BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

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

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

PETITION FOR EXPEDITED APPROVAL OF THE DEFERRAL OF PENSION EXPENSES, AUTHORIZATION TO CHARGE STORM HARDENING EXPENSES TO THE STORM DAMAGE RESERVE, AND VARIANCE FROM OR WAIVER OF RULE 25-6.0143(1)(C), (D), AND (F), F. A. C., BY PROGRESS ENERGY FLORIDA, INC. — DOCKET NO. 090145-EU

VOLUME 8

Pages 937 through 1166

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A CONVENIENCE COPY ONLY AND ARE NOT
THE OFFICIAL TRANSCRIPT OF THE HEARING,
THE .PDF VERSION INCLUDES PREFILED TESTIMONY.

PROCEEDINGS: HEARING

COMMISSIONERS PARTICIPATING: CHAIRMAN MATTHEW M. CARTER, II
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER KATRINA J. McMURRIAN
COMMISSIONER NANCY ARGENZIANO
COMMISSIONER NATHAN A. SKOP

DATE: Wednesday, September 23, 2009

TIME:	Commenced at 9:38 a.m.
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	LINDA BOLES, RPR, CRR Official FPSC Reporter (850) 413-6734
PARTICIPATING:	(As heretofore noted.)

I N D E X

WITNESSES

EXHIBITS

NUMBER:		ID.	ADMTD.
33	Staff's Composite Exhibit 33	967	967
34	Staff's Composite Exhibit 34	967	967
38	Staff's Composite Exhibit 38	1090	1090
74	SSW-1	968	968
75	SSW-2	968	968
76	SSW-3	968	968
77	JBC-1	998	998
78	JBC-2	998	998
79	JBC-3	998	998
80	JBC-4	998	998
81	JBC-5	998	998
82	JBC-6	998	998
85	SPH-1	1001	1090
273	Robinson Errata to EMR-2	1095	
274	Robinson Testimony Other Jurisdictions	1154	

P R O C E E D I N G S

(Transcript follows in sequence from Volume 7.)

CHAIRMAN CARTER: Good morning to one and all. I gave you guys your late start at 9:31. So we'll kick off. Yesterday we finished up with Witness DesChamps. And now call your next witness.

MS. TRIPLETT: Yes, sir. PEF calls Sandra Wyckoff, and I believe she's already been sworn yesterday.

THE WITNESS: Yes, I have.

CHAIRMAN CARTER: Hang on before we get started. Are there any other witnesses that'll be testifying today that have not been sworn that are in the room? Would you please stand and raise your right hand.

(Witnesses collectively sworn.)

Thank you. Please be seated.

You may proceed.

MS. TRIPLETT: Thank you, sir.

SANDRA WYCKOFF

was called as a witness on behalf of Progress Energy Florida and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MS. TRIPLETT:

Q. Would you please introduce yourself to the Commission and provide your address?

A. My name is Sandra Wyckoff. I'm the Director of Finance for the service company of Progress Energy. And my address is Post Office Box 1551, Raleigh, North Carolina 27602.

Q. Thank you. And have you filed prefiled direct testimony and exhibits in this proceeding?

A. Yes, I have.

Q. And do you have that with you today?

A. Yes, I do.

Q. Do you have any changes to make to your prefiled direct testimony?

A. I do not.

Q. If I asked you the same questions in your prefiled direct testimony today, would you give the same answers that are in your prefiled testimony?

A. Yes, I would.

MS. TRIPLETT: Mr. Chair, we request that the prefiled direct testimony be entered into the record as if, as though it were read.

CHAIRMAN CARTER: The prefiled testimony of the witness will be inserted into the record as though read.

MS. TRIPLETT: Thank you.

Petition for rate increase
by Progress Energy Florida, Inc.

DOCKET NO. 090079-EI

DIRECT TESTIMONY OF SANDRA S. WYCKOFF

I. INTRODUCTION AND SUMMARY.

Q. Please state your name and business address.

A. My name is Sandra S. Wyckoff. My business address is Corporate Planning Department, Progress Energy Service Company, LLC, P.O. Box 1551, PEB 19, Raleigh, North Carolina 27602

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

A. I am the Director of Service Company Finance for Progress Energy Service Company, LLC ("Service Company").

Q. What are your duties and responsibilities with respect to Progress Energy Florida?

A. As Director of Service Company Finance, I am responsible for planning, budgeting and cost management for the Progress Energy Service Company, LLC. Progress Energy provides A&G functions for all of its subsidiaries, including Progress Energy Florida, in a centralized manner primarily through the Service Company.

Q. Please describe your educational background and professional experience.

A. I earned my Bachelor's Degree in Accounting in 1981 at Lehigh University. During the years 1981- 1984, I worked as an auditor for Coopers & Lybrand in the Philadelphia, Pennsylvania and Houston, Texas offices. In 1984, I joined Carolina Power & Light Company (CP&L) as an auditor in the Audit Services Department. From 1987-1998, I worked in the Information Services Department in a number of financial management and technology support management roles. In 1999, I joined Strategic Resource Solutions Corp., a CP&L subsidiary, as Vice President - Controller and became Vice President – Chief Financial Officer and Treasurer in 2000. From 2002 – 2005, I was Director – Corporate Accounting in the Progress Energy Accounting Department. In 2005, I became Controller – Progress Ventures where I served until 2007 when I became Director – Coal in the Regulated Fuels Department. In 2008, I took my current role as Director of Service Company Finance. I am a Certified Public Accountant ("CPA") licensed in North Carolina and am a member of the American Institute of CPA's.

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to support the reasonableness of the Administrative and General ("A&G") portion of the Company's Operational and Maintenance ("O&M") expenses exclusive of Pension, Benefits, and Long-term Incentive Compensation, which will be addressed in the testimony of Mr. Masceo DesChamps.

Q. Do you have any exhibits to your testimony?

A. Yes. The following exhibits were either prepared under my supervision or under the direction of the Service Company:

- Exhibit No. ___ (SSW-1), which is a list of the Minimum Filing Requirements (MFRs) schedules that I sponsor or co-sponsor;
- Exhibit No. ___ (SSW-2), which is an organizational chart of the Service Company; and
- Exhibit No. ___ (SSW-3), which is the Company's Cost Allocation Manual.

All of these exhibits are true and accurate.

Q. Do you sponsor any schedules of the Company's Minimum Filing Requirements ("MFRs")?

A. Yes, I sponsor or co-sponsor the MFR schedules identified in Exhibit No. _____ (SSW-1) and they are true and accurate, subject to being updated in the course of this proceeding

Q. Please summarize your testimony.

A. The A&G functions for Progress Energy Florida are performed primarily through the Service Company. A&G Expenses consist primarily of functions for financial services, human resources, corporate communications, legal, regulatory affairs, audit and compliance, real estate and facility services, information technology, and telecommunications as well as corporate benefit costs. Progress Energy Florida has forecasted that its A&G O&M expenses for 2010, exclusive of Pension, Benefits, and Long-term Incentive Compensation, are within the Florida Public Service Commission

("Commission") benchmark from the last base rate proceeding. Since that last base rate proceeding, we have been serving more customers each year, while actively controlling the cost for the customer. Based on these facts and others that are discussed more fully in my testimony, the Company's forecasted 2010 A&G costs are reasonable and should be approved in this proceeding.

II. OVERVIEW OF THE SERVICE COMPANY.

Q. Who administers the A&G functions for Progress Energy Florida?

A. Progress Energy Service Company LLC provides A&G functions in a centralized manner for Progress Energy, Inc. (the parent company of Progress Energy Florida), and all of its subsidiary companies, including Progress Energy Florida. As such the Service Company charges must be limited to its "costs" of providing such services, and Service Company cost allocation is designed to ensure that all costs are allocated fairly and equitably and so that one company does not subsidize another.

Q. How is the Service Company organized?

A. See Exhibit No. ___ (SSW-2). This is an organizational chart for Progress Energy Service Company that identifies the Service Company's functions.

Q. What A&G services and products does the Service Company provide PEF?

A. The Service Company provides processing, reporting, and management oversight for a variety of areas, including financial services, human resources, corporate communications, legal, regulatory affairs, audit and compliance, real estate and facility

services, information technology, and telecommunications. Exhibit No. ___ (SSW-2) provides a listing of all Service Company departments and Exhibit No. ___ (SSW-3), the Cost Allocation Manual, provides a detailed listing of all Service Company products and services.

Q. Why are these services and products provided to PEF through the Service Company?

A. The consolidation of various corporate A&G functions eliminates duplicative resources and reduces the cost of utility operations to the utility's customers. The Service Company provides these services primarily to Progress Energy Carolina ("PEC") and PEF. We refer to PEC and PEF as our "Client Companies." The Service Company is obligated to provide products and services that PEF and PEC need, much like any company provides services to its clients. The Client Companies look to the Service Company to provide the A&G services listed above.

Q. Do PEF's customers benefit from the Service Company providing these services and products to PEF?

A. Yes. The Service Company provides centralized management of financial services, human resources, corporate communications, legal, regulatory affairs, audit and compliance, real estate and facility services, information technology, and telecommunications. This integration allows the combined companies to reduce the number of redundant functions where staffing levels are relatively fixed and do not vary directly with an increase or decrease in the number of employees or customers.

The centralization of the Service Company benefits Progress Energy Florida's customers by providing greater efficiency, and thus lower costs than would otherwise be the case if both Client Companies engaged in the same support activities separately.

Q. How does the Service Company allocate the cost for services and products provided to PEF?

A. There are two ways that a Client Company can be charged for services and products provided by the Service Company. In the first instance, a product or service is provided specifically to a Client Company to meet its specific needs. These costs are charged directly to the Client Company. In the other instance, a product or service is provided on an ongoing basis to both Client Companies and cannot be directly assigned to a specific Client Company. These costs must therefore be allocated between the Client Companies.

The costs of the Service Company are classified into various products and services for each functional area. Prior to allocating costs, the Service Company will assign or charge directly to a Client Company those costs associated with a product that specifically benefits a particular Client Company or that a particular Client Company caused the Service Company to incur. For example, if the Service Company performs an IT project for Progress Energy Florida or incurs costs to improve Progress Energy Florida's vehicle fleet, the Service Company will assign the costs of these projects (or "products") directly to Progress Energy Florida.

Any costs that are not directly assignable to a particular Client Company are allocated to the various affiliates that use the service or product based on specific pre-

defined metrics as outlined in the Cost Allocation Manual ("CAM"). These metrics are objective formulas for allocating costs on such basis as may be appropriate to the kind of cost, service, or product involved. From time to time, the Service Company may make changes to the metrics to better allocate costs.

The Service Company, during the annual budget and planning cycle, updates the data used for computing the metrics to ensure that the costs are properly allocated between the affiliates. For example, assignment of human resources costs using a Headcount Ratio would require an update for current headcount. The Service Company evaluates and updates its computations at least once every year.

The policies, procedures, methodologies, and metrics are described in detail in Exhibit No. ___ (SSW-3).

Q. What steps are taken to ensure that PEF pays only for the services and products it receives from the Service Company?

A. The Service Company maintains accounting systems that provide the ability to assign costs to the category of service to which they relate. Separate charge codes are defined and used for costs that are directly assignable to a Client Company. The systems enable the costs of services to be charged directly to the Client Company for which they were performed, or, when appropriate, accumulated in such a manner that they can be distributed or allocated to the Client Companies using the appropriate pre-defined, approved methodology.

The Service Company prepares and submits a bill to each Client Company for services rendered on a monthly basis. The bills itemize the cost of each service billed

to the Client Company. The management of each Client Company is responsible for reviewing the billing report to assess the accuracy and appropriateness of the charge. During the annual planning process, the Service Company and the Client Companies negotiate an agreeable financial target within which work is prioritized by way of collaboration with the Client Companies.

In addition to the monthly billing and review process, the Company's Audit Services Department conducts periodic audits of the Service Company administration and accounting processes. The audits include examinations of the accounting system, source documents, allocation methods and billings to determine if services are authorized and properly accounted for.

Q. Are the services and products provided by the Service Company to PEF necessary for PEF to provide its customers with reliable, efficient electric service?

A. Yes. PEF is a corporation, and like every corporation, it requires certain services, like legal, IT, and financial services, to function and efficiently do what must be done to achieve the corporate purpose. Organizations such as the Financial Services organization ensure that all GAAP requirements and SEC filings are in accordance with current laws and guidelines. Likewise, the legal and regulatory organizations ensure compliance with regulatory requirements. Because PEF is a regulated utility, a regulatory organization like the one included in the Service Company is also necessary to make the required filings with PEF's various regulatory entities.

The Service Company consolidates these various corporate functions and eliminates duplicative resources. This consolidation reduces PEF's cost of providing reliable, efficient electric service to its customers.

III. ADMINISTRATIVE AND GENERAL EXPENSES.

Q. Please provide an overview of PEF's 2010 A&G expenses.

A. The components of A&G expense provided by the Service Company, exclusive of Pension and Benefits, can be found in MFR C-6.

Q. How do these A&G expenses compare to the Commission benchmark?

A. A&G expenses, exclusive of Pension, Benefits, and Long-term Incentive Compensation, are approximately $12.6M lower than benchmark.

Q. What cost management efficiencies were achieved in A&G expenses?

A. A&G expenses excluding Pension, Benefits, and Long-term Incentive Compensation have increased at a factor of 11.8% compared to the benchmark multiplier of 14.7% reflecting efficiency gains compared to benchmark. Additionally, various software, such as consolidated financial systems and supply chain systems, placed in service as part of the integration work resulting from the merger have reached the end of their depreciable life. The assets continue to be used and provide benefit even though they have reached the end of their depreciable life thereby resulting in ongoing favorable Service Company depreciation expense.

Furthermore, efficiencies gained throughout the Service Company include renegotiating contracts with telecommunication service providers, in-sourcing fiber network monitoring services and radio/microwave tower maintenance services, standardization of the desktop hardware/software/operating systems enterprise-wide, and optimizing productivity at the Technology Service desk. All of these activities have contributed to the resulting 2010 budget being below the benchmark.

The Service Company, on an on-going basis, also reviews the impact of expenses such as property and liability insurance. Market forces, such as larger claims and catastrophic losses that occur in the insurance market, are a substantial driver of premiums. Premiums are partially a result of insurance limits and deductibles, but are also based on a risk profile. The Service Company regularly reviews the corporation's risk profile and actively works to manage that profile to ensure premiums are kept at the lowest possible level. Other actions, such as increasing self-insurance levels and reducing maximum payout limits, where prudent to do so, have helped to mitigate upward pressure by market forces. The Service Company also participates in industry benchmarking to ensure that insurance premiums are reasonable and equitable across the market.

Finally, we have placed increased focus on cost reduction in the areas surrounding general administrative expenses. We are focused on continuous business excellence in a systematic effort to achieve sustainable efficiency and productivity gains every year. This involves such things as streamlining work processes, taking advantage of new technology, and eliminating waste and low-value activities.

Q. Are PEF's total projected A&G Operation and Maintenance expenses for 2010 reasonable?

A. Yes. Our total A&G expenses, exclusive of Pension, Benefits, and Long-term Incentive Compensation, are lower than the Commission benchmark. We believe this demonstrates that we have operated efficiently and in a cost-effective manner. We are serving more customers now than in 2006, while actively controlling the cost for the customer.

Moreover, all costs are allocated on a fair and equitable manner to Progress Energy Florida. The Service Company engages in rigorous cost control, subjecting proposed expenditures to close scrutiny, internal challenge, and active management oversight. The Company has taken and continues to take appropriate steps to control and properly allocate A&G costs.

Q. Does this conclude your testimony?

A. Yes.

BY MS. TRIPLETT:

Q. Ms. Wyckoff, do you have a summary of your prefiled direct testimony?

A. Yes, I do.

Q. Would you please provide that to the Commission?

CHAIRMAN CARTER: Before you begin, to Ms. Wyckoff and to the other witnesses that are here this morning that I just swore in, you'll have five minutes as you do your summary of your testimony. There will be three lights down in front of you, and the green light you'll have basically two and a half minutes to go. The amber light, when the amber light comes on, you'll have two minutes left. When the red light comes on, you'll have 30 seconds left. Okay? Everybody got that?

Okay. You may proceed.

THE WITNESS: Good morning, Commissioners.

As I said, I am the Director of Service Company Finance for Progress Energy Service Company. In this role, I am responsible for planning, budgeting and cost management for the Progress Energy Service Company.

Progress Energy provides administrative and general functions for all of its subsidiaries, including Progress Energy Florida, in a centralized manner

primarily through the service company.

I am supporting the reasonableness of the administrative and general portion of the company's operations and maintenance expense exclusive of pension and benefits and long-term compensation, which was addressed in the testimony of Mr. Masceo DesChamps, and the storm reserve, which will be addressed in the testimony of Mr. Peter Toomey.

As previously stated, the A&G functions for Progress Energy Florida are performed primarily through the service company. A&G expense consists primarily of, of functions for financial services, human resources, corporate communications, legal, regulatory affairs, audit and compliance, real estate and facility services, information technology and telecommunications, as well as corporate benefit costs.

The company has taken and continues to take appropriate steps to control and properly allocate A&G costs. Based on these facts and others that are discussed more fully in my testimony, the company forecasted 2010 A&G costs are reasonable and should be approved in this proceeding.

This concludes my summary, and I am happy to answer any questions that you may have.

CHAIRMAN CARTER: Outstanding on timing.

Great job.

THE WITNESS: Thank you.

MS. TRIPLETT: And we would tender the witness for cross-examination.

CHAIRMAN CARTER: Good morning, Mr. Rehwinkel.

MR. REHWINKEL: Good morning. No questions for this witness.

CHAIRMAN CARTER: Good morning, Ms. Bradley.

MS. BRADLEY: Good morning. No questions.

CHAIRMAN CARTER: Good morning, Ms. Kaufman.

MS. KAUFMAN: Good morning, Mr. Chairman. I do have some questions.

CHAIRMAN CARTER: I know you do. I fully expected you to have some.

MS. KAUFMAN: Thank you.

CHAIRMAN CARTER: Welcome.

MS. KAUFMAN: Thank you.

CROSS EXAMINATION

BY MS. KAUFMAN:

Q. Good morning, Ms. Wyckoff.

A. Good morning.

Q. I'm Vicki Kaufman. I'm here on behalf of the Florida Industrial Power Users Group.

You are employed by Progress Energy Service Corporation; correct?

A. Progress Energy Service Company. Yes.

Q. Company. Excuse me. And you say on Page 4, Line 15 -- not Page 4. You say early in your testimony that, that the service company provides administration and general services for all of its subsidiaries; is that right?

A. That is correct.

Q. Okay. And it is a, the service company is a subsidiary to the parent, Progress Energy; is that right?

A. Progress Energy, Inc. Yes.

Q. Okay. And the services that the service company provides are shown in your Exhibit SSW-2; correct?

A. Correct.

Q. So all of the services that are listed there are provided as needed to all of Progress Energy, Inc.'s, subsidiaries; right?

A. Yes, ma'am.

Q. Okay. Am I correct that Progress Energy, Inc., has about 70 subsidiaries?

A. I don't, I do not know the specific number of subsidiaries that Progress Energy, Inc., has.

Q. You have a chart in your Exhibit SSW-3 that, that, I think it begins on Page 4 of SSW-3.

A. Yes. That's correct.

Q. And is this a, what we might call an organizational chart of the parent company?

A. Yes. This is the legal entity structure for Progress Energy, Inc., as of December 31st, 2007.

Q. And if we went through and counted up the companies, we would know how many subsidiaries the parent has?

A. That would be correct. I just haven't done that.

Q. Okay. Would you accept, subject to check, that it's around 70?

A. Subject to check. And I would also say that this chart is, is now a year and a half outdated. So the subsidiaries may have changed since then.

Q. You filed your testimony on March 20th, 2009; correct?

A. Yes. That's correct.

Q. Is there a reason that you didn't provide a correct organizational chart?

A. Well, we did provide it as part of discovery. But the chart that is in this exhibit is part of the cost allocation manual, it's just a standard part of that manual, and that's published on an annual basis. And what we provided as my exhibit was the most recent

copy of the cost allocation manual at the time we filed my testimony.

Q. But what you're telling us today is that this chart is not accurate.

A. I don't know that for a fact, but it, it may not be because of changes that have happened in subsidiaries since.

Q. Am I correct that Progress Energy Florida provides a number of nonregulated services?

A. I, I understand that they do, but I don't have direct knowledge of those.

Q. Would it be Mr. Toomey, is he the better witness to ask about those nonregulated services?

A. Yes. Yes, ma'am, he would be.

Q. Now you are the person to ask about the cost allocation manual though; correct?

A. Yes, I am.

Q. Okay. And you talk about that I guess beginning on Page 8.

A. Of my testimony?

Q. Yes, ma'am.

A. Okay.

Q. Actually the question and answer begin on the prior page.

A. Okay.

Q. And as I understand it, that manual is what the company uses to allocate costs among its subsidiaries for the services the service company provides as well as other services.

A. That is correct. It provides the basis for which we base our allocations.

Q. Now how often is the cost allocation manual updated?

A. It's updated annually.

Q. Okay. So the one that is attached to your testimony, what, what was the, what is the date of that?

A. I do not see a specific date on this. But I know that it's typically revised on an annual basis, typically in the March, April kind of time frame. So I would expect that this would have been done in the March, April of 2008 time frame.

Q. So it would be correct, I guess, that there is a more current version of this?

A. Yes. Yes, ma'am, there is.

Q. This cost allocation manual, is this manual something that the Commission approves?

A. I do not believe that the Florida Commission approves this cost allocation manual, but I don't, I do not know that for a fact.

Q. If you'll turn to the manual, SSW-3, Page 2 of

69, and at the top it says "Introduction and Corporate Overview."

A. I'm sorry. Could you tell me -- the cost allocation manual?

Q. Right. I'm sorry.

A. SSW -- oh, I'm sorry. Page 2. Yes. I was looking at -- Page 2 of the exhibit. I was looking at Page 2 of the manual. I'm sorry.

Q. Okay. So we're on the page that says "Introduction and Corporate Overview"?

A. Yes, ma'am.

Q. If you go down to the second full paragraph there, it says, "The purpose of this cost allocation manual is to provide guidelines to company personnel." Do you see that?

A. Yes, I do.

Q. Now when you use the term, or when the manual uses the term "guidelines," does that mean that deviation from the allocation principle set forth in here is permitted?

A. I am not aware of any deviations from these guidelines permitted. Or, I'm sorry, I'm not aware of any deviations from these guidelines.

Q. But does the way that the company has phrased that paragraph there mean that deviations are

permissible?

A. You could infer that from the way that it's written. But as I said, I'm not aware of any deviations.

Q. How would -- if there was a question about cost allocation and an employee or someone in your group wanted to perform the allocation in a different manner than it's set forth in the manual, what would they have to do?

A. If someone wanted to look at -- well, let, let me step back and, and mention, when we are charging our cost to the client companies or our subsidiaries, the first thing that we do is direct charge. We direct charge as much as we possibly can. And then those costs which we --

MS. KAUFMAN: Mr. Chairman, I'm sorry to interrupt Ms. Wyckoff. I think I asked a different question than the one that she was answering. She's going to explain how costs are allocated.

CHAIRMAN CARTER: Restate your question. Restate your question.

THE WITNESS: Well, I want to --

CHAIRMAN CARTER: Hang on.

THE WITNESS: Okay.

CHAIRMAN CARTER: Restate your question.

BY MS. KAUFMAN:

Q. Ms. Wyckoff, I'm, I'm not asking you how the costs are allocated. I'm simply asking you that if it's determined that a different allocation than what's set out in these guidelines is going to be used, how -- is there an approval process for that deviation, or how would that come about?

A. Yes. There -- if we want to make changes to the allocation approaches that are documented within the cost allocation model, there is a review and approval process, both internally within the company, and then the North Carolina commission requires us to have approval for any changes to our allocation methodology. So that would -- because we serve multi jurisdictions, we would have to have that approval as well.

Q. Does the Florida Commission require any such approval that you're aware of?

A. Not that I'm aware of.

Q. Did personnel from the service company work on this rate case?

A. Yes, ma'am.

Q. How many people from the service company worked on this rate case, if you know?

A. I do not know specifically.

Q. Do you, do you have a ballpark idea?

A. There were quite a few in that the accounting, the people that worked on this from the accounting department are within the service company. I am within the service company, Mr. DesChamps is within the service company, our regulatory planning function and our legal functions are all within the service company.

Q. Do you know if any overtime was put in as regard, in regard to this rate case?

A. I'm certain that there were many overtime hours worked. I'm not certain if there were paid overtime hours in that many of our, many of the people that I mentioned are exempt employees and would not be eligible for overtime.

Q. Well, were there employees eligible for overtime who incurred overtime working on the rate case?

A. I do not know that.

Q. Is, is there another witness that might have that information?

A. It's -- I suppose it's something that we could, could look at. I don't know if Mr. Toomey would have that knowledge. But I'm not familiar with exactly who is exempt and who is not exempt in order to make a determination if there was paid overtime made.

Q. And I guess from your prior answers you wouldn't know how many hours service company employees

spent on the rate case filing and participating here?

A. No, ma'am. I do not know. I do not have that knowledge.

MS. KAUFMAN: Thank you, Mr. Chairman.

CHAIRMAN CARTER: Thank you.

Ms. Evans.

MS. EVANS: No questions.

CHAIRMAN CARTER: Thank you.

Mr. Lavia.

MR. LAVIA: Good morning, Mr. Chairman. No questions.

CHAIRMAN CARTER: Good morning.

Staff?

MR. SAYLOR: Mr. Chairman, in lieu of cross, it is my understanding that the parties have stipulated to Exhibits 33 and 34, and I would like to have those moved into the record at the appropriate time.

CHAIRMAN CARTER: Let's hang on. Let's -- okay. Okay, everybody, listen up. 33 and 34 in lieu of cross. Are there any objections? Any of the Intervenors, any objections? From the company, any objections?

MS. TRIPLETT: Sorry. No, sir.

CHAIRMAN CARTER: Okay. Without objection, show it done. Exhibits 33 and 34 entered into evidence

in lieu of staff's cross.

(Exhibits 33 and 34 identified for the record and admitted into the record.)

Anything further from staff?

MR. SAYLOR: No, sir.

CHAIRMAN CARTER: Commissioners? Redirect?

MS. TRIPLETT: No, sir.

CHAIRMAN CARTER: Okay. One second.

Commissioner Skop.

COMMISSIONER SKOP: Thank you, Mr. Chairman. One moment here. Good morning. Actually give me one second.

(Pause.)

Just with respect to the service company in terms of the allocations for personnel, those are properly allocated so that one entity is not receiving the benefit that's allocated to another entity; is that correct?

THE WITNESS: That's correct. The whole premise is that we don't have subsidization by one company of another company.

COMMISSIONER SKOP: All right. Thank you.

CHAIRMAN CARTER: Okay. Exhibits?

MS. TRIPLETT: Yes, sir. We would move 74, 75 and 76 into evidence.

