Ruth Nettles 090079-EI

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Sent: Monday, August 31, 2009 4:16 PM

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Subject: Docket No. 090079-EI

Attachments: FIPUG Prehearing Statement 08.31.09.pdf

In accordance with the electronic filing procedures of the Florida Public Service Commission, the following filing is made:

a. The name, address, telephone number and email for the person responsible for the filing is:

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b. This filing is made in Docket No. 090079-EI, In re: Petition for increase in rates by Progress Energy Florida, Inc.

c. The document is filed on behalf of Florida Industrial Power Users Group.

d. The total pages in the document are 23 pages.

e. The attached document is FIPUG's Prehearing Statement.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for increase in rates by Progress Energy Florida, Inc.	DOCKET NO. 090079-EI Filed: August 31, 2009

THE FLORIDA INDUSTRIAL POWER USERS GROUP'S
PREHEARING STATEMENT

The Florida Industrial Power Users Group (FIPUG), by and through its undersigned attorneys, pursuant to Order No. PSC-09-0190-PCO-EI, files its Prehearing Statement.

A. APPEARANCES:

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On Behalf of the Florida Industrial Power Users Group

B. WITNESSES:

Witness	Subject Matter	Issues
Martin J. Marz	O&M adjustments, incentive Compensation, storm reserve accrual	33, 63, 64, 66, 69, 70, 71
Jeffry Pollock	Depreciation, capital structure, cost of service study, class revenue allocation, rate design	7, 9-12, 14-15, 41-42, 44, 90-92, 95-96, 109-112

C. EXHIBITS

Exhibit	Witness	Description

(MJM-1)	Marz	Actual and Budgeted Overhead Lines Maintenance Expense
(MJM-2)	Marz	Production Maintenance Expense – Actual vs. Projected
(MJM-3)	Marz	Steam & Other Generation Maintenance Expenses – Recommended Test Year Level
(MJM-4)	Marz	Incentive Compensation Adjustment
(MJM-5)	Marz	Storm Damage Charges to Storm Reserve – 2006 to Present
(JP-1)	Pollock	Peak Demand Illustration
(JP-2)	Pollock	Monthly Peak Demands
(JP-3)	Pollock	Reserve Margins
(JP-4)	Pollock	Capacity Value
(JP-5)	Pollock	Allocation Factors
(JP-6)	Pollock	Allocation Factors
(JP-7)	Pollock	Cost Study

(JP-8)	Pollock	Revenue Allocation
(JP-9)	Pollock	Revenue Allocation
(JP-10)	Pollock	Cost Study Results
(JP-11)	Pollock	Cost-Effectiveness
(JP-12)	Pollock	Depreciation Expense Adjustment
(JP-13)	Pollock	Capital Structure
(JP-14)	Pollock	Capital Structure Adjustment

D. STATEMENT OF BASIC POSITION

FIPUG's Statement of Basic Position:

Cost of Service

The purpose of a cost of service study is to ensure that the costs of service are borne by those customers for whom the utility incurs such costs. The cost of service methodology PEF proposes (12CP and 50 Average Demand [AD]) fails to follow cost causation principles and should be rejected. PEF has failed to justify its request to change the method of allocation of production plant from the 12CP and $1/13^{th}$ AD method.

The 12CP and 50% AD method fails to reflect cost causation because:

- It fails to recognize PEF's strong summer and winter peaks.
- PEF fails to consistently apply the methodology and does not follow the method's "costs follow benefits standard" to recognize that some variable costs also provide reliability benefits and should be allocated in the same way as demand costs.

- The higher costs of base load and intermediate capacity are not caused by average demand;
- The method severely undervalues capacity.
- The method double counts the coincident demand.

If the Commission does decide to replace the 12CP and 1/13th AD method, it should adopt the Average and Excess (A&E) method described in Mr. Pollock's testimony.

Further, if an increase is granted, no rate should receive an increase higher than 150% of system average base rate increase. This has been the Commission's long-standing practice and policy.

