BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for increase in rates by Progress Energy Florida, Inc.

DOCKET NO. 090079-EI

Submitted for filing: August 31, 2009

REBUTTAL TESTIMONY
OF
PETER TOOMEY

On behalf of Progress Energy Florida

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

REBUTTAL TESTIMONY OF PETER TOOMEY

Q. Please state your name.

A. My name is Peter Toomey.

Q. Did you submit direct testimony in this case on March 20, 2009?

A. Yes, I submitted direct testimony that addressed the reasons for the base rate increase, described PEF's Budget & Financial Forecast Process, described the procedures used by the Company to monitor and control its Operation and Maintenance and Construction budgets, and explained how the Company's 2009 and 2010 budgets and resulting financial data were used to develop the Company's Minimum Filing Requirements.

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal testimony will respond to certain assertions and positions contained in the testimony of Office of Public Counsel ("OPC") witnesses Kimberly Dismukes ("Dismukes") and Helmuth Schultz, III ("Schultz"), as well as the testimony of Florida Industrial Power Users Group ("FIPUG") witness Martin J. Marz ("Marz"). My responses will address, in the order listed, the following areas addressed by these intervener witnesses:

- Affiliate Allocations;

- Unregulated Services and Products;
- Non-recurring Fiber Indemnification;
- Compensation and Incentive Pay (Employee Count);
- Injuries and Damages Expense Adjustment;
- Budget Analysis;
- Storm Reserve Accrual;
- Asset Retirement Obligations ("ARO") – Adjusted Working Capital;
- Rate Case Expense;
- Directors and Officers Liability Insurance;
- Operation and Maintenance ("O&M") Expense Productivity Adjustment; and
- Test Year Sales and the impact of the load forecast on PEF's revenue requirements with PEF's requested relief and with the interveners' total proposed rate reduction of $35 million.

Q. Have you prepared any exhibits for use in conjunction with your rebuttal testimony?

A. Yes. I have prepared or sponsored the preparation of the following exhibits to my testimony:

- Exhibit No. ___(PT-12), Detail of Costs of Non-regulated Operations by Cost Type;
- Exhibit No.___(PT-13), Analysis of Injuries and Damages;
- Exhibit No.____(PT-14), Analysis of Office Supplies and Expense;
- Exhibit No. ____(PT-15), ARO Adjustments on MFR B-1;

- Exhibit No.____(PT-16), Rate Case Expenses; and
- Exhibit No.____(PT-17), Summary of Adjustments.

These exhibits are true and accurate to the best of my knowledge.

<u>Affiliate Allocations</u>

Q. Can you explain whether Dismukes makes any recommendations regarding the Company's affiliate allocations?

A. Although Dismukes spends several pages of her testimony describing the nature of affiliate transactions, and though she reviewed various interrogatory responses and documents produced by PEF through discovery related to affiliate transactions and allocations, Dismukes does not make any recommendations with respect to PEF's affiliate transactions. In fact, she correctly points out that less than one percent of Progress Energy, Inc.'s revenues are generated from non-regulated businesses. Thus, while Dismukes discusses this issue generally, she did not find any improper affiliate allocations with respect to PEF.

<u>Unregulated Services and Products</u>

Q. What are the Company's non-regulated products and services?

A. PEF offers several non-regulated products and services for the convenience of its customers. These products and services are intended to improve and safeguard our customers' homes. For example, PEF offers a home wiring service where participating residential customers pay a nominal monthly fee in exchange for coverage of costs to repair items like outlets and interior wiring. PEF also rents equipment to protect against surges of electricity through a surge protection program. With a nominal monthly fee, our customers can also enroll in our Water Heater Repair Service, by which water heater damage is repaired by certified technicians. Finally, residential customers can lease outdoor lighting from PEF. With this program, PEF installs and maintains lighting for participating customers for a nominal monthly fee.

Q. Intervener witness Dismukes states that no detail was provided regarding any type of breakdown of the types of expense charged to the non-regulated operations, making it difficult to examine or evaluate the reasonableness of the expenses recorded below-the-line. Was such detail provided in PEF's rate case filing?

A. PEF did not include a breakdown of the types of expenses charged to non-regulated operations in its rate case filing because those expenses are not part of the base rate request. By their nature non regulated activities and their associated expense are recorded "below-the-line" and do not impact the company's revenue requirement request. Indeed, Rule 25-6.1351(2)(g) defines nonregulated operations as "services or products that are not subject to price regulation by the Commission or not included for ratemaking purposes and not reported in surveillance." PEF, of course, would have provided this information to Witness Dismukes in discovery if OPC had asked for it. OPC did not ask for this information before Ms. Dismukes filed her testimony. While PEF received several discovery questions related to our non-regulated operations, none of them requested a breakdown of the types of expenses charged to these operations. On August 14, 2009, after we received Ms. Dismukes' testimony, OPC requested this information in a discovery request. The fact that OPC did not ask for this information until after their witnesses filed testimony speaks volumes regarding the materiality of this information and the true need those witnesses had for it. Nonetheless, I have compiled the actual 2008 expenses, and projected 2009 and 2010 expenses, in Exhibit No. ___(PT-12) by line of service/product and by type. This breakdown of expenses lays to rest any supposition regarding the reasonableness of the expenses the Company has recorded "below the line" for its non-regulated products and services.

Q. The next concern Ms. Dismukes raises is that there are common overhead costs that have not been assigned to the non-regulated operations. Do you agree with her assertion?

A. No, I do not. PEF's overhead costs are allocated via the Service Company, which books a monthly "governance" cost to non-regulated operations as depicted on Exhibit No. __ (PT-12), Column 9. These governance costs are essentially overhead costs and therefore, common overhead costs are being properly assigned to the non-regulated operations. This allocation, as explained in my response to OPC Interrogatory 8 (h), is charged to non-regulated operations monthly via a journal entry. This charge is determined using a percentage of overhead costs that are accumulated at the Service Company.

The numerator for that percentage is the total non-utility costs and the denominator is the sum of total base O&M costs plus non-utility costs. These journal entries and supporting documentation were also provided in my response to OPC Request for Production number 250.

Q. How do you respond to the claim by Ms. Dismukes that the non-regulated operations obtain significant intangible benefits of being associated with the regulated utility operations at no cost?

A. I disagree. PEF's non-regulated operations must compete for customers alongside many other companies who offer the same products and services. Customers have choice. At the end of the day customers are looking for the lowest cost provider regardless of who that might be.

Q. Do you agree with Ms. Dismukes' calculations regarding the return on investment as shown in Exhibit KHD-7, page 1 of 2?

A. No, I do not. Dismukes' calculations are meaningless because these operations are non-regulated. Furthermore, Dismukes' calculation fails to account for the fact that these non-regulated operations are service driven as opposed to capital driven. There is some minor capital involved in some of the non-regulated operations, but for the most part, these operations are labor intensive not capital intensive operations. A return on investment calculation, therefore, is not an effective measure in industries or for operations that are not capital intensive. Thus, this measure should not be used to evaluate the reasonableness of our non-regulated revenue or expenses.

Q. Are any of the three options Dismukes proposes to ensure that the regulated operations do not subsidize the non-regulated operations appropriate for this Commission to utilize?