CHAIRMAN CARTER: Are there any objections? Without objection, show it done.

(Exhibits 74, 75 and 76 marked for identification and admitted into the record.)

Anything further for this witness on direct from any of the parties? Okay.

Thank you. You may be excused. Have a great day.

MS. TRIPLETT: And, Mr. Chair, may Ms. Wyckoff be dismissed from the rest of the proceeding? She will not be joining us for rebuttal.

CHAIRMAN CARTER: You're not going to stay for the whole party?

THE WITNESS: I'd love to, but I don't think so.

CHAIRMAN CARTER: You are excused. Have a great day.

THE WITNESS: Thank you.

MS. TRIPLETT: Thank you, sir.

CHAIRMAN CARTER: Call your next witness.

MR. BURNETT: Yes, sir. We call Ben Crisp.

CHAIRMAN CARTER: Mr. Ben Crisp.

You may proceed.

JOHN B. CRISP

was called as a witness on behalf of Progress Energy

Florida and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. WALLS:

Q. Good morning, Mr. Crisp. Will you please introduce yourself to the Commission and provide your address?

A. Good morning. My name is John Benjamin Crisp.

CHAIRMAN CARTER: Hang on a sec. Are both of your microphones on? They're both on? Okay. Get a little more volume. Let's try it again.

THE WITNESS: Good morning. My name is John Benjamin Crisp. My business address is 6565 38th Avenue North, St. Petersburg, Florida 33710.

BY MR. WALLS:

Q. And, Mr. Crisp, who do you work for and what is your position?

A. I work for Progress Energy Florida. My position is Director of System Planning and Regulatory Performance.

Q. Have you filed direct testimony and exhibits in this proceeding?

A. Yes.

Q. And do you have your prefiled direct testimony and exhibits with you today?

A. Yes.

Q. Do you have any changes to make to your prefiled direct testimony?

A. No.

Q. If I asked you the same questions in your prefiled direct testimony today, would you give the same answers that are in your prefiled testimony?

A. Yes.

MR. WALLS: We request that the prefiled direct testimony of Mr. Ben Crisp be entered into the record as if it was read today.

CHAIRMAN CARTER: The prefiled testimony of the witness will be inserted into the record as though read.

In re: Petition for increase in rates by Progress Energy Florida
Docket No. 090079-EI

DIRECT TESTIMONY OF
JOHN B. CRISP

I. **Introduction and Purpose.**

Q. Please state your name and business address.

A. My name is John Benjamin (Ben) Crisp. My business address is 6565 38th Avenue North, St. Petersburg, Florida 33710.

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

A. I am employed by Progress Energy Florida, Inc. ("PEF" or the "Company) as the Director of System Planning and Regulatory Performance for PEF.

Q. Please describe your duties and responsibilities.

A. My responsibilities include the development and implementation of energy system expansion plans and generation asset optimization plans for PEF. These expansion and optimization plans, otherwise known as integrated resource plans ("IRPs"), include detailed review and analysis of system load forecasts, and the corresponding determination of supply-side and demand-side resources available to meet the load requirements identified in the system load forecasts. The supply side and demand side resources include assets currently available on the existing system, and assets potentially available to the Company over its planning horizon.

These analyses result in recommended action to the Company's management for asset changes or additions that fulfill the Company's obligation to serve.

Q. Please summarize your educational background and employment experience.

A. I attended the Georgia Institute of Technology in Atlanta, Georgia, where I received a Bachelor of Science degree in Industrial and Systems Engineering. I have over twenty (20) years of electric utility experience in generation, transmission, and fuels planning, load forecasting, generation construction, power plant operations, system operations, fuels and power trading, and energy efficiency systems.

I have worked for both regulated and non-regulated utilities in a variety of management positions. My management responsibilities with PEF have included system dispatch, load and energy forecasting, integrated resource planning, and energy efficiency programs. In my current management position, and in previous management positions, I have provided testimony to several different state utility regulatory bodies, including the Florida Public Service Commission ("FPSC" or the "Commission"), on issues involving load forecasts and the most effective means for utilities to meet their obligation to serve the respective load forecast.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe the development and results of PEF's load forecast used in the preparation of this rate case. As I use the term "load

forecast" in my testimony, it means the Company's individual projections of customers, energy sales, and coincident peak demand.

Q. Have you prepared any exhibits to your testimony?

A. Yes, I have prepared or supervised the preparation of several exhibits, as follows:

- Exhibit No. ____ (JBC-1), a list of the Minimum Filing Requirements (MFRs) schedules I sponsor or co-sponsor;
- Exhibit No. ___ (JBC-2), Customer, Energy Sales & Seasonal Demand Forecast;
- Exhibit No. ____ (JBC-3), Forecast Process Flow Chart;
- Exhibit No. ____ (JBC-4), PEF Energy and Customer Forecasting Models;
- Exhibit No. ____ (JBC-5), U.S. & Florida Economic Assumptions – 2006 – 2010; and
- Exhibit No. ___ (JBC-6), PEF Historic & Projected Growth Rates.

These exhibits are true and accurate.

Q. What Minimum Filing Requirements ("MFRs") schedules do you sponsor?

A. I sponsor all or portions of the MFR schedules identified in Exhibit No. ____ (JBC-1). I have reviewed them and they are true and accurate, subject to being updated during the course of this proceeding.

II. <u>Load Forecast</u>.

Q. What is the purpose of a load forecast?

A. The load forecast is used in both the Company's planning and budget processes. The load forecast enables the Company to estimate the likely number of customers it will serve in the future, the amount of electric energy it will sell to those customers, and the time(s) at which the customers demand for electric energy will be greatest. PEF must estimate or project how much energy its customers (old and new) will consume in the future and when that consumption is likely to take place to serve customers in a cost-effective and reliable manner.

Q. When did the Company prepare its load forecast?

A. The Company prepared its current load forecast in late September and early October 2008. This forecast replaced a load forecast prepared earlier in 2008. The current load forecast accounts for the impact of current economic conditions on the Company's anticipated future customer, energy, and peak demand by including the most recent economic and demographic inputs available. The current load forecast was used to develop the revenue forecast and resulting 2009 and 2010 Company budgets. It serves as the basis for the development of the Company's MFRs. It will also be used for the Company's long-range forecast for resource planning studies and other similar purposes. The Company's current load forecast (customers, energy sales, and demand) for 2009 and the test year (2010) is reflected in Exhibit No. ____ (JBC-2).

III. Forecast Methodology.

Q. Please provide us with an overview of the forecasting methodology used to develop the load forecast.

A. There are four main steps in the development of a load forecast: (1) the assembly of the forecast assumptions, (2) the derivation of forecast model parameters, (3) the calculation of the forecast, and (4) adjustments to the forecast based upon the educated judgment of the forecaster. These steps are reflected in Exhibit No. ___ (JBC-3).

• **Assembly of the Forecast Assumptions.** The first step in any forecasting procedure is to assemble a set of assumptions upon which the forecast is based. The assumptions describe the forecaster's educated prediction about how the future will unfold with respect to influences upon company energy sales, customer growth, and system peak. In developing these assumptions, the forecaster relies in part on the opinions of professional economists at Economy.Com, the University of Florida's Bureau of Economic and Business Research ("BEBR"), as well as other sources. Each of these groups develops forecasts of national and regional economic and demographic data. These forecasts are purchased by the Company. Other assumptions are derived from historical data like normal weather conditions. The assumptions utilized in the Company's current September-October load forecast are set forth in Schedule F-8 of the MFRs. It is important to note that in all cases the assumptions made are based upon a "most-likely" forecast. Forecasted values of these forecast assumptions become inputs to the forecast models that lead to customer, energy and peak demand projections.

• **Derivation of Forecast Parameters.** Next, based on the assumptions, the forecaster derives the parameters for the forecast model. The parameters of a forecast model quantify the statistical relationship between the economic and demographic environment impacting a utility service area and the latest energy usage (and customer growth) patterns of its customers. These parameters are updated each time a forecast is produced to ensure that the resulting forecasts reflect current energy consumption patterns in the Company's service territory. In addition, when deriving model parameters the forecaster incorporates (to the extent possible) historical data from the ten most recent years into the model sample.

• **Development of the Forecast.** The forecaster then proceeds to develop the new forecast. The Company's load forecast actually consists of three separate forecasts as follows:

- a customer forecast
- an energy sales forecast
- a coincident-peak demand forecast (primarily used for resource planning purposes)

Customer forecast – The Company's customer forecast (i.e., the number of customers it expects to serve during the forecast period) is developed primarily from county population projections produced by the University of Florida's Bureau of Economic and Business Research. In a service area like PEF's, where nearly 98.4 percent of the Company's customers are residential and commercial customers, these population projections serve as the best predictor of the Company's total customers. This is because an increasing service area population translates directly

average KWh energy usage per customer, driver variables such as weather and economic conditions are utilized to capture the statistical relationship to changes in kWh consumption per customer. This approach enables the forecaster to incorporate the most recent historical data as well as the most current outlook on the economy. The modeling specifications for each retail class energy model (and residential and commercial customer models) are set forth in Exhibit No. ___ (JBC-4).

The results of this customer and energy sales forecast are shown in Exhibit No. ____ (JBC-2). This forecast is used to develop the revenue forecast that is incorporated into the Company's 2009 and 2010 budgeting process. It also serves as the basis for the 2010 revenue forecast in this rate proceeding.

Two additional procedures are required before the final billing determinants are created for input into the Company's financial model. The first procedure transforms the monthly energy forecast from a "billing month" basis to a "calendar month" basis. This involves forecasting the amount of "unbilled retail energy" in a calendar month and allocating it down to each retail revenue class. The forecast of monthly retail unbilled energy is derived using ten years of historical monthly averages of "billed energy generated in prior month" divided by "total billed in current month." Each retail class receives its respective share of total retail unbilled energy sales according to the percentage share it makes up of total retail billed month energy sales.

The second procedure required to finalize the billing determinants takes the calendar month revenue class energy and customer projections and disaggregates them to the major rate class level. This is made possible by determining the revenue

class to rate class proportions for the most recent calendar year available. Allocating the forecast to this more detailed level allows monthly revenues to be generated in the PEF revenue model. For rate classes that have a "billing KW" charge as part of its billing determinant, a historic load factor is also developed at this time which, when applied to the rate class projection of energy, derives the class projection of billing KW. Customer, energy and billing KW projections are shown in MFR E-15.

Coincident Peak Demand Forecast – The coincident peak demand forecast (used for resource planning as opposed to revenue forecasts) is developed using a disaggregation technique followed by econometrically modeling several of the disaggregated components. The disaggregation technique separates monthly system demand into four major components: potential firm retail demand, nondispatchable and dispatchable direct load control (MW) capability, sales for resale demand, and Company use. Each of the peak demand components is then separately forecast and added arithmetically to the next or, in the case of demand side management ("DSM"), subtracted, to arrive at total system firm peak demand.

• **Forecaster's Judgment.** Finally, after all of the parts of the load forecast are complete, the forecaster evaluates the cumulative modeling results and makes adjustments as appropriate based on his or her professional judgment, as well as such adjustments as may be reasonably necessary to capture the impact of events that the model is unable to capture.

For example, econometric models develop parameters ("beta coefficients") that are applied to projections of "driver" variables that are purchased from an economic forecasting firm and may be three or more months old. Occasionally,

into a greater number of homes and commercial establishments to service these homes. An annual econometric model is used to measure the historical relationship between service area population and residential customer growth. The resulting parameter becomes a "multiplier" that, when applied to the population growth forecast, results in a projection of new residential customers. Once the residential customer forecast is finalized, it is used as the "driving" variable in the commercial customer regression model. The customer forecasts for the remaining retail sectors are forecast using trend analysis because of their relatively stable historical patterns.

In producing the customer forecast, the Company used the most recent BEBR update from July 2008 together with the September 2008 Economy.com update for the State of Florida. PEF observed in this data declining year-over-year customer growth reflecting the economic downturn experienced in the Florida economy after 2006 and continuing through 2008. As a result of this data, PEF adjusted its load forecast and currently projects flat to weak retail customer growth for 2009 and 2010.

Energy Sales Forecast – The Company's energy sales forecast is developed using monthly econometric models. These short-term models project monthly energy sales by revenue class (residential, commercial, industrial, street lighting and public authority) and require the forecaster to have a thorough understanding of each variable to be projected (i.e., residential customer growth or average residential use per customer) and the influences or events that create monthly variation or movement in those variables. Sales are regressed using "driver" variables that best explain monthly fluctuations over a sample period. For example, in order to project

economic events unfold very rapidly and sometimes out-of-date projections are used in the models. Even historical economic data get revised by government agencies and can paint a picture that differs subtly from what is reflected in the original economic data. When this occurs, the forecaster will incorporate the latest information he or she understands is influencing company sales or customer growth levels. Other times, events such as rate migrations may require special adjustments to the rate schedule level forecast that cannot possibly be captured by an econometric model.

Q. Is the forecasting methodology used to develop the load forecast consistent with PEF's load forecasting policy and practice?

A. Yes, it is. PEF followed its standard forecasting methodology in developing its load forecast. This forecasting methodology has been used for years at PEF to forecast load with substantially accurate past results when actual load is compared to prior forecasts, excluding anomalous, unpredictable events such as the post-9/11 and current global financial crises. PEF's load forecasting methodology is also consistent with generally accepted, utility industry standard methodologies for load forecasts. As a result, PEF is confident that its load forecast is a reasonably accurate projection of future load in 2009 and 2010.

IV. <u>Load Forecast Summary</u>.

Q. What conclusions can be drawn from PEF's load forecast?

A. PEF expects that its customer base, energy sales, and peak demand will grow at flat to weak growth rates for 2009 and 2010. With the decline in the housing market, restrictions on credit, and difficulties in the financial and retail sales industries, the Florida economy has been adversely impacted and witnessed slower to reduced growth and increasing unemployment. As a result of these economic conditions, PEF's customer growth declined and energy sales slowed in the late 2006 to 2008 time period. Similar economic conditions are expected in 2009 with a gradual improvement in economic conditions in 2010. Accordingly, the forecast shows weak retail customer growth for 2009 (+0.1%) and 2010 (+0.6%). Retail energy growth projections gradually improve in 2010 (+0.4%) following a period of falling retail energy sales in 2008 and 2009. The forecast does not call for a more normal level of net new customer growth and energy sales until after 2010.

The U.S. and Florida economies are not expected to return to more normal rates of expansion until 2010. A list of U.S. and Florida economic variables with historic and projected growth rates is shown in Exhibit No. ___ (JBC-5). As you can see from Exhibit No. ___ (JBC-5), several of these economic indicators call for higher average rates of change in 2010 compared to 2008 and 2009. PEF weather normalized retail energy sales reflect this same pattern and will return to an increasing growth pattern only in 2010. PEF historic and projected growth rates for weather normalized billed sales and customers are shown in Exhibit No. ___ (JBC-6).

Q. What are the resulting impacts on PEF?

A. PEF's sluggish retail sales growth in 2010 following a period of recession means that retail sales are not adequately covering PEF's fixed costs of serving its customers. PEF's retail sales growth will not return to pre-recessionary levels in 2010, in fact, PEF's expected retail megawatt-hour ("MWh") sales in 2010 are below PEF's retail sales in 2005, the year of its last base rate proceeding, by in excess of 350,000 MWh. At the same time, PEF expects to serve over 66,000 more customers in 2010 than PEF served in 2005. PEF's total number of customers has increased each year since 2005, even during 2008, although not at the levels PEF expected back in 2005. More customers on the system means more cost to serve them by providing the capacity and energy production, and transmission, distribution, and customer account assets and services, to meet the needs of their households and businesses. With declining sales in 2008 and expected flat to slower growth in retail sales in 2009 and 2010, PEF's expected retail sales simply are not covering the fixed costs to serve PEF's additional customers.

An illustration of this impact is the cost to meet peak demand. Peak load forecasts are driven by the number of customers. Having more customers on the system means more households and businesses that must have fixed production, transmission, and distribution assets in place to serve their needs at the time of their peak demand on the system. This is true even though they buy less energy on a yearly basis today than they did in the past -- which is the case for PEF's customers when the yearly retail sales for the period 2008 to 2010 are compared to the yearly retail sales in 2005 and 2006. Despite PEF's customers' reduced energy purchases today continuing through 2010 compared to their energy purchases in these prior

periods, their peak demand requirements have increased from the beginning of the period to 2010, and remained relatively constant throughout that time period. Indeed, on February 6, 2009, PEF customer demand established a new system winter peak both before and after weather adjustment to the peak load.

The Company must meet the peak demands of this increased number of customers on its system and exceed those peak demands with required reserves to provide customers with reliable electric service. This obligation to reliably meet its customers' peak demand needs requires the Company to invest in the fixed assets necessary to provide customers peak load service and maintain them, regardless of the level of their yearly energy purchases.

Q. Does this conclude your testimony?

A. Yes.

BY MR. WALLS:

Q. Mr. Crisp, do you have a summary of your prefiled direct testimony?

A. I do.

Q. Will you please summarize your prefiled direct testimony for the Commission?

A. Yes. Good morning, Commissioners. I'm the Director of System Planning and Regulatory Performance for Progress Energy Florida. My direct testimony describes the development and results of PEF's load forecast used in the preparation of this rate case.

The term "load forecast" means the company's individual projections of customers, energy sales and coincident peak demand. The load forecast enables the company to estimate the likely number of customers it will serve in the future, the amount of energy it will sell to those customers, and the times at which customers' demand for electric energy will be greatest.

PEF must estimate or project how much energy its customers will consume in the future and when that consumption is likely to take place.

The current load forecast prepared in late September, early October was used to develop the revenue forecast and resulting 2009 and 2010 company budgets. It serves as the basis for the development of the

company's MFRs.

PEF followed its standard forecasting methodology in developing its load forecast. This forecasting methodology is consistent with generally accepted utility industry standard methodologies for load forecasts.

Our load forecast shows retail megawatt hour sales in 2010 are 350,000 megawatt hours below PEF's retail sales in 2005, the year of our last base rate proceeding.

At the same time, PEF expects to serve over 66,000 more customers in 2010 than we served in 2005. More customers on the system means more cost to serve them. PEF's customers' peak demand requirements have increased from the beginning of the period to 2010. Indeed, PEF customer demand established a new system winter peak this February.

The company must meet the peak demands and exceed those peak demands with required reserves to provide customers with reliable electric service. This obligation requires the company to invest in the fixed assets necessary to provide customers peak load service and maintain them. With declining sales in 2008 and flat to slow load growth in retail sales in 2009 and 2010, however, PEF's expected retail sales simply are

not covering the fixed costs to serve additional customers.

This concludes my summary, and I'm happy to answer any questions you may have.

CHAIRMAN CARTER: Great timing.

MR. WALLS: We tender Mr. Crisp for cross.

CHAIRMAN CARTER: Mr. Rehwinkel, you're recognized.

MR. REHWINKEL: Yes. Just briefly.

CROSS EXAMINATION

BY MR. REHWINKEL:

Q. Good morning, Mr. Crisp.

A. Good morning, sir.

Q. My name is Charles Rehwinkel with the Office of Public Counsel, and I just have a couple of questions for you.

Just so I understand what your direct testimony does not do, there's no part of your direct testimony, is there, sir, that supports the depreciation study that is filed by Mr. Robinson and the company; is that correct?

A. That's correct.

MR. REHWINKEL: Thank you. That's the only question I have.

CHAIRMAN CARTER: Thank you, Mr. Rehwinkel.

Ms. Bradley.

MS. BRADLEY: No questions.

CHAIRMAN CARTER: Good morning, Mr. Brew.

MR. BREW: Good morning, Mr. Chairman.

CROSS EXAMINATION

BY MR. BREW:

Q. Good morning, Mr. Crisp. I'll be brief as well.

You mentioned in your summary and in your testimony that the load forecasts that you use are also, flow into what you use for planning purposes; is that right?

A. That's correct.

Q. And yesterday during my discussion with Mr. Oliver he pushed a question to you, so I'll follow up on it. Part of your responsibilities include system planning and integrating the effects of demand response into your planning models?

A. That's correct.

Q. Okay. Can you tell me whether or not the company takes into account demand response as a resource for transmission planning purposes?

A. Yes, sir, we do.

Q. Okay. Thank you.

On your Exhibit JBC-2, on Page 2 of 2, you

show your projected monthly megawatt coincident demands. Do you see that?

A. Yes, I do.

Q. And one of the columns is labeled Firm. That's firm demand?

A. That's correct.

Q. And I take it from that that nonfirm demand is not included in that calculation?

A. That's correct.

Q. Okay. And so for planning purposes, you don't take -- you don't include nonfirm demand in your system planning calculations of the peak requirements needed, that you need to build for?

A. The way -- let me answer the question with an explanation of how it's calculated. We calculate the firm demand component for system peaks and project those for ten years. Then we remove the nonfirm components, including direct load control, demand-side management, energy efficiency conservation and all the other products, to come up with a firm demand product.

Q. Okay. And that would include your interruptible load; right?

A. That's correct.

Q. Now from your, your current Ten-Year Site Plan, I think you have about 300 megawatts of

interruptible load; is that right?

A. That's correct.

Q. So if all of that load switched to firm service, the company would need to plan for an additional 300 megawatts in your planning studies?

A. Not at this point in time. Since the load forecasts are dropping, the, we are in a position where we have adequate reserves at this point. So those 300 megawatts would likely not require any additional generation to cover that load.

Q. My question was a little bit different. Let me try again. If those 300 megawatts shifted to firm load, you would no longer subtract them out like you do now.

A. That's correct.

Q. Okay. And plus then you would need to factor into account the possibility of the 20 percent that you require for reserve above your forecasted load, so that the 300 megawatts you actually need to have 360 for in terms of reserve and planning?

A. That's correct. That's correct.

Q. Thank you.

A. But as I said before, we are in a situation where we have excess reserves based on the load forecast. So if that 300 megawatts was in fact shifted

to firm, then we would be probably in good shape and capable of handling that.

Q. I understand your comment in terms of what you can accommodate now, but my question was in terms of planning purposes. You would need to plan for that plus reserves.

A. Certainly, sir.

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

CHAIRMAN CARTER: Thank you, Mr. Brew.

Ms. Kaufman.

CROSS EXAMINATION

BY MS. KAUFMAN:

Q. Mr. Crisp, good morning.

A. Good morning.

Q. Vicki Kaufman on behalf of the Florida Industrial Power Users Group. We met I guess Friday at your deposition, by phone anyway.

I just have a couple questions to follow up on the one question that Mr. Rehwinkel asked you. And that is the sum total of your testimony here, and as you told us in your summary, deals with development and results of Progress's load forecast used in the preparation of this case; correct?

A. That's correct.

Q. And on your Exhibit JBC-1 --

A. I'm there.

Q. -- am I correct that those are the MFRs that you are sponsoring?

A. Yes.

Q. And those are the only ones; correct?

A. Yes.

Q. And those MFRs again all have to do with forecasting, forecasting models, and the assumption that underlies those models; correct?

A. As my testimony, direct testimony, yes.

MS. KAUFMAN: Thank you, Mr. Crisp. That's all I have.

CHAIRMAN CARTER: Thank you, Ms. Kaufman.

Ms. Evans.

MS. EVANS: No questions.

CHAIRMAN CARTER: Good morning, Mr. Wright.

MR. WRIGHT: Good morning, Mr. Chairman.

CROSS EXAMINATION

BY MR. WRIGHT:

Q. Good morning, Mr. Crisp.

A. Good morning, Mr. Wright.

Q. It's good to see you again. We've known each other a long time and, as you know, I'm Schef Wright, and I represent the Florida Retail Federation in this

case.

I just have a very few questions for you this morning on your direct testimony relating to a calculation that was reported in the testimony of Mr. Lyash that had been adopted by Mr. Dolan. The question I posed to Mr. Dolan when he was on the stand for his direct testimony related to an explanation of the company's projected $2.6 billion in fuel cost savings from the CR-3 uprate.

A. Yes, sir.

Q. And both he and then later Mr. Young indicated that you might be the best man to ask these questions to.

I'm just trying to understand what that is. Mr. Dolan says it's $2.6 billion in fuel costs. Mr. Young's testimony refers to it as nearly $2.6 billion in gross fuel costs over the life of the plant.

So a couple of questions. What is the life of the plant in the analysis that we're talking about?

A. After the refuel -- or after the steam generator replacement?

Q. No, sir. I'm asking about the, the Crystal River 3 uprate, which is the project that is projected to produce the additional $2.6 billion in fuel savings, as I understood it. Did I miss something?

A. No. To the best of my knowledge, following the recertification of the nuclear plant, it will be ultimately a 60-year life cycle, and it will be -- so that will be an additional 20 years on top of it.

Q. So 60 years starting in --

A. When it was built.

Q. -- '76?

A. Yes.

Q. Okay. So the uprate will be completed in 2011?

A. That's correct.

Q. Okay. So 25 years?

A. 20 years, 20 years, I believe, was the extension.

Q. I apologize.

A. To the best of my knowledge.

Q. The extension I thought was a 20-year extension to the, to the license; is that correct?

A. That's correct. 20-year extension. I apologize.

Q. Okay. And that would take, take the life of the license, as I understand it, to 2036.

A. 2030 -- I'm sorry?

Q. 2036? I thought the project came online in 1976.

A. The, the Crystal River unit came online in 1976. The certification will add 20 years onto it. And I believe -- yes, 2036 I believe is correct.

Q. Okay. So the, the life, the effective life up to the end of the license, of the uprate, is 25 years, from 2011 to 2036?

A. Correct. Correct.

Q. Okay. Now is the $2.6 billion a net present value figure?

A. No. It's a nominal value.

Q. Thank you. And the, I was slightly confused by the general reference to $2.6 billion in fuel cost savings in Mr. Dolan's testimony and the nearly $2.6 billion in gross fuel costs referred to in Mr. Young's testimony. Is the $2.6 billion the net value, a net value of the cost of fuel avoided by virtue of being able to run CR-3 minus the nuclear fuel, or is it the total fuel avoided at the company's alternate generating resources that you would have had to run without the CR-3 uprate?

A. If I may answer the question by going through a calculation for you, perhaps it will help you understand it.

Q. I bet it will. Thank you.

A. When we run the analyses, we project the

amount of years that CR-3 will run. And based on the projection of the dispatch costs over that time frame, it calculates a level of savings of fuel compared to if the unit were not there. And that's where the 2.6 billion in nominal savings came from in fuel cost.

Q. So it is a, it's a net -- so it's really a system, a system fuel cost differential calculation; is that right?

A. It could be quoted that way, yes.

Q. Okay. Do you happen to know what the escalation rate assumed for the price of natural gas in the analysis was?

A. Escalation rates for natural gas -- well, let me go back to the point. We get our natural gas projections from our fuels group. The fuels group gets those projections from contract services. There are no escalation factors to my knowledge unless we have to use escalation factors to take the lifespan of the plan into account and it goes past the length of time for the fuel curves that are provided by the contractors. So the projections are what they are provided by the consultants who do the fuel forecasts.

