against my questions  
23 about him not being a lawyer, and he has just given an  
24 opinion about the legal effect of a stipulation that is  
25 really legal document. I would ask that his question be

1 stricken with respect to his answer about that with  
2 respect to that stipulation.

3 **CHAIRMAN CARTER:** So you are objecting to the  
4 question and the answer, then, because the question was  
5 related to the stipulation.

6 **MR. GLENN:** It sounds like the classic  
7 objection that I object to the answer that the witness  
8 just gave because it is inconsistent with my position.

9 **MR. REHWINKEL:** Well, I had no way of  
10 anticipating, Mr. Chairman, that he was going to give a  
11 legal conclusion since I had been informed he was not a  
12 lawyer.

13 **CHAIRMAN CARTER:** He was answering the  
14 question, Mr. Rehwinkel. He was answering the question  
15 is what he was doing. Do you want to object to the  
16 question and the answer?

17 **MR. REHWINKEL:** Yes, then I would do that.

18 **CHAIRMAN CARTER:** Okay. Mr. Rehwinkel objects  
19 to the question and the answer. Mr. Moyle to the  
20 question.

21 **MR. MOYLE:** I will rephrase, how is that?

22 **CHAIRMAN CARTER:** Okay. How much more do you  
23 have, Mr. Moyle, because --

24 **MR. MOYLE:** Five minutes probably, Mr.  
25 Chairman.

1           **CHAIRMAN CARTER:** Because it is really getting  
2 close to that time. I know five minutes for you,  
3 Mr. Moyle, is not five minutes for me, so let's go ahead  
4 and we will take our break. And we will come back,  
5 Commissioners, at 4:35.

6           (Recess.)

7           **COMMISSIONER EDGAR:** Okay. We are back on the  
8 record from a short break. And, Mr. Moyle, I believe  
9 that you were continuing your cross.

10          **MR. MOYLE:** Thank you.

11          **BY MR. MOYLE:**

12           **Q.** Mr. Dolan, I think we left off where my  
13 colleagues had objected to my question and I was trying  
14 to rephrase. So let's pick back up on that point. And  
15 you do have familiarity with the settlement agreement  
16 that was entered into previously, correct?

17           **A.** Yes.

18          **MR. MOYLE:** Okay. And just so the record is  
19 clear, I want to make sure that the answer with respect  
20 to his understanding about the 10 percent floor ROE was  
21 not stricken. I guess probably the best way to do it is  
22 just ask him the question.

23          **COMMISSIONER EDGAR:** I do not recall anything  
24 being stricken. However, that already seems like a very  
25 long time ago, Mr. Moyle. So why don't you -- if you



1 have a question that you want answered on the record,  
2 why don't you go ahead and pose it.

3 **BY MR. MOYLE:**

4 Q. Mr. Dolan, you would agree that in that  
5 agreement that the parties agreed that the trigger for a  
6 floor for ROE was 10 percent, correct? Let's just say  
7 the floor, the floor for the ROE that Progress Energy  
8 could earn was 10 percent, correct?

9 A. Well, let me make sure I am careful in how I  
10 answer your question. Mr. Rehwinkel has not objected  
11 yet, so I will be careful about this. My understanding  
12 of the agreement, and I was principally involved in  
13 negotiating the agreement with the parties as well as  
14 others in our company, is that the 10 percent was the  
15 point at which if we fell below that, that we -- again,  
16 this is my opinion. I'm not offering you a legal  
17 opinion. This is my understanding of the agreement, is  
18 that that provided us the ability to go in and seek  
19 relief from this Commission to remedy that situation.

20 So, to further clarify that, I think, again,  
21 my opinion in how I interpreted the negotiations,  
22 obviously in our judgment, given all the parameters of  
23 the settlement, we assumed that that would target a  
24 substantially higher ROE, so that was the point that we  
25 would be underachieving on that dimension significantly

1 and would suggest that we needed relief from the  
2 Commission. And I think that is sort of the framework  
3 as I understand it in that agreement.

4 Q. Also, you agreed not to basically stay out  
5 until 2010 under that agreement, correct?

6 A. Yes, absent the provisions we talked about. I  
7 would answer your question differently than the way you  
8 stated it. The agreement was for four years that ended  
9 in 2009. There was a provision for a six-month  
10 extension under certain conditions. Obviously, those  
11 didn't work, that is why we are here. That agreement  
12 would sunset at the end of '09. That was the original  
13 date that was contemplated.

14 Obviously -- and, again, I won't get into the  
15 legal aspects of where we are with that particular  
16 agreement, but there have been adjustments, you know,  
17 based on the matters that went before the Commission  
18 earlier this year. So we are where we are with that  
19 agreement.

20 Q. Did you have an understanding having  
21 negotiated that agreement, that the company would stay  
22 out until 2010?

23 A. I mean, our expectation was if the performance  
24 continued consistent with the time period when we  
25 negotiated the agreement. It was certainly -- I mean,

1 that was the -- that was the understanding of all the  
2 parties that that was the end date of the agreement  
3 through the end 2009. Again, absent some of the  
4 triggers in that agreement that would suggest that  
5 changes were necessary, and the 10 percent floor was one  
6 of those.

7 Q. In earlier testimony you had said that you had  
8 reduced the number of contractors. Now, those  
9 contractors are not employees of Progress Energy  
10 Florida, are they?

11 A. The contractors are -- no, they are not  
12 Progress Energy specific employees.

13 Q. Okay. And with respect to contractors, they  
14 are independent contractors, correct?

15 A. Independent. You mean they are -- I am not  
16 sure I understand your question.

17 Q. Well, you didn't -- with an independent  
18 contractor, they have their own tools, they set their  
19 own hours of work. I mean, they kind of come and are  
20 tasked to do a job, isn't that right?

21 A. Well, I probably would resist sort of  
22 answering the specifics on that, Mr. Moyle. I would  
23 refer you to some of our operating folks on the  
24 specifics of how we manage those contracts. They may  
25 have varying terms and conditions. But as a general

1 rule they are outside the company, you know, we contract  
2 for a resource, so your underlying premise I don't -- I  
3 certainly don't disagree with.

4 **MR. MOYLE:** And you brought it up in the  
5 context of employee cuts, and I think you have answered  
6 it, that they are not employees. So with that  
7 clarification, I have no further questions. Thank you.

8 **COMMISSIONER EDGAR:** Thank you.

9 Mr. Brew.

10 **MR. BREW:** Thank you, Madam Chairman.

11 CROSS EXAMINATION

12 **BY MR. BREW:**

13 **Q.** Good afternoon, Mr. Dolan.

14 **A.** Mr. Brew, good afternoon to you.

15 **Q.** Normally my five minutes are actually five  
16 minutes. We will see how it goes.

17 Earlier in the discussion that you had with  
18 Mr. Rehwinkel, you talked about mentioning of the  
19 recession in your testimony, do you recall that?

20 **A.** Could you -- is there a specific reference  
21 that you are referring to?

22 **Q.** Actually, my recollection was that you had  
23 trouble recalling if there was a reference to the  
24 recession in your testimony, and in going through it, I  
25 can only find two. On Page 11, Line 17, when you get

1 there, do you see a reference to the recession in terms  
2 of the impact on the stock market and your pension  
3 costs, do you see that?

4 **A.** Yes, I do.

5 **Q.** And then on Page 7, Line 21, you state that  
6 the national recession has hit Florida particularly  
7 hard. Do you see that?

8 **A.** I do.

9 **Q.** Okay. And in terms of the recession hitting  
10 Florida particularly hard, that means it has had a  
11 substantial impact on Florida consumers and businesses?

