BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY OF

THOMAS G. FOSTER

ON BEHALF OF

PROGRESS ENERGY FLORIDA

DOCKET NO. 120007-EI

Revised OCTOBER 17, 2012

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

A. My name is Thomas G. Foster. My business address is 299 First Avenue North, St. Petersburg, FL 33701.

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

A. I am employed by Progress Energy Service Company, LLC, as Manager of Retail Riders and Rate Cases in Florida.

Q. **Have you previously filed testimony before this Commission in this proceeding?**

A. Yes.

Q. **Have your duties and responsibilities remained the same since you last filed testimony in this proceeding?**

A. Yes.

COM 5
AFD 4
APA 1
ECO 1
ENG 1
GCL 1
IDM 1
TEL
CLK 1

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present, for Commission review and approval, Progress Energy Florida's (PEF's) calculation of revenue requirements and ECRC factors for customer billings for the period January 2013 through December 2013. My testimony addresses capital and operating and maintenance ("O&M") expenses associated with PEF's environmental compliance activities for the year 2013.

Q. Have you prepared or caused to be prepared under your direction, supervision or control any exhibits in this proceeding?

A. Yes. I am sponsoring the following exhibits:

1. Exhibit No. __(TGF-3R), which consists of PSC Forms 42-1P through 42-8P; and
2. Exhibit No. __(TGF-4), which provides details of capital projects by site.

The following individuals will also be co-sponsors of Forms 42-5P pages 1 through 20 as indicated in their testimony:

- Mr. Zeigler will co-sponsor Forms 42-5P pages 1, 2 and 10;
- Ms. West will co-sponsor Forms 42-5P pages 3, 4, 5, 6, 8, 9, 11, 12, 13, 14, 15, 16, 17, 18, and 19;
- Mr. Swartz and Ms. West will co-sponsor Form 42-5P page 7 and
- Mr. Hixon will co-sponsor Form 42-5P page 20.

Q. What is the total recoverable revenue requirement relating to the projection period January 2013 through December 2013?

A. The total recoverable revenue requirement including true-up amounts and revenue taxes is approximately $182.6 million as shown on Form 42-1P, Line 5 of Exhibit No. __(TGF-3R).

Q. What is the total true-up to be applied in the period January 2013 through December 2013?

A. The total true-up applicable for this period is an over-recovery of approximately $12.9 million. This consists of the final true-up under-recovery of approximately $1.7 million for the period from January 2011 through December 2011 and an estimated true-up over-recovery of approximately $14.6 million for the current period of January 2012 through December 2012. The detailed calculation supporting the 2012 estimated true-up was provided on Forms 42-1E through 42-8E of Exhibit No. __ (TGF-1) filed with the Commission on August 1, 2012.

Q. Are all the costs listed in Forms 42-1P through 42-7P attributable to Environmental Compliance projects previously approved by the Commission?

A. The following projects were previously approved by the Commission:

The Substation and Distribution System O&M programs (Nos. 1 & 2) were previously approved by the Commission in Order No. PSC-02-1735-FOF-EI.

The Pipeline Integrity Management Program (No. 3) and the Above Ground Tank Secondary Containment Program (No. 4) were previously approved in Order No. PSC-03-1348-FOF-EI.

The recovery of sulfur dioxide (SO_2) Emission Allowances (No. 5) was previously approved in Order No. PSC-95-0450-FOF-EI, however, the costs were moved to the ECRC Docket from the Fuel Docket beginning January 1, 2004 at the request of Staff to be consistent with the other Florida investor owned utilities.

The Phase II Cooling Water Intake 316(b) Program (No. 6) was previously approved in Order No. PSC-04-0990-PAA-EI.

PEF's Integrated Clean Air Compliance Plan (Program No.7), which the Commission approved as a prudent and reasonable means of complying with CAIR and related regulatory requirements in Order No. PSC-07-0922-FOF-EI.

The Arsenic Groundwater Standard Program (No. 8), the Sea Turtle Lighting Program (No. 9), and the Underground Storage Tanks Program (No. 10) were previously approved in Order No. PSC-05-1251-FOF-EI.

The Modular Cooling Tower Program (No. 11) was previously approved by the Commission in Order No. PSC-07-0722-FOF-EI.

The Crystal River Thermal Discharge Compliance Project (No. 11.1) and the Greenhouse Gas Inventory and Reporting Project (No. 12) were previously approved in Order No. PSC-08-0775-FOF-EI.