In addition, PEF's proposed rate design should be revised to:

- Assign no increase to non-fuel energy charges to more closely align the demand and energy charges to reflect the corresponding demand and non-fuel energy-related costs; and
- Increase the Interruptible Demand Credit to at least $10.49 per kW-Month to reflect the costs PEF avoids by providing this service.

Last, the Interruptible Demand Credit should not be load factor adjusted because load factor is not a reasonable proxy for the amount of capacity that a customer curtails, and because curtailments can occur at any time, not just during the hour that PEF's monthly coincident peak occurs. In lieu of measuring the amount of load curtailed, the Credit should not be less than $7.13 per kW-Month of billing demand, which recognizes that the interruptible class has an average 68% (12CP-to-Billing demand) coincidence factor.

Depreciation

PEF has overstated its depreciation expense by using life spans which are too short for its coal and combined cycle units. PEF should use at least 55 years for its coal units and 35 years for its combined cycle units. In addition, PEF should reduce the depreciation reserve by $100 million per year to correct the very large ($789 million) surplus in the depreciation reserve to restore generational equity; that is, current ratepayers should be charged only for the assets that are consumed to provide electric service.

Capital Structure

The Commission should reject PEF's proposal to impute debt associated with purchased power agreements. Rejection of this adjustment, as the Commission did in the Tampa Electric rate case, would change the common equity portion of PEF's capital structure to 50% on an adjusted basis. A 50% equity ratio is in line with the equity ratios of other comparably-rated electric utilities.

Revenue Requirements

Incentive Compensation

During this difficult economic period, the Commission should look closely at incentive compensation. All incentive compensation that is based on achieving financial goals of the parent company of PEF should be disallowed. Such compensation benefits shareholders, not ratepayers. Therefore, FIPUG recommends the following disallowances:

- $2.6 million of incentive compensation budgeted for executives and senior management (executives).
- $15.6 million (or 50%) of the incentive compensation applicable to other management and non-management.

O&M Adjustments

PEF's test year O&M expense should be adjusted to correct a large spike in such expenses. In particular, the Commission should disallow $17.65 million related to transmission and distribution overhead line maintenance expenses and $15 million in production maintenance expense. The test year transmission and distribution O&M expenses PEF proposes represent an increase of 60% and 37%, respectively, compared to PEF's actual/projected expenses for the period 2006 – 2009. This includes increases of 47% (transmission) and 44% (distribution) from 2009 to 2010. Similarly, steam and other generation maintenance expense would increase by 36% relative to 2009 and by 57% relative to the average of the most recent four- year period. These increases are excessive and have not been supported.

Storm Accrual

The Commission should reject PEF's request to increase annual contributions to the storm reserve by $16 million per year. The current $133 million storm reserve balance is sufficient to cover all but the most serious of storm events. PEF's proposal is inconsistent with the Commission's existing framework, which is predicated upon a multi-faceted approach to funding storm damage. This approach does not rely solely on the storm reserve accrual to provide coverage for storm damage. Even without any additional contributions, the storm reserve is adequate to provide coverage for the estimated annual average loss for the next eight years. Thus, contributions to the fund should cease.

E. STATEMENT OF ISSUES AND POSITIONS:

ISSUE 1: Is the rate increase, requested by Progress Energy Florida, Inc., a just and reasonable rate for its customers and is it in the public interest?

FIPUG: No. As the Intervenors point out in their testimony, many of PEF's requests are inappropriate and /or overstated. The adjustments Intervenors recommend should be made.

TEST PERIOD AND FORECASTING

ISSUE 2: Is PEF's projected test period of the twelve months ending December 31, 2010 appropriate?

FIPUG: No position at this time.

ISSUE 3: What are the appropriate inflation, customer growth, and other trend factors for use in forecasting?

FIPUG: No position at this time.

ISSUE 4: Are PEF's forecasts of customer growth, KWH by revenue class, and system KW for the projected test year appropriate?

