BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

PETITION FOR INCREASE IN RATES BY PROGRESS ENERGY FLORIDA, INC. ______________________________/	DOCKET NO. 090079-EI
PETITION FOR LIMITED PROCEEDING TO INCLUDE BARTOW REPOWERING PROJECT IN BASE RATES, BY PROGRESS ENERGY FLORIDA, INC. ______________________________/	DOCKET NO. 090144-EI
PETITION FOR EXPEDITED APPROVAL OF THE DEFERRAL OF PENSION EXPENSES, AUTHORIZATION TO CHARGE STORM HARDENING EXPENSES TO THE STORM DAMAGE RESERVE, AND VARIANCE FROM OR WAIVER OF RULE 25-6.0143(1)(C), (D), AND (F), F. A. C., BY PROGRESS ENERGY FLORIDA, INC. ______________________________/	DOCKET NO. 090145-EU

VOLUME 12
Pages 1688 through 1781

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A CONVENIENCE COPY ONLY AND ARE NOT
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PROCEEDINGS:	HEARING
COMMISSIONERS PARTICIPATING:	CHAIRMAN MATTHEW M. CARTER, II COMMISSIONER LISA POLAK EDGAR COMMISSIONER KATRINA J. McMURRIAN COMMISSIONER NANCY ARGENZIANO COMMISSIONER NATHAN A. SKOP
DATE:	Thursday, September 24, 2009
TIME:	Commenced at 2:15 p.m. Concluded at 5:00 p.m.

PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	CLARA C. ROTRUCK Court Reporter (850) 222-5491
PARTICIPATING:	(As heretofore noted.)

I N D E X

WITNESS

EXHIBIT

NUMBER:		ID.	ADMTD.
281	1996 to 2008 Depreciation Expense	1740	

P R O C E E D I N G S

(Transcript follows in sequence from Volume 11.)

CHAIRMAN CARTER: We are back on the record. When we left, Mr. Rehwinkel was making some corrections.

Mr. Rehwinkel, you're recognized, and after you finish your corrections, then go ahead on into cross examination.

MR. REHWINKEL: Thank you.

CROSS EXAMINATION (continued)

BY MR. REHWINKEL:

Q Mr. Toomey, before lunch I think we were just doing some housekeeping issues with respect to your Schedule PT-9, and you had identified I think before we left one of the areas of difference was with the dismantlement rates on page 2, the way they were presented on page 2 of 11 of the originally filed schedule, is that correct?

A Yes, that is correct.

Q And had you identified any other differences between the two schedules, the originally filed and the revised?

A Yes, I have. Actually, the correction -- the most significant change in the schedules is the original schedule, in fact, had a math error in the calculation of a subtotal, and let me get the lines for you.

In the original filing, the transmission subtotal is on page 9 of 11, line 16, those were the erroneous amounts. In the new filing, they are on page 8 of 10, line 15, the amounts there have been corrected. And in distribution plant, the old one was page 9 of 11, line 37. The new one is at page 8 of 10, line 36, again, with the corrected amounts and the subtotals. So it was a math error in the footing of the subtotals and the dismantlement change.

Q Thank you. Just so I understand, for the record, what you presented in your original PT-9, absent the issue with the dismantlement, was really -- the numbers were right, except they were totaled up wrong in the subtotaling?

A That is correct.

Q For transmission and distribution?

A For transmission and distribution.

Q Okay. All right. Did you have something else to add?

A No.

Q I'll come back to some of the questions about depreciation, but would like to start off with asking, it is correct you are not a CPA, is that correct?

A I am not.

Q But you do accounting work for the company?
A Management accounting, yes, in that I don't work in the comptroller's area closing the books, I work with budgets and management information.
Q And you also present -- you testify and provide information to the Public Service Commission on regulatory accounting, is that correct?
A This is the first time I'm doing that in Florida.
Q But that's basically what you're doing here?
A Well, yes.
Q Okay. Now, you are not an expert, are you, in compensation?
A I am not.
Q You are not an expert in the area of benefits, is that correct?
A That's correct.
Q You are not an expert in the area of nuclear fuel purchasing, is that correct?
A That's correct.
Q You have never bought any nuclear fuel?
A I have not.
Q You are not an expert in the area of storm analysis, is that correct?
A I am not.

Q You've never conducted a hurricane probabilistic analysis, is that correct?
A I personally have not, that's correct.
Q You've never run an electric generating station?
A I have not.
Q You've never run an electric distribution system?
A I have not.
Q You've never run an electric transmission system?
A I have not.
Q Have you ever performed any vegetation management?
A I have not.
Q Or tree-trimming?
A No, I have not.
Q Okay. You provided testimony or information to the Commission with respect to the interim rates that were granted as part of this docket, is that correct?
A I did.
Q And what was the basis for the calculation of interim rates, if you could tell me?
A The basis for the calculation was, during the 2008 year, the calculation of revenue deficiency,

similar to what we did in the base case as well, but it was for the 2008 year with, you know, some differences, but it was basically the calculation of a revenue deficiency.

Q Okay. Was the basis for the calculation of the interim rates the figure of ten percent that was contained in the stipulation approved in the 2005 rate case?

A Well, the 2005 rate case, actually, there was a settlement, and the ten percent you're referring to I assume is the ROE?

Q Yes, sir.

A In the settlement, it just spoke to the ten percent.

Q Can I ask you, do you have your Bartow testimony with you?

A I've got my direct and my rebuttal in this case, and I've got the G MFRs from the interim. I don't think I have my Bartow with me.

Q Would it be possible to obtain a copy?

A I think everyone's looking for that now.

CHAIRMAN CARTER: Mr. Burnett, the Bartow --

MR. BURNETT: Yes, sir.

CHAIRMAN CARTER: We'll take a moment to get that for you, Mr. Rehwinkel.

MR. BURNETT: Thank you, Mr. Chairman.

(Brief pause.)

CHAIRMAN CARTER: You may proceed.

BY MR. REHWINKEL:

Q Do you have that testimony with you now?

A I do.

Q If I could ask you to turn to your Exhibit PT-2, and you attached this to your testimony in support of the request for limited relief related to the Bartow repowering project, is that correct?

A I did.

Q And that project represents a revenue requirement of about 130 million of the 499 million?

A I believe it does.

Q Okay. But if I could ask you to turn to the order and attached stipulation, and ask you to look at page 21 of 166 of that exhibit?

Are you there?

A I am. I'm sorry.

Q Just keep that page open, and I want to ask you a couple of questions about interim rates and how they were calculated.

A Uh-huh.

Q Were the interim rates that were awarded in this case calculated based on a 12/31, 2008, test year?

A Yes. As I mentioned earlier, the MFRs, the Gs, use a 12/31/08 year.

Q Okay. And the MFR G schedule, do you have that with you?

A I do.

Q And on page G-1, which is page 1 of 1, which is the first page in the G schedules, you show a calculation of -- based on an adjusted jurisdictional rate base of $5,098,765,000, is that correct?

A Yes, that's on line 1.

Q Okay. And the rate of return on that rate base was based on a rate of return of 7.84 percent, is that correct?

A Yes, that's correct.

Q Now, that 7.84 represents the overall rate of return calculated using a ten percent return on equity, is that correct?

A I believe it is; I'll just look to make sure. I believe it does, I'm just trying to find the page. I apologize, I should have looked at the index first. I'm there, I'm sorry, it's on page G-19A. Yes, it is a ten percent cost of equity.

Q You said G-19A?

A Yes.

Q Which is page 64?

A It is.

Q Okay. So what you have done on this page is on line 2 in the common equity line, the cost rate is ten percent, is that correct?

A Yes, it is.

Q And when the weighted cost rates of that common equity rate and all the other elements of your capital structure are totaled, gives you an overall rate of return of 7.835, correct?

A That's correct.

Q And that's the basis for the 7.84 percent number that's shown on G-1?

A That's correct.

Q Okay. Now, is the ten percent -- actually, I had you turn to page 21 of 166 probably a little bit too early. Is the ten percent number that you used for purposes of calculating interim rates derived from paragraph 4 of the stipulation that's in your Exhibit PT-4?

A What page would that be on? Page 2 of 166. I'm sorry, it's listed in the summary there, and it's the one, two, three -- the second paragraph up from the bottom on page 2 of 166.

Q So you're referring to that bullet point that's in the Commission's order on page 2?

A Yes, and that in turn refers to a paragraph 7.

Q Okay. So if we turn to paragraph 7 in the order, which is on page 15 of 166, we will see the statement that says, "If PEF's retail base rate earnings fall below a ten percent return on equity as reported on a Commission-adjusted or *pro forma* basis on a PEF monthly earnings surveillance report during the term of the agreement, PEF may petition the Commission to amend its base rates, notwithstanding provisions of Section 4, either as a general rate proceeding or as a limited proceeding, under Section 366.076, F.S." That's --

A Yes, that's in paragraph 7 there.

Q And that's the basis for the ten percent number that's in G-19A, that gives you the 7.84 percent for your interim rate calculation on G-1, is that correct?

A It is.

Q Now, on -- is it correct, if I look at G-19A, that in the common equity line, specifically column B, there is an adjustment of $844,577,000 to the equity balance, is that correct?

A There is.

Q And 740 million of that represents an imputed equity related to the purchase power agreements, is that correct?

A It is. That can be found on G-19B.

Q So if we look on G-19B, we see the 844 million dot 577 is a total of three different -- it's a net number, and one of the items is the 740,615,000 of purchase power?

A It is, that's correct.

Q Now, I think you testified earlier in your deposition that for the test year 2010, the jurisdictional revenue requirement of the $704 million of PPA-related imputed equity is about $24 million, is that correct? Do you have your deposition --

A I do.

Q -- with you? And I was looking on page 13 of your deposition, on line 11. I'm sorry, it's 711 million, I misquoted.

A Yes, I'm in my deposition there. Go ahead.

Q So 711 million in 2010 yields a revenue requirement of 24.667 million, is that correct?

