BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

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

PROCEEDINGS: SPECIAL AGENDA

COMMISSIONERS PARTICIPATING: CHAIRMAN NANCY ARGENZIANO
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER NATHAN A. SKOP
COMMISSIONER DAVID E. KLEMENT
COMMISSIONER BEN A. "STEVE" STEVENS III

DATE: Monday, January 11, 2010

TIME: Commenced 9:30 a.m.
Concluded 5:28 p.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: LINDA BOLES, RPR, CRR
Official FPSC Reporter
(850) 413-6734

-and-

MARY NEEL, RPR
Accurate Stenotype Reporters
(850) 878-2221

-and-

JANE FAUROT, RPR
Official FPSC Reporter
(850) 413-6732

P R O C E E D I N G S

CHAIRMAN ARGENZIANO: Okay. Let's call this meeting to order. And, staff, if you'd kick us off.

Well, let me do this. Commissioners, anybody want to say -- Commissioner Stevens, then Commissioner Skop.

COMMISSIONER STEVENS: Thank you, Commissioner. Am I on here? Here we go.

First of all, thank you for recognizing me. I'd like to publicly thank staff. I know I'm the new guy. I did a lot of studying ahead of time, but staff has not only done an outstanding job putting all this information together, because it is a lot of information, but they also helped me make sure that I understand it. And I want to thank them for not only putting it together, but walking me through it instead of running me through it. Thank you very much.

CHAIRMAN ARGENZIANO: Thank you.

Commissioner Klement.

COMMISSIONER KLEMENT: I'd like to echo Commissioner Stevens' comments. I have also had a great experience with staff in trying to get up to speed and feel that I have. And ready to proceed, Madam Chair.

CHAIRMAN ARGENZIANO: Great. Sounds great.

Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

And I also wanted to thank staff. As the Prehearing Officer on the case, it's progressed very smoothly. I commend staff for all of their hard work and effort in putting this together.

With respect to the case before us, I look forward to deciding the case on the merits in a fair and impartial manner. And as we move forward, you know, staff has made its recommendation, which has a positive revenue requirement of approximately $58 million, which will result in a rate increase. And as we move forward into deliberations with my colleagues, the ultimate question as to whether Progress customers will incur a rate increase or a rate decrease will be ultimately decided by the discretion and judgment the Commission uses on essentially two issues, that of return on equity and, more importantly, the theoretical depreciation surplus.

So again I look forward to having that discussion with respect to using such discretion. Again, I think there is a, perhaps a win-win alternative that's not been considered in the staff recommendation that would achieve customers not having to have their bill go up, but also ensure the financial integrity of the company. And, again, when we get to those issues, I look forward to having that discussion. Thank you.

COMMISSIONER EDGAR: Okay. I'd like to also recognize -- I see Senator Fasano in the audience. Welcome. Glad to see you here today. And, members, what I'd like to do, if you have questions, if I'm moving too fast, if we need to get to the bottom of something, I don't hear you, wave, scream, whatever you need to do, because I'm going to give everybody the time they need to get the questions answered and to make sure we're on the same page.

And to staff, same thing. Wave. You know, we need to keep track, I'm positive we need to keep track of the tally of all this because of how things are going to be at the end.

Commissioner Stevens.

COMMISSIONER STEVENS: Madam Chair, do you want to know the issue items that may be of greatest concern to us upfront or just as we go -- or are we going to go through each one of them?

CHAIRMAN ARGENZIANO: Well, that's, that's a good question. I think what we're going to do -- I just talked with staff yesterday, and I think what we're going to do is we'll have staff first let us know what they think about the way, the movement of things. But to that point, I had the same concern. There are some things that maybe we can move on it in blocks.

COMMISSIONER STEVENS: Yes, ma'am.

CHAIRMAN ARGENZIANO: And then some things that we may want to even within those blocks vote on separately.

COMMISSIONER STEVENS: Right. Yes, ma'am.

CHAIRMAN ARGENZIANO: So I want to make sure that as we go through we're all --

COMMISSIONER STEVENS: Okay. Sure thing.

CHAIRMAN ARGENZIANO: Okay. So that's why I say just say something and we can move on that way. And if staff maybe could move us forward and give us some, some idea of really the best way to approach this. Like I think it's, what, Item, Issue 15 we may want to wait. And, Tim, if you would go ahead and kind of let us know the best way to proceed, and then, Commissioners, any ideas or questions from that.

MR. DEVLIN: Be glad to, Madam Chair.

On your -- before you we left two documents. One document is the modifications that we'd be making to the recommendation. We circulated those electronically Friday. We made a minor supplement Sunday. So you'll have two, one thick document and one one-page document. But those are the modifications. They primarily deal with the depreciation area, and they, and an increase in the staff recommended revenue requirement from 48.1 million to approximately 58.8 million. I recommend at this point, Madam Chairman, that we don't address those, the modification now. We should do that as those issues come up in the proper order. But I just wanted to let you know those are there. So when the staff addresses, say, a depreciation issue, there will be a modification made at that time.

CHAIRMAN ARGENZIANO: Commissioners, any, any questions? Okay. All right.

MR. DEVLIN: The second, the second document I left with you is what we call the issues to be decided list, and that was updated slightly Sunday actually to include the page numbers and where there's a modification.

CHAIRMAN ARGENZIANO: And I appreciate that very much. It makes it so much easier for us to look at the issue and go right to the page number. So thank you.

MR. DEVLIN: And this document will block issues, if you will. And issues that were dropped during the proceeding are in the back and issues that are going to be decided at the rate hearing January 28th are on the back. So what we tried to do there is put before you what issues need to be decided today in order.

And then I heard some discussion with Commissioner Stevens on whether you want to take up issues in block or not. That's something that, you know, whatever the Commission is comfortable with. But what we attempted to do is identify what we perceive are the significant issues. That doesn't mean other issues aren't worthy of debate. But that may help the Chair to maybe block certain issues in groupings, like maybe the first category could be six through 13 or so and see if there's any discussion warranted there. If there isn't, you could entertain a motion to adopt those issues in a block. That's just something you could work through.

CHAIRMAN ARGENZIANO: Members, any thoughts on that? And that doesn't mean that when we go through these issues, that you can't ask questions and go back and forth with staff. And, remember, this is just between us and staff today. But if that sounds amenable or proper --

COMMISSIONER STEVENS: Yes, ma'am. Absolutely.

CHAIRMAN ARGENZIANO: Okay. Everybody in agreement? Okay. That sounds, that sounds good, Mr. Devlin.

MR. DEVLIN: Okay. During our briefings with the Commissioners it was apparent, really apparent that the handling of the depreciation reserve surplus was of great interest, and yesterday we prepared some summary spreadsheets that provides options on how to handle that. And they were, I'm sorry to say, provided to the Commissioners this morning because we just prepared them yesterday.

I would suggest that since the handling of the depreciation reserve surplus is contingent in part on other issues or at least could be in the Commissioner's mind, you know, for instance, the return on equity may have an influence on how you want to handle the surplus, I would suggest that you defer taking up the depreciation issues relating to the surplus until the very end. And if you, if you entertain that idea, those would be Issues 15, 28 and 75 really relate to the depreciation reserve surplus and the concomitant effects on depreciation, et cetera. Those three issues you might consider deferring to the end.

Last --

CHAIRMAN ARGENZIANO: Excuse me. Excuse me. Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

Actually I would, I would like to do that, if it's the will of the Commission.

CHAIRMAN ARGENZIANO: Well, that's -- yes.

COMMISSIONER STEVENS: Yes, ma'am.

CHAIRMAN ARGENZIANO: If everybody agrees, I think that's a good idea.

MR. DEVLIN: Okay. And the last, last --

COMMISSIONER EDGAR: I'm sorry. If I could just ask a question so I know what --

CHAIRMAN ARGENZIANO: Commissioner Edgar, please.

COMMISSIONER EDGAR: I'm keeping up and that's all.

Mr. Devlin, you mentioned that you had, or that staff had prepared some spreadsheets last evening, I guess, or very recently. Is that -- does it look like this and is it only two pages? I just want to make sure I have what -- since I was just handed it a little bit ago.

MR. DEVLIN: Yes. Yes, Commissioner Edgar. It's two pages.

COMMISSIONER EDGAR: Okay. Nothing else that is a new document to us.

MR. DEVLIN: Nothing else.

COMMISSIONER EDGAR: I just want to make sure I have the right pages.

MR. DEVLIN: That's correct.

COMMISSIONER EDGAR: Okay. And, and then your suggestion is to take up Issues 15, 28 and 75 after all other issues, is that --

MR. DEVLIN: That's correct. After all other issues regarding revenue requirements. I think there's an interrelationship. It's just an idea. I mean -- okay.

COMMISSIONER EDGAR: Okay. Thank you.

MR. DEVLIN: The last point is that staff is ready to have a short intro on any particular issue or a more comprehensive introduction of the issue that may include parties' positions, et cetera. We're flexible, and it depends on the desire of the Commission. But staff would be ready to do that for any particular issue that the Commission needs.

CHAIRMAN ARGENZIANO: Well, I would think that on the -- they're all significant issues, but on the lesser issues that we might take up in block that maybe a short intro. And if Commissioners have or need more information, we can just ask at that time. Okay. Does that sound good?

Okay. And then we're -- and then what I do plan to do, to let people know for planning purposes, I'm going to try to move along today so that we can get, and there's a lot to talk about. But with respect to lunch, probably about 12:30, 1:00 and an hour, no longer than an hour, unless staff needs additional time. And I know at the end of the day staff is going to need some additional time, so we have to allot for that too.

But I'd like to make lunch as quick as possible and get back as quickly as possible. And in the meantime, if anybody has low blood sugar, there's candy in front of everybody.

Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

And then also too I just wanted to mention I will be having a handout for the Commission, for the Commissioners that provides a sensitivity analysis as to the theoretical depreciation surplus and ROE and what any changes to that would do to reducing the revenue requirement. So I'll be handing that out once it reprints.