Q. Thank you.

MR. WRIGHT: And thank you, Mr. Chairman. That was all the questions I had.

CHAIRMAN CARTER: Thank you, Mr. Wright.

Staff.

MR. YOUNG: Mr. Chairman, staff has a -- based on the fact that the forecasting, the revised forecasting was not entered into the record, staff Exhibit Number -- excuse me, bear with me one second -- 35, we will not be moving that into the record at this time.

CHAIRMAN CARTER: Okay.

MR. YOUNG: And thus staff has no questions.

CHAIRMAN CARTER: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Mr. Chairman.

Good morning, Mr. Crisp.

THE WITNESS: Good morning, sir.

COMMISSIONER SKOP: If I could please turn your attention to Page 13 of your prefiled testimony, and also Page 14 generally.

THE WITNESS: I'm there, sir.

COMMISSIONER SKOP: Thank you. And beginning on Lines 12 through 14 of Page 13 of your prefiled testimony, would it be I guess in summary just correct to understand that retail sales growth in 2009 and 2010 is expected to be flat or substantially reduced from prior years?

THE WITNESS: That's correct.

COMMISSIONER SKOP: Okay. And you would also assert on that same page that the retail sales currently are not adequate to covering Progress's fixed cost of serving its customers?

THE WITNESS: That's correct.

COMMISSIONER SKOP: Okay. And during that same period on Page 14, notwithstanding the fact that retail sales may be flat or declining, you also assert that peak demand requirements have increased during the same period; is that correct?

THE WITNESS: Yes, sir. In fact, we set a new peak this February.

COMMISSIONER SKOP: Okay. And would -- just one final question. Would it also be correct to understand that your testimony does not address any cost saving measures that might be taken to further reduce fixed costs that you mentioned in relation to declining retail sales, thereby mitigating the requested rate increase?

THE WITNESS: I do not include those.

COMMISSIONER SKOP: Okay. All right. Thank you.

CHAIRMAN CARTER: Thank you, Commissioner. Anything further from the bench?

Redirect?

MR. WALLS: No, sir.

CHAIRMAN CARTER: Exhibits?

MR. WALLS: Yes. I believe we have Exhibits JBC-1 through JBC-6, which are items 77 through 82 we would move into evidence.

CHAIRMAN CARTER: Are there any objections? Without objection, show it done.

(Exhibits 77 through 82 marked for identification and admitted into the record.)

Anything further for this witness on direct? Hearing none, you may be excused.

Call your next witness.

MR. MELSON: Progress calls Steven Harris. And, Mr. Chairman, we will be combining Mr. Harris's direct and rebuttal today.

CHAIRMAN CARTER: Okay. Hang on one second.

MR. MOYLE: I didn't get that memo.

MR. MELSON: I believe it was discussed last night when Ms. Fleming convened the parties to talk about the schedule today.

COMMISSIONER EDGAR: And what happened to Mr. Robinson? Mr. Melson, my list shows Mr. Robinson next.

MR. MELSON: I'm sorry. We also talked last night about taking Mr. Harris out of order because

Mr. Robinson was expected to be on the stand for quite a while.

CHAIRMAN CARTER: Ms. Fleming?

MS. FLEMING: Yes, that is correct.

CHAIRMAN CARTER: Mr. Moyle.

MR. MOYLE: I'll be okay.

CHAIRMAN CARTER: Okay.

COMMISSIONER EDGAR: As will I. But I did think that we were going to be notified of those sorts of changes before the hearing started, so I would just ask for that as we move along.

CHAIRMAN CARTER: Okay.

MR. MELSON: And, Chairman Carter, since we are combining his direct and rebuttal, I would ask respectfully for an additional minute for his summary.

CHAIRMAN CARTER: Okay. We'll give him six minutes.

MR. MELSON: I have promised him a beverage of his choice if he makes the original five minutes, however.

CHAIRMAN CARTER: We'll give him six minutes.

Mr. Moyle.

MR. MOYLE: And also, Mr. Chairman, as a preliminary matter OPC has graciously agreed that I could, I could take the lead on this witness.

CHAIRMAN CARTER: Outstanding.

MR. MOYLE: Thank you.

CHAIRMAN CARTER: Thank you, Mr. Rehwinkel.

Okay. Everybody ready? Mr. Melson.

STEVEN P. HARRIS

was called as a witness on behalf of Progress Energy Florida and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. MELSON:

Q. Mr. Harris, have you been sworn?

A. Yes, I have.

Q. Would you please state your name and business address?

A. My name is Steven Harris. My business address is 475 14th Street, Oakland, California.

Q. And who is your employer and what is your position?

A. I'm a Vice President with ABS Consulting.

Q. Did you prefile direct testimony in this docket consisting of 12 pages?

A. I did.

Q. Any changes or corrections to that testimony?

A. No.

Q. If I were to ask you the same questions today,

would your answers be the same?

A. Yes, they would.

MR. MELSON: Mr. Chairman, I'd ask that his direct testimony be inserted into the record as though read.

CHAIRMAN CARTER: The prefiled testimony of the witness will be inserted into the record as though read.

BY MR. MELSON:

Q. And did you have one exhibit to your testimony identified as Exhibit SPH-1?

A. Yes.

Q. Any changes or corrections to that exhibit?

A. No, sir.

MR. MELSON: And, Mr. Chairman, that's been identified as Exhibit 85 on the master exhibit list.

CHAIRMAN CARTER: Thank you.

(Exhibit 85 marked for identification.)

BY MR. MELSON:

Q. Mr. Harris, did you also prefile rebuttal testimony consisting of 13 pages?

A. I did.

Q. Any changes or corrections to the rebuttal testimony?

A. No, sir.

Q. If I were to ask you the same questions today, would your answers be the same?

A. Yes, they would.

MR. MELSON: Mr. Chairman, I'd ask that his rebuttal testimony be inserted into the record as though read.

CHAIRMAN CARTER: The prefiled testimony of the witness will be inserted into the record as though read.

BY MR. MELSON:

Q. And no exhibits with the rebuttal testimony; correct?

A. No, sir.

In re: Petition for rate increase by Progress Energy Florida, Inc.
Docket No. 090079-EI

DIRECT TESTIMONY OF
STEVEN P. HARRIS

Introduction and Summary

Q. Please state your name and business address.

A. My name is Steven P. Harris. My business address is ABS Consulting, Inc. ("ABS Consulting"), 475 14th Street Suite 550, Oakland, California 94612.

Q. Who is your employer and what is your position?

A. I am a Vice President with ABS Consulting, an affiliated company of EQECAT, Inc., both of which are subsidiaries of the ABS Group of Companies, Inc. Together these two companies are leading global providers of catastrophic risk management services, including software and consulting, to major insurers, re-insurers, corporations, governments and other financial institutions. In addition, these companies develop and license catastrophic underwriting, pricing, risk management, and risk transfer models that are used extensively in the insurance industry. The companies provide the financial, insurance, and brokerage communities with a science and technology-based source of independent quantitative risk information.

Q. Please describe your educational background and business experience.

A. I received Bachelor's and Master's Degrees in engineering from the University of California at Berkeley. I am a licensed civil engineer in the State of California. Over the past 25 years, I have conducted and supervised independent risk and financial studies for public utilities, insurance companies, and other entities both regulated and unregulated. My areas of expertise include natural hazard risk analysis, operational risk analysis, risk profiling and financial analysis, insurance loss analysis, loss prevention and control, business continuity planning and risk transfer.

A significant portion of my consulting experience has involved the performance of multi-hazard risk studies, including earthquake, ice storm and windstorm perils, for electric, water, and telephone utility companies, as well as insurance companies. I have performed or supervised windstorm (tropical storm or hurricane) loss and reserve analyses for utilities including Progress Energy Florida ("PEF" or the "Company"), Tampa Electric Company, Florida Power & Light, Gulf Power Company and others. Additionally, I have performed loss analyses for earthquake hazard for utilities including the Los Angeles Department of Water and Power, the California-Oregon Transmission Project, Big Rivers Electric and Anchorage Municipal Light and Power.

For energy companies that have assets in a wide array of geographic locations, I have performed or supervised multi-peril analyses for all natural hazards, including earthquakes, windstorms and ice storms.

Q. What is the purpose of your direct testimony?

A. I will present the results of my Storm Loss and Reserve Performance Analyses of Progress Energy Florida, Inc.'s ("PEF's" or the "Company's") transmission and distribution assets. This study analyzes PEF's potential hurricane risk exposure in order to estimate potential future PEF losses to the Storm Reserve. The study supports the Company's calculation of the necessary annual storm damage accrual amount.

Q. Are you sponsoring any exhibits to your testimony?

A. Yes. I am sponsoring the following exhibit:

- Exhibit ____ (SPH-1), PEF Transmission and Distribution Assets Hurricane Loss and Reserve Performance Analyses, December 2008.

This exhibit is true and accurate.

Q. What were you asked to do for PEF in this proceeding?

A. PEF requested that I analyze the Company's storm loss exposure and reserve performance. I understand that these analyses will be used for estimation of potential future PEF charges to the Reserve and the estimation of the performance of the Reserve. PEF will use this information to determine the appropriate annual accrual to the Company's Storm Reserve. The results of these analyses are contained in my Exhibit Number ____ (SPH-1), entitled PEF Transmission and Distribution Assets Hurricane Loss and Reserve Performance Analyses, December 2008.

Q. Please summarize your testimony.

A. The Storm Loss Analysis was performed to estimate PEF's expected annual damage from hurricanes affecting its transmission and distribution facilities. The study estimated that PEF's expected annual hurricane damage is $20.2 million. The Reserve Performance Analysis was performed to test four levels of possible accruals to the Reserve. The Reserve Performance Analysis then determines the performance of the Reserve based on the expected annual damage results from the Storm Loss Analysis. I tested the Company's current accrual level of $6 million, as well as three higher accruals of $16 million, $25 million, and $35 million.

Based on these analyses, an accrual level of $16 million would result in an expected reserve balance of $152.5 million at the end of five years, with a 10 percent likelihood of a negative reserve balance within five years. I understand that PEF has chosen to request an accrual level of $16 million which will cover the estimated annual loss from hurricanes that can be charged against the Reserve. PEF's choice of an accrual of $16 million represents a balance between costs to PEF's customers and protection from future surcharges due to storm damage that exceeds the reserve level.

I. Storm Loss Analysis

Q. Please explain how you analyzed PEF's expected annual loss from potential hurricanes.

A. I utilized the ABS Consulting USWIND model to calculate PEF's expected annual loss ("EAL") from potential hurricanes. The Florida Commission on

Hurricane Loss Projection Methodology ("FCHLPM"), an independent panel of experts, annually evaluates computer models and actuarial methodologies for projecting hurricane losses in Florida for insurance rating purposes. The USWIND model is one of only four models evaluated and determined acceptable by the FCHLPM for projecting hurricane loss costs.

The analysis estimates all possible hurricane events and estimates the damage done to the assets at risk. This process establishes the magnitude of damage and the probability of its occurrence. Annual damage and loss estimates are developed for asset locations and are then aggregated to create overall portfolio damage and loss amounts. To make a reliable estimate of the EAL to which PEF is exposed from hurricanes, I included the most complete and full damage distribution that could be determined using both actual experience and possible damage from simulated hurricanes. The EAL is based on data from the long term 100-year hurricane hazard record and PEF provided transmission and distribution ("T&D") asset portfolio data on a county-by-county basis.

Q. What factors regarding PEF's T&D assets were considered in the analyses?

A. The location and concentration of PEF's T&D assets is important, as is the probability of storms of different intensities and/or landfall points impacting those assets. Another factor considered in the analysis is how likely the particular assets are to sustain hurricane wind damage. For example, as wind speeds and hurricane sizes increase, the amount of damage to T&D assets increases. The

final factor considered in the storm loss analysis is the cost to repair the T&D assets and restore electrical service.

Q. As a result of the analyses you performed, what is PEF's expected annual loss, or EAL?

A. The EAL from hurricane damage to T&D assets is $20.2 million per year. This represents the average annual cost associated with damage to T&D assets and service restoration from all simulated storms.

Q. Does this mean that each year, PEF can expect $20.2 million in T&D damage from storms?

A. No, the EAL is not expected to occur each and every year. The amount of damage will fluctuate from year to year. The EAL is the average expected hurricane damage for all storm years over a long period of time.

II. Reserve Performance Analysis

Q. Once you determined the appropriate estimate of the potential hurricane damage, what did you do next?

A. I performed a cash flow analysis to determine the impact of the level of funding on the performance of the Storm Reserve. This is called the Reserve Performance Analysis. The Reserve Performance Analysis provides a tool for management and policymakers to determine the performance of the Storm Reserve and to test whether annual accrual amounts meet their objectives. The performance over

time of the Storm Reserve must consider an annual accrual along with a starting balance and an objective target balance within some time frame. With rate stability as a policy objective, the question is what storm reserve balance should PEF seek to achieve and how quickly should it be reached to provide the desired stability in rates? Once a proper storm reserve balance is determined and achieved, an accrual that equals the expected annual damage will maintain this level in the Storm Reserve.

The ABS Consulting Reserve Performance Analysis is a cash balance analysis starting with an initial balance of $133 million in the simulations. An annual accrual is added to the cash balance, and annual storm damage is simulated consistent with the Storm Loss Analysis for each of the five years. Because storm seasons and losses are highly variable, 10,000 five-year simulations were performed to estimate the performance of the Reserve with various accrual levels and to ensure an adequate number of samples of rare storm events.

Q. How are the results from the Storm Loss Analysis used in the Reserve Performance Analysis?

A. Both the likelihood and amount of annual losses determined in the Storm Loss Analysis are used to simulate losses in each of the five years in the Reserve Performance Analysis to determine the likelihood of the Reserve having positive balances. For the Reserve Performance Analysis, only $16.4 million of the $20.2 million EAL is assumed to be an annual obligation of the Reserve. The $16.4

million reflects an estimate of the amount of O&M costs which can be charged against the Storm Reserve pursuant to the storm reserve rule.

Q. Did you consider various annual accrual amounts in your analysis?

A. Yes. For this analysis, I considered four different annual accruals, in the amounts of $6 million, $16 million, $25 million, and $35 million, over the five year period. For each funding case, the initial $133 million reserve balance is considered and I assumed that interest would be credited on positive reserve balances at a rate of 3.45%.

Q. What did the Reserve Performance Analysis show?

A. Generally, the lower the annual accrual amount, the more likely that the reserve balance will be negative within five years. For example, taking the $6 million annual accrual amount, the Reserve has a mean, or expected, balance of $99 million at the end of the five years. There is a 14% chance that the Reserve will be insolvent in one or more years of the five-year simulation. This is because the $6 million annual accrual is below the reduced EAL of $16.4 million. Accordingly, in each passing year, the reserve ending balance has a decreasing likelihood of accumulating surpluses and an increasing likelihood of insufficient funds. Likewise, when considering the $35 million annual accrual funding scenario, there is a lower likelihood (6.5%) that the Reserve will be insolvent within five years. With a $35 million annual accrual, the expected balance at the end of five years is $251 million.

Q. What would be the impact on your analysis if PEF did not credit interest on the reserve account following the termination of the settlement agreement in Docket No. 050078-EI?

A. Without the interest credits, the expected reserve balances at the end of every year would be reduced. Thus for any level of annual accrual, the expected balance at the end of five years would be somewhat lower, and the likelihood of a negative balance would be somewhat greater.

III. Recommended Accrual Amount

Q. Are you making a recommendation for PEF's annual level of accrual and target reserve level?

A. No, my role was not to recommend an annual level of accrual or target reserve level. Rather, I presented probabilities to PEF regarding reserve performance based on various levels of annual accrual. The storm study uses the best available information regarding hurricane probabilities, recognizing that there can be variances in the severity of storm damage in a particular year. The Reserve Performance Analysis provides information as to the adequacy of the reserve funding in various scenarios, so that the Company can make decisions regarding the annual accrual amounts and target reserve level. The Company can use this information to decide the reserve level it thinks will cover storm damage without the need to later request a storm surcharge.

Q. Please explain why a $16 million annual accrual is reasonable for PEF.

A. A $16 million annual accrual will result in an expected balance of $152.5 million after five years. According to the Storm Loss Analysis, specifically Table 3-1 in my Exhibit No. ___ (SPH-1), there is a 2.7 percent chance every year that the aggregate damage to the T&D assets will exceed $150 million. In other words, with a $16 million accrual, the resulting reserve level of $152 million would be sufficient to cover storm damage of approximately a one in 35 year storm season. Thus, a $16 million annual accrual results in a storm reserve balance that will be adequate to cover losses during most, but not all, storm seasons. This result is also illustrated by the Hurricane Landfall Analyses for SSI Ranges.

Q. What are the Hurricane Landfall Analyses for SSI Ranges?

A. The Hurricane Landfall Analyses for Saffir-Simpson Hurricane Scale (SSI or Category) ranges is a separate technique that is used to further analyze PEF's storm damage risk profile by examining the potential impact on PEF of single hurricanes. Storms are grouped using Category intensities ranging from a least intensive storm rating of SSI-1 up to SSI-4. The analysis calculates the frequency-weighted average T&D damage from simulated storms grouped by their Category of intensity within a specified 10 mile stretch of coastline along PEF's territory where they made landfall. This analysis can be found in part 4 of Exhibit No. (SPH-1).

Q. Please explain the results of the Hurricane Landfall Analyses in terms of the appropriateness of the recommended $16 million accrual.

A. The analysis for SSI-1 landfalls shows that the highest frequency-weighted average T&D damage to PEF's territory is less than $50 million. This means that, with a $16 million annual accrual, the Storm Reserve at the end of five years would be expected to cover the average damage resulting from any single SSI-1 storm, for all the landfalls shown. For single SSI-2 storms, the Storm Reserve at the end of five years would also be expected to cover the average damage resulting from any single hurricane for all the landfalls shown, because the damage would be less than $150 million. However, for single SSI-3 and SSI-4 storms, the Storm Reserve of $152.5 million would only cover some but not all of the average damage, depending on the landfall location. As the storms increase in intensity, the storm reserve balance that results from a $16 million accrual would cover a smaller portion of the expected damage.

Q. Did your analysis include any historic hurricanes that affected PEF's service territory?

A. Yes, the most significant historic hurricane to affect PEF's territory was analyzed. This Category 3 hurricane made landfall in Pinellas County in 1921. If a similar hurricane were to make landfall today, there would be estimated damages of $250 million to the current system. This is demonstrated on the graph in Figure 4-4 of Exhibit No. ___ (SPH-1).

Q. What do these results show about the reasonableness of PEF's recommended annual accrual?

A. The $16 million accrual, with the resulting mean storm reserve balance of $152.5 million, appears to be reasonable to achieve a target storm reserve balance of $150 million at the end of five years. The target storm reserve balance would be large enough to cover most storm damage from lower-intensity storms, but not so high as to cover all damage from the higher-intensity storms which have a lower chance of affecting PEF's service territory. Accordingly, a $16 million accrual will help maintain the storm reserve balance at the desired level and allow the Company to keep up with the estimated average storm loss over the long term.

Q. Does this conclude your direct testimony?

A. Yes.

In re: Petition for rate increase by Progress Energy Florida, Inc.
Docket No. 090079-EI

REBUTTAL TESTIMONY OF
STEVEN P. HARRIS

Introduction and Summary

Q. Please state your name and business address.

A. My name is Steven P. Harris. My business address is ABS Consulting, Inc. ("ABS Consulting"), 475 14th Street Suite 550, Oakland, California 94612.

Q. Did you previously submit direct testimony in this proceeding?

A. Yes. I submitted direct testimony and sponsored a study entitled Hurricane Loss and Reserve Performance Analyses ("Study").

Q. Do you have any exhibits to your rebuttal testimony?

A. No.

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal responds to the testimony Office of Public Counsel witness Schultz and FIPUG witness Marz concerning PEF's request for an increase in the annual storm accrual, including their express or implied criticisms of my Study.

Q. Please summarize your testimony.

A. My storm Study is not biased by pre-conceptions or the use of selective data on past hurricane events. The most reliable methodology to establish the expected annual loss is to utilize the longest available historical record of losses. For hazards like hurricanes that are characterized by low probabilities of occurrence with high consequence, there are too few historical loss events to reliably estimate the expected annual loss. For these perils, simulation models are the standard method used the insurance industry. The USWIND model is one of only four models evaluated and determined acceptable by the Florida Commission on Hurricane Loss Projection Methodology (FCHLPM) for projecting hurricane loss costs.

The Study's Reserve Performance Analysis demonstrates that the $133 million reserve balance with a $16 million annual accrual will result in an increase in the expected balance to $152 million at the end of five years. With this accrual, there is still a 10% chance that the reserve will have negative balances over the prospective five year period. An annual accrual of $6 million would result in an expected reserve balance below $100 million at the end of five years and a 14% chance that the reserve will have negative balances over the five year period.

Q. Was the Study based on a pre-determined conclusion that the only way to adjust the annual storm accrual was to increase it, as Mr. Schultz suggests at page 7?

A. No. The Loss Analysis portion of the Study was performed without any pre-determined conclusions. The analysis takes the data on locations and values of Progress Energy Florida's (PEF) transmission and distribution (T&D) assets and uses them directly, along with data on PEF historical storm costs, to model the expected annual loss from storms.

The Loss Analysis shows that expected storm costs have increased over the prior study which was conducted in 2005. This is a result of increases in all the major storm cost factors, including the value of T&D assets, actual storm cost history, and expected frequency of hurricanes.

Q. Mr. Schultz suggests at page 8 that the Study results could be skewed by the use of storm data applicable to areas outside of PEF's service territory. Is this a valid criticism?

A. No. I assume that "storm data" as used by Mr. Schultz means historical storms that have made landfall outside of PEF's service territory and that the consideration of these in some way distorts the storm costs faced by PEF. For example, consider the 2004 season in which Hurricanes Charley, Frances and Jeanne all made landfall at locations in Florida Power & Light's service territory. After landfall, each of these storms tracked through PEF's territory well inland from the coasts. These storms did significant damage in PEF's service territory and imposed significant service restoration costs to PEF.

The EQECAT USWind model utilizes a stochastic set of simulated hurricanes that are possible based on the over one hundred years' of hurricane history. These storms include a full range of sizes, intensities from Category 1 through 5, and tracks. The model simulates thousands of possible events along the Gulf and Atlantic coasts. Many of these events make landfall large distances from PEF's service territory and do not result in damage to PEF T&D assets. Some will make landfall within PEF's service territory and some, like the 2004 Hurricanes, will make landfall outside PEF's territory, but will have tracks that take them into PEF's territory. Only those storms that affect the locations of PEF's T&D assets contribute to calculation of the expected annual damage.

Q. Please respond to Mr. Schultz' statement at page 8 that the Study provides no indication as to what factors were used to determine the estimated annual average loss of $20.2 million.

A. The methodology utilized and the important factors in the Loss Analysis Study are described in Sections 1, 2 and 3 of the Study. Further details on the methodology utilized by the ABS Consulting/EQECAT USWind software are available in the annual EQECAT submissions for review and recertification of our software by the Florida Commission on Hurricane Loss Projection Methodology.

Q. Is there any basis to justify excluding the 2004 storms from the analysis of expected losses and appropriate reserve levels?

A. No. Calculating an actual or simulated expected annual storm damage amount that selectively excludes any possible damage events, whether large and infrequent or small and frequent, is neither meaningful nor appropriate. Any reliable estimate of the expected annual windstorm damage to which PEF is exposed (expected annual loss) must include the most complete and full damage distribution that can be determined both from actual experience and from simulated possible damage.

It is true that not all years will experience damage equal to or greater than any estimate of the expected annual loss. Many years may experience no damage and others greater damage. Therefore, in developing expected annual loss estimates, the most reliable methodology is to utilize the longest, most complete historical record available. Since Florida's recorded hurricane history is just over 100 years old, insurers rely on simulation modeling to extend this "known" history into thousands of simulated years for the purpose of estimating likely damage. The simulated expected annual loss to PEF's system is the best estimate of the annual damage considering all possible future hurricanes. It does not arbitrarily exclude the "extraordinary" damage from the 2004 season as proposed by Mr. Schultz, or begin the analysis after the 2004 season as proposed by Mr. Marz.

Q. Mr. Marz suggests on pages 33 to 34 of his testimony that the reserve balance of $133 million is adequate to fund all Category 1 and 2 hurricanes. Do you agree?

A. No. Mr. Marz has misinterpreted SPH-1 page 19 and 20. These figures present the frequency-weighted average damage for all Category 1 and Category 2 hurricanes making landfall with each ten mile segment of the coast. This average value means that there are some storms resulting in lesser damage and some resulting in greater damage than the average presented in the figures. The $140 million damage value is not the greatest damage that might be expected from a Category 2 storm. Large Category 2 storms with wind speeds near the high end of the Category 2 hurricane range would result in substantially greater damage than the average.

Q. Mr. Marz suggests at pages 36-37 that future studies should be required to take into account only Category 1 and potentially Category 2 storms. Would such a study produce meaningful results?

A. No. The Florida Commission on Hurricane Loss Projection Methodology (FCHLPM), an independent panel of experts that evaluates computer models and actuarial methodologies for projecting hurricane losses, goes to great lengths to ensure that all models used in the State for insurance rating purposes appropriately capture the full range of the hurricane hazard. This includes hurricanes of Categories from 1 to 5. The PEF reserve is established to act as self-insurance and the expected annual loss similarly should be estimated based on all possible hurricane losses.

Q. Mr. Marz says at page 32 that the Study assumes that the storm reserve should be adequate to cover damage from all storms. Is he correct?

A. No. The Loss Analysis Study estimate of the expected annual loss is based on the full hurricane hazard with events from Category 1 through 5. Estimating the expected annual loss based on all storms does not mean that PEF's accrual should or will be adequate to fund damage from all storms. A proper level of reserve funding is a matter of setting an appropriate accrual to cover most but not all storms. The Reserve Performance Analysis in our Study provides information on the effect of various levels of accrual on the reserve performance over a prospective five year period.

Q. Mr. Schultz suggests that the Study placed undue emphasis on a 1921 storm that hit Pinellas County (page 8) and states that the reserve is not intended to recover costs for a storm of that significance (page 9). Did the Study in fact assume that the reserve should cover the costs of such a storm?

A. No, the Study did not assume that the reserve should cover the cost of a 1921 type of storm. The 1921 storm is also not the worst case scenario as suggested by witness Schultz. There are other storms that could result in greater damage than a re-occurrence of the 1921 storm. Exhibit SPH 1 Figure 4-4 shows that there are many landfalls where average Category 3 storms can do greater damage than the $250 million damage from the 1921 storm, and Figure 4-5 shows that average Category 4 storms, like the 2004 Hurricane Charlie, can result in over $500 million in damage over a 60 mile stretch of the coast near Pinellas County. The

1921 storm, along with all of the other storms over the past century that have affected Florida, are used in development of the historical hurricane hazard in the USWind software. Based on this historical hurricane hazard all possible storm severities and frequencies are simulated and included in the calculation of the expected annual loss.