A. No, they are not appropriate. As an initial matter, PEF is subject to oversight by numerous governmental and regulatory bodies that ensure that we are in full compliance with applicable laws, regulations, and Commission policies. Indeed, Ms. Dismukes admits that the Company has complied with all affiliate transaction regulations and laws.

Moving to the specific options that Ms. Dismukes proposes, her first option is to require the Company to properly allocate all overhead costs to the non regulated operations. PEF has already properly allocated these overhead costs as I have discussed above. This part of her proposed first option is moot. Further, Ms. Dismukes suggests that the Commission could assess a royalty for the "intangible benefits" that the non-regulated operations receive from their association with the regulated electric company. This suggestion is improper because it does not properly segregate the regulated and non-regulated portions of our business. In fact, interveners have already attempted to promote this concept during the rulemaking that brought about Commission Rule 25-6.1351. As evidenced by the final rule the Commission did not adopt their proposal and should not consider it now.

The second option that Ms. Dismukes proposes, determining a reasonable rate of return for the non-regulated operations, is inappropriate because the rule expressly defines nonregulated operations as operations that are <u>not</u> price regulated by the Commission. Further, as explained above, a rate of return calculation is meaningless for these non-regulated operations because the operations are not capital-intensive.

The third option Ms. Dismukes proposes, and the one she ultimately recommends to the Commission, is to move the revenues, expenses, and investment for non-regulated activity above the line for the purpose of establishing rates. Again, as discussed above, the rule defines nonregulated operations as operations that are <u>not</u> included for ratemaking purposes. As a result, this option would require the Commission to make improper calculations and determinations regarding non-regulated activity. What Ms. Dismukes proposes is inconsistent with Commission Rule 25-6.1351, which relates to PEF's ability to offer non-regulated products and service. The Commission cannot adopt an option that contradicts the policies established by Rule 25-6.1351. This option is equally ill-advised because it would ignore PEF's focus on its core regulated business and would act as a financial disincentive against these programs.

<u>Employee Count, Compensation and Incentive Pay</u>

Q. Mr. Schultz raises issues regarding the number of employees that the Company will add from 2008-2010. How many employees will the Company add from 2008 to 2010?

A. On MFR C-35, the Company shows that it will increase its employee numbers by 370 employees from 2008 to 2010. Of those 370 employees, however, 256 are new positions that will support the Levy project. The payroll and benefit costs for these positions are not at issue in this proceeding because those expenses will be charged to the Levy project and submitted for recovery through the Nuclear Cost Recovery process. Similarly, 4 of the new positions will be charged to the Smart Grid project, which is also not recovered through base rates, but rather Energy Conservation Cost Recovery. Therefore, the head count for PEF increases by 110 with respect to PEF's base rates and this proceeding, but this does not mean that there are 110 net new PEF employees. Specifically, when Service Company employees charge time to PEF, only a portion of the cost for their benefits and payroll costs are allocated to PEF for purposes of determining total headcount. For example, if an employee only charges 25% of her time to PEF, that employee only counts as 25% of a single PEF employee. All Service Company employees are allocated in that manner and in the aggregate, a certain number of people are added to the PEF headcount. These are referred to as Service Company Full Time Equivalent employees ("FTEs"). The specific changes in the allocation metrics are due to an expected increase in PEF headcount and assets, as compared to Progress Energy Carolinas ("PEC"). Therefore the Service Company will allocate more

FTEs to PEF in 2010. These changes account for 29 of the positions. After adjusting for clause recoverable employees and Service Company employees that are not fully allocated to PEF, the Company projects to increase its employee count by only 81 from 2008 to 2010. That number is comprised of 36 "new" positions to be added in 2009 and 45 vacant positions that existed as of 12/31/2008 that are expected to be filled.

Q. **What is your response regarding Mr.Schultz's allegation that the Company failed to provide any justification for 48 positions?**

A. Schultz states that there is a net increase of 81 positions, consisting of 36 new positions and 45 vacancies. He then goes on to say that the Company provided justification for only 33 new positions. He concludes that the Company did not justify the remaining 48 positions However, 45 of those 81 positions were not new positions, but are currently vacant positions which had previously been included in rates. These vacancies represent positions that were not staffed at 12/31/08, but that are expected to be staffed in 2009 and 2010. Schultz's assumption that the budget assumes that future vacancies will not occur is not correct.

Thus, Schultz's assertion that these 45 positions must be further justified is misguided by his misunderstanding that they are net new positions. Thus, Schultz, in reality, only takes issue with 3 new positions for which he claims the Company failed to provide justification.

Q. Schultz further recommends that 80 positions be removed from PEF's employee count for 2010. How do you respond?

A. Schultz's recommendation is unsupported by the evidence. These 80 positions represent: (1) 26 (of the 36 new positions) not yet filled as of 6/22/09, (2) 25 vacant positions not filled as of 6/22/09, and (3) an allocation of 29 Service Company FTEs.

Mr. Schultz does not refute PEF's need for any of the 36 "new" positions. Rather, he recommends taking away the ones that are unfilled, simply because they have not been filled yet. This recommendation is not based on any analysis. His proposed reduction simply assumes that the Company does not plan to fill these positions. Schultz, however, has no evidence that PEF is not going to fill these positions other than the fact that they are currently vacant. In fact, some of these new positions are not scheduled to be filled until 2010, and therefore would not logically be filled in the first half of 2009. The Company needs these employees and will fill these positions when it is reasonable to do so the remainder of this year or next.

Similarly, Schultz does not challenge the Company's need for the 26 vacant positions which have not been filled as of 6/22/09. These positions have been authorized as part of the last base rate proceeding. Schultz does not and cannot provide any evidence that the Company will not fill these positions, other than the fact that the particular positions were vacant as of a particular date. Of these 26 positions, 16 of them are in the Transmission Operations and Planning area. The Company plans to fill these positions to address the increased scope of Transmission work required by NERC standards as Mr. Oliver discusses in his testimony. Again, the Company needs to fill these vacancies to continue to provide its customers with safe and reliable electric service. There is no principled basis to remove these positions from the Company's request.

Lastly, the 29 FTEs allocated from Service Company are not increases in employee counts for PGN as a whole, but rather a calculation of PEF's portion of the Service Company employees allocable to PEF based on the guidelines provided for in our Cost Allocation Manuals. To remove these employees would be a misallocation of costs from the Service Company, violating the applicable rules and laws governing allocations enacted by the SEC and FERC.

Q. Schultz also expresses concern that the Company's plan to add employees ignores the economic events that other companies and ratepayers are forced to recognize. How do you respond to that allegation?

A. Progress Energy Florida has not ignored the current economic conditions. To the contrary, we have managed and will continue to aggressively manage our costs. For example in late 2008, due to the recession and lower customer growth, we laid off 150 full-time employees, and eliminated another 150 vacant positions. This included management and non-management positions, including the elimination of the Distribution General Manager position; a position one level below Vice President. The Company also reduced budgeted merit increases to managers to two percent, eliminated all non-essential travel, and laid off a number of contractors. However, this does not negate the Commission's expectations and therefore our need to deliver safe and reliable electric service to customers, regardless of the state of the economy, while at the same time support the largest capital expansion plan that the company has ever experienced. Our employees are essential to ensuring the success of these efforts.

