

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**In Re: Petition on behalf of Citizens of  
the State of Florida to require  
Progress Energy Florida, Inc. to  
refund to customers \$143 million**

**DOCKET NO. 060658  
Submitted for filing: January 16, 2007**

**DIRECT TESTIMONY  
OF  
LORI J. CROSS  
ON BEHALF OF  
PROGRESS ENERGY FLORIDA**

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**IN RE: PETITION ON BEHALF OF CITIZENS OF THE  
STATE OF FLORIDA TO REQUIRE PROGRESS ENERGY  
FLORIDA, INC. TO REFUND CUSTOMERS \$143 MILLION**

**FPSC DOCKET NO. 060658**

**DIRECT TESTIMONY OF**

**LORI J. CROSS**

1                   **I. INTRODUCTION AND QUALIFICATIONS**

2

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

4   **A. Lori J. Cross, P.O. Box 14042, St. Petersburg, Florida 33733.**

5

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

7   **A. I am employed by Progress Energy Service Company as a Manager of Utility**  
8       **Regulatory Planning.**

9

10   **Q. What do you do?**

11   **A. I am responsible for the regulatory planning and cost recovery functions for**  
12       **Progress Energy Florida.**

13

14   **Q. What is the purpose of your testimony?**

15   **A. My testimony will address OPC's expert's, Patricia Merchant's, calculation of**  
16       **interest on the amount of alleged damages claimed by OPC to have been over-**  
17       **collected by PEF in the fuel clause over the last 10-year period. My testimony**

1 will explain how Ms. Merchant, by assuming that PEF collected these alleged  
2 overcharges on the first day of each year, has used an incorrect methodology and  
3 has overstated the amount of interest. The appropriate methodology is to  
4 calculate interest to reflect when PEF would have received the fuel charges, on a  
5 monthly basis, rather than a lump-sum in the beginning of the year. My testimony  
6 presents the proper calculation, using the appropriate methodology for the interest  
7 calculation.

8  
9 **Q. Please describe your education background and professional experience.**

10 A. I received a Bachelors of Science degree in 1980 in Accounting from the  
11 University of South Florida. I began my employment with Florida Power  
12 Corporation in 1983. During my tenure with Florida Power and Progress Energy  
13 Services Company, I have held a number of financial and accounting positions.  
14 In 2003, I became Manager, Regulatory Accounting and in 2006, I became the  
15 Manager of Utility Regulatory Planning for the Florida utility. I am also a  
16 Certified Public Accountant ("CPA").

17  
18 **Q. Are you sponsoring any exhibits with your testimony?**

19 A. Yes. I am sponsoring the following exhibit that I prepared or that was prepared  
20 under my supervision and control:

- 21 • Exhibit No. \_\_\_\_ (LJC-1), which is a re-calculation of the interest that was  
22 originally calculated by Patricia Merchant in her (Revised) Direct  
23 Testimony filed on November 1, 2006;

1           This exhibit is true and correct.

2

3   **Q.   Please summarize your testimony.**

4   **A.**   I reviewed Ms. Merchant's testimony regarding the calculation of interest on  
5       Robert Sansom's alleged damages from the period 1996-2005. Ms. Merchant  
6       assumes that PEF collected the amount of alleged overcharges on the first day of  
7       each year at issue. This is an incorrect interest analysis, because PEF collects fuel  
8       charges from its customers on a monthly basis. Therefore, to calculate interest  
9       fairly, the appropriate time period to use is monthly. Ms. Merchant, by assuming  
10      that PEF had the benefit of the money at an earlier point in time, overstates the  
11      amount of interest by \$1,853,303. If I assume that Mr. Sansom has accurately  
12      shown all the damages he alleges in his testimony, which I do not accept as true,  
13      the correct interest calculation would be \$20,637,976.

14

15       **II.    ANALYSIS OF PATRICIA MERCHANT CALCULATIONS**

16

17   **Q.   Have you reviewed the testimony of Patricia Merchant, OPC's expert, in this**  
18       **proceeding?**

19   **A.**   Yes, I have reviewed Ms. Merchant's testimony, including her exhibits and her  
20       calculation of interest.

