

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for increase in rates)
by Progress Energy Florida, Inc.)
_____)

Docket No. 090079-EI

FILED: August 10, 2009

DIRECT TESTIMONY

OF

KIMBERLY H. DISMUKES

ON BEHALF OF THE CITIZENS OF THE STATE OF FLORIDA

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TESTIMONY
OF
KIMBERLY H. DISMUKES

On Behalf of the
Office of the Public Counsel

Before the
Florida Public Service Commission
Docket No. 090079-EI

1 Q. **WHAT IS YOUR NAME AND ADDRESS?**

2 A. Kimberly H. Dismukes, 6455 Overton Street, Baton Rouge, Louisiana 70808.

3 Q. **BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?**

4 A. I am a partner in the firm of Acadian Consulting Group, which specializes in the
5 field of public utility regulation. I have been retained by the Office of the Public
6 Counsel (OPC) on behalf of the Citizens of the State of Florida to analyze the
7 transactions between Progress Energy Florida, Inc.'s (PEF, Progress Energy, or
8 the Company) and its affiliates, the nonregulated operations of PEF, and the direct
9 assignment of costs used in the jurisdictional separations study.

10 Q. **DO YOU HAVE A SUMMARY OF YOUR QUALIFICATIONS IN**
11 **REGULATION?**

12 A. Yes. Exhibit KHD-1 was prepared for this purpose.

13 Q. **DO YOU HAVE EXHIBITS IN SUPPORT OF YOUR TESTIMONY?**

14 A. Yes. Attached to my testimony are Exhibits KHD-2 through KHD-8 which
15 support my testimony and recommendations.

1 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

2 A. In the first section of my testimony I discuss the importance of examining
3 transactions between PEF and its affiliates. Second, I briefly describe the
4 organizational structure of Progress Energy, Inc., and third I discuss the
5 Company's nonregulated operations. The fourth section contains a discussion of
6 the Company's allocation to its wholesale operations and associated adjustments.
7 Finally, section five contains a discussion of my concern with PEF's non-
8 recurring fiber indemnification against costs associated with certain assets that
9 were sold by an unregulated affiliate.

10 **I. Affiliate Transactions**

11 **Q. WHY IS IT IMPORTANT TO CLOSELY EXAMINE AFFILIATE**
12 **TRANSACTIONS?**

13 A. In a situation involving the provision of services between affiliated companies,
14 the associated transactions and costs are not *arms-length dealings*. Cost allocation
15 techniques and methods of charging affiliates should be frequently reviewed and
16 analyzed to ensure that the company's regulated operations are not subsidizing the
17 nonregulated operations. Because of the affiliation between PEF and the affiliates
18 that contribute to expenses included on the books of PEF, the arms-length
19 bargaining of a normal competitive environment is not present in their
20 transactions. Although each of the affiliated companies is supposedly separate,
21 relationships between PEF and these affiliates are still close; they all belong to
22 one corporate family.

23 In the absence of regulation, there is no assurance that affiliate

1 transactions and allocations will not translate into unnecessarily high charges for
2 PEF's customers. Even when the methodologies for cost allocation and pricing
3 have been explicitly stated, close scrutiny of affiliate relationships is still
4 warranted. Regardless of whether or not PEF explicitly establishes a methodology
5 for the allocation and distribution of affiliate costs, there is an incentive to
6 misallocate or shift costs to regulated companies so that the nonregulated
7 companies can reap the benefits.

8 **Q. DOES THE COMMISSION HAVE ANY GUIDELINES WHICH**
9 **CONTROL THE PRICING ARRANGEMENTS BETWEEN UTILITIES**
10 **AND THEIR AFFILIATES?**

11 A. Yes. The Commission's Rules set forth the criteria to be followed by electric
12 utilities when transacting with affiliates. Rule 25-6.1351, Florida Administrative
13 Code (F.A.C.) details the Commission's policy. It excludes affiliate transactions
14 related to the purchase of fuel and related transportation services that are subject
15 to the Commission's review in cost recovery proceedings. The section of the
16 Commission's Rule that details the pricing between affiliates is as follows:

17 (3) Non-Tariffed Affiliate Transactions

18
19 (a) The purpose of subsection (3) is to establish requirements
20 for non-tariffed affiliate transactions impacting regulated
21 activities. This subsection does not apply to the allocation
22 of costs for services between a utility and its parent
23 company or between a utility and its regulated utility
24 affiliates or to services received by a utility from an
25 affiliate that exists solely to provide services to members of
26 the utility's corporate family. All affiliate transactions,
27 however, are subject to regulatory review and approval.
28

29 The rules state that purchases from the utility by the affiliate must be at the

1 higher of fully allocated cost or market price.

2 (b) A utility must charge an affiliate the higher of fully
3 allocated costs or market price for all non-tariffed services
4 and products purchased by the affiliate from the utility.
5 Except, a utility may charge an affiliate less than fully
6 allocated costs or market price if the charge is above
7 incremental cost. If a utility charges less than fully
8 allocated costs or market price, the utility must maintain
9 documentation to support and justify how doing so benefits
10 regulated operations. If a utility charges less than market
11 price, the utility must notify the Division of Economic
12 Regulation in writing within 30 days of the utility initiating,
13 or changing any of the terms or conditions, for the
14 provision of a product or service. In the case of products or
15 services currently being provided, a utility must notify the
16 Division within 30 days of the rule's effective date.

17 The rule further state that purchases from the affiliate must be at the lower
18 of fully allocated cost or market.

19 (c) When a utility purchases services and products from an
20 affiliate and applies the cost to regulated operations, the
21 utility shall apportion to regulated operations the lesser of
22 fully allocated costs or market price. Except, a utility may
23 apportion to regulated operations more than fully allocated
24 costs if the charge is less than or equal to the market price.
25 If a utility apportions to regulated operations more than
26 fully allocated costs, the utility must maintain
27 documentation to support and justify how doing so benefits
28 regulated operations and would be based on prevailing
29 price valuation.

30 Finally, the rules states that assets transferred from the affiliate to the
31 utility must be transferred at the lower of cost or market and assets transferred
32 from the utility to the affiliate must be transferred at the higher of cost or market.

33 (d) When an asset used in regulated operations is transferred
34 from a utility to a nonregulated affiliate, the utility must
35 charge the affiliate the greater of market price or net book
36 value. Except, a utility may charge the affiliate either the
37 market price or net book value if the utility maintains
38 documentation to support and justify that such a transaction
39 benefits regulated operations. When an asset to be used in

1 regulated operations is transferred from a nonregulated
2 affiliate to a utility, the utility must record the asset at the
3 lower of market price or net book value. Except, a utility
4 may record the asset at either market price or net book
5 value if the utility maintains documentation to support and
6 justify that such a transaction benefits regulated operations.
7 An independent appraiser must verify the market value of a
8 transferred asset with a net book value greater than
9 \$1,000,000. If a utility charges less than market price, the
10 utility must notify the Division of Economic Regulation in
11 writing within 30 days of the transfer.¹

12 **Q. HAS THE COMMISSION ADDRESSED AFFILIATE TRANSACTIONS**
13 **IN ITS ORDERS?**

14 A. Yes. The Commission has also expressed its opinion on affiliate transactions and
15 the precedent that should be followed when examining affiliate transactions.

16 By their very nature, related party transactions require closer
17 scrutiny. Although a transaction between related parties is not per
18 se unreasonable, it is the utility's burden to prove that its costs are
19 reasonable. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191
20 (Fla. 1982). This burden is even greater when the transaction is
21 between related parties. In GTE Florida, Inc. v. Deason, 642 So. 2d
22 545 (Fla. 1994) (GTE), the Court established that the standard to
23 use in evaluating affiliate transactions is whether those transactions
24 exceed the going market rate or are otherwise inherently unfair.
25 (FPSC, Order No. PSC-01-1374-PAA-WS; June 27, 2001.)

26 **II. Progress Energy, Inc. Organizational Structure**

27 **Q. WOULD YOU PLEASE DESCRIBE THE PROGRESS ENERGY, INC.**
28 **ORGANIZATION?**

29 A. Yes. Progress Energy, Inc. (PEI), the parent company of PEF, has approximately
30 68 subsidiaries and affiliates.² My Exhibit KHD-2 contains an organizational
31 chart of PEI and its affiliates. Its primary subsidiaries include:

¹ Rule 25-6.1351 F.A.C.

² Response to OPC Document Request 80.

- 1 1) Progress Energy Florida, Inc. (PEF) the regulated electric company that
2 provides electric service to customers in Florida.
- 3 2) Progress Energy Carolinas, Inc. (PEC), the regulated electric company that
4 provides electric service to customers in North Carolina and South
5 Carolina.
- 6 3) Progress Energy Service Co., LLC (Service Company) which provides
7 processing, reporting, and management oversight for both PEF and PEC.

8 This includes financial services, human resources,
9 corporate communications, legal, regulatory affairs, audit
10 and compliance, real estate and facility services,
11 information technology, and telecommunications.³

12 **Q. HOW LARGE ARE PEI'S NONREGULATED BUSINESSES AND HOW**
13 **HAVE THEY CHANGED OVER TIME?**

14 A. PEI's nonregulated businesses have declined significantly. Nonregulated revenues
15 represented 21.4% of PEI's consolidated revenue in 2005, decreasing to 8.8% in
16 2006, to 0.2% in 2007, and to 0.1% in 2008. This is indicative of PEI's strategy as
17 outlined in its annual reports to shareholders:

18 TRUE TO OUR WORD. At Progress Energy, we have a consistent
19 record of meeting our commitments to our customers, shareholders
20 and employees. Following the merger in 2000, we were faced with
21 significant debt as well as a complex, diversified corporate
22 structure, all of which exposed us to more volatility and risk than
23 desirable. To mitigate these factors, we made a commitment to
24 reduce debt, strengthen our balance sheet in preparation for future
25 growth and focus on our core electric utility business – all of which
26 we have now achieved, including a \$1.7 billion reduction in
27 holding company debt. We have divested most of our noncore
28 assets.⁴

³ Wyckoff Testimony, pp. 5-6.

⁴ 2006 Annual Report, p. 6.

1 As discussed more fully in Note 3 and “Results of Operations –
2 Discontinued Operations,” in accordance with our business
3 strategy to reduce our business risk and to focus on the core
4 operations of the Utilities, many of our nonregulated business
5 operations have been divested or are in the process of being
6 divested.⁵

7 Over the last several years we have reduced our business risk by
8 exiting the majority of our nonregulated businesses to focus on the
9 core operations of the Utilities. We divested, or announced
10 divestitures, of multiple nonregulated businesses during 2007 and
11 2006. Consequently, the composition of other continuing segments
12 has been impacted by these divestitures.⁶

13 Over the last several years we have reduced our business risk by
14 exiting substantially all of our nonregulated businesses to focus on
15 the core operations of the Utilities. Consequently, the composition
16 of other continuing segments has been impacted by these
17 divestitures.⁷

18 **III. Unregulated Services and Products**

19 **Q. LET’S TURN TO THE THIRD SECTION OF YOUR TESTIMONY ON**
20 **THE SUBJECT OF THE COMPANY’S NONREGULATED**
21 **OPERATIONS. WOULD YOU BRIEFLY EXPLAIN THESE**
22 **OPERATIONS?**

23 **A.** Yes. The Company offers numerous products and services that are not regulated
24 or tariffed by the Commission. The revenues and costs for these products and
25 services are recorded below-the-line for ratemaking purposes. Similar to
26 situations with nonregulated affiliates, because these profits are recorded below-
27 the-line for ratemaking purposes, there is an incentive to shift costs to the
28 regulated operations which will yield higher profits for PEF and its parent
29 company PEI. Like the provision of goods and services between regulated and

⁵ 2006 Annual Report, p. 22.