Q. Mr. Schultz questions the appropriateness of including the 1921 storm in the Study since there have been no storms of similar strength and point of landfall since that time (page 11-12). Is this a legitimate basis to exclude the 1921 storm from the analysis?

A. No. The simulation of the 1921 storm that is presented in the Study is only an example to illustrate the impact that a recurrence of this historic event might have on PEF's T&D system today. It is illustrative of only one of many other events that could occur that would result in large losses to PEF's T&D assets. The expected annual loss estimate is based on a large set of simulated hurricane events ranging from Category 1 to 5. Hurricanes like the 1921 event have low probabilities of occurrence compared to less severe Category 1 and 2 events, but the severity and frequency of occurrence of all events are properly represented in the analysis.

Q. Mr. Marz asserts at page 36 that given the expected annual loss chargeable to the reserve, the balance is sufficient to provide coverage for eight years, while

it is sufficient for 30 years if losses remain at the levels experienced from 2006-2008. Is this an appropriate analysis?

A. No. The Reserve Performance analysis in our Study demonstrates that even with the current $6 million accrual, the reserve balance is expected to decline from $133 million to under $100 million over a five year prospective period. There is also a 14% probability that the reserve balance could be less than zero during this five year period. For the $133 million reserve to be adequate for a prospective 30 years would require a multi-decadal recurrence of the quiet and favorable storm activity experienced over the 2006 to 2008 period. This is not consistent with the prevailing view of the meteorological community that we are in a period of heightened hurricane formation.

Q. At page 30, Mr. Marz quotes from a recent TECO order describing a regulatory framework which includes "a storm reserve adequate to accommodate most, but not all, storm years." Would Mr. Schultz' and Mr. Marz' recommendations to cease accruals to the storm reserve be consistent with this regulatory framework?

A. No. First, remember that prior to 1993, PEF had insurance to cover storm damage to PEF's transmission and distribution assets. After Hurricane Andrew in 1992, insurers essentially withdrew from the market and adequate amounts of transmission and distribution insurance at reasonable prices became unavailable.

The concept of self-insurance using a reserve with accruals is to allow the accumulation of funds during periods of favorable storm experience that will be available for infrequent future hurricane losses. The Commission authorized the current PEF $6 million annual accrual to the reserve in 1994. Since 1994, PEF has relied on its storm reserve to self-insure for storm damage to its transmission and distribution assets, using the $6 million annual contributions to the reserve. However, after ten years of favorable storm history, the accumulated reserve accrual of approximately $47 million was exceeded by damage of over $285 million from the 2004 storm season.

PEF estimates that the value of its T&D assets has increased by more than a factor of three since 1993, when the current accrual was approved by the Commission, and believes that a higher accrual is appropriate to reflect the current increased value of its T&D assets.

Q. **Witnesses Marz and Schultz suggest that PEF's annual storm reserve accrual does not need to be increased substantially, if at all, because the accrual has been sufficient to cover actual storm damages incurred up until 2003. Mr. Schultz states at page 8 and 13 that since 1994, with the exception of 2004 and 2005, PEF has charged an average of $3 million to the reserve. Similarly, Mr. Marz states at page 33 that the reserve has been charged an average of $4.3 million over the last three years. Do you agree?**

A. The reason that PEF's annual accrual may appear to have been sufficient between 1994 and 2003 (when you exclude the losses from the hurricanes of 2004) is PEF's favorable storm history. There were no hurricanes that made direct landfalls in PEF's service territory during this period.

The intervenors' suggestions would only be acceptable if PEF's management and the Commission are willing to speculate that PEF's recent good luck over a brief, selective storm period considered by Marz and Schultz will continue. However, over the 100-year history, there have been many more hurricane landfalls and damaging events than in the last 15 years. Also, there is a growing body of evidence suggesting that the North Atlantic Oscillation (NAO) and the El Niño or Southern Oscillation (ENSO) are important climate variables in modulating hurricane return periods. The damage estimated in the current ABS Consulting Study assumes the average hurricane activity over the century. If you accept the opinion that changes in the ENSO and NAO variables indicate we have entered a more active period for hurricane formation like the 1920s and 1940s, PEF may expect to experience higher than average damage to T&D and other assets over the next several years and the ABS Consulting damage estimates could understate the actual risk going forward.

Q. Mr. Schultz questions the relevance of the Study results because of disclaimer language included in the Study. Please comment.

A. The Study is based on a simulation model using historical data. The disclaimer language acknowledges that there are significant uncertainties associated with hurricane occurrences, the extent of damage when they occur, and actual cost for service restoration after damage. The likely performance of the reserve illustrates these uncertainties. For the $6 million accrual case, the expected balance at the end of five years is $99 million. However, there is a 5% chance that the balance would be greater than $179 million and a 5% chance that the balance would be less than negative ($104 million). The uncertainty about actual future storm damage does not detract from the fact that this type of simulation modeling is the best method available to estimate future storm losses.

Q. Please comment on Mr. Marz' statement that a storm inflicting damage in the amount of approximately $33 million is likely to occur once every 33 years.

A. This statement reflects a misinterpretation of Table 3-1 in the Study. First, the Study shows that there is a 3.3% probability of a storm season that causes aggregate losses greater than $130 million. This is not necessarily a single storm, as Mr. Marz suggests, but it could be the result of multiple storms, such as occurred during the 2004 storm season. Second, while there is a 3.3% probability of a loss of this magnitude in any storm season, this does not imply that such losses will occur only at 33 year intervals. In any given season, there is a 3.3% probability of such a loss, and more than one severe storm season could occur in succession similar to the experience of the 2004-2005 seasons.

Q. Does that conclude your rebuttal testimony?

A. Yes, at this time.

BY MR. MELSON:

Q. Could you please summarize your direct and rebuttal testimony?

A. Yes, I would be happy to.

Good morning, Commissioners. My testimony presents the results of the study performed by ABS Consulting relative to Progress Energy Florida's storm reserve and includes a storm loss analysis and a reserve performance analysis.

My loss analysis estimates the total expected annual uninsured cost to PEF's system from all wind storms to be $20.2 million. The reserve performance analysis demonstrated that a $16 million annual accrual, assuming a reserve balance of 133 million, would result in an expected reserve balance of 152.5 million at the end of five years. There is about a 10 percent chance that the storm losses will create a deficit in the reserve over the five-year period.

The analysis also demonstrated that the current $6 million annual accrual would result in a decline in the reserve with an expected balance of 99 million at the end of the five-year period.

My loss analysis is performed using a proprietary probabilistic computer storm model. The model estimates how large and how often possible storms

and hurricane losses will be. The model uses values and locations of the assets at risk, the storm hazard, the susceptibility to damage and the cost to restore service. This type of computer simulation modeling is the most reliable method for estimating hurricane losses. It is the current standard of care and method utilized by the insurance industry to estimate hurricane loss exposures.

Our analyses show that PEF has a high concentration of assets in Pinellas County. About one and a half billion of PEF's distribution assets, about 30 percent of its total asset values, are located there. Damage from a single Category 3 storm making landfall near Pinellas County would exceed the current balance of PEF's reserve. A Category 4 storm making landfall near Pinellas County would result in restoration costs of greater than half a billion dollars.

My rebuttal testimony responds to express or implied criticisms of my study by Intervenor Witnesses Schultz and Marz. Some of the more important points to correct are that, first, my study is not biased by preconditions or by the use of selective data on past storm events. The most reliable way to establish the expected annual loss is to use the longest available historical record of losses, as I did in my study.

Our model is one of only four models that has been evaluated and determined acceptable by the Florida Commission on Hurricane Loss Projection Methodology. The state commission performs annual reviews of all models used in Florida for insurance rating purposes to ensure that they're appropriate and are not biased.

In contrast, the Intervenors use only a portion of the historical record and arbitrarily omit the 2004 storm season in characterizing the storm risk. It is not meaningful or appropriate to selectively exclude any possible damage events when analyzing potential storm loss.

Second, my study is not skewed by the use of data on storms making landfall outside of PEF's service territory. Only storms that would actually impact PEF's service territory either at or after landfall contribute to the study's calculation of expected annual loss.

Finally, the Intervenors recommend to cease accruals to the storm reserve, which would ensure a progressive decline in the reserve. And contrary to Mr. Marz's suggestion, even PEF's current reserve balance of $133 million is not adequate to fund all Category 1 and 2 hurricanes.

That concludes my summary.

CHAIRMAN CARTER: You owe him a beverage,

Mr. Melson.

MR. MELSON: He even beat the yellow light. He's available for cross.

CHAIRMAN CARTER: Mr. Moyle.

MR. MOYLE: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. MOYLE:

Q. Good morning, Mr. Harris.

A. Good morning.

Q. Jon Moyle on behalf of FIPUG.

Your work included analyzing the company's storm loss exposure; correct?

A. Yes, it did.

Q. Okay. And when determining loss exposure, as a general matter wouldn't you agree that understanding the design specifications of the asset or assets that you're analyzing is an important factor?

A. It is helpful. It isn't entirely the whole problem.

Q. I understand. But, but, but it is important to consider that; correct?

A. It is important. It is a factor.

Q. Okay. And we talked with some of the Progress engineers yesterday about design specifications for their transmission system and the distribution system,

and they didn't have information with respect to the wind velocities. When you prepared your study, similarly you didn't have information with respect to the design specifications for Progress's transmission system; correct?

A. That's not entirely correct. We've done a number of different studies for Progress Energy Florida's system. We have had discussions with their distribution and transmission staff, engineering staff at other points in time. And the answer to your question is that both the distribution and transmission system have a very long history and very mixed design basis.

Q. Did you consider the engineering design criteria specifically in preparing your study that you've submitted or your testimony that you've submitted to this Commission?

A. That data was not available to us on a structure-by-structure basis, so it was not included.

Q. Okay. And the same question with respect to design specifications for distribution systems, that, that, design specifications with respect to the Progress distribution systems, that similarly was not considered or included as part of your analysis; correct?

A. I'm not sure which design specification for

distribution you're referring to.

Q. Engineering design.

A. I believe there are a number of different specifications for design of distribution systems, and I'm not sure which you're referring to.

Q. Did you consider any in preparing your, your testimony?

A. We have looked at design specifications for distribution, and they're not consistent with respect to all structures over the long period of time that they've been installed.

Q. Do you have an understanding as to, as to what design specifications with respect to distribution systems that Progress Energy has, what their minimal requirement is with respect to exposure to wind velocity?

A. I, I couldn't state that to you. I think that question was asked to some of the engineering people and they were going to provide that data to you.

Q. Okay. But similarly you don't have that data; correct?

A. I do not on a structure-by-structure basis. That's correct.

Q. So you would agree, let's just say hypothetically, you would agree that, let's say that,

hypothetically that Progress, after the '04, '05 storms, storm hardening efforts took place, we're going to design these things to withstand a Category 3 storm. Okay? We don't know whether that's indeed the case. But let's just assume that for the purposes of the hypothetical. Okay?

A. I -- we could assume that for a hypothetical. I do not believe that's the case.

Q. Okay. If that, if that were the case, in terms of assessing damage, wouldn't it be true that your damage assessment would, would be reduced if the transmission and distribution assets could withstand Category 3 winds?

A. I do not agree with that. Damage to transmission and distribution systems comes from a number of different processes. Direct wind is only one of them. Debris fields, disassembled buildings, vegetation. There are a lot of active damage mechanisms that contribute to damage.

Q. Okay. But you would agree with it, if I said all things being equal and focusing simply on wind velocity, you would agree that to the extent that the design was to a Category 3 and you had a Category 2, that you would expect minimal damage; correct?

A. No, I would not agree with that.

Q. And that's because of the vegetation and the debris fields or --

A. There are a number of causes of damage beyond direct wind.

Q. Okay. And, and if I asked you to assume all other things being equal and we just focused on the wind, could you agree with me then?

A. I'm sorry. Would you restate your question again?

Q. Sure. Just let's focus --

A. It's a complicated hypothetical. I'm trying to understand what you're proposing.

Q. Let's just focus on the wind. All I want to do is focus on the wind. I don't want to focus on vegetation management or deconstructed buildings or any other variables. All I want to do is focus on wind.

And you would agree with me, would you not, that to the extent that the design specifications for a transmission system were such that it was designed to withstand up to a Category 3 storm, to the extent that you had a storm less than 3, you would expect minimal damage; correct?

A. I do not believe that historically that has been the case.

MR. MOYLE: Mr. Chairman --

THE WITNESS: I believe, I believe, I believe that you're referring to design for structures, and structures are only one portion of the damage that the system sees.

CHAIRMAN CARTER: If you can answer the question yes or no, do that, and then you'll be able to explain it. But -- okay? Do you remember the question or do you need it restated?

THE WITNESS: The question I believe as you phrased it is if a system were designed to Category 3 storms, would I expect to see minimal damage for storms that were smaller than that.

BY MR. MOYLE:

Q. Yes, sir.

A. And the question is minimal damage, what is minimal damage? I believe in my interpretation I would assume that minimal damage is that there really is no repairs that are required, and I would disagree with that.

Q. So do you have an understanding, you're in the insurance business, do you have an understanding as minimal damage or significant damage or substantial damage? Are those terms that you use in the course of your business?

A. No, they are not.

Q. And back on the hypothetical, so you're not able to answer, you're not able to assume, all other things being equal, and you're not able to answer a hypothetical which would suggest that to the extent a transmission system were hypothetically designed to, to withstand a Level 3 storm event and a Level 1 storm event took place, you would, you would not agree that, all other things being equal, that you would expect less, less damage in that situation; correct?

A. I would, I would agree that there would be less damage in that situation. I would not agree that there would be minimal, if minimal means the system would not require any repairs.

Q. Have you ever been involved in underwriting insurance?

A. No, sir, I have not.

Q. Okay. Do you have an understanding as to what types of things are done in an underwriting process?

A. I have a general understanding, but I've not been an underwriter and have not worked for an insurance company.

Q. Okay. If, if -- do you know currently if insurance for transmission and distribution assets are available in the, in the State of Florida? We asked -- I asked you this question a couple of weeks ago. I

don't know -- do you know as we sit here today whether --

A. I don't know any more than I did a few weeks ago. It's generally understood that insurance companies are not offering to write T&D cover in Florida. I don't know if there have been any specific examples where utilities have asked to have coverage.

Q. And that wasn't part of your scope of responsibilities; correct?

A. That's correct. We're not brokers and we're not insurance companies. We're risk analysts.

Q. Given your general understanding of an underwriting process, wouldn't you agree that underwriting, to the extent that it was going to charge premium and assume risk, that the engineering specifications to which a system was designed would be something that would be investigated during underwriting?

A. It may or it may not, depending on the insurer. Mutual insurance companies like the Factory Mutual group tend to focus more on engineering standards and have minimum design standards that they apply for underwriting than do some of the other commercial insurers which don't focus on those engineering aspects.

Q. And the, and the mutual insurance that you

reference, you're aware of that with respect to nuclear assets, that they're insured through a mutual arrangement; correct?

A. Yes, sir. I do understand that.

Q. As part of your analysis you didn't consider the Progress Energy's generation assets, did you, and any exposure related to the generation assets?

A. Yes, we did. We, we did consider deductible costs associated with the storms as part of the charges against the reserve.

Q. Okay. And that's, that's the deductible for the generation assets; is that right?

A. That's correct.

Q. What is that number; do you know?

A. I don't know what the number is specifically. It's a relatively small portion of the overall exposure.

Q. And that's because Progress Energy Florida has insurance on the generation assets; correct?

A. That's correct.

Q. I had asked you a lot of questions about, about the engineering designs. Did you consider any improvements in vegetation management that may have occurred since the PSC's storm hardening order in the preparation of your testimony or study?

A. No, sir, we did not. And I believe that's

stated in some of the discovery.

Q. Okay. And you're aware that this Commission has undertaken significant efforts to improve transmission and distribution systems after the '04, '05 storms; correct?

A. That's correct. And I also understand that it's a long-term program which is only in a few years of implementation.

Q. Do you know, do you know what year we're in of implementing that?

A. No, I do not.

Q. And your calculations of, of damage, that was based on historical data; isn't that correct?

A. The storm hazard is certainly based on historical data. That's correct.

Q. Let's talk a little bit about, about addressing the storm situation. How much does Progress Energy currently have accrued or in the kitty, as I like to say, with respect to addressing a storm?

A. I don't know what the current number is today, but the, the reserve balance that we used in our analysis was 133 million, and I believe that was from last year.

Q. Okay. And you're also aware that, that the Florida Legislature has passed legislation which would

allow investor-owned utilities to sell storm securitization bonds; isn't that correct?

A. I'm not aware of that legislation, no.

Q. Are you aware of any investor-owned utility in Florida having securitized or sold bonds to cover storm costs?

A. Yes. I understand Florida Power & Light has.

Q. Okay. And do you have any information as to whether a similar opportunity would be available to Progress Energy?

A. I assume it would be, but I'm not aware of the details or the legislation.

Q. Are you aware that, that this Commission has previously permitted Florida investor-owned utilities to recover from taxpayers a storm surcharge to pay for storm damage?

MR. MELSON: Object to the form of the question. I don't think the Commission's got any jurisdiction over taxpayers.

CHAIRMAN CARTER: Mr. Moyle, to the objection.

MR. MOYLE: I meant ratepayers. I'm sorry.

CHAIRMAN CARTER: Okay. Rephrase.

BY MR. MOYLE:

Q. Are you aware that this Commission has previously authorized Florida investor-owned utilities

to recover from ratepayers a storm surcharge to pay for storm damage?

A. I do have some analytic -- anecdotal knowledge of that, yes.

Q. So you would -- your understanding is, is that storm surcharge is available?

A. I believe so, yes. I'm not an expert in that area, but that's my understanding.

Q. Now as part of your analysis, do you know or have any information with respect to what type of credit facilities Progress Energy currently has available to it in the event that a storm hit, whether they would be able to look to current credit facilities in place?

A. I do not have any knowledge of that.

Q. You would agree to the extent that there are credit facilities available with, with untapped resources, that that potentially could be looked to to address storm damage; correct?

A. I'm sorry. Could you rephrase that question, please?

Q. Sure. And let's just call it a line of credit. They're called credit facilities. And it's easier sometimes to just refer to it as a line of credit.

If Progress Energy had a line of credit

available to it that was not otherwise fully committed and a storm event hit and they had funds available in that line of credit, you would agree that that line of credit potentially could be looked to to help address storm expenses; correct?

MR. MELSON: Object. It's beyond the scope of this witness's direct testimony. I don't mind if he answers, but it is beyond the scope.

CHAIRMAN CARTER: To the objection, Mr. Moyle.

MR. MOYLE: Well, I think, I think -- while technically it may not, he may not have words on here that say, hey, you know, here's what the credit facilities are, to the extent that he's offering testimony to you all to say here's what you ought to do with respect to the hurricane account, 133 million and allow X amount, you know, to be accrued on an annual basis, I think is relevant because it shows that there arguably are other resources out there.

I'm just trying to get him to acknowledge that to the extent there are those resources out there, that it could help mitigate storm costs.

CHAIRMAN CARTER: Ms. Cibula, good morning.

MS. CIBULA: I think it should be allowed.

CHAIRMAN CARTER: Okay. You may proceed.

BY MR. MOYLE:

Q. Do you want me to rephrase it or do you understand?

A. Go ahead and rephrase it, please.

Q. Okay. Assuming that there's a line of credit out there available for Progress Energy Florida that has room on it, to the extent a storm hit and there was room on the line of credit, you would agree, would you not, that the line of credit could be something that Progress Energy looked to to fund storm repairs; correct?

A. To fund storm repairs. I guess lines of credit are borrowing, and in the current economic climate and the current credit climate, I'm not sure I could offer you any kind of opinion that would be of use to you on that question.

Q. And we're going to have -- I'm sorry. We're going to have FPL's Vice President of Finance coming, so we can get into the details about availability. Just assume that there would be availability. If you assume that there was a line of credit that existed --

CHAIRMAN CARTER: You said FPL.

MR. MOYLE: I'm sorry. I'm sorry.

CHAIRMAN CARTER: It's A long day. Just rephrase. That's okay.

MR. MOYLE: All right.

BY MR. MOYLE:

Q. Assume for me that Progress Energy Florida has a line of credit, let's say it's a, it's, it's a line of credit on which it has not fully tapped the line of credit, a storm hits and Progress Energy needs to make repairs. You would agree that a line of credit could be a financial instrument that could be looked to to immediately fund storm repairs; correct?

A. If there's credit out there, yes, those funds could be borrowed to pay for storm repairs.

Q. Did you make that inquiry at all of Progress Energy during the, during your work?

A. No, sir. We did not play that role in this particular study.

Q. You, you would agree, would you not, that, that that could be a factor, a consideration with respect to how much money might need to be accrued, wouldn't you?

A. No, sir. That, that is a question of funding and financing and risk management. What our study looked at was the risk profile itself and the performance of the reserve given the constraints that we apply to it.

Q. If, if this Commission were to conclude that, that its storm hardening efforts have resulted in

reduced risk to Progress Energy Florida, wouldn't it logically follow that it also might be appropriate to consider a reduction in the storm accrual fund?

A. Yes, it might be logical to conclude that. The question would be how much that reduction would be.

Q. And you haven't made any efforts to undertake, to analyze the extent to which the storm exposure may have been reduced as a result of this Commission's storm hardening orders; correct?

A. That's correct. We have not.

Q. Do you know when the last hurricane to hit Progress Energy's territory hit and what its name was?

A. Well, there have been hurricanes that have affected Progress's service territory from the 2004 season, and there are at least three named storms that have done so.

Q. So was that part of your analysis, to go and determine, you know, the most recent incident?

A. We did use the data on storm damage costs, storm restoration costs from Progress Energy from the four storms from 2004.

Q. And is it your understanding that 2004 was the last hurricane to hit Progress Energy Florida's assets?

A. That is the last data that we've used in that analysis. Yes.

Q. And you would agree with me, I want to just ask a couple of general questions about predicting hurricanes, that that is a very uncertain process; correct?

A. Our study does not predict hurricanes.

Q. It predicts damage resulting from hurricanes?

A. Our study is a statistical study of risk exposure from hurricanes. If you're looking for hurricane predictions, you should be looking towards NOAA or Dr. Gray from the University of Colorado or other experts that do hurricane prediction.

Q. In your rebuttal testimony, you, you talk about frequency of hurricanes on Page 3, Line 10, and indicate, the way I read it, that part of the result of the increase in major storm factors is the expected increase in frequency of hurricanes. Am I reading that correctly?

A. Which, which line are you looking at on Page 3 of rebuttal?

Q. Starts at 8.

A. What this refers to in Line 8 is that there has been a change in storm hazard between the model that was, in the study that was conducted in 2005 and this study that was conducted in 2008. And the difference in the hazard is the incorporation of both the 2004 and

2005 actual hurricane landfall events. Now all of these landfalls are codified essentially, if you will, by NOAA, and they are incorporated in the hurricane models that are submitted to the Florida Hurricane Methodology Commission.

Q. So on Line 10, when you use the term, quote, "expected frequency of hurricanes" --

A. Yes.

Q. -- you don't have an opinion as to whether there truly is indeed an expected frequency of hurricanes; is that right?

A. We don't have an opinion. We have data. And the data indicates that between 2005 and 2008 there is an increased frequency of hurricane landfalls in Florida that would affect Progress.

Q. Okay. And that was the, the data. But as we sit here today, indeed factually there hasn't been an increased frequency of hurricanes between 2005 and 2008 that have affected Progress Energy Florida; correct?

A. I'm sorry. I didn't understand. Could you rephrase your question?

Q. Sure. I thought in response to that question you said that the data indicates that there's an increased frequency of storms from 2005 to 2008; is that right?

A. From the models that were used in the 2005 study and the models that were used in the 2008 study there has been a change in the hurricane frequency. That's correct. And that change has been the incorporation of the data on actual hurricane landfalls from 2004 and 2005.

Q. Okay. We may be talking past each other on that point.

A. Well, I think we probably are. I think there's a one-year difference in the model and incorporation of data. For example, in 2005 you wouldn't expect to see the capture of 2004 and 2005 landfalls. So what you see in the modeling is about a one-year lag in the incorporation of NOAA data into the models, submission to the Florida commission, the insurance commission, and incorporation and codification into the models.

So between '05 and '08 there would be two seasons with landfalls and the 2006 and 2007 season, which had no landfalls. That data would be rolled in. Overall net there has been an increase in hurricane frequency for Central Florida.

Q. Are you aware that the Florida commission has over the years expressed concerns about some of the models that have been used to forecast hurricanes and to

base insurance rates off of in the State of Florida?

A. Yes. I, generally that's, I would agree that there have been concerns, and that is their job to raise concerns.

Q. And you're also aware that the hurricane commission is considering developing a Florida hurricane model that the commission actually runs; correct?

A. I understand that there have been some proposals to do that. Yes.

MR. MOYLE: Just a few more, Mr. Chairman.

CHAIRMAN CARTER: Absolutely.

BY MR. MOYLE:

Q. Are you aware that, whether Progress Energy Florida filed an insurance report with this Commission to indicate availability or lack of availability of insurance? Are -- do you have any information of that?

A. I have no knowledge of that filing. No.

Q. With respect to the analysis that, that has been conducted, you would agree that there's a significant amount of uncertainty in the key analysis parameters that you use; correct?

A. There certainly is uncertainty associated with the entire phenomenon of hurricanes. There is a significant year to year variability in their occurrence.

Q. So the answer is yes, that you --

A. Yes.

Q. Okay. And also with respect to the information that you've provided, you haven't, you're not warranting that information to this Commission, that that can be relied on in any way, shape, or form; isn't that correct?

A. That's correct.

Q. And that's understandable, I think, given the nature of the business of predicting events in the future; correct?

A. That is the risk business. Yes. There is uncertainty associated with these kinds of events.

Q. Third -- this is on your direct, and I'm just about done.

13, Page 13, Line 31.

MR. MELSON: Jon, I don't have 13 pages in his direct.

BY MR. MOYLE:

Q. Yeah. It might be on the study. I'm sorry. It's the study. I'm sorry. I'm sorry, Mr. Harris. Page 13 of your study.

A. Page 13. Okay. I'm there.

Q. I wanted to ask you, and I'll just quote for the record, you state on the second paragraph, quote,

"Damage is defined as the total cost including the operations and maintenance and capital components associated with repair and/or replacement of T&D assets necessary to promptly restore service in a post storm environment." And that was the definition of damage that you used for your analysis?

A. That's correct.

Q. Okay. And I understand, I believe, why capital components would be in there, but I'm not sure I understand why you would include operations and maintenance costs in that, in that, in that figure.

A. The costs --

Q. Particularly maintenance.

A. Well, operations and maintenance refers to an accounting category, if you will. It's labor. So there's capital and there's labor.

Q. Okay.

A. And O&M typically in accounting parlance refers to labor.

Q. So, so you would, you would indicate that the operations and maintenance is referring only to the labor associated with having to restore the system; correct?

A. I'd like to correct myself. O&M is, is the category for labor and direct expenses. For example,

equipment rental, meals, lodging, those costs I believe are accounted as O&M costs as opposed to capital costs.