The Total Maximum Daily Loads for Mercury Project (No. 13) was previously approved in Order No. PSC-09-0759-FOF-EI.

The Hazardous Air Pollutants (HAPs) ICR Project (No. 14) was previously approved in Order No. PSC-10-0099-PAA-EI.

The Effluent Limitations Guidelines ICR Project (No. 15) was previously approved in Order No. PSC-10-0683-PAA-EI.

National Pollutant Discharge Elimination System (NPDES) (No. 16) was previously approved in Order No. 11-0553-FOF-EI

Mercury & Air Toxic Standards (MATS) (No. 17) which replaces Maximum Achievable Control Technology (MACT) was previously approved in Order No. 11-0553-FOF-EI and Order No. PSC-12-0432-PAA-EI. These programs are further discussed in Witnesses West and Hixon testimony.

Q. What impact does the Thermal Discharge Permanent Cooling Tower (No. 11.1) have on 2013 estimated costs?

A. As discussed in Witness West's testimony, these estimates will be impacted by both the final form of new environmental regulations, and the repair plan and timing of completing the Crystal River 3 delamination work. There are no revenue requirements being driven by items in CWIP for this project included in this filing.

Q. **What capital structure, components and cost rates did Progress Energy Florida rely upon to calculate the revenue requirement rate of return for the period January 2013 through December 2013?**

A. PEF has used the capital structure, components and cost rates consistent with the language in Order No. PSC-12-0425-PAA-EU. For investments other than PEF's Project 7.4 CAIR investments expected to be in-service at year end 2013, PEF has used the rates contained in its May 2012 Earnings Surveillance Report (ESR) Weighted Average Cost of Capital. This rate is shown on page 42-8P, included in Exhibit TGF-3. Page 42-8P includes the derivation of debt and equity components used in the Return on Average Net Investment, lines 7 (a) and (b). For PEF's investments in Project 7.4 (CAIR) expected to be in-service by year end 2013, PEF has continued to use the rate as included in Exhibit TGF-1 Form 42-9E. This is consistent with the language contained in Order No. PSC-12-0425-PAA-EU excluding PEF's CAIR investment expected to be in-service by year end 2013 from the application of the new methodology for calculating WACC to be applied to clauses.

Q. What effect does the Stipulation and Settlement Agreement Order No. PSC-12-0104-FOF-EI dated March 8, 2012 have on the (CAIR) Investments presented in this Docket (120007-EI)?

A. Due to the Settlement Agreement, PEF disaggregated the Project 7.4 CAIR assets that are expected to be in service by year end 2013 from those that will not yet be in-service. Specifically, paragraph 14 of the Settlement Agreement provides that effective with the first billing cycle of January 2014, PEF is authorized to remove the capital assets installed and in-service on the Crystal River Units 4 & 5 ("CR4 & 5") power plants to comply with the Federal Clean Air Interstate Rule ("CAIR") from the Environmental Cost Recovery Clause ("ECRC") and transfer those capital assets to base rates in an amount which will equal the annual retail revenue requirements of the assets projected to be in-service as of December 31, 2013 (excluding O&M related costs) which is reflected in the Company's filing (Form 42-4P; Project 7.4, Page 8 of 17) in Docket 120007-EI in Exhibit_(TGF-3). Because the Settlement Agreement only provides for the transfer of assets projected to be in-service by year end 2013 to base rates, PEF has broken out Project 7.4 Crystal River FGD and SCR into two pages (pages 8 and 9 of Form 42-4P). The investments that are not projected to be in-service at year end 2013 will continue to be recovered through ECRC in future Dockets.

Q. Have you prepared schedules showing the calculation of the recoverable O&M project costs for 2013?

A. Yes. Form 42-2P contained in Exhibit No. __ (TGF-3R) summarizes the recoverable jurisdictional O&M cost estimates for these projects in the amount of approximately $32.7 million.

Q. Have you prepared schedules showing the calculation of the recoverable capital project costs for 2013?

A. Yes. Form 42-3P contained in Exhibit No. __ (TGF-3R) summarizes the cost estimates projected for these projects. Form 42-4P, pages 1 through 17, shows the calculations of these costs that result in recoverable jurisdictional capital costs of approximately $162.6 million.

Q. Have you prepared schedules providing the description and progress reports for all environmental compliance activities and projects?

A. Yes. Form 42-5P, pages 1 through 20, contained in Exhibit No. __ (TGF-3R) provide each project description and progress, as well as projected recoverable cost estimates.