⁶ 2007 Annual Report, p. 29.

⁷ 2008 Annual Report, p. 18

1 nonregulated affiliates, the Commission should ensure that the regulated
2 operations of PEF do not subsidize the nonregulated operations.

3 **Q. DOES THE COMMISSION HAVE ANY RULES GOVERNING THE**
4 **COSTS CHARGED BETWEEN REGULATED AND NONREGULATED**
5 **OPERATIONS OF ELECTRIC UTILITIES?**

6 A. No, it does not. However, I believe the Commission can utilize the same
7 principles embodied in its affiliate transactions rules as guidelines for examining
8 the relationship between the Company's regulated and nonregulated operations.
9 That is, it should ensure that the regulated operations do not subsidize the
10 nonregulated operations.

11 **Q. WOULD YOU DESCRIBE THE NONREGULATED SERVICES AND**
12 **PRODUCTS THAT ARE OFFERED BY PEF?**

13 A. Yes. PEF offers over 20 different products and services that are not regulated by
14 the Commission. In response to OPC Interrogatory 7, the Company gave the
15 following description of these services:

- 16 • PCS Engineering Design and Construction - Design and
17 Construction.
- 18 • Managed Services - On-site, utility-owned power quality and
19 reliability services.
- 20 • Turnkey Solutions - Utility designed, installed, and tested
21 customer-owned power quality and reliability solutions.
- 22 • Power Quality Services - Includes surge protectors and meter-
23 readers for residential customers.
- 24 • Lighting - Lighting.
- 25 • Infrared Scanning Services - Includes a full range of services to
26 detect and document potential trouble spots to maintain equipment
27 in top condition.

- 1 • High Voltage Services - Includes a full range of substation, and on
2 and offsite maintenance work to keep high voltage equipment
3 running in top condition.
- 4 • Distribution Services - Includes a full range of on and off-site
5 maintenance work to keep distribution equipment running in top
6 condition.
- 7 • Vegetation Services - Includes a full range of services to keep
8 right-of-way clear.
- 9 • Metering Services - Includes a full range of solutions to keep
10 transformers operating and at peak efficiency.
- 11 • Transformer Services - Includes a full range of solutions to
12 calibrate metering equipment.
- 13 • Material Solutions - Includes a full range of supply solutions to
14 meet your material and key equipment needs.
- 15 • Joint Trenching - Includes a full range of collaboration for
16 telecommunication facilities in a common trench.
- 17 • General System Planning - Includes transient stability analysis.
- 18 • Transmission Design - Includes full engineering, design and
19 permitting services for transmission facilities.
- 20 • Substation Design, Construction and Maintenance – Includes
21 siting, construction and installation of substations.
- 22 • System Protection & Control, Fiber Optic & Meter Services -
23 Includes a full range of solutions to meet meter/Fiber Optic needs.
- 24 • All-Connect - Sales agent for Home Wire.
- 25 • Off System Power Marketing - Off system sales.
- 26 • Water Heater Repair Services.
- 27 • Wireless Transmission Tower Attachments - Includes full range of
28 solutions to administer, coordinate and design wireless
29 attachments.⁸

⁸ Response to OPC Interrogatory 7.

1 **Q. WERE YOU ABLE TO FIND ANY ADDITIONAL INFORMATION**
2 **ABOUT THESE PRODUCTS AND SERVICES?**

3 A. Yes. Some of these services and products were advertised on the Company's
4 website. In particular, the HomeWire service, only available to residential
5 customers, is described in detail. The service covers the repair costs on selected
6 residential electrical wiring components. HomeWire covers the repair of electrical
7 wiring and components; it includes \$500 worth of covered repairs each year for
8 \$3.95 a month. According to the Company, if a problem arises involving outlets,
9 switches, dimmers, fuses, breakers, inside wiring or building-mounted electric
10 meter housing, the customer just needs to call Progress Energy. The Company
11 will schedule repairs with a licensed electrician. PEF also notes that as an added
12 value, its contractors will offer a 15-percent discount for upgrades and non-
13 covered repairs such as pre-existing conditions. However, the service is not
14 available immediately upon enrollment; the customer must wait 30 days before
15 they are eligible for the repair service. Nevertheless, repairs that are needed prior
16 to the 30-day waiting period can be made utilizing the 15-percent discount on
17 labor.⁹ Attached as Exhibit KHD-3 is an advertisement for this service which is
18 posted on the Company's website.

19 **Q. WERE THE SURGE PROTECTION SERVICE, OR POWER QUALITY**
20 **SERVICES, EXPLAINED ON PEF'S WEBSITE?**

21 A. Yes. As shown on Schedule KHD-4, there are two stages of surge protection as
22 explained by the Company:

⁹ <http://www.progress-energy.com/custservice/flares/homewire/index.asp>

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Stage One

A meter-base protector is a high-energy surge protection device that is installed directly behind the electric meter at your home. All power coming into your home runs through the meter-base protector, making it the first stage of protection against surges.

Progress Energy's meter-base protector is capable of diverting the largest portion of any surge away from your home, which effectively protects major appliances such as air conditioning compressors, washers, dryers, and refrigerators from damaging surges.

The monthly rental fee for the meter-base protector is just \$5.95 (plus tax) with a one-time payment of \$44.95 (plus tax) for installation. The installation includes a free outdoor electrical grounding inspection and any necessary repairs.

Stage Two

While the meter-base protector offers protection from powerful surges, a small portion of a surges (sic) can still pass through interior wiring or enter through phone, satellite and cable lines, where it can damage sensitive electronics such as TVs, computers, DVD players, and more. Our second stage of surge protection takes the form of premium plug-in protectors, which protect those sensitive electronics. These plug-in protectors are up to six times stronger than some found in retail stores.

Prices may vary depending on application.

The website also has a video customers can watch to help them understand how surge protection works.¹⁰

Q. WERE THERE ANY OTHER SERVICES PROVIDED BY THE NONREGULATED OPERATIONS OF PROGRESS ENERGY THAT WERE EXPLAINED ON THE COMPANY'S WEBSITE?

A. Yes. The Company's website also described its water heater repair service. I have attached as Exhibit KHD-5, the relevant pages from PEF's website. Under this program for \$4.99 a month, the Company will handle the "unexpected expense

¹⁰ <http://www.progress-energy.com/custservice/flares/surgeprotect/index.asp>

1 and trouble of repairing” its customers water heaters.

2 **Q. WHAT ABOUT OUTDOOR LIGHTING, WAS THIS EXPLAINED ON**
3 **THE WEBSITE?**

4 A. Yes. PEF offers outdoor lighting to residential customers. According to PEF,
5 “not only will your home look more attractive, but your world will seem a little
6 brighter” if a customer purchases its outdoor lighting products. PEF offers a wide
7 variety of designs. After a customer selects his or her product, PEF will design
8 and install the outdoor lights. The advertisement on the Company’s website states:
9 “We take care of repairs and maintenance – even down to changing lamps – all
10 for an easy, convenient lease payment that is added to your monthly electric bill.
11 Now that’s a bright, beautiful idea.” Attached as Exhibit KHD-6 is the
12 information contained on the Company’s website about outdoor lighting.
13 Although still advertised on its website, the Company is no longer pursuing this
14 line of business, as it is not considered a core business.¹¹

15 **Q. HOW LARGE ARE THESE NONREGULATED OPERATIONS?**

16 A. As shown on Exhibit KHD-7, in 2007 their operations produced \$22.5 million in
17 revenue, in 2008 \$18.5 million in revenue, in 2009 revenues are projected at
18 \$20.9 million, and in 2010 revenues are projected at \$16.7 million. These
19 projected revenue amounts appear to be understated as the Company had revenue
20 in several categories for the first two months of 2009, but did not show any
21 revenue in these categories for 2009 and 2010. Annualizing these revenues for use
22 as a proxy for 2009 and 2010 indicates projected revenue for 2009 and 2010 of
23 \$21.5 million, and \$22.5 million, respectively. In response to OPC’s discovery,

¹¹ Response to OPC Interrogatory 396.

1 the Company explained that the revenue for these services would continue into
2 2010.¹²

3 Within the total nonregulated operations, the HomeWire service generated
4 the most revenue at \$8.1 million followed by Power Quality Services (surge
5 protection) at \$7.0 million. PCS Engineering Design and Construction appears
6 next in line with revenue of \$3.7 million in 2007 and \$3.2 million projected for
7 2009. There was no revenue reflected for this service for 2008 or projected for
8 2010. However, in response to OPC Interrogatory 396, the Company explained
9 that it was only budgeted for 2009 but would continue into 2010.¹³

10 **Q. HOW DOES PEF CHARGE COSTS TO ITS NONREGULATED**
11 **OPERATIONS?**

12 A. In response to OPC Interrogatory 7, the Company explained that costs are directly
13 charged to the non-regulated products and services which are recorded to below-the-
14 line accounts.¹⁴ In a supplemental response the Company stated: “The methodology
15 for charges to non-regulated businesses can be either direct or allocated. Direct
16 charges are expensed as incurred on the books of the non-regulated business. The
17 only charges that are allocated are customer service employee payroll costs. The
18 employees’ time is tracked via time sheets and payroll costs are allocated on a
19 percentage-to-total basis using the time spent on each nonregulated activity as the
20 numerator and total time worked by the employee as the denominator.”

21 **Q. HOW MANY EMPLOYEES OF PROGRESS ENERGY ATTRIBUTE**
22 **SOME OF THERE TIME TO THE NONREGULATED OPERATIONS?**

¹² Response to OPC Interrogatory 396.

¹³ Ibid.

¹⁴ Response to OPC Interrogatory 7.

1 A. There are approximately 47 persons that attribute time to the nonregulated
2 operations of PEF as well as PEC. Of these 47 employees, 15 are sales
3 representatives, eight provide back office support, seven are field coordinators,
4 six provide technical support, and the remainder provide programming, IT, and
5 accounting support.¹⁵

6 **Q. HOW DOES THE COMPANY ACCOUNT FOR THE REVENUES,**
7 **EXPENSES, AND INVESTMENT FOR ITS NONREGULATED**
8 **OPERATIONS?**

9 A. The revenues and expenses associated with its nonregulated operations are
10 recorded below-the-line. Any capital required for the nonregulated operations is
11 booked to Nonutility Property.

12 **Q. DO YOU HAVE ANY CONCERNS ABOUT THE COMPANY'S**
13 **NONREGULATED OPERATIONS AND HOW ITS COSTS ARE**
14 **ACCOUNTED FOR?**

15 A. Yes. I have several concerns.

16 **Q. WOULD YOU DISCUSS YOUR FIRST CONCERN?**

17 A. Yes. Although OPC requested that the Company provide the amount of expenses
18 (by account) allocated, assigned, or otherwise charged to its nonregulated
19 operations, the Company provided this information for only two accounts 417001
20 and 4210701, as depicted on Exhibit KHD-7. The Uniform System Of Accounts
21 (USOA) describes account 417 as expenses of nonutility operations. It also
22 explains the purposes of the expense account and related revenue account as
23 follows:

¹⁵ Ibid.

1 A. These accounts shall include revenues and expenses applicable
2 to operations which are nonutility in character but nevertheless
3 constitute a distinct operating activity of the enterprise as a whole,
4 such as the operation of an ice department where applicable
5 statutes do not define such operation as a utility, or the operation of
6 a servicing organization for furnishing supervision, management,
7 engineering, and similar services to others.