Injuries and Damages Expense Adjustment.

Q. Mr. Schultz raises several concerns about Injuries and Damages and proposes that the entire amount requested should be eliminated as the Company has not provided justification for the 2010 costs. Do you agree with his proposal?

A. No, I do not. This is a legitimate business expense for the Company. Indeed, this is a legitimate business expense for any company, regulated or non-regulated. This expense has been recognized as a legitimate business expense in the Company's rates in the past and, most recently, this Commission recognized this was a legitimate business expense in the rate proceeding for Tampa Electric Company. See Order No. PSC-09-0283-FOF-EI, p. 63. There is no justification for the elimination of this expense in its entirety from the Company's revenue requirements and Mr. Schultz provides none.

Mr. Schultz's concerns are unfounded. He is taking advantage of the Company's initial errors in recording this expense in its MFRs to erroneously conclude that the Company incurred no such expense in 2008 and, therefore, is entitled to no expense in 2010. This is simply not true. The Company's inadvertent errors in recording this expense have been corrected, the Company incurred Injuries and Damages expenses in 2008, and the Company has budgeted Injuries and Damages expenses for 2010. Mr. Schultz was provided this information when these corrections were made. The Company's inadvertent error in initially recording this expense in its MFRs is no reason to deny recovery of this expense in its entirety.

The expense for injuries and damages was not reflected properly on MFR Schedule B-21. This MFR shows the budgeted accruals and expenses to the liability for Injuries and Damages. For budget purposes, PEF assumed that the accrual for Injuries and Damages would be equal to the cash payments and, therefore, reflected no change in the liability account. PEF did include a budgeted amount for Injuries and Damages in expense account 925 on MFR C-4 in the amount of $9,821,000 (system), $8,612,000 (retail). The Company did budget an expense amount for Injuries and Damages, then, it was simply not reflected properly in the liability account on the balance sheet.

PEF also incorrectly recorded $450,000 for Injuries and Damages that was budgeted to account 920 when it should have been budgeted to account 925. Mr. Schultz relies on both of these inadvertent recording errors and alleged inconsistencies in data provided in response to some discovery responses to conclude that there was no expense for injuries and damages in 2008. For this reason he argues there should be no expense allowed in 2010. His conclusion is not correct. FERC account 925 on MFR C-4 page 44 of 48 reflects an expense of $8,882,000. This amount ties to the Company's books and records. Indeed, the MFR's for 2008 actuals in this docket were audited by the Florida Public Service Commission auditors and they reconciled the amounts on the MFRs to the Company's actual book and records. The Company's actual 2008 expense has been verified, and PEF has based its 2010 budget for this expense on its actual historical expenses. PEF is, therefore, entitled to recover this legitimate business expense.

Q. What types of expenses are included in FERC 925, Injuries and Damages?

A. This account includes charges for insurance premiums, workers compensation claims, and other claims and settlements that the Company pays. The amounts that are charged to this account do fluctuate from year to year depending on the claims that are filed and the costs for insurance coverage. PEF uses a third party to do an annual actuarial evaluation of outstanding workers compensation claims to determine the appropriate level of accrual and expense that PEF should record. On a quarterly basis, PEF also evaluates the potential liability for other claims that have been filed.

We have prepared Exhibit No. __ (PT-13), which shows the historical charges to this account for 2004 to 2008 compared to the amount budgeted for 2010. From this analysis, you can see that the amount that is included in the

2010 test year is reasonable as it is less than the average of the actual charges to this account over the past five years. Based on the types of expenses that are included in this account and the historical level of expenses, Mr. Schultz's conclusion that there should be no expense provided for in 2010 rates is not reasonable, nor is it logical.

Budget Analysis.

Q. Witness Schultz further expresses concern about the costs included in the Company's rate request because the support provided does not meet his standard of what he would consider "proper documentation." How do you respond?

A. My first response is that just because Mr. Schultz claims that PEF has not provided supporting documentation for costs included in its rate request does not make that claim true. In fact, one of the easiest ways to express an opinion without having any substantive or analytical support for that opinion is to simply subjectively criticize documentation and supporting data by stating that "I personally did not like it."

That being said, in PEF's initial filing, as well as in our responses to discovery, PEF provided all the relevant and meaningful documentation and data in our possession, consistent with the rules of the Commission. Mr. Schultz's subjective disappointment is apparently based on his unrealistic and unfounded expectations. He concludes, without any supporting justification whatsoever, that budget "estimates" must be supported by quotes, invoices, or third party estimates similar to what would be provided in an IRS audit. (Schultz Testimony, p. 51, L. 4-11). An IRS audit, of course, occurs after the costs have been incurred when documentation of the type Mr. Schultz references can be expected. But PEF is providing budget “estimates” for the 2010 test year, not participating in an audit of costs already incurred. With respect to PEF’s 2010 budget, Mr. Schultz does not and cannot dispute that PEF’s budget process for 2010 is consistent with PEF’s business practices and utility industry practices.

As I explained in detail in my direct testimony and in response to OPC interrogatory number 380, the top-down, bottom-up budgeting process PEF employs and that it employed to develop the 2010 budget involves direction from upper management in the form of specific and binding targets. Further, the development of the individual components to the budget stem from the expertise of our employees with direct access to the costs the Company experiences and their experience and ability to determine what costs are necessary to continue to provide quality service while meeting the targets set by management. This is a multi-step process involving all of our employees over several months to arrive at our budgets. Our budgeted costs are based on third party quotes and estimates when necessary and available, but otherwise, our cost estimates are based on the judgment and determination of our employees who have the expertise and the experience operating all aspects of our system for the benefit of our customers. Indeed, for many of our services, our employees are the only reliable resources for those services, and the best resource for providing the cost estimates. This fact is also demonstrated in the rebuttal testimony of other witnesses that address department-specific issues that Mr. Schultz has raised. Said simply, PEF's 2009 and 2010 budgets accurately depict the resources needed to meet our financial and operational objectives, and Mr. Schultz's suggestions that he does not personally care for the supporting documentation he has received does nothing to change this fact.

Q. Can you address Mr. Schultz's more specific recommended adjustments to PEF's A&G Office Supplies and Expense amounts?

A. PEF agrees that there are some items that should be charged below the line to account 426 instead of to the 921 account. PEF also agrees to and proposes a second adjustment of ($220,000) to account 9210000 in 2010 to account for the elimination of employee service awards in 2010 as well as the elimination of a workforce strategy program that the Company has recently eliminated ($555,000). These adjustments collectively result in a reduction of $1,170,395 on a jurisdictional basis (Exhibit No. __ (PT-14)).

PEF disagrees, however, with Mr. Schultz's proposed adjustment to Meals/Travel/Lodging for $170,000, which is lower than our 2008 actual expense incurred for the specific line item at issue. Rather than addressing this fact or providing any principled reason for making a reduction to this account, Mr. Schultz simply recommends cutting this budgeted expense to zero, a proposal that is unreasonable on its face given PEF's historical actual expenses for this line item.

Finally, Mr. Schultz recommends a decrease of $1,200,000 on a system basis for the Corporate Managed Account ("CMA") by claiming that this is a petty cash account. This account, however, is not a petty cash account. The CMA account Mr. Schultz refers to is for emergent/unplanned expenditures during the course of a year. The amount in this account represents .2% of the total O&M budget and is based on historical needs for emergent and unplanned cost issues seen in 2008.