FIPUG: No position at this time.

ISSUE 5: Are PEF's forecasts of billing determinants by rate class for the projected test year appropriate?

FIPUG: No position at this time.

QUALITY OF SERVICE

ISSUE 6: Is the quality and reliability of electric service provided by PEF adequate?

FIPUG: No position at this time.

DEPRECIATION STUDY

ISSUE 7: Should the current-approved depreciation rates, capital recovery schedules, and amortization schedules be revised?

FIPUG: Yes, see Issues 8-15.

ISSUE 8: What are the appropriate capital recovery schedules?

FIPUG: Agree with OPC.

ISSUE 9: Is PEF's calculation of the average remaining life appropriate?

FIPUG: No. PEF has understated the life spans for its coal and combined cycle plants and overstating its depreciation requirements.

ISSUE 10: What are the appropriate depreciation parameters (remaining life, net salvage percent, and reserve percent), amortizations, and resulting rates for each production unit, including but not limited to coal, steam, combined cycle, etc.?

FIPUG: See Issues 9, 11, 12, 13.

ISSUE 11: What life spans should be used for PEF's coal plants?

FIPUG: Based on industry experience and specific examples, the Commission should use a life span of at least 55 years for its coal plants.

ISSUE 12: What life spans should be used for PEF's combined cycle plants?

FIPUG: Based on industry experience and specific examples, the Commission should use a life span of at least 35 years for its combined cycle plants.

ISSUE 13: What are the appropriate depreciation parameters (remaining life, net salvage percent, and reserve percent), amortizations, and resulting rates for each transmission, distribution, and general plant account?

FIPUG: FIPUG agrees with OPC.

ISSUE 14: Based on the application of the depreciation parameters that the Commission has deemed appropriate to PEF's data, and a comparison of the calculated theoretical reserves to the book reserves, what are the resulting differences?

FIPUG: PEF has a depreciation reserve surplus of $789 million.

ISSUE 15: What, if any, corrective reserve measures should be taken with respect to the differences identified in the Issue 14?

FIPUG: To compensate for the huge reserve surplus that PEF has, the Commission should order PEF to implement a $100 million annual depreciation expense adjustment. PEF should credit depreciation expense and debit to the bottom line depreciation reserve by at least $100 million per year.

ISSUE 16: What should be the implementation date for revised depreciation rates, capital recovery schedules, and amortization schedules?

FIPUG: No position at this time.

FOSSIL DISMANTLEMENT COST STUDY

ISSUE 17: Should the current-approved annual dismantlement provision be revised?

FIPUG: Yes. Agree with OPC.

ISSUE 18: What, if any, corrective reserve measures should be approved?

FIPUG: Agree with OPC.

ISSUE 19: What is the appropriate annual provision for dismantlement?

FIPUG: Agree with OPC.

ISSUE 20: Are PEF's assumptions in the fossil dismantlement study with regard to site restoration reasonable?

FIPUG: No. Agree with OPC.

ISSUE 21: In future dismantlement studies filed with the Commission, should PEF consider alternative demolition approaches?

FIPUG: Yes. Agree with OPC.

NUCLEAR DECOMMISSIONING COST STUDY

ISSUE 22: Should the currently approved annual nuclear decommissioning accruals be revised?

FIPUG: No position at this time.

ISSUE 23: What is the appropriate annual decommissioning accrual in equal dollar amounts necessary to recover future decommissioning costs over the remaining life Crystal River Unit 3 (CR3)?

FIPUG: No position at this time.

RATE BASE

ISSUE 24: Has the company removed all non-utility activities from rate base?

FIPUG: No position at this time.

ISSUE 25: Should any adjustments be made to rate base related to the Bartow Repowering Project?

FIPUG: No position at this time.

ISSUE 26: Should an adjustment be made to reflect any test year or post test year revenue requirement impacts of "The American Recovery and Reinvestment Act" signed into law by the President on February 17, 2009?

FIPUG: Yes. Agree with OPC.