8 B. The expenses shall include all elements of costs incurred in such
9 operations, and the accounts shall be maintained so as to permit
10 ready summarization as follows:

11 Operation.
12 Maintenance.
13 Rents.
14 Depreciation.
15 Amortization.

16 Note: Related taxes shall be recorded in account 408.2, Taxes
17 Other Than Income Taxes, Other Income and Deductions, or
18 account 409.2, Income Taxes, Other Income and Deductions, as
19 appropriate.

20 Account 421, Miscellaneous Nonoperating Income, is to include "all
21 revenue and expense items except taxes properly includible in the income account
22 and not provided for elsewhere. Related taxes shall be recorded in account 408.2,
23 Taxes Other Than Income Taxes, Other Income and Deductions, or account
24 409.2, Income Taxes, Other Income and Deductions, as appropriate."¹⁶

25 No detail was provided regarding any type of breakdown of the types of
26 expense charged to the nonregulated operations. Therefore, it is difficult to
27 examine or evaluate the reasonableness of the expenses recorded below-the-line.

28 **Q. WHAT IS YOUR SECOND CONCERN?**

29 A. My second concern relates to the type of costs that have been assigned to the
30 nonregulated operations. According to the Company's response to OPC's

¹⁶ FERC Uniform System of Accounts.

1 Interrogatory 7, only the direct costs and allocated customer service employee
2 payroll costs are charged to these nonregulated operations and thus removed from
3 PEF's expenses recorded above-the-line. The Company's supplemental response
4 to OPC's Interrogatory asking: "For each non-regulated service or product
5 identified in (a), please explain how costs are allocated or charged to the non-
6 regulated operations of Progress Energy Florida."

7 The methodology for charges to non-regulated businesses can be
8 either direct or allocated. Direct charges are expensed as incurred
9 on the books of the non-regulated business. The only charges that
10 are allocated are customer service employee payroll costs. The
11 employees' time is tracked via time sheets and payroll costs are
12 allocated on a percentage-to-total basis using the time spent on
13 each nonregulated activity as the numerator and total time worked
14 by the employee as the denominator.¹⁷
15

16 The Company's response indicates that there are common overhead costs
17 that have not been assigned to these nonregulated operations. The Company did
18 indicate in response to OPC Interrogatory 296 that some governance costs from
19 Progress Energy Service Company were allocated to the nonregulated
20 operations.¹⁸

21 These overhead costs would include but not be limited to all
22 administrative and general expenses consisting of: Administrative and General
23 Salaries, Office Supplies and Expense, Outside Services, Property Insurance,
24 Injuries and Damages, Employee Pensions and Benefits, Franchise Requirements,
25 Regulatory Commission Expenses, General Advertising Expenses, Miscellaneous
26 General Expenses, and Rents.

¹⁷ Supplemental Response to OPC Interrogatory 7.
¹⁸ Response to OPC Interrogatory 296.

1 **Q. IS THERE ANY EXPLANATION OF HOW THESE COSTS ARE**
2 **ASSIGNED TO THE COMPANY'S NONREGULATED OPERATIONS IN**
3 **THE COMPANY'S COST ALLOCATION MANUAL?**

4 **A.** No. There is no discussion on this in the Company's cost allocation manual.

5 **Q. WHAT IS YOUR NEXT CONCERN?**

6 **A.** There are substantial benefits to PEF's nonregulated operations of being
7 associated with the regulated company. These benefits include the use of Progress
8 Energy's name, logo, reputation, goodwill, and corporate image; being associated
9 with a large, financially strong, well-entrenched electric company; use of Progress
10 Energy's personnel; and use of Progress Energy's facilities. All of these benefits
11 were developed as a result of the regulated operations. However, the nonregulated
12 operations obtain these significant intangible benefits of being associated with the
13 regulated utility operations at no cost.

14 **Q. HAVE YOU EXAMINED ANY DATA WHICH INDICATES THAT**
15 **PROGRESS ENERGY'S NONREGULATED OPERATIONS ARE UNDER**
16 **ALLOCATED COSTS?**

17 **A.** Yes. I examined the return on net investment earned by the Company's
18 nonregulated operations as a gauge of whether or not the costs have been properly
19 assigned or allocated. To the extent the return on investments appears abnormal,
20 the Commission should be concerned about the attribution of costs between the
21 Company's regulated and nonregulated operations.

22 **Q. WHAT RETURN ON INVESTMENT DID THE COMPANY'S**
23 **NONREGULATED OPERATIONS EARN?**

1 A. As shown on Exhibit KHD-7, based upon the data supplied by the Company for
2 revenues, expenses, and net investment of the nonregulated operations, this
3 segment of PEF earned a return of 109% in 2007, 131% in 2008, 176% projected
4 for 2009 and 92% projected for 2010. However, as discussed earlier, the two
5 projected years exclude revenue that has historically been generated by the
6 nonregulated operations. Imputing the revenues that are understated in 2009 and
7 2010 produces a return on net investment of 188% in 2009 and 212% in 2010.
8 Such high returns on investment are abnormal and strongly suggest that the costs
9 attributed to the nonregulated operations are seriously understated.

10 **Q. HOW CAN THE COMMISSION ENSURE THAT THE REGULATED**
11 **OPERATIONS DO NOT SUBSIDIZE THE NONREGULATED**
12 **OPERATIONS?**

13 A. There are at least three options the Commission should consider. First, it could
14 require the Company to properly allocate all overhead costs to the nonregulated
15 operations. In addition to allocating costs to the nonregulated affiliate, the
16 Commission could assess a royalty fee for the intangible benefits the nonregulated
17 operations receive from their association with the regulated electric company.

18 Second, the Commission could determine a reasonable rate of return that
19 should be achieved by the nonregulated operations. Anything in excess of this
20 return, should be returned to ratepayers.

21 Third, the Commission could move the revenues, expenses, and
22 investment above the line for purposes of establishing rates in this proceeding.

1 Q. WHAT IS YOUR RECOMMENDATION CONSIDERING THE OPTIONS
2 YOU HAVE CITED?

3 A. I recommend that the Commission chose the third option that I have offered and
4 essentially treat these revenues, expenses and investment above-the-line for rate
5 setting purposes. The Company has failed to demonstrate that costs have been
6 properly allocated to these nonregulated operations.

7 To implement this recommendation, I developed an adjustment to net
8 operating income by using the return on rate base recommended by Dr.
9 Woolridge of 7.53%. The difference between the allowed net operating income
10 and the achieved net operating income, grossed up for income taxes, is the
11 amount of revenue that should be moved above-the-line for rate setting purposes.
12 As shown on Exhibit KHD-7, I recommend an adjustment to net operating
13 income of \$8.6 million.

14 In addition, I recommend that the Commission order the Company to
15 conduct a thorough examination of these operations and develop cost allocation
16 procedures that can be used to allocate costs to these nonregulated operations.
17 These procedures can then be examined and audited as part of the Company's
18 next rate proceeding. However, until the Company properly accounts for these
19 costs, the Commission should treat all amounts above the line for ratemaking
20 purposes.

21
22
23

1 **IV. Wholesale Direct Assignment**

2 **Q. WOULD YOU PLEASE ADDRESS THE COMPANY'S ALLOCATIONS**
3 **TO ITS WHOLESALE OPERATIONS?**

4 A. As part of its jurisdictional allocation study, the Company assigned certain cost
5 directly to its wholesale operations. This is different from an allocation which is
6 often used to allocate costs to the utility's wholesale operations. While the
7 Company also allocates costs to its wholesale operations, I am addressing only the
8 direct assignment of certain costs.

9 **Q. WHAT IS A JURISDICTIONAL ALLOCATION OR SEPARATIONS**
10 **STUDY?**

11 A. A jurisdictional allocation study allocates joint and common costs between the
12 Company's retail operations (regulated by the Commission) and its wholesale
13 operations (regulated by the Federal Energy Regulatory Commission). A
14 jurisdictional allocation study allocates all components of the Company's
15 regulated expenses and rate base between these two jurisdictions.

16 **Q. WITH RESPECT TO THE DIRECT ASSIGNMENT OF COSTS TO THE**
17 **WHOLESALE JURISDICTION, DID THE COMPANY EXPLAIN HOW**
18 **THIS WAS ACCOMPLISHED?**

19 A. No, it did not. In Mr. Slusser's testimony, he provides the following explanation
20 of how these costs were treated:

21 In accordance with Commission Order No. PSC-99-1741-PPA-EI in
22 Docket No. 990771-EI, specific amounts of plant and expense related
23 to a sale to the City of Tallahassee have been assigned to the
24 wholesale business. These costs, of course, have not been included in
25 the balance of production costs assigned or allocated to any other
26 customers.

1 Q. DID YOU INQUIRE THROUGH DISCOVERY HOW THESE COSTS
2 WERE DEVELOPED?

3 A. Yes. In OPC Interrogatory 338, the Company was asked to explain the
4 methodology for determining what plant is included in the plant in service
5 Account 320-325 Nuclear- D/A wholesale. The Company responded:

6 The amounts in Accounts 320-325 Nuclear D/A Wholesale relate
7 to PEF's acquisition of the City of Tallahassee's interest its Crystal
8 River Unit 3 plant. Please see the response to Citizens' 2nd Set of
9 Interrogatories, Question #105, for FPSC Order No. PSC-99-
10 174[1]-PAA-EI approving the regulatory treatment of the
11 Tallahassee buy-back.¹⁹

12 Q. DO YOU HAVE ANY CONCERNS ABOUT THE METHODOLOGY
13 USED BY THE COMPANY TO ASSIGN COSTS TO THE CITY OF
14 TALLAHASSEE'S INTEREST IN CRYSTAL RIVER UNIT 3 PLANT?

15 A. Yes. When assigning costs to this category, the Company did not assign any
16 general plant to this group, and it only assigned a very small share of its
17 administrative and general expenses.

18 Q. DID THE COMMISSION'S ORDER NO. PSC-99-1741-PAA-EI
19 APPROVING THE REGULATORY TREATMENT OF THE
20 TALLAHASSEE BUY-BACK CONTAIN ANY GUIDANCE ON THE
21 ALLOCATION OF ADMINISTRATIVE AND GENERAL EXPENSES?

22 A. No, it did not.

23 Q. WHY SHOULD THESE COSTS BE ASSIGNED TO THIS WHOLESALE
24 DIRECT ASSIGNMENT CATEGORY?

¹⁹ Response to OPC Interrogatory 338.

1 A. General plant and administrative and general expenses are common costs which
2 essentially support the Company's entire operations. They are not dedicated to
3 specific groups of customers. These costs should be distributed to all customers,
4 including those for which the Company's uses a direct assignment methodology.

5 **A. DID THE COMPANY ASSIGN ANY OF THESE COSTS TO THE**
6 **DIRECT WHOLESALE CATEGORY?**

7 A. It did not assign any general plant, but it assigned a very small portion of its
8 administrative and general expenses.

9 **Q. HOW DO YOU RECOMMEND THAT GENERAL PLANT AND**
10 **ADMINISTRATIVE AND GENERAL PLANT BE ALLOCATED TO THE**
11 **DIRECT ASSIGNMENT GROUP?**

12 A. I recommend that the Commission allocate general plant to the Company's
13 Directly Assigned Wholesale operations using its percentage of total production,
14 transmission and distribution plant to the total company production, transmission,
15 and distribution plant. As shown on Exhibit KHD-7, this would reduce general
16 plant allocated to the Company's retail operations by \$2.3 million. Using the same
17 methodology for allocating accumulated depreciation, net plant for the retail
18 operations should be reduced by \$1.8 million.

19 **Q. HOW SHOULD ADMINISTRATIVE AND GENERAL EXPENSES BE**
20 **ALLOCATED TO THE DIRECT ASSIGNMENT GROUP?**

21 A. I recommend that administrative and general expenses be allocated using this
22 group's percentage of production, transmission, and distribution expenses to the
23 total company production, transmission, and distribution expenses. This

1 allocation assigns the administrative and general expenses in proportion to the
2 costs which are the substance of the Company's operations.

