

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**In re: Petition for Approval of Storm
Cost Recovery Clause for Extraordinary
Expenditures Related to Hurricanes
Charles, Frances, Jeanne, and Ivan**

Docket No. 041272-EI

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**REBUTTAL TESTIMONY OF
MARK V. WIMBERLY**

ON BEHALF OF PROGRESS ENERGY FLORIDA

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FOR EXTRAORDINARY EXPENDITURES RELATED TO HURRICANES
CHARLEY, FRANCES, JEANNE, AND IVAN**

REBUTTAL TESTIMONY OF MARK V. WIMBERLY

1 **I. Introduction**

2

3 **Q. Please state your name, position, and address.**

4 **A.** My name is Mark V. Wimberly. I am the Manager of Energy Delivery Business
5 Operations for Progress Energy Florida, Inc. ("PEF" or the "Company"). My
6 business address is 3300 Exchange Place, Lake Mary, Florida 32746.

7

8 **Q. Did you file direct testimony in this case?**

9 **A.** Yes, I did.

10

11 **Q. Can you please summarize the purpose of your direct testimony?**

12 **A.** Yes, I filed direct testimony to explain how PEF tracked and recorded its storm-
13 related costs for the four hurricanes that struck PEF's service territory in 2004,
14 generally described the Company's storm-related costs for each hurricane, and
15 explained the process the Company uses to verify that the costs assigned to the
16 hurricanes were in fact related to the storms.

17

18 **Q. Have you reviewed the testimony filed by the witnesses testifying for the**
19 **Office of Public Counsel ("OPC"), the Florida Industrial Power Users**

1 **Group (“FIPUG”), and Buddy L. Hansen and the Sugarmill Woods Civic**
2 **Association, Inc. (collectively, “Sugarmill Woods”)?**

3 A. Yes, I have.

4

5 **Q. Did these witnesses comment on how the Company accounted for or verified**
6 **its storm-related costs?**

7 A. Some did, some did not.

8

9 **Q. Do you agree with the testimony of those witnesses who did address the**
10 **accounting for or verification of the Company’s storm-related costs?**

11 A. No, I do not. To begin with, the witnesses do not challenge the fact that these
12 hurricanes occurred, that they had a devastating impact on the Company’s
13 facilities and operations, and that the Company had to engage in an unprecedented
14 effort to marshal and coordinate vast internal and external resources to prepare
15 for, respond to, and recover from the impact of these hurricanes. Rather, the
16 focus of their testimony regarding the accounting for PEF’s storm-related costs is
17 whether PEF’s budgets for Energy Delivery operations under normal operating
18 conditions somehow cover some of the costs incurred as a result of these
19 extraordinary storm events. This testimony, I believe, reflects a fundamental
20 misconception regarding the budgets for Energy Delivery operations that distorts
21 the budgets into something they are not and cannot be, namely, a tool to predict
22 and account for in advance the costs for such extraordinary events as hurricanes.

23

1 **Q. Are you referring to Ms. Brown's testimony that PEF engaged in "profitable**
2 **cost shifting" by allegedly "shifting its regular costs from normal O&M to the**
3 **storm damage accrual account" at page 6, lines 13 and 16-17 of her testimony?**

4 A. Yes, I am. To "shift" costs from one "account" to another assumes that those
5 costs are in the first "account" in the first place. Her reference to "normal O&M,"
6 which I assume means the Company's budgeted O&M costs for Energy Delivery,
7 does not and cannot include the catastrophic storm costs that the Company has
8 charged to the storm accounts. The Company does not and cannot budget for
9 catastrophic storms. There is no way to predict in advance whether a hurricane
10 will strike PEF's territory, when and where it will strike, what its intensity will
11 be, or how long it will impact PEF's service territory. As a result, such
12 extraordinary events are not part of the Company's budget process and, therefore,
13 our Energy Delivery budgets do not include costs to prepare for, respond to, and
14 recover from hurricanes. Ms. Brown seems to acknowledge this fact when she
15 agrees that such storm damage costs are non-recurring expenses. (Brown, p. 7).
16 But she nevertheless says that we "shifted" our "regular" costs from "normal
17 O&M" to the storm accounts and, even if that is not what she meant, that
18 statement is simply not true.