12 **A.** I don't know that I would -- what I would say  
13 is that the recession has hit Florida particularly hard.  
14 How I would interpret that is in a relative sense to  
15 other parts of the country.

16 **Q.** Okay. Would you expect that it is also having  
17 an impact on energy intensive manufacturing in Florida?

18 **A.** I would say it might. I think it depends on  
19 the individual business circumstances. I am aware of  
20 some businesses that are up in this down economy, and I  
21 am also aware of some businesses that are down in this  
22 down economy. I think it really it depends on the  
23 nature of the business.

24 **Q.** Well, the company specifically looks at the  
25 phosphate mining operations individually in its assess

1 forecasting, does it?

2 **A.** We do. Yes, we do.

3 **Q.** And would you say that it is fair to say they  
4 have been down?

5 **A.** I would say if you look at '09, I would  
6 probably agree with that conclusion based on what I  
7 know. I think in the prior periods, between when we  
8 signed the last settlement agreement and today, I think  
9 there has been some ups and downs in that business.

10 **Q.** But in terms of the time period in which the  
11 recession has been in effect you would say that they  
12 have generally been down?

13 **A.** No, I'm not sure I would agree with that. I  
14 think it depends on what period you consider the  
15 recessionary period. If you look at a two-year period,  
16 I think there are parts of that where actually I think  
17 businesses -- I think mining phosphate in particular  
18 that you reference has been driven a lot with the  
19 international marketplace. So I wouldn't say  
20 conclusively that it overlaps the recession, but I would  
21 agree with you about '09. I think that is where we have  
22 seen some softening in that particular business.

23 **Q.** Certainly the fourth quarter of '08 and 2009  
24 so far?

25 **A.** Well, you may be more familiar with your

1 specific client. I think generally the answer that I  
2 gave is to the best of my knowledge.

3 Q. Okay. All right. Would you say that it is  
4 fair to state that how quickly Florida recovers from the  
5 effects of the recession is a concern throughout state  
6 government?

7 A. Throughout our Florida state government, is  
8 that your question?

9 Q. Yes, Florida state government.

10 A. I would say, yes, our governmental leadership  
11 is certainly concerned about the recession.

12 Q. Would you say that that is a concern that  
13 Progress Energy Florida shares?

14 A. No, I don't know that I would say we think  
15 about it the way the state leaders do. I think they are  
16 looking at sort of different dimensions. I think we  
17 would all, and I think I would agree in the case of  
18 Progress Energy, we are all interested to see the  
19 recovery period come, if I understood your question.

20 Q. My question was in terms of the pace of the  
21 recovery. We would all like to see it sooner rather  
22 than later?

23 A. Oh, I think we would agree with that, yes,  
24 that we would like to see recovery happen, yes.

25 Q. Not just that the recovery would happen, but

1 that the pace of the recovery would be sooner rather  
2 than later?

3 A. I think sooner would be better than later,  
4 yes. I would agree with that.

5 Q. Okay. Your testimony is labeled as an  
6 overview of the company's need for rate relief  
7 specifically in the top of Page 2.

8 A. Yes, I see that.

9 Q. Do you see that?

10 A. Yes.

11 Q. And is it fair to state that your testimony  
12 describes the important factors that the company was  
13 trying to address in its request for rate relief?

14 A. Yes, I would agree with that, you know, at a  
15 high level.

16 Q. Okay. What I can't find in your testimony is  
17 anyplace in which the testimony addresses rate impacts  
18 on customers as a result of your request. Did you  
19 address that anywhere in your testimony?

20 A. Can you help me a little bit more about your  
21 specific --

22 Q. Sure. Is there a question and answer that  
23 addresses the customer impacts or rate impacts of your  
24 request for rate relief? I can't find one.

25 A. I don't believe there is. I think that is



1 probably -- no, I will just say I don't believe there is  
2 in this.

3 Q. Okay. Would you agree with me that the  
4 increase in base rates that you are seeking here is  
5 additive to the increase in rates that would be  
6 accomplished through the nuclear cost-recovery clause  
7 filing?

8 A. Yes, I would agree with that.

9 Q. I want to take a minute to just go over your  
10 discussion of renewable energy that appears on Page 9 of  
11 your testimony that you discussed a minute ago with  
12 Mr. Moyle when you are ready.

13 On Line 13 you talk about the fact that  
14 through purchased power agreements the company will  
15 potentially add 367 megawatts of new renewable  
16 generation to your system. Do you see that?

17 A. Yes, I do.

18 Q. Is any of that 360 megawatts currently in the  
19 company's Ten-Year Site Plan?

20 A. That I'm not certain of. I believe some of it  
21 is. I would probably defer to one of our other  
22 witnesses. Perhaps Mr. Crisp can address that.

23 Q. Mr. Crisp?

24 A. Yes.

25 Q. Okay. Am I correct that Progress Energy

1 Florida doesn't incur any capital expenditures for that  
2 367 megawatts?

3 A. I think, yes, I would agree with that.

4 Q. And that there is no cost at all to Progress  
5 Energy Florida unless those projects are built and  
6 actually run?

7 A. There is no cost to our customers if those  
8 projects are not built, yes, I would agree with that.

9 Q. Or to your shareholders?

10 A. I don't know that I would agree with that.

11 Q. Under those contracts are you incurring any  
12 obligations to pay other than for a completed project?

13 A. Let me back up, Mr. Brew. I want to make sure  
14 I am understanding the sequence of your question. The  
15 one you asked me, was it that they get built or not get  
16 built?

17 Q. No. The reference in your testimony is to  
18 purchased power agreements for the new renewables.

19 A. Yes.

20 Q. Okay. And I'm asking does the company incur  
21 any costs unless those projects are completed and run.  
22 And you said no for customers?

23 A. Right.

24 Q. I'm saying is there any --

25 A. Yes, if they are not completed. I guess I

1 would just be a little careful depending on the nature  
2 of the contract. So, I think generally speaking our  
3 contracts are structured where we pay when the units go  
4 operational. That is the way they are structured, and  
5 those are generally approved individually by this  
6 Commission.

7 **Q.** Right. And without getting into specifics of  
8 contracts, even if there were some payments, they would  
9 be de minimis?

10 **A.** I think that would depend on the nature of the  
11 contract.

12 **MR. BREW:** Okay. That's all I have. Thank  
13 you.

14 **COMMISSIONER EDGAR:** Thank you.

15 Ms. Van Dyke, questions on cross?

16 **MS. VAN DYKE:** The Navy has no questions for  
17 Mr. Dolan.

18 **COMMISSIONER EDGAR:** Thank you.

19 Mr. Wright.

20 **MR. WRIGHT:** Thank you, Madam Chairman.

21 CROSS EXAMINATION

22 **BY MR. WRIGHT:**

23 **Q.** Good afternoon, Mr. Dolan.

24 **A.** Mr. Wright, good afternoon to you, as well.

25 **Q.** As you know, I am Schef Wright, and I

1 represent the Retail Federation, The Florida Retail  
2 Federation in this case, and I have a few lines of,  
3 hopefully, brief cross for you this afternoon.

4 My first question for you is have you read  
5 Mr. Schultz's testimony?

6 A. Yes, I have.

7 Q. He is one of the intervenors' witnesses. Are  
8 you familiar with his testimony regarding employees and  
9 employee positions?

10 A. Yes, generally I am.

11 Q. Is it your understanding that he is not  
12 advocating disallowance of the costs associated with any  
13 existing filled employee positions?

14 A. I would say, yes, I think that is my general  
15 understanding. And I would say, Mr. Wright, the  
16 specific questions I will ask for some help, you know,  
17 in looking at his testimony. I don't have a copy of it  
18 with me, but I would agree with you that is my general  
19 understanding on existing employees.