3 **Q. UNDER YOUR RECOMMENDED METHODOLOGY, WHAT**
4 **ADJUSTMENT IS NEEDED TO THE RETAIL JURISDICTION'S**
5 **EXPENSES?**

6 A. As shown on Exhibit KHD-8, the Commission should reduce retail test year
7 administrative and general expenses by \$6.3 million. This amount is net of the
8 \$2.3 million the Company assigned to the direct wholesale group.

9 **Q. ARE YOU RECOMMENDING ANY OTHER ADJUSTMENTS IN THIS**
10 **AREA?**

11 A. Yes. I am recommending two related adjustments. The first is for the property
12 taxes associated with the general plant. This adjustment reduces test year
13 expenses by \$.017 million. Likewise, depreciation expense should be reduced by
14 \$.069 million.

15 **V. Non-Recurring Fiber Indemnification**

16 **Q. WOULD YOU PLEASE DISCUSS THE SALE OF PROGRESS**
17 **TELECOMMUNICATIONS, LLC IN 2006 AND ITS POSSIBLE**
18 **IMPLICATIONS ON THE COMPANY AND ITS CUSTOMERS?**

19 A. Yes. On March 20, 2006 Progress sold its interest in Progress
20 Telecommunications, LLC to Level 3 Communications. As a result of the sale
21 Progress received proceeds of \$69 million and about 20 million shares of Level 3
22 Communications, Inc. common stock. Progress recorded an after-tax gain of \$28
23 million as a result of the sale. In connection with this sale PEF provided an

1 indemnification against costs associated with certain assets performances to Level
2 3 Communications.²⁰

3 **Q. DID THE COMPANY RESPOND TO ANY DISCOVERY ON THIS**
4 **MATTER?**

5 A. Yes. In response to OPC Interrogatory 328, when asked to explain the purpose of
6 the nonrecurring fiber indemnification and to describe the benefits to customers,
7 the Company explained:

8 PEF incorporates its general objections and specific objections to
9 OPC interrogatory 328 and, subject to these objections and without
10 waiving same, PEF answers as follows:
11

12 The purpose of the non recurring fiber indemnification in 2006
13 between Progress Telecommunications LLC (PTLLC) and
14 Progress Energy Florida was to facilitate the sale of Progress
15 Telecom LLC (PTLLC) by accepting the responsibility for 100%
16 of the capital replacement cost of approximately 400 miles of fiber
17 in Florida that was experiencing problems with fiber casings and
18 fiber degradation (referred to as the "Fiber 400 Project"). The
19 indemnification of the fiber was part of negotiations related to the
20 sale of PTLLC to Level 3. As a result of the indemnification, PEF
21 recorded a liability (as required by accounting rules), based on the
22 estimated cost to repair the defective fiber, and a receivable from
23 Progress Telecommunications Corporation (PTC), the parent of
24 PTLLC.
25

26 The impact of the indemnification to customers is neutral. While
27 PEF recorded the liability, because the costs to replace the fiber
28 would be incurred by PEF, these liabilities were reimbursed by
29 PTC, so ultimately there would be no cost to PEF, therefore, there
30 would be no impact to Progress Energy Florida customers.²¹

31 **Q. IS THE COMPANY'S RESPONSE SUFFICIENT IN ENSURING THAT**
32 **CUSTOMERS BEAR NO COST ASSOCIATED WITH THIS**
33 **INDEMNIFICATION?**

²⁰ Progress Energy, Inc., 10-K, p. 148.

²¹ Response to OPC Interrogatory 328.

1 A. No. The Company's response suggests that there "would" be no cost to ratepayers
2 as a result of the indemnification and that "ultimately" there would be no cost
3 incurred by PEF. However, given that this has not been resolved and the
4 indemnification could exist for many more years, there may be a cost to PEF and
5 its customers. At this point it is not clear how the costs associated with the
6 indemnification liabilities have been recorded on the Company's books and
7 whether or not they are reflected in the test year.

8 In addition, the Commission should question why PEF is indemnifying
9 assets which have been sold and for which another affiliate, Progress
10 Telecommunications Corporation, will reimburse PEF. Clearly, there is a cost and
11 value associated with the indemnification, and the Commission should thoroughly
12 examine if the costs are being borne by ratepayers without any benefit.

13 **Q. WOULD YOU PLEASE SUMMARIZE YOUR RECOMMENDED**
14 **ADJUSTMENTS?**

15 A. Yes. I recommend that the Commission increase test year net operating income
16 by \$8.6 million to recognize the fact that the Company has not properly allocated
17 common costs to its nonregulated operations.

18 Second, regarding the Company's direct assignment to its wholesale
19 operations, I recommend that the Commission reduce test year administrative and
20 general expenses by \$6.3 million, property taxes by \$.017 million, and
21 depreciation expense by \$.069 million. In addition, net plant should be reduced by
22 \$1.8 million to correct the Company's failure to allocate any general plant to its
23 directly assigned wholesale operations.

1 Third, the Commission should investigate the indemnification provided by
2 PEF to assets sold by a nonregulated affiliate. The Commission should ensure
3 that no costs associated with this have been passed on to ratepayers.

4 **Q. DOES THIS COMPLETE YOUR TESTIMONY PREFILED ON AUGUST**
5 **10, 2009?**

6 **A. Yes, it does.**

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the Direct Testimony of Kimberly

H. Dismukes has been furnished by U.S. Mail and hand delivery on this 10th day of August
2009, to the following:

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Charles J. Rehwinkel
Associate Public Counsel

1 **KIMBERLY H. DISMUKES**

2 **QUALIFICATIONS**

3
4 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

5 A. I graduated from Florida State University with a Bachelor of Science degree in Finance in
6 March, 1979. I received an M.B.A. degree with a specialization in Finance from Florida State
7 University in April, 1984.

8 **Q. WOULD YOU PLEASE DESCRIBE YOUR EMPLOYMENT HISTORY IN THE FIELD**
9 **OF PUBLIC UTILITY REGULATION?**

10 A. In March of 1979 I joined Ben Johnson Associates, Inc., a consulting firm specializing in the
11 field of public utility regulation. While at Ben Johnson Associates, I held the following positions:
12 Research Analyst from March 1979 until May 1980; Senior Research Analyst from June 1980
13 until May 1981; Research Consultant from June 1981 until May 1983; Senior Research
14 Consultant from June 1983 until May 1985; and Vice President from June 1985 until April 1992.
15 In May 1992, I joined the Florida Public Counsel's Office, as a Legislative Analyst III. In July
16 1994 I was promoted to a Senior Legislative Analyst. In July 1995 I started my own consulting
17 practice in the field of public utility regulation.

18 **Q. WOULD YOU PLEASE DESCRIBE THE TYPES OF WORK THAT YOU HAVE**
19 **PERFORMED IN THE FIELD OF PUBLIC UTILITY REGULATION?**

20 A. Yes. My duties have ranged from analyzing specific issues in a rate proceeding to managing the
21 work effort of a large staff in rate proceedings. I have prepared testimony, interrogatories and
22 production of documents, assisted with the preparation of cross-examination, and assisted
23 counsel with the preparation of briefs. Since 1979, I have been actively involved in more than
24 180 regulatory proceedings throughout the United States.

1 I have analyzed cost of capital and rate of return issues, revenue requirement issues,
2 public policy issues, market restructuring issues, and rate design issues, involving telephone,
3 electric, gas, water and wastewater, and railroad companies. I have also examined performance
4 measurements, performance incentive plans, and the prices for unbundled network elements
5 related to telecommunications companies. In addition, I have audited the purchased gas
6 adjustment clauses of three gas companies and the fuel adjustment clause of one electronic
7 company in the State of Louisiana.

8 **Q. WHAT IS YOUR EXPERIENCE CONCERNING COST OF CAPITAL?**

9 A. In the area of cost of capital, I have analyzed the following parent companies: American Electric
10 Power Company, American Telephone and Telegraph Company, American Water Works, Inc.,
11 Ameritech, Inc., CMS Energy, Inc., Columbia Gas System, Inc., Continental Telecom, Inc., GTE
12 Corporation, Northeast Utilities, Pacific Telecom, Inc., Southwestern Bell Corporation, United
13 Telecom, Inc., and U.S. West. I have also analyzed individual companies like Connecticut
14 Natural Gas Corporation, Duke Power Company, Idaho Power Company, Kentucky Utilities
15 Company, Southern New England Telephone Company, and Washington Water Power
16 Company.

17 **Q. HAVE YOU PREVIOUSLY ASSISTED IN THE PREPARATION OF TESTIMONY**
18 **CONCERNING REVENUE REQUIREMENTS?**

19 A. Yes. I have assisted on numerous occasions in the preparation of testimony on a wide range of
20 subjects related to the determination of utilities' revenue requirements and related issues.

21 I have assisted in the preparation of testimony and exhibits concerning the following
22 issues: abandoned project costs, accounting adjustments, affiliate transactions, allowance for
23 funds used during construction, attrition, cash flow analysis, conservation expenses and cost-
24 effectiveness, construction monitoring, construction work in progress, contingent capacity sales,

1 cost allocations, decoupling revenues from profits, cross-subsidization, demand-side
2 management, depreciation methods, divestiture, excess capacity, excessive unaccounted for
3 water, feasibility studies, financial integrity, financial planning, gains on sales, incentive
4 regulation, infiltration and inflow, jurisdictional allocations, non-utility investments, fuel
5 projections, margin reserve, mergers and acquisitions, pro forma adjustments, projected test
6 years, prudence, tax effects of interest, working capital, off-system sales, reserve margin, royalty
7 fees, separations, settlements, used and useful, weather normalization, and resource planning.

8 Companies that I have analyzed include: Aloha Utilities, Inc. (Florida), Alascom, Inc.
9 (Alaska), Aqua Utilities Florida, Inc., Arizona Public Service Company, Arvig Telephone
10 Company, AT&T Communications of the Southwest (Texas), AT&T Louisiana, Bayside Utility
11 Services, Inc. (Florida), Blue Earth Valley Telephone Company (Minnesota), Bridgewater
12 Telephone Company (Minnesota), Carolina Power and Light Company, CenterPoint Energy
13 Arkla (Louisiana), Central Maine Power Company, Central Power and Light Company (Texas),
14 Central Telephone Company (Missouri and Nevada), Consumers Power Company (Michigan),
15 C&P Telephone Company of Virginia, Continental Telephone Company (Nevada), C&P
16 Telephone of West Virginia, Connecticut Light and Power Company, Danube Telephone
17 Company (Minnesota), Duke Power Company, East Otter Tail Telephone Company
18 (Minnesota), Easton Telephone Company (Minnesota), Eckles Telephone Company
19 (Minnesota), El Paso Electric Company (Texas), Entergy Corporation, Entergy Gulf States
20 (Louisiana), Florida Cities Water Company (North Fort Myers, South Fort Myers and Barefoot
21 Bay Divisions), Florida Power and Light, General Telephone Company (Florida, California, and
22 Nevada), Georgia Power Company, Jasmine Lakes Utilities, Inc. (Florida), Kentucky Power
23 Company, Kentucky Utilities Company, KMP Telephone Company (Minnesota), KW Resort
24 Utilities, Inc. (Florida), Idaho Power Company, Louisiana Gas Service Company, Oklahoma Gas

1 and Electric Company (Arkansas), Kansas Gas & Electric Company (Missouri), Kansas Power
2 and Light Company (Missouri), Lehigh Utilities, Inc. (Florida), Louisiana Land & Water
3 Company Inc., Mad Hatter Utilities, Inc. (Florida), Mankato Citizens Telephone Company
4 (Minnesota), Michigan Bell Telephone Company, Mid-Communications Telephone Company
5 (Minnesota), Mid-State Telephone Company (Minnesota), Mountain States Telephone and
6 Telegraph Company (Arizona and Utah), Nevada Bell Telephone Company, North Fort Myers
7 Utilities, Inc., Northwestern Bell Telephone Company (Minnesota), Potomac Electric Power
8 Company, Public Service Company of Colorado, Puget Sound Power & Light Company
9 (Washington), Questar Gas Company (Utah), Sandy Creek Utility Services, Inc. (Florida),
10 Sanlando Utilities Corporation (Florida), Sierra Pacific Power Company (Nevada), South
11 Central Bell Telephone Company (Kentucky), Southern Union Gas Company (Texas), Southern
12 Bell Telephone & Telegraph Company (Florida, Georgia, and North Carolina), Southern States
13 Utilities, Inc. (Florida), Southern Union Gas Company (Texas), Southwestern Bell Telephone
14 Company (Oklahoma, Missouri, and Texas), Sprint, St. George Island Utility, Ltd., Tampa
15 Electric Company, Texas-New Mexico Power Company, Tucson Electric Power Company, Twin
16 Valley-Ulen Telephone Company (Minnesota), United Telephone Company of Florida, Virginia
17 Electric and Power Company, Washington Water Power Company, and Wisconsin Electric
18 Power Company.