CHAIRMAN ARGENZIANO: Okay. Do you want to do that now or when we get to that?

COMMISSIONER SKOP: It's having to be reprinted.

COMMISSIONER EDGAR: Okay. Okay. Great. So with that said, I say let's get started.

MR. DEVLIN: I believe, Madam Chairman, we'd be starting with Issue 6.

CHAIRMAN ARGENZIANO: Okay. Excuse me. Just remember at any time just --

COMMISSIONER STEVENS: Madam Chair, do you want a motion on each one of these issues that we start with to accept?

CHAIRMAN ARGENZIANO: I don't think we need a motion to accept, I mean to hear the issue. Once we get to -- if we're doing them in block, we're going to probably vote on them in block unless one of us feels that we need to separate them for voting purposes and then we'll need the motion. Commissioners, does that, does that sound fine with everybody? Okay. And let's just roll.

MR. VICKERY: Good morning, Commissioners. Paul Vickery with Commission staff.

Issue 6 concerns the quality and reliability of the electric service being provided by Progress Energy Florida. Staff is recommending that the quality and reliability of electric service be determined as adequate, and we based this analysis -- based this determination upon an analysis of customer complaints and the various industry metrics that were analyzed. Staff is available for any questions that you may have.

CHAIRMAN ARGENZIANO: Commissioners, any questions?

COMMISSIONER STEVENS: No, ma'am. We can move on 6.

CHAIRMAN ARGENZIANO: Okay. Well, then are we going to go ahead and -- are we going to -- what do you say, 6 to 13, so we'll just roll. Let's go -- instead of doing a motion on 6, let's go ahead and roll on all of them and then move, move all of them in unless there's a problem. Okay? So, staff, if you'd just move on to the next issue.

MS. LEE: Commissioners, good morning. Pat Lee of staff.

Issues 8 through 13, well, actually through 14 are all depreciation related issues. Issue 8 addresses the capital recovery schedules that staff believes are appropriate for Florida Progress Energy. Basically the staff recommendation addresses items of plant that are no longer providing service as of the end of 2009. That addresses the Crystal River 4 and 5 upgrade retirements, the retirement of the steam generator repair and the retirement of the Avon Park and Bartow steam plants. It also addresses negative reserves that are apparent in the meters account and the power operated account.

Issue 9 addresses the calculation of the average remaining life. This is the mathematical, it's simply a mathematical calculation that PEF issues for their average remaining life. No party disputed the mathematical computation. They did dispute certain elements going into that. But as far as the mathematical calculation which is addressed in Issue 9, nobody disagreed with that.

Issues 10 and 11 address the lifespans for PEF's production facility. Specifically Issue 10 addresses the lifespan for PEF's coal plants and Issue 11 addresses PEF's lifespans for combined cycle plant. The lifespan is determined from the day the facility becomes operational until the day the facility retires from service, no longer providing service.

The lifespan is your fundamental building block in developing or in determining your average remaining life for your production facilities. We begin with the lifespan, excuse me, and apply your interim retirement rate, and that gives you your average service life and average remaining life that is further addressed and recommended in Issue 12.

Issue 13 addresses the depreciation parameters for transmission, distribution and general plant accounts, which Sue Ollila will address, if you have any questions.

And Issue 14 is the calculated theoretical reserve calculation. There are some errors that need to be corrected by oral modification that addresses Tables 12-1, 13-1 and 14-1.

Table 12-1 begins on Page 53 of your recommendation. On Page 53, Crystal River 4 and 5, Account 312, the reserve should be 22.49 rather than 23.90. The resulting depreciation rate is 2.5 rather than 2.4. This is all part of the electronic transmittal that was made Friday.

On Page 54, other steam production, Account 316, the net salvage should be -3 rather than -4. This is under the staff recommended column. There is no change to the depreciation rate. On the same page for the Bartow peaking plant, the net salvage for Accounts 342, 345 and 346 should be -1 rather than -6, -7 and -23 respectively. The resulting depreciation rates are 3.0 rather than 3.3 for Account 342, 1.8 for Account 345 rather than 2.1, and 0.4 for Account 346 rather than 1.7.

On Page 55 for the De Bary peaking plant, Account 342, the net salvage should be -1 rather than zero, and this changes the depreciation rate to 2.6 rather than 2.5.

For Account 343, the net salvage should be zero rather than -1, and this changes the depreciation rate to 3.0 rather than 3.1. For Account 345, net salvage should be -1 rather than zero, and this changes the depreciation rate to 2.5 rather than 2.4.

Now on that same page, that's Page 55, under the Hines Energy Complex, Account 343, the reserve should be 32.57 rather than 32.63. And there's no change in the depreciation rate.

The last change for Table 12.1, 12-1 is on Page 56 under the Hines Energy Complex, Unit Number 3. Account 346, the reserve should be 26.60 rather than 20.60, and this changes the depreciation rate to 3.1 rather than 3.4.

Now going on to Table 13.2, which is Page 76 of your recommendation, there are three accounts --

CHAIRMAN ARGENZIANO: Excuse me one moment.

Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair. Ms. Lee --

MS. LEE: Yes.

COMMISSIONER SKOP: -- with respect to the table on Page 53 where they were, staff was evaluating and recommending the remaining life and remaining life rates, I'm looking at a backup schedule that was provided that apparently is the working file that shows the comparison between the current approved, the company proposed, OPC proposed and FIPUG proposed and what staff ultimately recommended. Are you familiar with that?

MS. LEE: Yes, sir.

COMMISSIONER SKOP: Okay. For the most part would it be correct to say that where there were differences between what the company proposed and what the Intervenors requested, that for most of the items on the remaining life, that staff pretty much went with what Public Counsel recommended?

MS. LEE: For production plant that is correct. The only, I think the only difference was in the Hines Energy Complex where we recommended a longer lifespan.

COMMISSIONER SKOP: Okay.

MS. LEE: In fact, it was a lifespan that was actually suggested by Public Counsel as being reasonable.

COMMISSIONER SKOP: Okay.

MS. LEE: So that changed the remaining life. But, yes, you were correct.

COMMISSIONER SKOP: All right. Thank, thank you.

MS. LEE: On Page 76, Commissioners, Table 13.2, there are four accounts. The first one is Account 362. The reserve should be 18.20 rather than 18.07, and there's no change to the depreciation rate.

Account 366, the reserve should be 16.86 rather than 15.40. There is no change to the depreciation rate.

Account 367, the reserve should be 31.20 rather than 32.50, and the rate changes from 2.9 to 3.0 percent.

The last account is Account 370. The reserve should be 27.0 rather than 24.40, and the rate changes from 6.2 to 6.0.

The next correction is on Table 14.1, which is Page 78, and this is your theoretical reserve calculation. The input errors into -- the inputs into the theoretical reserve calculation are your average remaining life, your average service life, your net salvage. To the extent any one of these parameters is, is input in error, it changes the calculation, and that is what happened in this case. There was, some inputs were put one cell, one row off and it changed the calculation.

Specifically in the distribution and general plant function, the reserve imbalance is 266.1 million rather than 295.8 million, which gives you a total reserve imbalance of 697.4 rather than the 727.1. And that change also needs to be made in the recommendation statement on Issue 14, changing the 727.1 to 697.4. And staff is available for questions.

CHAIRMAN ARGENZIANO: Commissioners, to any of the issues?

Staff, on Issue 10, so I don't have to go back, the lifespan for Crystal River 1 and 2 staff recommended 54 and for, was it 3 and 4, 60 years?

MS. LEE: 4 and 5 was 60 years.

CHAIRMAN ARGENZIANO: I'm sorry. 4 and 5.

MS. LEE: 4 and 5 was 60 years and 54 for 1 and 2. OPC did not have a disagreement with Crystal River, with the lifespan for Crystal River 1 and 2, but proposed a 60-year lifespan for Crystal River 4 and 5 and staff agreed.

CHAIRMAN ARGENZIANO: All right. Members, any other questions on -- we went through -- what about Issue 14? We -- did everyone change the number I guess? Okay. So staff's new number is 697. Okay. So we are voting on blocks then from, on the blocks 6 to 14. Any questions?

Commissioner, please.

COMMISSIONER KLEMENT: If, if I could ask staff to perhaps, just talk a bit about the, the, on Issue 12, the driver for establishing the theoretical reserve balance.

MS. LEE: The driver for the theoretical reserve calculation? Your drivers are your average remaining life, which is addressed in Issues 12 and 13, and your net salvage, which is also addressed in 12 and 13.

COMMISSIONER KLEMENT: Why -- can you explain, perhaps some of the citizens who may be watching or here in the auditorium understand why there's the disparity between a theoretical life between Intervenors and yours and the company's theoretical lifespans? It seems -- you know, these disparities. How do you know how long?

MS. LEE: Okay. If we are talking lifespans, your lifespan is your fundamental building block that you begin with in developing your remaining life.

CHAIRMAN ARGENZIANO: Excuse me. Can everybody hear in the back? Everybody can hear okay? Okay. Thank you. I'm sorry.

MS. LEE: Your lifespan is an estimate. It is an estimate usually based on engineering judgment. It's based on what other utilities around are using for lifespans, but it is an estimate of how long that production facility or that type of facility will be providing service to the public.

In PEF's case there was, staff did not believe that there was enough substantiating evidence supporting PEF's proposed lifespans. There was one piece of paper that PEF provided, and I think it was Exhibit 216. But it listed the in-service date of each facility, the retirement date of each facility, with some conclusory, conclusory comments. For example, in one, for one site, and I cannot remember right now which one it was, the comment was due to clean air legislation. That could be a multitude of things and it could mean different things to different people. And I -- the extension -- and in this particular case it was an extension of a lifespan by 14 years and the comment made was due to clean air legislation.