20 Q. And there are A lot of numbers that I have  
21 seen regarding what the company's proposed pay increases  
22 are. Do you know, is it 3.75 percent, 3 percent, 4.7  
23 percent from '09 to '10?

24 A. The precise number I would refer you to  
25 Mr. DesChamps on that. I think the 3 percent answer

1 that I gave earlier is my general understanding of the  
2 range.

3 Q. Is it your understanding that Mr. Schultz is  
4 simply proposing to cut the raise in half, assuming that  
5 it is 4.7 percent?

6 A. Mr. Schultz has proposed a number of different  
7 cuts related to O&M and compensation. The precision on  
8 that I would have to look at his testimony to really  
9 confirm your question or statement.

10 Q. Thank you. Let me ask you this sort of  
11 conclusory question. If the company does not get any  
12 base rate increase at all, is it your testimony that  
13 Progress Energy Florida will be able or unable to  
14 provide safe, adequate, reliable service in 2010?

15 A. I'm sorry, just so I am clear on your  
16 question, your hypothetical is we get a zero?

17 Q. That is the hypothetical I'm asking you about,  
18 yes, sir.

19 A. Yes. And I'm sorry, your follow-up was we  
20 would not --

21 Q. Given that assumption, my question to you is  
22 will the company be able in 2010 to provide safe,  
23 adequate, reliable service?

24 A. You know, Mr. Wright, I would say that is a  
25 difficult question to answer because there are a lot

1 of -- you know, your zero, there is a lot of things that  
2 were talked about earlier today, issues in this case,  
3 depreciation being one of them. So I guess, first and  
4 foremost, I would have to understand the way in which  
5 the Commission got to zero, so I would say that as a  
6 qualifier.

7 I would say, though, to get to the root of  
8 your question, I think we would be seriously challenged  
9 to operate the business in the manner, and to your  
10 question, with a zero increase. I think that would  
11 create a serious strain on our ability to continue to  
12 provide the type of quality service and reliability that  
13 our customers have enjoyed to this date.

14 Q. Now, in discussion we have talked about, and I  
15 believe Mr. Glenn spoke of in his opening statement that  
16 the consumers advocate cutting about \$133 million of O&M  
17 expense. Is that accurate to your understanding?

18 A. Yes, that is Mr. Schultz's testimony, I  
19 believe.

20 Q. And so the balance is -- the balance of the  
21 difference is essentially return on equity,  
22 depreciation, surplus amortization, and depreciation  
23 expense, isn't that correct?

24 A. Yes, I think -- I think all of the folks at  
25 opening did a fairly good job of establishing those as

1 the critical issues.

2 Q. But the point is those have to do with simply  
3 return to capital and the accounting entries associated  
4 with depreciation, correct?

5 A. Which those are you talking about?

6 Q. Those three items that we just, I think,  
7 agreed on, ROE, the depreciation surplus issue, and the  
8 depreciation expense issue. The ROE is return to equity  
9 investors, correct?

10 A. The ROE establishes the return on our equity,  
11 yes. Where and how you establish the ROE, obviously,  
12 has secondary impacts in the business as a whole. I  
13 mean, if you are talking about mathematical  
14 calculations, I think I would agree with your premise.  
15 I think we think about ROE a little differently. I  
16 mean, I think the range of ROE, the precise number of  
17 ROE, all of those things influence how the market think  
18 about our company.

19 Q. I was really just trying to ask about the  
20 nature of the return on equity component itself. It  
21 represents the return to investors.

22 A. It does, yes.

23 Q. Assuming a given rate base and capital  
24 structure, and I'm not trying to engage you in a debate  
25 on capital structure.

1           **A.** Right. Thank you. Thank you for that.

2           **Q.** You're welcome. And the answer to my question  
3 is yes?

4           **A.** I did say yes.

5           **Q.** Okay. Thanks. And the other two big items  
6 are the treatment of the depreciation surplus and  
7 depreciation expense, correct?

8           **A.** Those were two other items that were  
9 identified earlier, yes, they were.

10          **Q.** And those are -- would you agree that those  
11 are accounting entries relative to depreciation?

12          **A.** You would have to -- no, I don't think I would  
13 agree with that. I think there -- I think there is a  
14 lot of issues associated with depreciation is an  
15 extensive study. I don't know that I would just simply  
16 call them accounting issues.

17          **Q.** Well, the decisions on depreciation expense  
18 don't affect cash flow, do they?

19          **A.** I think they do, yes. The depreciation  
20 expense -- I mean, are you talking depreciation -- well,  
21 sure. I mean, I think the recovery, the recognition of  
22 depreciation expense recognized or the treatment of the  
23 reserve amount that is being talked about absolutely  
24 affects cash flow. Maybe I'm not understanding your  
25 question, I'm sorry.



1           Q.   Well, let's stick with depreciation expense  
2 for a minute. Depreciation expense is an amount that is  
3 nominally built into rates to provide for return of  
4 capital investment, correct?

5           A.   Yes.

6           Q.   Okay. And so if we set the depreciation -- if  
7 the depreciation lives suggested are shorter, rates will  
8 be higher; if the depreciation lives are set longer, the  
9 rates will be lower?

10          A.   Yes.

11          Q.   Okay. That really -- once the investment is  
12 made, that is an accounting entry. Would you agree that  
13 that is an accounting entry that has to do with the  
14 company's return of capital?

15          A.   Let me make sure I understand your question.  
16 So once the investment is in rate base, and the useful  
17 life is established, and the depreciation time period is  
18 set, there is a mathematical equation to get the amount  
19 that will occur each year. Yes, I would agree with that  
20 if that is your question.

21          Q.   I think so. And the depreciation surplus is  
22 an accounting entry designed to deal -- depreciation  
23 surplus is an accounting value, correct?

24               **MR. GLENN:** Objection to the form of the  
25 question. It mischaracterizes the state of the record

1 as to surplus. There has not been established that  
2 there is any, quote, surplus.

3 **COMMISSIONER EDGAR:** Mr. Wright.

4 **MR. WRIGHT:** I will rephrase.

5 **COMMISSIONER EDGAR:** Thank you.

6 **BY MR. WRIGHT:**

7 **Q.** Mr. Dolan, will you agree that the company's  
8 own depreciation study indicates a theoretical reserve  
9 excess of some \$645.X million?

10 **A.** Yes.

11 **Q.** Do you have an objection to calling that a  
12 surplus?

13 **A.** Yes, I do.

14 **Q.** Okay. I can call it an excess but not a  
15 surplus, right?

16 **MR. GLENN:** How about a variance?

17 **THE WITNESS:** I like your terminology of a  
18 theoretical reserve.

19 **MR. WRIGHT:** Okay.

20 **THE WITNESS:** If you would like to call it  
21 that.

22 **BY MR. WRIGHT:**

23 **Q.** Well, we will talk about a variance, and we  
24 will call it a -- can we agree it is a positive variance  
25 such that the value of the remaining assets is greater

1 than the theoretical depreciation by some \$645.X  
2 million?

3       **A.** I would say, yes, I agree generally. I am  
4 going to resist, you know, getting into the vocabulary.  
5 I will certainly leave that to the experts to talk about  
6 that.

7       **Q.** Now, if we amortize that as prayed by the  
8 consumers to the tune of 160, which nets to about  
9 \$150 million per year, that is really an accounting  
10 entry, correct?

11       **A.** I think it is more than an accounting entry.  
12 No, I wouldn't agree with that.