ISSUE 27: Is PEF's requested level of Plant in Service for the projected 2010 test year appropriate?

FIPUG: No position at this time.

ISSUE 28: What adjustments, if any, should be made to accumulated depreciation to reflect revised depreciation rates, capital recovery schedules, and amortization schedules resulting from PEF's depreciation study?

FIPUG: No position at this time.

ISSUE 29: Is PEF's requested level of Accumulated Depreciation and Amortization in the amount of $4,437,117,000 for the 2010 projected test year appropriate?

FIPUG: No. The adjustments Intervenors recommend should be made.

ISSUE 30: Is PEF's requested level of CWIP – No AFUDC in the amount of $151,145,000 for the projected 2010 test year appropriate?

FIPUG: No position at this time.

ISSUE 31: Is PEF's requested level of Plant Held for Future Use in the amount of $25,723,000 for the projected 2010 test year appropriate?

FIPUG: No position at this time.

ISSUE 32: Is PEF's requested level of Nuclear Fuel – No AFUDC (net) in the amount of $126,566,000 for the projected 2010 test year appropriate?

FIPUG: No position at this time.

ISSUE 33: Should an adjustment be made to PEF's requested storm damage reserve, annual accrual of $14.9 million, and target level of $150 million?

FIPUG: Yes. PEF's requested storm reserve accrual of $14.9 million (jurisdictional), $16 million (system) should be suspended concurrent with the effective date of the new rates in this case. No further accruals should be made to the storm reserve as the current reserve balance is sufficient to provide for coverage of the expected annual loss (EAL) and also provides coverage for all category 1 storms.

ISSUE 34: Should any adjustments be made to PEF's fuel inventories?

FIPUG: No position at this time.

ISSUE 35: Should unamortized rate case expense be included in Working Capital?

FIPUG: No position at this time.

ISSUE 36: Has PEF appropriately reflected the impact of SFAS 143 (Asset Retirement Obligations) in its proposed working capital calculation?

FIPUG: No. Agree with OPC.

ISSUE 37: Is PEF's requested level of Working Capital Allowance in the amount of ($9,041,000) for the projected test year appropriate?

FIPUG: No position at this time.

ISSUE 38: Is PEF's requested level of Rate Base in the amount of $6,238,617,000 for the 2010 projected test year appropriate?

FIPUG: This is a fall out issues based on the Commission's decision on other issues.

COST OF CAPITAL

ISSUE 39: What is the appropriate amount of accumulated deferred taxes to include in the capital structure for the projected test year?

FIPUG: Agree with OPC.

ISSUE 40: What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure for the projected test year?

FIPUG: Agree with OPC.

ISSUE 41: Should PEF's requested pro forma adjustment to equity to offset off-balance sheet purchased power obligations be approved?

FIPUG: No. PEF should not be permitted to impute debt for purchased power agreements. Recovery for such contracts is under the purview of this Commission and once such contracts are approved, PEF is entitled to full and direct recovery of all such costs. Thus, they should not be treated as imputed debt.

ISSUE 42: What is the appropriate equity ratio that should be used for PEF for purposes of setting rates in this proceeding?

FIPUG: The appropriate equity ratio for PEF is 46.93%. This would lower PEF's base revenue request by approximately $32.9 million.

ISSUE 43: Have rate base and capital structure been reconciled appropriately?

FIPUG: No position at this time.

ISSUE 44: What is the appropriate capital structure for the projected test year?

FIPUG: See Issue 41 regarding disallowance of an adjustment for purchased power agreements. FIPUG agrees with OPC as to the other components of capital structure.

ISSUE 45: What is the appropriate cost rate for short-term debt for the projected test year?

FIPUG: Agree with OPC.

ISSUE 46: What is the appropriate cost rate for long-term debt for the projected test year?

FIPUG: Agree with OPC.

ISSUE 47: What is the appropriate return on equity (ROE) for the projected test year?