As a depreciation person I find that company planning is usually the best measure because they're more familiar with their plant. However, in PEF's case that information was lacking. Therefore, as OPC and FIPUG both suggested, look to the outside, look and see what other utilities are using as lifespans for coal plants, for combined cycle plants, and that's what we did.

COMMISSIONER KLEMENT: My understanding in reading through the transcript of the hearings is that as years pass assumptions that existed in the past have been raised that perhaps as plants have somewhat longer lives than were envisioned five, ten or 15 years ago generally in the industry; is that correct?

MS. LEE: That is correct. And that is one reason why this Commission has depreciation study rules which require electric utilities to file depreciation studies once every four years. Because planning does change, the industry does change, legislation, both state and federal legislation can cause the early retirement or open up, open up an avenue that a plant can continue operating. And so that is one reason why this Commission has adopted the four, have companies file their comprehensive depreciation studies every four years to always relook and rethink about where we're going with these lifespans and more particularly the average remaining life.

COMMISSIONER KLEMENT: And just to clarify for those who may not understand, the longer the lifespan, then that is responsible, that drives creating this, this depreciation reserve; correct?

MS. LEE: It is one --

COMMISSIONER KLEMENT: Enlarging it.

MS. LEE: It is one element to that. The other element is of course the net salvage. But, yes, you are correct.

COMMISSIONER KLEMENT: Right. Yes. Thank you.

MS. LEE: The longer the life, the more of a reserve imbalance, and in this case it would be a surplus, you would have when you calculated the theoretical reserve.

COMMISSIONER KLEMENT: Uh-huh. Right. Well, just for -- Madam Chair. For the Commission, understanding these depreciation factors is one of the hardest parts of this case, and I believe I have, but the average person is going to have a great deal of trouble. So anything we can do to clarify it would be helpful.

CHAIRMAN ARGENZIANO: I agree and appreciate that. And if staff could just go over the positions again. It was, the company's position was 30 years?

MS. LEE: The company's position for combined cycle units was 30 years.

CHAIRMAN ARGENZIANO: And --

MS. LEE: Just give me a minute. The company's position was 30 years. FIPUG proposed 35 years. OPC did not make a proposal but suggested that 35 years would be reasonable. And FRF did not file testimony but suggested 40 years. And this is for combined cycle, the combined cycle plant.

CHAIRMAN ARGENZIANO: And staff's rec, if you'll go over that again, please.

MS. LEE: The staff recommendation was to go with 35 years.

CHAIRMAN ARGENZIANO: 35. Okay. Members? Okay. Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

Just a quick clarification to Ms. Lee. With respect to the calculated reserve surplus as amended by staff I guess in the update that we received yesterday afternoon, the surplus has now been adjusted to 697.4 million versus the original amount of 727.1 million; is that correct?

MS. LEE: That is correct.

COMMISSIONER SKOP: Okay. Great. And, Madam Chair, I do have that printout. I'm happy to hand it out to my colleagues now, or I can wait until we get into the discussion of Issues 15 and 47.

CHAIRMAN ARGENZIANO: Commissioners, would you rather have that now or do you want to wait for the issue?

COMMISSIONER STEVENS: Yeah. Pass it on now.

CHAIRMAN ARGENZIANO: Okay. Let's pass it on now. Well, that's some thick paper.

COMMISSIONER STEVENS: Commissioner, are you looking for a motion for 6 and 8 through 14?

CHAIRMAN ARGENZIANO: Yes, we are, unless there's any other discussion on 6 through 14.

COMMISSIONER EDGAR: Madam Chair, just for groupings.

CHAIRMAN ARGENZIANO: Commissioner Edgar.

COMMISSIONER EDGAR: Just a suggestion.

CHAIRMAN ARGENZIANO: Please.

COMMISSIONER EDGAR: Because we've talked about doing groupings, 6 is a separate grouping than 8 through 15.

CHAIRMAN ARGENZIANO: Right. That's true.

COMMISSIONER EDGAR: And so let's just --

CHAIRMAN ARGENZIANO: Move on 6.

COMMISSIONER EDGAR: Could we consider a motion for 6 --

CHAIRMAN ARGENZIANO: Absolutely.

COMMISSIONER EDGAR: -- because it is a separate grouping to sort of set the tone for the groups, I'm thinking.

CHAIRMAN ARGENZIANO: Good point.

COMMISSIONER EDGAR: And then move on. I'm comfortable moving right into that next grouping that begins with 8 if everybody else is.

CHAIRMAN ARGENZIANO: Absolutely. So we have a motion for Issue 6.

COMMISSIONER STEVENS: Second.

CHAIRMAN ARGENZIANO: All in favor.

(Simultaneous vote.)

All opposed, same sign. So that motion passing.

And we'll move to the group now from 8 to --

COMMISSIONER SKOP: 13.

CHAIRMAN ARGENZIANO: 13.

COMMISSIONER STEVENS: You didn't want to include 14 in that?

CHAIRMAN ARGENZIANO: Well, I think --

COMMISSIONER SKOP: 14 is fine.

COMMISSIONER STEVENS: 8 through 14?

CHAIRMAN ARGENZIANO: Commissioner Skop, did you have questions specifically? Did you want to pull out 14?

COMMISSIONER SKOP: No, so long as -- I just need to establish an amount. I think I've done it with Ms. Lee, that it's 697.4 million.

CHAIRMAN ARGENZIANO: 697. Right. Okay. Then we need a motion if everybody --

COMMISSIONER STEVENS: You have a motion.

CHAIRMAN ARGENZIANO: From 8 through 14?

COMMISSIONER STEVENS: Yes, ma'am.

CHAIRMAN ARGENZIANO: Do we have a second?

COMMISSIONER SKOP: Second.

CHAIRMAN ARGENZIANO: All those in favor of the motion.

COMMISSIONER EDGAR: Madam Chair.

CHAIRMAN ARGENZIANO: I'm sorry. Hold on. Commissioner Edgar, sorry.

COMMISSIONER EDGAR: Just for clarity may I ask if the motion does encompass all of the modifications that have been proposed by staff.

CHAIRMAN ARGENZIANO: Yes, it does. The motion --

COMMISSIONER EDGAR: Just for clarity.

CHAIRMAN ARGENZIANO: Yes. And that's good clarification. The motion does encompass the clarifications, and we have a motion, it's been seconded.

COMMISSIONER KLEMENT: Madam Chair, I think --

CHAIRMAN ARGENZIANO: Commissioner Klement. Klement.

COMMISSIONER KLEMENT: I think Ms. Helton had a question.

MS. HELTON: I was just going to point out that it would be a good thing to include the modifications, but Commissioner Edgar beat me to the punch.

CHAIRMAN ARGENZIANO: That's good, but remember the old waving of the hand. But thank you, Commissioner Edgar, because that was, that was what we intended. So -- and that's what we're going to do, that's what we have a motion and a second on. All in favor, signify aye.

(Simultaneous vote.)

Opposed, same sign. Show that motion adopted.

And we are now, staff, on -- we're going, we're going to defer 15 for the end and we're going to move to Issue 17.

COMMISSIONER EDGAR: Madam Chair, while we're waiting for that, Commissioner, do you by any chance have other copies of this? Because I would certainly like my aide to be able to look at it at the same time I am.

CHAIRMAN ARGENZIANO: Can we get some others?

COMMISSIONER SKOP: The additional copies are being made as we speak. And just what this one-page handout embodies is basically a sensitivity analysis showing the sensitivity of, of various ROE values to the reduction of revenue requirement from that recommended by staff. And the second part of that basically shows variations of amortizing a portion of the theoretical depreciation reserve over a four-year period and what that would do to reduction of the staff recommended revenue requirement. So, again, when we get to the issues 47 and 15, again I think I'll be in a position to discuss this in more detail. But again --

COMMISSIONER EDGAR: But my question is can I get another copy?

COMMISSIONER SKOP: Yes. They're being, they're being --

CHAIRMAN ARGENZIANO: Yes. And for purposes of getting copies to our staff, it's on its way. And we'll make sure staff has enough time to look at it too, my staff as well.

COMMISSIONER EDGAR: Roberta, come get it. Thank you.

CHAIRMAN ARGENZIANO: Okay. Issue 17.

MR. HIGGINS: Good morning, Commissioners. Devlin Higgins with Commission staff.

Item Number 17 addresses PEF's proposal that its current annual fossil dismantlement accrual be revised. Staff recommends the Commission revise the company's current annual fossil dismantlement accrual. The specific amount is addressed in Issue 19.

Item Number 18 addresses PEF's proposed dismantlement reserve allocations. Staff recommends the Commission approve the reserve allocations presented in Table 18-1 of the staff recommendation.

Item Number 19 addresses the amount of PEF's annual fossil dismantlement accrual. Staff recommends a system annual accrual of $3,845,221 the appropriate, as the appropriate annual provision for dismantlement.

Item Number 20 addresses the assumptions made in PEF's fossil dismantlement study. Staff is recommending that the assumptions made in PEF's 2008 fossil dismantlement study with regards to site restoration are reasonable. Staff is available for any questions you may have.

CHAIRMAN ARGENZIANO: Members, Commissioners? That was 17 to 20. Any other questions, Commissioner Stevens?

COMMISSIONER STEVENS: No, ma'am.

CHAIRMAN ARGENZIANO: Commissioner Skop?

COMMISSIONER SKOP: If there are no additional questions, Madam Chair, I believe if we've introduced Items 17 through 20, I'd move to adopt the staff recommendation on those items.

CHAIRMAN ARGENZIANO: Is there a second?

COMMISSIONER STEVENS: Second.

CHAIRMAN ARGENZIANO: Hearing a second, all those in favor, signify aye.

(Simultaneous vote.)

Opposed, same sign. Hearing none, the issues are adopted.

And now we will move to Issue 24, to rate base.