A Yes, that's what I said in my deposition. I believe that's correct.

Q Okay. Do you know what the revenue requirement for two thousand -- let me ask the question this way: The interim rates were based on a 2008 13-month average capital structure, is that correct?

A Yes.

Q Okay. And they were applied to the five billion and 98 million dollar jurisdictional 13-month average rate base for purposes of determining the revenue requirement for interim purposes, correct?
A They were, uh-huh.
Q Do you have any knowledge about what the revenue requirement associated with the equity that is -- was used for calculating interim rates using those 2008 numbers would be?
A Just repeat the last part of your question again, please.
Q I was wondering if you know what the revenue requirements --
A For the imputed equity back in that '08 --
Q Yes.
A -- that would be -- I don't.
Q Do you know if it would be more or less than the 24 million for 2010?
A Directionally it seems like it would be less.
Q It would be less because of the difference between ten percent and 12.54?
A Yes, that's certainly one thing I was thinking of.
Q Is that a number that could be calculated?
A Yes, it certainly could.

Q And you'll be back on rebuttal, so --

A I will.

Q -- I can find that out then.

If I could ask you -- and just while we're at it, just to get it on the record, on page 13 of your deposition, the exact amount of 100 basis -- value of 100 basis points on return on equity for 2010 is 51.576 million, is that correct?

A It is.

Q Okay. On page 21 of 166 in PT-2, the paragraph 13 there states an agreement by all the parties that for surveillance reporting purposes, pursuant to the cited rule there, that you can calculate your return based on the methodology employed by Standard & Poor's rating service in its determination of imputed off-balance-sheet obligations related to future capacity payments to qualifying facilities and other entities under long-term purchase power agreements. Do you see that?

A I do.

Q Is it because of this language here that the adjustment that's shown on G-19B -- I'm sorry, G-19A -- well, let's go to G-19B -- G-19B, line 5, column C, is made?

A You're referring to the imputed equity adjustment?

Q Yes, sir.

A Yes, I believe the wording on this page 21 speaks to that, so that would be consistent with including it in the calculations.

Q Okay. Are you familiar with how interim rates are calculated under Florida Statutes 366.071?

A I believe I am.

Q In fact, you have to be familiar with that in order to perform the calculation that you did for purposes of supporting the interim rate calculation related to this case, is that correct?

A Yes, I think so.

Q Okay. Is it your testimony that you calculated interim rates based on the interim statute?

A Yes.

Q So would it be accurate to state that in calculating your achieved rate of return that you used the -- you made the appropriate adjustments consistent with those which were used in the most recent individual rate proceeding of Progress Energy Florida?

A Repeat the question, please.

Q In calculating the interim rates for purposes of this proceeding, is it your testimony that you used -- you made the appropriate adjustments consistent with those which were used in the most recent individual rate case -- rate proceeding of Progress Energy Florida?

A Yes, I think so.

Q To your knowledge, has the Florida Public Service Commission approved the use of the methodology that's described in paragraph 13 of the stipulation in the most -- in a rate case?

A I do not know.

Q Was it the company's view that if the PPA equity imputation was allowed for surveillance reporting purposes, that it was also allowed for purposes of calculating interim rates?

A I think it was also spoken to in the settlement agreement, that's correct.

Q When you say "also spoken to," what do you mean?

A As you mentioned here, it's in paragraph 13 in the settlement agreement.

Q Okay. Now, does paragraph 13 say that it can be used for purposes of determining interim rates, "it" meaning the PPA equity imputation?

A Yes, on reading this quickly, I believe it does.

Q What in here says you can use it for interim rates?

A The paragraph begins by describing the adjustment for the imputed equity, and it says the amount of the adjustment will fluctuate over time with changes of the amount of purchase power obligations. And actually, other than the reference to the fact that it's not binding Commission precedent in any future proceeding, it doesn't directly speak to its use in interim, or limit it.

Q Is the equity that's included in the capital structure for purposes of determining interim rates in this proceeding, does that represent an actual investment of shareholders in Progress Energy Florida?

A And you're referring, again, to the imputed equity adjustment?

Q Yes, sir.

A No. It's an adjustment.

Q Okay. Does that adjustment comport with or comply with generally accepted accounting principles?

A I think generally accepted accounting principles don't actually cover this, but it certainly has been a feature in settlements that PEF has been involved in and agreed to for ratemaking purposes in the past.

Q When you said "settlements," plural, is there one other than what is shown in PT-2 where the PPA imputed equity was used for any purposes?

A I don't know for sure, no.

Q So would it be your testimony that since GAAP, or G-A-A-P, doesn't apply to this, that there would be no reason to apply an FAS 71 adjustment or apply -- FAS 71 wouldn't apply to this?

A I don't see how FAS 71 would apply to this, no.

Q You're not creating an asset, looking for recovery from the Commission, are you?

A No, it's not the creation of an asset, it's an adjustment to the capital structure used for a calculation of revenue requirements.

Q Do you think it would be fair to say that the revenue requirement associated with this $740 million imputed equity would exceed the amount of interim rates authorized on an annual basis?

A I don't know without doing the calculation.

Q Do you think it's possible that it would be less than $13 million?

A Well, I would have to do the math.

Q Okay. Let me ask you to turn to page -- to your -- well, let's look at your Bartow testimony on page 5 of 6. I'll move away from the interim rates for a moment here.

At the same time interim rates went into effect, the limited interim related to Bartow also went into effect, is that correct?

A Yes, the limited related to Bartow and the interim were both implemented at the same time.

Q Do you not consider the Bartow rates to be interim?

A I've generally considered those to be limited, but I'm not sure that I'm specific enough on the difference.

Q Were the rates that were set in the Bartow case subject to refund?

A Yes, I believe they were, pending the outcome of this rate case.

Q So what you made, I think it was right around the first of July of 2009, two rate adjustments that were combined in a single adjustment to customers' bills, is that correct?

A Yes.

Q And one component was interim and one was for Bartow, correct?

A Yes.

Q And that's described -- and I think the Commission made an adjustment to the factor that's shown on line 24 of page 5 of 6, is that right?

A Yes, I believe they did.

Q Okay. And basically it was to recognize the half-year or so impact of those rates, correct, rather than your calculation of the annual effect of those two rate elements, is that right?

A Yes, that's the essence of the difference, that's correct.

Q Now, in the calculation, and I think in the tariff that's also shown in PT-4, page 2 of 26, this is the tariff that, I guess as you filed it, except for the factors that are shown in the legislative format here under the rate adjustment language, this is what the Commission approved, is that correct?

A Yes, I see the factors and I recognize those tie to the ones in my testimony, so I think this was consistent with the way we filed it, that's right.

Q There's a statement in the last sentence. The last sentence in this paragraph says, "This rate adjustment factor will not apply to load management credits, interruptible credits, curtailable credits or stand-by generation credits," correct?

A Yes, it does say that, I see it.

Q Now, what was the purpose for that exception to the rate -- the rates that were increased as a result of those two rate adjustments in July of 2009?

A Why were they excluded?
Q Yes, sir.
A It was applied as a *pro rata* base rate increase, it's on base rates, not to any of the items in the clauses, such as these credits.
Q So on a permanent basis, if any of these rates -- well, first of all, interim rates will terminate -- that interim rate element will terminate at the end of this year, correct, 2009?
A I believe that's correct.
Q And the Bartow rate will be, to the extent the Commission authorizes revenue increase of at least the amount of the Bartow revenue requirement, the Bartow rate element will continue, is that correct?
A That's my understanding.
Q Okay. Now, would there be any reason to adjust how the rates impact customers as a result of any permanent rate decision by the Commission effective January 1, 2010?
A Maybe if you could just repeat the last part of the question again?
Q Okay. What I'm trying to find out is whether there will be an ongoing -- whether there would be any reason to change the allocation of these rate -- of the Bartow rate element after January 1, 2010?

A And for clarification, you mean perhaps in those clause filings, to do something to amend the amounts of the clauses?

Q Well, first of all, with any of these credits, would they be impacted on a permanent basis?

A I don't know.

Q Mr. Slusser would be the guy to tell?

A I would -- generally, yes. On rate design and matters affecting cost of service or rate design, I would defer to Mr. Slusser, but I could perhaps consult with staff as well, our staff.

Q I understand. What I'm trying to do, there is an issue in the case about how we transitioned from subject to refund Bartow rates for 2009 and the Bartow rate impact on a permanent basis, assuming you get at least that amount of revenue requirement.

A Okay.

Q So what I'm trying to find out is would there be any reason for these to change on a going-forward basis?

A The credits and that sort of thing, or the --

Q Yes, sir.

A Again, I don't know. I'm not conversant enough with their calculation.

Q Okay. Can I ask you -- we can put the interim stuff aside for now.

In your direct testimony, do you discuss or support the adjustment to the asset retirement obligation that -- made to your books for 2010, the test year?

A Yes, the adjustment for the removal of the ARO accounts, yes, I do.

Q Yes, that's under SFAS 143?

A I'm not a hundred percent certain what FASB that would apply to, but I'm familiar with the issue.

Q Do you address it in your testimony?

A It's certainly in my rebuttal. I'll look in my direct --

Q I don't want to direct you to rebuttal at this time.

A If you'll let me look at the direct, again, I'm familiar with the issue, let me find it. If you know where it is, you can point that out.

Q Well, I was -- I would if I did. I'm not sure --

A That's fine. In my direct testimony, in the section that I discuss some of the specific adjustments for rate base, I'm around page 26 of my testimony now, I don't see a specific reference to the ARO adjustment.

Q So you're saying you generally discuss it up there beginning on line 10?

A Yes, beginning on line 10, saying there are adjustments, in fact, that we make.

Q Okay. I lied to you, I do have one more question about Bartow testimony, excuse me.

A That's fine.

Q I just wanted you to look at -- and it was not intentional -- to page 4 of 6, and I want to direct you to the Q&A that starts on line 8 and proceeds on to line 16. Do you see that?

A Yes, I see those lines.