13       **Q.** Well --

14       **A.** Well, let me make -- let me answer your  
15 question this way, Mr. Wright. So, if you assume that  
16 that is the decision, then it is a mathematical  
17 exercise. I guess what I am disagreeing with is getting  
18 to that decision. I mean, it has far-reaching  
19 consequences to get to that decision. Maybe I'm not  
20 understanding your question, again. But if you get to  
21 the other side, and there is a decision, and that is the  
22 practice and it is being implemented, then it becomes an  
23 accounting calculation. We certainly disagree that that  
24 is the way to treat the theoretical reserve, but others  
25 will address that better than I will.

1           Q.    So if we do -- if the Commission were to  
2 decide that issue as the consumers have advocated, that  
3 would be a credit to depreciation expense, would it not?

4           A.    It would.

5           Q.    And the net effect would be to increase the  
6 company's reported earnings, correct?

7           A.    That would be one effect, yes.

8           Q.    Thank you.  So in terms of operating the  
9 company in 2010, isn't it true that the real operational  
10 issues relate to the O&M expense?

11          A.    No, I wouldn't agree with that.

12          Q.    Why not?

13          A.    Because I think the effect of that decision  
14 with depreciation is going to have secondary effects in  
15 how the financial world views our company.  It may  
16 restrict access to capital and have other negative  
17 effects on our company.  It certainly has a negative  
18 effect on cash flow.  And so as an example, if that  
19 restricted or, you know, impacted the price of our stock  
20 to go to the market, that is going to have a negative  
21 effect.  It is going to put pressure on other parts of  
22 our business and certainly is going to put pressure on  
23 our ability to fund the kind of O&M that we want to fund  
24 year in and year out.

25                    So I think it is fair to say that that

1 individual issue is going to have some secondary  
2 effects, as well as it is going to, depending on how  
3 that -- if your proposal was adopted. You know, the  
4 other thing that perhaps is being overlooked is let's  
5 assume that we did that 160 million over a four-year  
6 period. That single issue alone is going to  
7 necessitate -- that is going to go into rate base. So  
8 four years from now there will be an additional  
9 \$200 million revenue requirement that I'm sure people  
10 will not be happy about if we come back in, all things  
11 equal in our business, and say we need \$200 million of  
12 rate relief based on that single issue decision.

13 So to say that you want to isolate that and  
14 make it an accounting calculation, I think really is  
15 something that we struggle with. And I think that is  
16 why we feel very strongly that the Commission ought to  
17 adopt our proposal in how to treat that theoretical  
18 reserve.

19 Q. Well, I understand that we disagree on that,  
20 and I really did not mean to lead us into a discussion  
21 on depreciation reserve. But, you agree that -- you  
22 have answered this. You agree that there is a positive  
23 excess variance of the amount that has been collected  
24 versus the reserve required relative to the assets in  
25 place, correct?

1           **A.** I don't agree with how you are characterizing  
2 it. I will agree that based on our depreciation study,  
3 there is a theoretical reserve in the amount that I  
4 think we agreed to, 600-and-some million dollars.

5           **Q.** Okay. Would you agree that the company  
6 doesn't intend to carry a surplus -- carry a positive  
7 variance or a negative variance?

8           **A.** I don't know that I would agree with that  
9 statement. I think what I would agree with is that we  
10 have filed depreciation studies on a periodic basis, you  
11 know, with this Commission and consistent with some of  
12 the settlement agreements that we have achieved over the  
13 last ten or 12 years, and we basically follow along with  
14 our depreciation consistent with those approved studies.

15           **Q.** You may have answered this, my question, I  
16 didn't hear it. My question was would you agree that  
17 the company does not intend to carry either a positive  
18 or a negative variance in its depreciation reserve?

19           **A.** I would say yes, and if you would, just to  
20 explain, I think it is always -- I would say -- and,  
21 again, I am going to defer to our experts on this. But  
22 I think the way depreciation studies are done, you try  
23 to do them in a way where they sort of stay in balance  
24 over a long period of time. So there are naturally  
25 going to be variations from time to time, both up and

1 down. So I think you try to do the best job predicting  
2 depreciation rates for your, you know, assets whether  
3 they be generation or transmission or distribution. And  
4 I know that our folks do that, and those are studies  
5 that have been approved in the past. And, you know, we  
6 will deal with this issue in the current case.

7 Q. Doesn't the fact that the variance is positive  
8 indicate that the company has collected more in  
9 depreciation over time than it needed to relative to the  
10 value of the assets today?

11 A. No.

12 Q. A general question. Will you agree that  
13 Progress Energy Florida has a duty to provide service,  
14 safe, adequate, reliable service to its customers at the  
15 lowest possible cost?

16 A. Yes, I would.

17 Q. I've got a brief question for you about your  
18 testimony at Page 5, Mr. Dolan.

19 MR. WRIGHT: And my colleague, Mr. Moyle, has  
20 kindly agreed to pass out an exhibit that I would like  
21 marked, Madam Chairman. I think I've got 265.

22 COMMISSIONER EDGAR: That is what I have. So  
23 we will mark it as 265, and as it is being distributed,  
24 can you give us a title?

25 MR. WRIGHT: J. D. Power 2009 Residential

1 Study.

2 **COMMISSIONER EDGAR:** Okay. We will mark as  
3 Number 265, J. D. Power 2009 Residential Study.

4 (Exhibit Number 265 marked for  
5 identification.)

6 **MR. WRIGHT:** Thank you. I was just waiting to  
7 make sure everyone had their copies.

8 **BY MR. WRIGHT:**

9 Q. Mr. Dolan, I want to ask you about your  
10 testimony at Pages 17 through 19 on Page 5, in which you  
11 testified that -- I think it is 16 through 19. You  
12 scored either a first or second quartile on customer  
13 satisfaction for the past six years, and nine years  
14 according to the J. D. Power Associates survey of  
15 residential customers. Now, I have just distributed  
16 what we got off the Internet as representing itself to  
17 be J. D. Power and Associates 2009 electric utility  
18 residential customer satisfaction study. Now, you  
19 testify --

20 **MR. GLENN:** Objection. I think that  
21 mischaracterizes the document. I think it is an extract  
22 from it at the bottom, I believe it says.

23 **MR. WRIGHT:** Madam Chairman, Mr. Glenn is  
24 correct. It includes a press release and includes the  
25 actual numeric rankings for several of the regions and



1 market segments, including the south.

2 **MR. GLENN:** It's fine to characterize it as an  
3 extract of an overall study that has not been provided  
4 to the witness, a complete study.

5 **MR. WRIGHT:** And I am comfortable with that  
6 limitation as an excerpt.

7 **BY MR. WRIGHT:**

8 **Q.** If I could ask you, Mr. Dolan, to look at the  
9 eighth page in, which I believe is the page that  
10 addresses the customer satisfaction index ranking for  
11 the south region large segment. Are you there?

12 **A.** Yes, I am.

13 **Q.** Now, I see Progress Florida showing a score on  
14 a 1,000 point scale of 619. Is that what you see?

15 **A.** I do, yes.

16 **Q.** And I also see Progress Energy Carolina is at  
17 657?

18 **A.** Yes, I see that.

19 **Q.** And the south largest segment average at 635?

20 **A.** I see that as well, Mr. Wright.

21 **Q.** Okay. I've got two questions for you. Are  
22 you sure that Progress Energy Florida was in either the  
23 first or second quartile for 2009?

24 **A.** Are you -- Mr. Wright, are you asking me about  
25 the testimony or are you asking about this document?

1           Q.   Well, I'm asking you about your testimony in  
2 light of this document, which shows you below average  
3 for the south large segment and also below average for  
4 the south midsize segment. And I just -- so my question  
5 for you is in light of what we see here, are you sure  
6 that you were in the first or second quartile in 2009  
7 pursuant to the J. D. Power rankings?

8           A.   Well, I guess I am confused by your question,  
9 because this statement in the testimony doesn't take  
10 into account 2009, because this testimony was prepared  
11 prior to this study being completed, so it references  
12 2008 and going backwards from there.

