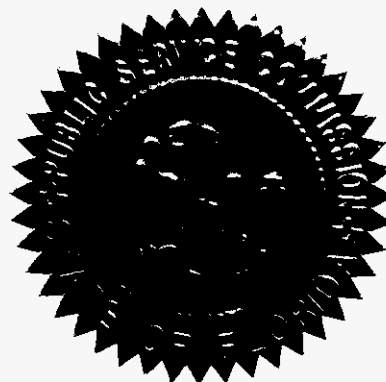


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

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 20

Pages 2759 through 2869

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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: Monday, September 28, 2009

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

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PARTICIPATING: (As heretofore noted.)

I N D E X

WITNESSES

NAME:

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EXHIBITS

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Response to OPC Discovery

2867

P R O C E E D I N G S

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(Transcript follows in sequence from
Volume 19.)

CHAIRMAN CARTER: We are back on the record,
and when we last left we finished cross-examination on
one witness. And now call your next witness.

MR. BURNETT: Yes, sir. We call David
Sorrick.

DAVID SORRICK

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

DIRECT EXAMINATION

BY MR. BURNETT:

Q. Mr. Sorrick, you realize you are still under
oath, correct, sir?

A. Yes.

Q. And you have filed rebuttal testimony in this
proceeding, correct?

A. Yes, I have.

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

A. No.

Q. If I asked you the same questions in your
rebuttal testimony today, would you give the same

1 answers that are in that testimony?

2 A. Yes.

3 MR. BURNETT: Mr. Chair, we would note that
4 Mr. Sorrick has no exhibits, and we would request that
5 his rebuttal testimony be entered into the record as if
6 it were read here today.

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

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**IN RE: PETITION FOR INCREASE IN RATES BY
PROGRESS ENERGY FLORIDA, INC.**

FPSC DOCKET NO. 090079-EI

**REBUTTAL TESTIMONY OF
DAVID SORRICK**

1 **I. INTRODUCTION AND SUMMARY**

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

3 **A.** My name is David Sorrick. My business address is 299 First Avenue North, St.
4 Petersburg, Florida, 33701.

5

6 **Q. Have you previously filed Direct Testimony in this proceeding?**

7 **A.** Yes. I have provided testimony to the Florida Public Service Commission ("FPSC"
8 or the "Commission") on behalf of Progress Energy Florida, Inc. ("PEF" or "Progress
9 Energy").

10

11 **Q. Please summarize your rebuttal testimony.**

12 **A.** The purpose of my rebuttal testimony is to address the Direct Testimony of Helmuth
13 Schultz III and Martin J. Marz filed August 10, 2009 in this docket who challenge:

- 14 ● PEF's compensation goals;
- 15 ● Power Operations O&M expenses;
- 16 ● CR4 combined outage and maintenance costs;

- 1 ● PGF's environmental goals
- 2 ● PGF's emerging equipment expense
- 3

4 **Q. Are you sponsoring any exhibits with your testimony?**

5 **A.** No.

6

7 **II. REBUTTAL TESTIMONY**

8 **Incentive goal compensation**

9 **Q. On page 27 of Mr. Schultz's testimony, he asserts that PEF is using operational**
10 **goals which may not be real goals, do you agree with this contention?**

11 **A.** Absolutely not. PEF's goals are realistic and performance-based. They provide
12 employees incentives to perform well while meeting the expectations of our
13 customers and shareholders. PEF's goals are designed to measure company and
14 business unit performance by emphasizing strategic corporate and organizational
15 objectives measuring performance in ten specific recordable areas. PEF's goals strive
16 for operational excellence and they are specifically designed to meet the SMART
17 objective (specific, measurable, achievable, realistic, and timely). Each specific goal
18 requires an action, an end result, a measurement, and a time frame.

19 Mr. Schultz challenges two goals, safety and environmental compliance. His
20 basic assertion is that our safety goal should be no accidents ever and an
21 environmental goal of absolute perfection. As I explained in my direct testimony,
22 PEF is committed to maintaining the existing generation fleet by making investments

1 in these plants to ensure they run efficiently while meeting the highest standards of
2 safety and environmental stewardship. Safety is the highest priority at PEF and a
3 great deal of effort goes into maintaining a safe work environment and mitigating
4 safety issues when they occur. PGF also takes its environmental responsibilities very
5 seriously by closely measuring performance standards. However, to set either of
6 these goals at levels that are beyond achievable is unrealistic.

7
8 **Q. What is your response to Mr. Schultz's statement on page 28 of his testimony**
9 **that PEF's incentive goal compensation concerning accidents actually allows for**
10 **accidents?**

11 **A.** Safety is the primary concern of any activity we undertake in Power Generation
12 Florida (PGF). The ultimate objective of our safety programs and focus is to drive
13 OSHA recordable accidents to zero. This should be the ultimate objective of any
14 organization truly committed to providing a safe workplace for its employees. That
15 being said, our Employee Compensation Incentive Plant/Management Incentive
16 Compensation Plan (ECIP/MICP) safety goals are set at levels to drive the actual
17 safety performance of the work crews to top decile performance when compared to
18 peer utilities. PGF's goals are developed in such a way to drive performance
19 downward toward the ultimate objective of zero injuries, while still providing
20 employees with realistic and attainable goals based on continually improving
21 performance. The PGF goals are set in this manner to provide a glide path of
22 improvement from year to year. Despite anyone's best efforts, however, accidents
23 will happen, and an incentive goal of zero, as compared to top decile performance in

1 safety, is not realistic, nor is it a typical way of advancing a safe workplace despite
2 the fact that a "zero accident workplace" is our ultimate objective.

3
4 **Q. What is the objective of the safety goal in the employee bonus compensation**
5 **program?**

6 **A.** The ultimate objective of the safety goal in the ECIP/MICP program is to drive safer
7 behaviors from all employees. Every utility strives to reduce the number of accidents
8 incurred by employees and all company departments have included safety as part of
9 the employee incentive program as just one of the tools to accomplish that objective.
10 As I mentioned previously, the goal for PGF is set at the top decile level as compared
11 to our peers in the Southeast.

12
13 **Q. Please explain the components that make up PGF's safety goals.**

14 **A.** PGF's safety goal is made up of the OSHA Injury and Illness (OSHA I&I) rate. This
15 is an index measurement that measures the number of employee injuries for every
16 200,000 work-hours of labor and is a standard key performance indicator used in the
17 industry to measure safety performance. The OSHA I&I goal for PGF has 3 distinct
18 components. There is a POG business unit goal, a PGF fleet goal, and regional goals
19 for the Nature Coast region, Suncoast region, and the Support Services Department.

20
21 **Q. Does PGF's safety goal have any impacts on labor costs?**

22 **A.** Yes. The costs of PGF's safety programs are primarily included in the base budgets
23 in the form of payroll and are manifested as collateral duties of employees. Aside

1 from the primary focus of returning employees safely to their family at the end of the
2 day, benefits of a safer workplace include: reducing the workman compensation costs
3 incurred when employees are injured, as well as the amount of non-productive time
4 an employee will incur if injured.

5
6 **Q. On page 28 of Mr. Schultz's testimony, he alleges that there is no incentive in**
7 **PGF's environmental goal since it has been accomplished in previous years and**
8 **remains the same for 2009. Do you agree with his assertion?**

9 **A.** I disagree with Mr. Schultz's assertion. He seems to want to punish PEF for excellent
10 environmental performance. PGF strives for excellence in our environmental
11 stewardship and performance. The Environmental Index (EI) is the Company's proxy
12 measurement for environmental performance. Compliance in environmental
13 performance is the minimum acceptable standard for all employees within PGF. The
14 achievement of a 4.0 on the Environmental Index (on a scale of 0-5) marks a level of
15 performance that is much better than nominal compliance, drives continual
16 improvement, and addresses the major environmental aspects, impacts, and risks of
17 power plant operations. Thus, a sustained goal of 4.0 on the EI index demonstrates
18 top-tier performance that is worthy of incentives. Mr. Shultz's assertion can be
19 likened to criticizing a student for continuing to get grades of "A" on their report card
20 rather than "A+".

21
22 **Q. Please explain the components that make up the EI target and the importance of**
23 **achieving this target.**

1 A. The PGF Environmental Index is a compilation of key plant operations performance
2 metrics in the areas of air emissions (SO₂, NO_x, opacity and monitoring), surface
3 water quality (pollutant discharges), spills or chemical releases, hazardous waste
4 generation, and ground water usage. Our plants' operations, impacts and risks are
5 reviewed annually along with the parameters and the values that make up the
6 Environmental Index goals to improve performance improvement over time. Each
7 plant has a site-specific EI that consists of components that are particular to each
8 plant. These components are selected on a plant by plant basis in order to influence
9 the behavior of employees to accomplish the given environment objectives.

10 PGF strives for the highest level of achievement in the area of environmental
11 performance; however, there is a point where cost to the customer would be increased
12 dramatically with no discernable benefit to the environment. For example, one
13 component of the index measures each plant's performance with respect to
14 continuous emissions monitoring (CEMS). The EPA and Florida DEP expect an
15 availability of 95% or better for CEMS systems. If we were inclined to over comply
16 and achieve an availability of 100%, as Mr. Schultz apparently suggests, this would
17 require the installation of redundant systems and the addition of maintenance
18 requirements for this equipment which would add unnecessary cost to the customer.

19
20 Q. Mr. Schultz further states on page 28 of his testimony that "The term incentive
21 means to stimulate. There is no stimulation if goals are not increased." Do you
22 agree with his belief?

1 A. I disagree. The term incentive also means something that incites or tends to incite to
2 action or greater effort. Mr. Schultz fails to consider PEF's efforts to meet ongoing
3 changes and challenges in environmental compliance standards. The incentive must
4 be realistic and achievable. To set the bar beyond the realm of achievability is
5 unrealistic and would be very costly to the customer. Again, Mr. Schultz uses faulty
6 logic in his implicit assertion that incenting continuous top-tier performance is not
7 worthy of doing unless one is able to achieve ultimate perfection.

8

9

Power Operations O&M Expense

10 **Q. Witness Schultz states on page 39 of his testimony that PEF's power operations**
11 **O&M expense request appears excessive. Are you in agreement with this**
12 **contention?**

13 A. Mr. Schultz's assertion is inaccurate and demonstrates his fundamental lack of
14 understanding of our O&M cost requirements. While I do agree with Mr. Schultz's
15 assertion that costs do fluctuate from year to year, major maintenance requirements
16 are driven by actual unit operations. The maintenance requirements included in the
17 2010 budget are driven by actual unit operations over the past few years and the
18 projected operations for 2009 and 2010. Therefore, I do not agree with Mr. Schultz's
19 assertion that the rate request set forth for 2010 is based upon a "high" year. By the
20 very nature of the size of PGF's generation fleet and the various major maintenance
21 requirements associated with a fleet of this size (see PEF's response to OPC's Sixth
22 Set of Interrogatories, Question #246), the major maintenance costs do fluctuate from
23 year to year. PGF tries to levelize the maintenance requirements within reason,

1 however, this is not always possible due to the number of units within the fleet, the
2 operational characteristics of each unit, and each units' position in its given
3 maintenance cycle. Thus, Mr. Schultz's unsupported assertion that our 2010 request
4 is based on a "high year" shows that Mr. Schultz has not studied how PEF's
5 generation fleet is maintained and operated. Further, I can say with certainty that Mr.
6 Schultz has never operated or maintained any of PEF's generating plants, nor would
7 he be qualified to do so based on his education and background. Therefore, his
8 attempt to simply look at numbers without any understanding or background of how
9 generation plants are maintained and operated is uninformed.

10

11 **Q. On page 40 of his testimony, Mr. Schultz asserts that your testimony does not**
12 **provide an adequate explanation to justify power operation's increased O&M**
13 **expense. Do you agree with his allegation?**

14 **A.** I do not agree with Mr. Schultz. I have shown in my direct testimony, as well as in
15 responses to interrogatories and document requests, why these expenses are necessary
16 to optimize the fleet's performance going forward. I have also linked maintenance
17 requirements with actual unit operations which are what the physics of these units
18 dictate. By that I mean that as the units operate, they accumulate major maintenance
19 requirements which are the primary driver of the expenditures. At a point in time,
20 the material condition of the equipment will degrade until it breaks and is forced out
21 of service. Preventive action in the form of major maintenance outages is the tool
22 used to address the physics of the equipment before it degrades to the point at which
23 it breaks.

1 To understand the maintenance requirements of high-temperature, high-
2 energy, generating equipment one must understand the environment in which the
3 parts of equipment must run in. Especially for equipment like the modern-day
4 combustion turbines, parts of the turbine run in environments so severe that loss of
5 features like cooling or protective coatings will result in total failure of the part in
6 very short periods of time, as short as seconds, and the resulting damage often results
7 in total destruction of downstream parts. Consideration must be given to the
8 requirements of the materials the hot gas parts are made from. For the hot section
9 parts, ordinary steel and alloy steel materials (like stainless steel) are generally
10 inadequate as they lose their strength at or before reaching 1100 °F. Instead, parts in
11 the combustion and turbine section of the engine are made from nickel and cobalt
12 based super alloys. These alloys retain their strength almost to their melting points
13 which is typically around 2450 °F. Also, normal machining and welding processes
14 cannot be used in the fabrication of these parts. Many are made by processes like
15 investment casting and must be machined by grinding, EDM (electro discharge
16 machining), laser welding/drilling, and similar processes as these materials are too
17 hard and strong to machine using conventional methods. Therefore, these parts are
18 very expensive to manufacture.

19 An example of one of these parts that sees a severe environment is the first-
20 stage turbine nozzle assembly. This part takes the output of the combustion system
21 and directs the hot gases at the first stage rotating turbine blade assembly to create the
22 gas velocity and energy to rotate the turbine. In a typical "F-class" gas turbine this
23 gas temperature is in the range of 2550 °F and therefore well above the melting point

1 of the super alloy the part is made from. A part such as this survives because of very
2 sophisticated internal air cooling and external coatings. Nonetheless, the operating
3 temperature of the material consumes coating life and degrades material properties
4 over time. Such conditions also cause cracking and oxidation of the alloy and, in fact,
5 this is expected. To a degree, this distress can be tolerated and criteria have been
6 established by the OEMs for determining when maintenance and repair is required.

7 The situation is the similar with each part of the turbine including the
8 compressor section and rotor body with variations in the maintenance interval and
9 repair requirements being dictated by the design, materials of construction, and
10 operating environment. The OEM specifies the maintenance and repair guidelines for
11 each part based on maximizing part life and preventing catastrophic failure.
12 Following prudent maintenance and repair practices is necessary not only to prevent
13 failure, but also to minimize operational cost as repairs for many parts are much less
14 expensive than cost of new. When a part does reach end of life it must be replaced as
15 continued use will lead to failure.

16 There are numerous examples that are similar to the one detailed above that
17 pertain to the combustion turbine and steam turbine fleets that illustrate the
18 consequences if the physics are ignored.