Q Okay. And specifically the statement here where it says, "Pursuant to the terms of that stipulation, if PEF's retail base rate earnings fall below a ten percent ROE, PEF may petition the Commission to amend its base rates as a limited proceeding under Section 366.071, Florida Statutes." Do you see that?

A I do.

Q Now, is that your opinion, or is that something that someone kind of advised you that that was the legal interpretation of that stipulation?

A It was my interpretation of the stipulation.

Q Okay. I think just for the record, the citation there is to .071, which is the interim statute, I would represent to you. I think the limited statute is 366.076, and I don't know, did you intend it to refer to the interim statute or to the limited statute?

A I intended, I believe, for Bartow, again, styled as a limited proceeding, it was to refer to the limited.

Q Okay. Now we can put that aside.

Can you turn to -- do you have your MFR Section C with you, please?

A I do.

Q And I want to ask you if you would turn to Schedule C-6, page 1 of 7. Do you have that with you?

A Yes, I believe I do. I think I'm at page 1 of 7, C-6.

Q I think you testify in your direct testimony that you have responsibility for -- and I'm looking on page 2 -- strategic planning, financial planning, forecasting, business planning, budgeting, cost management, management accounting and key performance management, is that correct?

A Yes. I haven't flipped to it, but that sounds right.

Q I'm looking -- if -- I apologize. I didn't meant to direct you to -- well, let's look at page 1 of 7, line 20, and the farthest three columns on the right, 2008 Budget, 2009 Budget and 2010 Budget.

Now, is 2010 a budget or is that a projection? Is that your official budget for 2010?

A The 2010 this is referring to here is actually the test year that -- for the base rate case.

Q Okay, so is that the budget the same way that the 2009 budget dollars are? Are those kind of on the same basis as far as how reliable they are?

A I would say that the budgets for 2009 and 2010 were prepared with the same methodology and the same rigor.

Q Okay. Now, this item -- this line here refers to "late payment charge-retail," is that correct?

A Yes.

Q And is that a revenue that's included in your revenue requirement calculation for purposes of determining rates in this case?

A Yes.

Q Okay. Now, for 2008, in column E in the budget area, you show -- let's see, you show budgeted late payment charge $22,320,000, correct?

A Yes, I see that.

Q The actual for 2008 was 22 million 775. Do you see that?

A I do.

Q But the budget for 2009 is 22 million 320, is that correct?

A It is.

Q Okay. Now, is it a coincidence or is it some -- does it have something to do with your budgeting that that number that I just read for 2009 is the same as the budget for 2008, which is the same as the budget for 2007? Is that a coincidence, or is there method there?

A Well, it's four years in a row that are exactly the same, so I don't think I could call it a coincidence.

Q Okay.

A And I think because the number is the same for four years in a row, it just implies that that was the budget, obviously, for all four years for those periods.

Q Now, what we see in 2007 is you budgeted a certain amount, and the actual is about seven hundred -- well, 650,000 -- six hundred-something thousand higher, right?

A If you're referring to the difference between the twenty-two 775 and the twenty-two 320?

Q I apologize, I was referring to 2007, but I --

A Sorry. Again, 2007, it's about 700,000 apart.

Q And then in 2008, it was about 400,000 higher, correct?

A Yes, it was.
Q But for 2009, you budgeted 22 million 320, and you budgeted the same amount for the test year, correct?
A Uh-huh.
Q Now, would you agree with me that since 2008, that economic conditions affecting your customers are dramatically different than they were in 2007 and 2008, on average?
A Yes, the economic environment is very different.
Q Isn't it the experience of the company that as economic times worsen, unemployment goes up, that late payment charges increase?
A I don't know that I could say that systematically.
Q Is there any intuitive basis for saying that?
A Well, it certainly implies you're going to have more customers, you know, who have financial difficulties, and if you kind of extrapolate that, you're going to have more people who pay their bills late and you would see that relationship, uh-huh.
Q Can I ask you to turn to -- I know I marked the page I wanted to ask you about, but --
A There was a question on that one and punted to me. I don't know if that's the one you were looking

for.

Q Somebody else may be kicking those balls. I don't know that I had one there.

Let me ask you, if you would, I didn't mark it, I thought I did, to C-6, page 5 of 7, and I would like to ask you about line 20 and the salaries for general office employees under the admin and general expenses category.

A Uh-huh.

Q All right. Let me direct you, first of all, to -- let's just look at all these years. You have 2004 historical, you show a budget of 71.2 million and an actual of 73.6 million for 2004, correct?

A Yes, that's correct.

Q In 2005, you show an actual [sic] of 70.4 million with an actual of 56.1 million, do you see that?

A I do.

Q Can you tell me why the actual would be so much less?

A Well, I know there is a general rule, I suppose, that says the further down into the detail that you go for budgets versus actuals, you might see instances where a lot of expenses flowed to one FERC account on an actual basis where you had budgeted for it in another, and so sometimes I'm looking for variance explanations, that can be the cause.

Q But do you know whether that's the case here?

A No. To be honest, I've not focused on that comparison.

Q Now, 2005, was that a test year, was that your last test year?

A I believe that it was.

Q And 2006, do you see a budgeted amount of 70 million and an actual of 50 million, is that correct?

A I do, on the same line.

Q Okay. Do you have any specific knowledge of why that would be?

A No, I don't.

Q Okay. And then 2007, an actual of 58 million -- 58.4 million, and a -- I'm sorry, a budget amount of 58.4 million and an actual of 57 million, do you see that?

A Uh-huh, I do.

Q Do you know why those would be close?

A Again, without specifically looking at it, other than observing that line item there closer, I don't have any further insight.

Perhaps following up on the point that I had made earlier, if you look, say, down at line 32 --

Q Yes.

A -- you know, total base recoverable expenses here, say, look at that '05 year, you've got a budget of 445 million and an actual spending of 571 million, and again, the -- I think there's a general caution in looking at individual line items. When you get to the total, you can see a different relationship.

Q So if I look at 2008, 63 million budgeted, 58 million actual --

A Yes, I see those as well.

Q -- and then for 2009 and 2010, the numbers are higher than the actual in any year except 2004, and almost the same, is that correct, that 67.1 million for '09 and 67.7 million for '10?

A That's correct.

Q Do you know why those numbers are so much higher than the actual for 2008, "so much" meaning almost 10 million?

A I don't.

Q Can I ask you to turn to page 2 of 2 of C-8, Schedule C-8?

A Yes. Page 2 of 2?

Q Yes, sir.

A C-8, okay.

Q Are you familiar with this? This is a detail of changes and expenses.

A Yes, I am.

Q Do you know what's going on in row B, which is on line 3, with respect to -- it says "the increase," and it refers, I assume, to increases on the prior page related to -- well, can you tell me what --

A Well, on page 2 of 2, which is a page in which, you know, it's letter coded to explaining the variances on page 1 of 2, and that's an explanation, you know, relating to the increase from 2009 to 2010 in the FERC line item expense for maintenance of boiler plant, so it explains it there, the higher number of scheduled boiler outages, et cetera.

Q Now, when it refers to the higher number of scheduled boiler outages, pump rebuilds and water wall replacements taking place in 2010 than in 2009, is there any reference here to items being done in 2010 instead of in 2009?

A There's no reference to that here, no.

Q Is that what it's conveying?

A I don't know that I would say things being done in 2010 instead of 2009.

Q Do you know whether the increases that are described here are non-recurring in the sense that they're only occurring in 2010 instead of some other year?

A I don't know. I know this is David Sorrick's area. He spoke to his level of O&M expenses in 2010. I believe he felt like, in total, I'm not sure on this FERC line item, that that was representative of his spending going forward in total.

Q Would that same thing go for item C on 2 of 2?

A Well, it's the same area, in that it's David Sorrick's again. I don't have any specific knowledge of this, and I'm just repeating the general comment about his overall level of spending that I believe David made.

Q When you prepare the MFRs -- are you the person kind of responsible for the overall presentation of the revenue requirement through the MFRs?

A Yes.

Q When you prepare the MFRs, what process do you go through to determine whether the level of expenses that you present for purposes of determining revenue requirements are representative of going-forward operations?

A Well, as I guess we have just described in responses to interrogatories, et cetera, we have described the budget process that we go through, and as that relates to levels of spending, I think it speaks to the fact that we have both sort of a top-down and a bottom-up approach that we work on to go through budgets for each of the forward years, 2009, 2010.

Q Do you do anything with respect to what those numbers are going to look like in 2011 when you prepare the MFRs, the corresponding numbers?

A When preparing the MFRs, no.

Q So you're really not concerned about whether the expenses that you project for 2010 will be of the same level in 2011, is that correct?

A You used the phrase, I'm "not concerned" about that. I don't know that I would phrase it that way. I would say in filling out the MFRs, we certainly tried to make 2009 and 2010 as accurately as we could.

Q So there is no process that's in place to, say, determine whether a significant expense increase that you would see for 2010 relative to your base year of 2009 will carry forward to 2011, is that correct?

A Well, I think that there is a discussion about what the nature is, if there is a significant change in spending in a functional area like David's, to understand the nature of the increase, what it's for, that sort of thing. And, you know, it's discussed in that context in the budget, and if it's settled and agreed upon that -- and that's a legitimate use of the company's resources, then the budget is allocated and the budget is set that way. My only hesitation about

2011 is when we do the budget process, we don't work on all future years at the same time.

Q So can you point to me anywhere in the C schedules here, these, where there is an adjustment or any discussion of an expense that occurs in 2010 but you do not expect it to be of that level in 2011?

A No, and -- no, I don't believe that there is.

Q Is that because there are none, or because you did not do the analysis to determine whether that was the case?

A What I would say is that, again, in general, working with the business units in the functional areas, the idea was to try to get their 2009 and '10 budgets as accurately as we could get them.

Again, in David's area, I know that he has spoken to here and he has spoken to internally in management meetings to the need for maintenance on his increasing fleet, the addition of the combined cycles and combustion turbines, and I believe that the increase in spending in David's area is sustainable, but that is in a general way and not a specific number.