Storm Reserve Accrual.

Q. Both Marz and Schultz propose that the Company should cease accruals to the storm reserve. Are these proposals consistent with the framework the Commission has established for the recovery of storm costs?

A. No, their proposals are inconsistent with that framework. At page 30 of his testimony, Marz quotes from the recent TECO rate case order in which the Commission identified three major components of its regulatory framework: (1) an annual storm accrual, adjusted over time as circumstances change, (2) a storm reserve adequate to accommodate most, but not all, storm years, and (3) a provision for utilities to seek recovery of costs that go beyond the storm reserve. The proposal to eliminate storm reserve accruals ignores the first component of that framework. Also, without an accrual, the storm reserve's ability to accommodate most storm years will also diminish rapidly. The proposal also ignores the Commission's conclusion in the TECO order that "the self-insurance framework that we operate under, [of] which the storm reserve is an integral component, is critical to the state of Florida. Moreover, the annual accrual is a very important part of the rate process and ratemaking process."

Since PEF's annual storm accrual was set at $6 million in 1994, there have been significant increases in the extent of PEF's transmission and distribution network and PEF estimates that the value of its T&D assets that are at risk during storm events has risen by more than a factor of three. The Company's proposal to increase the annual accrual to $16 million – representing the portion of the expected annual loss of $20.2 million that would be chargeable against the reserve – is the type of adjustment that should be made to reflect changed circumstances over time.

Q. Please respond to Marz's statement that PEF has not sought to establish a target reserve balance, and is therefore proposing to accrue dollars for the storm reserve in perpetuity.

A. Marz is incorrect that PEF did not identify a specific target reserve balance. The reserve balance analysis performed for the Company by PEF witness Harris shows an expected balance of $152.5 million at the end of five years based on the Company's requested annual accrual of approximately $16 million. This is sufficient to cover average losses from individual Category 1 and 2 storms, and from some Category 3 storms. The analysis also shows that, with the $16 million annual accrual, there is a 90% probability that the reserve balance will range from a negative $53 million to a positive $231 million at the end of five years.

Under Rule 25-6.0143(l), PEF is required to submit a Storm Damage Self-Insurance Reserve Study at least every five years. If, when PEF submits its next study by 2014, the reserve balance differs materially from the target level, the Commission can consider whether any further action is required to increase or decrease the level of accrual. This would be consistent with the Commission's recent decision in the TECO rate case (Docket No. 080317-EI) in which the Commission established a target reserve level for TECO. In Order No. PSC-09-0283-FOF-EI, the Commission stated that it was premature to require that accruals be stopped if and when TECO's target reserve balance were reached, leaving the issue of continued accruals to be readdressed if the target level were achieved. (Order at 18).

Q. In calculating the average storm loss since 1994, Schultz excludes the 2004 storms on the grounds that those costs were not charged against the reserve. Was the cost of the 2004 storms charged against the reserve?

A. Yes, until the reserve was exhausted. At the time of the 2004 storms, PEF had a storm reserve balance of approximately $47 million. The Commission found that the losses that ordinarily could be charged to the reserve totaled over $285 million. The Company first charged these losses against the reserve and was then authorized to collect the excess through a surcharge on customer bills.

Q. Is it fair to suggest, as Schultz does at pages 9 and 11, that the Commission stated, and all parties agreed, that 2004 storms did not represent a base rate item, and therefore the 2004 storm experience should be excluded in determining the amount of a storm loss accrual?

A. No. First, Schultz has taken statements about the inclusion of storm costs in base rates out of context. PEF's position that the 2004 storm costs were not a base rate item was another way of stating that recovery of those costs would not violate provisions in its 2002 rate case settlement agreement that limited its ability to request an increase in base rates and charges. Similarly, in finding that the 2004 storm costs were not a base rate item, the Commission was rejecting OPC's position that PEF could not recover storm costs except to the extent its earnings fell below the 10% level established in the settlement agreement. The Commission found instead that "PEF incurred incremental costs which were not budgeted nor accounted for through base rates" (Order No. PSC-05-0748-FOF-EI at 10), and which qualified for recovery through a surcharge mechanism outside base rates. Second, the Commission's order gave no indication that any storm experience should be excluded in considering the future amount of the annual storm accruals or the target level for the reserve.

<u>Asset Retirement Obligations ("ARO") – Adjusted Working Capital.</u>

Q. What are Shultz's concerns regarding the Company's proposed ARO adjustment to plant related items and working capital?

A. Schultz claims that the Company proposes to increase rate base by $398.038 million to adjust for ARO. He claims that the Company has not provided sufficient justification to support this adjustment. He also claims that Rule 25-14.014 states that the implementation of Financial Accounting Standard No. 143 should be revenue neutral in the rate making process, and he suggests that PEF has increased revenue requirements through this adjustment and therefore, the adjustment is not revenue neutral.

Q. Does Shultz recommend any adjustment to reverse the Company's requested ARO adjustment?

A. No, he does not. He instead stated that he has deferred any recommendation to allow the Company to provide justification for the ARO adjustment.

Q. Can you please explain Rule 25-14.014 related to Accounting for Asset Retirement Obligations and the adjustments PEF made in its filing regarding this rule?

A. The Financial Accounting Standards Board issued Statement No. 143 in June 2001. The statement requires the accrual of legal obligations associated with the retirement of tangible, long-lived assets. In 2003, the Florida Public Service Commission issued Rule 25-14.014, Accounting for Asset Retirement Obligations, under SFAS 143. The provisions of this rule require that SFAS

143 be implemented in a manner that the assets, liabilities and expenses created by SFAS 143 be revenue neutral in the rate making process.

For financial accounting purposes, PEF is required to state its financial statements in accordance with the provisions of SFAS 143. For regulatory reporting purposes, in accordance with the provisions of this rule, PEF is required to neutralize the effect of SFAS 143. The adjustments that Mr. Schultz references were made simply to remove from rate base the cumulative effect of the entries for SFAS 143 as required by the rule.

Q. Did PEF make an adjustment to its rate base to add $398.038 million for ARO?

A. Yes. MFR B-1, Line 3, Column J, does reflect an adjustment to rate base for this amount. What Mr. Schultz fails to recognize, however, is that this adjustment has been made to remove the effects of FAS 143 per the requirements of Rule 25-14.014 because the account balances related to FAS 143 are included as a net reduction to the System per Books numbers on MFR B-1, Line1, Column J. A specific list, by account number and description, of all the ARO adjustments included in Schedule B-1 can be found in my Exhibit No. ___ (PT-15).

Q. Are there other accounts related to ARO for which rate base adjustments are made?

A. Yes. The net ARO liability that is adjusted out of rate base is a funded liability. The offsetting assets that fund this liability are the accounts for the nuclear decommissioning trust fund located in the Other Special Funds (128) adjustment located on line 13 of MFR Schedule B-1, page 1 of 3. It is also worth noting that the net of the ARO liability that is adjusted out of rate base and the offsetting assets that fund the liability is a $21.7 million credit and this net credit amount has been the same since the adoption of FAS 143 in 2003. This further proves that the entries to record FAS 143 have had a neutral effect on rate base.