19
20 **Q. On pages 17 through 20 of his testimony, Mr. Marz seems to suggest that PEF's**
21 **planned outages increase overall O&M costs in the 2010 test year for the**
22 **purpose of driving up costs rather than addressing maintenance issues. Is that**
23 **true?**

1 A. No, this is not true. The requirements outlined in PGF's budget submittal are intended
2 to address the actual and needed maintenance requirements that are due to be
3 performed on our generation fleet. While the costs in 2010 have increased, the
4 increase is driven by maintenance requirements on the fleet as they exist now.
5 Additionally, PGF has added several combined cycle units to our fleet over the past
6 several years, including the new Bartow CC facility added this June. These units are a
7 key driver of our major maintenance requirements.

8 As I explained in my direct testimony, in responses to discovery, and in this
9 rebuttal testimony, actual unit operation will dictate what maintenance needs to be
10 done on what cycles, and Mr. Marz, would appreciate this fact had he taken the time
11 to understand how our generation fleet actually operates. However, just like Mr.
12 Schultz, Mr. Marz has not operated our generation units and he has not and cannot
13 provide meaningful analysis in this regard because he is a lawyer and not an engineer.

14
15 **Q. What is your response to Witness Schultz's statement on page 41 of his**
16 **testimony concerning the cost of the maintenance at Crystal River Unit 4, where**
17 **he alleges that this type of work is typically performed every nine years and is**
18 **not typical maintenance, thus the cost should be spread over at least five years?**

19 A. This is the nature of major maintenance and again, Mr. Schultz's background as an
20 accountant who has never operated or maintained a generation plant prevents him
21 from credibly assessing the physical maintenance requirements of the fleet's
22 equipment. Maintenance is done on an interval basis for the fossil steam fleet, the
23 combined cycle fleet, and the simple cycle combustion turbine fleet. The maintenance

1 intervals were addressed in my original testimony and as a response to OPC's Sixth
2 Set of Interrogatories, Question #246. With a fleet as large as PGF's, there will be
3 multiple units that require maintenance in any given year. PGF tries to levelize the
4 maintenance requirements within reason, however, this is not always possible due to
5 the number of units, the operational characteristics of each unit and each units'
6 position in its given maintenance cycle.

7 As an example, if a business had only one delivery truck that required tire
8 replacement every three years, they should not recover the full cost of tire
9 replacements every year. Suppose the business had a fleet of 250 trucks, each one
10 requiring tire changes every three years. Each year, many of the 250 trucks would
11 require new tires, but not every truck would be on the same three year cycle. The
12 place in the cycle would be dependent upon when the truck was bought, actual miles
13 driven in that particular truck, along with other various factors. While the owner may
14 want to divide the fleet into thirds in order to do the same portion every year, the
15 actual maintenance interval may dictate an uneven distribution, hence requiring the
16 owner to perform tire changes on 75 in year one, 50 in year two and 125 in year three.
17 This is obviously a simplistic example to illustrate that the more trucks, in our case
18 more units, involved the more complicated it becomes. Again, when considering a
19 fleet the size of PEF's and the maintenance required for the fleet as outlined in PEF's
20 response to OPC's Sixth Set of Interrogatories, Question #246, it is too simplistic to
21 look at one unit in isolation.
22

1 **Q. Mr. Marz, on the other hand, alleges that the Commission should recognize at**
2 **most only 11.1% of the CR4 outage costs for ratemaking purposes (page 18 of**
3 **his testimony). What is your response to Mr. Marz's suggestion?**

4 **A.** The logic of dividing the cost of this major maintenance requirement by 9 due to its
5 required maintenance interval may seem sound on the surface when applied to one
6 unit. However, this approach does not account for the major maintenance
7 requirements for the entire fleet. As previously stated, in a fleet as large as PEF's,
8 every year will include costs for different major maintenance requirements dependent
9 on many factors. To arbitrarily remove one of the higher cost outages from the stack
10 of requirements in 2010 for different treatment will not account for the overall and
11 on-going maintenance cost requirements for the fleet.

12
13 **Q. Can you explain PGF's reasoning to combine the CR4 major boiler and turbine**
14 **maintenance project with the clean air project construction outages?**

15 **A.** The idea was to combine all of the planned maintenance work into the clean air
16 outage to take advantage of the amount of outage time required to tie the clean air
17 equipment into the existing plant equipment. The boiler and turbine maintenance also
18 requires significant outage time of the unit, therefore, combining this scope of work
19 into one outage eliminates the need to take a base loaded coal unit off-line for a
20 significant period of time during 2011.

21
22 **Q. Will PEF's customers benefit from the CR4 combined outage in Spring 2010?**

1 A. Absolutely. By combining the work and increasing availability, PEF customers will
2 benefit by reducing one major outage on a base loaded coal unit in 2011. They will
3 benefit with respect to two areas. First, the customer will benefit from fuel savings by
4 having CR4 available more of the time and secondly, the customer will benefit by the
5 improved performance expected out of CR4 after this major maintenance is
6 performed.

7
8 **Q. You mentioned in your direct testimony the “tiering” strategy of PEF’s**
9 **generation assets. Where does CR4 fit into that tiering strategy and why is it so**
10 **important to minimize outages at this first-in-line baseload generation unit?**

11 A. CR4 is a tier 1 unit. It is classified that way due to its high position in the dispatch
12 order based upon fuel costs. It is important to minimize outages on base loaded units
13 in order to minimize fuel costs to the customer. If less expensive (e.g. - base loaded)
14 units are off-line, then more expensive units are required to operate in their place. In
15 other words, the ability to optimize outage times (scheduled and forced) will also
16 optimize the customers’ fuel costs.

17
18 **Q. Could PEF defer the major clean air equipment additions, the flue gas**
19 **desulfurization systems, and selective catalytic reduction at CR4 to combine**
20 **these projects at a later date?**

21 A. No. This project is well underway and PGN has several commitments related to this
22 project. First, PGN is committed to complete the clean air projects per agreement
23 with the Florida DEP (Air Permit No. PSD-FL-383-A, Project No. 0170004-019-AC).

1 Secondly, PGN has contractual commitments with several contractors that are
2 currently performing the work at Crystal River. CR5's clean air equipment will
3 complete installation during the fall of 2009. Delaying the CR4 installation will
4 increase contractor costs and would not be practical.

5
6 **Q. On page 42 of his testimony, Mr. Schultz proposes that power operations**
7 **existing fleet maintenance expense should be reduced by \$7.35 million to**
8 **"smooth out the costs for maintenance being charged to ratepayers." What**
9 **impact would this have on the PEF generation fleet?**

10 **A.** Again, this would require the deferral or cancellation of required scope into future
11 years. The result will be lower fleet reliability and a building backlog of major
12 maintenance into future years. This will also result in reactive maintenance programs
13 that will be less effective than being proactive. Mr. Schultz's suggestion of reducing
14 \$7.35 million to "smooth out the costs for maintenance being charged to ratepayers"
15 is arbitrary and misinformed. To suggest a reduction of this nature and to ignore the
16 physical requirements of the equipment does not make good engineering sense, nor
17 does it adhere to sound maintenance practices of performing the work needed on
18 critical equipment prior to failure.

19
20 **Q. Is it reasonable to apply good maintenance practices to a generation fleet just as**
21 **it is reasonable to maintain one's automobile for safety, reliability and**
22 **efficiency?**

1 A. Maintenance of an automobile provides a good analogy. The more you operate your
2 automobile, the more maintenance you will have to perform in the way of oil
3 changes, tune-ups, tire changes, etc. If these maintenance activities are ignored or
4 deferred, the automobile will not run reliably, it will not be safe, it will not last as
5 long, and it will not be as efficient. It will also cost more to repair the car once the
6 damage is done. For example, if you ignore oil changes, you will ultimately have to
7 replace the engine. The same is true of power generation equipment. Without a good,
8 proactive maintenance program, generation units will not operate reliably, safely,
9 efficiently, or with the expected longevity. They will require more expenditures to
10 maintain the ability to operate them.

11
12 **Q. Do you agree with Witness Schultz's and Marz's conclusory suggestions that the**
13 **company's power operations maintenance expense should be reduced?**

14 A. No I do not. For the reasons that I discuss in my direct testimony and in this rebuttal
15 testimony, the maintenance expenditures at issue are necessary to continue a
16 proactive major maintenance program. If these funds are not allowed, scheduled
17 maintenance will be delayed and PGF will be forced to become more reactive in our
18 approach to major maintenance activities. This will result in more forced outages and
19 lower overall reliability, which, in turn, mean more costs to our customers

20
21 **Q. On page 19 of his testimony, Witness Marz expresses a generic concern that PEF**
22 **has included \$5.3 million expense for emerging equipment costs and other items.**

1 **What are some of the emerging equipment issues and other repairs that make up**
2 **this expense?**

3 A. Some of the examples include repair of equipment damaged during forced outages,
4 engineering studies, site infrastructure repairs, minor equipment repairs, execution of
5 opportunity projects, parts repairs from previous outages, and major maintenance
6 activities. This funding allows PGF to fund the highest priority emergent and
7 opportunity work that develops across the fleet.

8
9 **Q. Are those emerging equipment issues and other repairs reasonable and**
10 **necessary?**

11 A. Yes. As I stated on page 23 of my direct testimony, "unplanned outages are bound to
12 happen because of the number, type and vintage of the generation fleet that PGF
13 operates." If PGF set out to plan and execute a preventive maintenance program that
14 would eliminate all unplanned work, it would prove to be cost prohibitive and would
15 almost certainly cost more than the \$5.3 million budgeted herein. As equipment
16 breaks, it is necessary to repair it in order to restore the generation to service. If this
17 budgeted amount is not allowed, then unplanned issues would defer or cancel other
18 budgeted line items that are just as critical to plant operations and create a situation
19 where known equipment needs would not be addressed at the expense of emerging
20 issues.

21
22 **Q. Would you consider this \$5.3 million a "contingency expense" as Mr. Marz**
23 **suggests on page 19 of his testimony?**

1 A. No, not at all. Again, the purpose of this funding is to address both emergent issues
2 that most certainly will occur as well as opportunity projects with the goal of allowing
3 budgeted funding to be used where it was originally intended. Therefore, it is not fair
4 to call this a "contingency expense." Experience with fleet operation has shown that
5 this funding has been used most efficiently on the smaller projects and emergent
6 projects.

7
8 **Q. On page 41 of his testimony, Witness Schultz expresses concern that the cost**
9 **increase for clean air equipment at CR4 appears to include \$5.3 million for a**
10 **precipitator and if so, this is a capital cost, not an expense. Can you respond to**
11 **this?**

12 A. Yes. PGF's approach to the precipitator work that was originally planned has changed
13 somewhat based upon the latest condition assessment information. Of the \$5.3M total
14 work to be performed on the precipitator, the latest estimate is that only \$1.1M will
15 be expensed. The balance will indeed be a capital item. The \$1.1M in expense is for
16 curtain repairs, box beam repairs and other miscellaneous repairs that do not qualify
17 for capitalization under the existing policy. The remainder of the work in the
18 precipitator will qualify as a capital expenditure under the capitalization policy as
19 PGF will replace units of property in lieu of repairs as originally planned.

20
21 **Q. What is your response to Witness Schultz's statement on page 40 of his**
22 **testimony regarding increased EFOR at CR1, CR4, and CR5 while EFOR at**
23 **CR2 improved?**

1 A. The improvement to CR2's EFOR noted on page 15 of my original testimony was
2 used to illustrate how investments in the generating equipment can, and will, improve
3 performance of those assets, thus benefitting the customer. As scheduled major
4 maintenance is performed on the equipment around the fleet, one would expect the
5 performance of those units to improve as well. For example, as Mr. Schultz points out
6 on page 40 of his testimony, "A review of the response to OPC Interrogatory No. 248
7 indicates that in 2008 CR1, CR4 and CR5 EFOR increased." This is true of the EFOR
8 results for 2008. However, major maintenance activities were performed at CR1
9 during the last half of 2008 and the YTD EFOR (through July) for CR1 is 1.21%.
10 CR5 is very similar as the YTD EFOR has improved to 1.37% after the spring outage
11 occurred on that unit. CR4 is scheduled for major maintenance in 2010 and its YTD
12 EFOR is 5.26%. These results are indicative of what one would expect as the cause
13 and effect of performing significant maintenance work on the equipment. This
14 example further makes my original point that unit performance will improve, thus
15 benefitting the rate payer, when maintenance investments are made in the equipment.

16
17 **Q. On page 40 of his testimony, Mr. Schultz asserts that unit availability declined**
18 **for a majority of the units in 2008. What is your reaction to this statement?**

19 A. On an aggregate basis, the decline for the fossil fleet was < 1% and the combined
20 cycle fleet was < 1.5%. However, Mr. Schultz does not take into consideration that
21 there are certain system conditions which would actually encourage removing a unit
22 from service (at little or no impact to the customer) in order to address an equipment
23 issue that might make the unit more dependable in the longer term which may

1 ultimately reduce the overall costs to the customer. The nature of the Equipment
2 Availability calculation does not account for such situations. Again, this shows that
3 Mr. Schultz simply does not understand how generation fleets are maintained and
4 operated.

5
6 **Supporting Documentation**

7 **Q. Do you agree with Witness Schultz's allegation on page 42 of his testimony that**
8 **power operations maintenance costs are not supported by the Company's MFRs,**
9 **testimony, or discovery responses?**

10 **A.** No I do not agree. PGF has described the nature of the planned expenditures and has
11 shown that the needs for these expenditures are driven by actual unit operations. Unit
12 operations are driven by demand for our product. Unit operations over several years
13 accumulate to trigger major maintenance requirements. PGF has clearly supported
14 the maintenance costs through this process.

15
16 **Q. On page 42 of his testimony, Mr. Schultz suggests that the \$4.6 million cost**
17 **estimate for the Bartow long term service agreement should be disallowed**
18 **because the Company failed to provide supporting documentation. Do you**
19 **agree with this contention?**

20 **A.** No I do not. PGF has provided the requested documentation in multiple forums as I
21 note below. The cost estimates for the \$4.6 million worth of maintenance at Bartow is
22 based upon a contract with Siemens Power Corporation. Typically, terms and
23 conditions of these contracts are not provided to the public due to the nature of the

1 agreement. However, PGF's responses to OPC's interrogatories and production of
2 documents have been forthright and have provided the information requested. For
3 example, the cost savings of the LTSA is explained on page 26 of my original
4 testimony. The LTSA is further explained in PEF's Response to OPC's Sixth Set of
5 Interrogatories, Questions #260 and #261. Supporting documentation was produced
6 in MFR Schedule C-41, page 3 of 18; PEF's Response to OPC's 1st Request for
7 Production, Question #1; and outage costs were produced in PEF's Response to
8 OPC's 13th Request for Production, Questions #263 and #268. To disallow the costs
9 of required maintenance because of Mr. Schultz's unfounded allegations is both
10 unfair and irresponsible.