19 **Q. WHAT EXPERIENCE DO YOU HAVE IN RATE DESIGN ISSUES?**

20 A. My work in this area has primarily focused on issues related to costing. For example, I have
21 assisted in the preparation of class cost-of-service studies concerning Arkansas Energy
22 Resources, Cascade Natural Gas Corporation, El Paso Electric Company, Potomac Electric
23 Power Company, Texas-New Mexico Power Company, Southern Union Gas Company, and
24 Questar Gas Company. I have also examined the issue of avoided costs, both as it applies to

1 electric utilities and as it applies to telephone utilities. I have also evaluated the issue of service
2 availability fees, reuse rates, capacity charges, and conservation rates as they apply to water and
3 wastewater utilities.

4 **Q. WHAT FUEL AUDITS HAVE YOU CONDUCTED?**

5 A. I have conducted purchased gas adjustment audits of Louisiana Gas Company for the period
6 1971-2000, CenterPoint Energy Entex for the years 1971 through July 2001, and CenterPoint
7 Energy Arkla for the years 1971 through December 2001. I have also audited the fuel adjust
8 clause of Entergy Gulf States, Inc. for the period 1995-2004.

9 **Q. HAVE YOU TESTIFIED BEFORE REGULATORY AGENCIES?**

10 A. Yes. I have testified before the Arizona Corporation Commission, the Bay County Utility
11 Regulatory Authority, the Connecticut Department of Public Utility Control, the Florida Public
12 Service Commission, the Georgia Public Service Commission, Louisiana Public Service
13 Commission, the Missouri Public Service Commission, the Public Utilities Commission of
14 Nevada, the Public Utility Commission of Texas, and the Washington Utilities and
15 Transportation Commission. My testimony dealt with revenue requirement, financial, policy,
16 rate design, fuel, cost study issues unbundled network pricing, and performance measures
17 concerning Aqua Utilities Florida, Inc., AT&T Communications of Southwest (Texas), Bayside
18 Utility Services, Inc. (Florida), Cascade Natural Gas Corporation (Washington), Central Power
19 and Light Company (Texas), Connecticut Light and Power Company, El Paso Electric Company
20 (Texas), Embarq (Nevada), Florida Cities Water Company, Kansas Gas & Electric Company
21 (Missouri), Kansas Power and Light Company (Missouri), KW Resort Utilities, Inc. (Florida),
22 Houston Lighting & Power Company (Texas), Lake Arrowhead Village, Inc. (Florida), Lehigh
23 Utilities, Inc. (Florida), Louisiana Gas Service Company, Jasmine Lakes Utilities Corporation
24 (Florida), Mad Hatter Utilities, Inc. (Florida), Marco Island Utilities, Inc. (Florida), Mountain

1 States Telephone and Telegraph Company (Arizona), Nevada Bell Telephone Company, North
2 Fort Myers Utilities, Inc. (Florida), Southern Bell Telephone and Telegraph Company (Florida,
3 Louisiana and Georgia), Southern States Utilities, Inc. (Florida), Sprint of Nevada, St. George
4 Island Utilities Company, Ltd. (Florida), Puget Sound Power & Light Company (Washington),
5 and Texas Utilities Electric Company.

6 I have also testified before the Public Utility Regulation Board of El Paso, concerning the
7 development of class cost-of-service studies and the recovery and allocation of the corporate
8 overhead costs of Southern Union Gas Company and before the National Association of
9 Securities Dealers concerning the market value of utility bonds purchased in the wholesale
10 market.

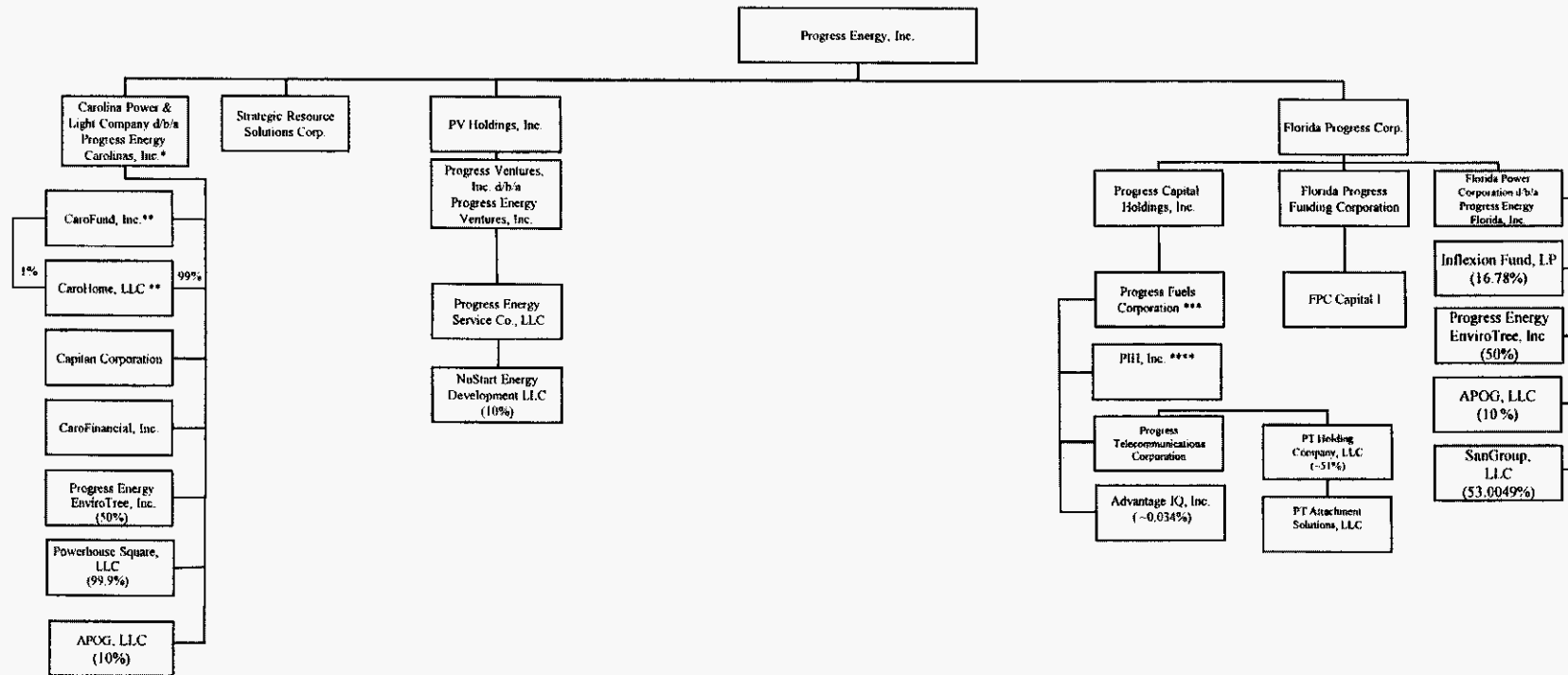
11 **Q. HAVE YOU BEEN ACCEPTED AS AN EXPERT IN THESE JURISDICTIONS?**

12 A. Yes.

13 **Q. HAVE YOU PUBLISHED ANY ARTICLES IN THE FIELD OF PUBLIC UTILITY**
14 **REGULATION?**

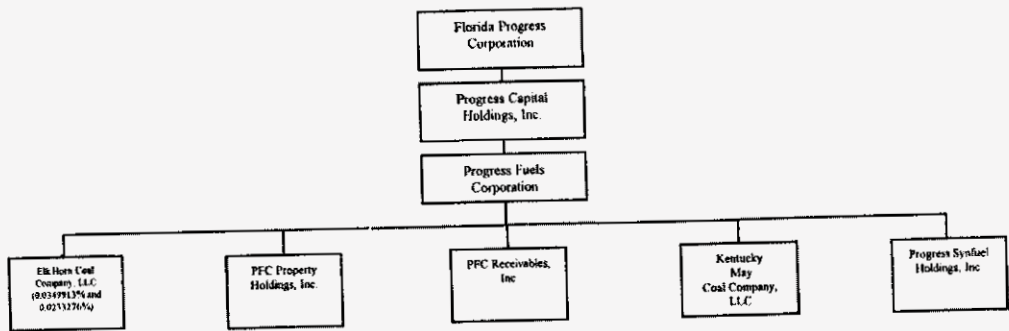
15 A. Yes, I have published two articles: "Affiliate Transactions: What the Rules Don't Say", Public
16 Utilities Fortnightly, August 1, 1994 and "Electric M&A: A Regulator's Guide" Public Utilities
17 Fortnightly, January 1, 1996.

Progress Energy, Inc. Corporate Legal Entity Structure

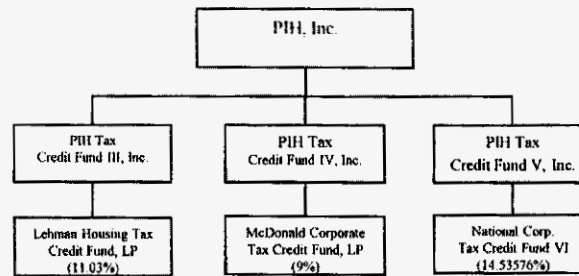


* Excludes passive investments held by CP&L in low-income housing projects, venture capital projects, enterprise development projects, etc. – see page 4.
 ** CaroHome LLC and CaroFund, Inc. own various interests in low-income housing and historic credit properties-see page 5. CaroHome, LLC is owned 99% by CP&L and 1% by CaroFund, Inc.
 *** See Progress Fuels subsidiaries on page 2.
 **** See PHI subsidiaries on page 3.
 Note: Progress Energy or its subsidiaries own 100% of the voting securities of the subsidiaries or associate companies shown on the chart unless otherwise noted with other percentage interests.