Rate Case Expense.

Q. OPC Witness Schultz indicates that the amount of rate case expenses requested by PEF is excessive as it does not reflect the contractual terms of consultants and lawyers. Do you agree with his calculations and assessment?

A. No, I do not. Witness Schultz states that the Company's rate case expenses are excessive and recommends an adjustment downward of $767,590. Schultz derives this amount by estimating total rate case expense based on actual costs through March 2009 and his projection of expenses through the conclusion of the case.

Schultz's recommended reduction of $767,590 is based on the original estimate that PEF included in its MFR C-10 of $2,787,000. If one accepts Schultz's reduction, that would result in projected expenses of $2,019,410. Schultz's calculations, however, erroneously exclude estimated expenses of $90,323. Adjusting Schultz's number by this amount increases his proposed total rate case expense to $2,109,733.

Additionally, PEF updated its estimate of rate case expenses in its response to Staff's 22nd set of interrogatories, question 267 and reduced its estimated expenses to $2,251,077 based on more current information that it had at that time. This interrogatory response also includes the detailed explanation regarding the development of the rate case expense projections. PEF's new estimate is supported by the actual expenses to date, as well as the reasoned projections. The new estimate also appears to be in line with what Mr. Schultz has recommended. It is also consistent with the level of expenses that the Commission recently approved in TECO's base rate proceeding in Docket 080317. Therefore, Mr. Schultz's assertions in this regard appear to be moot.

I do agree, however, that the amount for rate case expenses included in rate base should factor in amortization and should be the 13 – month average balance for 2010. This change along with the new estimate of expenses results in a reduction in rate base of $1,099,000 and a reduction in revenue requirements of $413,000 as depicted on Exhibit PT-16.

<u>Directors and Officers Liability Insurance.</u>

Q. Schultz states that the Company has included $2.2 million for Directors and Officers (D&O) Liability Insurance. Then Schultz states that the Company has included $2.75 million. Which amount is correct?

A. PEF has included $2.2 million for D&O Liability Insurance, as provided in response to OPC Interrogatory No. 310. The $2.75 million represents other types of insurance in addition to D&O insurance as explained in PEF's response to OPC POD No. 272.

Q. What does Schultz recommend with respect to the Company's D&O Liability Insurance?

A. Schultz recommends total disallowance for the Company's requested $2.7 million expense for D&O liability insurance. His argument is that D&O liability insurance does not benefit ratepayers, so shareholders should have to pay for it.

Q. What is your response to this argument?

A. Mr. Schultz is incorrect. The Commission, in the recent Tampa Electric and Peoples Gas rate case proceedings, has already decided that D&O liability insurance is a legitimate business expense and thus appropriately included in customer's rates. The Commission has also already decided that D&O liability insurance is a necessary and reasonable expense for the Company to do business.

Q. Do ratepayers benefit from D&O liability insurance?

A. Absolutely. Any company, including Progress Energy, must have a capable and skilled board of directors and officers to lead it. No competent person would serve as a director or an officer if the company did not have D&O liability insurance. By not recognizing how competent directors and officers benefit ratepayers, Schultz takes an extremely narrow view of how the Company works.

<u>Operation and Maintenance ("O&M") Expense Productivity Adjustment</u>.

Q. Mr. Schultz at pages 54 and 55 of his testimony recommends a productivity adjustment to the Company's O&M expense request? Do you agree that this is a reasonable adjustment?

A. No, I do not. We have already incorporated productivity and efficiencies into the amount requested. As described in testimony, we have implemented a multitude of programs and processes across all areas of the business to more efficiently operate the business and manage our costs. We have invested in capital projects at our power plants to increase efficiency and reduce O&M costs. We have reduced our work force in the Energy Delivery business unit in response to the economic slowdown. We have also implemented a number of initiatives and new technologies in our customer service area to manage our costs. We have decreased our pay increases for management level employees. We have renegotiated contracts with vendors to reduce our costs.

In the Services Company, we have implemented a continuous business excellence program to systematically achieve sustainable efficiency and productivity gains every year. We are always looking for ways to better manage our costs and work more efficiently while still providing high quality service to our customers and we have already factored cost savings from these initiatives and programs into our projections, but even through these efforts our costs are still going up while our sales forecast is going down.

Schultz's proposal is nothing more than an across-the-board reduction in O&M expenses. All this recommendation means is that the Company must do more with less money. The Commission should reject this recommendation because it is inconsistent with this Commission's view that we have an obligation to provide quality electric service to our customers and are entitled to recover the expenses necessary to provide that level of service to our customers.

<u>Test Year Sales.</u>

Q. What concerns does Witness Marz raise regarding the sales forecast for the test year?

A. Marz suggests that because rates are being set in a depressed economy, PEF will have the opportunity to experience higher returns.

Q. Do you agree with Marz on this point?

A. I do not. Our outlook for sales has declined since we originally filed our case. We now see that the economic recovery will be slower than we originally projected and we have updated our load and energy forecast to reflect that slower growth rate. PEF provided an updated jurisdictional cost of service study, which incorporated the Company's updated load and energy forecast, in response to OPC Interrogatory Number 118. The updated cost of service study is attached to Mr. Slusser's testimony as Exhibit No. __ (WCS-12) and the updated load and energy forecast is attached to Mr. Crisp's rebuttal testimony as Exhibit No. ___ (JBC-9). The updated load and energy forecast results in a $67 million reduction in the retail revenue forecast due to lower sales. The Cost of Service study that is based on that lower sales forecast also depicts an increase in revenue requirements from the retail jurisdiction due to a shift in rate base to the retail jurisdiction and more operating costs allocated to the retail jurisdiction as the wholesale load and energy forecast has also declined. These changes along with the reduction in revenues result in an increase in revenue requirements from the retail jurisdiction of $95 million (Exhibit PT-17). Therefore, Mr. Marz's conclusions are wrong. As demonstrated by the more relevant updated information that PEF has provided, lower sales mean PEF needs additional revenue requirements just to cover its costs.

Q. Is the Company proposing an increase to initial rate case request based on the updated sales forecast?

A. No, we are not. We are using the updated sales forecast and revised cost of service study to show that, as compared to the Company's initial forecast and study, our revenue requirements would be even higher if PEF were to file a rate case today based on these updated figures. As a result of the revised load and sales forecasts, even if the Company were awarded its requested revenue requirements in this proceeding, it would not earn its necessary return on equity. It is therefore imperative that the Commission grant all of the Company's initially-requested relief and not implement the radical adjustments proposed by the intervener witnesses.

Q. What would be the financial impact on the Company if the Commission were to adopt Interveners' proposed $35 million rate reduction?

A. A rate reduction, especially one of that magnitude, would damage the financial health of the Company. Reducing rates by $35 million would likely cause credit rating agencies to downgrade the Company, which, in turn, would increase the Company's cost of capital and ultimately increase the cost of service to our customers. In addition, as Mr. Sullivan discusses in more detail, the Company would have a harder time attracting the capital necessary to run its business. With other utilities, especially other nuclear utilities, earning higher returns, it is common sense that an investor will invest in other utility companies who have higher returns than PEF.