Q Okay. You talk about sustainability, or sustainable. Do you mean that you can -- when you say "sustainable," are you saying that he can justify expending that level of funds in the out years, is that what you mean by that?

A That he can justify it?

Q Maybe you can tell me what --

A That it's reasonable to expect it to continue.

Q Okay. Now, referring back to your role in the budget process -- let me strike that question, I'll ask a different one.

You have an adjustment in your MFRs, do you not, for pension expense?

A We do.

Q Would that be in the A&G area?

A Yes, I think it's in the A&G area.

Q And can you direct me to where the pension expense adjustment -- let's do it this way, and maybe we can go back to the right schedule. But if I could ask you to look at C-33?

A C-33?

Q Yes, sir. And that's page 136 of the MFRs, a one-pager.

A Okay, I'm there, "Performance Indices."

Q Okay. Now, this is something I think the Commission asked you to do, to look at certain types of O&M cost on a per-customer basis, is that correct?

A Yes. The page itself I guess presents a number of data and then metrics and compares them for reference purposes.

Q And on line 10, you see "Total Other O&M Expenses," and it shows from '06 all the way through the test year these other O&M expenses per customer basis, and you will see 369 -- $369 per customer in '06, 404 in '07, 392 in '08, 441 in '09 and 495 in 2010, is that correct?

A Yes, those are the totals.

Q And it looks to me like a big part of the reason those numbers are going up is in line 9, Administrative and General?

A Yes, that's correct.

Q And in that line are included the A&G-related expenses for health care and pension, is that correct?

A Yes, that's correct.

Q And would those be the big drivers for these numbers?

A Certainly the pensions is spoken to in a number of places in the MFRs as a big driver of the variance beyond 2008, in 2009 and in 2010.

Q And we also see on power production expense -- that's Mr. Sorrick's area, is that right?

A Summarized that way, I believe that might be both fossil, which is Mr. Sorrick's area, and nuclear, simply because I don't see another line item for nuclear, so that would be Mr. Young's area. The two of them combined.

Q Got you. So we see, not as significant, but a -- well, actually, a $25 per customer increase in that from 2009-2010 budget, right?

A Yes, if you're referring to the power production expense line item.

Q Yes, on line 3.

A Uh-huh.

Q Okay. Let's go back to the pension part, though. Where in your MFR do you discuss the pension expense increase that you're requesting?

A C-17 is a detailed schedule on the pension.

Q Okay. Page 1?

A Well, again, like others, page 1 of 2 is a numerical analysis, and there are explanatory notes on page 2 of 2, so it's two pages.

Q So what is the pension expense that are shown here -- how can I determine the actual increase in pension expense for revenue requirement purposes?

A On line 13, pension costs recorded in account line 26. What you will see there is in the historical year 2008, it's a negative number or a credit, a reduction to O&M of about 23 million; on the 2009 year, it's about 34 million; and in the test year 2010, it's about 30.9 million, and that's the amount that's included in the revenue requirements.

Q The 30.9?

A In the test year 2010, that's right.

Q Now, the credit that you see in the historical year is based on the performance of the pension -- performance of the stock market, essentially, correct?

A Yes, I mean, you will notice the 2008 historical year actual reflects a number of things related to the abnormal stock market in late 2008. The number itself reflects everything that goes into a pension, service cost, interest, et cetera, et cetera.

Q Now, for 2009, at the time you filed these MFRs, this was your pension expense, correct?

A Yes, this was our budgeted expense for 2009, that's correct.

Q Now, what do you expect your pension expense to be for 2009?

A I don't believe it's going to vary significantly from that 34 million figure.

Q So the deferral of pension -- the deferred --

A I apologize, I misspoke as it relates to the deferral. Yeah, I was thinking of our actual experience, I apologize. Yes, that was the amount that we budgeted for 2009. This is before consideration of the application of the accounting order.

Q Okay, so would the entire amount, or about -- would this entire debit here have been the deferral?

A On a PEF basis, there's a portion of pension for wholesale, but that would not be included here in the retail, and nothing affected that. Yes, I believe that either virtually all or all of that amount was deferred by virtue of the accounting order.

Q Now, as I understand it, the -- okay, so your test year number is a projection, is that correct?

A It is.

Q And that was based on some assumptions about the stock market at the time you filed the MFRs, is that correct?

A Yes. Again, many things go into the calculation of what that pension expense would be, and probably the single biggest thing changing the $23 million credit to an expense in the thirty-something million range was the historical, late in 2008 drop in value, drop in value of the pension. So when these were prepared, we had to look and forecast what returns would be prospectively, as you do, but clearly starting from that much lower base as a result of the 2008 actuals.

Q Okay. So if I look on page 2 of 2, on line -- looks to me like line 17, but it's Note 5, it says, "The

2009 plan year funding requirements will be available in mid-2009. 2010 plan year funding information will be available in mid-2010" --

A Uh-huh.

Q -- is that right? Have you done any more recent projection about what your expected return on the plan investments would be for 2009?

A We have not --

Q Let me ask you this: Have you gotten this report that would have this?

A The note there, well, just to be clear, speaks to funding requirements, and again, pensions are involved. I think what that was speaking to is what the cash funding into the pension plan would be. That wouldn't directly correlate to a budgeted expense item, so I just want to be sure you're familiar with that difference.

Q Okay, but regardless, 2009 is basically a moot point, because your pension expense for purposes of account 926 is essentially zero, correct?

A As a result of the accounting order, yes.

Q But for 2010, has anything occurred with respect to the performance of the stock market that would impact the $30.942 million number?

A I don't know, and when I say that, I mean we will go through our process again to forecast this for 2010. That will consider funding, you know, expected returns in the market and all the other variables that go into the pension to look at that.

Q And when will you do that?

A We will do that as part of the budget, the more detailed company budget for 2010 that we will have to prepare.

Q Through the rest of this year?

A Yes. Yes.

Q Okay, but you're asking the Commission to set rates using this number right here, this $30.9 million number, correct?

A We are.

Q Even though there's probably a good chance that it will be different, right?

A I suppose, with the general idea that in the forecast, they all could be different than what we forecasted, that's correct.

Q And I think Dr. Vander Weide agreed that the market had kind of bottomed out in March of this year, is that right? Did you hear him testify yesterday?

A I didn't hear everything, but no, he may have said that.

Q So would it be fair to say that the market has improved significantly since the filing of your MFRs in March?

A Yes. However, these numbers are based on our net expected return in the market, and the expected return in the market wasn't negative 20 percent or plus 20 percent, it was about nine percent.

Q Has the company asked the -- well, you have an outside firm that provides -- that does your pension valuation for purposes of the budget?

A The actuarial studies, yes.

Q Yes. And who is that?

A I'm not familiar with the name.

Q Okay. Has the company asked them to do any kind of re-forecasting or an estimate of your pension expense so that you could get a better number to give to the Commission for setting rates that the customers will pay?

A I'm not aware that we have.

Q You don't think that would be a good thing to do?

A Well, it's -- while it's helpful, I guess, to get a look at where we are today and updated estimates, that might be true of just about everything in the case.

I guess what I maybe want to comment on is certainly what happened in the market last year in a very short period of time late, we all can look backwards and see, and it had a dramatic effect on this pension expense. And I think one thing that we've thought about internally is just to, I guess, be cautious, you know, that it's not good to have, I guess, expectations that the market will stay a certain way.

Q Forgive me if I'm skeptical that the "Be cautious" advice seems to only apply if it's going to go negative. You are requesting a significant change to the pension expense for revenue requirement purposes based on what happened in 2008, correct?

A Yes. Yes, and if I can split that into two parts, one, certainly in 2008, it is the data point everybody can look at that says the market can go down by a significant amount. I think people always knew that. I think one thing that clearly matters as well in the pension very specifically in this calculation, one of the most important numbers in the calculation annually is how much money do I have invested to offset the growth in the liability? And earlier in 2008 we thought we had a billion dollars invested. By the end of 2008, that was down three hundred-something million.

So even as we think about, jeez, rates could be different going forward by some amounts, you know, as you've said, you're clearly starting from that much lower base, and that part is certain and 2008 is actual.

Q But the difference is here you are coming in and asking the Commission to change rates and to reach into the pockets of customers and have them pay this much more. Isn't that a big difference in the way you would do this year in and year out? This is the one time that rates are going to be changed.

MR. BURNETT: Objection, Mr. Chair. I'm not sure if there's a question in there anywhere. It sounds argumentative to me.

MR. REHWINKEL: I was asking him if it was different than -- but I can withdraw the question, Mr. Burnett.

CHAIRMAN CARTER: Thank you, Mr. Rehwinkel. You may proceed.

BY MR. REHWINKEL:

Q Mr. Toomey, we talked a little bit earlier about 2009. We just talked about the deferral, the pension expense. You do that for a reason, did you not? It had to do with the goal of achieving a certain earnings level for 2009?

A Well, we did it for 2009 with the idea that it would help our accounting earnings, I agree with that. And I think that's helpful from the financial performance of the company as it relates to book accounting earnings, yes.

Q And you got interim relief for 2009 that generated revenues that you also felt like would help you achieve a ten percent, or get closer to achieving a ten percent return on equity, correct?

A Yes. Certainly the idea was to increase it from what it would have been without it. I think how we'll end up the year is what we still have to figure out, but yes, certainly it helped.

Q And that was -- and for Bartow, you got Bartow relief because you had an asset, $800 million asset coming on line, and you wanted to at least -- you wanted to get recovery for that to kind of keep that, all things being equal, basically at a ten percent level, is that about right?

A Maybe to your point. In the situation with Bartow, a number of things happen from an accounting earnings standpoint when a plant comes on line. Most importantly, AFUDC stops and depreciation starts, in addition to the O&M expense from the plant and the fuel savings and everything else.

So it's a big factor to consider, and certainly for us, once Bartow came in service, we would certainly have more expenses than we did the month before. And that was certainly a driving factor in asking for the limited increase.