21

22   **Q.   Do you have any issues with how Ms. Merchant has calculated the interest?**

1 A. Yes, I dispute Patricia Merchant's calculation of interest in the first year of each  
2 year's alleged overpayment. Her methodology applies an entire year of interest  
3 expense on the full amount of the alleged overpayment. Since alleged  
4 overpayments would have occurred throughout the year rather than on the first  
5 day of the year, applying interest for the entire first year overstates the amount of  
6 interest expense. Then this overstated interest is carried forward in the beginning  
7 balance in each subsequent year, thereby compounding interest expense on  
8 artificially inflated balances.

9  
10 **Q. Please explain your proposed methodology for calculating the interest.**

11 A. I first note that, by providing this methodology, I do not agree that the Company  
12 overcharged its customers at all during this time period. For purposes of this  
13 testimony, however, I assume that the total amount of damages reflected in Ms.  
14 Merchant's testimony is correct.

15 Therefore, in order to calculate the alleged interest expense accurately,  
16 overpayments would need to be provided on a monthly basis. Since the alleged  
17 "Total Excess Fuel Charges" reflected in Patricia Merchant's Exhibit \_\_ (PWM-2)  
18 are provided on an annual basis rather than monthly, a monthly interest  
19 calculation cannot accurately be made. Therefore one must assume the  
20 overpayments occurred ratably in each month throughout the year. In Exhibit No.  
21 \_\_ (LJC-1), I have recalculated the interest by multiplying the monthly  
22 commercial paper interest rate, as reflected in Patricia Merchant's Exhibit (PWM-  
23 2) pages 2-3, by the monthly average balance of overpayments (including

1 compounded interest). The interest expense using this methodology is  
2 \$20,637,976, a decrease of \$1,853,303 from that reported in Patricia Merchant's  
3 Exhibit\_\_(PWM-2). The total ending balance would decrease from  
4 \$157,014,622 to \$155,161,319, assuming the alleged "Total Excess Fuel Charges"  
5 reflected in Merchant's Exhibit\_\_(PWM-2) occurred ratably over 12 months.  
6

7 **Q. Is this the methodology you propose to use to calculate the interest on any**  
8 **overpayments that the Commission may award at the conclusion of this**  
9 **proceeding?**

10 **A.** Yes. This methodology, using a monthly interest calculation rather than an  
11 average annual calculation, is appropriate. However, in order to calculate and  
12 compound the interest accurately, it is important to determine actual  
13 overpayments on a monthly basis, rather than simply dividing an annual amount  
14 by twelve months. This reflects the reality that the Company would not have  
15 recovered an equal amount of fuel charges each month, but instead the amounts  
16 would have varied each month depending on the amount of coal purchased that  
17 month. These actual monthly overpayments, if any, should be used to calculate  
18 an average monthly balance on which to apply a monthly interest rate, as  
19 demonstrated in my Exhibit\_\_(LJC-1).  
20

21 **Q. Do you have any other comments regarding Ms. Merchant's testimony?**

22 **A.** Yes, I would like to note that, on page 5 of her testimony, Ms. Merchant  
23 acknowledges that she only has "annual refund amounts, not monthly amounts."

1 She also recognizes that the correct interest rate is a monthly interest rate, which  
2 she then converts to an annual average interest rate because of the lack of monthly  
3 data. Despite this acknowledgement, Ms. Merchant does not calculate the interest  
4 payments on a monthly basis.

5

6 **Q. Does this conclude your testimony?**

7 **A.** Yes, it does.