11
12 **Q. Mr. Schultz then recommends on page 42 of his testimony that although the \$4.6**
13 **million LTSA expense should be disallowed, it is also an infrequent cost and**
14 **therefore, half of the cost should be allowed in rates. What is your reaction to**
15 **this recommendation?**

16 **A.** Mr. Schultz's assertion that this is infrequently performed work is simply not true.
17 Mr. Schultz estimates that it would take 6 years of running around the clock to trigger
18 this maintenance on a 12,500 hour maintenance interval. If the unit ran around the
19 clock, the maintenance interval would trigger every 1.4 years (12,500 hr
20 interval/8,760 hr/yr = 1.4 years). These units are anticipated to run an average of
21 5,900 hours over the next 3 years. This would equate to a maintenance frequency of
22 every 2.1 years, not every 6 years as Mr. Schultz stated in his testimony. Again, to

1 reduce required maintenance due to a misinformed opinion is unwise, does not square
2 with the physics of the situation, and is inappropriate.

3
4 **Q. Witness Schultz states on page 42 of his testimony that PEF has not provided**
5 **sufficient documentation to support the \$14.7 million increase for existing fleet**
6 **maintenance. Do you agree with his assertion?**

7 **A.** I do not agree with Mr. Schultz's assertion that PGF has not provided the appropriate
8 information requested. On pages 27 and 28 of my original testimony I provide details
9 concerning the various maintenance projects and on pages 9 through 11, I explain the
10 fluctuations on our CT fleet maintenance spending. I provided additional information
11 in response to OPC's Third Set of Interrogatories, Question #139; OPC's Sixth Set of
12 Interrogatories, Question #246, #260, and #264 including 3 attachments; OPC's Ninth
13 Set of Interrogatories, Question #353; OPC's 1st Production of Documents Request
14 #1; OPC's 3rd Request to Produce, Question #120; OPC's 13th Request for
15 Production, Questions #261-269; Staff's 13th Set of Interrogatories, Question #149;
16 and MFR Schedule C-41, page 3 of 18.

17 I have explained the concept repeatedly that the budget request is directly tied
18 to the amount of maintenance required within the fleet. In many cases, PGF's cost
19 estimates are based on years of experience in maintaining our fleet of generation
20 equipment. We have learned over the years that we are able to self perform much of
21 the required maintenance at a lower cost than third parties so we do not always have
22 an invoice or a quotation. However, we utilize our experience with the equipment

1 and engineering judgment to develop cost estimates. These are the estimates included
2 in my original testimony and in PGF's MFRs.

3
4 **IV. SUMMARY**

5 **Q. Can you summarize the key take aways from your rebuttal testimony?**

6 **A.** Yes. The Commission, for all the reasons stated in my testimony, should approve
7 PEF's capital (\$134 million) and O&M (\$175 million) expenditures for power plant
8 generation. PEF's generation capital and O&M expenditures are reasonable and
9 prudent. Our long term generation strategy is designed to deliver reliable, affordable
10 power with less dependence on foreign fuel from cleaner power sources. PEF's
11 expenditures represent the best way to adequately reflect the costs and benefits to
12 provide safe, environmentally responsible, reliable, and competitively priced power to
13 our customers. PEF must have necessary capital and O&M resources to ensure that
14 our power plants are reliable, efficient, safe, and meet environmental requirements.

15 PGF intends to continue to execute maintenance in a proactive manner.
16 Prudent cost management is a top priority for PGF. PGF has a demonstrated track
17 record of solid operational performance and budget management and we will
18 continue this performance in order to provide safe, environmentally responsible, and
19 competitively priced power to our customers.

20 PGF is charged with providing the bulk of the electrical energy used on the
21 PEF system. In order to meet this responsibility effectively, PGF must have
22 necessary capital and O&M resources to ensure that our power plants are reliable,
23 efficient, safe, and meet environmental commitments. To diminish the requirements

1 for these resources and to ignore the physics of the equipment is not in the best
2 interest of the PEF ratepayer as it will lead to lower equipment reliability and higher
3 costs, both in replacement fuel and equipment repairs.

4 PGF intends to continue to execute maintenance in a proactive manner.
5 Prudent cost management is a top priority for PGF. Not allowing for proactive
6 maintenance will have a negative impact on reliability and increase the long term cost
7 of the generation fleet maintenance.

8 The maintenance expenditures requested are primarily driven by the physical
9 requirements of the equipment. Mr. Schultz and Mr. Marz have testified that PGF
10 should reduce the amount requested substantially, yet they do not provide any basis to
11 support these reductions that are grounded in the physical realities of the equipment.
12 As shown in the example above, a disregard for the physical realities can be
13 catastrophic to the equipment and extremely expensive from which to recover.
14 Therefore, the physical considerations are extremely important and should not be
15 dismissed carelessly.

16 In summary, our expenditures will benefit both PEF customers and the long-
17 term operation of PEF's generation fleet by performing maintenance in a timely,
18 proactive manner that optimizes fleet reliability and fuel costs. PEF's generation
19 capital and O&M revenue requirements are fair and equitable and should be
20 approved.

21
22 **Q. Does this conclude your testimony?**

23 **A. Yes.**

1 **BY MR. BURNETT:**

2 **Q.** Mr. Sorrick, do you have a summary of your
3 prefiled rebuttal testimony?

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

5 **Q.** And if you would remember the lights, please
6 summarize your testimony.

7 **A.** Good evening, Commissioners. The purpose of
8 my rebuttal testimony is to address the unsupported
9 testimony of OPC Witness Helmuth Schultz and FIPUG
10 Witness Martin Marz. The assertions made by these
11 witnesses need to be objectively analyzed and factually
12 supported. To the contrary, these witnesses offer no
13 facts or analysis to support their conclusions, nor do
14 they consider the resulting cost to PEF customers if our
15 generation fleet is not properly maintained. Instead,
16 they rely on inaccurate arbitrary cost reductions to
17 reach unsupported conclusions based on a lack of
18 fundamental understanding of the way generation fleets
19 are operated and maintained.

20 Mr. Schultz and Mr. Marz make unsupported
21 assertions that our O&M expenses appear to be excessive,
22 yet they fail to demonstrate an understanding of PGF's
23 O&M cost requirements. To understand the maintenance
24 requirements of high temperature, high energy generating
25 equipment, one must understand the environment in which

1 this equipment operates.

2 What is certain, however, is that Mr. Schultz
3 and Mr. Marz have never operated or maintained any of
4 PEF's generating plants, nor would they be qualified to
5 do so based on their education and background. They
6 simply attempt to look at numbers without any
7 understanding or background of how generation plants are
8 maintained and operated.

9 PGF is charged with providing the bulk of
10 electrical energy used on the PEF system. In order to
11 meet this responsibility effectively, PGF must have
12 necessary capital and O&M resources to ensure that our
13 power plants are reliable, efficient, safe, and meet
14 environmental commitments. To diminish the requirements
15 for these resources and to ignore the physics of the
16 equipment is not in the best interest of the PEF
17 ratepayer as it will lead to lower equipment reliability
18 and higher cost, both in replacement fuel and equipment
19 repairs.

20 The Commission, for all the reasons stated in
21 my direct and rebuttal testimony, should approve PEF's
22 capital and O&M expenditures for power plant generation.
23 PEF's generation capital and O&M expenditures are
24 reasonable and prudent. PEF must have necessary capital
25 and O&M resources to ensure that our power plants are

1 reliable, efficient, safe, and meet environmental
2 requirements. PGF has a demonstrated track record of
3 solid operational performance and budget management, and
4 we will continue this performance in order to provide
5 safe, environmentally responsible, and competitively
6 priced power to our customers.

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

9 **MR. BURNETT:** So we tender Mr. Sorrick.

10 **CHAIRMAN CARTER:** Mr. Rehwinkel, you are
11 recognized.

12 **MR. REHWINKEL:** Mr. Chairman, by agreement of
13 the parties, Mr. Wright will go ahead of me, if that is
14 okay.

15 **CHAIRMAN CARTER:** Mr. Wright, you're
16 recognized.

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

18 CROSS EXAMINATION

19 **BY MR. WRIGHT:**

20 **Q.** Good evening, Mr. Sorrick.

21 **A.** Good evening, Mr. Wright.

22 **Q.** I have a few questions for you that relate to
23 information presented in Exhibit 293, which was the
24 collection of presentations made by senior company
25 management to investors and analysts. And as you and I

1 discussed it during the break, it refers to some of the
2 CBE material.

3 **A.** Okay.

4 **Q.** Mr. Dolan deferred a few specific questions to
5 you and to other operations witnesses who are more
6 directly familiar with the company's O&M costs, and I
7 just want to follow up on those.

8 Let me ask you a few general questions first,
9 and then I would like to try to understand where the
10 generation O&M costs are for 2007, '08, '09, and '10,
11 '09 and '10 obviously being budgeted. But here are the
12 more general questions. If you wanted to look at
13 Exhibit 293, perhaps you could look at Bate's Page 17
14 and Bate's Page 24, and then there are various pages
15 where the company talks about O&M costs, targeting O&M
16 cost reductions or targeting minimal O&M growth. For
17 example, do you see on Bate's 17, next to the cost
18 management marker, where it says the company is
19 targeting minimal O&M growth?

20 **A.** Yes.

21 **Q.** And have you seen this document before at all?

22 **A.** No. I heard significant discussion, and
23 Mr. Rehwinkel just handed me a copy of it.

24 **Q.** Okay. Let me just try my questions and maybe
25 we can speed this up. You are pretty much the head guy

1 for operation and maintenance for generation, correct?

2 A. Yes.

3 Q. Were you given any targets for O&M cost
4 reductions for 2008 or 2009?

5 A. For cost reductions --

6 Q. Yes, sir.

7 A. -- in those years? 2008, I don't recall.
8 2009, and I think I stated this last week in my
9 testimony, that we are forecasting to be about \$3-1/2
10 million below our budget.

11 Q. Understanding that that is your forecast, was
12 that a target that was given to you by management as
13 something you should strive to meet or is that your
14 forecast of where you are going to be?

15 A. That is our forecast of where we are going to
16 be against our budget.

17 Q. If you could, look at -- I want to say it is
18 Page 24. Yes, Bate's Page 24.

19 A. Okay.

20 Q. There is a reference near the -- it is the
21 next to the bottom line, significant belt tightening
22 efforts. My first question for you is were you given
23 from management above you in the organization any belt
24 tightening directives for 2009?

25 A. We were -- we have, as a general course of our

1 business -- I guess I would answer this, is that it is
2 hard to answer yes or no. As a general course of
3 business, over the past several years we have worked
4 very hard to manage our costs in a lot of different
5 ways. And as we went into 2009, we targeted -- and I
6 guess when I say we, and why it is hard to answer your
7 question, being the generation person in Florida, I'm
8 part of the asking, I guess, of my employees to look at
9 ways that we could tighten our belts, and were there any
10 opportunities there from a cost standpoint, another cost
11 management standpoint. And that is where we came up
12 with the \$3-1/2 million in favorable variance.

13 Q. Is that \$3-1/2 million an overall O&M
14 favorable variance in the category that would be O&M
15 cost recoverable through base rates?

16 A. I believe that it would.

17 Q. Thank you.

18 A. And the reason I say that, Mr. Wright, I am
19 just not entirely -- again, I'm not the accounting
20 expert, but that is in my O&M budget, so I believe that
21 that is a true statement.

22 Q. Thank you. There were also -- there is also
23 some information on Bate's Page 8 of Exhibit 293, and
24 you probably got to hear Mr. Dolan and me discuss this.
25 And in particular what I want to ask you about is the

1 priority to achieve a 3 to 5 percent productivity gain
2 as reflected on this document.

3 My first question is were you given any --
4 were you given by management above you in the company
5 any specific target productivity gain for 2009 or 2010?

6 **A.** No. And what we talked about, Mr. Wright --
7 and let's take 2009 first. We talked about in my
8 organization rolling out CBE, which is the continuous
9 business excellence program, and we have talked about in
10 2009 in particular learning how to use the tools,
11 because what we are using in the power generation side
12 of the business are Lean and Six Sigma tools. And that
13 is basically -- those are tools that you use to look at
14 any process that you have, streamline the process, make
15 that process more efficient. And it is actually a
16 pretty structured process in and of itself to utilize
17 these tools.

18 So the 2009 objective within the power
19 generation Florida group is to -- is to begin rolling
20 out these tools, understanding how to use these tools,
21 and to begin identifying what kind of different value
22 streams that we would go after in the future to employ
23 these tools on.

24 **Q.** Okay. You did just mention for 2009. Is
25 there a corresponding follow-on activity for 2010?

1 **A.** In 2010 we'll begin the implementation of
2 these tools. We will identify the value streams and we
3 will begin to work our way through some of these
4 processes. Some of the -- you can use this on any
5 process. So, some of the processes will be fairly
6 simple to use them on, some will be very complex and
7 take awhile. And so really in 2009 we are learning, in
8 2010 we will start implementing. And I agree with
9 Mr. Dolan in his assessment that the majority of these
10 savings would come in a longer -- medium to longer term
11 fashion.

12 We have been doing a lot of cost management
13 already, and so it's hard to just go into a budget and
14 say let's ring out 3 more percent. And so that is the
15 reason, at least in power generation, that we are taking
16 this more structured approach with the Lean and Six
17 Sigma tools. I would also point out that some of these
18 savings will be O&M, but some would be on clause
19 recoverable activities and some would be on capital, as
20 well.

21 **Q.** As we sit here this evening, have you defined
22 the measures, or the metrics, or the statistics by which
23 you would measure productivity gain?

24 **A.** That one is hard to answer, as well, because
25 it depends is the answer, which I'm sure you probably

1 get that answer a lot. But it depends on what you are
2 looking at. If you are looking at a process of ringing
3 out, you may have a process to do a certain preventative
4 maintenance task, for example, that takes six hours to
5 do. But if you can ring out an hour of that, then you
6 have saved an hour's worth of perhaps one or two
7 mechanics' time that they can be redeployed into
8 something else. So I think it is going to depend on
9 what the value stream is.

10 I think some of them would be in time, the
11 measurement; I think some would be in dollars; I think
12 some would just be in overall effectiveness; and some,
13 quite frankly, will be difficult to quantify. And what
14 I mean by that, some of the simple tasks that we have
15 used in power generation to begin teaching these methods
16 is called a Six S process. And that is, basically, you
17 can go into any -- you can go into your office, you can
18 go into a shop, you can go into your garage at home, and
19 that is basically a systematic way of walking through
20 and really organizing things to make it easier to use.

21 So I don't know how to necessarily quantify
22 that when we go into a machine shop at a big coal plant
23 and say things are where they ought to be, and they are
24 kept where they ought to be, and so it is more efficient
25 for a mechanic to walk in and pick up what he needs,

1 instead of root around and look for it. That one is a
2 hard one to quantify. So, again, I think it depends.

3 Q. Well, let's use a concrete example that I'll
4 bet we can agree on. Heat rate. You have got a coal
5 plant, and let's say just for the sake of discussion
6 that it starts off with a 9,500 Btu per kilowatt hour
7 heat rate. If you lower that to 9,400 Btu per kilowatt
8 hour, you have got a measurable improvement there, a
9 measurable productivity gain, right?

10 A. Right, I would agree.

11 Q. Okay. Have you defined any of the specific
12 productivity gain metrics analogous to the heat rate
13 example for the various activities under your purview as
14 we sit here tonight in September?