13          Q.   Okay. Do you know where you ranked in terms  
14 of the quartile rankings that you mention in your  
15 testimony? Do you know where you rank in 2009?

16          A.   Well, I would say to -- yes, I do. I am  
17 familiar with this one page of a larger study. So I  
18 would like to put that in context. My testimony that I  
19 adopted from Mr. Lyash talks about first or second  
20 quartile for the past six years in customer satisfaction  
21 and in customer service for the past nine years. So, if  
22 we were updating that to today, we would not be in the  
23 first or second quartile in customer satisfaction, but  
24 we would be in terms of customer service. There are a  
25 number of different dimensions that is go into this

1 J. D. Power Index. And I think it is fair to say that  
2 we had a substantial measurable improvement score in our  
3 customer service in this year's survey, and I think that  
4 is testimony to the work that our customer service folks  
5 and our line folks do day in and day out.

6 Q. Just one more question before I move on. Do  
7 you know why Progress Carolina is ranked what appears to  
8 me to be at least moderately higher than Progress  
9 Florida did in this survey?

10 A. I don't know the specific details, but I will  
11 say this: One of the -- two of the components that you  
12 see, I think if you look at the study in total, in some  
13 of the areas what is going on around the country, a lot  
14 of what colors the customer satisfaction is price  
15 related and there is a billing review part, as well.  
16 So, it is understandable, at least to me, with what we  
17 have been through here in Florida with upward pressure  
18 on price, that we would see a differentiation in the  
19 scores. It has been less of a change, if you will, in  
20 some of the other regions, in particular in Progress  
21 Energy Carolina. And I would say that is probably the  
22 largest driver of the results.

23 Q. Okay. We are going to move on, and I am going  
24 to ask you a few questions following up on the  
25 discussion that you had with Mr. Rehwinkel regarding

1 your testimony beginning at the bottom of Page 6 and  
2 continuing on to the top of Page 7, where you talk about  
3 the company's plan being to meet the Legislature's and  
4 Governor's directives, and you go on to say that  
5 includes increasing energy efficiency and alternative  
6 forms of energy.

7 I'm not going to ask you any legal questions  
8 about this here. I just want to ask you what I think  
9 are straightforward factual questions.

10 **MR. REHWINKEL:** I am ready to object if you  
11 do.

12 **THE WITNESS:** Please do.

13 **MR. WRIGHT:** Excellent. And with that, I will  
14 continue, Madam Chairman. Thank you.

15 **BY MR. WRIGHT:**

16 **Q.** Is there any part of your base rate increase  
17 in this case that would go to pay for renewable energy  
18 resources?

19 **A.** I would say, Mr. Wright, to answer your  
20 question -- I am hesitating for this reason. I would  
21 say there is nothing substantial in our case. There may  
22 be occasion where we would participate in a project. It  
23 would probably be di minimis in the overall scheme of  
24 things, so I think your underlying premise is correct.  
25 I would agree with that. That would be dealt with

1 separately.

2 The alternative forms of energy, you know, we  
3 operate obviously consistent with the rules today. The  
4 biomass plants and those sorts of things are dealt with  
5 separately through one of the recovery clauses, as is  
6 energy efficiency. I don't want to anticipate your next  
7 question, but that is a similar circumstance, as well.

8 Q. Thank you. And with regard to energy  
9 efficiency, when you just made the statement you did,  
10 you were referring to end use energy efficiency  
11 measures, correct?

12 A. Yes. I did say earlier there may be some grid  
13 efficiencies that could be capital items in our rate  
14 base.

15 Q. And I think it is probably your testimony that  
16 the Bartow investment was an energy efficiency  
17 investment in part?

18 A. Was an energy efficiency investment?

19 Q. Correct.

20 A. Well, I guess it improves our system  
21 efficiency. You know, when I think of the words energy  
22 efficiency it is as we know it sort of in this  
23 framework. It tends to mean customer energy efficiency  
24 for the most part.

25 Q. Okay. That's great. Thank you. I just

1 wanted to be clear on that.

2 **A.** Okay.

3 **Q.** Now, there is not anything for the Levy  
4 nuclear project or the Levy nuclear plant in your rate  
5 case in Docket 090079, is there?

6 **A.** There is not cost-recovery associated with  
7 Levy, no.

8 **Q.** There is no rate base, no O&M, no  
9 cost-recovery associated with Levy in this case?

10 **A.** No, that is dealt with separately.

11 **Q.** I would like to move on and ask you a few  
12 questions about your testimony at the bottom of Page 7  
13 where you testify that the national recession has hit  
14 Florida particularly hard.

15 **MR. WRIGHT:** Madam Chair, Mr. Moyle has once  
16 again kindly agreed to help me out here with a brief  
17 exhibit, which I would have as 266.

18 **COMMISSIONER EDGAR:** Yes, sir. We will mark  
19 it as 266.

20 **MR. WRIGHT:** A short title, Florida  
21 Unemployment Article, 9/18/2009.

22 **COMMISSIONER EDGAR:** Okay. Mr. Wright, as you  
23 said, this will be Document Number 266, or Exhibit  
24 Number 266, excuse me, and we will title it Florida  
25 Unemployment Article, 9/18/09.

1                   **MR. WRIGHT:** Thank you, Madam Chairman.

2                   (Exhibit Number 266 marked for  
3                   identification.)

4                   **BY MR. WRIGHT:**

5                   **Q.** Mr. Dolan, if you will look at the first  
6                   sentence of this article, it states that Florida's  
7                   unemployment rate for August was 10.7 percent. And I  
8                   simply want to ask you is that consistent with your  
9                   understanding of the state of unemployment in the state  
10                  of Florida at present?

11                  **A.** Yes.

12                  **MR. WRIGHT:** Thank you. One more, Jon.

13                  I've got one more exhibit, Madam Chairman.

14                  **COMMISSIONER EDGAR:** Okay. That will be 267.

15                  **MR. WRIGHT:** Thank you. This would be Florida  
16                  Foreclosure Article, 8/21/2009.

17                  **COMMISSIONER EDGAR:** Okay. Mr. Wright, for  
18                  your description, 267, Florida Foreclosure Article,  
19                  8/21/09.

20                  **MR. WRIGHT:** Thank you, Madam Chairman.

21                  (Exhibit Number 267 marked for  
22                  identification.)

23                  **BY MR. WRIGHT:**

24                  **Q.** Mr. Dolan, if I could direct your attention to  
25                  the third paragraph of this article. It states that

1 Florida deserves -- there is a quote from the fellow at  
2 the Mortgage Bankers Association that states that  
3 Florida deserves special mention as the worst state in  
4 the country. Let me just ask you, is it your  
5 consistent -- is it consistent with your understanding  
6 that Florida does, indeed, have the highest foreclosure  
7 rate in the United States?

8 **A.** Mr. Wright, I am going to have to say I don't  
9 have specific knowledge to say -- to agree with your  
10 statement. What I would say is, obviously, this is a  
11 fairly significant issue for the state. I hesitate to  
12 say where we are in the relative ranking. These are not  
13 specific statistics that I personally study.

14 **Q.** So would it be fair to say that you don't  
15 know, but you don't have any contrary evidence?

16 **A.** I guess I would say yes. I think I am  
17 agreeing with you, I am just hesitant to say how you  
18 want to characterize it, first, second, you know, that  
19 sort of thing. I think clearly we have some struggles  
20 here with foreclosure. I would agree with that.

21 **Q.** That's fine. Thank you. Now, your company  
22 has basically asked for half a billion dollar a year  
23 increase in its revenues, correct?

24 **A.** Yes.