8

9

10

11

**Calculation of Interest on Excess Fuel Charges  
to be Refunded by Progress Energy Florida**

	Beginning Balance	Monthly Excess Fuel Charge	Avg Monthly Balance Before Interest	Annual Interest Rate	Interest	Ending Balance
Jan-96	\$0	\$88,000	\$44,000	5.605%	\$206	\$88,206
Feb-96	88,206	88,000	132,206	5.365%	591	176,797
Mar-96	176,797	88,000	220,797	5.415%	996	265,793
Apr-96	265,793	88,000	309,793	5.450%	1,407	355,200
May-96	355,200	88,000	399,200	5.400%	1,796	444,996
Jun-96	444,996	88,000	488,996	5.460%	2,225	535,221
Jul-96	535,221	88,000	579,221	5.485%	2,648	625,869
Aug-96	625,869	88,000	669,869	5.425%	3,028	716,897
Sep-96	716,897	88,000	760,897	5.420%	3,437	808,334
Oct-96	808,334	88,000	852,334	5.410%	3,843	900,176
Nov-96	900,176	88,000	944,176	5.415%	4,261	992,437
Dec-96	992,437	88,000	1,036,437	5.700%	4,923	1,085,360
Jan-97	1,085,360	468,115	1,319,417	5.700%	6,267	1,559,742
Feb-97	1,559,742	468,115	1,793,799	5.440%	8,132	2,035,989
Mar-97	2,035,989	468,115	2,270,046	5.585%	10,565	2,514,668
Apr-97	2,514,668	468,115	2,748,726	5.680%	13,011	2,995,794
May-97	2,995,794	468,115	3,229,851	5.610%	15,100	3,479,008
Jun-97	3,479,008	468,115	3,713,065	5.610%	17,359	3,964,481
Jul-97	3,964,481	468,115	4,198,539	5.600%	19,593	4,452,189
Aug-97	4,452,189	468,115	4,686,246	5.570%	21,752	4,942,056
Sep-97	4,942,056	468,115	5,176,113	5.545%	23,918	5,434,088
Oct-97	5,434,088	468,115	5,668,146	5.530%	26,121	5,928,324
Nov-97	5,928,324	468,115	6,162,381	5.565%	28,578	6,425,016
Dec-97	6,425,016	468,115	6,659,074	5.675%	31,492	6,924,623
Jan-98	6,924,623	641,928	7,245,587	5.625%	33,964	7,600,515
Feb-98	7,600,515	641,928	7,921,479	5.515%	36,406	8,278,848
Mar-98	8,278,848	641,928	8,599,812	5.540%	39,702	8,960,479
Apr-98	8,960,479	641,928	9,281,443	5.540%	42,849	9,645,256
May-98	9,645,256	641,928	9,966,220	5.515%	45,803	10,332,987
Jun-98	10,332,987	641,928	10,653,951	5.550%	49,275	11,024,190
Jul-98	11,024,190	641,928	11,345,154	5.580%	52,755	11,718,873
Aug-98	11,718,873	641,928	12,039,837	5.540%	55,584	12,416,385
Sep-98	12,416,385	641,928	12,737,349	5.370%	57,000	13,115,312
Oct-98	13,115,312	641,928	13,436,276	5.160%	57,776	13,815,016
Nov-98	13,815,016	641,928	14,135,980	5.300%	62,434	14,519,378
Dec-98	14,519,378	641,928	14,840,342	5.200%	64,308	15,225,614
Jan-99	15,225,614	701,055	15,576,142	4.855%	63,018	15,989,688
Feb-99	15,989,688	701,055	16,340,216	4.830%	65,769	16,756,513
Mar-99	16,756,513	701,055	17,107,041	4.865%	69,355	17,526,923
Apr-99	17,526,923	701,055	17,877,451	4.840%	72,106	18,300,084
May-99	18,300,084	701,055	18,650,612	4.825%	74,991	19,076,130
Jun-99	19,076,130	701,055	19,426,658	4.950%	80,135	19,857,321
Jul-99	19,857,321	701,055	20,207,848	5.075%	85,462	20,643,838
Aug-99	20,643,838	701,055	20,994,366	5.210%	91,151	21,436,044
Sep-99	21,436,044	701,055	21,786,572	5.310%	96,406	22,233,505
Oct-99	22,233,505	701,055	22,584,033	5.300%	99,746	23,034,307

Calculation of Interest on Excess Fuel Charges  
to be Refunded by Progress Energy Florida