19
20 **Q. You did charge the storm accounts for PEF employees who worked on the**
21 **storms and included charges for the Company's vehicles, material, and**
22 **equipment used in the storms, is that right?**

1 A. Yes, it is. These costs are part of our direct costs to prepare for, respond to, and
2 recover from the hurricanes, and charging all of our direct costs related to the
3 hurricanes to the storm damage reserve is consistent with long-standing
4 Commission orders, policy, and utility practice, as explained in the rebuttal
5 testimony of Mr. Portuondo.

6

7 **Q. But Mr. Majoros alleges that the Company is “double-dipping” if it does not**
8 **reduce its storm-related costs by the “normal” costs already budgeted by the**
9 **Company during the same time period. Do you agree?**

10 A. No, I do not. Mr. Majoros’ testimony is based on a faulty premise. He assumes
11 that the work that would have been performed but for the hurricanes goes away
12 and that is simply not true. The work that the Company wanted to get done but
13 for the hurricanes must still be done. The Company must have employees that are
14 not devoted to the hurricane work put in more time than they would have to try to
15 keep up with the work load and then, after the hurricanes are over and the
16 restoration work is complete, employees and contractors must be devoted to
17 catching up the work that was missed as a result of the hurricanes.

18

19 **Q. Mr. Majoros first speculates that there will be no “catch up” work because**
20 **the changes brought about by the hurricanes eliminate the need to do the**
21 **work. Do you agree?**

22 A. No, this is pure speculation by Mr. Majoros. It also reflects a fundamental
23 misconception about the nature of the work brought about by the hurricanes and

1 most of our normal workload in the transmission and distribution areas. First, the
2 focus of the restoration efforts during and following the hurricanes is to get
3 service restored as quickly and as safely as possible. The Company is in crisis
4 mode; the only goal is to put the system back the same way it was before the
5 storms so that power can start to flow to customers immediately. The Company
6 does not have time to sit down and figure out whether there are projects planned
7 that can be eliminated by the restoration work. The Company simply sets its
8 mind to, and focuses its efforts on, restoring power.

9 Second, both Mr. Majoros and Ms. Brown assume, without any factual
10 support whatsoever, that PEF's transmission and distribution systems were in
11 disrepair such that the restoration work only repaired what would have been
12 repaired anyway. (Majoros, p. 13; Brown, page 22). Ms. Brown supports her
13 assumption with the further speculation that PEF must not have made the repairs
14 and upgrades that were needed to provide PEF with the increased reliability of the
15 transmission and distribution systems PEF promised in its last base rate
16 proceeding in 2001. (Brown, p. 22).

17 PEF's Commitment to Excellence (CTE) program identified in 2001
18 investments in the transmission and distribution systems that would improve
19 system reliability, measured by the System Average Interruption Duration Index
20 (SAIDI), to a SAIDI of 80 minutes by the end of three years, or by the end of
21 2004. The Company started work on improving reliability immediately in 2001
22 and fulfilled its CTE program by 2004, before the hurricanes started in late
23 August. PEF improved its SAIDI from 100.6 minutes in 2001 to 88 minutes in

1 2002, dropped the SAIDI further to 86 minutes in 2003, and was on track to
2 achieve a SAIDI of 80 minutes by the time of the first hurricane. This
3 improvement in SAIDI moved PEF to the top quartile of its peer utilities in
4 reliability. Ms. Brown's speculation that PEF had not made the investments in its
5 transmission and distribution systems to achieve the reliability it promised in
6 2001 before the storms hit is, therefore, baseless. PEF's transmission and
7 distribution systems were functioning with a high degree of reliability at the time
8 the hurricanes hit.

9 PEF's maintenance programs for its transmission and distribution systems
10 are also designed to replace facilities and equipment only when they are no longer
11 performing their intended function. Our pole inspection process, for example,
12 reviews all of the wood poles on our system on a regular basis, and provides for
13 treatment and bracing of poles in accordance with the National Electric Safety
14 Code (NESEC) standards as needed, to extend their useful life. Our customers
15 benefit from this program, and other, similar maintenance programs, because their
16 costs are lower than if we simply replaced all facilities and equipment on a regular
17 basis without regard for whether they were still performing their function. With
18 this background on our maintenance programs in mind, it is improper to assume,
19 as these witnesses did, that our transmission and distribution systems were in a
20 state of disrepair at the time of the hurricanes because they were functioning
21 systems at that time.