15 A. Not yet.

16 Q. Okay.

17 A. That is going to depend on the value streams
18 we pick.

19 Q. I understand. I just was trying to know with
20 definition where you are in the process. And just to
21 make sure I am clear, where you are right now is
22 attempting to identify value streams and start defining
23 the measures that you would use to evaluate them, is
24 that accurate?

25 A. Yes. Once we have the value streams, then we

1 will know what type of -- we call them events, but it is
2 really what part of the process we would use to go after
3 those individual components.

4 **MR. WRIGHT:** Thank you. Thank you, Mr.
5 Chairman, and thanks to my colleagues for letting me go
6 now. I appreciate it.

7 **CHAIRMAN CARTER:** Thank you.

8 Mr. Rehwinkel.

9 **MR. REHWINKEL:** Thank you, Mr. Chairman.

10 CROSS EXAMINATION

11 **BY MR. REHWINKEL:**

12 **Q.** Good evening, Mr. Sorrick.

13 **A.** Good evening, Mr. Rehwinkel.

14 **Q.** On Page 3 of your rebuttal testimony, isn't it
15 true that you assert that Mr. Schultz states that the
16 PEF safety goal should be no accidents and the
17 environmental goal should be absolute perfection?

18 **A.** That was -- yes, I did.

19 **Q.** Can you show me where in Mr. Schultz's
20 testimony he says that?

21 **A.** I cannot. Mr. Schultz in his testimony
22 inferred that in my direct testimony as I talked about
23 our ultimate goal of having zero accidents, which I
24 believe would be the ultimate goal for any organization
25 from a safety standpoint. The way I read it and

1 interpreted it personally was that he was asserting that
2 since I said our ultimate goal should be zero accidents
3 that we should not pay employee incentives if an
4 accident occurs.

5 Q. So when he says Power Operations Company
6 Witness David Sorrick states that it is PGF's goal to
7 have zero accidents, yet the incentive compensation goal
8 allows for accidents, that sentence is where -- that is
9 what you inferred from?

10 A. Yes, sir. And I did say that in my direct
11 testimony, but it was in the context of our zero in on
12 safety program which is designed to drive our workplace
13 accidents to zero. It was not in the -- it was not in
14 the context of incentive goals.

15 Q. What does he say about environmental goals?

16 A. I believe what he says about environmental
17 goals is, and this is paraphrasing Mr. Schultz, although
18 I could find it in his testimony, that year after year
19 the goal in his mind does not increase from the 4.0
20 level. I don't think he used the term 4.0 and,
21 therefore, it was not an incentive because it did not
22 increase in difficulty in achieving the goal.

23 Q. He doesn't testify that the environmental goal
24 must be absolutely perfect, does he?

25 A. He did not testify that it should be perfect.

1 But, again, in the environmental goal standpoint, since
2 it is an index and those numbers roll up, and I tried to
3 explain this in direct testimony and in the rebuttal, we
4 measure several different components for those
5 environmental index goals. And, again, it rolls up into
6 an overall index, and so there is math behind the number
7 that goes into that. And actually year of a year the
8 math, I guess, behind the 4.0 number or the 5.0 number
9 gets harder to achieve a 4.0 number.

10 Q. You don't dispute, do you, that he states in
11 his prefiled testimony, Mr. Schultz, that the goal was
12 achieved, but not raised, do you?

13 A. I'm sorry, what was that?

14 Q. That's okay. You do not dispute that
15 Mr. Schultz states in his prefiled testimony that the
16 environmental goal was achieved, but not raised?

17 A. Can you give me a page number on that?

18 Q. I'm looking at Page 28, Lines 16 through 20 of
19 Mr. Schultz's testimony.

20 A. No, I do not dispute that. However, again,
21 the math behind the index -- the math behind the index
22 does require higher performance to reach a 4 year after
23 year.

24 MR. REHWINKEL: Okay. Mr. Chairman, I would
25 like to pass out an exhibit for cross-examination

1 purposes.

2 **CHAIRMAN CARTER:** Do you need a number,
3 Mr. Rehwinkel?

4 **MR. REHWINKEL:** Yes, sir, I do.

5 **CHAIRMAN CARTER:** That will be 300.

6 **MR. REHWINKEL:** Yes. Yes, I do.

7 **CHAIRMAN CARTER:** Short title?

8 **MR. REHWINKEL:** This would be response to OPC
9 discovery as a short title.

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

11 **MR. REHWINKEL:** Okay. Yes.

12 **BY MR. REHWINKEL:**

13 **Q.** Mr. Sorrick, can I ask you to turn to the
14 first page, which is the response to Interrogatory 132,
15 Bates stamp Page 27. Do you see that?

16 **A.** Yes, the 2007 goals?

17 **Q.** Yes, sir.

18 **A.** Yes.

19 **Q.** Are you familiar with this document?

20 **A.** Yes.

21 **Q.** Under Number 7 Goal, PEF FGD, environmental
22 performance index.

23 **A.** Yes.

24 **Q.** Isn't it true that the achievement for that
25 index was 4.79?

1 **A.** Yes.

2 **Q.** That is not a perfect achievement level, is
3 it?

4 **A.** No, sir.

5 **Q.** On the second page of this document, which is
6 response to Interrogatory 132, Bates stamp Number 20,
7 which is the 2008 power generation incentive goals, is
8 that correct?

9 **A.** Yes, sir.

10 **Q.** And you are familiar with this document?

11 **A.** Yes, sir.

12 **Q.** Isn't it true that under Number 5, the
13 achievement for that was 4.62, correct?

14 **A.** Correct.

15 **Q.** And that is not a perfect achievement level,
16 is it?

17 **A.** No, not perfect.

18 **Q.** What is a perfect level for the environmental
19 index?

20 **A.** 5.0.

21 **Q.** 5.0. Can you tell me why the goal could not
22 be raised to the 4.62 level achieved in 2009?

23 **A.** I'm not sure I understand that.

24 **Q.** I'm sorry. Can you explain why the goal could
25 not be raised for 2009 to the 4.62 level?

1 **A.** Because, again, what we have done in the past
2 is we have made it harder to achieve a 4.0 with the math
3 behind the indexes. Let me give you an example of that
4 because it may help.

5 One of our measurements is hazardous waste
6 generation. And, obviously, we want to minimize
7 hazardous waste generation around all of our sites. And
8 so that component of the goal, every year we get nudged
9 down in that goal for the amount of hazardous waste
10 generation we can -- well, the amount of hazardous waste
11 we can generate and still make a 4.0. So, that is what
12 I mean when I say the math behind the number ratchets
13 down and becomes harder to achieve a 4.0.

14 **Q.** Okay. On Page 6 of your rebuttal testimony,
15 you state that a sustained goal of 4 out of a total of 5
16 demonstrates top tier performance worthy of incentives,
17 correct?

18 **A.** Yes.

19 **Q.** When was the last time that PEF achieved below
20 a 4 in the power generation area?

21 **A.** I cannot remember in the last few years when
22 we have achieved a level less than 4.

23 **Q.** Can you tell me where the incentive is to
24 improve performance if PEF consistently exceeds the goal
25 of 4.0?

1 **A.** Well, one of the things that we want to do,
2 obviously with incentive compensation, is to focus on
3 the goals that are very important to us, and that is why
4 safety and environmental are a part of our incentive
5 package. So we certainly want to make sure that
6 employees maintain their focus on all aspects of the
7 environment. And some of our plants, some of our
8 smaller CT plants, for example, have really a handful of
9 employees. We have some with just two employees there,
10 and so they really touch every single aspect of the
11 environment from oil spills to hazardous waste
12 generation to water usage to air emissions. And so we
13 want to make sure that every employee in PGF is focused
14 primarily on -- well, not primarily, but on the
15 environmental goal as we speak to it here.

16 Again, we have -- we have ten incentive goals,
17 and we want our employees to focus on what we believe
18 are the ten most important things they need to be
19 working on.

20 **Q.** Well, is it your testimony that once a goal is
21 achieved there is no need to attempt to improve on that
22 performance?

23 **A.** No, because we do improve on it.

24 **Q.** Can I ask you to turn to Interrogatory 255,
25 which I think is the third page of that document, that

1 document being the Exhibit 297. Are you familiar with
2 this document?

3 **A.** Yes.

4 **Q.** Isn't it true that for 2007, the achievement
5 for environmental according to this response was 4.9?

6 **A.** Yes, sir.

7 **Q.** So the company achieved a 4.9 and since the
8 goal always remains a 4, is it your opinion that that
9 could never be done again?

10 **A.** No, because I think in 2009 at least through
11 April we were performing at above a 4.9. I almost feel
12 like we are talking past each other here, because if the
13 index -- we could do this one of two ways. We could
14 keep the math behind the index the same every year and
15 creep it up from a 4 to a 4.2 to a 4.6, and so forth, or
16 the way we have chosen to do it is you keep the goal at
17 a 4, but you creep the math up behind the goal to get
18 the 4. So it is harder to get to a 4, but 4 is still
19 the goal.

20 So I disagree that we haven't been increasing
21 our performance with respect to environmental. I would
22 agree that it is not transparent the way the
23 environmental index is laid out.

24 **Q.** Okay. Are employees expected to perform their
25 duties safely as part of the duties for which they

1 receive pay?

2 **A.** Absolutely.

3 **Q.** On Page 9 of your testimony you do state,
4 don't you, that Mr. Schultz has never operated or
5 maintained a generating plant nor would he be qualified
6 to do so, correct?

7 **A.** I did.

8 **Q.** Do you have special training or certification
9 in human resources, compensation, and benefits?

10 **A.** Do I personally?

11 **Q.** Yes, sir.

12 **A.** Run through that list again if you would.

13 **Q.** Do you have special training in and expertise
14 in human resources, compensation and benefits?

15 **A.** I have some what I would call on-the-job
16 experience with HR matters, certainly employee issues,
17 grievance issues, and so forth, more than compensation.
18 No, I am not a compensation expert.

19 **Q.** Okay. Then, on Page 12, do you question
20 Mr. Schultz's testimony at Page 41 and his ability to
21 evaluate the maintenance requirements of Crystal River 4
22 because he is an accountant?

23 **A.** What line number are you on there?

24 **Q.** On Page 12 of your rebuttal. I'm looking
25 at -- beginning on Line 15, the Q and A starting there.

1 I am looking at Lines 19 and 20.

2 **A.** Yes. The concern that I have as Mr. Schultz
3 says it is not typical maintenance, but it is. It just
4 happens to be on a nine-year interval.

5 **Q.** I guess my question was is it -- are you
6 questioning his ability to provide a recommendation on
7 this for the reason that he is an accountant?

8 **A.** What I am questioning is does he understand
9 the drivers behind our major maintenance intervals on
10 the entire fleet, and does he understand the physics
11 behind it, because his testimony seemed to infer that we
12 just asked for a lot of money; and, therefore, let's
13 find a way to say, well, we should cut this request in
14 half, or we should cut this request by what appeared to
15 be an arbitrary amount of money to reduce the need.

16 And, again, we talked about this last week,
17 our request is based on what we physically need to do
18 from a major maintenance standpoint to the equipment,
19 and this was a particular example. I think to pull out
20 one unit like this and treat it differently than the
21 other major maintenance requirements is a pretty
22 simplistic approach.

23 **Q.** Do you have his testimony at Page 41, Lines 6
24 through 14?

25 **A.** Yes, I do.

1 Q. Can you point to me there where Mr. Schultz
2 questions whether the maintenance is required?

3 A. Well, at the end of Line 11 and 12 he doesn't
4 say that it is not required, but he does call it it is
5 not typical maintenance and will not be recurring, which
6 is not true.

7 Q. He doesn't say that the maintenance is not
8 required, does he?

9 A. No, but I think he misses the point on the
10 recurring part. It does recur.

11 Q. I guess the issue is how frequently?

12 A. Well, this particular instance it is every
13 nine years. But, again, as we provided in the
14 interrogatories we have over 60 units, 75 turbines, 75
15 generators that have various maintenance cycles. And,
16 again, to pull out one of the stack and say, well, this
17 one is a little expensive, we don't like it, and kind of
18 pull it to the side for different treatment doesn't make
19 sense to me.

20 Q. So, you are saying it recurs because it recurs
21 once every nine years, is that right?

22 A. Right.

23 Q. Okay. And I guess maybe it is a semantic
24 thing, but whether it recurs or not could be looked at
25 as far as whether is it is going recur in the next year,

1 and it does not in that regard, does it?

2 **A.** No, this one -- this particular one doesn't.

3 **Q.** Okay. On Page 19 of your rebuttal testimony.

4 **A.** Yes.

5 **Q.** The Q and A beginning on Line 8 and continuing
6 on through Line 19.

7 **A.** Yes.

8 **Q.** You do agree with Mr. Schultz, at least in
9 part, regarding the cost of the precipitator being
10 capitalized, correct?

11 **A.** I do.

12 **Q.** Okay. So he wasn't wrong about that one?

13 **A.** Well, let me explain that. At the end of the
14 day he wasn't wrong about that one. The original plan
15 for this precipitator work, the -- first of all, as you
16 are aware we have two clean air outages going at Crystal
17 River. We have one this fall -- we had two at Crystal
18 River 5 this spring, one this spring, one this fall.
19 The big one at Crystal River 4 is next spring.

20 The original work plan going into both Unit 5
21 and Unit 4's outage was we would perform -- we would
22 replace the first two fields -- collector fields in the
23 precipitator on capital, which is a major capital
24 expense. And then in Fields 3, 4, and 5, we would take
25 the original plan with this 5.3 million in O&M dollars

1 and go in and do various repairs to the components in
2 what we would call the back end of the precipitator in
3 those Fields 3, 4, and 5.

4 What we did was going into this spring's
5 outage at Crystal River 5, we took a look at the plates.
6 The plates were thinner than we had expected and said
7 what we really need to do in the cost-effective way is
8 to convert Field 3 entirely on capital, and then that
9 would leave \$1.1 million in O&M expenses to patch Fields
10 4 and 5. So when the original MFRs and the budget was
11 put together, the full intent was to be an O&M cost. At
12 the end of the day we regrouped on Unit 5 and said,
13 well, it is going to be more cost-effective to everybody
14 to replace on capital and do minor repairs in the last
15 two fields than to try to patch everything. It would
16 have cost a lot more than \$5.3 million in O&M, in other
17 words, had we tried to do Fields 3, 4, and 5 on O&M.

18 At that point in time, in the May/June time
19 frame of this year, we said we need to make the same
20 scope change to Unit 4. So that is a long answer, but,
21 yes, he was right about that one at the end of the day.

22 **Q.** Okay. Who usually makes the decisions, the
23 final decisions about booking costs to expense or
24 capital?

25 **A.** Well, a lot of times they are pretty

1 straightforward, they just fall out. If it is a
2 controversial issue, I guess, if you want to call it
3 that, plant management would raise it through the
4 channels. It would come to me, and I would work with
5 folks in the finance group and folks also on our finance
6 committee to determine the proper treatment.