Q. All right. And then on Page 20 --

A. And they're not insignificant.

Q. Okay. And then on Page 22.

A. Yes, sir.

Q. Well, I may not have that page right. But in your testimony you did an analysis and formed some of your modeling assuming the worst event ever to hit Progress Energy Florida's service territory as a Category 3; correct?

A. There is on Page 21 an indication of the 1921 storm that did in fact hit Pinellas County. And that provides an estimate of what that loss would be today for a reoccurrence of that event in Progress's service territory.

Q. Okay. So since Progress Energy's been in existence, the worst storm event ever to hit it was a Cat 3; is that right?

A. No, I wouldn't say that. This is an example of a storm of significant magnitude that would hit Pinellas County and the loss that you might expect from the recurrence of it. There are many other storms which could impact Progress that would be worse than that.

Q. All right. And one, one final line of

questioning. Do you have any information, are you aware of the issue of intergenerational inequity? Does that term mean anything to you?

A. I've heard that term used. I'm not sure in what context you would pose that as a question.

Q. Well, let's say as a general matter of ratemaking that you would like to try to have costs of something paid for by, by people who are presently on the system at the time the costs are realized. Okay?

A. I understand that.

Q. Okay. Wouldn't you agree that to the extent intergenerational equity was a, was a policy concern, that a better way to address that would be to impose surcharges, storm surcharges on customers after an event takes place, as compared to accruing monies, particularly when a storm may not, may not be visited upon Progress Energy Florida's territory for many, many years in the future?

A. No, I would not agree with that. I think I have, I've heard anecdotally arguments in both directions, and I'm not really here to be an expert witness in policy area.

MR. MOYLE: Thank you, Mr. Chairman. That's all I have.

CHAIRMAN CARTER: Thank you, Mr. Moyle.

Mr. Rehwinkel.

MR. MOYLE: And thank you to Public Counsel letting me go first.

MR. REHWINKEL: Thank you, Mr. Chairman, and thank you, Mr. Moyle.

CROSS EXAMINATION

BY MR. REHWINKEL:

Q. Good morning, Mr. Harris.

A. Good morning.

Q. My name is Charles Rehwinkel. I'm with the Office of Public Counsel.

A. Nice to meet you.

Q. Same here.

Mr. Harris, isn't it true that your study or the results that you present in your study are not based in any way on whether a 2010 test year is an appropriate time to increase customer rates to provide for a 160 percent increase in the annual storm damage accrual to increase the size of the storm reserve?

A. I'm not sure I understood your question. But I would respond that 2010 was not considered in our analysis in any way.

Q. But --

A. The test year.

Q. Okay. So, but the results that you present

for the Commission's consideration in no way consider whether now is an appropriate time for customers to pay more in the form of a storm damage accrual to increase the size of the accrual; is that correct?

A. That's correct. This is a risk analysis. It gives you a risk picture of the exposure itself.

Q. And it's pretty agnostic, if you will, to the timing of a rate increase; is that correct?

A. That's correct. That would in my view be considered a risk management and a policy issue.

Q. Okay. You cannot say, can you, with 100 percent confidence that the reserve will be totally used up in five years if no further accruals are made, can you?

A. No, sir. That's correct.

Q. What was the number of storms that were estimated to impact PEF's service territory in 2009?

A. There were no estimates of numbers of storms to impact the system. That is not the way the analysis is done.

Q. Is it your understanding that the Public Service Commission's order in the 2004 storm damage docket stated that incremental costs from the 2004 storms were not appropriate for recovery in base rate, base rates?

A. I do not have any knowledge of that subject.

Q. So would you also be not aware of whether that order states that the costs of storms, cost to PEF of storms like the 2004 hurricanes are too volatile to be addressed in base rates?

A. I do not have any knowledge of that.

Q. Okay. To your knowledge do the cost accrual for storms, for the Storm Damage Reserve get included in the base rates?

A. That's my understanding.

Q. Okay. And just so I know, isn't it true that the study in this case that you're presenting added the impact of the 2004 storms?

A. That's correct. It did.

Q. If the lack of storm activity for 2005 through 2008 for the PEF service territory was factored into your study, would there be any different results with respect to the size or the need for additional accruals?

A. I'm sorry. Could you restate that question again?

Q. Yes. Would you agree with me that since 2005 there have been no storms of any significance that have impacted PEF's service territory?

A. That's correct.

Q. Okay. If that experience for 2005, '6, '7,

and '8, and to date in 2009 was factored into your study, would your study reduce -- would your study produce any different results?

A. Let me answer that by saying that our study did in fact include 2006, 2007 historical storms, which -- of which there were none. The data on the hazard has included those years. 2008 and 2009 have not been included in the study, and the 2008 data of no storms would in fact reduce to some very small extent the hazard.

Q. Okay. If I understood your answer to a prior question, you, you do not agree that there would be minimal damage if the system was designed to withstand Category 3 storms, Category 3 storm winds and a Category 1 or 2 storm hit the service territory?

A. That's correct.

Q. Okay. Are you aware of the wind standards that were adopted in the storm hardening docket?

A. No, I'm not.

Q. Okay. Do you -- are you aware of -- I believe you stated earlier that you're not aware of when the storm hardening activities directed by the Florida Public Service Commission actually began; is that correct?

A. I don't know the specific dates of the start

of implementation of that.

Q. Okay. So based on that, you obviously could not have taken into consideration any impacts or efforts undertaken in those storm hardening efforts in your study; is that correct?

A. That's correct.

Q. So is it your testimony here today that the investment in storm hardening activities will have no beneficial impact on the need for storm damage reserves?

A. No, sir, that is not my testimony. It's generally understood that the activities for storm hardening will in fact reduce damage and restoration times.

Q. Okay.

A. Even though they're not quantified.

Q. Can I ask you to turn to your direct testimony and to Page 1 -- let's actually go to 1-1 of your Exhibit SPH-1.

A. Yes, sir. I'm there.

Q. Okay. Is it, isn't it true that the asset values that you utilize in your study were provided to you by Progress Energy Florida; correct?

A. That's correct.

Q. And isn't it also true that you made no independent evaluation of the values that they provided

you?

A. That is correct.

Q. Okay. So isn't it also true then that you have no idea of the basis upon which those values were determined?

A. That's correct.

Q. Okay. So it would follow then from that that you have no knowledge of the correlation of those values to the valuations that are included for ratemaking purposes in the rate base for Progress Energy Florida.

A. That's correct.

Q. Okay. And it would also follow you do not know whether these valuations are the same that Progress Energy Florida uses for purposes of reporting valuations for property taxes in the State of Florida.

A. I have no knowledge of that.

Q. Okay. Could I ask you to turn to your Tables 1-4 and 1-5. Let's go to 1-4 first. Well, actually let me ask you to turn to Table 1-5.

A. Table 1-5 or Page 1-5?

Q. I'm sorry. Table 1-5. This will be on Page 10 of 31 of your SPH-1. I'm sorry. Let me start over. It's Figure 1-2.

A. I'm completely lost here.

Q. It's Figure 1-2 on Page 1-5, which is Page 10

of 31 of your --

A. 1-5, Figure 1-2. Yes.

Q. Yes. I'm sorry. My mistake.

A. That's all right. There's a lot of numbers.

Q. Yeah. This is only day three.

This table here purports to show the replacement values as provided to you by Progress Energy Florida; is that correct? Transmission and assets by zip code?

A. This figure, yes, graphically displays values by zip code.

Q. Okay. Now, so I understand, the darkest values, the darkest areas here have the highest replacement values; is that correct?

A. That's correct.

Q. Now on what basis is this presented? This does not mean -- if I look at the black areas here, that doesn't mean that Progress Energy Florida's assets are concentrated in these areas, does it, with respect to the replacement values?

A. Yes, it does.

Q. It does?

A. It does mean that.

Q. So is this on a, on a -- what is the basis for the statement of the asset values in this presentation

here?

A. May I explain?

Q. Yes.

A. Data is provided to us on the replacement cost of transmission structures and conductors, and it is geo-coded into our modeling on a GIS basis. And this is a display of the sum of all the values within each zip code of transmission asset values. So that's the way this data is --

Q. Well, if I asked you to -- do you know which, what geographic areas of the state these various zip code presentations represent?

A. I couldn't tell you specifically what the zip code numbers are, if that's what you're asking.

Q. Well, do you know, for example, where Taylor County is on here?

A. I couldn't tell you based on the zip code mapping.

Q. Okay. What about Hamilton County?

A. I -- this is not a county map. This is a zip code map.

MR. REHWINKEL: Okay. All right. Mr. Chairman, those are all the questions I have. Thank you.

CHAIRMAN CARTER: Thank you, Mr. Rehwinkel.

Ms. Bradley.

MS. BRADLEY: I think all my questions have been covered, so no questions.

CHAIRMAN CARTER: Thank you.

Ms. Evans.

MS. EVANS: No questions.

CHAIRMAN CARTER: Mr. Wright.

MR. WRIGHT: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. WRIGHT:

Q. Good morning, Mr. Harris.

A. Good morning, Mr. Wright.

Q. Nice to see you again.

A. It's always nice to see you in Tallahassee.

Q. Thank you. I hope some day to see you in the bay area.

I have a few questions for you today. First off, you don't advocate or recommend any particular accrual level in your testimony, do you?

A. That is correct.

Q. Okay. And just a simple kind of predicate question. I wanted to ask you about the interest rate assumptions that you incorporated in your probabilistic analysis. I found, I found that you assumed a 3.45 percent interest rate assumed for earnings on any

positive fund balance. I was looking for --

CHAIRMAN CARTER: Mr. Wright, hang on one second.

Chris, we're getting some feedback on Mr. Wright's microphone. Could you adjust the volume, please, sir? We're getting some feedback on Mr. Wright's phone, microphone. There's a ringing sound, unless it's maybe the ringing sound in my head.

MR. WRIGHT: I heard it too.

CHAIRMAN CARTER: Okay. Mr. Wright, give us a voice check on that, please, sir.

MR. WRIGHT: Yes, sir, Mr. Chairman.

CHAIRMAN CARTER: That's much better. You may proceed.

MR. WRIGHT: Thank you.

BY MR. WRIGHT:

Q. Mr. Harris, I found the interest rate value 3.45 percent that you assumed for the rate at which funds, interest essentially would accrue on any positive fund balance. What I was looking for was the corresponding assumption, as you had in your testimony in the Florida Power & Light case, regarding the interest rate that would be paid on a short-term loan in the event the fund went negative. Can you tell me what that rate is?

A. There is no rate for, for borrowing costs. And I believe the difference that you're referring to between Florida Power & Light's reserve accounting and Progress Energy's reserve accounting is related to the fact that Progress has an unfunded reserve, whereas Florida Power & Light has a funded reserve, and so the accounting is treated somewhat differently.

Q. Thank you. But the fund is credited at 3.45 percent per year on the, on any positive balance?

A. That is my understanding, and that's what we were directed to assume by PEF's accounting experts.

Q. Thank you. There are two different numbers that I have seen used to relate to the projected annual loss. One is the number you use in your testimony of $20.2 million a year, and then there's another that Mr. Toomey references in his testimony at $16 million a year, which is also used elsewhere in the various testimonies in this case.

Can you tell me what the difference is there, if you know?

A. Yes. Certainly. I'd be happy to.

Q. Thank you.

A. The 20 million figure is the total annual, expected annual loss numbers, including all operations and maintenance costs associated with storm repair. The

$16 million number is the portions of that 20 million cost that would be obligations to the reserve. And there are a certain number of categories of costs that are excluded from that, including capitalized costs and other O&M or labor costs, if you will, that are not allowed to be charged to the reserve.

Q. Thank you. Now as I understand your, your testimony, you've prepared some probabilistic estimates of what would happen to the reserve over, over time with various accrual levels; correct?

A. That's correct. We did a five-year forward projection.

Q. And your testimony, I think this is at your -- well, it's in your Table 5-1b and elsewhere. Your testimony indicates that with an accrual of 15, I guess $16 million a year, you would, you would expect the fund to have a positive balance of $153 million at the end of five years; correct?

A. That's correct. That's the expected balance, meaning there's a 50 percent chance that the reserve balance would be bigger and a 50 percent chance that the reserve balance would be smaller than that.

Q. Right. And your testimony also gives us elsewhere in your exhibits the confidence interval on that.

A. That's correct.

Q. Okay. Now the company is asking for -- can we agree to just call it 15 million instead of 14.9 million? The company is asking for an accrual of 15 million, not 16; correct?

A. I don't know specifically. You might ask a different witness.

Q. All right. Well, I tell you what. We'll stick, we'll stick with your 16 million for now since this is your testimony.

You also calculated that, that the expected value of the reserve balance, if the company were to continue its current accrual at $6 million per year, would be $99 million at the end of five years; correct?

A. Yes, I did.

Q. I'm sorry?

A. Yes, I did. That's correct.

Q. Thank you. Did you analyze a scenario wherein the accrual was zero?

A. No, we did not.

Q. Can I extrapolate from the 16 million leading to 153 million balance at the end of five years and the $6 million producing a $99 million balance at the end of five years, can we make some kind of rough extrapolation of what the, what the balance would be if it were zero?

A. You might be able to do that. I don't know how reliable that would be.

Q. Well, I understand that it would not have the rigor of your probabilistic analysis. But in simple terms, you know, basically the extra $10 million, or if you treated it as a decrement of $10 million, from 16 to 6 million, that would reduce the expected value of the fund balance at the end of five years by $54 million, from 153 to 99; correct?

A. That would be in the ballpark probably.

Q. Well, I think those numbers come directly out of your table so far. I mean, just --

A. On the 10 million?

Q. Yeah. The 10 million.

A. Yeah. You're right.

Q. Okay. And so if you dropped it another 6 million, just my eyeballing it indicates that that might knock another 40 or $50 million off the expected value. Would you agree that's probably in the ballpark?

A. That's in the ballpark. Yes.

Q. Thank you. Taking that, taking that analysis one step slightly further, if you assume that the company were to incur $80 million of losses over the next five years chargeable to the reserve -- and that's five times 16; right? Are you okay with that

assumption?

A. Sure.

Q. I'm trying to estimate a range of what the fund balance would be. It seems to me that the worst case for the fund balance would be if all $80 million were incurred this year. In that case the balance -- in that case would you agree that the balance would be the 135 million, which it approximately is today, minus 80, plus whatever interest would be earned over the next five years?

A. I'm sorry. Could you go over your hypothetical again?

Q. Sure. And maybe I can try to reset the, the stage.

I'm trying to get a range of what might happen if the, if the company were to incur total losses based on your projected annual loss accrual to, chargeable to the reserve. That number is $16 million a year; correct?

A. The expected annual charge of the reserve is 16. That's correct.

Q. Okay. From there we could assume that it was 16 million a year, we could assume that it was all 80 million in the first year or all 80 million in the last year. In terms of evaluating what the reserve

balance would be at the end of five years, wouldn't it be true that if, if all $80 million were incurred in the first year, the balance at the end of five years would be the current balance, which is 135 million, minus 80, plus interest on the new lower balance for the remaining five years?

A. Yes. That's fairly straightforward. Yes.

Q. And when I, when I do that, I get something probably in the range of 60 odd million dollars.

A. 50, 60 million. Yes.

Q. And on the other end of the spectrum, if you assume that all $80 million were incurred in 2014, the fifth year out, then it would be 135 million plus the interest on the 135 for five years minus the 80 incurred in 2014; correct?

A. I'm sure you can do the math.

Q. Well, would you agree that that's the right methodology to use?

A. Your assumption is that you're going to have $16 million in damage a year. That's not the way hurricanes happen.

Q. I'm sorry. I was trying --

A. It's kind of a lumpy phenomenon. Sometimes you get some, sometimes you get none.

Q. I understand that. And what I was trying to

do was using the average value of 16 million a year, to put bounds on what, what the reserve balance might be, assuming the lumpiness to which you just referred. We first talked about the assumption that it would be lumpy and we'd have all $80 million incurred in the first year. We covered that. And now I wanted to go to the other end of the lumpy spectrum where the big storm occurred in 2014, in the fifth year.

And my question is wouldn't you agree that that, assuming that scenario, the balance at the end of 2014 would be today's starting value, roughly 135 million, plus interest at the assumed rate for the five years, minus the $80 million in 2014?

A. Given your assumptions, yes, I think that's fair.

Q. Do you agree with -- I'm just asking you to agree with the calculation, not with any conclusions, but do agree with Mr. Schultz's calculation that the company's actually incurred average storm costs for 2006 through 2008 is approximately $6.6 million per year?

A. I have no information on how he calculated those numbers, so I could not say I agree with him.

Q. Did you look at what the company's actual experience was in terms of charges to the storm reserve for 2006, 2007 and 2008?

A. We looked at the major storm costs and used those in terms of determining storm restoration costs, historical storm restoration costs.

Q. These are a few more questions that address the information that's presented in your Table 5-1b. These questions relate to probabilities that you show in your testimony and exhibits.

You indicate that the, your Table 5-1b, as I read it, indicates that if there were a $16 million per year accrual, the probability of the balance of the reserve going negative any time within the next five years is approximately 10 percent.

A. That's correct.

Q. All right. And similarly, if -- assuming a $6 million accrual continuation of the current level, the probability would increase, the probability of the reserve going negative within the next five years would increase to 14 percent.

A. That is also correct.

Q. And my follow-up question then is did you evaluate the probability of the reserve balance going negative any time within the next five years if the accrual were set to zero?

A. No, we did not.

Q. Again, I'm trying to come up with some kind of

reasonable extrapolation here. And I note that if we take, again look at the decrement of the $16 million accrual down to a $6 million accrual, the probability of the reserve going negative increases from 10 percent to 14 percent. So far so good?

A. Yes. I understand that.

Q. Okay. And then so what I'm trying to do is to get a handle on extrapolating the next decrement from 6 to zero. Intuitively it seems to me that the probability of the fund going negative probably isn't going to be any greater than 20 percent, if you assume that additional decrement of $6 million. Does that sound about right to you?

A. No. I would not agree with that.

Q. What do you think it would be?

A. I don't know. But I could certainly refer you to Table 3-1 of my study.

Q. Okay.

A. If we said in your hypothetical example that the storm reserve balance was $50 million, you would see that in each year you would have a 9 percent chance of exceeding that loss. That's a single-year probability, and you're looking at a five-year forward projection. You might see easily three or four or five times that probability of exceeding a $50 million balance over a

five-year period.

Q. Mr. Harris, I apologize, but could you direct me to Table 3-1?

A. Oh, it's, it's in my report, and it is Table 3-3, Page 16.

MR. MELSON: Page 16.

CHAIRMAN CARTER: It's on Page 3-3.

MR. WRIGHT: I've got it now, Mr. Chairman. Thank you.

THE WITNESS: So, as I was saying, in your hypothetical, you're saying if you had all $80 million in storm loss in the first year, your balance would be down to $50 million. And an exceedance (phonetic) probability on a one-year basis of $50 million might be 9 percent. So in any given year you'd have a 9 percent chance of having losses in excess of $50 million. That's similar to the 10 percent probability over a five-year period. So you can see it's not really a linear phenomenon.

BY MR. WRIGHT:

Q. Well, that's why I was trying to bump it up by something greater than linear. So can -- well, you didn't analyze it. But can you give us a ballpark of what you think the probability might be, starting with today's $135 million reserve and going down, taking that

next decrement down from $6 million to --

A. No, I really can't. These are fairly sophisticated and complex models and they're very nonlinear phenomena. All I'm trying to point out to you is that if you were at $130 million in Table 3-1, you'd have a 3 percent chance in any given year of exceeding that loss level. If you were at a $50 million level, you would have a 9 percent chance in every year. That's more -- that's three times. It's a nonlinear phenomenon.

Q. Well, I understand, I understand that. I was just trying to ascertain whether you had a, a value that you could assign to it.

A. No, I don't. I'm sorry.

Q. And you are aware that Mr. Schultz has recommended that a storm accrual be set to zero for purposes of the case.

A. Yes, I'm aware of that. Yes.

Q. And you did not rebut that by calculating a probability, by showing the Commission what the probability comparable to the evidence you've otherwise shown in your testimony would be?

A. No, I did not.

Q. Did you do the analysis at all?

A. No, I did not.

Q. I want to follow up on what, some estimates of what the reserve might be under a couple of other scenarios. This is kind of a follow-on to a discussion we had about if the damages were at, were at $16 million a year.

I just want to ask you, if we assume that there were zero claims over the next five years, it would be true that the reserve balance at the end of five years would be somewhere in the range of, of -- I'm sorry. With a $15 million -- with a $16 million a year annual accrual, the, the reserve balance would be somewhere in the range of 225, $235 million?

A. Yes, I believe that's correct.

Q. And if the, if there were no claims and if there were zero accrual, the value of the reserve in five years would probably be in the range of $150 million? That's 135 times 1.0345 to the fifth power.

A. I don't know. I would have to do that calculation. But it doesn't seem unreasonable.

Q. Okay. But you'd agree that that's the right calculation, the compound interest rate to the fifth power times the starting balance?

A. Yes.

Q. Yes. Okay. Are you familiar with Progress

Energy Florida's use of a storm restoration surcharge to restore its fund and to recover reasonable and prudent storm restoration costs after the 2004 and 2005 storms?

A. I understand that was what was done. I'm not familiar with any of the details of how that was done.

Q. Is it your general understanding that the fund did go negative for a period after the 2004 storms?

A. That's what I understand. That's correct.

Q. And is it also your understanding that, that Progress's customers during this time period paid what the Commission approved as the reasonable and prudent restoration costs associated with the '04 and '05 storms?

A. Yes, that is my understanding.

Q. And is it also your understanding that those same customers also, through Progress's storm restoration, storm restoration surcharge that was in effect during this period, paid to restore the fund to its current level?

A. I'm sorry. Could you rephrase that?

Q. We covered the part about paying for the storm costs that the company actually incurred. Is it also your understanding that the customers during this period paid through their storm reserve surcharges plus the company's accrual during the years to set, to get the

fund back to the $135 million it is today?

A. Yes. That's my understanding.

Q. Now at Page 7 of your testimony -- you don't really need to look at it. But you, you make a statement that given rate stability as a policy objective, and then you go on to say that $16 million a year is a reasonable accrual. Is that an accurate --

A. Yes. That sounds, sounds correct.

Q. That's an accurate characterization?

Okay. You're not advocating in this context rate stability for storm restoration charges as the appropriate policy, are you?

A. No, I'm not.

Q. Taking it as a given.

A. That's correct.

Q. All right. And you don't, you don't testify that the use of a storm restoration surcharge after a major storm is inappropriate, do you?

A. No, we do not. We, we've not been asked an opinion on that question.

Q. And you don't testify that the storm restoration surcharge mechanism is inadequate to recover reasonable and prudent storm restoration costs, do you?

A. No, we do not.

Q. Next, the next question or possibly two, I

want to ask you about risks associated with the reserve being --

CHAIRMAN CARTER: Excuse me, Mr. Wright. Before you get going, are you getting ready to go down another line? Because the reason I want to do that is, is because our court reporter is going to be with us all the way until we break this afternoon for lunch, so I wanted to give her a break. And if you're at a point where you're getting ready to go down another line, this may be a good time for us to give her a break.

MR. WRIGHT: I think it is, Mr. Chairman. Thank you.

CHAIRMAN CARTER: Okay. We'll come back at 20 after, everybody. I mean, 40 after.

(Recess taken.)

COMMISSIONER EDGAR: We are going to go ahead and get started. We are back on the record. And I believe when we took a short break that, Mr. Wright, you were conducting cross.

MR. WRIGHT: Yes, I was, Madam Chairman.

BY MR. WRIGHT:

Q. Welcome back, Mr. Harris.

A. Thank you, Schef.

Q. I'm going to ask you just a couple of questions that have to do with the risk of a reserve

being too high or too low. And I want to ask at the outset, can we agree that when we use the phrase "the risk of a reserve being too high," that would mean that over a given time period the balance was greater than necessary to meet storm losses during that period?

A. I'm not sure I understand your definition.

Q. I want to ask you some questions about the risk of reserve, storm reserve being too high or too low. And at the outset I'm just trying to see if we can agree on definitions of what too high and too low mean in that context.

A. Right. I understand that. I'm not sure I understand what your definition of too high or too low is. I believe if you look at Table 3-1 of our report, we actually quantify the risk of loss for any given dollar amount.

Q. Thanks. That's not really the line of analysis that I'm trying to pursue here.

So by, by too high a reserve, can we agree that a reserve is too high if it is greater than necessary over, let's say, a five-year time period than necessary to pay losses charged against the fund during that period?

A. I'm not sure I could agree to that. No.

Q. Well, let me jump ahead and come back to that,

if we need to.

A. All right.

Q. You and I had a conversation a couple of weeks ago about the Florida Public Service Commission's decision in the FPL storm case from 2006, and you were a witness in that case. And the Commission, among other things in its order, stated that the risk associated with a lower reserve level, i.e., the possibility of storm restoration costs exceeding the reserve, leading to subsequent customer charges, and the risk associated with a higher reserve level, i.e., paying charges now for storm restoration costs that do not materialize, is completely borne by FPL's customers. Do you remember that conversation?

A. Yes, I do.

Q. Okay. And you don't have, you don't present any testimony, you don't present any testimony regarding the risk of the reserve level being too high or too low in that context as falling on Progress or Progress's customers in this case, do you?

A. No, I do not.

Q. And you didn't, you don't dispute the Commission's finding in the FPL docket, do you?

A. In which finding in which docket?

Q. The one that I just read you from the

Commission's order in Docket 060038, the FPL case in which you testified.

A. I'm not, I'm not sure I understand the question in relation to this proceeding.

Q. Well, the question I just asked you was a predicate question to the next question. And if you can answer it, and I think you can, you don't dispute the Commission's finding that I just read to you from the Commission's order from the FPL case, do you?

A. No, I have not.

Q. Do you provide any evidence in this case that that finding or conclusion would not be equally applicable to Progress in this case?

A. I haven't considered that question.

Q. That's fine. Thank you. I have a couple of follow-up questions with regard to the questions I asked you earlier.

We talked about your, the fact that you did not do any probabilistic analysis of what would happen to the reserve for a zero accrual. Can you tell us why you didn't do that?

A. I was not asked to.

Q. The worst -- is it your understanding, and I believe this is reflected in your testimony, at Page 11. I just want to make sure I've got this right.

Is it your understanding that the worst hurricane to hit Progress's service territory in known history was the 1921 storm that made landfall in Pinellas County?

A. I don't know that that was the worst hurricane that's ever made landfall in Pinellas County, but it certainly is a recent example.

Q. Well, how recent is 1921?

A. It's certainly within the period of well reported hurricane records. There are records that go back into the 19th century that are more anecdotal than this.

Q. Well, you make the statement in your testimony that the most significant historic hurricane to affect PEF's territory was also analyzed, and that that was the Category 3 hurricane before they were named that made landfall in Pinellas County in 1921; right?