Q. Do you have any concluding comments?

A. Yes. In summary, PEF has analyzed all the intervener testimony filed in this case and has determined that a total reduction in revenue requirements of $1, 587,000 is appropriate from the issues that they have presented. That amount is comprised of the $413,000 reduction in rate case expenses and $1,173,000 for A&G expenses that should not have been included in our request. In other words, where any intervener has raised a valid concern, PEF has acknowledged that concern and agrees to make an appropriate adjustment to address it. However, as I have demonstrated in the balance of my rebuttal testimony, the intervener witnesses have proposed several other adjustments or concerns that are unfounded or improper, and for all the reasons that I and other PEF witnesses have stated, the Commission should reject those concerns and resulting proposed adjustments.

Additionally, as noted above, PEF has updated its sales forecast and that it would result in an increase in revenue requirements of $94.8 million. This means that even if PEF were awarded its full revenue requirements, it would not be able to earn its required return on equity. This increase, along with the adjustments $(1.6) million that PEF agrees should be made to its original revenue requirements request, result in a net increase in revenue requirements of $93.2 million as summarized on Exhibit PT-17.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

Detail of Costs of Non-regulated Operations by Cost Type

2008 ACTUALS	(1) DIRECTLY ASSIGNED: Employee Labor & Other Benefits	(2) DIRECTLY ASSIGNED: Purchased Materials	(3) DIRECTLY ASSIGNED: Outside Labor	(4) DIRECTLY ASSIGNED: Taxes/Claims/ Fees/Postage	(5) DIRECTLY ASSIGNED: Advertisements	(6) DIRECTLY ASSIGNED: Other	(7) DIRECTLY ASSIGNED: Meals/Travel/ Rent/Vehicles	(8) SUBTOTAL: DIRECT ASSIGNED	(9) SUBTOTAL ALLOCATED: Governance	(10) SUBTOTAL ALLOCATED: Mass Allocations	(11) GRAND TOTAL
Product Name											
PCS ENGINEERING DESIGN & CONSTRUCTION	53,283		934,570	3,377		7,711	16,683	1,015,624			1,015,624
MANAGED SERVICES	75,090	38,395	68,016	5,157			9,164	195,821			195,821
TURNKEY SOLUTIONS		1,559	44,608			855		47,022			47,022
POWER QUALITY SERVICES	132,201	1,309,678	592,151	52,394	321,531	59,179	10,320	2,477,453			2,477,453
HOMEWIRE	227,652	167,747	1,179,488	28,710	257,558	178,305	5,760	2,045,221		157,417	2,202,638
LIGHTING		(2,480)	2,676					196			196
INFRARED SCANNING SERVICES	1,202		7,175	68			259	8,705			8,705
HIGH VOLTAGE SERVICES	73,460	10,017	57,381	4,876			17,895	163,629			163,629
DISTRIBUTION SERVICES	541,686	15,121	18,061	28,714		114,798	40,104	758,483			758,483
METERING SERVICES	543		52,024	34			55	52,656			52,656
MATERIAL SOLUTIONS	4,669	10,609	11,422	269			316	27,284			27,284
JOINT TRENCHING	331	7,833	(24,868)	19		11,565	29	(5,091)			(5,091)
OTHER	1,638,927	166,257	429,516	134,818	166	90,703	134,730	2,595,118	773,620	104,314	3,473,052
WIRELESS CARRIER SERVICES	459,190	12,469	122,049	30,129		174,408	245,911	1,044,156			1,044,156
WATER HEATER REPAIR	9,387		68,073	264	32,593	3,234	906	114,457		-	114,457
ALLCONNECT								-			-
TOTAL	3,217,621	1,737,204	3,562,343	288,828	611,848	640,758	482,132	10,540,734	773,620	261,731	11,576,085

Detail of Costs of Non-regulated Operations by Cost Type

2009 PROJECTIONS	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	DIRECTLY ASSIGNED							SUBTOTAL	SUBTOTAL ALLOCATED		GRAND
	Employee Labor & Other Benefits	Purchased Materials	Outside Labor	Taxes/Claims/Fees/Postage	Advertisements	Other	Meals/Travel/Rent/Vehicles	DIRECT ASSIGNED	Governance	Mass Allocations	TOTAL
Product Name											
PCS ENGINEERING DESIGN & CONSTRUCTION	86,350		2,163,986	4,838			18,543	2,273,717			2,273,717
MANAGED SERVICES								-			-
TURNKEY SOLUTIONS								-			-
POWER QUALITY SERVICES	100,725	822,539	555,680	80,157	384,464	28,588		1,972,153			1,972,153
HOMEWIRE	291,532	219,533	1,091,927	21,960	419,568	25,368		2,069,887			2,069,887
LIGHTING								-			-
INFRARED SCANNING SERVICES								-			-
HIGH VOLTAGE SERVICES								-			-
DISTRIBUTION SERVICES	672,627	17,167		51,447		121,000	50,000	912,241			912,241
METERING SERVICES								-			-
MATERIAL SOLUTIONS								-			-
JOINT TRENCHING						380,000		380,000			380,000
OTHER	2,247,877	6,296	233,057	117,468		79,807	146,649	2,831,154	858,000		3,689,154
WIRELESS CARRIER SERVICES						640,000		640,000			640,000
WATER HEATER REPAIR	36,839		26,251	1,012		120		64,221			64,221
ALLCONNECT								-			-
TOTAL	3,435,950	1,065,536	4,070,901	276,880	804,032	1,274,883	215,192	11,143,374	858,000	0	12,001,374

Detail of Costs of Non-regulated Operations by Cost Type

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
2010 PROJECTIONS	DIRECTLY ASSIGNED							SUBTOTAL	SUBTOTAL ALLOCATED		GRAND
	Employee Labor & Other Benefits	Purchased Materials	Outside Labor	Taxes/Claims/Fees/Postage	Advertisements	Other	Meals/Travel/Rent/Vehicles	DIRECT ASSIGNED	Governance	Mass Allocations	TOTAL
Product Name											
PCS ENGINEERING DESIGN & CONSTRUCTION	87,738		2,159,710	4,838			18,543	**2,270,830**			**2,270,830**
MANAGED SERVICES								-			-
TURNKEY SOLUTIONS								-			-
POWER QUALITY SERVICES	104,778	851,328	575,128	82,948	397,920	29,587		**2,041,689**			**2,041,689**
HOMEWIRE	303,955	227,216	1,130,138	22,666	434,249	26,260		**2,144,485**			**2,144,485**
LIGHTING								-			-
INFRARED SCANNING SERVICES								-			-
HIGH VOLTAGE SERVICES								-			-
DISTRIBUTION SERVICES	684,058	17,167		51,447		121,000	50,000	**923,673**			**923,673**
METERING SERVICES								-			-
MATERIAL SOLUTIONS								-			-
JOINT TRENCHING						380,000		**380,000**			**380,000**
OTHER	2,348,809	6,469	239,973	123,113		82,555	151,676	**2,952,595**	858,000		**3,810,595**
WIRELESS CARRIER SERVICES						640,000		**640,000**			**640,000**
WATER HEATER REPAIR	38,380		27,169	1,040		124		**66,713**			**66,713**
ALLCONNECT								-			-
TOTAL	**3,567,720**	**1,102,181**	**4,132,118**	**286,052**	**832,169**	**1,279,526**	**220,219**	**11,419,984**	**858,000**	**0**	**12,277,984**