7 Q. So, in the end an accountant probably makes
8 that final decision, right?

9 A. I would say at the end an accountant -- you
10 are trying to get me in trouble with my finance folks.
11 At the end of the day I think an accountant would say if
12 you do it this way, it is going to be O&M; if you do it
13 this way, it is going to be capital. What is the best
14 way to do it?

15 Q. Okay. Can I get you to turn to the response
16 to Interrogatory 260 in this 297 exhibit, and look at
17 the second page of that, of that response?

18 A. Okay.

19 Q. Under the caption additional outage projects,
20 dollar sign 15.1, do you see that?

21 A. Yes, sir.

22 Q. Under this description, would you agree that
23 this supports Mr. Schultz's testimony that the
24 maintenance that is at issue at Crystal River 4 is done
25 typically every nine years?

1 **A.** I just want to make sure I understand your
2 question. You are saying that if Mr. -- can I get to
3 the point where if Mr. Schultz read this he would get to
4 the point where the maintenance was done every nine
5 years.

6 **Q.** Yes.

7 **A.** Yes. We say it is performed every nine years.

8 **Q.** Okay. So his testimony is accurate on that
9 point, correct?

10 **A.** That is correct.

11 **Q.** On Page 13 of your rebuttal testimony, do you
12 state that PEF tries to levelize the maintenance, but
13 that is not always possible?

14 **A.** Yes.

15 **Q.** You would agree with me, would you not, that
16 the 2010 maintenance in your area, power operations, of
17 \$175 million, was significantly larger than the level of
18 historical costs in the same area, correct?

19 **A.** I would agree that it is larger.

20 **Q.** Well, on Mr. Schultz's testimony on Page 39,
21 isn't it the increase to 2010 that is the concern that
22 Mr. Schultz has identified as an issue?

23 **A.** What line are you on there?

24 **Q.** I'm looking at the Q and A on 21 forward.

25 **A.** 21 forward. Yes, that is what he identifies.

1 Q. Okay.

2 A. But, again, what I question is his -- when we
3 responded to the maintenance intervals and so forth, I'm
4 not sure that that was taken into consideration.

5 Q. On Page 42 of Mr. Schultz's testimony and on
6 Page 16 of your testimony, if you could kind of open
7 them both.

8 A. Yes.

9 Q. Is it your -- I'm sorry, let me let you get
10 there.

11 A. Oh, I'm there. I'm sorry.

12 Q. Isn't it your contention that if the costs
13 required were smoothed out, as Mr. Schultz recommends,
14 that PEF would be required to defer or cancel project
15 maintenance into future years?

16 A. Yes.

17 Q. Can you show me on Page 42 where Mr. Schultz
18 states that you, i.e., PEF, should defer any
19 maintenance?

20 A. No. He just says we should cut it out. In
21 Line 19, the 14.7 million should be reduced 7.35 million
22 to smooth out the cost for maintenance being charged to
23 the ratepayers. That leads me to the conclusion that he
24 obviously thinks 14.7 is too much. Our ask was based on
25 what we needed to do with outages. So I can't reach any

1 other conclusion. Again, I don't -- I don't think he is
2 saying we should defer it. I think he is saying we just
3 shouldn't do it.

4 Q. Is he talking about the dollars -- isn't he
5 talking about the dollars with respect to how they are
6 treated for ratemaking purposes rather than what you do
7 within your organization to meet your obligations to the
8 customers?

9 A. I can't say what Mr. Schultz was thinking
10 there. Again, what he said was should reduce it by
11 half. And, again, based on our preliminary discussions
12 of what 11 and 12 will look like with the same level,
13 same general level or even more, I'm not sure where we
14 would defer it to.

15 Q. So, is it your testimony or is it your
16 understanding that ratemaking looks at each and every
17 single expenditure of a company and either authorizes
18 them or doesn't, or do they make -- or is ratemaking
19 based on higher level looks at costs for reasonableness?

20 A. Higher level, I didn't catch the word right
21 before --

22 Q. A higher level look at costs for
23 reasonableness.

24 A. Oh. Quite honestly, I don't understand the
25 intricacies of all the ratemaking.

1 **Q.** Okay. So like earlier when you said that we
2 were talking past each other with the 4.0 and the math,
3 it is possible that you misunderstood or misconstrued
4 what Mr. Schultz was referring to when he talked about
5 cutting out the 14.7, wouldn't you agree?

6 **A.** No, I wouldn't agree with that. I mean, to
7 me -- to me it appears pretty clear that he is just
8 saying reduce -- the context that I believe he was
9 speaking to here was my testimony where I tried to
10 explain our variances to the benchmark, and that's
11 what -- this 14.7 was a component of the variance to the
12 benchmark. And what I understand Mr. Schultz to be
13 saying is reduce the 14.7 million by 7.35 million and
14 smooth out the costs. From my standpoint if I need to
15 do the maintenance of 14.7, which is what I put in for
16 this particular item, that tells me Mr. Schultz thinks
17 we should just cancel the maintenance.

18 **Q.** Okay. But he doesn't say in there don't do
19 the maintenance, does he?

20 **A.** No, but you can't do the maintenance if you
21 don't have the budget.

22 **Q.** Okay. And I think you have said many times
23 that you are not an accountant, right?

24 **A.** No, sir.
25

1 **Q.** Okay. You would likewise probably not be
2 familiar with the company's request to defer \$30 million
3 of pension expense, create a regulatory asset, and
4 recover that asset over a future period, would you?

5 **A.** I have heard discussions about it. I will be
6 honest with you, some of the meetings I sit through I
7 don't understand the details of those discussions, and I
8 will let Mr. Toomey explain it to me in what detail I
9 need to know.

10 **Q.** Well, you hope to be a beneficiary one day of
11 the company's pension plan, do you not?

12 **A.** I would hope to be.

13 **Q.** You are not concerned that the company by
14 deferring those pension expenses is not going to
15 contribute to your pension this year, are you?

16 **A.** I'm not sure how it works. I believe the
17 company will act appropriately with respect to the
18 pension.

19 **Q.** And it just may be a matter of how you account
20 for it rather than what you do for it in this current
21 period, correct?

22 **A.** I can understand that on the pension side. I
23 am having a hard time getting there when Mr. Schultz
24 just basically says reduce the ask.

25 **Q.** Okay. So, there is just no way you could

1 concede that the issue is about regulatory treatment of
2 the dollars rather than what you do with them on the
3 ground in your power operations operation?

4 **A.** That would not be the first thing that comes
5 to my mind when I read this.

6 **Q.** Okay.

7 **A.** Or probably the second or third, but --

8 **Q.** But even the fourth might be right.

9 **A.** Still clicking slowly past two.

10 **Q.** Okay. I understand. Can I get you to turn,
11 please, Mr. Sorrick, to Page 13 of your rebuttal
12 testimony, and specifically get you to look at Lines 7
13 through 21. I think you have a hypothetical there,
14 correct?

15 **A.** Yes. I was trying to use this as a somewhat
16 simplistic example.

17 **Q.** Okay. You are familiar with the example that
18 you have got in here, correct?

19 **A.** Yes.

20 **Q.** Okay. Can I get you to consider this
21 modification to your hypothetical? Can you make year
22 three year one so that in year one you have 125 tire
23 changes, in year two you have 75, and year three you
24 have 50. Do you follow me?

25 **A.** Uh-huh.

1 **Q.** Okay. Now, assume that you own a truck
2 company and you use the same supplier for tires every
3 year. Follow me?

4 **A.** (Indicating yes.)

5 **Q.** Now you go to your supplier and tell him your
6 requirements for tires. One more assumption I would
7 like you to use is that the tire industry is regulated,
8 and your cost is based on the requirements for year one.
9 Would you be agreeable to having the cost for tire
10 replacements for years one, two, and three based on the
11 cost for 125 trucks in year one?

12 **A.** In your hypothetical example --

13 **Q.** Yes, sir.

14 **A.** -- I would probably try to negotiate something
15 a little better.

16 **Q.** So your answer is you would not be willing to
17 have those costs based on the highest year, correct?

18 **A.** In your hypothetical example.

19 **Q.** Yes, sir. On Page 8 of your rebuttal
20 testimony, do you contend that Mr. Schultz demonstrates
21 his fundamental lack of understanding of PEF's O&M cost
22 requirements?

23 **A.** Yes, I do.

24 **Q.** Okay. On Page 22, do you state -- let me get
25 you to turn to Page 22 of your rebuttal.

1 **A.** Okay.

2 **Q.** Do you state there that to disallow the costs
3 of required maintenance because of Mr. Schultz's
4 "unfounded allegations" is both unfair and
5 irresponsible?

6 **A.** I do, because it seems to me that Mr. Schultz
7 was not taking into consideration the physical
8 requirements of the machine -- of the machines at all.

9 **Q.** Okay. Now, to your knowledge, I know you said
10 you don't understand the intricacies of ratemaking, but
11 to your knowledge does the Commission establish rates
12 annually based on your annual O&M costs?

13 **A.** To my knowledge, no.

14 **Q.** Okay. So would you agree that it is possible
15 that what Mr. Schultz is saying in his testimony is that
16 the costs in 2010 are uncharacteristically high in
17 comparison to historical costs and that because rates
18 are being set using a more normal level of expense, that
19 it would be more appropriate to smooth out the costs?

20 **A.** I believe in essence that is what he is
21 saying. But, again, I'm not sure -- I'm not sure that
22 takes into consideration the physical characteristics of
23 the machine. Now, again, maybe we are talking past each
24 other on this issue of ratemaking.

25 **Q.** I guess that will be for the Commission to

1 sort it out, right?

2 A. Yes.

3 Q. Okay. And I appreciate that you are in the
4 business of making things happen on a day-to-day basis,
5 I fully understand that. On Page 21, do you take
6 exception to Mr. Schultz's position that maintenance
7 costs are not supported by the company, specifically the
8 \$4.6 million amount that he discusses there?

9 A. Yes, I do. I do take exception with that.

10 Q. And it is your contention, is it not, that PGF
11 through -- PEF through PGF has clearly supported the
12 maintenance costs?

13 A. Yes.

14 Q. Okay. And looking on Page 21 and continuing
15 on to Page 22, do you contend that supporting
16 documentation for the \$4.6 million was provided?

17 A. Yes.

18 Q. Now, in that exhibit that you have are
19 Interrogatories 260 and 261.

20 A. Yes.

21 Q. What you say is part of the explanation?

22 A. It is part of the explanation. We also
23 provided portions of the contract -- of the LPSA
24 contract.

25 Q. Okay. Isn't it true that in 260 and 261 that

1 this is just essentially the identical words that are in
2 MFR C-41?

3 A. Very close.

4 Q. Pages 3 of 18 through 4 of 18?

5 A. Yes, they are very close. In Item 260, I'm
6 sorry.

7 Q. I'm sorry, yes, 260.

8 A. Right, right.

9 Q. Wouldn't you agree that what is on C-41
10 doesn't constitute justification, it is just an
11 explanation of what the costs represent?

12 A. No, I would not agree with that. I think it
13 is an explanation, but it is an explanation with the
14 numbers there to justify the expenses.

15 Q. Well, how is this different from something
16 that is just words and numbers on a piece of paper?

17 A. Well, they are -- I'm not a linguist either,
18 but I believe they are words and numbers that are woven
19 together into coherent sentences and paragraphs that try
20 to explain why we need this money and what the money is
21 for.

22 Q. When you refer in your Page 22 to OPC, the
23 response to OPC POD 1, I am looking on Line 6 and 7,
24 OPC's First Request for Production Question Number 1,
25 what specifically are you referring to there?

1 **A.** Give me just a second, if you will.

2 **Q.** Okay. I found a 4,000-page document in there
3 that I started to print out, and before I could hit stop
4 it printed 800 pages, and it was a POG package. That is
5 not what you are referring to, is it?

6 **A.** It may be, because when I asked my admin to
7 print it out, she came in my office and said it's a lot
8 of pages, do you really want me to print it?

9 **Q.** I'm glad I didn't do it, but for theatrics I
10 was going to take 4,000 pages of that and put it in
11 front of you and ask you to find it. Given the hour, I
12 don't think that would have been appreciated.

13 **A.** I appreciate the consideration.

14 **CHAIRMAN CARTER:** It would have been fun,
15 though.

16 **MR. REHWINKEL:** So I can just envision that.

17 **MR. BURNETT:** The scary thing is he probably
18 could.

19 **THE WITNESS:** Well, what I have -- what I
20 tried to do was list notes for what that was on -- I
21 believe that was provided on CD-Rom, and I don't have
22 the CD-Rom with me, but that would have been our budget
23 files, our asset plans that included some of our key
24 performance indicators, some of our key metrics over the
25 years. It also included the GKS benchmark study that we

1 talked about a little bit last week with Mr. Wright.

2 BY MR. REHWINKEL:

3 Q. Okay. So where in that was this \$4.6 million
4 supported?

5 A. Well, that would have been supported on one of
6 our budget files and asset plans.

7 Q. Okay. And how would it have been supported
8 there?

9 A. It would have been a line item in our budget.

10 Q. So it would have been just a number that said
11 4.6 million?

12 A. It would have been a number, I'm not sure
13 how it was -- if it was broken down by the individual
14 components as it is in the answer to 261, or if it was
15 rolled up to the 4.6 million. If I had to guess,
16 subject to check, it would be those would all be
17 broken down into individual line items on our budget
18 project list.

19 Q. In the exhibit here, can you turn to
20 Interrogatory 261 and 263? Could you review those two?

21 A. 261 and 263?

22 Q. Yes. I'm sorry, I will withdraw that
23 question.

24 Do you have POD 263 in your backup?

25 A. Yes. Well, when you say in my backup, what do

1 you mean by my backup?

2 Q. Do you have the response to 263 with you?

3 A. Yes.

4 Q. Okay. Could you tell me if the \$522,204
5 number on POD 263 is the -- corresponds to the same
6 number in Interrogatory 261?

7 A. I don't see that number on 263.

8 Q. POD 2 -- I think that may be Interrogatory 263
9 that you have got there.

10 A. I don't see a \$522,000 figure on 263.

11 Q. Okay.

12 A. Maybe it is a different 263. Is this the 263?

13 Q. I think that is Interrogatory 263.

14 A. Okay.

15 Q. Now, do you have a POD Response 263 in your
16 backup?

17 A. Let me look.

18 Okay. I am on the right 263. I'm sorry, the
19 question again, the 522 is that the same number as --

20 Q. Is that number -- does that number also appear
21 in Interrogatory 261?

22 A. Again, just to be clear, the interrogatory
23 that adds to the 4.6 million?

24 Q. Yes, sir.

25 A. No, that is a different project.

1 Q. Okay. POD 263, is that what the company
2 provided as justification for the \$4.6 million?

3 A. Okay. You're losing me again. POD 263 --

4 Q. Yes.

5 A. -- for the 522,000?

6 Q. No, for the 4.6 million. You reference it on
7 Page 22, Line 8 of your testimony.

8 A. I believe that is a different project. POD
9 263 deals with a pump project at Crystal River, and
10 Interrogatory 261 deals with combustion inspections at
11 our Bartow combined cycle facility.