22 Finally, substantially all of the work that the Company planned to do but
23 had to postpone due to the hurricanes was unaffected by the hurricane restoration

1 efforts. The postponed work included new construction involving new customer
2 connections, new streetlights and related facilities, Department of Transportation
3 road widening or road construction projects, and customer conversions. This
4 work must be done regardless of the work accomplished in the restoration efforts
5 following the storms. The Company has to accelerate its work schedule to
6 complete the postponed work along with work of the same type that was already
7 scheduled at the same time as the catch up work that must be done. Customers
8 will simply not tolerate longer delays as a result of the postponed work. The
9 Company, accordingly, has incurred and will continue to incur overtime and
10 contract labor costs to do this work until the work is fully caught up. We have
11 estimated the total cost to the Company as a result of the catch up work for the
12 transmission and distribution systems to be well over \$25 million.

13
14 **Q. Mr. Majoros also speculates that the “flexibility” of your budgeting process**
15 **may accommodate the “catch up” work. Is this accurate?**

16 A. No, it is not, if Mr. Majoros means that the cost of the catch up work goes away,
17 which is what he implies by this statement. All of our budgets are driven by our
18 goals, such as the CTE program, and customer demands. Projects are identified to
19 meet our goals and customer demands, they are estimated, and they are scheduled
20 for the duration necessary to complete the project in order to meet our deadlines
21 for our goals or our customer-driven deadlines. These schedules, then, determine
22 our budgets, since our budgets are prepared annually. Once a project has been
23 identified and scheduled it must be accomplished to meet our goals or our

1 customers' deadlines. We might be able to defer work scheduled in one period of
2 time to a later period, but the work still must be done to meet our goals or
3 customer demands. This means the costs of scheduled projects might be deferred
4 but they will still be incurred.

5
6 **Q. Mr. Majoros also claims that the Company should demonstrate it has**
7 **incurred an "extraordinary expense" before it is allowed to recover for any**
8 **remaining storm-related work. Do you agree?**

9 A. The remaining storm-related work is by definition "extraordinary." It is work
10 caused by the hurricanes that simply could not be done during the restoration
11 process because the goal was to restore power as quickly and safely as possible.
12 This work is what we call our "sweeps" work because the objective is to "sweep"
13 the transmission and distribution systems, determine the remaining storm damage,
14 and restore the facilities and equipment on the transmission and distribution
15 systems to their condition prior to the hurricanes. This is not work to upgrade the
16 system; rather it is work that must be done to fix damage caused by the hurricanes
17 that might present a safety or reliability problem. For example, in our "sweeps"
18 work for the distribution system we are repairing hundreds of broken cross-arms,
19 replacing over a thousand fractured poles, fixing thousands of broken insulators,
20 street lights, or lightning arrestors, and correcting over a thousand leaning poles.
21 For our transmission system, we are replacing damaged breakers, repairing
22 damaged fans, bushings and/or sensors on substation transformers, replacing
23 relays, replacing battery banks and chargers, replacing switches, repairing washed

1 out access roads, making permanent fence repairs, and/or making repairs to
2 control house roofs at over 40 substations, in addition to the work on damaged
3 transmission lines which includes bonding and grounding, fixing damaged cross
4 braces, and correcting leaning poles. The “sweeps” work was caused by the
5 hurricanes and it, therefore, is not work that the Company otherwise would need
6 to do in the regular course of its operations of the transmission and distribution
7 systems.

8
9 **Q. Mr. Majoros lists a number of cost items that he claims should be deducted**
10 **from the Company’s storm cost recovery because of alleged budget**
11 **“variances.” Do you agree with this approach?**

12 A. No, I do not. First, as Mr. Portuondo explains in his rebuttal testimony, this
13 approach is inconsistent with prior Commission orders, policy, and utility practice
14 consistent with that policy. Second, his approach also ignores the fact that the
15 Company must make up work deferred by the hurricanes, as I have explained
16 above. I will not address again what Mr. Portuondo and I have already addressed
17 in our rebuttal testimony but I do want to point out some other problems with Mr.
18 Majoros’ approach.