A. That's correct. That is the testimony.

Q. What, if any, difference is there between the most significant historic hurricane and the worst hurricane to hit Progress's service territory in recorded hurricane history?

A. Well, the term "historic" is used in this context in a technical manner. The historical record goes back 107 years. Those events are bifurcated into

two eras: One is pre World War I, one is post World War I -- the post -- I'm sorry, World War II. The post World War II records are much more detailed and scientific inquiries and studies performed by NOAA and other investigators. The pre-war events are more anecdotal, if you will.

And then beyond 1900 there is a whole series of historical events that occurred in the 19th century and they're very anecdotal. They're basically diaries, ships' logs of events.

And so from a historic period we're referring to 1900 forward, and, if you will, prehistoric, 1900 and backwards. There have been many other events and some of them may have been worse than 1921.

Q. And your analysis period begins with the recorded history starting in about 1902; is that right?

A. The database that we use is the NOAA database, if you will, the official NOAA database from 1900 to 2007, 2008.

Q. Okay. I got 1902 by subtracting 107 from 2009. Thanks for the clarification.

And your analysis indicates that if a hurricane similar to the 1921 storm were to make landfall today, you estimate damages of $250 million to Progress's current electrical system; correct?

A. Yes, that's correct.

Q. Okay. And that's based on all the assumptions that Progress gave you regarding asset values, distribution, et cetera?

A. That's correct.

Q. Okay. Thank you.

MR. WRIGHT: I just have a few more questions, Madam Chairman.

BY MR. WRIGHT:

Q. Mr. Harris, you're not a Progress Energy Florida customer, are you?

A. No, I'm not.

Q. You're a customer of Pacific Gas & Electric?

A. That's correct.

Q. Thanks. And I asked you this before. I think I know the answer. But do you know whether PGE has a storm reserve?

A. I do not.

Q. Do you pay a fuel adjustment charge on your bill?

A. I don't know that for a fact. My wife does all the bills.

Q. Lucky you.

Would it be your understanding that, that your rates and charges fluctuate as fuel prices fluctuate?

A. That is my general understanding. Yes.

Q. Okay. This is a personal question to you as an electric customer. Would you rather pay more over the next five years for a storm reserve, to accrue a storm reserve, or would you rather pay a surcharge if and when necessary because a storm impacted your service area?

A. I haven't really considered that question seriously as a, as a customer. I suppose the answer would probably include some consideration for whether I had any property damage from the storm and was asked to pay a surcharge afterwards or not. I think that would affect my ability to pay a surcharge.

Q. I apologize if I wasn't clear. I really meant to ask with regard to a surcharge on your electric rate relative to storm damage incurred by the company, not an insurance type question.

A. Perhaps you could rephrase that. I'm not sure I understand your question you're asking, you're posing.

Q. I apologize. I didn't include a couple of words.

Would you rather, as an electric customer would you rather pay a higher rate for the next five years to accrue a storm reserve or pay a storm reserve surcharge on your electric bill if and when it was

necessary to pay that to fund the utility's storm restoration efforts after a storm?

A. I think my previous answer would stand. I really haven't considered that seriously, not being a resident of Florida or a PEF customer. And I would think that one of the considerations in that calculation would be whether I was in a position to pay that, having suffered storm damage.

Q. Thank you.

MR. WRIGHT: That's all the questions I have, Madam Chairman. Thank you.

Thank you, Mr. Harris.

COMMISSIONER EDGAR: Thank you. And my understanding that that covers all the Intervenors on cross.

So questions from staff.

MR. SAYLOR: Thank you, Madam Chairman.

CROSS EXAMINATION

BY MR. SAYLOR:

Q. Good after-- or almost good afternoon, Mr. Harris.

A. Good afternoon.

Q. My name is Erik Saylor. I'm with Commission legal staff.

I just have three questions, and then

following the questioning I do want to note for the record that it is my understanding that all the parties have stipulated to staff's composite Exhibit Number 38, which is PEF's responses to OPC's ninth set of interrogatories, Numbers 358 to 365. All the parties have this yellow one, and it's also on the CD and the "I" drive for the Commissioners. We didn't pass out a hard copy. But that is my understanding, that all the parties have stipulated, and at the appropriate time I will ask that it be moved into the record.

Mr. Harris, if you'll turn to Page 9 of your testimony and look at Line 5 and 6. Are you there?

A. Yes, I am.

Q. Okay. In that line you state, "Without the interest credits, the expected reserve balances at the end of the year would be reduced." Is that correct?

A. That's what it says. Yes.

Q. All right. And if you will turn to your first exhibit -- well, to your, to Page 5 of 31 in your Exhibit SPH-1, and at the top of the page it states "Risk Profile"; is that correct?

A. That's correct in there.

Q. Okay. If you'll look down to the bottom of that chart where it says "expected balance of five years," you have an amount for 6 million, 16 million,

25 million and 35 million; is that correct?

A. That's correct.

Q. Do you include interest credits in your calculation of the expected reserve balances shown on that exhibit?

A. Yes, we do.

Q. All right. And how much interest credit was included in the expected reserve balances?

A. Yes. If I could direct you to another page of the study.

Q. Certainly.

A. Page 23, which would be 5-1.

Q. Yes, sir.

A. If you look at the third bulleted item, the interest rate is 3.45 that's been included in the analysis.

Q. Okay. Thank you very much. And that ends staff's cross-examination of this witness.

COMMISSIONER EDGAR: Redirect?

MR. MELSON: No redirect.

COMMISSIONER EDGAR: Okay. Exhibits?

MR. MELSON: We move 85, he says with hesitation. Yes, it is 85.

COMMISSIONER EDGAR: Okay. And hearing no objection, exhibit marked 85 will be entered into the

record.

(Exhibit 85 admitted into the record.)

And, Mr. Saylor, what number did you say again?

MR. SAYLOR: Number 38. That is on Page 18 of staff's Comprehensive Exhibit List. And staff would like to move that into the record.

COMMISSIONER EDGAR: Hearing no objection, Exhibit 38 is moved into the record at this time.

(Exhibit 38 marked for identification admitted into the record.)

Thank you. And my understanding is that completes your direct and rebuttal, so you are excused.

THE WITNESS: Thank you very much.

MR. MELSON: Thank you, Commissioner.

COMMISSIONER EDGAR: Mr. Walls?

MR. WALLS: We call Mr. Earl Robinson.

EARL M. ROBINSON

was called as a witness on behalf of Progress Energy Florida and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. WALLS:

Q. Mr. Robinson, will you please introduce yourself to the Commission and provide your address.

A. My name is Earl M. Robinson. My address is 792 Old Highway 66, Suite 200, Tijeras, New Mexico 87059.

Q. And who do you work for and what is your position?

A. I am a Principal and Director for AUS Consultants.

Q. Have you filed direct testimony and exhibits and an errata sheet in this proceeding?

A. Yes, I have.

Q. Do you have your prefiled direct testimony, exhibits, and errata sheet with you today?

A. Yes, I do.

Q. If I asked you the same questions in your prefiled direct testimony today, would you give the same answers that are in your prefiled testimony?

A. Yes.

MR. WALLS: We request that the prefiled direct testimony be entered into the record as if it was read.

COMMISSIONER EDGAR: Mr. Walls, are we doing direct and rebuttal together?

MR. WALLS: No, not on this witness.

COMMISSIONER EDGAR: No? Okay.

MS. KAUFMAN: Madam Chairman?

COMMISSIONER EDGAR: Ms. Kaufman.

MS. KAUFMAN: Yeah. I'm sorry, Mr. Walls. I just wanted to inquire about this errata sheet that was --

COMMISSIONER EDGAR: I was going to ask about the errata. Do we need to mark the --

MR. WALLS: It's an errata sheet to a summary section in the depreciation study. During the deposition of Mr. Robinson we discovered there was a clerical error when the data was transcribed from other sections of the study and the, the clerical person did not record it correctly in Section 4 of the summary section. So we went back and had the information put together in this errata sheet and filed it and served it.

So the correct information is in the study, as the heading on the errata sheet indicates, and Mr. Robinson can certainly answer any questions about it. And it does need to go with the study, which is Exhibit EM-2 (sic).

COMMISSIONER EDGAR: Okay. So let me -- that was helpful information, but let me reask my question. Do we need to mark this or is this already a part of the exhibits that are before us and marked?

MR. WALLS: It needs to be marked.

COMMISSIONER EDGAR: It needs to be marked. Okay.

Ms. Kaufman, does that answer your question, or did you have another question?

MS. KAUFMAN: I just, I think I understand. If I could ask Mr. Walls one more question.

COMMISSIONER EDGAR: You may.

MS. KAUFMAN: There's a lot of very large changes from what was filed and what this is being replaced with. And, Mr. Walls, what you're saying is that it doesn't impact the actual study.

MR. WALLS: It does not.

MS. KAUFMAN: That this is just the summary table.

MR. WALLS: It is a summary section of the study itself, and all the numbers that are being replaced, the replacement numbers are in other sections of the study that was filed back when the study was filed in March.

MS. KAUFMAN: Thank you, Madam Chair. I just wanted to be sure I understood the nature of the corrections.

COMMISSIONER EDGAR: Okay.

Mr. Wright.

MR. WRIGHT: And just so, just so the record

is clear, this really is an errata sheet to his exhibits, not to his testimony; is that accurate?

COMMISSIONER EDGAR: My understanding is that is an errata to Exhibit EMR-2. Is that correct?

MR. WALLS: Yes.

COMMISSIONER EDGAR: Mr. Wright, does that work?

MR. WRIGHT: Oh, yes, ma'am. I just wanted -- the heading says "Errata to Direct Testimony." I just wanted to be sure that there wasn't some parallel correction going on. Thank you.

COMMISSIONER EDGAR: Okay.

Yes, Mr. Rehwinkel.

MR. REHWINKEL: Yes, Madam Chairman. And not really expressing a concern at this time, and I appreciate the -- I think I understand what this represents. I, I, it was my questions during the deposition I think that brought this issue to light. And I would just ask that there be consideration given that we received this errata sheet on the break, and I'm not complaining about it. I think the company has been fair about making these corrections. But we certainly would like there to be some leeway that if we review it between now and the time he comes up on rebuttal, if we discover any issues that we need to address during

cross-examination, that that be understood that that would not be a problem.

MR. WALLS: That is fine.

COMMISSIONER EDGAR: And that is fine with me as well.

MR. REHWINKEL: Thank you.

COMMISSIONER EDGAR: Okay. So with that, let's go ahead and mark this. I believe that we are at 273. Ms. Fleming, is that correct?

MS. FLEMING: Yes, that's correct.

COMMISSIONER EDGAR: Okay. We will mark this as 273. Let's see, Robinson Errata to EMR-2. Does that work? I'm going to assume that's a yes. Errata Robinson Exhibit EMR-2 as 273.

(Exhibit 273 marked for identification.)

And with all of that, then the prefiled direct testimony of this witness is entered into the record as though read.

I. INTRODUCTION, PURPOSE, AND SUMMARY.

Q. Please state your name and business address.

A. My name is Earl M. Robinson. My office is located at 792 Old Highway 66, Suite 200, Tijeras, New Mexico 87059.

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

A. I am a Principal & Director of AUS Consultants. AUS Consultants is a consulting firm specializing in preparing various financial studies including depreciation, valuation, revenue requirements, cost of service, rate of return, and other analysis and studies for the utility industry and numerous other entities. AUS Consultants provides a wide spectrum of consulting services through its practices that include Depreciation & Valuation, Intellectual Property Management, Knowledge Management, Rate of Return, Revenue Requirements & Cost of Service, and Education & Publications.

Q. Have you prepared a statement of your experience and qualifications?

A. Yes. That statement is included as Exhibit No. ____ (EMR-1) to my direct testimony and it is true and correct.

Q. On whose behalf are you submitting this testimony?

A. I am submitting this testimony on behalf of Progress Energy Florida, Inc ("PEF" or the "Company").

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to set forth the results of my review and analysis of the PEF plant-in-service, which was conducted in the process of preparing a comprehensive depreciation study of PEF's generation, transmission, distribution, and general plant assets as of December 31, 2007, and developing proforma depreciation rates as of December 31, 2009. A true and correct copy of that study is included in Exhibit No. ___ (EMR-2) to my testimony. In completing the study, my tasks included an investigation and analysis of PEF's historical plant data, together with an interpretation of PEF's past experience and future expectations, to determine the remaining lives of PEF's property. The study utilized the resulting remaining lives, the results of our salvage analysis, and PEF's vintage plant-in-service investment and depreciation reserve to develop recommended average remaining life depreciation rates, and depreciation expense, related to PEF's plant-in-service.

Q. Please summarize your testimony.

A. I conducted a comprehensive study of PEF's depreciable property using the Company's historical data through December 31, 2007, discussions with the Company's staff and management to identify prior and prospective factors affecting PEF's plant in service, and generally accepted, utility industry standard depreciation methods, procedures, and techniques. As a result, I determined the appropriate service lives for the Company's surviving plant and, using them and the life characteristics developed from the study of the plant assets, I determined recommended average remaining life depreciation rates related to the Company's historic plant in service as

of December 31, 2007. From there, pro forma depreciation rates were developed by updating the Company's December 31, 2007 depreciation study database with the 2008 and 2009 budget activity. The Company's book depreciation reserves were also updated to December 31, 2009, and applying the same depreciation methods and techniques, average remaining life depreciation rates were determined for the pro forma depreciable plant as of December 31, 2009.

The application of the pro forma depreciation rates to the December 31, 2009 depreciable plant in service results in an annual depreciation expense of $445,613,594, which is an increase of $97,355,430 from the current depreciation rate level. The depreciable plant in service is $12,020,397,963 as of December 31, 2009 compared to depreciable plant in service of $9,536,876,227 as of December 31, 2007. The change in the annual composite depreciation rate resulting from applying individual account level depreciation rates to PEF's December 31, 2009 plant-in-service produced a proposed composite depreciation rate of 3.71 percent. The proposed composite depreciation rate and the individual account level depreciation rates applied to PEF's December 31, 2009 plant-in-service can be found in Table 1F-(ProForma), Section 2, p. 2-8, in Exhibit No. ____ (EMR-2).

I recommend that the proposed depreciation rates set forth in my depreciation study should be uniformly and prospectively adopted by the Commission for regulatory purposes and by PEF for accounting purposes. These proposed depreciation rates are based on PEF's actual and expected plant in service and they are consistent with generally accepted, industry standard depreciation methods, procedures, and techniques.

II. GENERALLY ACCEPTED DEPRECIATION ANALYSIS.

Q. How is depreciation defined?

A. Depreciation is defined in the 1996 National Association of Regulatory Utility Commissioners (NARUC) "Public Utility Depreciation Practices" publication as follows: "Depreciation, as applied to depreciable utility plant, means the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of utility plant in the course of service from causes which are known to be in current operation and against which the utility is not protected by insurance. Among the causes to be given consideration are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand, and requirements of public authorities."

Q. Why is depreciation important to the revenue requirements of the Company?

A. Depreciation is important because, as the above definition describes, depreciation expense enables PEF to recover in a timely manner the capital costs related to its plant-in-service benefiting PEF's customers. Appropriate depreciation rates will allow recovery of PEF's investments in depreciable assets over a life that provides for full recovery of the investments, less net salvage. Without the appropriate recovery of depreciation costs, PEF ultimately will not be able to meet its financial obligations related to the continued provision of service to customers. Furthermore, the inclusion of the appropriate level of depreciation recovery in revenue requirements serves to reduce overall costs (total of depreciation and return) to customers as opposed to a situation where an inadequate level of annual depreciation expense is currently being

provided in rates.

Q. Are there generally accepted depreciation methods, procedures, and techniques in the utility industry?

A. Yes. Inherent in all depreciation calculations is an overall method, such as the Straight Line Method to depreciate property. Other methods available to develop average service lives and depreciation rates are accelerated and/or deferral approaches such as the Sum of the Years Digits Method or Sinking Fund Method. The Straight Line Method is the most widely used depreciation method or approach in the utility industry. It is widely understood, recognized, and used almost exclusively for depreciating utility property.

In addition, there are several procedures that can be used to arrange or group property by sub-groups of vintages to develop applicable service lives. These procedures include the Broad Group, the Equal Life Group, and other procedures. Due to the existence of very large quantities of property units within utility operating property, utility property is typically grouped into homogeneous categories as opposed to being depreciated on an individual unit basis. The Broad Group and Equal Life Group procedures are both Straight Line grouping procedures. The Broad Group Procedure is more widely utilized throughout the utility industry by regulatory commissions as a basis for depreciation rates. Under the Broad Group Procedure, the useful life and resulting depreciation rate is based upon the overall average life of all of the property within the group.

Finally, the depreciable investment needs to be recovered over a defined period

of time through the use of a depreciation technique, such as the Whole Life or Average Remaining Life of the property group. The distinction between the Whole Life and Average Remaining Life Techniques is that under the Whole Life Technique, the depreciation rate is based on a snapshot and determines the recovery of the investment and average net salvage over the average service life of the property group for that moment in time. The Whole Life technique requires either frequent updates to keep the "snapshot" current or the use of an artificial deferred account that holds "excess" or "deficient" depreciation reserves. In comparison, under the Average Remaining Life Technique, the resulting annual depreciation rate incorporates the recovery of the investment (and future net salvage) less any recovery experienced to date over the average remaining life of the property group. The Average Remaining Life Technique is clearly superior in that it incorporates all of the current and future cost components in setting the proposed annual depreciation rate as opposed to only some of the current and future cost components as is the case with the Whole Life Technique. This means that any changes that occur in between depreciation studies are automatically trued-up in the subsequent study. No artificial deferral account needs to be established to accomplish such a true-up.

According to the Average Remaining Life Technique, the utility recovers the un-depreciated fixed capital investment through annual depreciation expense in each year throughout the useful life of the property. The Average Remaining Life Technique incorporates the future life expectancy of the property, the vintage surviving plant-in-service, the survival characteristics, together with the book depreciation reserve balance and future net salvage in developing the amounts for each

property account. Accordingly, Average Remaining Life depreciation meets the objective of providing Straight Line recovery of fixed capital investment.

The depreciation methods, procedures, and techniques can be used interchangeably. For example, one could use the Straight Line Method with the Broad Group Procedure and the Average Remaining Life Technique, or the Straight Line Method with the Equal Life Group Procedure and Average Remaining Life Technique, or combinations thereof.

The depreciation rates set forth in my depreciation study report were developed utilizing the Straight Line Method, the Broad Group Procedure, and the Average Remaining Life Technique.

Q. Why did you use the Straight Line Method, the Broad Group Procedure, and the Average Remaining Life Technique?

A. The Straight Line Method, as I mentioned previously, is widely understood, well recognized, and utilized almost exclusively for depreciating utility property. The Broad Group Procedure recovers PEF's investments over the average period of time in which the property is providing service to PEF's customers. I used the Broad Group Procedure in this study because it is consistent with depreciation methods and procedures currently used and accepted by this regulatory commission and, accordingly, is the approach underlying the current depreciation rates.

Finally, the amount of annual depreciation must be based upon the productive life over which the un-depreciated capital investment is recovered, which is what the Average Remaining Life Technique accomplishes. The utilization of the Average

Remaining Life Technique to develop the applicable annual depreciation expense over the average remaining life assures that PEF's property investment is fully recovered over the useful life of the property, and that inter-generational inequities are avoided as current and future customers will pay their fair share of depreciation expense. The determination of the productive remaining life for each property group relies on a study of both past experience and future expectations and develops the appropriate total life and applicable depreciation rates for each of PEF's property groups. The Average Remaining Life Technique incorporates all of PEF's fixed capital cost components, thereby better assuring full recovery of PEF's embedded net plant investment and related costs. The Average Remaining Life Technique gives consideration not only to the average service life and survival characteristics plus the net salvage component, but also recognizes the level of depreciation which has been accrued to date in developing the proposed depreciation rate. The Average Remaining Life Technique is used by regulated companies and regulatory agencies because it allows full recovery by the end of the property's useful life - no more and no less.

Q. Why do you use Group depreciation procedures?

A. Group depreciation procedures are utilized to depreciate property when more than one item of property is being depreciated. The group approach refers to the method of calculating annual depreciation based on the summation of the investment in any one plant group rather than calculation of depreciation for each individual unit of plant. In theory, each unit achieves average service life by the time of retirement. Accordingly, the full cost of the investment will have been credited to plant-in-service by the time

the retirement occurs, and likewise the depreciation reserve will be debited with an equal retirement cost. No gain or loss is recognized at the time of property retirement because of the assumption that the property was retired at average service life.

Such an approach is appropriate because all of the items within a specific group typically do not have identical service lives, but have lives which are dispersed over a range of time. Utilizing a group depreciation procedure allows for a uniform application of depreciation rates to groups of similar property in lieu of performing extensive depreciation calculations on an item-by-item basis. The Broad Group approach is a recognized and generally accepted common group depreciation procedure in the utility industry.

The Broad Group Procedure recovers the investment within the asset group over the average service life of the property group. Given that there is dispersion within each property group, there are variations of retirement ages for the many investments within each property group. That is, some properties retire early (before average service life) while others retire at older ages (after average service life) with the weighted average retirement age of the total property group being the attained average service life.

Q. Are there standard depreciation methods to perform a service life analysis of utility property investments?

A. Yes. The two most common methods are the Retirement Rate Method and the Simulated Plant Record Method. The method used to study a utility's historical data is dependent upon whether aged or un-aged data is available. If specific aged data is

available, the Retirement Rate Method is used. If only un-aged data is available, the Simulated Plant Record Method is used. PEF maintains aged historical data, therefore, the Retirement Rate Method was used to analyze the Company's historical data.

Q. What is the purpose of the historical database?

A. The historical service life and net salvage data is a basic depreciation study tool that is assembled to prepare a comprehensive depreciation study. The historical database is used to make assessments and judgments concerning the service life and salvage factors that have actually been achieved, and along with information relative to current and prospective factors, to determine the appropriate future lives over which to recover the utility's depreciable fixed capital investments. Because PEF maintains vintage (aged) investment records, the Retirement Rate Method was used to analyze the historical data.

With the Retirement Rate Method of analysis, the actuarial service life data, which is sorted by age, is used to develop a survivor curve (observed life table). This survivor curve is the basis upon which smooth curves (standard Iowa Curves) are matched or fitted to then determine the average service life being experienced by the property account under study. Computer processing provides the capability to review various experience bands throughout the life of the account to observe trends and changes. For each experience band analysis, an "observed life table" is constructed using the exposure and retirement experience within the selected band of years. In some cases, the total life cycle of the property has not been achieved and the

experienced life table, when plotted, results in a "stub curve." It is the "stub curve," or the total life curve, if the total life curve is achieved, which is matched or fitted to the standard Iowa Curves. The matching process is performed both by computer analysis, using a least squares technique, and by overlaying the observed life tables on the selected smooth curves for visual reference. The fitted smooth curve is a benchmark which provides a basis to determine the estimated average service life for the property group under study.

Q. You refer to the use of Iowa or smoothed survivor curves. Can you generally describe the Iowa curves and explain their purpose in the Average Remaining Life Technique?

A. Yes. The preparation of a depreciation study typically incorporates smoothed curves to represent the experienced or estimated survival characteristics of the property. The "smoothed" or standard survivor curves are the "Iowa" family of curves developed at Iowa State University and which are widely used and generally accepted throughout the utility industry. The shape of the curves within the Iowa family is dependent upon whether the maximum rate of retirement occurs before, during or after the average service life. If the maximum retirement rate occurs earlier in life, it is a left (L) mode curve; if it occurs at average life, it is a symmetrical (S) mode curve; if it occurs after average life, it is a right (R) mode curve. In addition, there is the origin (O) mode curve for plant which has heavy retirements at the beginning of life.

At any particular point in time, however, actual utility plant may not have completed its life cycle. Therefore, the survivor table generated from the utility's

historical data is not complete. This situation requires that an estimate be made with regard to the incomplete segment of the property group's life experience. Further, actual experience often varies from age interval to age interval, making its utilization for average service life estimation difficult. Accordingly, the Iowa Curves are used to both extend the utility experience to zero percent surviving as well as to smooth actual utility data.

Q. What factors affect the length of the average service life that an electric utility's property may achieve?

A. Service lives are affected by many different factors, some of which can be determined from studying past experience, others of which must rely heavily on future expectations. The three major factors are: (1) physical; (2) functional; and (3) contingent casualties. The physical factor includes such things as deterioration, wear and tear, and the action of the natural elements. The functional factor includes inadequacy, obsolescence, and requirements of governmental authorities. Obsolescence occurs when it is no longer economically feasible to use the property to provide service to customers or when technological advances have provided a substitute with superior performance. The remaining factor, contingent casualties, includes retirements caused by accidental damage or construction activity of one type or another.

When physical characteristics are the controlling factor in determining the service life of property, historical experience is a useful tool in selecting service lives. In cases where there are changes in technology, regulatory requirements, utility policy

or the development of a less costly alternative, historical experience is of lesser or little value. However, even when considering physical factors, the future lives of various properties may vary from those experienced in the recent past.

In performing the life analysis for any property being studied, both past experience and future expectations must be considered in order to fully evaluate the circumstances that may have a bearing on the remaining life of the property. This includes the review and analysis of historical as well as anticipated retirements, current and future construction technology, historical experience and future expectations of salvage, and the cost of removal. This ensures the selection of an average service life which best represents the expected life of each property investment.

Q. Is the service life analysis the same for all plant property group accounts?

A. No. In contrast to mass plant accounts, location type property classes such as production plant accounts are routinely depreciated by use of the life span method and net salvage estimates inclusive of both interim (yearly) retirements and final retirements. In this jurisdiction, the Company's present and proposed depreciation rates for production plant accounts include only the recovery of interim net salvage in its annual depreciation rates. The final net salvage component is recovered through rates established by a separate fossil fuel dismantlement study for fossil steam production units and a nuclear decommissioning study for the nuclear production unit.

The interim retirements are applicable to components of the property groups that will not live the entire period of time between original installation date and the

estimated probable retirement year. Such retirements can be related to boiler components, pumps, and motors, for example. The net salvage percentage is estimated using the standard net salvage analysis procedure and the resulting percentage estimated is applied only to the level of interim retirements that are anticipated to occur between the time of original installation date and the probable retirement year.

Q. What is the Life Span Method?

A. The Life Span or Forecast Method is a method utilized to study various accounts in which the expected retirement dates of specific property or locations can be reasonably estimated. In the Life Span Method, an estimated probable retirement year is determined for each location of the property group. An example of this would be the production plant facilities, in which the various segments of the account are "life spanned" to a probable retirement date which is determined after considering a number of factors, such as management plans, industry standards, the original construction date, subsequent additions, resultant average age and the current - as well as the overall - expected service life of the property being studied. If, in the past, the property has experienced interim retirements, these are studied to determine an interim retirement rate. Otherwise, interim retirement rate parameters are estimated for properties which are anticipated to experience such retirements. The selected interim service life parameters (Iowa curve and life) are then used with the vintage investment and probable retirement year of the property to determine the average remaining life as of the study date.