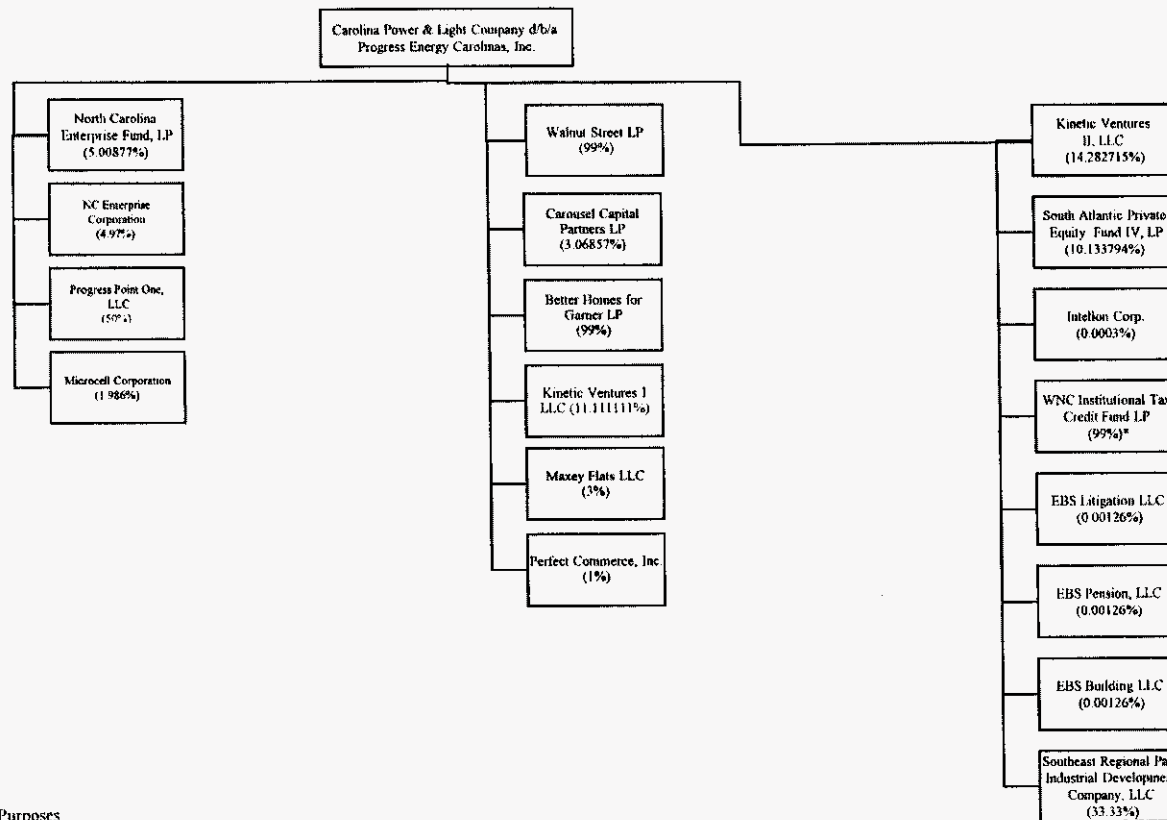
Progress Fuels Corporation Subsidiaries



PIH, Inc.

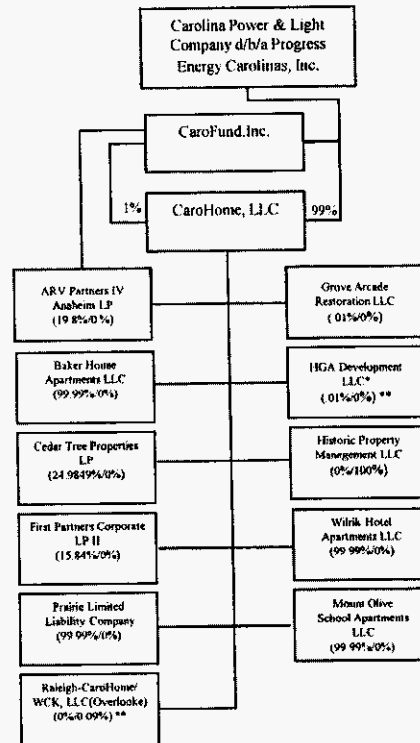


Progress Energy Carolinas (CP&L) Other Investments



*Consolidated Entity for Financial Statement Purposes

CaroHome / CaroFund Investments



Note: CaroHome % listed first, then CaroFund %
 *Also owned 0.01% by Historic Property Management LLC
 **Consolidated Entity for Financial Statement Purposes

HomeWIRE® Service

Residential homeowners only

Smart Energy Solutions from Progress Energy. HomeWIRE® Service. Just \$3.95 per month.

Don't let home wiring problems leave you in the dark.

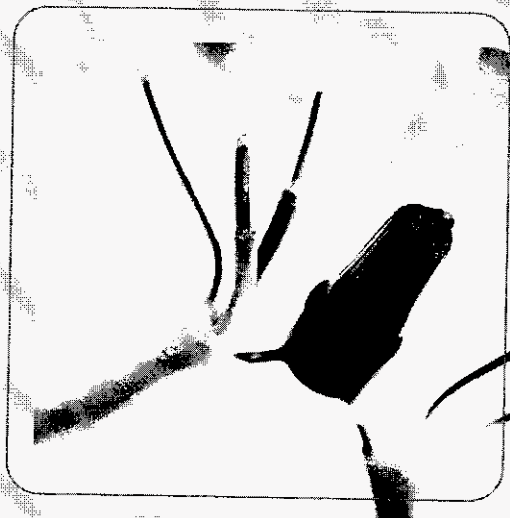
With HomeWIRE, you can take care of most home wiring problems quickly and easily, without worrying about the cost. Just \$3.95 per month covers most repairs – with no service charge and no deductibles. Also, HomeWIRE repairs are guaranteed for at least six months, and any noncovered repairs are offered at a 15 percent discount.

What's covered

- Main breaker repairs
- Outlets and switches
- Meter can repairs
- Interior wiring repairs

Peace of mind

- Electricians are licensed, insured and background checked.
- Service covers \$500 worth of repairs per year.
- Just one phone call takes care of most home wiring problems quickly and easily.



**ENJOY THE CONVENIENCE AND
PEACE OF MIND OF HOMEWIRE.
CALL 1.888.999.8856 TODAY.**

Call 1.888.999.8856
 and mention promo code: 099937

Frequently Asked Questions

What is covered under the HomeWIRE program?

The HomeWIRE program covers 120/240 volt wiring, switches, outlets, ground fault indicator (GFI) receptacles, breakers, fuses, fuse/breaker panels, the meter housing that's attached to the home and the components inside it. Coverage is limited to your single-phase or three-phase wiring circuits and related electrical components required to deliver electricity throughout your home or garage. Condominium common areas are not covered.

We will pay for covered services up to \$500, materials and labor inclusive, during each calendar year following the first day of service initiation, provided that the request is made during the term of this agreement, and you have paid for the service in accordance with this agreement.

What is not covered?

Noncovered items include, but are not limited to: pre-existing conditions, circuits not complying with the current National Electric Code, components outside the home or garage, home networking or control systems or components, buried wires, low-voltage wiring and equipment. Power-generating or power-consuming devices are NOT covered, including the following: appliances of any kind, lighting, generators or power storage systems and photovoltaic equipment.

The service does not cover repairs or replacements required as a result of misuse, abuse, tampering, theft, vandalism, improper installation, code violations, damage from wind, rain, flood, ice or acts of God. The decision that a repair or replacement is not covered for any of these reasons rests solely with us.

Are light fixtures covered?

No, but we do offer a discounted rate of 15 percent off the electrician's normal labor rate for noncovered repairs.

Is there a waiting period before I can request service?

Yes, there is an initial 30 day waiting period for covered work. Non-covered work (that is eligible for the 15 percent discount) is offered as soon as the customer joins the program.

How do I make a service request?

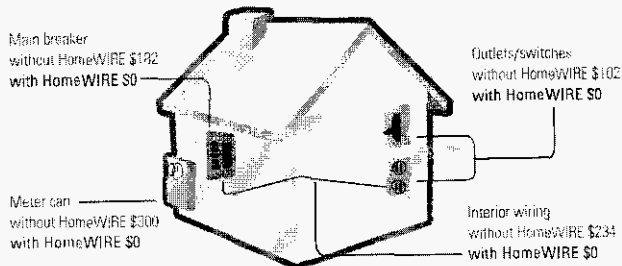
You must contact us directly for all covered service requests. When you request service under this agreement, one of our authorized contractors will contact you within two (2) business days (unless you specify otherwise) to arrange service. The two-business-day response time cannot be guaranteed during or after extreme weather, earthquake, fire, floods or other acts of God. We will NOT pay for any services that are performed by electrical contractors who are not dispatched by us.

Is there a re-instatement fee if I leave the program and re-enroll?

If you discontinue your HomeWIRE Service and wish to re-initiate the service at the same address at a later date, there will be a \$150 reinstatement fee payable at the time of service re-initiation.

Can I transfer my service if I move to a new location within the service territory?

If you move from one residence to another within our service territory, in most cases the service is automatically transferred for you. If you do not wish the service to transfer to your new residence, you may cancel at any time by writing or calling us. If you move, this program does not automatically transfer to new owners of your residence.



Progress Energy has speakers available to make presentations to organizations regarding HomeWIRE and energy-efficiency measures. To schedule a free presentation, call 1.888.999.8856.

▼ Enrollment Form Below - Detach Along Perforation and Mail in Postage-Paid Envelope ▼

YES! Sign me up for HomeWIRE Service!

Promo code: 099937/CD9937
 ID# _____

The electric service is in my name and/or I am an authorized user on the account and I'd like to enroll in HomeWIRE Service. I understand the \$3.95 monthly fee* will be added to my electric bill.

I would like Progress Energy to notify me about specials or new products. My e-mail address is: _____

Name _____ Signature _____

Progress Energy account number _____

Street address _____

City, State, ZIP _____

Home phone _____ Work phone _____ Best time to call _____

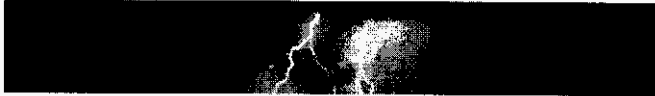
Participation in this program is voluntary and occurs at the request of the account holder or other authorized person.

Your enrollment in HomeWIRE Service means that you are consenting to and authorizing Progress Energy to share your name, address, phone number and amounts you pay or owe for the service with our approved contractors, in order to provide service to you.

HomeWIRE Service is an unregulated service offered by Progress Energy Carolinas, Inc. to its customers in North Carolina and South Carolina, and by Progress Energy Florida, Inc. to its customers in Florida. A complete description of the terms and conditions of HomeWIRE Service, including aggregate liability limits, is contained in the service contract, a copy of which is sent to all new subscribers. Please read the contract carefully. HomeWIRE Service does not cover code violations, upgrades, neglect or abuse, lightning, low-voltage wiring, appliances or obsolete parts. HomeWIRE Service is not regulated or sanctioned by the Florida Public Service Commission, the North Carolina Utilities Commission or the South Carolina Public Service Commission. Customers who purchase HomeWIRE Service will receive no preference or special treatment from the utility company, and are not required to buy HomeWIRE Service in order to receive safe, reliable electric service. A 30-day waiting period applies before new HomeWIRE customers qualify for repairs. Contractor license # FL Lic # CRC132B169, NC Lic # 9013/10-U, SC Lic # 96950

1.888.999.8856





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Surge Protection

Needs

- Customer Assistance Programs
- Electric Service
- Electric Rates
- Pay Your Bill
- Save The Watts
- Lower My Bill Toolkit
- Home Energy Check
- Energy Saving Tools
- Solar Water Heater Rebate
- SolarWise for Schools
- Products and Services
 - HomeWIRE Service
 - [Surge Protection](#)
 - Enroll Now
 - Already Enrolled
 - FAQs
 - Meter-base Protection
 - Plug-in Protection
 - Water Heater Repair Service
 - Outdoor Lighting
- Community Speakers Group
- Storm Central
- Outage Maps
- Connecting Renewable Sources
- Energy Efficient Construction Programs
- EnergyWise
- Communications
- New Movers
- Builders & Developers
- My Account (login)
- Learn About Registration

Two Stages of Surge Protection

Stage One

A meter-base protector is a high-energy surge protection device that is installed directly behind the electric meter at your home. All power coming into your home runs through the meter-base protector, making it the first stage of protection against surges.