Q What you did was you put Bartow in at the ten percent level, so the revenue requirement calculation associated with that plant from an overall return basis was targeted to hit ten percent, correct?

A I don't believe so.

Q You didn't calculate the revenue requirement of the Bartow plan and assume a ten percent return on equity?

MR. REHWINKEL: Let the record reflect he reached for the testimony without me asking him to.

BY MR. REHWINKEL:

Q I was just looking at page 4, and the question on line 8 and 9 says, "Why have you calculated the Bartow repowering project revenue requirements using a ten percent ROE?" Am I misunderstanding?

A No, you're not mistaken. Yes, ten percent.

Q Okay, so pension deferral was to get to ten percent, interim you felt like would help you get to ten percent, and your Bartow filing was intended I guess at least not to let you fall back away from ten percent, would that be fair?

A Yes, all those things that you mentioned would tend to improve our earnings.

Q Okay. Now, I'm asking you this question because of your budgeting responsibility, and I'm asking you based on how it might impact 2010, the test year. Were there any other items in the budgeting process that would ordinarily have fallen in 2009 that you deferred to 2010 or a later period in order to help achieve 2009 earnings or reach that goal of a ten percent return?

A I would say no. I would say that David Sorrick and some others mentioned during 2009, you know, we have challenged them to try to manage their O&M spending below their budgeted levels. They all referred to belt-tightening in some ways. And so those were steps taken to try to improve our profitability in 2009.

Trying to come back to your question, I don't know that those are things I would say that we pushed out of 2009 into 2010, which I took to be the point of your question.

Q So I understand, there was no -- beyond the three things that we have discussed, interim, pension asset creation and deferral, and Bartow, there was no other effort, or there is no other effort to defer items from 2009 into the test year?

A Yes, I agree with that.

MR. REHWINKEL: Mr. Chairman, I'm about to go to another area, subject. I don't know what your plans are.

CHAIRMAN CARTER: I think she could probably use a break. Let's take ten, everybody.

(Brief recess.)

CHAIRMAN CARTER: We're back on the record.

As we were taking a break, Mr. Rehwinkel was in cross-examination, so at this point in time, we'll take a moment to get back.

Mr. Rehwinkel, you're recognized, sir, for cross-examination.

MR. REHWINKEL: Thank you, Mr. Chairman, and thank you, Commissioner McMurrian, for reminding me to clear my throat.

BY MR. REHWINKEL:

Q Mr. Toomey, I want to talk to you a little bit about depreciation, if I could. We talked at the very beginning of your testimony about the revisions that you made to Schedule PT-9. Do you recall that?

A I do.

Q Now, I asked you a question, and I just want to make sure I understand the purpose of this schedule here. This schedule here is not part of the depreciation study, "this schedule" meaning PT-9, is not part of the depreciation study that the company submitted, is that correct?

Let me state it another way: This is not part of the support for the depreciation study that the company submitted, is that correct?

A It's -- it -- I don't know that it is. Again, I believe I know for this exhibit what I was trying to highlight here. I don't believe it was part of the depreciation study.

Q Your testimony is not in support of the depreciation study, is that correct?

A Well, I think as the sponsor of the MFRs and the calculation of the revenue requirements, I'm responsible for portraying in the revenue requirements what is needed for the changes coming out of the depreciation era.

Q And I think the word "portray" is where I'm trying to find out. You're portraying the inputs to the revenue requirements that are provided by the depreciation study that Mr. Robinson produced, is that correct?

A In terms of the new rates, old rates?

Q Well, the new rates, for example, the impact of the new rates.

A Yes.

Q So you're not one of the witnesses that supports the depreciation study, is that correct?

A Again, I don't think "support" -- I don't think I'm a witness who supports it.

Q And what we see in PT-9 is just taking the rates, the old rates and the new rates, and showing the impact of them for purposes of calculating revenue requirements, is that right?

A Yes.

MR. REHWINKEL: Okay. Mr. Chairman, I would like to pass out on exhibit.

CHAIRMAN CARTER: Do you need a number?

MR. REHWINKEL: Yes, sir.

CHAIRMAN CARTER: That will be 281. Short title?

MR. REHWINKEL: 1996 to 2008 Depreciation Expense.

CHAIRMAN CARTER: 1996 to 2008 Depreciation Expense.

MR. REHWINKEL: What number would that be?

CHAIRMAN CARTER: 281.

(Exhibit No. 281 marked for identification.)

CHAIRMAN CARTER: You may proceed.

MR. REHWINKEL: Thank you, Mr. Chairman.

BY MR. REHWINKEL:

Q Mr. Toomey, I have passed out to you what I would represent to you -- well, first of all, let me ask you this: Are your responsible for the filing of the surveillance report?

A I am not.

Q That's not done under your -- anyone in your organization?

A It is not. We have a regulatory accounting area.

Q Are you familiar with the surveillance reports?

A I'm familiar with the reports.

Q What I wanted to ask you about is the -- what I represent to you this exhibit contains is the plant in service balance at a very high level and the depreciation expense at a very high level for the years 1996 to 2008, taken from your surveillance report filed with the Commission on a system per books basis. And I would ask you to accept, subject to check, that these numbers are correct. Can you do that?

A I can. I do.

Q Have you had any opportunity to verify whether these numbers are accurate?

A Yes. Earlier we were shown this schedule and I think that in general we were able to verify these timed to the surveillance reports, and from that quick review, I believe they're correct.

Q Okay, thank you.

Now, your 2008 depreciation expense was $300 million, approximately, is that correct?

A Yes.

Q On a system per books level, correct?

A Yes.

Q And that's against a rate base -- or, I mean, sorry, a plant in service balance of approximately $10.2 billion, correct?

A Yes.

Q And what is the amount of the system per books depreciation expense that you're requesting for the test year, 2010, can you tell me that?

A It's in the MFRs.

Q Are we going to go to Section C?

A Yes. And I'm -- I'm on Schedule C-1, line 11, Depreciation and Amortization, and that's for the projected test year ended 2010. It presents as you move left to right across the page. Total company per books, electric, which is the same, the jurisdictional amount, and then with adjustments -- adjusted jurisdictional amount for depreciation and amortization.

Q And what is that amount?

A Which of those were you referring to? The equivalent of the system per books?

Q Yes, sir.

A That would be the 544 million 758.

Q This is on C-1. What line?

A I'm sorry, line 11 on C-1.

Q Is there a revised MFR that I'm not looking at?

A Yeah, I hope I'm looking at the proper one. I'm on C-1, page 1 of 3. It's for the projected test year, and it's the -- Adjusted Jurisdictional Net Operating Income Calculation is the title, and it kind of lays out the NOI calculation at a very high level for the test year.

Q I believe you revised that MFR, did you not? Mine says 609 million 454.

A I believe that in the original filing we had a higher depreciation in that total company line, and the -- part of what was corrected in the June 5th edit were the old depreciation rates were shown in the beginning, and then through the adjustment, we showed the newer amounts.

Q Okay. But the jurisdictional amount stayed the same, is that still three five seven 869?

A Yes. The net number was the same. It's the presentation on the way to that, I believe.

Q What was the reason for -- was it an error, math error?

A No, my understanding is we originally prepared the MFRs with the forecasted 2010 test year with the new depreciation rates in them kind of before the application of adjustments, and I think we were asked to correct that, do the 2010 year without any changes, then show the requested change as an adjustment to come to the net. That's why the net is the same in either case.

Q Okay. On this schedule that I've passed out as Exhibit 281, the depreciation amounts, so the corresponding number for the test year is 544 million, approximately?

A Yes, that's what I have.

Q And if you look back in 2001, your depreciation rates against the $7.1 billion plant in service was $453 million. Do you see that?

A I do. I mean, I see those numbers here, that's right.

Q I take it you wouldn't have any reason to know why those numbers -- that number was so much higher relative to a smaller plant in service balance?

A Well, first, the amounts in this area on the surveillance report are depreciation and amortization combined. There are some years in the past where we've had significant dollar items that are non-recurring, abnormal, that will show up in these numbers. I don't know if that's the case in 2001 or not. I also don't know that I would anticipate in all cases a constant ratio of depreciation expense, let alone the amortization to total to plant in service.

Q Is that because they are periodically revised?

A Again, this number, plant in service, is before depreciation. It's not net plant, it's what we think of as gross plant. And so you have a number of assets in there. In theory, if they're not retired, they might be fully depreciated, so depreciation would stop and it would still be in gross plant. So the relationship could change over time.

Q Now, you mentioned amortizations. Were there some as a result of a study that was done in the late '90s?

A I don't know.

Q What would be the purpose of those amortizations?

A If you're referring just more generally --

Q Yes, sir.

A -- I guess I just wanted to explain that in this -- I noticed on the heading in the surveillance report I think this is depreciation and amortization. We've had I think some of the storm costs in more recent years, it wouldn't have been back in 2001, are substantial dollar amounts that roll through that as amortization. And that's just why I point it out, that includes both depreciation and sometimes odd items related to amortization.

Q So you're saying between that 2005 and 2006, the increase there might be related to post-2004-2005 storm damage?

A I don't know, I don't know. Again, I was trying to explain generally, after I understood that this does include amortization, I just wanted to repeat that as a caution. I'm not familiar with what might have driven variances from year to year on this.

Q Just to go back to your pension expense for a moment, do you know what the assumed rate of return on United States or U.S. stocks would be for purposes of valuation? Would you have that information?

A I might have it if you maybe repeat the specific request again.

Q Yes. You have an assumed rate of return, do you not, for your plan assets based on certain types of investments that those assets are in?

A We do. We do.

Q Is there one where you look at U.S. stocks?

A Yes. I mean, certainly the -- for purposes of the pension calculation in making the forecast, you assume, what am I going to earn on different types of investments. Then during the year, you know, the investment committee of the pension works with individual types of equity investments and what kinds of returns should be considered there. So I think I'm answering yes so far.