12 Q. Okay. So do either of these support the
13 \$4.6 million?

14 A. 261 would support the \$4.6 million.

15 **MR. REHWINKEL:** Okay. Mr. Chairman, I would
16 like to pass out an exhibit that is confidential, and I
17 do -- I don't know that I really need a number.

18 **CHAIRMAN CARTER:** Okay.

19 **MR. REHWINKEL:** I do not intend to offer it.
20 And I think Mr. Sorrick has a copy of it already.

21 **THE WITNESS:** I think so.

22 **BY MR. REHWINKEL:**

23 Q. The document that I have handed out that has a
24 red folder on it and says it is confidential, are you
25 familiar with the two pages --

1 **A.** Yes, sir.

2 **Q.** -- that are behind this? Can you tell me --
3 and in anything you say I do not want you to disclose
4 confidential information.

5 **A.** Okay.

6 **Q.** So without doing so, can you tell me what this
7 document represents?

8 **A.** These are -- these are portions of the Siemens
9 long-term service agreement for the Bartow facility and
10 it represents some of our payment schedules within that
11 contract.

12 **Q.** And is that the same long-term service
13 agreement that is referenced on Line 21 of Page C-41,
14 Page 3 of 18?

15 **A.** Yes.

16 **Q.** Schedule C-41, Page 3 of 18?

17 **A.** Yes.

18 **Q.** Okay. Are the amounts shown on this document
19 the same as the amounts listed in Interrogatory 261 that
20 total \$4.626 million?

21 **A.** No. And the reason they are not is if you
22 look at Interrogatory 261, those first two line items,
23 there is a note that explains why those aren't the same
24 in the interrogatory.

25 **Q.** Okay.

1 **A.** The other two line items are for balance of
2 plant work, which would not be covered under the
3 long-term service agreement.

4 **Q.** Behind the first page of 261 there are two
5 documents that are entitled project cost estimate
6 report, do you see those?

7 **A.** Yes.

8 **Q.** Do those relate to this LTSA?

9 **A.** I believe they do.

10 **Q.** What does it mean about halfway down the
11 verbiage on this document, above the table where it says
12 cost to defer project from April of 2010 to April of
13 2011 is zero dollars?

14 **A.** I don't know.

15 **Q.** And the same thing is on the next page. I
16 guess these are one for each of the units at Bartow,
17 CC-1 and CC-2?

18 **A.** Right, that would be our first engine and our
19 second engine.

20 **Q.** Okay. And the same statement is on both of
21 those, correct?

22 **A.** Right. I don't know what those mean.

23 **Q.** Does that mean there was consideration given
24 to doing maintenance in '11 versus '10?

25 **A.** Not by me or by the plant, since we have

1 maintenance due in 2010 and 2011. So deferring this
2 maintenance into 2011 just makes our situation worse.

3 Q. Okay. Would you expect to pay your car
4 mechanic \$15,000 for repairs to your car based on the
5 description, quote, repairs-cost, \$15,000, close quote?

6 A. It would depend on, one, the relationship I
7 had with my mechanic; two, if I intimately knew the work
8 scope myself; or, three, if the mechanic worked for me,
9 and we did this work a lot.

10 Q. Earlier you agreed that on Page 8 of your
11 rebuttal testimony you contend that Mr. Schultz
12 demonstrates his fundamental lack of understanding of
13 PEF's O&M cost requirements, correct?

14 A. Yes.

15 Q. And I think you have stated many times that
16 you are not an accountant despite what your father
17 wanted you to do?

18 A. Well, that was the attorney part.

19 Q. Oh, okay. I thought it was an accountant --

20 A. No, nobody in my family ever wanted me to be
21 an accountant.

22 Q. Okay. But you are not an accountant, right?

23 A. I'm not.

24 Q. Do internal auditors for PEF perform audits of
25 your organization occasionally?

1 **A.** Can you ask that again?

2 **Q.** Does the internal auditing organization within
3 PEF or within PGN, do they perform audits of your
4 organization on occasion?

5 **A.** On occasion, typically on specific either
6 projects, or programs, or things of that nature.

7 **Q.** Is part of what they do to evaluate whether
8 the cost for power operations and the maintenance
9 expenses are reasonable?

10 **A.** I have not been associated with an overall
11 audit of our O&M budget.

12 **Q.** Okay. But do they occasionally evaluate
13 expenditures within your organization in the routine
14 course of business for reasonableness?

15 **A.** Typically, what I am used to is they will
16 take -- they will take an LTSA, for example, and they
17 will audit that contract, and they will audit, okay, are
18 we -- are we complying with the terms and conditions,
19 not only us, is the original equipment manufacturer
20 complying with the terms and conditions. Are we paying
21 on time, are we getting a lot of extra charges that we
22 shouldn't be. Those are the types of audits that I am
23 more used to.

24 Our financial folks, certainly, the
25 accountants that you seem to be trying to get me in

1 trouble with back home seem to -- I mean, they keep us
2 in check as far as what we spend, and reasonableness,
3 and so forth.

4 Q. Well, you don't contend that they are not
5 capable of doing their job in that regard because they
6 don't operate the plants in your organization, right?

7 A. That's right. But they also don't come and
8 say I think we just need to defer this maintenance
9 because it is too expensive. Which, again, is how I
10 construed Mr. Schultz's testimony.

11 Q. You don't -- do you question Mr. Schultz's
12 ability to evaluate the costs required for power
13 operations and provide testimony to this Commission in
14 that regard?

15 A. It seems to me that Mr. Schultz has looked at
16 historical numbers, and said, hey, these are going up,
17 so -- I am having a hard time answering your question.
18 I haven't worked with Mr. Schultz enough to know, but it
19 did not appear that he was taking into consideration the
20 physical requirements of the equipment. Again, it just
21 seemed like he was saying the increase is too much, we
22 need to cut it.

23 Q. Do you have any reason to dispute that
24 Mr. Schultz has participated in the review of numerous
25 utility rate requests over the past 30 years?

1 **A.** No, I read his extensive background.

2 **Q.** And have you reviewed the cases that he has
3 participated in over these 30 years?

4 **A.** I have not.

5 **Q.** Have you reviewed the decisions that were made
6 in any of these cases?

7 **A.** No.

8 **Q.** Do you know whether the Commission and or the
9 board in any of those cases has ever made an adjustment
10 to operation and maintenance plant costs requested by a
11 company based on his recommendation?

12 **A.** No.

13 **Q.** Is it your testimony that the ultimate
14 decision on what costs are included in the budget should
15 be solely made at the discretion of the only persons --
16 of only the persons that operate and maintain the
17 generating facilities?

18 **A.** I'm not sure I understand that one.

19 **Q.** Is it your testimony that the ultimate
20 decision on what costs are included in your budget
21 responsibility, power operations, should rest solely at
22 the discretion of those persons who operate and maintain
23 the generating facilities?

24 **A.** Just to clarify, so you are asking that when
25 we put our budgets together, that -- are you asking me

1 that it is my -- if it is my opinion or testimony that
2 the plant managers and line management are the ones that
3 make those final decisions?

4 Q. Should be -- are they the only ones that
5 should be allowed to make those decisions because they
6 operate and maintain the plants?

7 A. I certainly believe they are the ones most
8 capable of doing that and they are the ones accountable
9 for the results of what happens to the equipment. And
10 so, yes, I believe they are the ones that -- we are the
11 ones that should be making those decisions with respect
12 to our budgets.

13 Q. Do you say they should be the only ones within
14 your company?

15 A. Only is a pretty strong qualifier.

16 Q. Well, that is my question.

17 A. I would say there would probably be others
18 involved. But, again, I think the final recommendation
19 on what needs to be done would rest with the line
20 management.

21 Q. Isn't it true that the accounting and finance
22 personnel within the organization participate in the
23 decision process regarding what level of costs are
24 ultimately budgeted?

25 A. They do. But, again, from an overall

1 standpoint as we try to live within our means. We, as
2 the operators, are the ones that have to either convince
3 the accountants or whomever that we may need more money
4 in this year or that year depending on what is going on.
5 So it is a collaborative process, but, again, I think
6 the operators are the ones with the accountability.

7 **Q.** No one on the Commission staff operates or
8 maintains your generating plants, do they?

9 **A.** No. However, there would be some folks on the
10 Commission staff that based on the background that I
11 have read would be qualified to do so.

12 **Q.** But only those people?

13 **A.** Well, not just any -- not just anybody can
14 walk into a power plant and operate a power plant.

15 **Q.** Well, is it your testimony that only those
16 members of the Commission staff who are qualified to
17 operate and maintain a Progress Energy generating plant
18 should be allowed to make recommendations on level of
19 O&M expense includable from your area?

20 **A.** No, that would not be my testimony.

21 **Q.** What about Public Service Commissioners? None
22 of them have operated a PEF generating plant, would you
23 agree with that?

24 **A.** To my knowledge, that is true.

25 **Q.** Okay. But you are not saying that they can't

1 make judgments about the appropriate level of O&M
2 expenses from power operations for inclusion in
3 ratemaking for this company, are you?

4 **A.** Can you -- can you ask that one again?

5 **Q.** Okay. You are not testifying that because
6 they don't operate PEF generating plants that they are
7 not qualified to make judgments about the amount of O&M
8 expense from power operations that are includable in
9 rates as part of this case decision, correct?

10 **A.** Let me answer it this way, because I kind of
11 got lost in the yes and nos there. I believe the
12 Commissioners are capable of making those decisions, and
13 I believe a couple of Commissioners are probably capable
14 of working in our power plants.

15 **Q.** But none of them have.

16 **A.** Again, not to my knowledge.

17 **COMMISSIONER EDGAR:** Nor are we looking to.

18 **MR. REHWINKEL:** I think the electricity
19 consuming public is happy to hear that.

20 Just a few more questions, Mr. Sorrick.
21 Actually, that was my last question. Thank you.

22 **THE WITNESS:** Thank you.

23 **MR. REHWINKEL:** Madam Chairman, I do have --

24 **CHAIRMAN CARTER:** That would be Mr. Chairman.

25 **MR. REHWINKEL:** I'm sorry. I'm sorry.

1 Mr. Chairman, I apologize. I haven't been paying
2 attention. I have one last line of questions. It will
3 be very brief.

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

5 **BY MR. REHWINKEL:**

6 **Q.** I would like to ask you another hypothetical,
7 Mr. Sorrick. Can you assume for me that there is a
8 Company X that is in before the Public Service
9 Commission for a rate case, and that all the same rules,
10 regulations, O&M benchmark, MFR requirements are in
11 effect. And can you assume hypothetically that this
12 company, which is not PEF, had a power operations
13 expense in 2006 of \$100 million. Follow me so far?

14 **A.** Uh-huh.

15 **Q.** In 2010, the O&M multiplier for this company
16 was 1.1415, which would yield, if my math is correct, a
17 2010 benchmark of 114 thousand,150,000 dollars (sic).

18 **A.** 114 million.

19 **Q.** 114 million. You are following me very well.
20 Thank you. Can you further assume that the 2010
21 projected power operations expense for this Company X
22 were reported to be 134,150,000, or \$20 million over the
23 benchmark. Follow me so far?

24 **A.** I think so.

25 **Q.** Okay. And can you assume that this company,

1 Company X, not Progress Energy Florida, included in
2 their 2010 expenses a 30 -- a 20 -- a \$30 million
3 expense that included \$20 million of fraudulent
4 expenses. Follow me so far?

5 A. I think so.

6 Q. Okay. Notice I said not PEF.

7 A. I understand.

8 Q. Now, finally assume that for 2010, the company
9 described two separate projects that represented new
10 \$10 million expenses each, and each of those projects
11 constituted legitimate, reasonable, prudent, and
12 justified costs. Do you follow me?

13 A. I think.

14 Q. Okay. In that hypothetical, would that
15 company have justified the expenditure of \$134,150,000
16 of O&M expenses for that area?

17 A. Maybe I wasn't following you. Maybe I need to
18 write it down as we go. I think your gist is that
19 they -- that in this hypothetical, not PEF, that they
20 had -- did you say 30 million of fraudulent expenses?

21 Q. Twenty million.

22 A. Twenty million of fraudulent expenses, but
23 then they had 20 million of legitimate --

24 Q. Expenses and they explained them.

25 A. Yes.

1 **A.** Good evening, Mr. Moyle.

2 **Q.** And you have taken issue with FIPUG Witness
3 Marz, have you not?

4 **A.** I have.

5 **Q.** Okay. And similar to questions that
6 Mr. Rehwinkel asked you about Mr. Schultz, you don't --
7 you don't necessarily question the background of the
8 FIPUG witness in terms of his past experience, his
9 testimony in other cases, his research, do you?

10 **A.** No. Again, it is primarily on the same basis
11 with Mr. Schultz. It seemed that Mr. Marz was looking
12 for ways to just reduce the O&M costs without really
13 looking at the physics of the situation.

14 **Q.** Okay. All right. But you don't -- you don't
15 question his expert qualifications as we sit here today?

16 **A.** I have no reason to.

17 **Q.** Okay. And I want to ask you some specific
18 questions related to your testimony, but before I do,
19 just to kind of frame the context again. In response to
20 a question from OPC, you had said something about, you
21 know, it looked like maybe you were just coming in and
22 asking for a lot of money in the 2010 test year. You
23 are asking for a lot of money in the 2010 test year, are
24 you not, for O&M?

25 **A.** A lot is relative. We are asking for more

1 money than we have spent over the last several years.

2 Q. How much are you asking for 2010?

3 A. 175 million.

4 Q. And how much -- what was your spend in 2009?

5 A. Well, I don't have that on an apples-to-apples
6 basis that I am aware.

7 Q. Just for a frame of reference, with respect to
8 a lot compared to the previous years, can you give me a
9 percentage basis what your --

10 A. Well, I think we went through that with
11 Mr. Rehwinkel in my direct testimony in quite a bit of
12 detail. I don't have the sheet that I worked that up.

13 Q. And I'm not looking for, you know, to the nth
14 degree. I'm just looking, you know, general -- general
15 percentage. If you could just let us know -- and if you
16 have an understanding. If you don't have an
17 understanding, you know, I can move on. But what I'm
18 trying to understand is the difference between 2009 and
19 2010. You told me 175 million is your 2010 number?

20 A. It is generally a 36 percent increase, I
21 believe.

22 Q. All right. So we could do the math on that if
23 we needed to.

24 2010 represents the most money ever requested
25 for power generation operation and maintenance, correct?

1 **A.** I don't know. It is the most I have ever
2 asked for.

3 **Q.** Okay.

4 **A.** It is also -- 2010 is also going to be one of
5 the busiest years we have ever had from a major
6 maintenance standpoint, as well.

7 **Q.** Yes, sir. And I am just -- I'm a little bit
8 like Mr. Marz, probably, in that I have a law degree and
9 I am learning this a little bit better here, but I'm
10 trying to understand some things about your business.
11 And one of the things I think I understand is you have
12 the option to -- you have some flexibility with O&M,
13 correct, in terms of scheduling O&M?

14 **A.** Not necessarily.