The estimated probable retirement years used in the depreciation study in developing the applicable proposed depreciation rates for PEF's production plant properties were determined by PEF operating and planning management after consideration of all factors that are anticipated to impact the future useful life of each of the operating properties.

Also, the use of the Life Span Method for production facilities together with the inclusion of an interim retirement rate, using average service lives and Iowa Curves to define those portions of property at each of the plant sites that will not live the entire life span of the applicable property specifically, addresses and correlates to the sub-categorization of property groups as set forth in the Commission's rules, Chapter 25-6.04361 entitled "Sub-categorization of Electric Plant for Depreciation Studies and Rate Design." Thus the depreciation calculations, as performed in the preparation of this depreciation study and proposed depreciation rates, are in accordance with the intent of the Florida Commission rule.

Q. What is the principal reason for completing the detailed historical life and salvage depreciation analyses?

A. The detailed historical analysis is prepared as a tool from which to make informed assessments as to the appropriate service life and salvage parameters over which to recover PEF's plant investment. However, in addition to the available historic data, consideration must be given to current events, PEF's ongoing operations, PEF management's future plans, and general industry events which are anticipated to impact the lives that will be achieved by plant-in-service.

Q. In the preparation of this and other depreciation studies, have you used information from additional sources when estimating service life and salvage parameters?

A. Yes. In addition to the historical data obtained from PEF's books and records, information was obtained from PEF personnel relative to current operations and future expectations with respect to depreciation. Discussions were held with PEF planning and operations management. In addition, physical inspections were also conducted of various representative sites of PEF's operating property. In the course of completing the depreciation study, I also incorporated professional knowledge obtained from my more than thirty-five (35) years of utility industry depreciation experience. Using these additional information sources and my knowledge and experience is consistent with the generally accepted application of the standard utility industry depreciation methods, procedures, and techniques.

III. DEPRECIATION STUDY.

Q. Did you prepare a Depreciation Study that contains your depreciation analyses and recommendations with respect to PEF's depreciable plant property?

A. Yes. The Depreciation Study or Report is Exhibit No. ___ (EMR-2) to my testimony, entitled "Progress Energy Florida, Inc. Depreciation Study as of December 31, 2007 and Pro Forma Depreciation Rates as of December 31, 2009." This Study summarizes the results of my service life, salvage analysis, and subsequent development of proposed depreciation rates as of December 31, 2007 (historical) and December 31, 2009 (future).

Q. Please briefly describe the information included in your Depreciation Study.

A. The Study is divided into nine sections. Two key portions are Sections 2 and 4. Section 2 includes the summary schedules listing the present and proposed depreciation rates for each depreciable property group and other depreciation rate development schedules. Section 4 contains a narrative describing the factors considered in selecting service life parameters for PEF's property. The various other sections of the Study contain detailed information and/or documentation supporting the schedules contained in Sections 2 and 4. A table of contents lists the complete contents of the Study. In addition, Section 1 contains a brief narrative summary or overview of the entire report. Section 3 includes a description of the generally accepted industry standard depreciation methods, procedures, and techniques that I utilized in the Depreciation Study.

Q. Was your depreciation analysis of PEF's depreciable plant in your Study prepared using the generally accepted, standard depreciation methods, procedures, and techniques you have described here and in your Study?

A. Yes, and I also have prepared the Depreciation Study consistent with the requirements of Commission Rules 25-6.0436 and 25-6.04361, F.A.C.

Q. What steps were involved in preparing the Depreciation Study?

A. My comprehensive depreciation analysis included a detailed analysis of PEF's fixed capital books and records through December 31, 2007. Depreciation study analysis procedures require that the detailed analysis be completed as of the end of PEF's fiscal

year, hence, the depreciation study was completed based upon historical data and surviving investments through December 31, 2007.

All of the historical data utilized in the course of performing the detailed service life and salvage study were obtained from PEF's books and records. Historical vintaged data (additions, retirements, adjustments, and balances) were obtained for each depreciable property group. PEF's historical investment cost records for each account were assembled into a depreciation database upon which detailed service life and salvage analysis were performed using standard depreciation procedures.

The development of the observed life tables from the historical information was completed by grouping like aged investments within each property category and identifying the level of retirements that occur through each successive age to develop the applicable observed life tables. The resulting observed lives were then fitted to standard Iowa Curves to estimate each property group's estimated future average service life. Likewise, the net salvage database was used as a basis to identify historical experience and trends and to determine each property group's estimated future net salvage factors. This was accomplished by preparing various three-year rolling band analyses of salvage components as well as a forecast based on PEF's historical salvage experience.

In addition, the Company's estimated proforma January 1, 2008 to December 31, 2009 activity was used along with the underlying depreciation parameters to arrive at the proposed December 31, 2009 depreciation rates. PEF's test year in the current base rate proceeding is the year 2010. Accordingly, the Company's proposed depreciation rates were projected forward from the end of the historical period on

December 31, 2007 to reflect the level of plant in service and depreciation reserve estimated to be in place as of December 31, 2009, using the two years of pro forma (estimated) plant in service and depreciation activity between December 31, 2007 and December 31, 2009.

These pro forma adjustments were accomplished by adding the activity (estimated additions and retirements) to the December 31, 2007 plant in service to arrive at the December 31, 2009 plant in service. See Section 2, Table 3F_Future, Exhibit No. ___ (EMR-2). The presently approved depreciation rates were used together with the estimated 2008 and 2009 yearly average plant balances to develop estimated 2008 and 2009 depreciation provision amounts for each property group and sub-group. These calculations are set forth on Table 3F_Future in Section 2 of Exhibit No. ___ (EMR-2). The December 31, 2007 book depreciation reserve was then projected forward by adding the estimated 2008 and 2009 annual depreciation provision along with the deduction of the estimated 2008 and 2009 retirements (See Exhibit No. ___ (EMR-2), to arrive at the estimated book depreciation reserve as of December 31, 2009. These calculations are set forth in Table 4F_Future, Section 2 of Exhibit No. ___ (EMR-2).

The December 31, 2009 plant in service surviving balances, as updated, were used to calculate the applicable average remaining lives. The underlying depreciation parameters used to complete the calculations were the depreciation parameters developed from the data through December 31, 2007 and resulting historic December 31, 2007 depreciation rates. Likewise, the net salvage factors estimated from the analysis of the data through December 31, 2007 were used in calculating the proposed

December 31, 2009 annual depreciation rates.

Q. What are the most notable changes in annual depreciation rates and expense between the present and proposed depreciation rates as of the proforma date of December 31, 2009?

A. The most notable changes in depreciation expense occurred in (1) Account 312 - Steam Boiler Plant Equipment; (2) Account 322 - Nuclear Reactor Plant Equipment; (3) Account 343 - Other Production Prime Movers; (4) Account 355 - Poles and Fixtures; (5) Account 362 - Station Equipment; (6) Account 364 - Distribution Poles, Towers and Fixtures; (7) Account 365 - Distribution Overhead Conductors & Devices; (8) Account 368 - Line Transformers; and (9) Account 370 - Meters. See Section 1, Table 1F-ProForma of Depreciation Study, Exhibit No. ___ (EMR-2).

Q. Please explain the change in Account 312-Boiler Plant Equipment.

A. The proposed depreciation rate for Account 312 - Boiler Plant Equipment, increased from 3.17 percent to 4.40 percent. The basic factors influencing the proposed annual deprecation rate for this account are the developed interim retirement rate, the probable retirement years, the estimated interim net salvage factors, and the current level of accrued depreciation reserve updated using proforma activity data. The interim retirement rates were developed based upon a detailed analysis of the historically experienced retirements, and are designed to recognize the level of interim retirements that are anticipated to occur from the study date until the probable retirement date of each facility. The estimated terminal or probable retirement years

for each of the Company's operating units were developed by Company management after considering all factors affecting the current and prospective operation of the facilities as well as production requirements. The interim net salvage was based upon an analysis of the Company's historical experience, consideration of the prepared net salvage forecast, plus current and prospective factors. Individual plant site depreciation rates are set forth on, in addition to the FERC account level depreciation rate, Table 1F-Proforma, Section 2 of the Depreciation Study, Exhibit No. ___ (EMR-2).

Q. Please explain the change in Account 322-Nuclear Reactor Plant Equipment.

A. The proposed deprecation rate for Account 322 - Nuclear Reactor Plant Equipment, increased from 2.24 percent to 4.10 percent. Similar to the Steam Production analysis, the basic factors influencing the proposed annual deprecation rate for the Nuclear accounts are the developed interim retirement rate, the probable retirement years, the estimated interim net salvage factors, and the current level of accrued depreciation reserve updated using proforma activity data. The interim retirement rates were developed based upon a detailed analysis of the historically experienced retirements, and are designed to recognize the level of interim retirements that are anticipated to occur from the study date until the probable retirement date of the Company's facility. In addition, the interim net salvage was based upon an analysis of the Company's historical experience.

The estimated terminal or probable retirement year for the Company's operating unit is based upon the anticipated license expiration date of 2036 for the

Crystal River Unit Number 3 plant. During 2009 the Company will be expending approximately $300 million of additional investment to upgrade the existing embedded property. The addition of this large additional investment to the embedded property with a fixed license expiration date of the probable retirement is the primary driver behind the depreciation rate change for the account. Individual plant site depreciation rates are set forth on, in addition to the FERC account level depreciation rate, Table 1F-Proforma, Section 2 of the Depreciation Study, Exhibit No. ___ (EMR-2).

Q. Please explain the change in Account 343-Prime Movers.

A. The depreciation rate for Account 343 - Prime Movers increased from 3.74 percent to 4.66 percent. The drivers for the depreciation rate change for this account are the result of life changes for several of the operating units. However, the primary driver behind the overall account level depreciation rate change is the $632 million investment for the Bartow combined cycle plant that will be coming on line during 2009. Contributing to a significantly less degree of the depreciation rate change is a reduction in the level of estimated account level interim negative net salvage percent as well as a change in the estimated interim retirement rate. Individual plant site depreciation rates are set forth on, in addition to the FERC account level depreciation rate, Table 1F-Proforma, Section 2 of the Depreciation Study, Exhibit No. ___ (EMR-2).

Q. Can you explain the change in Account 355-Transmission Poles and Fixtures?

A. Yes. The depreciation rate for Account 355 – Transmission Poles and Fixtures increased from 2.72 percent to 4.14 percent. The increase of the deprecation rate for this property group is the result of incorporating a slightly shorter average service life thirty-eight (38) years as opposed to the present underlying average service life of forty (40) years and a change in estimated future net salvage from negative twenty-five (25) percent to negative fifty (50) percent.

Q. Please explain the change in Account 362-Distribution Station Equipment.

A. The depreciation rate for Account 362 - Station Equipment decreased from 2.57 percent to 1.83 percent. The decrease of the deprecation rate for this property group is principally the result of incorporating a longer average service life sixty (60) years as opposed to the present underlying average service life of forty-five (45) years and the resulting average remaining life into the depreciation rate.

Q. Please explain the change in Account 364-Distribution Poles, Towers & Fixtures.

A. The depreciation rate for Account 364 - Poles, Towers & Fixtures increased from 3.86 percent to 5.91 percent. The proposed depreciation rate is the product of a revision to the estimated future net salvage, which was revised from negative thirty-five (35) to negative fifty (50) percent, and extending the estimated average service life for the property group from twenty-eight (28) to twenty-nine (29) years. Over the last several years negative net salvage activity has escalated significantly and such activity can be anticipated to continue to occur at high levels in the future.

Q. Please explain the change in the depreciation rate for Account 365-Distribution Overhead Conductors and Devices.

A. The composite depreciation rate for Account 365 - Overhead Conductors and Devices increased from 2.66 percent to 3.59 percent. The increase of the deprecation rate for this property group is principally the result of incorporating a greater level of future negative net salvage from the current underlying negative fifteen (15) percent to a negative forty-five (45) percent net salvage. Offsetting the increase of negative net salvage is an increase in the average service life from a thirty-three (33) to a thirty-six (36) year life and its incorporation into the resulting average remaining life.

Q. Please explain the change in Account 368-Distribution Line Transformers.

A. The depreciation rate for Account 368 - Line Transformers increased from 3.38 percent to 3.96 percent. This depreciation rate increase is the combined product of incorporating the increased estimated average service life (an increase from twenty-six (26) to twenty-seven (27) years), and an increase in negative net salvage factors from negative five (5) percent to negative fifteen (15) percent identified through an analysis of the Company's historical experience and future expectations.

Q. Finally, will you explain the change in Account 370-Meters?

A. Yes. The depreciation rate for Account 370 - Meters increased from 3.57 percent to 8.85 percent. The increase of the depreciation rate for this property group is the product of the incorporation of an eighteen (18) year average service life, as opposed to the present underlying twenty-six (26) average service life, and an increase in the

negative net salvage percent from the current underlying negative eight (8) percent to negative ten (10) percent. The overwhelming driver behind the depreciation rate change is the fact that with the high levels of recent plant retirements, the Company's book depreciation reserve for this account is currently negative. The inclusion of the current level of the Company's book depreciation reserve causes the proposed depreciation rate to increase significantly to recover the under recovered cost over the average remaining life of the property investment.

Q. What factors influence the determination of the recommended annual depreciation rates included in your Depreciation Study?

A. The depreciation rates reflect four principal factors: (1) the plant-in-service by vintage, (2) the book depreciation reserve, (3) the future net salvage, and (4) the composite remaining life for the property group. Factors considered in arriving at the service life are the average age, realized life, and the survival characteristics of the property. The net salvage estimate is influenced by both past experience and future estimates of the cost of removal and gross salvage amounts.

Q. Why are net salvage factors included in the determination of depreciation rates?

A. Net salvage is the difference between gross salvage, or the proceeds received when an asset is disposed of, and the cost of removing the asset from service. Net salvage is said to be positive if gross salvage exceeds the cost of removal. If the cost of removal exceeds gross salvage, the result is negative salvage. Many retired assets generate little, if any, positive salvage. Instead, numerous PEF asset groups generate negative

net salvage at the end of their lives due to the cost of removal.

The cost of removal includes costs such as demolishing, dismantling, tearing down, disconnecting, or otherwise retiring or removing plant, as well as any environmental clean up costs associated with the property. Net salvage includes any proceeds received from any sale of plant.

Net salvage experience is studied for a period of years to determine the trends which have occurred in the past. These trends are considered, together with any changes that are anticipated in the future, to determine the future net salvage factor for remaining life depreciation purposes. The net salvage percentage is determined by comparing the total net positive or negative salvage to the book cost of the property investment retired.

Q. Is there a method to determining net salvage?

A. Yes. The method used to estimate the retirement cost is a standard analysis approach which is used to identify PEF's historical experience with regard to what the end of life cost will be relative to the cost of the plant when first placed into service. This information, along with knowledge about the average age of the historical retirements that have occurred to date, allows an estimation of the level of retirement cost that will be experienced by PEF at the end of each property group's useful life. The study methodology utilized has been extensively set forth in depreciation textbooks and has been the accepted practice by depreciation professionals for many decades.

Furthermore, the cost of removal analysis is the current standard practice used for mass assets by essentially all depreciation professionals in estimating future net

salvage for the purpose of identifying the applicable depreciation rate for a property group. There is a direct relationship between the installation of specific plant and its corresponding removal. The installation is its beginning of life cost while the removal is its end of life cost. Also, it is important to note that Average Remaining Life depreciation rates incorporate future net salvage which is typically more representative of recent versus long-term historical average net salvage.

Q. How was this method applied?

A. PEF's historical net salvage experience was analyzed to identify the historical net salvage factor for each applicable property group. As in this case, this analysis routinely finds that historical retirements have occurred at average ages significantly shorter than the property group's average service life. The occurrence of historical retirements at an age which is significantly younger than the average service life of the property category demonstrates that the historical data does not appropriately recognize the true level of retirement cost at the end of the property group's useful life. An additional level of cost to retire will occur due to the passage of time until all the current plant is retired at the end of its life. That is, the level of retirement costs will increase over time until the average service life is attained. The additional inflation in the estimate of retirement cost is related to those additional years' cost increases (primarily the result of higher labor costs over time) that will occur prior to the end of the property group's average life.

To explain, as a general principle, as property continues to age assets that typically generate positive salvage when retired will generate a lower percentage of

positive salvage as compared to the original cost of the property. By comparison, if the class of assets is one that typically generates negative net salvage due to high cost of removal and corresponding low gross end of life salvage with increasing age at retirement, the negative net salvage percentage as compared to original cost will typically be greater. This situation is routinely driven by the higher labor costs, for example, that occur with the passage of time.

A simple example will aid in understanding the above net salvage analysis and the required adjustment to the historical results. Assume the following scenario: PEF has two cars, Car 1 and Car 2, each purchased for $20,000. Car 1 is retired after 2 years and Car 2, is retired after 10 years. Accordingly, the average life of the two cars is six (6) years. Car 1 generates 75% salvage or $15,000 when retired and Car 2 generates 5% salvage or $1,000 when retired.

	Unit Cost	Ret. Age (Yrs)	%Salv.	Salvage Amount
Car 1	$20,000	2	75%	$15,000
Car 2	$20,000	10	5%	$1,000
Total	$40,000	6	40%	$16,000

Assume an analysis of the experienced net salvage at year three (3). Based upon the Car 1 retirement, which was retired at a young age (2 years) as compared to the average six (6) year life of the property group, the analysis indicates that the property group would generate 75% salvage. This indication is incorrect, however, because it is the result of basing the estimate on incomplete data. That is, the estimate is based upon the salvage generated from a retirement that occurred at an age which is far less than the average service life of the property group. The actual total net salvage

that occurred over the average life of the assets, which experienced a six (6) year average life for the property group is 40%, as opposed to the initial incorrect estimate of 75%.

This is exactly the situation that occurs with the majority of PEF's historical net salvage data, except that most of PEF's property groups routinely experience negative net salvage as opposed to positive salvage.

Q. Was PEF's historical data sufficient to determine appropriate net salvage rates for PEF's depreciable plant?

A. Yes. PEF maintains historical aged retirement, salvage, and cost of removal data from which the net salvage method can be applied to determine appropriate net salvage rates. As with most utility plant records there are some anomalous data entries in various accounts but these have little to no bearing on the resulting net salvage analysis because (1) they are typically of very little value, especially compared to the total depreciable plant in the account, (2) they represent a relatively small percentage of the total accounting entries in the depreciable plant accounts, and (3) most importantly, they are typically many years old when the most relevant data is the most recent experience and what the expected experience will be. In determining the appropriate net salvage rates to ensure that customers pay their fair share of not only the plant they are consuming but the cost to retire that plant at the end of its life, the greater weight of the net salvage analysis is placed on the most recent and expected experience in the property account. In this way, the net salvage rates fairly account for the future cost to remove the plant, after salvage, as well as its retirement.

Q. Does your Depreciation Study compare PEF's historical data to the service life parameters you are proposing for your recommended annual depreciation rates?

A. Yes. PEF's historical plant account records included vintaged retirement data and, therefore, were studied using the Retirement Rate Method. The resulting observed life tables and plottings of the selected Iowa Curves are contained Section 5 of the Study in Exhibit No. ___ (EMR-2). The service life parameters and resulting plant account annual depreciation rates were developed using the generally accepted, standard depreciation methods, procedures, and techniques that I have described in my testimony and in Section 3 of the Study in Exhibit No. ___ (EMR-2) to my testimony.

Q. What is your professional opinion with regard to the results of the Depreciation Study that you prepared?

A. In my opinion, the proposed depreciation rates resulting from the completed comprehensive depreciation study are reasonable, fair, and appropriate given that they incorporate the service life and net salvage parameters currently anticipated for each of PEF's property group investments over their average remaining lives, consistent with generally accepted, standard utility depreciation methods, procedures, and techniques. It is my recommendation, therefore, that the proposed depreciation rates set forth in my Depreciation Study should be uniformly and prospectively adopted by the Commission for regulatory purposes as well as by PEF for accounting purposes. Applying these rates to the December 31, 2009 depreciable plant in service results in an annual depreciation expense of $445,613,594, which is an increase of $97,355,430

from the current depreciation rate level.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BY MR. WALLS:

Q. Mr. Robinson, do you have a summary of your prefiled direct testimony?

A. I do.

Q. Would you please summarize your testimony for the Commission?

A. Yes.

Good afternoon, Commissioners. I am Principal, I'm a Principal and Director of AUS Consultants. AUS Consultants is a consulting firm that specializes in preparing various financial studies, including depreciation analysis and studies for the utility industry.

As explained in my direct testimony, I reviewed and analyzed PEF's plant-in-service to prepare a comprehensive depreciation study of PEF's generation, transmission, distribution and general plant assets as of December 31, 2007. I determined or recommended average remaining life depreciation rates related to the company's historical plant-in-service as of December 31, 2007.

Pro forma depreciation rates were developed by updating the company's December 31, 2007, depreciation study database with the 2008 and 2009 budget activity. The company's book depreciation reserves were also

updated to December 31, 2009, and applying the same depreciation methods, techniques and average remaining life, depreciation rates were determined for the pro forma plant, depreciable plant as of December 31, 2009.

The proposed depreciation rates are therefore based upon PEF's actual and expected plant-in-service and they're consistent with the Commission's rules and accepted, general accepted industry standard, depreciation methods, procedures and techniques. A copy of the depreciation study is included as Exhibit EMR-2 to my direct testimony.

The company's depreciable plant-in-service is 12, 12 billion, excuse me, 12, $12,020,397,963 as of December 31, 2009, compared to a depreciable plant-in-service of $9,536,876,227 as of December 31, 2007. This is an increase in depreciable plant investment of almost $2.5 billion.

This increase is reflected in the application of the pro forma depreciation rates through December 31, 2009, depreciable plant-in-service, and results in an annual increase in depreciation expense.

I recommend that the proposed depreciation rates set forth in my depreciation study be uniformly and prospectively adopted by the Commission for regulatory purposes and by PEF for accounting purposes.

This concludes my summary, and I'm prepared to answer any questions that you may have.

MR. WALLS: And we tender Mr. Robinson for cross.

COMMISSIONER EDGAR: Thank you.

Mr. Rehwinkel, are you first?

MR. REHWINKEL: Yes, ma'am.

Thank you, Commissioners.

CROSS EXAMINATION

BY MR. REHWINKEL:

Q. Good morning.

A. Good morning. Good afternoon.

Q. It is good afternoon, Mr. Robinson.

My name is Charles Rehwinkel with the Office of Public Counsel, and I believe we spoke recently in deposition. Do you recall?

A. Yes.

Q. Yes. I guess, just to start off with, kind of more housekeeping for my purposes, I think I understand it, but would you mind explaining to me what Exhibit 273 represents in your words?

A. Yes. Let me give you a little synopsis of the way that we put together the depreciation study and what the change was. The details of all the depreciation study are in the two volumes.

Section 9 has, for instance, the detailed calculations of pro forma future test year of remaining lives.

Section 8 is the salvage analysis.

Section 7 is the calculated reserve of 2007.

Section 6 is the remaining life, detailed remaining life calculations as of historic test year 2005.

We'll skip over Section 4.

Pardon me. Section 5 is the study analysis, historical study analysis results. As I said, we'll skip over Section 4 for the last.

Section 3 is a discussion of the methods and procedures utilized in the performance of the study.

Section 2 is the meat of the study. That's the development of the depreciation rates both on a historical basis and a pro forma basis.

Section 1 is an executive summary, brief executive summary.

Now back to Section 4. Section 4 is really a clerical summary of all the information in the other sections and really brings, is intended to bring it to together at a central point that you can go to each plant account and get statistics relative to plant balances, levels of retirements, salvage data and some

narrative there, and old rates, new rates, that kind of thing.

So what happened essentially was apparently in the process of gathering all that information together clerically to summarize that, the latest volume of the Section 4 failed to be in the report, and they had to go back and, as a result of a deposition, it brought it to highlight and we had to go back and double-check that. And it turned out that apparently there was an older version of those, that information that was included in the, in the published, and hence this reflects those clerical transfer of the data from all the other sections in the report.

Q. Okay. Thank you. Before asking you another question, there's a lot of data that you present in your study, and this may take a while. It's cumbersome to go back and forth. And I'm not speaking for the Commission, but I think we have time to go through this.

Just for the court reporter's benefit, it's okay to speak a little slower, because --

A. Thank you.

Q. She's already sweating over there --

A. Thank you.

Q. -- just with that one answer.

COMMISSIONER EDGAR: And, Mr. Rehwinkel, you

did ask for it in his own words.

MR. REHWINKEL: I did.

BY MR. REHWINKEL:

Q. Just one thing you said near the end of your answer that I wanted to explore just a second. You used the term "older version." What did you mean by that?

A. Well, as we physically put these reports together, we assemble the information as we're doing the analysis, and I personally work from the detailed sections and the information. They sort of assemble this in a stack of information in our Harrisburg office, they produce all our reports, and I'm physically in New Mexico.

So the information was there that we set up the initial Section 4 and start putting information in. And as things, as we finalize the depreciation study, we, we check off and attempt to make sure that we have all the latest information in Section 4.

And that's what I'm referring to when I say an older version in the sense that apparently some of the information didn't properly get transferred into the section.

Q. Okay. And I noticed you have two volumes in front of you, and I have three in the study. Do you have everything in your study with you?

A. Yes. I produced mine internally. A lot of it is two-sided. I don't know. You may have yours single-sided.

Q. Okay. Thank you. And then one final housekeeping question. I notice you have a book that, if I can read upside-down, says "Public Utility Depreciation Practices."

A. Yes.

Q. Is that something that you cite in your testimony?

A. Yes, it is. And as a matter of fact, staff requested that I bring that with me.

Q. Okay. Mr. Robinson, you are the witness on direct, are you not, that provides the depreciation study for Progress Energy Florida in this case; is that correct?

A. That is correct. But I also rely on the information that I certainly have received from the company, both, for instance, accounting data inputs from operations people relative to the plant operations. But I bring it all together in a depreciation study.

Q. Okay. And you are the sole witness sponsoring the depreciation study in this case; is that correct?

A. I am the sole witness that supports my exhibit, which is the depreciation study. As I

previously said, there are other parties within the company that have provided and will provide additional insight to, you know, the operations of certain properties.

Q. Okay. But for purposes of, just so I understand, your exhibit -- I guess it's your Exhibit EMR-2.

A. Correct.

Q. Correct? Is the depreciation study that is submitted by Progress Energy Florida in this case; correct?

A. That is correct.

Q. Okay. And you are the sole witness that sponsors that study.

A. That is correct.

Q. Okay. Now isn't it also true that it is your testimony that that study is presented to this Commission pursuant to the depreciation rule?

A. Yes.

Q. Okay. And are you familiar with that rule?

A. Yes, I am. I don't know it verbatim, but I've read it and --

Q. Okay. And do you have a copy of that rule with you?

A. Yes.

Q. Okay. And I'm going to ask you, do you -- that rule would be Rule 25-6.0436; correct?

A. Correct.

Q. Okay. And then (6) of that rule, if I understand it correctly, is the rule that says what a depreciation study shall include; is that correct?