Q Yes, sir. And what I would like to know is if you could tell me what your current assumption is for earned -- expected returns on U.S. stocks.

A While I was flipping and accidentally dropping the binder, we had an interrogatory that we answered on this that I recall speaks to that. I believe it's our reply to OPC interrogatory 171. And in there, if you had it or referred to it, in certain broad categories, there are -- and there are quotes for what the expected returns are for the various types of asset classes, things from private equity or bonds to stocks.

Q Is it confidential?

A No, I don't believe this is. Again, it's OPC interrogatory 171, so I think I can say it out loud, yeah, I mean, if that was your point, sure. Just to go a little bit farther, it's got a number for U.S. large stocks, U.S. small stocks, international stocks, emerging market stocks. And again, your question I guess was?

Q Give me the two for the U.S. stocks.

A U.S. large stocks, ten percent; U.S. small stock, 11.5 percent.

Q You said U.S. small stocks is 11.5?

A Uh-huh.

Q Okay. And those are the assumptions that were used for the valuation as supports the $30.9 million number that we looked at in the MFRs?

A No, I wouldn't absolutely say that. Again, let me just go to the details.

On 171, the request was, "Please provide the breakdown and the expected return on the company's pension plan assets. Provide the expected return on different asset classes." So I think in answering this, we went right to the investment committee and its asset allocations and what they're expecting. And again, for the pension plan, I think it's -- they use a more generic for purposes of the study. I think they used a 9.75 percent as the expected return.

Q Okay, you say "generic." Is that for just that -- that's overall plan investments, or for the equity investments of the plan?

A Yes, "generic" was not a good word. The 9.75 percent is overall, so that would be inclusive of if there's waiving. There's bonds with lower returns, stocks with higher returns. That 9.75 is for the plan in total.

Q Well, then, do you know, if you could de-average that for me, could you tell me what the equity component that makes up that 9.75 is?

A I don't know that I have anything here that would let me do that. Again, I have the reply to the interrogatory in 171 in front of me and the bond rates assumed there: U.S. bonds, six percent; international bonds, seven percent. You know, so they're somewhat lower than equity returns, as you would expect. I don't believe I have anything here that further breaks down the expected return on the pension into detail.

Q But your overall expected return is 9.75?

A I believe that it is, and I'm just going to refer back to C-17 and see if that's mentioned here to check my memory.

Actually, again, I'm sorry, I'm on Schedule C-17, which has the detail of the pension. There's a column for the 2010 test year. There's a line item there, Assumed Rate of Return on Plan Assets, and that number in 2010 is 8.75 percent, so I was mistaken.

Q That's fair, you were doing it from memory, I understand that.

But there's a further -- it would be true, correct, that you could determine the equities, the U.S. stock equities component that goes into that number, correct?

A You mean to the 8.75?

Q Yes, sir.

A Actually, without reading the actual study itself, I don't know how much detail they presented behind the 8.75 percent assumed return in terms of if it's based on a target weighting of different types.

Q But it's a product of a mathematical equation, correct, the 8.75?

A I would assume that it is. You have to assume some type of investments with a return on each, and then average it to get to that number. I agree with that.

Q So would it be fair to ask you that before you return for rebuttal, that perhaps you could find that out or have somebody look at that?

A Yes, I will certainly try.

Q Okay. And the reason I ask you is I think -- and your ROE witness, Dr. Vander Weide, suggests in his CAPM model that the expected return on U.S. stocks, large U.S. stocks, should be about 13.7 percent, so I would ask you, since you're supporting the pension expenses, why would that not be a good assumption to use for return on your pension plan assets?

A Yes, and without consulting, I guess, Dr. Vander Weide's testimony and whatever I can dig up on the pension plan, I can't say today.

MR. REHWINKEL: Okay. Mr. Chairman, I think I have communicated to the witness and he has agreed to look into that, and I will inquire again on rebuttal about that. Thank you.

BY MR. REHWINKEL:

Q I want to talk to you a little bit about the storm damage reserve accrual, if you could. Are you familiar with that --

A I am.

Q -- accounting adjustment?

A Yeah.

Q And I think, subject to check, the amount of the accrual currently is about $6.5 million on a total company basis?

A I was thinking more six, currently. We had a request to increase it ten million to 16 million.

Q To 16, okay. And those are total company numbers?

A Yes. Those are not actually revenue requirements that you would see in the specific adjustment.

Q So I think it's a $14.9 million revenue requirement input for the test year?

A I was just going to flip to it and see if I can find it.

I have the net amount of the adjustment. It's actually, the jurisdictional adjustment in revenue requirements is 5.7 million net, and that's on Schedule C-3, and I just wanted to get you the details on that.

Q So that's the incremental change in revenue requirement?

A From a net operating income where the adjustment is there, and it's net of taxes to get to that --

Q So that's NOI?

A -- for NOI purposes. Yeah.

Q Okay. The accrual, does, in your opinion, does that represent an increase in cash flow? Let me ask it this way is the better way to ask it: If you were to get the increase from six million to 16 million in your accrual for the storm damage reserve included in rates, or about $10 million jurisdictionalized?

A Yes, I think I see where you're headed. And the cash flow impact would actually be the inclusion in rates of the ten million. The storm reserve itself isn't a funded reserve, so it's an accrual.

Q Would you consider that to be encumbered in any way if the accrual is included in rates?

A Encumbered --

Q Encumbered in a sense that there was some sort of an obligation to use it for certain purposes.

A Yes, absolutely. Only authorized and allowed costs recoverable can be charged for that. When we have a storm, there's always a portion of cost that can't be charged to the reserve, and so -- and I guess I'd point to that as evidence. It can only be used for the designated purposes.

Q Is it qualitatively the same for earnings evaluation purposes as depreciation? I say "it," meaning the storm damage accrual. Is it looked at the same way, or is it because it can only be used for certain purposes that it has less quality as far as cash flow goes?

A No, I don't have anything specific to base my answer on, because I guess you're asking how the financial markets might view the difference between the two.

Q Yes.

A There's certainly both items on the revenue side that are cash and on the expense side are non-cash, that would be similar. Your second point of is it viewed differently somehow because it can only be used for certain purposes, I'm not sure whether that would matter or not. Depreciation isn't something that's seen as can be used discretionary on anything, it's depreciation.

I know that's not very exact, but I'm not sure the markets would view them much differently just on that. They're non-cash items, they're similar in that way, so they may be treated the same.

Q Does the company look at it the same?

A I would say -- well, not at the level of -- clearly they're different. The storm reserve is an accrual for a specific purpose, and a reserve is not the same thing as depreciation. They're not synonymous. So I'd say we view them differently in that sense.

Q You did come in and ask the Public Service Commission for permission to take 30-something million dollars of O&M expense and charge it against the reserve for 2009, did you not?

A We did come in and ask for that, that's right.

Q And that's because you had to ask for permission, it was encumbered in the sense it was subject to the Commission's jurisdiction and oversight, correct?

A Yes, I believe so.

Q I guess that was one of the things I left out of my 2009, that you tried to do that, correct, that would have been about a $33 million overall per I guess system basis improvement in your achieved earnings for 2009 if you had been allowed to do that, right?

A Yeah. I don't remember the specific amount, but yes, certainly the request would have helped earnings exactly as you described.

Q My point is, I guess, it's true that you felt like you had to come in and ask for permission from the Commission to do something other than hold it aside for -- to pay for storm damage?

A Yes, that's right.

Q Are you familiar with any efforts by the company to put any of its landholdings up for sale?

While you're thinking about the answer to that, there is an interrogatory 145, and I think there was confidential treatment afforded to it.

A Okay, well, in general, I know from time to time we sell land. I know recently we've sold some. So in general I'm familiar with the process, and I can try to find the interrogatory 145.

I see interrogatory 145, and it's marked confidential, but it does speak to the topic of land sales, so I'm ready.

Q So my question would be to you, first of all, is there any change in the status of that property with respect to whether it's sold or not?

A I don't believe that there is, but it's not as a result of having just checked to see. But I think I would know if it was sold. I don't believe it has sold.

Q Are there any adjustments in the MFRs for -- that reflect gain on sale of utility property?

A Yes, there are. Yes, there is a methodology for taking gains on sales and amortizing them over a period of time, and it's an adjustment that we present in the MFRs both for the income statement on Schedule C and in rate base on the MFRs, in B.

Q That adjustment would be based on transactions that have already occurred and a gain or loss already determined, correct?

A Yes. Yes.

Q And if you sold property now, between now and the end of the year, and it created a gain, there would be no adjustment included in MFRs for that, correct?

A Yes, if it created a new gain that was not previously contemplated in the MFRs, without amending them, it wouldn't be in there, that's true.

Q How is property held for future use treated in ratemaking?

A How is property held for future use treated in ratemaking?

Q Yes. How is it treated in MFR for purpose of revenue requirements?

A There is an account, a FERC account, for property held for future use that's includable in rate base.

Q Okay. Do you have -- I guess when you were undertaking to build the Levy nuclear plant -- I say "were," you are doing that -- you acquired two large pieces of property, is that correct, in Levy County?

A Yes. For Levy County I think there were two adjacent tracts that were acquired, so it's kind of one big parcel, I think. That's right.

Q And one of those pieces of property plus -- in its entirety plus a portion of the other comprise the Levy nuclear plant site, is that correct?

A Yes, and there's another portion of the site that's land held for future use.

Q And that land was -- is in rate base, correct?

A Yes.

Q Is the amount that's associated with that land, is that confidential?

A I don't know if it's confidential. I suppose I sighed because I'm not sure I know if I could flip to a schedule here that might have that, but --

CHAIRMAN CARTER: Mr. Burnett?

MR. BURNETT: I believe you could speak about that number openly at this point.

THE WITNESS: If I knew it, I would. My question was more if it's in here.

BY MR. REHWINKEL:

Q Is it the company's intention to hold that property for use for non-nuclear generation?

Let me ask you this: Does the company have a proposed use for that property?