Analysis of Injuries and Damages

	2004 Actuals	2005 Actuals	2006 Actuals	2007 Actuals	2008 Actuals	2010 Budget
000000 - UNSPECIFIED					$ 188,309	
01A08D - CPL CHIEF NUCLEAR OFFICER	$ 4,436	$ 5,717	$ 881			
60060D - CORP REL & ADMIN SVCS-FL	$ 11,704	$ 220,584	$ 355,015	$ (114,051)	$ 22,758	
60380S - FPC CUSTOMER SERVICE	$ 3,903	$ 3,382			$ 3,245	
60425S - SOUTH COASTAL REGION	$ (1,134)					
60440D - ENERGY DELIVERY ADMIN (1)	$ 1,187,891	$ 2,662,661	$ 1,568,131	$ (326,266)	$ 1,563,923	$ 2,000,000
60480D - FPC CHIEF NUCLEAR OFFICER	$ 123,897	$ (102,014)	$ 298,943	$ 17,253	$ 133,248	$ 450,000
60501S - TRANSMISSION DEPT FL			$ 1,157,836	$ 197,464	$ 248,116	$ 304,000
60GB8D - FPC-POWER OPS	$ 555,760	$ 203,892	$ (225,779)	$ 11,800	$ 67,175	$ 200,000
60HV5S - ED CAROLINAS GROUP ADMIN	$ -	$ (168,971)	$ 14,912	$ 3,935		
60X00D - PEF LEGAL ENTITY	$ 13,001	$ 9,134,733	$ (3,569,753)	$ 7,613,862	$ 3,256,627	$ 1,489,484
98A11D - CHAIRMAN & CEO-PGN					$ (82,860)	
98A13D - PRESIDENT-SERVICE COMPANY	$ 5,951	$ 150,234	$ 132,943	$ 221,523		$ 190,313
98BU1S - SERVICE CO MANAGED ACCOUNT	$ 26,666	$ 275,000				
98EC8S - CORP INSURANCE PREMIUMS	$ 911,024	$ 884,141	$ 1,039,999	$ 1,213,849	$ 1,362,035	$ 842,667
98GB4S - CORP ENVIRON HEALTH&SAFETY	$ (1,188)	$ 1,334				
98T01S - TR TREASURY DEPARTMENT	$ 4,037,351	$ 4,911,259	$ 5,255,196	$ 4,731,282	$ 4,516,594	$ 4,794,430
98T61S - AD ACCOUNTING DEPARTMENT			$ -			
98WCBS - CS CORPORATE SERVICES			$ 21,056	$ 305		
98X19S - CC CORPORATE COMMUNICATIONS	$ -					
98X10S - LD LEGAL		$ 17,797	$ 75,010	$ (17)	$ 3,168	
	$ 6,879,262	**$ 18,199,749**	**$ 6,124,390**	**$ 13,570,940**	**$ 11,282,337**	**$ 10,270,894**

Average of Actual Charges for 2004-2008 **$ 11,211,336**

(1) includes adjustment of $2.4 million in 2008 actuals for charges for Workers Compensation charged to FERC account 588

(2) Includes adjustment of $450,000 to 2010 budget for expenses budgeted to FERC account 920 in error

Analysis of Office Supplies and Expense

Line No.	Account	Account No.	Description	Budget 2010	Shultz Proposed Adjustment	PEF Proposed Adjustment
1	A&G Office Supplies and Expenses	9210000	Corporate Managed Account	1,200,000	(1,200,000)	-
2	A&G Office Supplies and Expenses	9210000	Workforce Strategy Program	555,000	(555,000)	(555,000)
3	A&G Office Supplies and Expenses	9210000	Employee Service Awards	220,000	(220,000)	(220,000)
4	A&G Office Supplies and Expenses	9210000	Meals/Travel/Lodging	170,000	(170,000)	-
5	A&G Office Supplies and Expenses	9210000	Tampa Bay Buccaneers	139,527	(139,527)	(139,527)
6	A&G Office Supplies and Expenses	9210000	Meals/Travel (Pro-Am 15 Spots)	98,250	(98,250)	(98,250)
7	A&G Office Supplies and Expenses	9210000	UF Suite	60,000	(60,000)	(60,000)
8	A&G Office Supplies and Expenses	9210000	Suite/Hospitality	60,000	(60,000)	(60,000)
9	A&G Office Supplies and Expenses	9210000	Tampa Bay Lightning	59,900	(59,900)	(59,900)
10	A&G Office Supplies and Expenses	9210000	Meals/Travel (Suite/Hospitality)	44,000	(44,000)	(44,000)
11	A&G Office Supplies and Expenses	9210000	Event Tickets	30,000	(30,000)	(30,000)
12	A&G Office Supplies and Expenses	9210000	Orlando Magic	20,000	(20,000)	(20,000)
13	A&G Office Supplies and Expenses	9210000	Other Misc Costs - Suite Updates	10,000	(10,000)	(10,000)
14	A&G Office Supplies and Expenses	9210000	Misc Suite Updates	5,000	(5,000)	(5,000)
15	A&G Office Supplies and Expenses	9210000	Stocking Suite	5,000	(5,000)	(5,000)
16	A&G Office Supplies and Expenses	9210000	Misc Suite Updates	3,000	(3,000)	(3,000)
17	A&G Office Supplies and Expenses	9210000	Other Misc Costs	3,000	(3,000)	(3,000)
18	A&G Office Supplies and Expenses	9210000	Tournament Fee	3,000	(3,000)	(3,000)
21	A&G Office Supplies and Expenses	9210000	Activation/Suite	3,000	(3,000)	(3,000)
22				2,688,677	(2,688,677)	(1,318,677)
23						
24						
25	Juisdictional Allocation Factor				0.86725	0.88755
26						
27	Juisdictional Adjustment				(2,331,755)	(1,170,395)

ARO Adjustments on MFR B-1

($,000)

ARO Account Numbers	Account Description	Account Type	Dec 2010 13 Month Avg Balance DR (CR)	Dec 2010 B-1 Adjustment	Net Balance In Rate Base
101.0150	FAS 143 ARO ASSET	ASSET	$ 23,236	$ (23,236)	$ -
108.0150	FAS 143 ARO ACCUM DEPR	ASSET	$ (2,693)	$ 2,693	$ -
108.1055	FAS 143 COR CONTRA	ASSET	$ 26,110	$ (26,110)	$ -
108.400J *	ACC DEPR-NUC DECOM-UNFD-W	ASSET	$ 1,879	$ (1,879)	$ -
182.3413	SFAS 143 - ASBESTOS - REG ASSETS	ASSET	$ 6,061	$ (6,061)	$ -
182.3414	SFAS 143 - LANDFILL - REG ASSETS	ASSET	$ -	$ -	$ -
230.0001	FAS 143 - ARO LIABILITY	LIABILITY	$ (376,877)	$ 376,877	$ -
254.0912	SFAS 143-NUC DECOM - REG LIAB	LIABILITY	$ (71,216)	$ 71,216	$ -
254.0913	SFAS 143-ASBESTOS - REG LIAB	LIABILITY	$ (4,538)	$ 4,538	$ -
			$ (398,038)	$ 398,038	$ -