FIPUG: The appropriate ROE should be no higher than 9.75%.

ISSUE 48: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the projected capital structure?

FIPUG: Agree with OPC.

NET OPERATING INCOME

ISSUE 49: Is PEF's projected level of total operating revenues in the amount of $1,517,918,000 for the 2010 projected test year appropriate?

FIPUG: No position at this time.

ISSUE 50: What are the appropriate adjustments to reflect the base rate increase for the Bartow Repowering Project authorized in Order No. PSC-09-0415-PAA-EI?

FIPUG: No position at this time.

ISSUE 51: Has PEF made the appropriate test year adjustments to remove conservation revenues and expenses recoverable through the Conservation Cost Recovery Clause?

FIPUG: No position at this time.

ISSUE 52: Has PEF made the appropriate test year adjustments to remove fuel and purchased power revenues and expenses recoverable through the Fuel and Purchased Power Cost Recovery Clause?

FIPUG: No position at this time.

ISSUE 53: Has PEF made the appropriate test year adjustments to remove capacity revenues and expenses recoverable through the Capacity Cost Recovery Clause?

FIPUG: No position at this time.

ISSUE 54: Has PEF made the appropriate test year adjustments to remove environmental revenues and expenses recoverable through the Environmental Cost Recovery Clause?

FIPUG: No position at this time.

ISSUE 55: Has PEF made the appropriate adjustments to remove charitable contributions?

FIPUG: No position at this time.

ISSUE 56: Has PEF made the appropriate adjustments to remove Aviation cost for the test year?

FIPUG: Agree with OPC.

ISSUE 57: Should an adjustment be made to advertising expenses?

FIPUG: Agree with OPC.

ISSUE 58: Has PEF made the appropriate adjustments to remove lobbying expenses?

FIPUG: Agree with OPC.

ISSUE 59: Is PEF's proposed allowance of $2,412,100 for directors and officers liability insurance appropriate?

FIPUG: No, this amount should be disallowed. Ratepayers should not be required to fund this expense which directly benefits only PEF's shareholders.

ISSUE 60: Is PEF's proposed allowance of $3,669,000 for 2010 injuries and damages expense appropriate?

FIPUG: No. This amount should be disallowed because it is not supported in PEF's filing.

ISSUE 61: Is PEF's proposed allowance of $23,228,000 for 2010 A&G office supplies and expenses appropriate?

FIPUG: No. The Commission should disallow $2,688,677.

ISSUE 62: Should an adjustment be made to PEF's proposed 2010 allowance for O&M expense to reflect productivity improvements, if any?

FIPUG: Yes. Agree with OPC. PEF fails to reflect any productivity cost savings.

ISSUE 63: Should an adjustment be made to PEF's requested level of salaries and employee benefits for the 2010 projected test year?

FIPUG: Yes. Agree with OPC.

ISSUE 64: Are PEF's proposed increases to average salaries for 2010 appropriate?

FIPUG: No; in these difficult economic times, PEF should be required to tighten its belt just as many citizens, county governments and school boards must do. Employee increases are inappropriate.

ISSUE 65: Are PEF's proposed increases in employee positions for 2010 appropriate?

FIPUG: No; PEF should be required to freeze employee hiring in order to hold down costs, just as many citizens, county governments and school boards must do.

ISSUE 66: Should the proposed 2010 allowance for incentive compensation be adjusted?

FIPUG: Yes. At a minimum, the Commission should disallow $18.25 million of incentive compensation. Such additional awards should not be permitted in light of the difficult economic climate.

ISSUE 67: Should the Company's proposed 2010 allowance for employee benefit expense be adjusted?

FIPUG: Yes. Agree with OPC.

ISSUE 68: Should an adjustment be made to the accrual for property damage for the 2010 projected test year?

FIPUG: No position at this time.

ISSUE 69: Should an adjustment be made to PEF's 2010 generation O&M expense?