MR. WRIGHT: Issue 24 is Has the company removed all non-utility activities from rate base? And staff is recommending that an additional amount of $874,089 be removed from plant, and $18,405 be reduced accumulated depreciation for a total of $892,494 to be removed for non-utility activities. And staff is ready for any questions.

CHAIRMAN ARGENZIANO: And you just spoke to Issue 24?

MR. WRIGHT: Yes.

CHAIRMAN ARGENZIANO: Any questions on Issue 24? Okay. We'll go to 27.

MR. SLEMKEWICZ: John Slemkewicz with staff. Issue 27 is a fallout issue based on any other adjustments that have been made to rate base and/or plant-in-service. And based on the adjustments that have been made, staff is recommending that the appropriate amount of plant-in-service is $10,383,946,687.

CHAIRMAN ARGENZIANO: Members, Commissioners?

COMMISSIONER STEVENS: No questions.

CHAIRMAN ARGENZIANO: Okay. Let's move on. 28.

COMMISSIONER STEVENS: Are we going to hold 28?

CHAIRMAN ARGENZIANO: Yes. I'm sorry. We are going to hold 28. That's correct. So we're going to wait on 28 and we'll go to --

COMMISSIONER SKOP: Actually -- Madam Chair.

CHAIRMAN ARGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: I'll look to staff, but I think we can move forward on 28. I don't think that accumulated depreciation necessarily effects, it could be, but I'll look to staff on that. Can we move forward on that issue or do we need to hold off on it?

MS. MARSH: Anne Marsh for Commission staff. Issue 28 is a calculation that comes from the, the earlier depreciation issues to the extent that there are no changes and that the number won't change. But I believe that number does include the surplus, and so to the extent that that is dealt with differently, the rates may change.

CHAIRMAN ARGENZIANO: So we need to wait, we need to wait on that.

COMMISSIONER SKOP: All right.

CHAIRMAN ARGENZIANO: Okay. So we're going to go to Issue 29.

MS. MARSH: 29 is a fallout.

CHAIRMAN ARGENZIANO: Fallout. Okay. 30.

MR. WRIGHT: 30, is PEF's requested level of CWIP-No AFUDC in the amount of $151,145,000 appropriate, and staff is recommending that, that it is appropriate.

CHAIRMAN ARGENZIANO: Commissioners? Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair. And if staff could just briefly, for those in the audience and that may be listening, just instead of using acronyms, explain briefly what CWIP and AFUDC are.

CHAIRMAN ARGENZIANO: That's a good idea.

MR. WRIGHT: Okay. CWIP or C-W-I-P is construction work in progress, and AFUDC is allowance for funds used during construction.

COMMISSIONER SKOP: Okay. And so with respect to the AFUDC or allowance for funds used during construction, how that comes into play is essentially when the Commission approves a power plant under a determination of need and the utility starts to ultimately develop and construct that plant, they are accruing the AFUDC during the time of construction, which is basically the carrying costs or interest for monies they expend until the plant comes in service and they recover it in base rates. Is that correct?

MR. WRIGHT: That's correct. And if, and if a project is less than a year, then there would be no allowance.

COMMISSIONER SKOP: Okay. Great. Thank you.

CHAIRMAN ARGENZIANO: Okay. Issue 31. And I would request that 33 be separated in this batch, if there are no problems. Okay?

MR. WRIGHT: 33 (sic.) is is Progress's requested level of Plant Held for Future Use in the amount of --

CHAIRMAN ARGENZIANO: Wait. Wait. Wait. Wait. Wait. We're talking about 31.

MR. WRIGHT: Oh, I'm sorry.

CHAIRMAN ARGENZIANO: Okay. 31.

MR. WRIGHT: Okay. Yeah. 31 is is Progress's requested level of Plant Held for Future Use in the amount of $25,723,000 appropriate? And staff is recommending that that amount is appropriate.

CHAIRMAN ARGENZIANO: Any questions, comments? And if I'm moving too quick, if we're moving too fast and you want to take a minute, we'll do that. I don't want to --

COMMISSIONER STEVENS: I'm fine.

CHAIRMAN ARGENZIANO: Okay. All right. As long as I know everybody is comfortable, we can move on to 32.

MR. MATLOCK: Good morning. I'm Sid Matlock, Commission staff.

Issue 32 addresses the level of nuclear fuel inventory. Staff recommends the requested amount of $126,556,000.

CHAIRMAN ARGENZIANO: Any questions?

Commissioner Klement.

COMMISSIONER KLEMENT: There was considerable discussion --

CHAIRMAN ARGENZIANO: Your mike is not on.

COMMISSIONER KLEMENT: Sorry. It was on.

There was considerable discussion during the hearings about the level of reserve, nuclear fuel reserves, whether the requested amount for 2010 was possibly excessive to, to raise the revenue. Is that where this applies in this issue or is it in another issue? I'm not clear.

MR. MATLOCK: This, this amount was an increased amount from the, from the previous inventory levels. Witness Donohue addressed the increase, and in his rebuttal testimony he talked about Progress wanting to have a two-year inventory level in rate base. And that, that discussion or that, his testimony is the, and his justifications are the basis of staff's recommendation.

COMMISSIONER KLEMENT: But there was, there was a lot of detail in that discussion as I recall, I don't know, Commissioners, if you do, that questions whether the company is being too conservative by asking for this much reserve, two years and more, for what contingencies that are not on the horizon, you know, delivery interruptions and so forth. So you're, you're content with this, their figure that they're not exaggerating it for revenue purposes?

MR. MATLOCK: That's correct, sir.

COMMISSIONER KLEMENT: Okay.

CHAIRMAN ARGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

And to Commissioner Klement's line of inquiry, again, initially when the issue was at hearing, you know, certainly with my nuclear background I had some concern as to better understand the company's position and rationale for why they were requesting the increase in basically fuel inventory. Again, the fuel for nuclear is a long, lengthy process. You have the yellowcake, the uranium ore which it refines, and ultimately all that goes through the process and you condense it into fuel pellets and develop the fuel rods which ultimately go into refuel the reactor. At least in terms of the analysis on Page 126 there has been a substantial price increase in the uranium yellowcake, that there is supply concerns in terms of new nuclear construction and such.

So, again, rationalizing the, the company's perspective as to why they might want to do this in terms of reliability and supply interruption and being able to operate their lowest cost dispatch unit continuously being nuclear as opposed to other fossil fuel alternatives, it seems to be, as staff has noted, a good hedge against fluctuations in nuclear fuel prices and having to incur the spot price of higher fuel should you have to displace your nuclear generation and adopt others. So it seems to me that, you know, obviously it's a discretionary situation, but at least from my perspective the company has provided sufficient justification and rationale for why the expenditure would be prudently incurred.

COMMISSIONER KLEMENT: And, staff, you didn't concur with the Office of Public Counsel and other Intervenor's in thinking this might be excessive?

MR. MATLOCK: Staff felt that the Intervenors raised questions in their testimony, and those questions, staff feels that those questions were addressed later by, by Progress Energy.

COMMISSIONER KLEMENT: Okay. That's all I have.

CHAIRMAN ARGENZIANO: Okay. Any other questions on Issue 32?

Okay. Let's -- how about we have, we move on 24.

MR. DEVLIN: Madam Chairman?

CHAIRMAN ARGENZIANO: I'm sorry.

MR. DEVLIN: I was wondering if we could clarify on the fallout issues, I probably should have done that up-front.

CHAIRMAN ARGENZIANO: Okay.

MR. DEVLIN: Issues 27 and 29, if you're going to entertain a motion to that position, the fallout issues would be subject to change as a result of other, other decisions. I just wanted to clarify that.

CHAIRMAN ARGENZIANO: Okay. Do we have a motion? Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair. If there's no further questions, I'd move to accept the staff recommendation on Issue 24, Issue 27, Issue 29, Issue 30, Issue 31 and Issue 32, noting that the fallout change, fallout issues may change, be subject to change.

CHAIRMAN ARGENZIANO: Subject to change. Do I have a second?

COMMISSIONER STEVENS: Second.

CHAIRMAN ARGENZIANO: Okay. All those in favor, aye.

(Simultaneous vote.)

Opposed, same sign. Show that motion adopted.

And now we're on Issue 33. And I just kept this separate because I think there may be some differences of opinion or different discussion, and I wanted to speak to the issue too. But, staff, if you'd go ahead and fill us in on Issue 33 on the storm damage reserve, please.

MR. WRIGHT: Issue 33 is should an adjustment be made to PEF's or Progress's requested Storm Damage Reserve, annual accrual of $14.9 million, and target level of $150 million? And staff is recommending that no increase to the current 5.566 million accrual should be allowed, and that results in a decrease in the operation and maintenance expense of 9,356,000 and increase in working capital of $14,546,872. And in addition, staff is recommending that the reserve be treated as a reduction to rate base.

CHAIRMAN ARGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Madam Chair, just a quick clarification to staff. With respect to the requested Storm Damage Reserve, is that a funded reserve account or unfunded?

MR. WRIGHT: It's unfunded.

COMMISSIONER SKOP: Okay. So basically any amounts that the Commission approve for the storm reserve basically is, is just basically free cash flow going to the company that they can use for other things. And then at such time as they have a storm, basically it's just an accounting adjustment where that money is reversed to offset any storm restoration costs; is that correct?

MR. WRIGHT: Yes, sir.

COMMISSIONER SKOP: Okay. So, again, Commissioners, this is I think one of those discretionary items where we're going to have to exercise our judgment and discretion as to an item that basically not only influences cash flow but the revenue requirement on a dollar per dollar basis.

CHAIRMAN ARGENZIANO: Okay. Well, then let's use our discretion. What is it we want to do, Commissioners?

And let me ask staff, are we actually reducing the accrual to zero under staff's -- I'm sorry. No. No. No. No. I'm sorry. We're leaving -- give me the number again.

COMMISSIONER STEVENS: The accrual is 5.566 or

6 million.

MR. WRIGHT: Right.

CHAIRMAN ARGENZIANO: Okay. So -- hang on one second, Commissioner Skop.