Q. What is the total projected jurisdictional costs for environmental compliance activities in the year 2013?

A. The total jurisdictional capital and O&M costs of approximately $195.4 million to be recovered through the ECRC, are calculated on Form 42-1P, Line 1c of Exhibit No. __ (TGF-3R).

Q. Please describe how the proposed ECRC factors were developed.

A. The ECRC factors were calculated as shown on Forms 42-6P and 42-7P contained in Exhibit No. __(TGF-3R). The demand component of class allocation factors were calculated by determining the percentage each rate class contributes to the monthly system peaks and then adjusted for losses for each rate class. This information was obtained from PEF's load research study filed July 2012. The energy allocation factors were calculated by determining the percentage each rate class contributes to total kilowatt-hour sales and then adjusted for losses for each rate class. Form 42-7P presents the calculation of the proposed ECRC billing factors by rate class.

Q. Are there any non-CAIR assets projected to go into service in 2013? If, so how will the revenue requirements for those projects be allocated to the Rate Classes?

A. Yes. As further explained in Witness Hixon's testimony, the Anclote Gas Conversion (Project 17.1) is expected to be placed in-service in 2013. The recoverable costs will be calculated using the retail energy factor and allocated to rate classes on an energy basis.

Q. Are any adjustments included in Exhibit TGF-3 or TGF-4?

A. Yes. There were 2 small adjustments made to reflect corrections to information contained in Exhibits TGF-1 and TGF-2. These corrections are relatively minor and have the effect of making the revenue requirement included in Exhibit TGF-3 correct.

Q. Can you describe these adjustments?

A. Yes. First, after Exhibit TGF-1 was filed, it was discovered that there was an error in the estimated ammonia costs on schedule 42-8E page 10. The result was to overstate ammonia expense by approximately $350 thousand in 2012. I have corrected this by placing a credit in January of 2013 on Schedule 42-4P page 10 in line 6a. Second, there were two projects in Exhibit TGF-2 that should have had a different depreciation rate. These are projects 7.4e and 7.4k as included in the Capital Program Detail. To correct this, I have adjusted the beginning balance for accumulated depreciation for these two projects by approximately $67 thousand and $17 thousand, respectively. Additionally, I have adjusted form 42-3P of Exhibit TGF-3 line 1, project 7.4 CAIR/CAMR Crystal River AFUDC – Base to reduce the revenue requirements by approximately this amount. By incorporating these adjustments the revenue requirement in Exhibit TGF-3 line 5 is correct.

Q. What are PEF's proposed 2013 ECRC billing factors by the various rate classes and delivery voltages?

A. The computation of PEF's proposed ECRC factors for 2013 customer billings is shown on Form 42-7P, contained in Exhibit No. __(TGF-3R). In summary, these factors are as follows:

RATE CLASS	ECRC FACTORS 12CP & 1/13AD
Residential	0.494 cents/kWh
General Service Non-Demand	
@ Secondary Voltage	0.490 cents/kWh
@ Primary Voltage	0.485 cents/kWh
@ Transmission Voltage	0.480 cents/kWh
General Service 100% Load Factor	0.484 cents/kWh
General Service Demand	
@ Secondary Voltage	0.485 cents/kWh
@ Primary Voltage	0.480 cents/kWh
@ Transmission Voltage	0.475 cents/kWh
Curtailable	
@ Secondary Voltage	0.485 cents/kWh
@ Primary Voltage	0.480 cents/kWh
@ Transmission Voltage	0.475 cents/kWh
Interruptible	
@ Secondary Voltage	0.474 cents/kWh
@ Primary Voltage	0.469 cents/kWh
@ Transmission Voltage	0.465 cents/kWh
Lighting	0.476 cents/kWh

Q. When is PEF requesting that the proposed ECRC billing factors be made effective?

A. PEF is requesting that its proposed ECRC billing factors be made effective with the first bill group for January 2013 and continues through the last bill group for December 2013.

Q. Please summarize your testimony.

A. My testimony supports the approval of an average environmental billing factor of 0.489 cents per kWh which includes projected capital and O&M revenue requirements of approximately $182.6 million associated with a total of 17 environmental projects and a true-up over-recovery provision of approximately $12.9 million. My testimony also demonstrates that the projected environmental expenditures for 2013 are appropriate for recovery through the ECRC.

Q. Does this conclude your testimony?

A. Yes.