FIPUG: Yes. PEF's steam and other generation O&M expense is overstated. PEF projects a 36% increase in expenses compared to its budgeted 2009 numbers. It projects a 57% increase in comparison to its four year average (2006-2009) expenses. This dramatic increase is a result of PEF moving a CR3 outage from a period beyond the 2010 test year, additional planned outages, and a "contingency" expense. A $15 million reduction should be made to generation O&M to address these excessive amounts.

ISSUE 70: Should an adjustment be made to PEF's 2010 transmission O&M expense?

FIPUG: Yes. PEF's transmission expense should be reduced by $3.75 million. PEF has overstated the amount of this expense by including storm hardening activities like vegetation management and tree trimming, which have been required by the Commission since 2006.

ISSUE 71: Should an adjustment be made to PEF's 2010 distribution O&M expense?

FIPUG: Yes. PEF's distribution expense should reduced by $13.9 million. PEF has overstated the amount of this expense by including storm hardening activities like vegetation management and tree trimming, which have been required by the Commission since 2006.

ISSUE 72: Dropped.

ISSUE 73: What is the appropriate amount and amortization period for PEF's rate case expense for the 2010 projected test year?

FIPUG: The Company's rate case expense request should be reduced by $767,950. Rate case expense should be amortized over 5 years.

ISSUE 74: Should an adjustment be made to bad debt expense for the 2010 projected test year?

FIPUG: No position at this time.

ISSUE 75: What adjustments, if any, should be made to the 2010 projected test year depreciation expense to reflect revised depreciation rates, capital recovery schedules, and amortization schedules resulting from PEF's depreciation study?

FIPUG: The adjustments recommended by Intervenors should be made.

ISSUE 76: What is the appropriate amount of depreciation and fossil dismantlement expense for the 2010 projected test year?

FIPUG: No position at this time.

ISSUE 77: What is the appropriate amount of nuclear decommissioning expense for the 2010 projected test year?

FIPUG: No position at this time.

ISSUE 78: What adjustments, if any, should be made to the amortization of End of Life Material and Supplies inventories?

FIPUG: No position at this time.

ISSUE 79: What adjustments, if any, should be made to the amortization of the costs associated with the last core of nuclear fuel?

FIPUG: No position at this time.

ISSUE 80: Should an adjustment be made to taxes other than income taxes for the 2010 projected test year?

FIPUG: No position at this time.

ISSUE 80: Should an adjustment be made to taxes other than income taxes for the 2010 projected test year?

FIPUG: No position at this time.

ISSUE 81: Is it appropriate to make a parent debt adjustment as per Rule 25-14.004, Florida Administrative Code?

FIPUG: Yes.

ISSUE 82: Should an adjustment be made to Income Tax expense for the 2010 projected test year?

FIPUG: No position at this time.

ISSUE 83: Is PEF's requested level of Operating Expenses in the amount of $1,249,372,000 for the 2010 projected test year appropriate?

FIPUG: No. The adjustments recommended by Intervenors should be made.

ISSUE 84: Is PEF's projected net operating income in the amount of $268,546,000 for the 2010 projected test year appropriate?

FIPUG: No. The adjustments recommended by Intervenors should be made.

ISSUE 85: Has PEF appropriately accounted for affiliated transactions? If not, what adjustment, if any, should be made?

FIPUG: No. Agree with OPC.

REVENUE REQUIREMENTS

ISSUE 86: What is the appropriate projected test year revenue expansion factor and the appropriate net operating income multiplier, including the appropriate elements and rates for PEF?

FIPUG: No position at this time.

ISSUE 87: Is PEF's requested annual operating revenue increase of $499,997,000 for the 2010 projected test year appropriate?

FIPUG: No. The adjustments recommended by Intervenors should be made.

COST OF SERVICE AND RATE DESIGN

ISSUE 88: Has PEF correctly calculated revenues at current rates for the projected test year?

ISSUE 89: Is PEF's proposed separation of costs and revenues between the wholesale and retail jurisdictions appropriate?

FIPUG: No position at this time.