Progress Energy's meter-base protector is capable of diverting the largest portion of any surge away from your home, which effectively protects major appliances such as air conditioning compressors, washers, dryers, and refrigerators from damaging surges.

The monthly rental fee for the meter-base protector is just **\$5.95** (plus tax) with a one-time payment of **\$44.95** (plus tax) for installation. The installation includes a free outdoor electrical grounding inspection and any necessary repairs.

Stage Two

While the meter-base protector offers protection from powerful surges, a small portion of a surges can still pass through interior wiring or enter through phone, satellite and cable lines, where it can damage sensitive electronics such as TVs, computers, DVD players, and more. Our second stage of surge protection takes the form of premium plug-in protectors, which protect those sensitive electronics. These plug-in protectors are up to six times stronger than some found in retail stores.

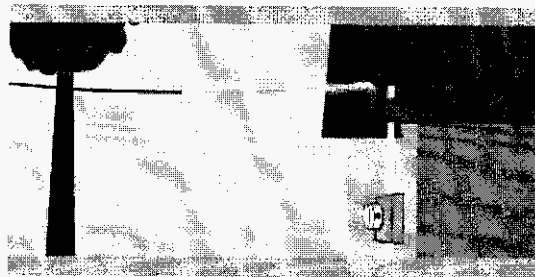
Prices may vary depending on application.

Additional Information:

To view the terms and conditions, click [here](#).

Progress Energy created this video to help customers understand how surge protection works.

Click here to play video



Surge Protection Service

What is a surge?

Surges are split-second increases in electrical energy that travel along electrical, telephone and cable lines. Surges are most frequently caused by lightning - even lightning strikes that occur

miles away. However, electric motors in major appliances and power tools can also cause power surges.



Enroll Now

[Click here for more information](#)

Already Enrolled

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FAQs

[Questions and Answers](#)

Meter-base Protection

[Learn more about meter-base protection](#)

Plug-in Protection

[Learn more about plug-in protection](#)

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Power Quality Services

Needs

- Electric Service
- Payment Options
- Builders & Developers
- Multi-Housing
- Storm Central
- Power Quality Services
 - Potential Problems
 - Surge Protection Products
- Surge Protection
- Outdoor Lighting
- My Account (login)
- Learn About Registration
- Energy Efficiency
- Connecting Renewable Sources
- Communications

To be there for your customers, your electronic equipment has got to be there for you. Unfortunately, disruptions can occur. Nature, for example, has all kinds of ways to disrupt power to your equipment - animals, tree limbs, electrical storms. Accidents can cause problems. The power usage of neighboring businesses can cause problems. Even the way you structure and use electricity internally can affect the quality and stability of your supply. The consequences for you and your customers can range from frustration to damage, downtime and data loss. There are protective and corrective measures you can take, however. Customers call us all the time to find and fix their power quality problems. Progress Energy can help you, too, with power quality solutions that work best for you.

Surge Protection

Chances are, a lot of your day-to-day affairs rely on computer, fax machines, copiers, telephones, and printers. Take the time now to get the surge protection you need so your business won't miss a beat when the unexpected happens. **Surge protection** is well worth the money when you consider the cost of replacing valuable equipment and the amount of revenue lost in the meantime.

Potential Problems

Understand the causes of service disruptions

Surge Protection Products

Review a wide range of relevant products

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Related Resources

Have Questions?

Review our FAQs or contact our Customer Service Center

Energy Efficient Products

Select Energy Star products for projects

Communications

Newsletters and other publications

Builders & Developers

Resources for building & contracting professionals





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Potential Problems

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Power quality problems come at you from several sources internal, external, natural, and manmade, within your control, beyond your control. They manifest themselves as electrical noise, sags, swells, outages and surges - and the consequences can add up.

Some consequences, thankfully, are barely noticeable - like flickering lights. Others are catastrophic - like "fried" computers. Still others fall somewhere in between - like data errors or electrical components that wear out long before they should. The worst consequence, of course, is substandard customer service - you can replace equipment a lot easier than you can replace clientele or make up for lost revenue.

At Progress Energy, we continually research and test for more and better power quality so that you see fewer interruptions. When faults occur, our system is designed to "switch." This causes lights to flicker or digital equipment to blink, but restores power instantly with less chance of damage to your equipment and ours. We build many other protective measures right into our utility system for a documented 99.9 percent reliability. Beyond this, the best thing we can do is help you guard against power quality problems unique to your facility by evaluating your needs and recommending the right products and services.

Surge Protection

Many things cause surges - electric motors switching on and off, HVAC, large loads switching, large electronic loads - but the largest source is lightning. Consequently, Progress Energy devotes itself to extensive lightning research, and our experts are uniquely qualified to determine just what you need for surge protection you can feel comfortable with.

We typically recommend a layered approach - heavy-duty protection at the panel where electricity enters the building and plug-in protection at the equipment itself. Many types of equipment, such as copy machines, radio transmitters and satellite TV systems, have special needs. We offer state-of-the-art protection for them all.

Our [surge protection products](#) include:

- Electrical service entrance protection, including meter and main panel protection.
- Sub-panel, or "downstream," protection for dedicated areas such as computer rooms, printing press rooms, etc.
- Electrical outlet protection, including plug-in devices for specific pieces of equipment.
- Communication and data protection equipment for modem and telephone lines.

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Related Resources

Have Questions?

Review our FAQs or contact our Customer Service Center

Energy Efficient Products

Select Energy Star products for projects

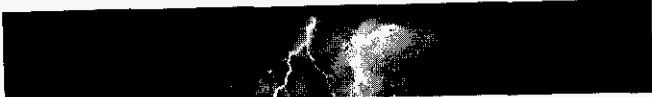
Communications

Newsletters and other publications

Builders & Developers

Resources for building & contracting professionals





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Surge Protection Products

Needs

- Electric Service
- Payment Options
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- Multi-Housing
- Storm Central
- Power Quality Services
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- Communications

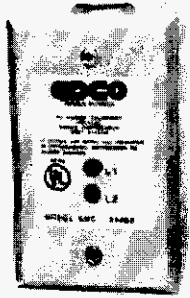
- [Main Panel Protectors:](#)
- [Plug-in Suppressors:](#)

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Main Panel Protectors:

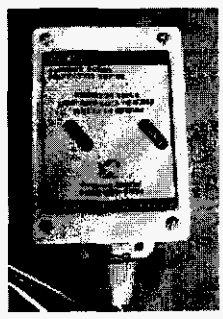
EMC240BK Main Panel Protector



The EMC240BK is a rugged, highly reliable panel protector for residential or commercial standard 120/240V single or split phase applications. Two advanced, metal oxide varistors (MOV) are the primary protective elements. These MOVs are each capable of handling up to 40,000 amps of surge current. The protection components are designed to fail shorted and are fused. The suppressor automatically recovers after a surge. The EMC240BK is \$5.95 per month with a one-time installation fee of \$44.95.

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SSLMC Main Panel Protector



The SSLMC is a rugged, highly reliable panel protector for residential or commercial standard 120/240V single or split phase applications. Two advanced, metal oxide varistors (MOV) are the

primary protective elements. These MOVs are each capable of handling up to 40,000 amps of surge current. The protection components are designed to fail shorted and are fused. The suppressor automatically recovers after a surge. The SSLMC is \$19.95 per month with a one-time installation fee of \$195.

TOP ↑

Plug-in Suppressors:

Universal 1206 Six-outlet Swivel Protector



- UL Listed TVSS
- Thermal Disconnect
- Internal Circuit Breaker
- Multi-stage TSS Provides Absolute Lowest Clamping Voltage
- Power Protection Light
- Six Receptacles
- Twin PTC Automatic Breakers
- 120 Voltage
- 10-Year Manufacturer's Warranty

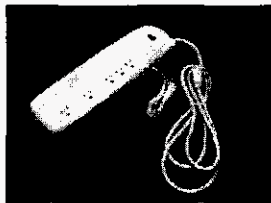
Special Features

Protect your sensitive business equipment from damaging surges. The Universal 1206 is ideal for protecting advanced computer systems, cable and satellite TVs, modems and fax lines. Unique swivel design offers cord flexibility by allowing plugs to be positioned in front or to the side of the protector. With six receptacles, it can protect several electronic devices at once.

The Universal 1206 circuitry absorbs and reroutes energy to the ground, in the event of catastrophic surge, completely disconnects power.

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MPS-1200 Multimedia Power Strip



- UL Listed TVSS
- Thermal Disconnect
- Internal Circuit Breaker
- Transformer Spacing on Four Receptacles
- Multi-stage TSS Provides Absolute Lowest Clamping Voltage
- Power Protection Light
- Ten Receptacles
- Twin PTC Automatic Breakers
- 120 Voltage
- 10-Year Manufacturer's Warranty

Special Features

Progress Energy's MPS-1200 power strip is ideal protection for advanced computer systems, Internet users, cable TV, modem and fax lines. With ten receptacles, it can protect several electronic devices at once.

The MPS-1200 power strip circuitry absorbs and reroutes surge energy to the ground or, in the event of catastrophic surge, completely disconnects power. For added convenience, four "spaced"

receptacles easily accommodate battery chargers.

The MPS-1200 power strip suppressor provides a safe, easy way to protect your valuable electronic and telecommunications components.

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Outdoor Lighting - Standard Residential Lighting

Needs

- Customer Assistance Programs
 - Electric Service
 - Electric Rates
 - Pay Your Bill
 - Save The Watts
 - Lower My Bill Toolkit
 - Home Energy Check
 - Energy Saving Tools
 - Solar Water Heater Rebate
 - SolarWise for Schools
- Products and Services
 - HomeWIRE Service
 - Surge Protection
 - Water Heater Repair Service
 - [Outdoor Lighting](#)
 - Standard Residential Lighting
 - Premier Decorative Post Top Lighting
 - Poles
- Community Speakers Group
- Storm Central
- Outage Maps
- Connecting Renewable Sources
- Energy Efficient Construction Programs
- EnergyWise
- Communications
- New Movers
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Standard Residential Lighting

Standard decorative post-top and pole lighting



Premier Decorative Post Top Lighting

High-end decorative lighting



Poles

Standard and premier decorative poles and posts



Lighting Solutions Center

Mix and match fixtures and poles for your project and more

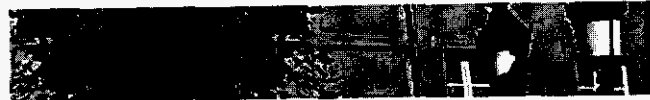
With lighting from Progress Energy, not only will your home look more attractive, but your world will seem a little brighter. We offer a wide variety of appealing, high-quality designs. Once you select a style of your choice, we will design and install your new outdoor lights. We take care of repairs and maintenance – even down to changing lamps – all for an easy, convenient lease payment that is added to your monthly electric bill. Now that's a bright, beautiful idea.

Progress Energy backs its lighting products with a range of services and years of experience, so you know you're dealing with experts within the industry. Illuminate walkways, streets, residential communities or parking areas safely and with style. Progress Energy's Outdoor Lighting offers a variety of fixtures, poles and posts, giving you the flexibility to select a custom lighting package to complement your community or home.

With Progress Energy's Outdoor Lighting products, there are no installation costs, assuming normal installation conditions. The design services required to meet your lighting needs are included, as well as the electricity and all wiring. Your lighting will be worry-free, as your warranty includes continuous maintenance year after year. All of this is rolled into one convenient monthly payment on your electric bill. To discover the classic beauty that Progress Energy Outdoor Lighting can bring to your home, business or community, contact us by using the form below. We'll put our many years of lighting experience to work and create an innovative solution for you.