Commissioner Edgar, did you have a --

COMMISSIONER KLEMENT: Madam Chair.

COMMISSIONER EDGAR: I was just going to say because there are so many numbers in front of us, if I may ask staff to clarify in my own mind, the staff recommendation is to continue the current accrual on an annual basis with a cap amount which would be different, which would be to not approve the increased accrual amount that Progress had requested. Do I have that right?

MR. WRIGHT: That's correct.

CHAIRMAN ARGENZIANO: But continue the accrual.

MR. WRIGHT: Yes.

CHAIRMAN ARGENZIANO: At what, at --

MR. WRIGHT: At 5.566 million.

CHAIRMAN ARGENZIANO: Commissioner Skop and then Commissioner Klement.

COMMISSIONER SKOP: Thank you, Madam Chair.

As to Issue 33 on the, on the storm reserve, the way I kind of look at this is it's a rainy day fund, if you will. You're asking customers to save for -- hopefully we won't have any more hurricanes. But if a hurricane comes, basically you're developing some sort of reserve. There's a fundamental difference between a funded reserve where you're depositing money to a segregated account and it stays there and an unfunded reserve which is just free cash flow. And in this situation it's unfunded reserve, which means it's free cash flow that the ratepayers are paying into and the company can use for operations.

At least from my perspective, I'm somewhat comfortable with the staff recommendation, leaving the accrual at the current level. It is somewhat low. But I would caveat that by the fact that that basically, the $6 million for storm reserve translates on a dollar per dollar basis, if I'm correct, to a $6 million revenue requirement. So, again, if you were to modify the accrual amount, you would subsequently reduce the revenue requirement. But, again, I think that's a discretionary item and look forward to the discussion of my colleagues.

CHAIRMAN ARGENZIANO: I have a different opinion on that. I think that the accrual should cease, especially at a time of economic distress because there hasn't been -- because it has significantly been increased without being drawn upon. And I think at this time to hit the consumers with that would be hard. So --

COMMISSIONER STEVENS: I agree.

CHAIRMAN ARGENZIANO: That is my opinion of that. Suspend it for now and then see what happens.

Commissioner Klement first, please, and then Commissioner Skop.

COMMISSIONER KLEMENT: Commissioners, it's a, to me it seems like a pay me now or pay me later choice. We know that if a huge storm comes, they incur huge expenses, they're going to be able to collect that back. And in the past, say in '04 and '05, I believe, that surcharges were approved by this Commission to make up for the huge damages suffered then.

I, I concur with Commissioner Argenziano regarding the current climate, that in -- I philosophically would favor having a rainy day fund. That's, that's just a prudent economic philosophy. However, this is not a normal time, it's an unusual time, and I think to collect less than the company asks now would be a good decision of this Commission.

CHAIRMAN ARGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

Just briefly to staff. I think I share the view of my colleagues. Again, it is an item that the Commission has discretion, and in these difficult economic times, again, using such discretion wisely ultimately can result in not having a rate increase should certain issues be decided in certain matters.

But to staff, what is the current reserve balance in terms of what's already been funded? Is it $144.5 million?

MR. WRIGHT: If we keep the accrual at 5.566 million, it would result in $144.5 million.

COMMISSIONER SKOP: For 2010.

MR. WRIGHT: Right.

COMMISSIONER SKOP: So it's somewhat a little bit less than that now. Then it would be basically $6 million less than that?

MR. WRIGHT: Yes.

COMMISSIONER SKOP: About $136 million currently in the reserve fund?

MR. WRIGHT: It's about $141,776,000.

COMMISSIONER SKOP: Okay. All right. Madam Chair, again, I support you and my colleagues in terms of making an adjustment to the storm reserve. Again, it is free cash flow to the company. I understand that. But, again, in these economic times, dollar per dollar basis that would result in a $6 million reduction in the revenue requirement, which again moving towards zero would -- if the revenue requirement is positive, there's a rate increase. If the revenue requirement is zero, its rates are constant. So, again, this is a discretionary item, and I would support my colleagues if they desire to make that adjustment to the staff recommendation to make the accrual amount zero.

CHAIRMAN ARGENZIANO: Commissioner Klement.

COMMISSIONER KLEMENT: I would like to just ask staff to review. The surcharge that was approved for the '05 and '04 storms, how much was that and how did that work for those -- was it three years that it was on?

MR. WRIGHT: It was actually two years, and they, the amount was around 260,000 -- $260,000,000 that the damage was for the four hurricanes in 2004, and that was a surcharge that was added on a monthly basis.

COMMISSIONER KLEMENT: Can you tell me the surcharge cost per average customer?

MR. WRIGHT: I believe it was around $2.50.

COMMISSIONER KLEMENT: $2.50.

MR. WRIGHT: Uh-huh.

COMMISSIONER KLEMENT: So, Commissioners, colleagues, that, that gives us an idea of what we might be talking about if we are cursed to have more hurricane blitzes.

CHAIRMAN ARGENZIANO: Commissioner Edgar, then Commissioner Skop.

COMMISSIONER EDGAR: Thank you, Madam Chair.

The storm reserve item in concept is something that has come before this Commission with different companies and in different scenarios, but a number of times over the past few years. I am either fortunate or unfortunate to be the only one of us who has sat here and actually during and after a recent hurricane season that impacted our citizens and customers that, and then had to kind of as, as a Commission together work to sort out costs and impacts. And I recognize the pay me now or pay me later and that there are absolutely a wide range of legitimate approaches to this issue.

I have said in the past and I want to be consistent to what I have said in the past that because of the experience I had the first two years I was here and sorting through with staff and all the parties and Commissioners, of course, the costs and the issues and how best to deal with them, I am a believer in the value of a very small annual accrual for a healthy, not overly healthy but towards a healthy reserve amount for storm damage.

I believe that I saw in 2005 and 2006 when we were dealing with significant storm impacts from 2004 and 2005 some value to the state and to the consumers who had been impacted by having that, recognizing that in most of those instances the storm reserve did not cover all of it.

I also recognize and I've had this discussion with staff and have asked the question, you know, upon what do we base an amount? What is the scientific or economic basis for an amount? And in my non-accountant language I would say in my opinion there is no -- if indeed you believe in the concept, there is no exact right amount. And so it's at some point the level or amount is kind of an educated approach or sort of even a gut-level approach.

The item that is before us I note is a, the staff recommendation is a significant reduction from what the company is requesting, and I do believe that their request was based at least partially on some of the experience that their territory had in those storms in '04 and '05.

I think that the reduction that staff has recommended is reasonable and is rational. I also recognize that again you have to kind of buy into the concept, and not all may. I will also say that although I certainly recognize and believe strongly that the process that this Commission utilized to attempt to address storm incurred costs through the surcharge mechanism worked and worked well in '05. It was really the first time, certainly the first time I had dealt with it. It was the first time, I believe, that this Commission had dealt with that issue. If not ever, certainly in many, many, many years. And so some of the issues that were before us were issues of first impression.

When we unfortunately had more storms and had to deal with them the second time, we had the opportunity to improve and refine those processes and those decisions. And I felt good then and I do now about the way this Commission addressed that.

My final point on this for the moment is to come back to, yes, I believe that that surcharge mechanism process is important and is an important protection to the consumers and to the company. But I also recognize that when there are huge swaths of regions and customers who have been significantly impacted by a storm is a difficult time to impose a surcharge. And some of the value of establishing a reserve is so that when you have people who have just been economically devastated and communities economically devastated, that is not generally the time that you want to necessarily add an additional cost. And I see the storm reserve mechanism as a little bit of a buffer against that.

So to sum up, Madam Chair, I recognize that there are absolutely reasonable different opinions on this. I have in the past in other issues voted, other cases voted for a storm reserve, storm reserve accrual that I believe the amount was reasonable and rational, and I believe that in this instance the staff recommendation meets that as well. Thank you.

COMMISSIONER STEVENS: Madam Chair.

CHAIRMAN ARGENZIANO: Thank you. Commissioner Stevens -- I'm sorry. Commissioner Skop was next and then Commissioner Stevens.

COMMISSIONER SKOP: Thank you, Madam Chair.

Just a question to staff. With respect to the surcharges that Progress customers incurred as the hurricanes in their service areas back in 2004 and 2005, what was the total amount of the surcharge, if you will, in terms of storm damage or amount in millions of storm damage?

MR. WRIGHT: I think it was 230 million, 231 million.

COMMISSIONER SKOP: Okay. So currently to Commissioner Edgar's point we currently have a reserve balance of approximately 141 million; is that correct?

MR. WRIGHT: Right.

COMMISSIONER SKOP: So we roughly have a reserve balance equal to half of what the projected costs were as the result of a catastrophic event; is that correct?

MR. WRIGHT: Yes, sir.

COMMISSIONER SKOP: Okay. Madam Chair, again I think that again this is an item that certainly is one of discretion, and in better economic times, again, I think that we might have more latitude to continue the storm accrual reserve. But, again, we are in difficult economic times. And as Commissioner Klement has pointed out, there is adequate remedy to the company should we have the catastrophic event where they need to seek storm recovery costs. They can come to the Commission. We've granted surcharges in the past for that. I know that that sometimes presents a hardship on consumers at that particular point in time, but, you know, consumers are facing difficult times now making ends meet. And, again, at the end of the day this is $6 million on a dollar per dollar basis of free cash flow that basically impacts the revenue requirement and basically causes rates to go up by $6 million.

So, again, I think that temporarily, whether it be for some period of time or until the next rate case, suspending the accrual, $6 million a year accrual, that's pretty much where I support the views of my colleagues.

CHAIRMAN ARGENZIANO: Commissioner Stevens.

COMMISSIONER STEVENS: I would just like to reiterate that this is not, these funds are not accrued into a restricted trust fund, are they?

MR. WRIGHT: That's correct. They're not.