25 **Q.** Did you do any analysis of the impact of that



1 on customer spending in Florida before filing this case?

2 **A.** Did I do any specific analysis? No, I did  
3 not.

4 **Q.** Did the company, to your knowledge?

5 **A.** I am not aware as to whether we did or we  
6 didn't look at that specific dimension.

7 **Q.** Do you know whether the company did any  
8 specific analysis to the impacts on employment in  
9 Florida if your increase were to be granted?

10 **A.** I don't know the answer to that, as well.

11 **Q.** Do you know or do you have any idea about how  
12 much of the additional revenues that would be paid by  
13 Progress' customers would flow to investors and vendors  
14 outside Florida if your increase were granted?

15 **A.** I'm not sure I understand your question,  
16 Mr. Wright.

17 **Q.** Well, if your increase is granted, you are  
18 going to collect another \$499 million or so next year,  
19 correct?

20 **A.** Yes.

21 **Q.** And my question is if you know, how much of  
22 that will flow through Progress Florida's accounts to  
23 investors outside the state and to vendors outside the  
24 state?

25 **A.** Oh, I don't know the specific statistics on

1 that, I'm sorry.

2 Q. That's okay. Thank you.

3 I just have a couple of questions for you  
4 about your testimony regarding the CR3 uprate toward the  
5 bottom of Page 10.

6 A. Okay.

7 Q. And I will preface this by saying these may  
8 well be questions that you will want to send me on to a  
9 later witness, and that will be fine.

10 A. Okay.

11 Q. If you look at page -- sorry, Line 19 on Page  
12 10, you make the statement that the CR3 uprate will save  
13 customers approximately \$2.6 billion in fuel costs over  
14 the life of the plant. Is the life of the plant  
15 20 years?

16 A. I will take you up on your offer on the  
17 precision of that. I will say this: My general  
18 understanding is that we intend to apply for a license  
19 extension, and I believe Mr. Young can check me on this,  
20 that will take us through 2034. So probably about 24  
21 years or so, 25.

22 Q. Twenty-four or 25 years?

23 A. Yes, that is probably the right ballpark.

24 Q. Thank you. I also am interested to know what  
25 the -- I am interested to know a couple more things. Is

1 the \$2.6 billion there, if you know, a net present value  
2 number or a nominal number?

3 A. That I do not know.

4 Q. Do you know who might know?

5 A. I'm not sure. I think maybe at a break we can  
6 figure out the right way to direct you on that if we  
7 have somebody who can answer that question. I'm sure we  
8 do.

9 Q. Thank you. And the last question I have along  
10 those lines is do you know what the escalation rate  
11 assumed for natural gas in that analysis would be or is?

12 A. I don't know the specific escalation, pardon  
13 me, escalation rate, but I suspect those statistics are  
14 available, Mr. Wright. I know we are coming up on our  
15 fuel docket. I would imagine they are consistent with  
16 documents that we have filed in that proceeding.

17 Q. Well, you have put this value in evidence in  
18 this case, and I'm trying to -- just trying to nail that  
19 down. Could you direct me to who might able to answer  
20 that one?

21 A. Let me, if it is okay with you, I would ask to  
22 do that so I can inquire first to put you in the right  
23 direction.

24 Q. That will be just fine. Thank you.

25 A. Thank you.

1           **CHAIRMAN CARTER:** Commissioner Skop.

2           **COMMISSIONER SKOP:** Thank you, Mr. Chair.

3           Just to Mr. Wright on the last exhibit that was passed  
4           out I believe that has been marked for identification as  
5           Exhibit 267. I guess the date at the top of that  
6           article and the date at the bottom, unless I am in a  
7           time tunnel, because I don't know what day it is, but  
8           are those dates correct?

9           **MR. WRIGHT:** Mr. Chairman, I think I  
10          understand that to be a question to me?

11          **COMMISSIONER SKOP:** Yes.

12          **CHAIRMAN CARTER:** Yes, sir.

13          **MR. WRIGHT:** And if I may direct my response  
14          to Commissioner Skop. 8/21 on the top and 8/23 on the  
15          bottom.

16          **COMMISSIONER SKOP:** I'm sorry. I'm thinking  
17          August, and it is September. So, again, my apologies.  
18          I am thinking this was a recent article, and I stand  
19          corrected. Thank you.

20          **MR. WRIGHT:** Certainly.

21          **CHAIRMAN CARTER:** You may proceed.

22          **MR. WRIGHT:** Thank you, Mr. Chairman.

23          **BY MR. WRIGHT:**

24                 **Q.** A couple of quick questions for you about your  
25          testimony. Near the top of Page 11, Mr. Dolan,

1 beginning at Line 6, you make this statement, "The  
2 company estimates it will require over \$11 million --  
3 \$611 million in future annual revenue requirements for  
4 its transmission and distribution systems to meet these  
5 objectives." The objectives aren't the important thing  
6 here.

7 My question for you is this. Where it says  
8 future annual revenue requirements, you are really  
9 talking about revenue requirements to support future  
10 investment to serve future growth, isn't that correct?

11 A. Let me just read this again, Mr. Wright, if  
12 you will give me a moment.

13 Q. Certainly.

14 A. I may need some help from Mr. Oliver on that.  
15 I think -- I am just trying to frame this appropriately.  
16 I would suspect that, you know, there is capital  
17 associated with our requirements, I'm sure this year and  
18 next year as we go forward. So if there is an  
19 established level of capital, for example, in 2010, and  
20 that is going to carry forward, that is going to factor  
21 into this revenue requirement. I would suggest that may  
22 be a better question for either Mr. Oliver or Mr. Joyner  
23 on the specifics on that, or one of our witnesses on  
24 some of the financial questions you may have later.

25 Q. Okay. Just so you will know where I was

1       trying to get with it, where it says future annual  
2       revenue requirements?

3           **A.**    Uh-huh.

4           **Q.**    That seems to imply to me that this  
5       \$611 million is not what is on the table in this docket,  
6       is that fair?

7           **A.**    Well, the reason I am hesitant to my earlier  
8       answer to your question, there may be some part of that  
9       where there is a cumulative effect of a revenue  
10      requirement over time and the standards may change over  
11      time. I probably would need to check some of the  
12      specifics on that to better answer your question.

13          **Q.**    Okay. Well, I would be completely satisfied  
14      if during the break you can -- you or your counsel can  
15      tell me to whom I should address that question when they  
16      take the stand.

17          **A.**    Yes, we will absolutely do that.

18          **Q.**    Thank you. Further down on Page 11 you make  
19      the statement that -- beginning at Line 16, "Finally,  
20      given the recession and the significant stock market  
21      decline, Progress Energy Florida's pension costs have  
22      increased."

23                    It sounds to me like you are asking, you, the  
24      company, that is, are asking your customers to make up  
25      for lost pension fund value through their increased

1 rates in this rate case. Is that how -- do I understand  
2 that correctly?

3 A. No.

4 Q. Okay. Tell me.

5 A. I think what we are asking this Commission to  
6 consider is what our actual pension cost is. It is  
7 going to fluctuate with time. I think this is  
8 suggesting what has caused our pension costs to vary,  
9 and in some years it will go up and in some years it  
10 will go down. I think we are just stating a fact here  
11 that says that our pension costs have increased, and  
12 they should be appropriately treated as part of this  
13 proceeding.

14 Q. Are you testifying that -- are you testifying  
15 that there is no makeup due to the stock market decline  
16 for losses in the pension fund?

17 A. Well, what I am testifying, Mr. Wright, is I  
18 don't -- I disagree with your saying -- classifying it  
19 as a makeup. I think what we are saying here is that if  
20 you look at our 2010 test year, we are putting facts in  
21 evidence before this Commission to say this is our  
22 legitimate pension expense. It is affected by a number  
23 of different things, including things that are mentioned  
24 in my testimony, and we believe that is a legitimate  
25 business expense and should be treated as such.