ISSUE 90: What is the appropriate Cost of Service Methodology to be used to allocate base rate and cost recovery costs to the rate classes?

FIPUG: The Commission should continue to use the 12CP and $1/13^{th}$ AD cost of service methodology. It should not adopt the cost of service methodology PEF proposes, 12CP and 50% AD, because this methodology fails to follow cost causation principles. If the Commission does decide to replace the 12CP and $1/13^{th}$ AD method, it should adopt the Average and Excess (A&E) method described in Mr. Pollock's testimony. The summer/winter coincident peak method described by Mr. Pollock should be used to allocate transmission plant costs.

ISSUE 91: If the Commission approves a cost allocation methodology other than the 12 CP and 1/13th Average Demand, should all cost recovery factors be adjusted to reflect the new cost of service methodology?

FIPUG: Yes, provided that the interruptible credit is adjusted to reflect its full value.

ISSUE 92: How should any change in revenue requirements approved by the Commission be allocated among the customer classes?

FIPUG: If an increase is granted, no rate should receive an increase greater than 150% of the system average base rate increase. This has been the Commission's long-standing practice and policy. To do otherwise would result in excessive increases to certain classes, some of which are over 50%.

ISSUE 93: Is PEF's proposed treatment of unbilled revenue due to any recommended rate change appropriate?

FIPUG: No position at this time.

ISSUE 94: Is PEF's proposed charge for Investigation of Unauthorized Use appropriate?

FIPUG: No position.

ISSUE 95: Should the Commission approve PEF's proposal to eliminate its IS-1, IST-1, CS-1, and CST-1 rate schedules and transfer the current customers to otherwise applicable rate schedules?

FIPUG: No. The Commission should retain the IS-1, IST-1, CS-1 and CST-1 rate schedules. These are separate and distinct schedules which should be maintained.

ISSUE 96: Is PEF's proposal to grandfather certain terms and conditions for existing IS-1, IST-1, CS-1, and CST-1 customers transferred to the IS-2, IST-2, and CST-2 rate schedules appropriate?

FIPUG: Yes. If the existing IS-1, IST-1, CS-1, and CST-1 customers are transferred, combined, terms and conditions for service to those classes should be grandfathered.

ISSUE 97: Should PEF's proposal to close the RST-1 rate to new customers be approved?

FIPUG: No position.

ISSUE 98: Are PEF's proposed customer charges appropriate?

FIPUG: No position at this time.

ISSUE 99: Are PEF's proposed service charges appropriate?

FIPUG: No position at this time.

ISSUE 100: Is PEF's proposed charge for Temporary Service appropriate?

FIPUG: No position.

ISSUE 101: Is PEF's proposed Premium Distribution Service charge appropriate?

FIPUG: No position at this time.

ISSUE 102: Dropped..

ISSUE 103: Are PEF's proposed monthly fixed charge carrying rates to be applied to the installed cost of customer-requested distribution equipment, lighting service fixtures, and lighting service poles, for which there are no tariffed charges, appropriate?

FIPUG: No position at this time.

ISSUE 104: Are PEF's proposed delivery voltage credits appropriate?

FIPUG: No position at this time.

ISSUE 105: Are PEF's power factor charges and credits appropriate?

FIPUG: No position at this time.

ISSUE 106: Is PEF's proposed lump sum payment for time-of-use metering costs appropriate?

FIPUG: No position at this time.

ISSUE 106: Is PEF's proposed lump sum payment for time-of-use metering costs appropriate?

FIPUG: No position at this time.

ISSUE 107: What is the appropriate method of designing time of use rates for PEF?

FIPUG: No position at this time.

ISSUE 108: What are the appropriate charges under the Firm, Interruptible, and Curtailable Standby Service rate schedules?

FIPUG: This is a fall out issue of the cost of service study.

ISSUE 109: What is the appropriate level of the interruptible credit?

FIPUG: The credit for interruptible customers should be \$10.49 per kW-Month. PEF provided an updated cost-effectiveness test that shows that this is the appropriate value for the credit.