A. The depreciation study shall include. Yes.

MR. REHWINKEL: Okay. Madam Chairman, I have a copy of the rule that I can pass out for -- I'm going to ask him some questions about it. You don't need it as an exhibit because it is part of your rule.

COMMISSIONER EDGAR: I understand. Let's go ahead and distribute. Thank you.

MR. REHWINKEL: Can I have one second?

COMMISSIONER EDGAR: Of course.

(Pause.)

MR. REHWINKEL: Madam Chairman, I apologize. I thought we had a copy of the rule to pass out. The witness has a copy and I have a copy, others may have a copy. And I apologize. I don't mean to bog things down. I can ask him questions without others having the rule, or we could take a second and get a copy of the rule. I don't -- it's, it's up to you.

COMMISSIONER EDGAR: I'd say let's go ahead. Let me ask this question.

Is there anybody that is uncomfortable proceeding without a copy distributed by Mr. Rehwinkel in advance?

I'm hearing none. So I'd say let's go ahead. And if anybody has a concern, I'm sure that they will speak right up and we'll address it then.

MR. REHWINKEL: I apologize.

COMMISSIONER EDGAR: Thank you.

BY MR. REHWINKEL:

Q. So, Mr. Robinson, excuse me for that delay.

If you could turn to (6) of the rule. Do you have that with you?

A. I do.

Q. Okay.

MR. WRIGHT: Madam Chairman?

COMMISSIONER EDGAR: Mr. Wright.

MR. WRIGHT: Could I just ask Mr. Rehwinkel, would you please ask Mr. Rehwinkel to tell us the rule number? I have my rule book --

COMMISSIONER EDGAR: That was exactly truly what I was thinking myself.

If you would tell us the number of the, the full number of the rule so that we all know what we are thinking of and hearing about.

MR. REHWINKEL: Okay. Yes. The rule that I

am going to ask Mr. Robinson questions about and that he has said is, he understands is the depreciation rule that governs the submittal of the study is 25-6.0436, and I am specifically going to ask him about (6).

COMMISSIONER EDGAR: Mr. Wright, did you get that?

MR. WRIGHT: Yes. Thank you.

COMMISSIONER EDGAR: All right.

BY MR. REHWINKEL:

Q. And just to reset us here, I have asked you this before, but just, your study is submitted pursuant to this section that I just cited; is that correct?

A. Correct.

Q. Okay. And I would like to ask you, is, to look to (6)(f). Maybe that's a sub subsection, but -- and I want to ask you, I'm going to read this and ask you if your study was submitted in compliance with this section.

Subsection (6)(f) states, "An explanation and justification for each study category of depreciable plant defining the specific factors that justify the life and salvage components and rates being proposed. Each explanation and justification shall include substantiating factors utilized by the utility in the design of depreciation rates for the specific category,

e.g., company planning, growth, technology, physical conditions, trends. The explanation and justification shall discuss any proposed transfers of reserve between categories or accounts intended to correct deficient or surplus reserve balances. It should also state any statistical or mathematical methods of analysis or calculation used in the design of the category rate."

Do you -- is that, do you agree with that?

A. Yes. Yes.

Q. And is it your testimony that the study that you have submitted as part of EMR-2, which I guess I should refer to by the exhibit number that we are using, which I think has been identified as Exhibit 84, is it your testimony that that study comports with this requirement of the rule?

A. Yes. The study, the supporting work papers and the accompanying testimony comports with the rule.

Q. Okay. Are the accompanying work papers submitted as part of the study?

A. They're, they're submitted in support of the study. Yes.

Q. Were they submitted in your direct testimony as part of the study?

A. They were provided, the supporting work papers were provided to the staff and all the parties.

Q. Okay. I think you probably have been advised by counsel, and I'm sure the Commissioners would advise you as well, that a yes or no answer and explanation, with following explanation is appropriate.

A. Yes. Thank you.

Q. So my question is to you, were your supporting work papers provided as a part of your study as filed with your direct testimony?

A. No. They were not provided when filed. They were provided in support of the study. All the work papers were provided in support of the study to all the parties.

Q. Okay. Were they provided voluntarily or only after they were requested in discovery?

A. They were requested in discovery, but they were provided voluntarily.

Q. Okay. But only after being asked to provide it; correct?

A. We weren't compelled to provide them. We were -- there was a data request and we provided them.

Q. Okay. So two answers without the yes or no.

A. Sorry. Yes.

Q. Well, I think my question was were they provided without being asked to be provided?

A. No. They were not provided without being

asked. They were provided in response to a standard data request.

Q. Okay. The first line of (6)(f) requests an explanation and justification for each study category of depreciable plant defining the specific factors that justify the life and salvage components and rates being proposed.

Now is it your testimony that the, the specific factors referred to in that sentence are included in your study, or are they included in the work papers?

A. Well, Section -- yes, they're included in the study and the work papers. The Section 4 of the study provides some explanation relative, and provides tabular information that's summarized from certainly all the other sections of the depreciation study. They provide a tabular explanation of plant-in-service, retirements, average age of retirements. Section 5 includes the mortality analysis. Section 8 includes the in-depth detail analysis of the salvage data that supports the results or supports the analysis that we've done for each of those components of the depreciation rate.

Q. So what you've just testified to are numbers and data and information that are contained in these three volumes that were submitted as, as part of

EMR-2 or Exhibit 84; is that correct?

A. Yes.

Q. Okay. And do those items that you just listed constitute all of the specific factors that justify the life and salvage components and rates being proposed?

A. Yes. Plus, as I said before, that there are additional items within the work papers that provide even further support.

Q. Okay. So let me ask that question a different way. If the Commission looked, just looked at the information and data that was provided physically in what is identified as Exhibit 84, would they have all of the specific factors that justify the life and salvage components and rates being proposed?

A. No. But as I said, the work papers contain all the information that's in support of any considerations that, that were used in the, in the development of depreciation rates.

Q. Okay.

A. I might add that as a result of the deposition, I, just to make a comparison between the study that we produced versus, for instance, the latest study that was filed and approved by this Commission, that being for TECO, I went back just to make a comparison to see what was provided in that study versus

what we've compared. And we have in our study just as much detail in our study as what is included with that approved study.

So that just was a secondary follow-up to say, well, are we in compliance with what everybody else files? And I would say what we've provided is extremely consistent with what's provided in other studies before this jurisdiction.

Q. The second sentence of that subsection of rules, of the Rule (6)(f) says, "Each explanation and justification shall include substantiating factors utilized by the utility in the design of depreciation rates for the specific category, e.g., company planning, growth, technology, physical conditions, trends."

Is it your testimony that that sentence, that what is required by that sentence and the term "shall include" is included in Exhibit 84?

A. Yes. With the addition of, as I've said several times now, that the depreciation is an all-inclusive process and includes the work papers and testimony.

Q. Okay. So if the Commission were to look to Exhibit 84 and only Exhibit 84, would they find your explanation and justification substantiating factors utilized by the utility in the design of depreciation

rates for the specific category, e.g., company planning, growth, technology, physical conditions, trends?

A. Yes. They could, they could look at our, actually just our exhibit and come to a similar conclusion that we came to.

Q. Is -- are you saying that a conclusion is the same as substantiating factors utilized by the utility in the design of depreciation rates?

A. I'm saying that certainly all the historical data is there that they could observe what has occurred relative to the -- yes. Pardon me. That they could, they could observe the information and the database information to identify their interpretation of the appropriateness or otherwise relative to the depreciation rates.

Q. So let's look at that sentence there. Are all the company planning substantiating factors included in Exhibit 84?

A. They're never included in it. No, they're never included. All the planning factors are never included. I challenge anyone to show me any depreciation study that would include all the planning factors inherent from the company's perspective. You would have a volume that would be so large that you would never be able to get through it. It is underlying

data relative to the depreciation.

Q. Well, are the company planning factors that you relied upon to develop service lives for generating plants included in Exhibit 84?

A. The information is provided in -- pardon me. No. No. The exhibit relative to the, for instance, the production plant analysis was provided by the company. The probable retirement dates, for instance, for each one of the generating facilities is included in several different sections of the depreciation exhibit.

Q. The depreciation exhibit, you mean Exhibit 84?

A. Yes.

Q. So you're saying that the generating plant substantiating factors are included in Exhibit 84?

A. No, that's not what I said. I said the terminal dates that were used to develop the depreciation rates are included in Exhibit 84. The underlying information relative to that was provided to me in the way of a schedule through conference calls from operating people within the company.

Q. Did you translate that information into any kind of a work paper or supporting documentation?

A. I have -- for instance, in the work papers there are, there are specific, there's a specific schedule that includes, for instance, the terminal

dates. There's also some notes relative to the various conference calls that were completed with various parties within the company.

Q. Okay. Those are not included in Exhibit 84; correct?

A. They are not. And as I said before, the, when comparing my depreciation study with TECO and others, our depreciation study includes essentially the same, if not more, data than other filed studies before this Commission.

Q. You gave a deposition on September 15th to the staff, counsel for FIPUG and myself, did you not?

A. That is correct.

Q. Did you mention any TECO comparison in that deposition?

A. No, I did not. It was only after the issue was raised that I went and made that comparison just to validate what we've produced versus what others have produced before this, this Commission. It was just, it was a check to say, are we, you know, are we in compliance with the rule as other people -- or not people, but other companies are before this Commission? And it was, it was a, just a validation to check, yes, we are consistent with what other companies have filed.

Q. What TECO case are you talking about?

A. It's the most recent study, and I don't have it before me. Just a recent study that was done within the last year or so.

Q. Was that part of a contested rate proceeding?

A. I don't know the specifics of the case.

Q. It was not, was it?

A. I don't know.

Q. What -- if you reviewed the docket, the case, wouldn't you know?

A. I reviewed the study, the actual study.

Q. Okay. So you didn't determine for yourself whether any issue about compliance with the rule, for example, was raised in any, in the TECO situation?

A. Well, I was, I reviewed the study. No, I didn't. I did not review the case to determine whether there was any issues. I, I reviewed the study to see what was in it and also was informed it was approved by the Commission.

Q. Okay. But you did not, as part of this analysis that you've testified to today, you did not do any independent determination to see whether it was, A, part of a ratemaking, a rate case, did you?

A. No. I was checking what was contained within the study, and, and was informed that it was filed and approved by the Commission.

Q. Or, B, whether there was a contested matter, did you?

A. I guess I'm taking a leap -- no. I guess I'm taking a leap of faith in assuming that it was approved by this Commission. It was not, it was not in violation or it was in compliance with the rule.

Q. Did you determine whether there was any discovery submitted by Intervenors?

A. No.

Q. So you really don't know whether the circumstances were the same as the Progress Energy Florida case, do you?

A. No. I would say this. I would say that the depreciation study that was filed in the TECO case was filed with the expectation that it was in compliance with and accepted by the Commission. I made the comparison to see what was provided within that study versus what we have provided within our study. And further, with the knowledge that it was approved by the Commission to make the comparison.

Q. Okay. But that's an assumption on your part as far as the reason why it was filed or --

A. Well --

Q. -- correct?

A. It's, no, it's not an assumption on my part.

I know that companies are required to file depreciation studies every four years, and they filed it with regard to that requirement, just as this company filed a depreciation study in four years in compliance with the requirement.

So the information is being provided in both studies to comport with those requirements of the Commission, and the Commission accepted and approved TECO. So from that I take the comfort in saying, well, yes, we are consistent with what other companies are filing. And, and, in all honesty, our study as set forth provides the information that's needed to develop the depreciation rates in compliance with the depreciation rule.

Q. Okay. And you're not aware, are you, as part of your, the work that you have done in this case, that the company sought a waiver of the rule in any way with respect to what would need to be provided, did you -- are you?

MR. WALLS: I'm going to object as vague and ambiguous. I mean, what period are we talking about?

MR. REHWINKEL: I'm talking about for purposes of this case is the time frame.

COMMISSIONER EDGAR: Would you repose the question to the witness, and if you can include the time

frame in the question.

MR. REHWINKEL: Okay.

BY MR. REHWINKEL:

Q. Well, let me ask you this, Mr. Robinson. When did you -- when were you engaged to work on this case?

A. I believe, from recollection, I believe it was early to mid 2008.

Q. Okay. So since the time that you were engaged to work on this case 'til today, are you aware of whether the company sought a waiver of the rule with respect to the requirements of what needs to be filed in the rule?

A. I'm not aware of any filing. And as far I'm concerned, we are in compliance with the rule.

Q. Okay. Let me ask you to turn, if you will, please, to your direct testimony, and ask you to turn to EMR-1, beginning with Page 8 of 13 through Page, well, through Page 13 of 13.

A. Excuse me. Where are you looking?

Q. I'm sorry. I'm on EMR-1, which I guess is Exhibit 83.

A. Oh, okay. And what page, please?

Q. Page 8 through 13 of that.

A. Yes.

Q. Okay. And is it, is it true that this section

of your exhibits is, lists the summary of testimony appearances, hearings and depositions, plus declarations; is that correct?

A. That's correct.

Q. Okay. Now does this, does this mean cases where you at least provided testimony of some degree on the study that you prepared?

A. These are cases that I have made appearances in relative to testimony.

Q. Okay. Is it true, and if you need to take a minute to review this, but is it true that there are only about four times as listed in here in the Exhibit 83 where you have testified in an electric case on the topic of depreciation, other than a case involving, other than a case involving Progress Energy Florida? Do you understand my question?

A. Yes, I believe I do.

As I said, these are cases where I actually provided physical testimony. There's been other studies that haven't been before hearings that were settled. So I've got, I'll stand on my record. I've got 35 years of experience performing depreciation studies and have done it for all types of property. But, yeah. Okay.

Q. Well, I guess my actual question to you was in the, the cases that are listed on Pages 8 through 13 of

Exhibit 83, and taking out this case and the last Progress Energy case, are there only four times where you have testified since the year 2005 in an electric case on the topic of depreciation?

A. I believe that's correct.

Q. Okay. Would that be two cases in Maryland, one in Montana and one in New York?

A. There should be a case in Delaware.

Q. In Delaware? So that would be on Page 8, the Delmarva Power case, 05-304?

A. That would sound right. I'm trying to think of possible other cases, but that, that sounds about right.

Q. Okay. And then on Page 10 of 13, if you could turn to that page. In Maryland I see a Delmarva --

A. And Potomac Electric case.

Q. Okay. Are those, were those done together?

A. No. They're totally two separate companies.

Q. Okay. How about in Montana?

A. Montana was Montana-Dakota.

Q. Is that an electric case?

A. Yes.

Q. Involving depreciation?

A. Yes.

Q. Okay. So we're at four now; is that correct?

A. Atlantic City Electric.

Q. I'm sorry?

A. Atlantic City Electric in New Jersey.

Q. That was since 2005?

A. Well, I don't know if that was since 2005. I don't remember the exact date of that.

Q. Okay. What about on the next page, Page 11. I see a New York State Electric & Gas.

A. New York State Electric & Gas. Yes.

Q. Is that 05-E-1222?

A. Yes.

Q. Okay. Are there any others?

A. The Wellsboro, but that was definitely prior to 2005. Oh, Louisville Gas & Electric and Kentucky Utilities, that might have been a little prior to 2005.

Q. Okay.

A. So let's see.

Q. Would you accept, subject to check, that that was in 2004, Louisville?

A. That sounds about right.

Q. Okay.

A. Yes.

Q. Okay. The cases that we went through with respect to, that's since 2005, other than PEF, would you accept my representation to you that in those cases you

propose average service lives for those utilities ranging from 38 to 52 years for Account 364?

A. Yes, that could be. I don't know. I don't have that information in front of me. But I would, I would guess my response would be those are other companies, number one -- back up. I don't know what the magic is about the year 2005.

Number two, the standard practice in depreciation analysis is to use information relative to the company that you're studying unless you don't have other information. So to just go to another company and say, well, you estimated that life of X for Account 364 in these companies is really not appropriate, because all you're doing is doing a survey of another property in another jurisdiction, and that does not reflect the activity that's transpired relative to this company's property.

MR. REHWINKEL: Okay. Madam Chairman, I would like to pass out an exhibit for cross-examination purposes.

CHAIRMAN CARTER: You may proceed.

MR. REHWINKEL: Oh, I'm sorry. Mr. Chairman, I didn't see you back. Thank you.

CHAIRMAN CARTER: I got to keep you guessing.

MR. REHWINKEL: I need to look up every now

and then, I guess.

CHAIRMAN CARTER: That's all right.

MR. REHWINKEL: And this, this is an exhibit. If I could get a number for it.

CHAIRMAN CARTER: Absolutely. That would be 274.

MR. REHWINKEL: 274. And --

CHAIRMAN CARTER: How about a short title?

MR. REHWINKEL: I have Robinson Testimony, Other Jurisdictions. Would that work?

CHAIRMAN CARTER: That works fine.

MR. REHWINKEL: Okay.

CHAIRMAN CARTER: Robinson Testimony, Other Jurisdictions.

(Exhibit 274 marked for identification.)

MR. WALLS: Is this the complete testimony in all other jurisdictions?

MR. REHWINKEL: No, sir. And, Mr. Walls, I am, just for explanation purposes, I am not offering this for purposes of proving any truth of the matter asserted. I'm really offering this to see if, if I can get Mr. Robinson to confirm the representation that I've made to him about service lives. I don't know that this is appropriate to be offered into evidence, but I just want to -- at the conclusion of the testimony.

I don't know that Mr. Walls has lodged an objection, but I just wanted to respond to his question, Mr. Chairman, if that's appropriate.

CHAIRMAN CARTER: Okay. We'll do like we normally do whenever there's a -- so a party can preserve their right to object, as we normally do on that.

Mr. Walls, you have an opportunity to object, and we'll get to that when we decide on whether or not to admit it.

Okay, Mr. Rehwinkel?

MR. REHWINKEL: Yes, sir.

CHAIRMAN CARTER: That's how we've been doing it. I've done that for both sides. I want to be fair to all parties and all.

Does everyone have a copy of it?

MR. WRIGHT: Not yet.

CHAIRMAN CARTER: Okay. Hang on one second, Mr. Rehwinkel.

MR. REHWINKEL: Mr. Poucher gave me a copy I don't need.

CHAIRMAN CARTER: Mr. Burnett is distracting him.

Do you want to make a moment, take a minute, take a minute on it or --

MR. REHWINKEL: I don't know how many copies we gave to the staff. I don't know if we have enough. Does Mr. Walls have a copy? Okay.

CHAIRMAN CARTER: Staff, how many have you guys got?

MR. REHWINKEL: I know the witness and the court reporter and the Commissioners.

CHAIRMAN CARTER: You need one more? Ms. Kaufman, you've got one?

Ms. Bradley?

MS. BRADLEY: No, but that's okay.

MR. REHWINKEL: She can look on on mine.

Thank you. I apologize for the administrative delay, Mr. Chairman.

CHAIRMAN CARTER: Okay.

MR. REHWINKEL: Let me see if I can move this along.

BY MR. REHWINKEL:

Q. Mr. Robinson, can I ask you if you could look at this exhibit -- and I'm only asking you this to see if it refreshes your recollection. The first excerpt here is from a Delmarva case in Maryland. Do you see that? There's a, the first page is a, looks like a transcript page, and the second page looks like the first page of your direct testimony dated November 17,

2006, and there's a cover page for depreciation study as of 12/31/2005. Do you see that?

A. Yes.

Q. And then the next section, which it looks like the format for the depreciation study that you utilized; correct?

A. Yes. I don't know what report this is specifically out of. I can, I just don't know, because there's no, there's no name. This is just a page out of the, out of a study.

Q. Okay. For Account 364 there's two pages there. And for whatever this document represents, on the second page of that at the top, do you see where it says "proposed depreciation parameters"?

A. Yes.

Q. Okay. And then right underneath that it says "ASL" in all caps with a slash. It says "Curve: 52-R2.5." Is that correct?

A. That's correct as shown.

Q. Okay. So does this provide any refreshment to your recollection about what you might have recommended or you did recommend in the Delmarva case in Maryland?

A. Well, yes, in a way. If, in fact, which I can only -- I don't want to assume. But if in fact, if this is out of the Delmarva study, that would indicate to me

that we estimated based upon that specific company's data at that point in time a 52-R2.5 life curve along with a negative 75 percent net salvage for that property group.

Q. Okay. And if I could ask you to turn past the next two pages to the Montana-Dakota Utilities Company. Is this -- let me ask you this. In Montana did you testify since 2005 with respect to this company?

A. I think it was 2007.

Q. Okay.

A. Or 2008.

Q. Was it based on a study with data from 2002?

A. Yes. There was a study that was filed as part of a case that was some years old, and the testimony was in support of that study.

Q. Okay. Is it correct, if you'll look to the next page, which is Page 4-18, and at the bottom it says, "AUS Consultants - Webber, Thick and Wilson Division."

A. Yes. At that time we had a different name, if you will, for the organization. We had AUS Consultants. We had a Webber, Thick and Wilson Division. Since we have dropped these, the division name, and so now it's just AUS Consultants.

Q. Okay. That at least gives you some grounding

that this is the study or an excerpt from the study that was submitted in that docket?

A. It appears to be.

Q. Okay. And under Account 364 on that page, which says 4-18 at the bottom, near the bottom there in the last three lines there's a reference to an Iowa 38-R0.5 life in curve. Do you see that?

A. Yes.

Q. Does that indicate a 38-year life for this account in that part of the world?

A. Yes, it does. And it's, this is certainly interesting to note. It just goes to show you each company is different in the sense for going back to Delmarva was a 52-year life. In the Montana-Dakota case it was a 38-year life. So those were based upon studies of those specific company data that drove the estimates for those lives. Also, if you look at a corresponding bit of information there, that we estimated, you know, different levels of net salvage as well.

So they, the two sort of, I wouldn't say they go hand in hand, but they're all part of that same process where if you have a, a shorter life, you may have potentially less negative salvage. But this clearly indicates that there's a rather significant diversity between just even these two companies in the

life estimates because they're different properties. And the same is true for Progress Energy; it's a totally different property and different conditions.

So the life is going to be based upon the information from that operating company. And this just shows the error or the difficulty in trying to go and get an industry summary of information and say, well, that applies to, for instance, for Progress Energy.

Q. So you generally do not subscribe to any industry wide comparisons as part of depreciation?

A. Yes and no. Yes in the sense that if there is limited data within the company that you're studying, certainly you need to consider information that might be available from other sources as a basis to make a judgment estimate. If you have adequate data to study from an operating company, that data would take preference over a simple survey or a reference to other company property.

Q. But that would be the only circumstance that you would recommend using?

A. That's, that's principally the driving force behind the process.

Q. Okay. If I could ask you to turn to the last page of this exhibit, New York Electric & Gas Corporation. Will you accept my representation that

this is a summary of your, of certain of your service, your service life recommendations in that case?

A. That appears to be from the NYSEG, New York State Electric & Gas depreciation study.

Q. Okay. And if I look at Account 364, which is the third line of that spreadsheet, and I go all the way across the top to the third from the last column, ASL/Survivor Curve, which is Column 0, or O, Column O, I'm sorry, is that that would show a 43-R1.5 curve?

A. That's what it would show. And with the same explanation, that, again, this is just another operating company's property that's being driven by, you know, their activity and their experience.

Q. In this case what service life did you propose for PEF for Account 364?

A. I believe -- wait a second. Let me look.

Q. Was it 29 years?

A. 29-R4.

Q. Okay.

A. Actually the life went up by one year from the prior study.

Q. Okay. And who did the prior study?

A. I did.

Q. Okay. Have you ever testified in an electric case for an, to an ASL for Account 364 as low as 29

years other than for Progress Energy?

A. I don't know, because I don't have all those studies in front of me.

Q. You really haven't, have you?

A. I, I'm not specifically aware of it.

Q. Okay.

A. But, again, we're looking at company-specific data and the experience within that operating company. It would be improper to recommend a life for this operating company based upon property in Delaware or Montana or someplace else that has no bearing or nothing to do with this operating company's property.

Q. Okay.

A. That's why you do individual studies for individual companies.

Q. Can I, I just want to ask you about one other account on this same document, Exhibit 74 -- 73.

CHAIRMAN CARTER: 274.

MR. REHWINKEL: 274. Thank you.

BY MR. REHWINKEL:

Q. And that would be Account 368.

A. Excuse me. Which document?

Q. The, the exhibit we just went through.

A. Right. But which page?

Q. Okay. Let's go back to, first to the Delmarva

case, Account 368, Line Transformers, which is, which is, is Pages 4-12 and 4-13. And if I could ask you to look at 4-13, which I believe at the top under proposed depreciation parameters shows a 37-year life for this account; is that correct? 368?

A. The proposed parameters were a 37-R2. And I would add it's, in that company, for instance, the current parameters were 32 years. They changed because experience changed. So we, in that particular case we increased the life.

Q. Okay. And, again, if you could turn to the, to the Montana case, which is the next page after the one we discussed on Account 364, under Account 368, which is at the bottom, 4-22. You utilized a 45-year life, if I'm reading it correctly, a little more than halfway down the page. It says an Iowa 45-R3 life and curve is recommended; is that correct?

A. That's what's shown there.

Q. Okay.

A. And this is a Montana company that's in, outside of Bismarck. It's a company that's radically different from PEF located in Florida in a high growth area. Different, totally different conditions, different information.

Q. Okay. And then to the last page of the

Exhibit 274. Account number, well, if I could ask you, I don't know, not even a third of the way down there under the description of line transformers, this is a little hard to read, but it looks like 368.10. Do you see that on left-hand side?

A. Yes.

Q. Is that the same, is that a corresponding --

A. Yes. They used .1 as opposed to just 368.

Q. Okay. And if I go all the way across that page and that row under that Column 0 -- or Column O, I see a, I think I see it correctly as 38-R1 for the curve, and that would be a 38-year life; is that correct?

A. That's right.

Q. Okay. And in this case you proposed for the same account a 27-year life; is that correct?

A. Yes. Again, same problem, that you're looking at this company relative to companies around the country that are in no way connected with this company's property.

Q. And --

CHAIRMAN CARTER: Okay. Before we go down another line, boys and girls, we're going to stay on time.

MR. REHWINKEL: Can I ask just one last

question on that line? I just have one.

CHAIRMAN CARTER: You've got a minute.

MR. REHWINKEL: Okay.

BY MR. REHWINKEL:

Q. And isn't it true, Mr. Robinson, that you have never testified to an ASL for Account 368 as low as 27 years other than this case?

A. I am not aware that I have. Each company stands on its own.

MR. REHWINKEL: Okay. Thank you. That's all on this line. Thank you.

CHAIRMAN CARTER: 2:15.

(Recess taken.)

(Transcript continues in sequence with Volume 9.)

STATE OF FLORIDA)
: CERTIFICATE OF REPORTER
COUNTY OF LEON)

I, LINDA BOLES, RPR, CRR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

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

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

DATED THIS 28th day of September, 2009.

Linda Boles

LINDA BOLES, RPR, CRR
FPSC Official Commission Reporter
(850) 413-6734