1           **Q.**    What I'm trying to get at is what are the  
2 components of your request for increased revenues based  
3 on pension costs?

4           **A.**    Are you asking me what our increase in pension  
5 expense is?

6           **Q.**    Not specifically.  What I'm trying to ask you  
7 is I read this and understand this as indicating that  
8 there are two components in the pension costs.  One is  
9 the basic current year contribution and the other -- the  
10 way I read this and understand it, is for some  
11 restoration or makeup, as I use the term, to cover  
12 declines in the pension fund value due to the recent  
13 stock market decline.  Now, if --

14          **A.**    I am probably straying a little far afield  
15 from my own personal area of expertise on this.  What I  
16 would say again to you is there is a formula that we  
17 use, as others do, to calculate what our actual pension  
18 expense is every year.  And I think our testimony will  
19 support what our pension expense is for the test year,  
20 and I think others from our company will be able to  
21 answer any more detailed questions you might have about  
22 that particular item.

23          **Q.**    I am going to try one more question before I  
24 move on to the who do I ask question.

25          **A.**    Okay.



1           **Q.** And it is this. In that formula, does the  
2 fact that your pension fund asset value declined during  
3 the recent stock market decline cause your requested  
4 increase, your requested pension cost value for the test  
5 year to increase?

6           **A.** You know, I don't know that specifically, Mr.  
7 Wright, so I am hesitant to answer that.

8           **Q.** Okay. And then I am going to go on to my who  
9 do I ask question.

10          **A.** We will get you that at the next break, as  
11 well. We owe you -- I'm sure someone is logging all the  
12 answers that we owe you at the break, and we will make  
13 sure we get you that.

14           **CHAIRMAN CARTER:** Mr. Glenn is talking copious  
15 notes.

16           **MR. GLENN:** I think it is Mr. Toomey, but I  
17 will check on that.

18           **MR. WRIGHT:** Thank you, Mr. Chairman. And  
19 thank you, Mr. Dolan. I'm getting on down here.

20           **BY MR. WRIGHT:**

21           **Q.** You had a conversation, I think, briefly with  
22 Mr. Dolan -- sorry, Mr. Moyle about what happened to the  
23 company's base rates when Hines 3 came into service.  
24 Isn't it true, that Hines 3 was brought into service  
25 without any change in the company's base rates?

1           **A.** I'm not sure -- no, I don't think I would  
2 agree with that. I think you have to view when Hines 3  
3 came in, and I'm trying to remember the period of time.  
4 It was during the pendency of one of our settlement  
5 agreements. We had a settlement agreement in '02, we  
6 had a settlement agreement in '05, and so we -- I think  
7 it is correct, Mr. Wright, to say that we didn't come  
8 before this Commission and get a specific base rate  
9 change when Hines 3 went into service. But to say that  
10 our base rates in the context of our overall rates that  
11 there wasn't a consideration for Hines 2, I can't agree  
12 with that.

13           **Q.** I think you just meant to say Hines 3, didn't  
14 you?

15           **A.** Hines 3, I'm sorry. You are correct.

16           **Q.** Okay. Well, you had a base rate freeze in  
17 2005, correct? We agreed to that as part of the overall  
18 settlement.

19           **A.** Yes, we did.

20           **Q.** Okay. And Hines 2 was addressed in that  
21 settlement, was it not?

22           **A.** In the '05?

23           **Q.** In the '05.

24           **A.** Let's see, Hines 2. It was either in the '02  
25 or the '05. I would have to get the document. I

1 hesitate to do that, but if you -- I don't have reason  
2 to doubt what you are saying is accurate. I am just  
3 trying to remember what year that plant went into  
4 service. I was thinking it was '04, but I may be wrong  
5 on that.

6 **MR. WRIGHT:** May I have just a minute,  
7 Mr. Chairman?

8 **CHAIRMAN CARTER:** Absolutely.

9 **MR. WRIGHT:** Thank you.

10 If I could approach, I am going to show the  
11 witness a copy of the stipulation order.

12 **CHAIRMAN CARTER:** You may approach.

13 **THE WITNESS:** Okay.

14 **MR. WRIGHT:** Mr. Chairman, I have just given  
15 Mr. Dolan my copy of Commission Order 050945S-EI, which  
16 is the Commission's order approving the settlement and  
17 stipulation of their 2005 rate case.

18 **CHAIRMAN CARTER:** Okay. And you just want to  
19 use that to cross-examine the witness?

20 **MR. WRIGHT:** Yes, Mr. Chairman.

21 **CHAIRMAN CARTER:** Okay. You may proceed.

22 **MR. WRIGHT:** Thanks.

23 **THE WITNESS:** Okay. Mr. Wright, I'm trying to  
24 jog my memory here, so I will do my best.

25

1 **BY MR. WRIGHT:**

2 Q. Okay. Well, the way I read that it appears  
3 that the company was allowed to put Hines 2 into the  
4 fuel clause and then later into base rates, and then  
5 Hines 4 into base rates subsequent to that when it came  
6 into service. Is that your understanding?

7 A. Yes, I would agree with that.

8 Q. And would I be on safe ground to believe that  
9 Hines 3 came on line after Hines 2?

10 A. Yes, you would, and prior to Hines 4.

11 Q. And so with your memory thus refreshed, would  
12 you agree that there was no base rate increase, per se,  
13 associated with Hines 3?

14 A. I would agree with you this way. Yes, I will  
15 agree with you that there was no express base rate  
16 change for Hines 3. What I will not agree with you is  
17 that there wasn't consideration for Hines 3 in the  
18 context of the overall settlement.

19 Q. And I am so glad that you mentioned that  
20 because that brings me to another follow-up question  
21 that I had about the settlement. You mentioned, I  
22 believe you characterized the 10 percent value in that  
23 settlement as the parties having agreed that that was an  
24 absolute floor for the company.

25 **CHAIRMAN CARTER:** Mr. Rehwinkel, no problem?

1                   **THE WITNESS:** I'm sorry, Mr. Wright, could you  
2                   --

3                   **CHAIRMAN CARTER:** All right. Mr. Wright, ask  
4 your question again, please.

5 **BY MR. WRIGHT:**

6                   **Q.** I believe in response to some questions from  
7 Mr. Moyle, you characterized your understanding of the  
8 stipulation as implying that the parties, the other  
9 parties to the settlement agreed that the 10 percent was  
10 a baseline floor ROE for the company. Is that what you  
11 said? Is that what you meant to say?

12                   **A.** Let me -- let me try this on you. This is my  
13 nonlegal opinion on this topic.

14                   **Q.** And that is all I'm asking for. I'm asking as  
15 one of the guys who was there in the room with me, and  
16 as the president of the company who has had to live it.  
17 Go ahead.

18                   **A.** Yes, sir. Okay. You eat your own cooking,  
19 right? So my understanding, my nonlegal understanding  
20 of this provision in the settlement agreement is that,  
21 at least from my perspective, that if our base rate  
22 earnings fell below a 10 percent ROE, that that would  
23 serve as an indication that we have the ability to come  
24 into the Commission and seek relief. That was certainly  
25 the understanding -- I won't speak on behalf of the

1 other parties, but I will certainly speak on behalf of  
2 our company, that was my understanding in negotiating  
3 this agreement.

4 Q. So would it be fair to characterize your  
5 testimony as indicating that that provided a trigger  
6 point at which the company could seek relief?

7 MR. GLENN: I am going to object as asked and  
8 answered. I think he already answered the question with  
9 Mr. Moyle that it was treated as a floor.