	Beginning Balance	Monthly Excess Fuel Charge	Avg Monthly Balance Before Interest	Annual Interest Rate	Interest	Ending Balance
Nov-99	23,034,307	701,055	23,384,834	5.425%	105,719	23,841,081
Dec-99	23,841,081	701,055	24,191,609	5.575%	112,390	24,654,526
Jan-00	24,654,526	531,835	24,920,444	5.700%	118,372	25,304,733
Feb-00	25,304,733	531,835	25,570,651	5.800%	123,591	25,960,160
Mar-00	25,960,160	531,835	26,226,077	5.935%	129,710	26,621,704
Apr-00	26,621,704	531,835	26,887,621	6.125%	137,239	27,290,778
May-00	27,290,778	531,835	27,556,695	6.375%	146,395	27,969,007
Jun-00	27,969,007	531,835	28,234,925	6.575%	154,704	28,655,546
Jul-00	28,655,546	531,835	28,921,463	6.540%	157,622	29,345,003
Aug-00	29,345,003	531,835	29,610,920	6.490%	160,146	30,036,983
Sep-00	30,036,983	531,835	30,302,901	6.490%	163,888	30,732,706
Oct-00	30,732,706	531,835	30,998,624	6.495%	167,780	31,432,321
Nov-00	31,432,321	531,835	31,698,238	6.570%	173,548	32,137,704
Dec-00	32,137,704	531,835	32,403,621	6.575%	177,545	32,847,083
Jan-01	32,847,083	1,401,738	33,547,952	6.025%	168,439	34,417,260
Feb-01	34,417,260	1,401,738	35,118,129	5.350%	156,568	35,975,566
Mar-01	35,975,566	1,401,738	36,676,435	5.075%	155,111	37,532,414
Apr-01	37,532,414	1,401,738	38,233,283	4.685%	149,269	39,083,421
May-01	39,083,421	1,401,738	39,784,290	4.155%	137,753	40,622,912
Jun-01	40,622,912	1,401,738	41,323,781	3.870%	133,269	42,157,919
Jul-01	42,157,919	1,401,738	42,858,788	3.775%	134,827	43,694,484
Aug-01	43,694,484	1,401,738	44,395,353	3.610%	133,556	45,229,778
Sep-01	45,229,778	1,401,738	45,930,647	3.070%	117,506	46,749,021
Oct-01	46,749,021	1,401,738	47,449,890	2.445%	96,679	48,247,438
Nov-01	48,247,438	1,401,738	48,948,307	2.130%	86,883	49,736,059
Dec-01	49,736,059	1,401,738	50,436,928	1.910%	80,279	51,218,076
Jan-02	51,218,076	1,843,525	52,139,838	1.775%	77,124	53,138,724
Feb-02	53,138,724	1,843,525	54,060,487	1.760%	79,289	55,061,538
Mar-02	55,061,538	1,843,525	55,983,300	1.775%	82,809	56,987,871
Apr-02	56,987,871	1,843,525	57,909,634	1.775%	85,658	58,917,054
May-02	58,917,054	1,843,525	59,838,816	1.760%	87,764	60,848,342
Jun-02	60,848,342	1,843,525	61,770,105	1.760%	90,596	62,782,463
Jul-02	62,782,463	1,843,525	63,704,226	1.740%	92,371	64,718,359
Aug-02	64,718,359	1,843,525	65,640,121	1.720%	94,084	66,655,968
Sep-02	66,655,968	1,843,525	67,577,730	1.735%	97,706	68,597,199
Oct-02	68,597,199	1,843,525	69,518,961	1.705%	98,775	70,539,498
Nov-02	70,539,498	1,843,525	71,461,261	1.475%	87,838	72,470,861
Dec-02	72,470,861	1,843,525	73,392,623	1.295%	79,203	74,393,589
Jan-03	74,393,589	1,293,532	75,040,354	1.280%	80,043	75,767,163
Feb-03	75,767,163	1,293,532	76,413,929	1.260%	80,235	77,140,930
Mar-03	77,140,930	1,293,532	77,787,696	1.215%	78,760	78,513,222
Apr-03	78,513,222	1,293,532	79,159,987	1.185%	78,170	79,884,924
May-03	79,884,924	1,293,532	80,531,690	1.200%	80,532	81,258,987
Jun-03	81,258,987	1,293,532	81,905,753	1.105%	75,422	82,627,941
Jul-03	82,627,941	1,293,532	83,274,706	1.025%	71,130	83,992,603
Aug-03	83,992,603	1,293,532	84,639,369	1.055%	74,412	85,360,547