15 **Q.** Well, help me with this. The confidential
16 exhibit that was passed out.

17 **A.** Right.

18 **Q.** And it is confidential, but if you go to the
19 third page of it, 2.0?

20 **A.** Okay.

21 **Q.** That title, you don't consider that
22 confidential, do you?

23 **A.** No.

24 **Q.** Okay. So it says, provision for early
25 scheduled outages. That to me suggests that, you know,

1 there may be maintenance done that is not necessarily
2 right on target with how it is planned, is that a fair
3 reading?

4 **A.** Well -- and I think I discussed this a bit
5 last week when we talked about the intervals and how we
6 try to somewhat levelize the maintenance spend where we
7 can. There may be some outages -- and in particular
8 this talks about hot gas path for a major, not a
9 combustion inspection, that we may do a little early,
10 some that we do on time and some that we would do a
11 little late. I mean, that -- we try within the range of
12 reasonableness to do that, but it is not -- it is not
13 that you can take -- in this case, the maintenance
14 interval is 25,000 hours. It is not that we would take
15 it down at 17,000 hours and do that, and it is not that
16 we can push it out to 32,000 hours and do that. There
17 is not that much flexibility.

18 **Q.** But there is some degree?

19 **A.** I will concede that on certain units in
20 certain situations there may be some flexibility.

21 **Q.** Okay. And you were here for Mr. Dolan's
22 testimony earlier -- earlier today, were you not?

23 **A.** Yes.

24 **Q.** He made a reference at one point about, well,
25 maybe there are some things you could do on maintenance

1 where you could shift it into another year or move it
2 up. Do you recall that statement?

3 **A.** I do.

4 **Q.** Was he accurate in that statement?

5 **A.** Again, depending on the details of that
6 situation. It is conceivable, and we have done that in
7 the past in an effort to balance our budget and the
8 requirements that we needed from a major maintenance
9 standpoint where if the unit is due to be -- to come
10 down for major maintenance in the fall, that that can be
11 pushed to the early spring, and it can be pulled from
12 the early spring back into the fall, as well.

13 **Q.** And in response to my question, you said you
14 have done that in the past in part to balance your
15 budget, is that right?

16 **A.** Well, in part to make sure that we are not
17 loading up one year or the other with extra
18 maintenance. And a lot of -- a lot of the flexibility
19 that we have is on our simple cycle fleet that is starts
20 driven. And so you forecast a certain number of starts
21 and depending on lot of different issues, those units
22 may start more or less. And so you may have it
23 scheduled for the fall and you may not have accrued the
24 starts that you thought you were going to accrue over
25 the summer, and it is not ready until the spring, and so

1 you can push that off into the next spring.

2 Q. Do you know what your equivalent availability
3 is of your simple cycle fleet?

4 A. Yes, I do. Actually, maybe I don't. No, I'm
5 sorry, I just have the combined cycle fleet.

6 Q. Let's talk a little bit about specifics in
7 your testimony, and I would like to kind of just walk
8 you through a couple of things.

9 A. Okay.

10 Q. And I am going to go from the back to the
11 front.

12 A. Okay.

13 Q. So the first question I have for you and you
14 take issue with Mr. Marz is on Page 18, Line 22.

15 A. And the question?

16 Q. You are asked would you consider this 5.3 a
17 contingency expense. Mr. Marks takes issue and says you
18 have 5.3 in as a contingency, correct?

19 A. Yes, that is what he called it I believe in
20 his testimony.

21 Q. And if I read your answer, you say, well, its
22 there for emergent issues, is that right, on Line 1?

23 A. Yes, and opportunity projects.

24 Q. Okay. And isn't -- aren't emergent issues and
25 opportunity projects, aren't those things that are not

1 necessarily identified, but may come up?

2 **A.** Yes, and what we have used this fund for over
3 the years, we know with past experience with a fleet as
4 large as ours we are going to have issues. There is no
5 way that we can plan for and budget to avoid all forced
6 outages, all equipment that breaks, and so forth. So we
7 know that we are going to have issues that we have to
8 address throughout the year.

9 This \$5.3 million is based on our historical
10 spend with some addition for the Bartow units as they
11 come into commercial operations to take care of those
12 types of issues. If we did not -- and so history tells
13 us that we spend between roughly 4 and \$6 million a year
14 on the fleet on items that either come up from a forced
15 outage emergent standpoint or from an opportunity
16 standpoint, engineering studies, engineering analysis,
17 and so forth, that we need to have funds ready for. The
18 alternative is to cancel scheduled projects or scheduled
19 maintenance when a forced outage occurs, or you just
20 leave the equipment out of service. Now, depending on
21 what the equipment is, that is not always a viable
22 choice.

23 **Q.** Yes, sir. And I guess I was just curious as
24 to why you disagreed about contingency, because it
25 sounds to me like the things you are describing are

1 contingencies?

2 **A.** Well, maybe it is semantics. In my mind we
3 know these things are going to happen, but I can't tag
4 it to a unit or a piece of equipment.

5 **Q.** Let me ask you this: Do you know -- have you
6 ever had a situation where you had a forced outage maybe
7 toward the end of the year, and you didn't have enough
8 money budgeted, and you had to go find monies from
9 another source? Have you ever had that happen in your
10 professional experience?

11 **A.** Yes.

12 **Q.** And you were able to do it, were you not?

13 **A.** We actually had a forced outage last year that
14 carried over to this year because we didn't have the
15 funds for it.

16 **Q.** You didn't have a line of credit? You didn't
17 go to your financial people in North Carolina and say we
18 need money to do this?

19 **A.** No.

20 **Q.** Did the outage that you reference, did it take
21 you below a 20 percent reserve margin?

22 **A.** I don't believe so.

23 **Q.** So you had enough still to meet your
24 20 percent?

25 **A.** You would have to check with Mr. Crisp on

1 that.

2 Q. Let me refer you to Page 14.

3 A. Okay.

4 Q. All right. Now, this to me in reference to
5 Mr. Dolan's comments about shifting earlier, this to me
6 looks like this is a shift -- a shift from something in
7 2011 into a maintenance effort in 2010, am I correct in
8 that?

9 A. For Crystal River Unit 4, but what is not
10 explained here is Crystal River Unit 5 was shifted from
11 2010 into 2009. Again, for the same reason, to take
12 advantage of the clean air outages.

13 Q. And I just want a reference on the shift that
14 went out of '11 here, and that is found on Page 19 where
15 you say it eliminates the need to take a base loaded
16 unit off line for a significant period of time during
17 2011, is that right?

18 A. Yes, that is what it says. But, again,
19 Crystal River 5 would have been in 2010, but we employed
20 the same logic and shifted it into 2009 so that we
21 didn't have to take double outages on it.

22 Q. But you could have had an option, could you
23 have not, I mean, because that could continue on. At
24 some point you are going to discontinue that shift,
25 correct?

1 **A.** Well, I would expect -- I would expect that
2 unless something unforeseen comes up in nine years, we
3 will be back into the Crystal River turbine in nine
4 years from this year and the Crystal River 4 turbine in
5 nine years from 2010.

6 **Q.** Yes, sir. Another option would have been to
7 go ahead and do what you were planning on doing in 2010,
8 and then -- and then doing the work as originally
9 planned in 2011 and not making that shift. That would
10 have been an option, correct?

11 **A.** That would have been an option. However, the
12 net dollars would have been the same, because the same
13 scope of work on Crystal River 5 that would have been
14 done in 2010, so the net dollars for the test year, if
15 you will, would have been the same, we would have just
16 taken two extra outages on base load coal plants instead
17 of no extra outages on base load coal plants.

18 **Q.** Let me refer you to Page 13, and you had a
19 discussion with Mr. -- with the Office of Public Counsel
20 about the trucks, and I didn't hear the whole thing, so
21 I apologize if I go over it. But if I understand your
22 hypothetical, you are making the point that you don't
23 always have a levelized maintenance period, is that
24 essentially correct?

25 **A.** That's right.

1 **Q.** Okay. But for the purposes of setting rates,
2 wouldn't you think as a matter of good policy that you
3 don't set rates on a year that might have a spike in it,
4 particularly given the fact that if rates are set on a
5 spike year, then ratepayers are going to continue to pay
6 the elevated sums in rates until there is another rate
7 case?

8 **A.** Well, I'm not the expert in ratemaking.
9 However, I would say, again, based on our preliminary
10 look at 2011 and 2012, we have got as much if not more
11 needs in those years. So, again, what I have set
12 forward for PGF are the maintenance requirements on the
13 fleet, and that is what we have asked for.

14 **Q.** And I appreciate that. I am just asking you
15 if you agree with the basic understanding with respect
16 to, you know, again, at a very broad policy level that
17 you shouldn't set rates on a spike year, particularly
18 given the fact that they would go into effect unabated
19 until the next rate case. You would agree that that
20 wouldn't be a good policy, correct?

21 **A.** I guess I would say I don't know enough about
22 the intricacies of ratemaking to agree or disagree with
23 that statement.

24 **Q.** And we can just use your example. I'm not
25 asking you to get into the weeds on ratemaking, but just

1 in your example if it was -- if the tire store was
2 regulated, and you had to provide enough money every
3 year, you know, to cover operations and you were going
4 to set rates.

5 **A.** Well, in my example the tire store is not
6 regulated. I mean, in my example the analogy is the
7 owner of the delivery trucks that are trying to show
8 that the maintenance requirements are there and they are
9 more complicated.

10 Part of the purpose behind this example is to
11 show that when you have one truck it is pretty easy, and
12 when you have a fleet of 250 trucks, or if you had one
13 unit it is pretty easy, but if you have a fleet of 62
14 units, it's a lot more complicated. And it is -- and
15 what the point of this is, both Mr. Schultz and Mr. Marz
16 wanted to pull one project out of the stack to treat it
17 differently than everything else. And my point is I
18 think that's just way too simplistic. You have got to
19 look at it in total.

20 **Q.** I understand. But using your example I just
21 want to explore how you -- your understanding. If you
22 use your example, and it's the truck, the delivery truck
23 example, and let's get away from the PSC, let's get away
24 from ratemaking, and it was your company, the delivery
25 truck business, and you didn't have any money, you

1 didn't have any capital, but you had a rich uncle. And
2 your rich uncle said, well, listen, I want to help you.
3 Can you -- can you give me how many tires -- I will help
4 you with the tires. I will be responsible for the
5 tires, and I'm going to go ahead and pay you up front
6 what you think you're going to need for these tires, you
7 know, parens, set rates.

8 If you looked at your hypothetical; 75 in one,
9 50 in year two, and 125 in year three, wouldn't it make
10 better sense to take the average of those, which I have
11 is 83 trucks per year, and calculate the figure based on
12 the average rather than, you know, maybe -- maybe
13 picking a year and having it be the right year or the
14 wrong year? Would that make sense in the hypothetical I
15 posed to you?

16 **A.** That's one way you could do it.

17 **Q.** Do you think it would make more sense than
18 picking one year and pegging the revenue to one year?

19 **A.** I'm not sure if it makes more sense or not.
20 It's my understanding that in Florida this is the
21 methodology that we use.

22 **Q.** And if you are using this methodology, you
23 would agree that you need to make sure that you are
24 looking at a year that is an accurate and fair
25 representation of both historical O&M costs and

1 projected O&M costs, correct?

2 **A.** Well, again, I'm not sure historical captures
3 everything, at least in my segment of the business, that
4 you need to capture. You have got to understand what
5 has been added to the fleet, you have got to understand
6 how the fleet is run, and you have got to understand
7 what maintenance requirements are due or coming due. So
8 I think a good understanding of all of those things have
9 to go into it, but just to say we've always spent on
10 this trajectory is not necessarily what the future
11 trajectory is going to be or should be.

12 **Q.** Let me give you a hypothetical. Let me
13 suggest to you -- well, I guess there were some
14 questions drawn about this Progress Energy presentation
15 made to Wall Street and focus was drawn to the notion
16 about targeting minimal O&M growth. You would agree
17 that a 36 percent increase from O&M expenses from 2009
18 to 2010 is not minimal O&M growth, correct?

19 **A.** I would generally agree with that statement.

20 **Q.** Okay.

21 **A.** However, I would also say that the company
22 understands the scope that we have added and the
23 requirements that come with that scope.

24 **Q.** Yes, sir. And I'm just trying to reconcile,
25 you know, a statement provided to Wall Street with your

1 testimony here to this Commission in the span of, what,
2 seven months. This was February of 2009.

3 **A.** But, again, if you expect to add two
4 two-on-one power blocks and one four-on-one power block,
5 and then the two previous Hines units with the major
6 maintenance that comes with that and say we are not
7 going to incur anymore O&M, that is unrealistic and
8 those in our company understand that.

9 **Q.** Did anyone talk to you about this presentation
10 before it was made, do you know?

11 **A.** No, no one talked to me.

12 **Q.** Okay.

13 **A.** But, again, they understand what the
14 requirements are.

15 **Q.** Well, you're the main guy at the company on
16 O&M, correct?

17 **A.** I'm the main generation guy in Florida.

18 **Q.** Okay. I'm sorry. I'm talking a shorthand.
19 It's late.

20 **A.** No, that's okay. Well, I just want to make
21 sure we're clear.

22 **Q.** All right. If you were asked -- if senior
23 management called and said, you know, the Wall Street
24 people are listening, and the 36 percent increase from
25 2009 to 2010 is probably not minimal O&M growth. You

1 know, we need to take another look at these numbers, and
2 asked you to go and look at your 2010 O&M budget. And
3 they asked you to say can you see if you can ring 10
4 percent savings out of that 2010 O&M budget and not
5 endanger the customers or imperil keeping the lights on,
6 is that something that you think you could do as you sit
7 here today?

8 **A.** We would potentially look at that exercise,
9 but along with that we would certainly communicate very
10 strongly the risks we are taking with the equipment is,
11 which pieces of equipment we are taking and what the
12 overall risk to the company would be with that.

13 **Q.** What's your current -- you don't have the
14 information on reserve margin, do you?

15 **A.** Huh-uh.

16 **Q.** Okay. That hypothetical conversation that I
17 just laid out, that hasn't happened in terms of anything
18 to date. You haven't been asked to undertake any kind
19 of exercise to trim cost and hit a certain percentage or
20 target, have you?

21 **A.** No.

22 **Q.** Okay. Now, on Page 12 -- actually it starts
23 on Page 11. You were asked the questions -- and, again,
24 this is Mr. Marz, FIPUG's witness, I guess you are
25 responding to a suggestion that Progress has planned

1 outage increase overall O&M in the 2010 test year is
2 done for the purpose of driving up costs rather than
3 addressing maintenance issues. Is that sort of what you
4 took away from Mr. Marz's testimony?

5 **A.** Yes.

6 **Q.** Okay. And then on the next page, down on Line
7 11 you state, "However, just like Mr. Schultz, Mr. Marz
8 has not operated our generating units and he has not and
9 cannot provide meaningful analysis in this regard
10 because he is a lawyer, not an engineer."

11 Now, are you aware that lawyers are trained in
12 deductive reasoning, and logic, and looking at facts and
13 arguing them, or making -- if a lawyer is a judge that
14 they have make a decision based on facts?