COMMISSIONER STEVENS: They are a part of the operating revenues of the company.

MR. WRIGHT: Yes, sir.

COMMISSIONER STEVENS: So it's a book entry as, as a reserve.

MR. WRIGHT: Yes, sir.

COMMISSIONER STEVENS: Okay. And what that means is they can use it as an operating, they can use those funds for operating expenses through the year as long as it balances out at the end of the year.

MR. WRIGHT: Correct.

CHAIRMAN ARGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

To Commissioner Stevens' point, again, that's the exact point I was making. When you have an unfunded reserve account versus a funded reserve, which is a dedicated account, it is free cash flow to be used for operations. And, again, there's no requirement to, other than making an accounting entry, to, to refund the cash or offset the cash for, until a storm occurs. So, again, that's where, again, it becomes that discretionary item, so.

COMMISSIONER EDGAR: Commissioners, as I said in the beginning, my thoughts are basically what I said to begin with and what some of you have reiterated. While I understand the need to have a rainy fund and sometimes that is a good thing, I just remember and going back on to the company's witness, Mr. Toomey, they seem to address more of the historical storms from the early 1900s. And I felt that at this time and the economic problems we're facing and with -- that the ratepayer need not fund to the excessive. We've got a good fund reserve. And as Commissioner Klement had mentioned, there's another mechanism should something occur for the company to, to attach to or to get from. So with that --

COMMISSIONER STEVENS: I'll make a motion.

COMMISSIONER EDGAR: Commissioner Stevens.

COMMISSIONER STEVENS: That a, that no adjustment and no accrual be made from now on.

COMMISSIONER EDGAR: So we're moving to deny staff.

COMMISSIONER STEVENS: Yes.

CHAIRMAN ARGENZIANO: And --

COMMISSIONER STEVENS: Make it a zero dollar accrual.

CHAIRMAN ARGENZIANO: -- a zero accrual.

COMMISSIONER SKOP: Second.

CHAIRMAN ARGENZIANO: Okay. Commissioner Skop. We have a second. All those in favor, aye.

COMMISSIONER STEVENS: Madam Chair, I would like --

CHAIRMAN ARGENZIANO: Commissioner Klement.

COMMISSIONER KLEMENT: I would like to have some discussion of that.

CHAIRMAN ARGENZIANO: Okay.

COMMISSIONER KLEMENT: That's a change from what staff has recommended, as I understand it?

CHAIRMAN ARGENZIANO: Yes. It's denying staff on the accrual and --

COMMISSIONER KLEMENT: So instead of -- we would, we would not -- they would not be accumulating 5.56 million per year. I have a problem with that I think.

CHAIRMAN ARGENZIANO: Okay.

COMMISSIONER KLEMENT: I thought we said that this was a prudent amount to be putting away, but far less than the company asked.

CHAIRMAN ARGENZIANO: Well, I think there's, I think there's a difference of opinion here. I think if you are saying you would like staff's recommendation on the 5.66 to be accrued, well, then that's your --

COMMISSIONER KLEMENT: Right. That's what --

CHAIRMAN ARGENZIANO: The motion is, is not --

COMMISSIONER KLEMENT: I understand. But I'm having debate about that motion, so.

CHAIRMAN ARGENZIANO: Right. Okay.

COMMISSIONER KLEMENT: I don't think I can support it.

CHAIRMAN ARGENZIANO: I understand. Okay. We have a motion and a second on the table. For those -- Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

Just to Commissioner Klement's point, again, the staff recommendation does provide for maintaining the current level of storm reserve accrual, but I guess the financial impact of that results in a $6 million revenue requirement. So, again, in the discretionary realm, being an unfunded reserve, the, that approval of this amount drives additional revenue requirement to the ratepayer, so it would seek to increase rates. And that's embodied within the staff recommendation, but I just wanted to clarify that point. I think that from my perspective I support the motion, as I seconded it, to suspend the, and cease the storm damage accrual pursuant to what Public Counsel had recommended.

CHAIRMAN ARGENZIANO: And just, there is still a reserve. I think he understands that.

COMMISSIONER KLEMENT: The reserve remains. But I, I guess perhaps I misunderstood it. I thought we were going to, thinking in terms of maintaining it at the level it's at. But your motion is to, to have no new accumulation.

CHAIRMAN ARGENZIANO: Right. I think Commissioner Edgar had indicated she would be in favor of keeping some accrual. I believe and the other two Commissioners have just the opposite, zero accrual and keep the reserve.

And as I said, my personal feeling is that the reserve is at, has been significantly increased. And at a time when there's economic hardships for people, I did not want to have the ratepayer funding to an excessive fund because of the fact, as you indicated, that the company -- there's more than enough money in there for non-storm problems. The company has other ways if there were to be storms of catastrophic proportions that they can recover that money.

COMMISSIONER KLEMENT: I would be interested in Commissioner Edgar's opinion on the motion.

CHAIRMAN ARGENZIANO: Commissioner Edgar.

COMMISSIONER EDGAR: Thank you, Madam Chair.

Commissioners, I, with all respect, as I said I think in my comments, I hope I made clear that I do think this is an issue that can have a number of different opinions. I am not in favor of the motion for the reasons that I described. I do believe that in my experience here after the storms of '04 and '05 that I saw value in having a small accrual on an annual basis. As I also said, I believe the surcharge mechanism is an important protection for consumers and for the company, but I do not believe that it is the one and only or perfect tool that this Commissioners -- this Commission should rely on so that we are best prepared, our utilities are best prepared to address and respond to catastrophic storms.

And, again, I'm falling back on my experience from my first few years here where the storm impacts and the needs of the citizens and the needs of the service providers was the bulk of the issues that this Commission dealt with at those, those next couple of years. And I think that having a small reasonable accrual amount towards a healthy but reasonable storm fund is good policy. And I also believe that, as I said, the amount to be accrued is, is not necessarily a specific right or wrong number. Probably a reasonable range there as well. But the discussion that I had with staff and as laid out in the item to continue at the current level, which would not be a rate increase for this particular item but to continue at the current level, I believe is good sound public policy from the experience that I've had.

CHAIRMAN ARGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

To Commissioner Edgar's point, Commissioner, how would you distinguish -- in this case this is an unfunded reserve. It's not a funded reserve where the funds go into a restricted account, as Commissioner Stevens has pointed out. I mean, in this case it translates to nothing more than free cash flow for the company to be used for operations. So does that -- how do you distinguish between those two in light of using discretion for looking at those things that actually drive the rate increase? Because, I mean, you said there is no rate increase, but this is a $6 million requirement for revenue. So I'd like to, to clarify some thinking on that, if I could.

COMMISSIONER EDGAR: You'd like to clarify my thinking?

CHAIRMAN ARGENZIANO: Commissioner, do you want to respond?

COMMISSIONER EDGAR: Sure. Absolutely. First of all, you said it translates to nothing more than, I forget the phrase, but I disagree. I think it does translate to something more. It translates to money that would be available in the case of a catastrophic storm event. I think that's an important insurance policy from the experience that I've had here in the cases that came before me that were, you know, prior to the rest of you joining us. That was my experience that that was good public policy.

I also believe and stand by my statement that this item on the staff recommendation would not be a rate increase on this item specifically for this purpose as it is a continuation of the current policy.

COMMISSIONER SKOP: Thank you.

CHAIRMAN ARGENZIANO: Okay. I will just, for the people in the audience and at home, it is not a trust fund specifically for storm damage. And let me just ask staff this question for purposes of clarification.

In the past has that storm accrual or that reserve been used for other maintenance or other operations of the plant?

MR. SLEMKEWICZ: Well, there's a difference.

CHAIRMAN ARGENZIANO: Other than storm, storm damage.

MR. SLEMKEWICZ: There's a difference between the accrual and the reserve. The accrual is the amount of money they collect.

CHAIRMAN ARGENZIANO: And will go to the reserve.

MR. SLEMKEWICZ: And the reserve, what they collect is booked to the reserve, but it's a book entry. And they can use that money for other purposes; however, when there is a storm, they don't, they can't charge the ratepayer again unless they exceed the level of the reserve.

CHAIRMAN ARGENZIANO: So then for clarification, if the accrual continues, the ratepayer is paying into that accrual. That's added, may not be an increase, but they're still paying something.

MR. SLEMKEWICZ: That's correct.

CHAIRMAN ARGENZIANO: Okay. And if the accrual were to go to zero to relieve the ratepayer right now while there's economic hard times and catastrophic storms come, are there other cost recovery mechanisms that the company can go to?

MR. SLEMKEWICZ: Yes. If the reserve accrual or if the reserve is exceeded by the damages, they can get a surcharge or a securitization.

CHAIRMAN ARGENZIANO: Yes. So then the result would be that the money -- they would still be -- the company would still be able to recover, but they wouldn't have the cash flow to maybe use in other areas or --

MR. SLEMKEWICZ: That's correct.

CHAIRMAN ARGENZIANO: Okay. All right. So we have a motion and a second. All those in favor of the motion, aye. Aye.

COMMISSIONER SKOP: Aye.

COMMISSIONER STEVENS: Aye.

CHAIRMAN ARGENZIANO: All those opposed.

COMMISSIONER KLEMENT: Aye.

COMMISSIONER EDGAR: Aye.

CHAIRMAN ARGENZIANO: Show the motion passing.

And we'll move to -- I guess we're still on the same block. Am I correct, we're on 35?

MR. WILLIS: Yes, Commissioner. 35.

CHAIRMAN ARGENZIANO: And then we're going to continue with the voting block from 24 down to -- I'm sorry. We did 24. We have to go 35, 35 to -- well, 37 and 38 are fallout; right? Okay. Let's move on to 35.

MR. WRIGHT: Issue 35 is should unamortized rate case expense be included in working capital? And staff is recommending, no, unamortized rate case expense of $2,787,000 should be removed from working capital.

CHAIRMAN ARGENZIANO: That's on Issue 35?