**Calculation of Interest on Excess Fuel Charges  
to be Refunded by Progress Energy Florida**

	Beginning Balance	Monthly Excess Fuel Charge	Avg Monthly Balance Before Interest	Annual Interest Rate	Interest	Ending Balance
Sep-03	85,360,547	1,293,532	86,007,313	1.060%	75,973	86,730,052
Oct-03	86,730,052	1,293,532	87,376,817	1.055%	76,819	88,100,402
Nov-03	88,100,402	1,293,532	88,747,168	1.025%	75,805	89,469,739
Dec-03	89,469,739	1,293,532	90,116,505	1.030%	77,350	90,840,620
Jan-04	90,840,620	1,816,714	91,748,977	1.045%	79,898	92,737,232
Feb-04	92,737,232	1,816,714	93,645,589	1.005%	78,428	94,632,375
Mar-04	94,632,375	1,816,714	95,540,731	0.980%	78,025	96,527,113
Apr-04	96,527,113	1,816,714	97,435,470	1.005%	81,602	98,425,429
May-04	98,425,429	1,816,714	99,333,786	1.035%	85,675	100,327,819
Jun-04	100,327,819	1,816,714	101,236,176	1.185%	99,971	102,244,503
Jul-04	102,244,503	1,816,714	103,152,860	1.400%	120,345	104,181,562
Aug-04	104,181,562	1,816,714	105,089,919	1.535%	134,428	106,132,704
Sep-04	106,132,704	1,816,714	107,041,061	1.685%	150,303	108,099,721
Oct-04	108,099,721	1,816,714	109,008,078	1.855%	168,508	110,084,943
Nov-04	110,084,943	1,816,714	110,993,300	2.080%	192,388	112,094,046
Dec-04	112,094,046	1,816,714	113,002,403	2.280%	214,705	114,125,464
Jan-05	114,125,464	2,423,838	115,337,383	2.420%	232,597	116,781,899
Feb-05	116,781,899	2,423,838	117,993,818	2.575%	253,195	119,458,932
Mar-05	119,458,932	2,423,838	120,670,850	2.715%	273,018	122,155,787
Apr-05	122,155,787	2,423,838	123,367,706	2.880%	296,082	124,875,707
May-05	124,875,707	2,423,838	126,087,626	3.020%	317,321	127,616,865
Jun-05	127,616,865	2,423,838	128,828,784	3.165%	339,786	130,380,489
Jul-05	130,380,489	2,423,838	131,592,407	3.350%	367,362	133,171,688
Aug-05	133,171,688	2,423,838	134,383,607	3.535%	395,872	135,991,398
Sep-05	135,991,398	2,423,838	137,203,316	3.715%	424,759	138,839,994
Oct-05	138,839,994	2,423,838	140,051,913	3.910%	456,336	141,720,167
Nov-05	141,720,167	2,423,838	142,932,086	4.120%	490,733	144,634,738
Dec-05	144,634,738	2,423,838	145,846,657	4.255%	517,148	147,575,724
Jan-06	147,575,724	0	147,575,724	4.405%	541,726	148,117,450
Feb-06	148,117,450	0	148,117,450	4.520%	557,909	148,675,359
Mar-06	148,675,359	0	148,675,359	4.655%	576,736	149,252,095
Apr-06	149,252,095	0	149,252,095	4.870%	605,715	149,857,810
May-06	149,857,810	0	149,857,810	4.985%	622,534	150,480,344
Jun-06	150,480,344	0	150,480,344	5.150%	645,811	151,126,156
Jul-06	151,126,156	0	151,126,156	5.325%	670,622	151,796,778
Aug-06	151,796,778	0	151,796,778	5.315%	672,333	152,469,111
Sep-06	152,469,111	0	152,469,111	5.265%	668,958	153,138,070
Oct-06	153,138,070	0	153,138,070	5.265%	671,893	153,809,963
Nov-06	153,809,963	0	153,809,963	5.260%	674,200	154,484,163
Dec-06	154,484,163	0	154,484,163	5.260%	677,156	155,161,319

\$134,523,343

\$20,637,976