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Outdoor Lighting - Business

Needs

- Electric Service
- Payment Options
- Builders & Developers
- Multi-Housing
- Storm Central
- Power Quality Services
- Surge Protection
- Outdoor Lighting
 - Standard Pole Top Lighting
 - Premier Pole Top Lighting
 - Standard Decorative Post Top Lighting
 - Premier Decorative Post Top Lighting
 - Poles
- My Account (login)
- Learn About Registration
- Energy Efficiency
- Connecting Renewable Sources
- Communications

With lighting from Progress Energy, not only will your business look more attractive, but your world may seem just a bit brighter. We offer a wide variety of appealing, high-quality exterior lighting designs. Once you select a style, we work to design and install your new outdoor lighting solution.

Progress Energy takes care of repairs and maintenance – even down to changing lamps – all for an easy, convenient lease payment that is added to your monthly electric bill. Now that's a bright, beautiful idea.

For more information about Progress Energy's outdoor lighting options, please call us at 1-877-372-8477.

Standard Pole Top Lighting

Traditional automatic dusk-to-dawn security light fixtures

Premier Pole Top Lighting

Standard decorative pole-top lighting

Standard Decorative Post Top Lighting

Standard decorative post-top lighting

Premier Decorative Post Top Lighting

High-end decorative lighting

Poles

Standard and premier decorative poles and posts



Related Resources

Have Questions?

Review our FAQs or contact our Customer Service Center



Lighting Solutions Center

Mix and match fixtures and poles for your project and more

With lighting from Progress Energy, not only will your building and grounds look more attractive, but your world will seem a little brighter. We offer a wide variety of appealing, high-quality designs. Once you select a style of your choice, we will design and install your new outdoor lights. We take care of repairs and maintenance – even down to changing lamps – all for an easy, convenient lease payment that is added to your monthly electric bill. Now that's a bright, beautiful idea.

Progress Energy backs its lighting products with a range of services and years of experience, so you know you're dealing with experts within the industry. Illuminate walkways, streets, residential communities or parking areas safely and with style.

Progress Energy's Outdoor Lighting offers a variety of fixtures, poles and posts, giving you the flexibility to select a custom lighting package to complement your business or community.

With Progress Energy's Outdoor Lighting products, there are no installation costs, assuming normal installation conditions. The design services required to meet your lighting needs are included, as well as the electricity and all wiring. Your lighting will be worry-free, as your warranty includes continuous maintenance year after year. All of this is rolled into one convenient monthly payment on your electric bill. To discover the classic beauty that Progress Energy Outdoor Lighting can bring to your home, business or community, contact us using the form below. We'll put our many years of lighting experience to work and create an innovative solution for you.



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Water Heater Repair Service

Needs

- Customer Assistance Programs
- Electric Service
- Electric Rates
- Pay Your Bill
- Save The Watts
- Lower My Bill Toolkit
- Home Energy Check
- Energy Saving Tools
- Solar Water Heater Rebate
- SolarWise for Schools
- Products and Services
 - HomeWIRE Service
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- Connecting Renewable Sources
- Energy Efficient Construction Programs
- EnergyWise
- Communications
- New Movers
- Builders & Developers
- My Account (login)
- Learn About Registration

Why enroll in Water Heater Repair Service?

If your water heater breaks down, you may have to deal with damage from a leaky tank, cold water for your shower, or the hassle of finding a qualified technician in an emergency.

For just \$4.99 a month, we'll handle the unexpected expense and trouble of repairing your water heater.

Water heater repairs can be costly, but with Water Heater Repair Service your savings can really add up:

Typical repair costs

Pressure Relief Valve	\$175
Upper/Lower Thermostat	\$180
Drain Valve	\$160
With Water Heater Repair Service	\$0

Plus, if the technician determines your water heater can't be repaired, the balance of your \$750 annual limit can be applied to a replacement!

Program Features:

- Covered repairs or replacement up to \$750 per year
- Unlimited number of service calls per year
- 24-Hour Emergency Hotline – Available 365 days a year
- Qualified workmanship – A fast, reliable service offered by licensed, insured and

- certified technicians
- No repair bill to pay - The bill will be settled for you within the generous service agreement limits.

What parts are covered?

Most major parts of the tank-based electric, natural gas and propane water heaters. This includes, but is not limited to, electric water heater: drain valve, upper and lower thermostat, upper and lower element, and temperature/pressure relief valve. On the gas water heater: burner supply tube and assembly, drain valve, gas valve, pilot light, supply tube and assembly, temperature control, thermocouple, temperature/pressure relief valve and main burner.

Additional information:

There is a 30-day waiting period from the day of enrollment before you are eligible for repair service. A complete description of the terms and conditions of the Water Heater Repair Service is contained in the service contract sent to all new enrollees.

To view the Terms and Conditions, click [here](#).

This service plan is issued by Technology Insurance Company (license #03605) and administered by Home Service USA Repair Management (Florida) Corp.



Technology Insurance Company
An AmTrust Financial Company



Enroll Now
Click here for more information

Already Enrolled
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FAQs
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Progress Energy Florida, Inc.
Non-Regulated Operations Adjustment

	2007	2008	Feb 09 to Date	Projected 2009	Projected 2010
Revenue					
PCS Engineering Design and Construction	\$ 3,730,476		\$ 233,521	\$ 3,150,000	
Managed Services	289,293	\$ 311,163	47,078		
Turnkey Solutions	52,274	46,996	4,022		
Power Quality Services	6,268,519	7,006,533	1,125,074	6,902,847	\$ 7,144,447
Home Wire	6,841,847	8,180,888	1,430,683	8,622,717	8,924,512
Lighting	1,023,266	(9,054)			
Infrared Scanning Services	17,850	16,380	13,535		
High Voltage Services	1,955,858		36,730		
Distribution Services	(22,843)	1,333,465			
Metering Services	346,755	81,756			
Material Solutions	126,401	405,526	2,905		
Joint Trenching	1,277,484	173,442	9,824	500,000	
Water Heater Repair		218,934	84,768	202,249	209,329
Other	553,249	709,132	(130,926)	729,019	
Wireless Carrier Services				800,000	
All-Connect					426,628
Total	\$ 22,460,429	\$ 18,475,161	\$ 2,857,214	\$ 20,906,832	\$ 16,704,916
Expenses					
Expenses Charged to Non-Regulated Operations	\$ 15,962,850	\$ 11,576,087	\$ 1,026,660	\$ 12,001,373	\$ 12,277,985
Net Operating Income Before Taxes	\$ 6,497,579	\$ 6,899,074	\$ 1,830,554	\$ 8,905,459	\$ 4,426,931
Estimated State and Federal Taxes	\$ 2,506,441	\$ 2,661,318	\$ 706,136	\$ 3,435,281	\$ 1,707,689
Net Operating Income	\$ 3,991,138	\$ 4,237,756	\$ 1,124,418	\$ 5,470,178	\$ 2,719,242
Net Plant					
Non-Utility Property	\$ 10,324,516	\$ 10,324,516	\$ 10,324,516	\$ 10,326,945	\$ 10,326,945
Accumulated Depreciation	4,346,753	5,060,038	5,190,252	5,258,648	5,496,928
Net Plant	\$ 5,977,763	\$ 5,264,478	\$ 5,134,264	\$ 5,068,297	\$ 4,830,017
Return on Investment	109%	131%	36%	176%	92%
Reasonable Return on Investment	7.53%	7.53%	7.53%	7.53%	7.53%
Allowable Net Operating Income	\$ 450,292	\$ 396,561	\$ 386,753	\$ 381,783	\$ 363,834
Adjustment to Regulated Net Operating Income	\$ 3,540,846	\$ 3,841,195	\$ 737,665	\$ 5,088,395	\$ 2,355,408
Revenue Conversion Factor	1.62800	1.62800	1.62800	1.62800	1.62800
Revenue Increase	\$ 5,764,504	\$ 6,253,471	\$ 1,200,920	\$ 8,283,915	\$ 3,834,608

Progress Energy Florida, Inc.
Non-Regulated Operations Adjustment

	<u>Proforma 2009</u>	<u>Proforma 2010</u>	<u>Recommended Adjustment</u>
Revenue			
PCS Engineering Design and Construction	\$ 3,150,000	\$ 3,150,000	
Managed Services	282,468	282,468	
Turnkey Solutions	24,132	24,132	
Power Quality Services	6,902,847	7,144,447	
Home Wire	8,622,717	8,924,512	
Lighting			
Infrared Scanning Services	81,210	81,210	
High Voltage Services	220,380	220,380	
Distribution Services			
Metering Services			
Material Solutions	17,430	17,430	
Joint Trenching	500,000	500,000	
Water Heater Repair	202,249	209,329	
Other	729,019	729,019	
Wireless Carrier Services	800,000	800,000	
All-Connect		426,628	
Total	\$ 21,532,452	\$ 22,509,555	
Expenses			
Expenses Charged to Non-Regulated Operations	\$ 12,001,373	\$ 12,277,985	
Net Operating Income Before Taxes	\$ 9,531,079	\$ 10,231,570	
Estimated State and Federal Taxes	\$ 3,676,614	\$ 3,946,828	
Net Operating Income	\$ 5,854,465	\$ 6,284,742	
Net Plant			
Non-Utility Property	\$ 10,326,945	\$ 10,326,945	
Accumulated Depreciation	5,258,648	5,496,928	
Net Plant	<u>\$ 5,068,297</u>	<u>\$ 4,830,017</u>	
Return on Investment	188%	212%	
Reasonable Return on Investment	7.53%	7.53%	
Allowable Net Operating Income	\$ 381,783	\$ 363,834	
Adjustment to Regulated Net Operating Income	\$ 5,472,682	\$ 5,920,908	
Revenue Conversion Factor	1.62800	1.62800	
Revenue Increase	\$ 8,909,535	\$ 9,639,247	\$ 9,639,247
Jurisdictional Allocation Factor			89.69%
Jurisdictional Increase in Revenue			\$ 8,645,724

Progress Energy Florida, Inc.
Adjustment for Allocation of A&G and General Plant to Direct Wholesale Operations

<u>Category</u>	<u>Total Applicable Amount</u>	<u>D.A. Wholesale Allocation Factor</u>	<u>Allocation to D.A. Wholesale Operations</u>	<u>Company D.A. Wholesale Operations</u>	<u>Net Amount Allocated to Retail Jurisdiction</u>	<u>Retail Jurisdictional Allocation Factor</u>	<u>Adjustment to Retail Operations</u>
<u>Plant Adjustments</u>							
General Plant	\$ 575,511,651	0.46%	\$ 2,636,957	-	\$ 2,636,957	87.69%	\$ (2,312,387)
Accumulated Depreciation	<u>\$ 139,930,539</u>	0.46%	<u>\$ 641,153</u>	-	<u>\$ 641,153</u>	87.69%	<u>\$ (562,236)</u>
Net Plant	\$ 435,581,112		\$ 1,995,805		\$ 1,995,805		\$ (1,750,151)
<u>Expense Adjustments</u>							
Administrative & General	\$ 269,669,716	3.5%	\$ 9,451,811	\$2,298,376	\$ 7,153,435	87.77%	\$ (6,278,578)
Property Taxes							\$ (21,431) ⁽¹⁾
Depreciation Expense	\$ 17,144,695	0.46%	\$ 78,556	-	\$ 78,556	87.69%	\$ (68,887)

⁽¹⁾ Calculated Directly as .93% of Plant in Service Adjustment.