*** Note: The amount of adjustment for 108.400J is only for the portion of the account related to the radiated decommissioning reserve. This same adjustment is made by PEF for purposes of monthly surveillance reporting.**

Rate Case Expenses
Year 2010

RATE BASE

Rate Case Expense - MFR B-1 - Line 29	2,787
Rate Case Expense - Staff ROG 22 Q 267 - 13 Mth Avg	1,688
Decrease in Rate Base	1,099

Revised Total Rate Case Expense - Staff ROG 22 Q 267	2,251
2010 Amortization Expense	1,126
End of Year 2010	1,126
Average Balance 2010	1,688

NOI

Rate Case Expense - MFR C-10	1,394
Tax Rate	38.575%
Inc Taxes	538
NOI	856

Revised Rate Case Expense - Staff	1,126
Tax Rate	38.575%
Inc Taxes	434
NOI	691
Difference - After Tax	165
Difference - Pre Tax	269

CALCULATION OF CHANGE IN REVENUE REQUIREMENTS

Description			Amount ($000)
Jurisdictional Adjusted Rate Base		$	6,237,519
Rate of Return on Rate Base Requested		x	9.21%
Jurisdictional Net Operating Income Requested		$	574,394
Jurisdictional Adjusted Net Operating Income			268,706
Interest Synch Tax Adjustment			13
Net Operating Income Deficiency (Excess)		$	305,701
Earned Rate of Return	4.31%		
Net Operating Income Multiplier		x	1.6338
Revenue Increase (Decrease) Requested		$	499,454
Revenue Increase (Decrease) As Filed			499,867
Decrease in Revenue Requirements			(413)

Summary of Adjustments
Retail
($ 000)

Line No.	Description	A Retail As Filed	B Retail Revised Sales Forecast	C (1) Sales Forecast Impact	D (2) A&G Office Supplies & Expense	E (3) Rate Case Expense	F Total Adjs	G Fully Adjusted
1	Operating Revenues:							
2	Sales of Electric Energy	$ 1,387,716	$ 1,320,056	$ (67,660)			(67,660)	1,320,056
3	Other Operating Revenues	130,202	130,577	375			375	130,577
4	Total Operating Revenues	$ 1,517,918	$ 1,450,633	$ (67,285)	-	-	(67,285)	1,450,633
5								
6	Operating Expenses:							
7	Other Operation and Maintenance Expense	$ 721,496	$ 728,220	$ 6,724	(1,170)	(269)	5,285	726,781
8	Depreciation and Amortization	357,869	363,648	5,779			5,779	363,648
9	Taxes Other than Income	129,587	131,813	2,226			2,226	131,813
10	Other Operating Expenses	(2,523)	(2,564)	(41)			(41)	(2,564)
11	Income Taxes	44,490	11,524	(32,966)	451	104	(32,411)	12,079
12	Investment Tax Credit	(1,547)	(1,572)	(25)			(25)	(1,572)
13	Total Operating Expenses	$ 1,249,372	$ 1,231,069	$ (18,303)	(719)	(165)	(19,187)	1,230,185
14	**Net Operating Income**	**$ 268,546**	**$ 219,564**	**$ (48,982)**	**719**	**165**	**(48,098)**	**220,448**
15								
16	Elec Plant in Service	$ 10,381,341	$ 10,548,852	$ 167,511			167,511	10,548,852
17	Acc Provision for Depreciation and Amortization	4,437,117	4,510,592	73,475	-		73,475	4,510,592
18	Net Plant in Service	5,944,224	6,038,260	94,036	-	-	94,036	6,038,260
19	Construction Work in Progress	151,145	153,310	2,165			2,165	153,310
20	Elec Plant Held for Future Use	25,723	25,904	181			181	25,904
21	Nuclear Fuel (Net)	126,566	126,510	(56)			(56)	126,510
22	Net Utility Plant	$ 6,247,658	$ 6,343,984	$ 96,326	-	-	96,326	6,343,984
23	Working Capital Allowance	(9,041)	(7,001)	2,040		(1,099)	942	(8,099)
24	**Rate Base Total**	**$ 6,238,617**	**$ 6,336,983**	**$ 98,366**	-	**(1,099)**	**97,267**	**6,335,884**
25								
26	**Revenue Requirement Impact**	**499,997**		**94,826**	(1,173)	**(413)**	**93,240**	593,237

Notes>

(1) PEF has updated its load & energy forecast since filing the case to reflect declining sales due to slower economic recovery than originally projected. The updated load & sales forecast and related jurisdictional cost of of service study were provided in response to Citizens' 3rd Set of Interrogatories, Question 118. Also see the rebuttal testimonies of PEF witness Ben Crisp Exhibit No. __(JBC-9) and PEF witness William Slusser Exhibit No.__(WCS-12).

(2) Account 921 was adjusted for $1,319,000 (system), $1,170,000 (jurisdictional), for transactions that should be charged below the line to Account 426 and to account for the elimination of employee service awards in 2010 as well as the elimination of a workforce strategy program that PEF has recently eliminated. See Citizens' 13th set of Production of Documents, Question 259 and discussion in the rebuttal testimony of PEF witness Peter Toomey.

(3) Rate Case Expense was revised to reflect PEF's revised estimate of rate case expenses of $2,251,000 as provided in response to Staff's 22nd Set of Interrogatories, Question 267. Amortization of rate case expenses was also adjusted to reflect a 13-month average balance for 2010. See discussion in rebuttal testimony of PEF witness Peter Toomey.

Progress Energy Florida, Inc.
Proposed Adjusted Cost of Capital 2010 Test Year
($ 000)

		A	B	C	D	E	F	G	H	I
Line No.	Class of Capital	Co Total	Specific Adjustments	Pro Rata Adjustments	System Adjusted	Jurisdictional Factor	Jurisdictional Capital Structure	Ratio	Cost Rate	Weighted Cost Rate
1										
2	Common Equity	$ 4,603,867	$ 706,505	$ (1,160,778)	$ 4,149,594	77.14%	$ 3,200,959	50.52%	12.54%	6.34%
3	Preferred Stock	33,497	-	(7,322)	26,175	77.14%	20,191	0.32%	4.51%	0.01%
4	Long Term Debt - Fixed	4,443,979	-	(971,396)	3,472,583	77.14%	2,678,719	42.28%	6.42%	2.71%
5	Short Term Debt *	72,883	(7,833)	(14,219)	50,831	77.14%	39,211	0.62%	5.25%	0.03%
7	Customer Deposits - Active	188,256	-	(41,150)	147,106	77.14%	113,476	1.79%	5.95%	0.11%
8	Customer Deposits - Inactive	1,902	-	(416)	1,486	77.14%	1,146	0.02%		
10	Investment Tax Credit Post '70 Total	6,083	-	(1,330)	4,753	77.14%	3,666	0.06%	9.74%	0.01%
13	Deferred Income Taxes	495,822	160,089	(143,374)	512,537	77.14%	395,367	6.24%		
14	FAS 109 DIT - Net	(193,855)	-	42,374	(151,481)	77.14%	(116,851)	-1.84%		
15	Total	$ 9,652,434	$ 858,761	$ (2,297,610)	$ 8,213,584	77.14%	$ 6,335,884	100.00%		9.21%