MR. WRIGHT: And that is consistent with Commission policy.

CHAIRMAN ARGENZIANO: Any questions? Okay. Let's move on.

MR. WRIGHT: Issue 36 is has Progress appropriately reflected the impact of statement of financial accounting standards Number 143, asset retirement obligations, in its proposed working capital calculation? And staff is recommending, yes, they have.

CHAIRMAN ARGENZIANO: Okay. Everybody all right? All right. Next.

MR. SLEMKEWICZ: Okay. Issues 37 --

CHAIRMAN ARGENZIANO: I'm sorry. I'm sorry.

Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

Just on Issue 36 with respect to the asset retirement obligations under FAS 143, I guess Public Counsel had adopted a contrary position to staff indicating that the Commission should require PEF to record a system adjustment of about $398 million. Why did staff not find Public Counsel's argument to be persuasive?

MR. WRIGHT: Well, in reviewing the numbers and the MFRs that the company filed, that adjustment was made in the system numbers.

COMMISSIONER SKOP: Okay.

MR. WRIGHT: And so this was just to recognize that. And I guess they didn't realize that at the time.

COMMISSIONER SKOP: So, so basically Progress had already made the appropriate adjustment within their system numbers and OPC was arguing basically a moot point then.

MR. WRIGHT: Yes.

COMMISSIONER SKOP: All right. Thank you.

CHAIRMAN ARGENZIANO: Are we okay? All right. We can move on.

MR. SLEMKEWICZ: Okay. As, as previously mentioned for Issues 37 and 38, which are the working capital allowance and rate base, those are fallout issues. And based on what you've, your vote on 33, those are going to change anyway.

COMMISSIONER EDGAR: Okay. So do we have a motion based on the fallout issues changing?

COMMISSIONER SKOP: Madam Chair, if there are no further questions, I'd move to approve the staff recommendation on Issue 35, 36, 37 and 38, noting that the fallout issues will change as a result of the Commission's decision on these issues.

COMMISSIONER STEVENS: Second.

CHAIRMAN ARGENZIANO: Okay. We have a second. All those in favor, aye.

(Simultaneous vote.)

Same sign, opposed. Show that motion passing.

And now to cost of capital, I guess Issue 39. Oh, wait a minute. Yeah. 39, we can go to 39. I'm sorry.

And I'm, since I'm new at this, I don't know how long it is before our court reporter needs a break. Are we coming close to that?

THE COURT REPORTER: I'm fine.

CHAIRMAN ARGENZIANO: Okay. All right. Just let me know. Commissioner Skop -- okay. We'll do, at 11:00 we'll take like a five-minute break. I'm sorry. 10:00. Can't wait until 11:00, huh? Okay. Let's continue.

COMMISSIONER SKOP: The clock back there is an hour slow. One says 11:00 and one says 10:00.

COMMISSIONER EDGAR: I'm sorry. I'm totally confused. Are we taking a break or not?

CHAIRMAN ARGENZIANO: Yeah, so am I now. That says 10 to 10:00

COMMISSIONER SKOP: That says ten to 10:00 and that says ten to 11:00.

CHAIRMAN ARGENZIANO: No. Yeah, it does. Okay. All right. Well, not by that clock. I guess by that clock, I'm sorry.

COMMISSIONER SKOP: Thank you.

CHAIRMAN ARGENZIANO: Let's go. Oops, there goes my chair again. Let's move on. So we're going to take, we're going to take a break in ten minutes.

MS. DAVIS: Connie Davis with Commission staff. I have Issue 39, which is the appropriate amount of accumulated deferred taxes to include in the capital structure. This number will change slightly based on the rate base. The staff recommendation was an amount of $420,330,116.

CHAIRMAN ARGENZIANO: Can you -- members, any questions, Commissioners? I thought I had a question on this one. I'm trying to find it. Hang on one second. I think that's been taken care of.

Okay. No questions? We'll move on.

Issue 40.

MS. DAVIS: The Issue 40 is the cost rate, the amount and cost rate of the unamortized investment tax credits to include in the capital structure. The staff recommendation is the $3,898,262 at a cost rate of 8.74 percent.

COMMISSIONER SKOP: Madam Chair.

COMMISSIONER STEVENS: Madam Chair.

MS. DAVIS: Yeah. And this will also change slightly.

CHAIRMAN ARGENZIANO: Commissioner Skop, then Commissioner Stevens.

COMMISSIONER SKOP: Thank you, Madam Chair.

Just quickly on 39 with respect to the accumulated deferred taxes. I think staff mentioned that that would, in making the ultimate motion on that if we're to accept staff's recommendation, that that number is subject to change based upon changes in the rate base as the Commission has approved; is that correct?

MS. DAVIS: Yes, sir.

COMMISSIONER SKOP: All right. Thank you.

CHAIRMAN ARGENZIANO: Commissioner Stevens.

COMMISSIONER STEVENS: On, on Issue 40, can you explain to us or reexplain to me how we arrived at the 8.74 percent --

MS. DAVIS: Yes, sir.

COMMISSIONER STEVENS: -- cost rate, please?

MS. DAVIS: That is based on the weighted average of the long-term debt, common equity and preferred stock cost rates.

COMMISSIONER STEVENS: And what is the argued range between the different parties? Is that the 7.84 to the 9.74?

MS. DAVIS: Yes, sir.

COMMISSIONER STEVENS: And why --

MS. DAVIS: OPC recommended the 7.84.

COMMISSIONER STEVENS: And as you go through your calculations, didn't the two other parties go through calculations to arrive at their numbers or was there -- obviously there was some discrepancy. What was that variable?

MS. DAVIS: The biggest change is that we do it over, we don't do it over all sources of capital but just over the long-term debt, common equity and preferred stock.

COMMISSIONER STEVENS: And did the Intervenors use -- what was -- what were their additional variables to come up with the 7.84 percent?

MS. DAVIS: Different cost rates.

COMMISSIONER STEVENS: Okay.

MS. DAVIS: They -- long-term debt and preferred stock, their percentages and cost rates were different.

COMMISSIONER STEVENS: And then Progress Energy's 9.74 was, didn't have as many variables in it or --

MS. DAVIS: Well, they obviously asked for, their long-term debt rate was higher, which would bring the whole average up, and their ROE was higher.

COMMISSIONER STEVENS: Right. Okay. Thank you. Thank you.

CHAIRMAN ARGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

With respect to the 8.74 percent, that's Progress's weighted average cost of capital; is that correct?

MS. DAVIS: Just over investor sources.

COMMISSIONER SKOP: Okay. All right. Thank you.

CHAIRMAN ARGENZIANO: Any other questions? Okay.

MR. MAUREY: Andrew Maurey, Commission staff. On Issue 41 --

CHAIRMAN ARGENZIANO: I'm sorry, Andrew. Commissioner Skop.

COMMISSIONER SKOP: I'm sorry. I meant to ask this previous question. As to Issue 40, with respect to the 8.74 percent that staff is recommending for the investment tax credit, if that's the weighted average cost of capital, what is the inherent ROE within that number?

MS. DAVIS: Back on Schedule 2 it is 11.25.

COMMISSIONER SKOP: Okay. All right. So that's the staff recommended ROE?

MS. DAVIS: Yes, sir.

COMMISSIONER SKOP: All right. Thank you.

CHAIRMAN ARGENZIANO: And the recommended cost rate of the company was 9.74; is that correct? Sorry.

MS. DAVIS: Their weighted average was the 9.74.

CHAIRMAN ARGENZIANO: I'm sorry. Was nine --

MS. DAVIS: 9.74.

CHAIRMAN ARGENZIANO: Okay. A follow-up from Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

With respect to Issue 40, is Issue 40 affected by other issues such as Issue 47 on the ROE to the extent that if the Commission did not adopt the ROE recommended by staff, that that number would be subject to change?

MS. DAVIS: Yes, sir.

COMMISSIONER SKOP: Okay. All right. So I think we need to, we need to, yeah, we need to understand what we do on 47 because I think it affects that number also.

CHAIRMAN ARGENZIANO: Okay. So what would we do then? Hang --

MR. WILLIS: We can, we can continue down the list because we can consider Issue 40 as a fallout basically as far as Issue 47 and the other cost of capital issues.

CHAIRMAN ARGENZIANO: Commissioner Stevens.

COMMISSIONER STEVENS: Madam Chair, thanks.

The, the Issues 39 through 47 all have, they all relate to each other. So if we could go slowly through those to recognize the effect.

CHAIRMAN ARGENZIANO: You want to, you want to do these one by one, take them one by one?

COMMISSIONER STEVENS: Yes, ma'am. Yes, ma'am.

CHAIRMAN ARGENZIANO: I think we should do that.

COMMISSIONER STEVENS: Thank you.

CHAIRMAN ARGENZIANO: Okay. Staff, if we can go one by one instead of in block, I think that's what we need to do.

COMMISSIONER STEVENS: Because this, this, the

Item 40, and the reason I asked the question and probably the same reason Commissioner Skop was, was in on this too is this 8.74 percent is related to what we do up here.

CHAIRMAN ARGENZIANO: Right. Right.

COMMISSIONER STEVENS: So thank you.

CHAIRMAN ARGENZIANO: Okay. That's how we'll proceed.

MR. MAUREY: Andrew Maurey, Commission staff.

You'd mentioned a preference for breaking at 11:00. I can tell you Issue 41 will not be completed by 11:00.

CHAIRMAN ARGENZIANO: Okay. Well, then let's, then let's go ahead. I have a feeling you're very right, so let's go ahead and break until about, how about until ten after. We're on recess.

(Recess taken.)

Well, let's have staff begin, and hopefully Commissioner Skop will join us momentarily. Please.

MR. MAUREY: Issue 41 concerns PEF's request for pro forma adjustment to equity to offset balance sheet -- off-balance sheet obligations such as purchased, purchased power agreements should be approved. Witnesses for the company testified that all three rating agencies recognize or consider off-balance sheet obligations like purchased power agreements when assessing the credit quality of companies. Therefore, this Commission should recognize an adjustment to, that offsets the financial pressure associated with those agreements.