ISSUE 110: Should the interruptible credit be load factor adjusted?

FIPUG: No. PEF's proposal uses a customer's billing load factor as a proxy for the customer's coincidence factor. This approach incorrectly assumes that load factor and coincidence factor are the same but they are not. The interruptible class has a 61% billing load factor. However, the average coincidence factor (with PEF's monthly system peaks) is 68%. Thus, the Interruptible Demand Credit should not be less than \$7.13 per kW-Month (\$10.49 x 68%) of billing demand. Further, curtailments can occur at any time, not just during the system peaks. Thus, the Interruptible Demand Credit should apply to the amount of load that PEF is not obligated to serve during an interruption event.

ISSUE 111: What are the appropriate energy charges?

FIPUG: PEF's current non-fuel energy charges should remain the same. The non-fuel energy charges PEF proposes are much higher than PEF's actual energy costs. The current non-fuel energy charges for Schedules GSD, CS, and IS already exceed non-fuel energy unit costs at PEF's proposed rates. Thus, any increase allocated to these rates should be applied only to the demand charges. Similarly, any rate decrease should be used to reduce the current non-fuel energy charges.

ISSUE 112: What are the appropriate demand charges?

FIPUG: Any approved revenue increase that is not recovered in the customer charge should be recovered in the demand charges.

ISSUE 113: What are the appropriate lighting charges?

FIPUG: No position.

ISSUE 114: Should PEF's proposal to revise its Leave Service Active (LSA) provision (tariff sheet No. 6.110) be approved?

FIPUG: No position.

ISSUE 115: What is the appropriate effective date for PEF's revised rates and charges?

FIPUG: No position at this time.

OTHER ISSUES

ISSUE 116: Should any of the $13,078,000 interim rate increase granted by Order No. PSC-09-0413-PCO-EI be refunded to the ratepayers?

FIPUG: Yes. The entire amount should be refunded, as collection of this amount violates the Stipulation Agreement entered into to settle PEF's last rate case.

ISSUE 117: Should PEF be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, earnings surveillance reports, and books and records which will be required as a result of the Commission's findings in this proceeding?

FIPUG: No position at this time.

ISSUE 118: What are the appropriate guidelines for the pension fund regulatory asset?

FIPUG: For every year in which PEF withdraws funds from its defined benefit retirement pension plan because the value of the fund exceeds its ultimate distribution requirement, the withdrawn amounts plus interest shall be restored before electric rates are increased to cure pension fund deficits.

ISSUE 119: Does the creation of a regulatory asset and the deferral of pension expenses from a period covered by the Stipulation approved by Order No. PSC-05-0945-S-EI to a future period violate the terms of the Stipulation and order?

FIPUG: Yes.

ISSUE 120: Does the creation of a regulatory asset and the deferral of pension expenses from a period covered by the Stipulation and order to a future period constitute retroactive ratemaking?

FIPUG: Yes.

ISSUE 121: Does the creation of a regulatory asset and the deferral of pension expenses from a period covered by the revenue sharing provisions of the Stipulation and order to a future period result in double recovery of those expenses?

FIPUG: Yes.

ISSUE 122: Should this docket be closed?

FIPUG: No position at this time.

F. STIPULATED ISSUES:

FIPUG: None at this time.

G. PENDING MOTIONS:

FIPUG: None at this time.

H. PENDING REQUEST OR CLAIMS FOR CONFIDENTIALITY:

FIPUG: None at this time.

I. OBJECTIONS TO A WITNESS' QUALIFICATION AS AN EXPERT:

FIPUG: None at this time.

K. REQUIREMENTS THAT CANNOT BE COMPLIED WITH:

FIPUG: None at this time.

I. OTHER:

FIPUG: None at this time.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Florida Industrial Power Users Group's Prehearing Statement has been served by Electronic Mail and First Class United States Mail this 31st day of August, 2009, to the following:

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