19 Mr. Majoros purports to deduct what was budgeted for certain items
20 during the period of the storms but what he actually deducts is what was spent on
21 the item during the course of our hurricane restoration efforts. For example, Mr.
22 Majoros says the Company should receive only one-half of the fuel expense
23 (\$350,898.), based on his assumption regarding how long the Company’s

1 equipment was used during the storm compared to a normal 8-hour work day.
2 (Majoros, pages 19-20). But this amount is one-half of what PEF spent on fuel
3 solely for vehicles and equipment during the hurricane restoration process; it has
4 nothing to do with the Energy Delivery budget, which reflects an annual budget
5 for fuel for transmission and distribution vehicles and equipment. The amount of
6 fuel costs incurred during the course of the hurricane restoration efforts that Mr.
7 Majoros says PEF should not be allowed to recover is certainly not one-half of the
8 budgeted amount of fuel for this period of time. Mr. Majoros overreaches here
9 because he made no effort to determine the budgeted amount of fuel for the days
10 of the hurricane restoration effort from the annual Energy Delivery budget for
11 2004.

12 This is true for nearly every single item that Mr. Majoros purports to
13 deduct from PEF's storm costs, even base salaries because, for example, the level
14 of employees change during the course of a year and may not always be reflective
15 of what was budgeted for wages and salaries. With respect to almost every cost
16 item that Mr. Majoros wants to deduct, he is using the actual costs spent by PEF
17 during the course of the hurricane restoration effort, not the 2004 Energy Delivery
18 budgets for the same cost items.

19 Mr. Majoros also proposes to offset our storm-related costs by what he
20 calls the apparent "variance" of \$3.9 million from the tree trimming budget.
21 (Majoros, page 20). He claims the Company's "tree trimming" expenses in the
22 storms should be limited to the amounts which exceed PEF's "normal" budget.

1 To arrive at the \$3.9 million “variance” he relies on my deposition testimony.
2 (Id.). Mr. Majoros is wrong for two reasons.

3 First, the “variance” Mr. Majoros refers to was “at that point in time” in
4 October 2004. It was, therefore, a “snapshot” in time; it does not represent our
5 variance from our tree trimming budget on an annual basis, which is how we
6 budget, or reflect the fact that we are continuing to make up this work too through
7 the end of 2004 and in 2005. For example, our base tree trimming expenses for
8 our transmission and distribution systems was unfavorable to our budget for
9 December 2004 by over \$2.8 million, and only \$1.4 million favorable for the year
10 end. This increase in spending for our base tree trimming work after October
11 2004 shows that we had to and did make up base tree trimming work that was
12 missed or postponed due to the hurricanes.

13 The fact that the budget “variance” that Mr. Majoros identifies for October
14 2004 is diminishing over time also demonstrates that base tree trimming expenses,
15 which are budgeted, are very different from the type of tree trimming expenses
16 incurred in hurricane restoration efforts. Our base tree trimming expenses for
17 transmission and distribution operations are budgeted based on tree trimming
18 cycles that account for all of our transmission lines and distribution feeders over a
19 certain period of time, in our case, three or four years, depending on whether it is
20 for our distribution or transmission systems and depending on the type of line
21 involved. The base tree trimming on our cycles involves trimming of trees and
22 limbs away from our lines sufficient to forestall growth in a three- or four-year

1 period of time along the entire transmission line or feeder. We even compensate
2 our base tree trimming crews based on a charge per mile of line or feeder.

3 In contrast, tree crews during the restoration process following a hurricane
4 have a completely different objective. They are trimming trees or limbs away
5 from poles and lines only to the extent necessary to get the poles and lines back
6 up in the air and power restored. They are not proceeding down the line or feeder
7 to trim back other trees or limbs as they would in a normal tree trimming cycle.
8 In fact, to engage in cyclical tree trimming methods during the hurricane
9 restoration process will only delay the restoration of power for our customers.
10 Rather, the tree crews will only “spot” trim or cut back trees to the point
11 necessary to ensure lines can be put back up and power restored as quickly and as
12 safely as possible following a hurricane. As a result, this “spot” tree trimming
13 during and following the hurricanes does not mitigate the need to continue with
14 our cyclical tree trimming along the entire transmission line or feeder. This base
15 tree trimming work must still be done and will be made up by the Company
16 eventually.

17
18 **Q. Does this conclude your testimony?**

19 **A. Yes.**

20