15 **A.** Yes, and I am well aware that they like to
16 argue facts. I grew up with one.

17 **Q.** All right.

18 **A.** However, and that's where my contention lies,
19 I don't believe Mr. Marz has the facts or sought out the
20 facts.

21 **Q.** You're aware that some of the people
22 ultimately making the decision in this case are also
23 lawyers, are you not?

24 **A.** I am.

25 **Q.** Okay. And with respect to deductive

1 reasoning, you may not agree with it, but wouldn't you
2 agree that one logical -- one logical conclusion with
3 respect to the O&M maintenance is that the expense in
4 2010 is overstated given the historical expenditures
5 that your entity has had on O&M, given the indication in
6 February of 2009 before you filed your rate case that
7 the goal was to target minimal O&M growth, that's what
8 Wall Street was being told in February, but then in the
9 rate case, the filing was made that had a significant
10 increase which included, at least in one instance, a
11 2011 project being done in 2010.

12 So given that, don't you think it could be a
13 reasonable conclusion that as Mr. Marz suggests that
14 some of the O&M might be a little heavy for 2010?

15 **A.** I could see where somebody could make that
16 conclusion and it wouldn't be completely illogical, but
17 I would also expect that the next piece of understanding
18 you need is what is driving it, what are the
19 requirements behind it. And, again, that is what our
20 unit operations are doing, they are driving this to
21 maintain this equipment.

22 **MR. MOYLE:** Thank you. That's all I have.

23 **CHAIRMAN CARTER:** Thank you, Mr. Moyle.

24 Staff.

25 **MR. YOUNG:** No questions.

1 **CHAIRMAN CARTER:** Commissioner Skop.

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

3 Good evening, Mr. Sorrick.

4 **THE WITNESS:** Good evening, Commissioner.

5 **COMMISSIONER SKOP:** I'll make this real quick
6 if I can. If I could turn your attention to Page 19 of
7 your rebuttal testimony, please.

8 **THE WITNESS:** Okay.

9 **COMMISSIONER SKOP:** And generally starting on
10 Lines 15 through 17. Do you see that?

11 **THE WITNESS:** Yes.

12 **COMMISSIONER SKOP:** Okay. And on those lines,
13 they discuss the -- in response to Witness Schultz'
14 concern, they provide the breakout of what costs will be
15 expensed versus what costs will be capitalized for the
16 precipitator on CR-4, is that correct?

17 **THE WITNESS:** Yes.

18 **COMMISSIONER SKOP:** Okay. Just a quick
19 question in relation to that. With respect to the
20 1.1 million in expense that do not qualify for
21 capitalization under the existing policy, can you
22 elaborate on that briefly to the extent that I don't
23 know what the policy is, but also I'm just wondering,
24 and I could be wrong on this, but I was wondering why
25 those repairs that perhaps contribute improvements to

1 the structure required for insulation of new
2 precipitators which will be capitalized, why those
3 costs, the 1.1 million could not be capitalized if it is
4 used for improvements to support a new capital
5 expenditure?

6 **THE WITNESS:** Yes. Basically, the 1.1 million
7 are repairs, and our capital policy is along the lines
8 of if you replace it and it is a replacement unit of
9 property you can capitalize it. In this situation, for
10 example, when we made the decision that we were going to
11 replace all of the curtains in Field 3, that's a unit of
12 property, the whole field. And, therefore, we were able
13 to capitalize it. So out of this \$1.1 million was on
14 just patch work, welding plates, and repairs instead of
15 replacements.

16 **COMMISSIONER SKOP:** Okay. But would they
17 support a new capital addition on that train, if you
18 would, or the field?

19 **THE WITNESS:** No, not just expense. This is
20 really to just get the last two fields in more
21 serviceable condition.

22 **COMMISSIONER SKOP:** Okay. All right. Fair
23 enough. If I could next turn your attention to Page 21
24 of your rebuttal testimony, please.

25 **THE WITNESS:** Okay.

1 **COMMISSIONER SKOP:** Okay. And beginning on
2 Lines 16 through 23, do you see that?

3 **THE WITNESS:** Yes.

4 **COMMISSIONER SKOP:** Okay. And that basically
5 discusses the \$4.6 million on the long-term service
6 agreement that Mr. Schultz alleges should be disallowed.
7 Do you see that?

8 **THE WITNESS:** Yes.

9 **COMMISSIONER SKOP:** Okay. Now if I can refer
10 you to, I guess, what has been marked as Exhibit 300,
11 Page 60, which is the response to the question numbered
12 261.

13 **THE WITNESS:** Yes.

14 **COMMISSIONER SKOP:** Okay. Now, in that
15 response it identifies, I think, as you have previously
16 testified, that those are the four components that
17 comprise the approximately \$4.6 million of the service
18 agreement, is that correct?

19 **THE WITNESS:** Yes.

20 **COMMISSIONER SKOP:** Okay. And I think you
21 also mentioned that there is an escalation factor which
22 causes a little bit of the difference from the value
23 shown in the confidential document, is that correct?

24 **THE WITNESS:** That's right.

25 **COMMISSIONER SKOP:** Okay. If I could please

1 turn your attention now to the confidential document,
2 which I believe -- and I'm not sure if it has been
3 marked or not, but it's the only red one in front of
4 you.

5 **THE WITNESS:** Right.

6 **COMMISSIONER SKOP:** Okay. All right. And if
7 I could, I guess, turn your attention to 00003, I think,
8 is the Bates number, which is Exhibit E, the first page.

9 **THE WITNESS:** Okay.

10 **COMMISSIONER SKOP:** Do you see that?

11 **THE WITNESS:** Yes, sir.

12 **COMMISSIONER SKOP:** Okay. And if I could draw
13 your attention to Paragraph 1.2 of that schedule. Do
14 you see that?

15 **THE WITNESS:** Yes.

16 **COMMISSIONER SKOP:** All right. I'm going to
17 be very careful, and, Mr. Burnett, jump in if you need
18 to so we don't disclose anything confidential. But with
19 respect to -- and let me turn your attention to the next
20 page briefly. And do you see -- are you on 00004?

21 **THE WITNESS:** Yes, sir.

22 **COMMISSIONER SKOP:** And reading down just
23 generally speaking the first type of inspection, do you
24 see that, the first inspection listed?

25 **THE WITNESS:** Yes.

1 **COMMISSIONER SKOP:** Okay. All right. Without
2 disclosing what that is.

3 **THE WITNESS:** Yes.

4 **COMMISSIONER SKOP:** Okay. The question I have
5 now going back to the previous page is for the line item
6 identified in Paragraph 1.2A. Do you see that?

7 **THE WITNESS:** Yes.

8 **COMMISSIONER SKOP:** Okay. Where are those
9 respective costs captured, if you can elaborate on that
10 without disclosing anything confidential?

11 **THE WITNESS:** Yes. Can I take a second to
12 read that Paragraph A here?

13 So, Commissioner, your question is where is
14 that number that is listed in 1.2A reported?

15 **COMMISSIONER SKOP:** Correct.

16 **THE WITNESS:** I believe, and I can confirm
17 this and get the information back to you, but I believe
18 this was included as part of the original construction
19 project.

20 **COMMISSIONER SKOP:** Okay.

21 **THE WITNESS:** Because we upgraded our
22 originally ordered combustion system to Siemens new
23 ultimate low NOx combustion system, and so this is the
24 charge for that upgrade.

25 **COMMISSIONER SKOP:** Okay. Now, with respect

1 to the charge you identified, is that a per occurrence
2 cost or is that one price for a lifetime on that?

3 **THE WITNESS:** That was one price for the
4 hardware that we have now. If we have to buy -- one set
5 of hardware runs through its maintenance cycles and we
6 have to purchase new hardware, then we'll have to
7 purchase hardware, but that is not a recurring cost
8 until we have to buy new hardware.

9 **COMMISSIONER SKOP:** Okay. But it is per
10 occurrence should you need to do it at that service
11 interval?

12 **THE WITNESS:** Yes, it is. But that -- we
13 should be able to refurbish these parts for several
14 intervals, so this should not be up against the wall.

15 **COMMISSIONER SKOP:** Very well. And with
16 respect to that specific line item in 1.2A, that would
17 not be used with respect to the first inspection shown
18 on the subsequent page, is that correct?

19 **THE WITNESS:** Not that dollar amount, if that
20 is what you are asking.

21 **COMMISSIONER SKOP:** Not at that interval, hour
22 interval, right?

23 **THE WITNESS:** Right. These are the parts that
24 will be replaced at that first interval.

25 **COMMISSIONER SKOP:** Oh, it will be? So during

1 that first --

2 **THE WITNESS:** Yes, they will be pulled out.
3 What we do is we have a rotatable (phonetic) set of spares
4 and so these will be pulled out, we will put in another
5 part, and then repair them.

6 **COMMISSIONER SKOP:** That's what I thought. I
7 mean, before the confidential document came out, you
8 know, the words I had written down were these rotating
9 spare pools for line replaceable components.

10 **THE WITNESS:** Right.

11 **COMMISSIONER SKOP:** Okay.

12 **THE WITNESS:** If we let the unit out for those
13 parts to be refurbished, it would be down for several
14 weeks to months.

15 **COMMISSIONER SKOP:** I understand. Okay. Just
16 briefly on 1.2B, that line item. Do you see that?

17 **THE WITNESS:** Uh-huh.

18 **COMMISSIONER SKOP:** Okay. The same situation
19 there. Where are those costs captured? Are those in
20 the O&M, or were those in the initial like you mentioned
21 previously on my prior question?

22 **THE WITNESS:** All right. Hang on one second.
23 Again, I can double-check this. I believe this would be
24 an inventory cost where these are parts that have been
25 bought into inventory, but I can check that.

1 **COMMISSIONER SKOP:** It's not important. I'm
2 just trying to get through --

3 **THE WITNESS:** It's not an O&M cost, if that's
4 what you are asking.

5 **COMMISSIONER SKOP:** Okay. All right. Fair
6 enough. And for that Line Item 1.2B, is that also a per
7 occurrence cost at the required service interval, or
8 would that be the lifetime cost?

9 **THE WITNESS:** That would be once those
10 parts -- and these would be for the hot gas path
11 components -- that would be once those parts have gone
12 through all their intervals and their life is expended,
13 we would have to replace them. But, again, that would
14 be down the road.

15 **COMMISSIONER SKOP:** Okay. So that is per
16 replenishment, though, as normal wear and tear would
17 require replacement?

18 **THE WITNESS:** Well, no, this is at the end of
19 the parts life. So it can go through several cycles
20 before it's an end of life and falls out the other end.

21 **COMMISSIONER SKOP:** Okay. So you would go
22 through refurbishment before you would ultimately hit
23 end of life?

24 **THE WITNESS:** Yes, absolutely.

25 **COMMISSIONER SKOP:** Okay. All right. And

1 then I think I just have one additional question with
2 respect to the -- on Page 21, again, you talked about
3 the long-term service agreement of which the
4 confidential pages are obviously an excerpt. With
5 respect to these type of agreements, are agreements of
6 this nature considered standard industry practice?

7 **THE WITNESS:** I would say there are a lot of
8 these agreements out there. I would say probably so.

9 **COMMISSIONER SKOP:** Okay. And is that because
10 they provide a cost/benefit to the ratepayers to the
11 extent that you're basically entering into an agreement
12 for rotatable spares versus having to do it on a per
13 incident basis?

14 **THE WITNESS:** That's part of it. Also, the
15 different terms and conditions can also provide
16 different risk mitigations, and those would be different
17 per contract and really per original equipment
18 manufacturer.

19 **COMMISSIONER SKOP:** Okay. So essentially
20 these type of agreements in terms of -- I think the term
21 you just mentioned is it provides access to replacement
22 parts that absent having such long-term agreement might
23 not be readily available when you need them, is that
24 correct?

25 **THE WITNESS:** That's part of it. It also

1 provides better access into the OEMs, original equipment
2 manufacturers engineering group. And so when there are
3 problems in the fleet, you get a little more insight
4 into those problems and how to deal with those problems.

5 **COMMISSIONER SKOP:** Okay. Fair enough. On
6 page -- and the reason I ask that is, again, I'm trying
7 to relate my past experience to what I'm seeing here and
8 draw logical inferences. On Page 22 of your rebuttal
9 testimony, Lines 12 through 22. Do you see that?

10 **THE WITNESS:** Yes.

11 **COMMISSIONER SKOP:** Okay. And in that
12 particular section you rebut Mr. Schultz's assertion
13 that the maintenance interval or his calculated
14 maintenance interval is incorrect, is that correct?

15 **THE WITNESS:** Yes. And I believe he withdrew
16 that sentence in his testimony when he testified last
17 week.

18 **COMMISSIONER SKOP:** Okay. I'm pretty diligent
19 about marking that, but I may have missed that one. It
20 has been a long week.

21 **THE WITNESS:** I believe since I watched his,
22 actually I think he corrected that and just removed
23 that.

24 **COMMISSIONER SKOP:** Very well. Thank you.

25 **CHAIRMAN CARTER:** Commissioners, anything

1 further from the bench? Redirect?

2 **MR. BURNETT:** No, sir. And this witness has
3 no exhibits.

4 **CHAIRMAN CARTER:** No exhibits. Mr. Rehwinkel,
5 Exhibit 300.

6 **MR. REHWINKEL:** Actually, we just would move
7 297, Mr. Chairman.

8 **CHAIRMAN CARTER:** I beg your pardon?

9 **MR. REHWINKEL:** 297 I think it is.

10 **CHAIRMAN CARTER:** We're beyond that. 300.

11 **MR. REHWINKEL:** I'm sorry, I don't know why I
12 wrote that there, 300. And the confidential exhibit,
13 Mr. Poucher is collecting those since I did not --

14 **CHAIRMAN CARTER:** We are happy to give it
15 back. 300 is the response to OPC discovery.

16 **MR. REHWINKEL:** Thank you.

17 **MR. BURNETT:** No objection, sir.

18 **CHAIRMAN CARTER:** Without objection, show it
19 done.

20 (Exhibit 300 admitted into the record.)

21 **CHAIRMAN CARTER:** Anything further for this
22 witness?

23 **MR. BURNETT:** No, sir. May he be excused from
24 the proceeding?

25 **CHAIRMAN CARTER:** He has been direct and

1 rebuttal, right?

2 **MR. BURNETT:** Yes, sir.

3 **CHAIRMAN CARTER:** You may be excused, and I'll
4 see everybody at 9:30 in the morning.

5 (The hearing adjourned at 7:56 p.m.

6 Transcript continues in sequence with Volume 21.)

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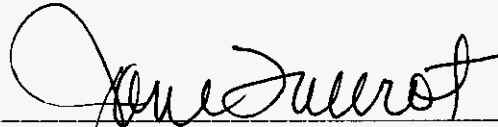
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 : CERTIFICATE OF REPORTER
COUNTY OF LEON)

I, JANE FAUROT, RPR, Chief, Hearing Reporter Services Section, FPSC Division of Commission Clerk, 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' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 1st day of October, 2009.



JANE FAUROT, RPR
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