A Well, yes, certainly, and I assume for your question, let me just clarify, you're referring to that portion that's in land held for future use --

Q Yes, sir.

A -- not the kind of more active Levy site itself?

Q Correct.

A I don't know that we have settled on the specific use of the site. As I said, it's a contiguous property. We will certainly have transmission lines and piping blowdown for water ingress and egress across that portion of it, but I don't think we have any settled, specific plans on the actual use of that site.

Q Well, would the -- the reason you have -- let me ask it to you this way: Isn't it true that you bought the two sites, and I think one was called Lybass and the other was Rayonier, correct?

A Yes, I'm familiar with those names, yes.

Q And the -- I believe, if I have my facts correct, the entire Rayonier site and a portion of the Lybass site comprise the LNP site, is that right?

A I think that's also correct.

Q But you bought the two sites because that's what you had to buy in order to get enough property to put the nuclear plant where you thought was the best place to put it, correct?

A I only hesitated because I wouldn't want there to be any presumption that the property is presumed to not have any value just because we bought both parcels for the Levy site.

Q I guess the question I'm asking is, in order to get enough to put the plant on there, you had to buy a little bit more, or a lot more?

A Well -- and again, not to quibble, but once we had both sites, I think we made the Levy -- the LNP site, as you referred to it, clearly sat across both. The only reason, again, I would hesitate is if we only had one. I'm not familiar enough with the details to know if Levy could have been sited on the one. Clearly we thought it was better to have both.

Q But did you try to buy just enough to put Levy on there, or did you have to buy the two entire sites in order to have enough to put Levy?

A To be honest, I don't know enough of the history of the acquisition of those Levy sites.

Q Is there any likelihood that the company would sell the balance of the Lybass site that's not used for LNP?

A If I begin with the caveat that everything is possible in the future, I suppose. Clearly the Levy site is critical to us, and we thought it was in our best interests to acquire both of those parcels for the Levy site.

Again, we are fairly early in the development process, and I think history has shown it's good to have options, to have site available. So I can't foresee a situation that we would voluntarily sell that land in the near future. But other than that, I go with the --

Q Well, isn't it true that the seller of one of the parcels of properties has an option to buy it back if the site is not licensed by a certain date?

A I don't know.

Q You don't know, okay. All right. But it's your testimony here today that there are no plans by the company to sell the balance of the Lybass site, assuming that's the one that was partitioned, if you will, between nuclear and conventional land held --

A Yes, it's my testimony I'm not aware of any, and I can't anticipate there would be any plans to sell any portion of that site now.

Q Are you aware of what your regulatory return on equity has been over the last two years? I say the last two calendar years of '07 and '08.

A Not exactly to quote them to you. I know it's on the surveillance report. I don't have that in front of me. I assume you're referring to calendar '07 and '08?

Q Yes, sir.

A Yeah. I don't.

Q Do you know whether they were below nine percent in any of those years?

A Below nine percent in '07 or '08, I don't know.

MR. REHWINKEL: Okay. Madam Chairman, if you give me a minute, I may be able to wrap this up, if I can just review my notes.

ACTING CHAIRMAN EDGAR: Yes, sir.

(Brief pause.)

MR. REHWINKEL: Just a couple more, Madam Chairman -- or Mr. Chairman. You keep tricking me.

CHAIRMAN CARTER: We're trying to keep you guessing.

BY MR. REHWINKEL:

Q I talked very early in the cross-examination about the PPA equity imputation, do you recall?

A I do.

Q You would agree with me that the PPA imputation is an adjustment and does not represent actual equity investment, would you not?

A Yes, I would agree it's an adjustment.

Q Okay. Can you tell me what the actual return -- let me ask it to you this way: If the company were to receive the entire $499.97 million rate increase that you're requesting, and you took the achieved NOI that would be generated by that rate increase and applied it to your actual balance of equity shown on Schedule D-1A for the test year, can you tell me what the true return on equity that would yield?

A Well, let me start by, I don't think I can do it precisely. I know you've asked it. We're assuming everything else in the MFR is holds, we have the same NOI, and now we're simply looking at the equity. If we were to remove the imputed equity adjustment, being sure I'm capturing your *pro forma*, you know, the -- if you look at D-1A, your system-adjusted common equity --

well, actually, your jurisdictional cap structure, the 3.1 million in common equity, if you see there on column F?

Q Yes.

A That amount would -- through the calculation, that number would adjust downward as a result of, in column B, that specific adjustment of 706 that you see would become 704 -- $711 million lower, and that would ripple through the rest of the calculation. So in column F, your jurisdictional capital structure for the equity would also be lower.

Q So this could be calculated by taking column F and adjusting it by the jurisdictional amount of the equity imputation adjustment, book adjustment, correct?

A Yes.

Q And then that number, you would apply the NOI that would be achieved --

A I think in your example it would be the same NOI.

Q Yes.

A It would just be divided by a therefore lower common equity amount, which would produce a therefore higher return on equity calculation. I just can't do that with precision.

Q Okay. But it can be replicated by anyone that kind of follows the math in the schedules in that -- what you describe?

A Yes.

MR. REHWINKEL: Okay. Madam Chairman, that's all -- Mr. Chairman, that's all the questions I have for this witness. Thank you, Mr. Toomey.

CHAIRMAN CARTER: Thank you, Mr. Rehwinkel.

Ms. Bradley?

MS. BRADLEY: Thank you.

CROSS EXAMINATION

BY MS. BRADLEY:

Q Sir, you testified earlier that your company has requested a 499.9 million increase, correct?

A Yes, I did.

Q Is that kind of like when you see an advertisement for a pair of jeans for under $20, and you go to the store and it turns out the jeans are 19.99?

A I would say no. 499.9 million is a lot of money, no matter how you look at it.

Q All right. Was there any discussion among the company of trying to keep it under a half a billion?

A I don't believe so, no. And I think 499.9 is, obviously, very close, so --

Q On page 3 and 4 of your testimony, you talked about the decade before this rate increase request, that you reduced its base rate and, "absorbed the cost of an entire additional generation plant subject only to upward adjustments to pay for two additional generation plants despite steadily increasing inflation and the resulting upward pressure on your cost of providing electric service." Do you remember that?

A I'm flipping to it, but I do remember that.

Q Okay. You still made a profit during each of those years, did you not?

A Yes, I think in none of those years did we record a net loss, so we made a profit in each of those years.

Q And during that same period of time, you had several base rate items that were transferred over into the clauses, correct?

A I don't know that I'd know that off the top of my head.

Q You don't have any knowledge of that?

A Let's go year by year. When are you talking about?

Q I don't have the correct -- the exact times in front of me, but I'm talking about the time period that you mentioned.

A Okay. Let me just flip to my testimony now to catch up with where you were so I know what years I'm referring to.

Q I'm sorry.

A That's fine. I think you said it was on page 4?

Q I think it was at the bottom of 3, going on 4.

A "Almost a decade where we reduced our base rates, absorbed the" -- okay, I see that. So presumably that would be the period of post-2000. I think obviously what that refers to is the fact that during that period, we had two settlements. And to your question, as part of those settlements, I believe your question was were there items that would normally have been in base rates that were in clauses, was that the question?

Q Yes, generally.

A It's -- I don't know for sure.

Q All right. Between -- during that same period of time, isn't it also true that your return on equity did not fall below nine percent, except for I guess it was 2005 when it was like 8.8 because of the hundred million tax bill?

A I'm not, again, familiar off the top of my head with our regulatory ROE. I'm assuming you're quoting through those years, so I would have to check.

Q In your testimony, I noticed you were given a summary on -- I think it was on page 5 of the -- what you were going to testify about, and you make the statement, "I will -- "Finally, I will explain the PSC's benchmarking policy for O&M expense and the resulting Commission's O&M benchmarking test."

A Yes, I see that, uh-huh.

Q Who were you going to explain that to?

A Well, it's -- referring in this testimony, and that refers to later in the testimony I speak to the O&M benchmarking test and I explain then elsewhere in the filing where we deal with how we're going to explain variances against those benchmarks. So it just refers to later in the testimony.

Q I saw that, but your initial statement was, "I will explain the Commission's O&M -- benchmarking policy for O&M expenses," and I just wondered, who were you going to explain that to?

A All I meant to say was in this testimony I would set that out and explain it, so I guess to anyone who reads the testimony.

Q You do acknowledge that the Commission is familiar with that test and policy?

A Yes. Yes, I didn't at all presume I had to put in the testimony to make anyone aware of that, if that's your point, absolutely true.

Q Did you attend any of the service hearings in this case?

A I did not.

Q Did you read any of the transcripts of the service hearings?

A I did not.

Q Did you attend any briefings or get any information about the service hearings?

A I was certainly at management meetings that the service hearings were discussed in terms of comments made during the service hearing, the issues that had arisen, but I didn't attend any and I didn't read the transcripts of those meetings.

Q Would you admit that a lot of your senior customers have paid their bills and have kind of put Progress where it is today?

A Yes. Yes.

Q Okay. Are you aware that in the testimony they talked about -- some of your customers talked about losing jobs and cutting back on pay and having to cut hours and that type of thing?

A Yes, I think many people commented on the state of the economy, that's right.

Q Do you have a clipping service that you review regularly?

A I don't.

Q Your company doesn't?

A My company might.

Q And have you seen any of that?

A Again, I don't know that I have.

Q Well, let me be more specific. Did you see an article that was in the *Orlando Sentinel*, I think it was yesterday?

A Almost certainly not.

Q That was talking about the Florida census?

A No, I'm sorry, and the reason why I answered is I don't have any access to clipping services and I wouldn't have read an *Orlando Sentinel*. If you mentioned that was the last few days -- yeah, no, it's -- so I have not read it.

Q Do you have any other information that you've obtained from somebody else that's referred to the fact that between 2007 and 2008, Florida suffered the nation's worst decline in household income, according to the U.S. Census, with median income falling by 3.9 percent when adjusted for inflation?

A I'm not familiar with that specific economic statistic, no, but I'm certainly aware of the general state of the economy and the state of the economy in Florida.