10 CHAIRMAN CARTER: Rephrase, Mr. Wright.  
11 Rephrase.

12 MR. WRIGHT: Well, that is what I'm really  
13 trying to get at.

14 CHAIRMAN CARTER: Okay.

15 MR. WRIGHT: So the question I just attempted  
16 to pose was really kind of a predicate.

17 CHAIRMAN CARTER: Try again.

18 BY MR. WRIGHT:

19 Q. Mr. Dolan, you are not purporting to tell the  
20 Commission what the other parties to the settlement,  
21 what the consumer parties thought with regard to that 10  
22 percent value, are you?

23 A. No, I am not.

24 Q. Would it have been your understanding that if  
25 and when the company came in, everybody could have tried

1 to get their best hold and argue about whatever ROE was  
2 appropriate? You could argue for 12; we could argue for  
3 9?

4 **A.** Again, I just want to make sure I am following  
5 your question, Mr. Wright. So if this circumstance  
6 occurred that was contemplated in the agreement, and the  
7 company went in to seek relief based on that, I think it  
8 is very clear in the agreement that none of the parties  
9 are precluded from participating in such a proceeding.  
10 I think that is what the plain language says. So  
11 participation is in the eye of the participant.

12 **Q.** Okay. There has been an exhibit introduced,  
13 and I don't really want to ask you very much about it,  
14 but I think it is 264. It's that table.

15 **A.** Do I have it already?

16 **Q.** You should have it, yes.

17 **A.** I didn't mark numbers on mine, so if you could  
18 just -- I have several --

19 **Q.** Is that kind -- it's that kind of  
20 scratchy-looking table that Mr. Moyle handed out.

21 **A.** Oh, that one. Okay. I tried to get rid of  
22 that one, but I have it right here.

23 Would you like your book back, Mr. Wright, or  
24 do I need this any further?

25 **Q.** I would like it back, but it doesn't have to

1 be this instant. Thank you.

2 A. Thank you, Mr. Wright.

3 MR. WRIGHT: Thank you, Mr. Chairman, for  
4 indulging us.

5 BY MR. WRIGHT:

6 Q. My simple question for you about this exhibit  
7 is have you ever heard of Regulatory Research  
8 Associates?

9 A. I have heard of them, yes.

10 Q. Do you know whether they publish reports like  
11 this here?

12 A. I don't know that as a fact, but I suspect  
13 that they do.

14 Q. Okay. Now, Mr. Moyle -- I apologize, this  
15 question may have been asked and answered, but I promise  
16 it is a predicate for the next question if he answers it  
17 the same way he did -- I think he did before. Is it  
18 your testimony that you believe that Progress Energy  
19 Florida's risk profile is not reduced by the  
20 availability of cost-recovery and line item  
21 cost-recovery charges?

22 A. Yes, that is my testimony.

23 Q. Do you know what percentage of Progress' total  
24 revenues are recovered through the cost-recovery charges  
25 and the line item charges, such as franchise fees and



1 taxes?

2           **A.** I don't know specifically, Mr. Wright. I  
3 would -- I'm just sort of doing some simple math in my  
4 head. I am going to guess -- I'm not going to -- I'm  
5 not going to guess, but I'm going to make an educated --  
6 probably between 40 and 50 percent is in the base, I  
7 would say. Yes, I would say that is probably the range  
8 as I understand it.

9           **Q.** Okay.

10           **MR. WRIGHT:** Permission to approach,  
11 Mr. Chairman.

12           **CHAIRMAN CARTER:** Absolutely, you may  
13 approach.

14           **MR. WRIGHT:** Thank you.

15           **CHAIRMAN CARTER:** You may proceed.

16           **MR. WRIGHT:** Thank you, Mr. Chairman. I have  
17 just handed the witness a copy of the Commission's  
18 transcript of the service hearing that was held in this  
19 docket in Lake Wales, Florida in July.

20 **BY MR. WRIGHT:**

21           **Q.** Have you had a chance to look at the section I  
22 highlighted, Mr. Dolan?

23           **A.** I have.

24           **Q.** Okay. That shows that your general counsel,  
25 Mr. Glenn, told the audience, at any rate, that the base

1 rates represent about 24 cents out of each dollar of  
2 their bill.

3 **A.** Yes, it says that, but I would like to perhaps  
4 expand on that a little bit if you will allow me to do  
5 that.

6 **Q.** Well --

7 **A.** It does say that.

8 **Q.** If I could, Mr. --

9 **A.** And the reason I'm asking you to do that,  
10 Mr. Wright, is you added other qualifiers to your  
11 earlier question. So there are taxes and fees and other  
12 things that make up what goes into some of the base rate  
13 components. I just want to be clear about that.

14 When we look at our base rate component, I  
15 think of it in terms of about 5 cents or so of say 12,  
16 okay, say on a residential bill. So the 24 cents  
17 ignores some of those other things that you mentioned in  
18 your earlier question. So if we want to get more  
19 precise about this, I would think we are going to have  
20 to look at some more specific facts about what goes into  
21 base rate.

22 I think if you look at our base rate component  
23 on the residential bill, this is published in one of our  
24 tariffs, I think it is more in the order of 4-1/2 to  
25 five cents today. Obviously, we can check that number

1 for you. And on a total bill of say 12 cents -- and,  
2 again, the bills vary around our system. Some  
3 jurisdictions around our system in unincorporated  
4 counties, for example, there are no taxes and fees in  
5 municipalities. That is different. So that provides a  
6 different perspectives on overall costs to consumers.  
7 So I want to be a little bit careful about how we use  
8 the numbers that you are using. That is my only  
9 hesitation.

10 **MR. WRIGHT:** I am using this as a calculator.

11 **CHAIRMAN CARTER:** Okay.

12 **BY MR. WRIGHT:**

13 Q. Well, what is your understanding, if you have  
14 one, of what Mr. Glenn was talking about when he told  
15 the customers that it was about 24 cents out of their  
16 bill?

17 **MR. GLENN:** It's a scary thought when he is  
18 trying to get into my head about what I was thinking.  
19 But go ahead, you can try, Mr. Dolan.

20 **THE WITNESS:** Mr. Wright, I am not going to  
21 suggest that I understand Mr. Glenn's thoughts. I can  
22 only draw you back to -- and I will be happy to get you  
23 a copy of our tariff at the break. If you look at our  
24 residential tariff, and, again, subject to check, I  
25 think you will find the base rate component of that.

1 And, of course, we have a two-tiered rate for  
2 residential, so you would have to sort of levelize that.  
3 It is probably in the five cent range, plus or minus a  
4 little bit. That is probably the best way that I can  
5 answer your question.

6 (Transcript continues in sequence with Volume  
7 4.)

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2 STATE OF FLORIDA )

3 : CERTIFICATE OF REPORTER

4 COUNTY OF LEON )

5  
6 I, JANE FAUROT, RPR, Chief, Hearing Reporter  
7 Services Section, FPSC Division of Commission Clerk, do  
8 hereby certify that the foregoing proceeding was heard  
9 at the time and place herein stated.

10 IT IS FURTHER CERTIFIED that I  
11 stenographically reported the said proceedings; that the  
12 same has been transcribed under my direct supervision;  
13 and that this transcript constitutes a true  
14 transcription of my notes of said proceedings.

15 I FURTHER CERTIFY that I am not a relative,  
16 employee, attorney or counsel of any of the parties, nor  
17 am I a relative or employee of any of the parties'  
18 attorney or counsel connected with the action, nor am I  
19 financially interested in the action.

20 DATED THIS 24th day of September, 2009.

21  
22  Linda Boles / for

23 JANE FAUROT, RPR  
24 Official FPSC Hearings Reporter  
25 (850) 413-6732