Q We talked about some of the sacrifices that consumers talked about at the hearings. Would you agree that it's not unreasonable for these people to expect the utility that they have paid for and helped develop to the point it is today to make similar sacrifices by cutting out some of the things in their rate request such as some of the luxuries like salary increases and bonuses and that type thing?

A Well, there were several comments in there; I guess, if I could speak to those one at a time, I think they would expect that the utility would do everything it could to hold down its costs without hurting the business long term.

Q Okay. Would you be willing, then, to recommend to your business that they try to make some further cuts on some of these luxury items such as salary increases and bonuses where so many of your customers are having to do that?

MR. BURNETT: Mr. Chair, if I could just object to the characterization of "luxury items," but otherwise I have no problem with the question.

CHAIRMAN CARTER: Rephrase.

BY MS. BRADLEY:

Q Would you agree -- let me try one more time.

Would you be willing to recommend to the company that it cut back on some of what many of the seniors and customers think of luxury items, such as increased salaries and bonuses, since so many of them are having to make the same sacrifices?

MR. BURNETT: Mr. Chair, same objection. I believe Ms. Bradley is characterizing what other unknown citizens may think in her opinion. If she could fairly ask this question without the "luxury items" in there?

CHAIRMAN CARTER: Ms. Bradley?

MS. BRADLEY: Obviously it's something that a lot of people would look at as a luxury. They are having to make cuts and sacrifices and they have lost their jobs, and I think many folks would see that as a luxury.

CHAIRMAN CARTER: Ms. Helton, to the objection?

MS. HELTON: I'm sorry, if I could get Ms. Bradley to repeat the question one more time. I'm having a hard time figuring out what the luxury item is.

MS. BRADLEY: I believe what I asked him the last time was whether or not he would be willing to recommend to the company that they make some cutbacks on what many customers feel a luxury item such as increased salaries and bonuses and that type of thing.

MS. HELTON: I think, Mr. Chairman, that the question probably could be asked without the reference to luxury items as far as with respect to bonuses and increased salaries.

CHAIRMAN CARTER: You can ask about the bonuses and the increased salaries, you can do that, but just rephrase it. It's fine.

BY MS. BRADLEY:

Q Do you understand the question if you take out the word "luxury"?

A I do.

Q Would you be willing to make that recommendation?

A I would not. I would not. And again, let me just go back to what I think you have already heard in this hearing.

I think -- we think it's important that we have compensation at a level that attracts the right people to stay employed with a company over the longer term. I think that -- I wouldn't want any impression that our company hasn't done things to reduce costs in the interim. There's parts of that here in the testimony. We have reduced positions, we have laid off employees, we have tried to hold our costs down, and I wouldn't want to fail to mention that, but that's different than the decision on compensation about trying to keep compensation at the levels that they need to be to have the right talent at the company in the future, as we've stated elsewhere in this hearing.

Q Let me ask you what your rationale is in laying off employees rather than not providing increases for your senior executives.

A Well -- and they're two different things. In our particular case, as Mr. Joyner testified in his testimony in the delivery area, I think that was a recognition that the company could reasonably reduce its staff in the distribution area because of the economic downturn as it relates to a big drop in the volume of new customer connections and that sort of thing. So I would say that was something that could be done, again, without damaging the company for the long term.

Q What about the damage to those people you put out of work, though?

A The people that we released I acknowledge suffered an economic hardship, absolutely true, but again, I think that customers want us to do what we can to hold expenses down, and that was one thing.

MS. BRADLEY: No further questions.

CHAIRMAN CARTER: Thank you, Ms. Bradley.

Ms. Kaufman?

MS. KAUFMAN: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MS. KAUFMAN:

Q Good afternoon, Mr. Toomey. I'm Vicki Kaufman; I'm here representing the Florida Industrial Power Users Group. Some of my questions were asked, but I do have a few more for you.

Let me ask you this first: Is part of the purpose of your testimony kind of to give us an overview or the big picture of your rate request?

A Yes. Part of my testimony, I think, does that in a more mechanical way by sponsoring the various MFRs that pull it all together. I do that in a more quantified way.

Q But I think you say, on page 3, part of what you're trying to do is generally explain why the company needs the increase at this time, is that right?

A Yes. I'll flip to that, but I think I recall that, sure.

Q It's page 3, line 19.

A Yes, uh-huh.

Q Now, I think Ms. Bradley or one of the prior attorneys asked you about your statements at the bottom of that page and going over to the top, I believe it was Ms. Bradley, about the fact that this requested base rate increase follows a decade where the company reduced its base rates. Do you see that?

A I do.

Q You were careful, I think, in your wording there to refer to base rates. You weren't meaning to suggest, were you, that customers have not seen increases in the cost recovery clauses?

A Yes, I was specific in using the description of base for two reasons: it wouldn't be correct overall, because the clauses do move up and down; and in the base rate proceeding I thought it was appropriate to speak to base rates.

Q Would you agree with me over the decade, that time period that you were referring to, that customers have generally seen the impact of the clauses go up?

A Well, again, the first thing I can think of is the clauses are, of course, very volatile. Certainly fuel was extremely high in 2008, and thankfully that's coming down. Without looking at it specifically across all ten years, I couldn't speak to individual differences, year to year in the clauses, total rates.

Q So you don't have a feel for the fact that generally the clauses have increased over the ten years?

A Yes, in a general way, I would say yes, I do. The clauses are higher today than they were nine or ten years ago, I think that's generally true. I don't mean to not say that generally.

Q I don't know if you were here when Mr. Wright showed Mr. Slusser a document from the company's surveillance reports that looked at the average bills over the -- it's probably more than a decade. Were you here for that discussion?

A I don't recall it now.

Q Let me -- this exhibit is already in the record, I believe.

CHAIRMAN CARTER: No. 280.

MS. KAUFMAN: Yes, thank you. I'm so lucky to have all these assistants.

BY MS. KAUFMAN:

Q Mr. Toomey, this exhibit was discussed with Mr. Slusser, if you were here for that part of the hearing this morning, and essentially the information is filed with the Commission and it compares the bills for the various companies. Can you just take a quick look through that?

A Uh-huh.

Q And I think that this was discussed with Mr. Slusser as well, and you mentioned it, too.

Would you agree that, for example, fuel has been an item that has increased substantially? And we only need to be looking at Progress for purposes of my questions.

A Well, again, what I had said is I know for a fact it's very volatile. Recently, of course, it had been higher, and I just -- what would you like me to do with this specifically?

Q I was just wanting you to confirm that, for example, fuel has been an item that we have certainly seen increase over the -- certainly the past decade and even further, as this document shows?

A Yeah, and I'm just trying to compare the early and the end periods. Again, for the fuel charge to residential customers, I guess I see a 1983 here of about $28, and on the back page here, just flipping to that -- but that's fuel and purchase power, it's $56.

Q And I think Mr. Wright also discussed with Mr. Slusser the percentage of Progress's revenues that flow through the clause. Were you here for that?

A I did hear that part.

Q And would you agree with Mr. Slusser that it's about 60 percent of the company's revenue is collected through the clauses?

A Yeah, I recall Mr. Slusser saying that, and that fits my general understanding, so I think in both cases it makes sense to me.

Q So that while your base rates may have been reduced or remain the same, as you testified, more than 50 percent of your revenue is being collected through the clauses, correct?

A Yes, if the base is 40 percent, that would be correct.

Q Now, if you turn to your testimony, page 13, line 13.

A Page 13, line 13, I see it.

Q Right, and you discussed this with Ms. Bradley as well, and I think you said that you appreciate and recognize the difficult economic times that Floridians face, correct?

A Yeah -- well, that's closer to what I said, I suppose, with Ms. Bradley. What my testimony says here is, "We understand the tough realities of the current economic situation, and we are doing what we can to manage costs and remain financially strong through this period and beyond." This is kind of what the testimony says.

Q Right, and we have talked with other witnesses about their awareness of the high unemployment rates in Florida and the high foreclosure rates. Are you generally familiar with that?

A Generally, yes.

Q Since you're kind of trying to give us an overview, I guess, of the reasons for the rate increase, I want to talk to you about some of the components that make up that revenue number of 499.9, and I'm just going to call it half a billion, if that's okay with you?

A If you will.

Q Okay. One of the components of that, of course, is the company's return on equity, is that right?

A Certainly the basis for our filing is we need the revenue increase in order to achieve the level of ROE that we set out in here, that's true.

Q And the company is asking for a return on equity of 12.54 percent, correct?

A We are.

Q Now, you would agree with me that to the extent the Commission feels that a lower return on equity is more appropriate, that would have -- that would reduce the 499.9 revenue requirement, correct?

A It would.

Q I think Mr. Rehwinkel might have asked you this, but every hundred basis points is about $51 million, is that correct?

A In base rates, yes. It's the number that we discussed earlier. That sounds correct, yes.

Q So if the Commission were to decide that ten percent ROE was more appropriate, that would reduce your revenue request by more than $100 million, correct?

A Well, if one percent is worth, say, 50 million, going from 12 and a half to ten, or two and a half percent, would be two and a half times 50, I believe, which would be 125 million, ballpark.

Q So just --

A Yes, more than a hundred, I'm sorry, was your question, yes.

Q I'm sorry, I just like to do the round numbers because it's just easier for me.

So if that were to be the Commission's decision, that would reduce your request by 25 percent, all other things equal, right?

A 125 over 500, yes, about 25 percent.

(Brief pause at 5:00 p.m.)

(The transcript continues in sequence with Volume 13.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, CLARA C. ROTRUCK, do hereby certify that I was authorized to and did stenographically report the foregoing proceedings at the time and place herein stated.

IT IS FURTHER CERTIFIED that the foregoing transcript is a true record of my stenographic notes.

I FURTHER CERTIFY that I am not a relative, employee, attorney, or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED this 29th day of September, 2009, at Tallahassee, Leon County, Florida.

Clara C. Rotruck

CLARA C. ROTRUCK