Witnesses for the Intervenors unanimously disagree. They all argue that this adjustment should not be accepted because purchased power agreements, the capacity payments as well as the fuel component of these agreements are recovered through cost recovery clauses, the Intervenors argue that there's no risk to recovery and therefore there's no risk of, there's no basis for increasing equity to offset these contracts.

Staff in its evaluation, we agree with the company that rating agencies look at purchased power agreements when assessing the credit quality of utilities; however, there's no requirement that a regulatory Commission recognize imputed equity when setting rates.

In addition, we believe if this adjustment were approved, it would permit the company to earn a risk adjusted equity return without placing that incremental equity at risk. Therefore, staff recommends that this adjustment in the amount of $711 million on a system basis be removed from the capital structure.

CHAIRMAN ARGENZIANO: Commissioners? Commissioner Stevens, Commissioner Skop.

COMMISSIONER STEVENS: I appreciate staff's recommendation on this and I appreciate the work that went into it, and I'll just let y'all know I agree with the staff's recommendation.

CHAIRMAN ARGENZIANO: Okay. Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

Just with respect to the requested adjustment to impute the equity for the power purchase agreements, there was a split in terms of how the credit rating agencies look at certain things. For instance, S&P does it and Moody's does something different; is that correct?

MR. MAUREY: They all consider it. Not all of the rating agencies consider it in the same manner. S&P is more transparent in its evaluation of these agreements. Moody's and Fitch are less transparent. But they all write in their reports that they consider purchased power agreements in assessing the credit quality of a utility.

COMMISSIONER SKOP: Okay. And basically the benchmark that S&P or Standard & Poor's uses for imputing equity is 25 percent of the debt; is that correct?

MR. MAUREY: That's a risk factor that exists over a range. For these particular contracts the risk factor is 25 percent.

COMMISSIONER SKOP: Okay. Now in light of the, and I think this is probably factored into the staff's analysis, in regards to power purchase agreements, those agreements are approved by the Commission before the companies are allowed to enter into such agreements; is that correct?

MR. MAUREY: Yes.

COMMISSIONER SKOP: Okay. So basically since the Commission would approve such contracts, the company typically would not be denied cost recovery for such purchased power assuming it was reasonably and prudently incurred; is that correct?

MR. MAUREY: That's the case. Yes.

COMMISSIONER SKOP: Okay. And with respect to the cost of purchased power, that is basically addressed on an annual basis through our fuel and capacity cost recovery clause; is that correct?

MR. MAUREY: Yes.

COMMISSIONER SKOP: All right. So essentially there's no inherent risk in terms of, other than what the credit agencies say there might be in terms of the regulatory scheme in Florida to the extent that we review fuel costs on an annual basis; is that correct?

MR. MAUREY: That's, that's mostly correct. There's, there's some performance risk that these contracts won't be exercised or the provider won't come through, and the rating agencies do look at adjusted ratios, not book ratios, and they do incorporate some adjustments for these fixed obligations. But in totality the payments under these contracts are recovered through cost recovery clauses.

COMMISSIONER SKOP: Okay. And just in fairness to the company, the only perceived risk would be an actual, the cost recovery to the extent that there were a denial or a delay in getting approval, that certainly that time lag of being able to get approval of prudently incurred costs would be some minimal risk to the company; is that correct?

MR. MAUREY: Yes.

COMMISSIONER SKOP: Okay. All right.

Madam Chair, I also support the staff recommendation on this issue.

CHAIRMAN ARGENZIANO: Commissioner Klement. Klement.

COMMISSIONER KLEMENT: Yes. Thank you.

Are you aware or is other more senior staff aware of any time when there have been denial of these, recovery of these costs?

MR. MAUREY: Personally I'm not aware of a denial of recovery. I don't see --

COMMISSIONER KLEMENT: Mr. Devlin, are -- you're, you're the, I think, a senior person here.

MR. DEVLIN: And very proud of it, sir.

COMMISSIONER KLEMENT: As well you should be.

MR. DEVLIN: But I'm not, I'm not aware of a contract ever being disallowed.

COMMISSIONER KLEMENT: Thank you. I wanted to make that point, Madam Chair, and I think I concur with the opinions expressed so far.

CHAIRMAN ARGENZIANO: Any other comments, questions?

Okay. Do we have a motion? Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

Have we done Issues 39 and 40 yet also? I guess I thought we were going to do these as a block or individually and --

CHAIRMAN ARGENZIANO: You're right. I'm sorry. We are going -- no, no, no. We had indicated that we were going to take them up individually.

COMMISSIONER STEVENS: I was hoping you would take them up individually because 39 depends on the other issues and 40 is related to the other debt rates.

CHAIRMAN ARGENZIANO: So we're going to do them individually. And did we, did we already move on 39? I'm sorry.

COMMISSIONER SKOP: No. No, ma'am.

CHAIRMAN ARGENZIANO: We didn't. So we better, we better go back and do that and then move back forward to, back to 41.

Okay. So given that, do we have a motion on 39? I'm sorry.

COMMISSIONER STEVENS: I think, doesn't 39 --

CHAIRMAN ARGENZIANO: We'll have to --

COMMISSIONER STEVENS: I think we have to do some other things before we know what the, the recommendation is.

CHAIRMAN ARGENZIANO: Yes. You're right. So we -- all right. So then here's what we have to do. Staff, if you --

COMMISSIONER STEVENS: So I think if we go through these items one by one, then we can go back.

CHAIRMAN ARGENZIANO: And then we come back and go --

COMMISSIONER STEVENS: Yes, ma'am. Yes, ma'am.

CHAIRMAN ARGENZIANO: Okay. That's, that's a good recommendation. That's what we'll do.

So let's move on then to 42 on equity ratio.

MR. MAUREY: In Issue 42 the Commission is asked to determine the appropriate equity ratio that should be used for the purpose of setting rates in this proceeding. The company had recommended an equity ratio as a percentage of investor capital of 53.9 percent. This included the imputed equity adjustment that I just discussed in Issue 41.

The intervening parties were recommending equity ratios of 50 or 50.3 percent and -- without the imputed equity adjustment. That is, that's what staff recommended, 50.3 percent as a percentage of investor capital. That represents the company's filing with the imputed equity removed.

CHAIRMAN ARGENZIANO: Commissioners?

COMMISSIONER STEVENS: Andrew, could you help me? What is the range that allows Progress Energy to be competitive with their peers with this equity ratio? You explained to me on a chart, which I appreciate because pictures help me, but please, please speak to that and help me understand or pay attention to this.

MR. MAUREY: Typically utilities will have an equity ratio ranging from somewhere in the low 40s to somewhere in the low 60s, and that's the range of equity ratios that investor-owned utilities across the country will maintain.

COMMISSIONER STEVENS: And the other piece is debt.

MR. MAUREY: Correct. The offsetting portion is debt.

COMMISSIONER STEVENS: Thank you.

MR. MAUREY: When you're at the low, when a company is at the lower end of that range, it's considered to have greater financial risk. When it has an equity ratio at the higher end of the range, it's considered to have less financial risk. At a lower financial risk you would have a lower cost of capital. And although you're applying it to a higher equity base because those cost rates are lower than they would be at the lower end of the range, the overall cost of capital can be minimized. But it's a balance. And while the debt cost rate is set by the markets, return on equity is set by regulatory commissions across the country.

So in this instance the company came in with an equity ratio of 50 or 54 percent with or without the imputed equity. That's right in the middle of equity ratios nationally. Typically the staff would prefer companies to be more financially stronger than weaker.

Going forward we think rates will be lower long-term if essential services like electricity are delivered by strong providers. But we're not, as we discussed in the other issue, we're not going to make up equity. We're going to have -- recommend what they come in with. In this case it's 50.3 percent.

COMMISSIONER STEVENS: Right. And what you mean by that is we backed out the, quote, phantom equity to get to the 50.3?

MR. MAUREY: I've heard it referred to that. We'll stick with imputed equity.

COMMISSIONER STEVENS: Okay. That's fine. That's probably better. Okay. Thank you.

CHAIRMAN ARGENZIANO: Commissioner Klement.

COMMISSIONER KLEMENT: Could you address, please, the relationship of this figure to Progress's relationship to its parent company in Carolina? It seems that a good part of their having too low of an equity is a result of their merger with North Carolina Power about ten years ago. And when that happened, their bond rating went down immediately and perhaps even before it was finished, and it's never recovered back to the levels that it was premerger. And it's my understanding that significant profits of PEF have been shifted to North Carolina. Is that correct?

MR. MAUREY: Well, money does flow back and forth between Florida and North Carolina, and as the parent company it is entitled to earn a return on its investment in the utility. And it will, management of the company will decide how much is retained in Carolina, how much is reinvested in Florida, and that does impact the equity ratio in Florida.

COMMISSIONER KLEMENT: And, and has that flow -- how has that flow been? Has it been all north or has some of it come south?

MR. MAUREY: It has varied over time. As we discussed, maybe for the first five years immediately following the merger more money flowed to North Carolina and less to Florida. In the last five years that's reversed. The majority of the money is coming, is staying in Florida, not flowing to North Carolina. In fact, in order to strengthen its capitalization, the utility has forgone paying a dividend to its parent altogether in Florida the last five years. So not only -- it didn't flow any money up in those years to help strengthen the financial position of the utility in Florida.

CHAIRMAN ARGENZIANO: Okay. Any other questions? Okay.

MR. BUYS: Dale Buys with Commission staff.

Issue 43 addresses whether rate base and capital structure have been reconciled appropriately. Staff recommends that it has for the sole purpose of setting rates in this case only.

CHAIRMAN ARGENZIANO: Any, any questions, members?

COMMISSIONER STEVENS: No, ma'am.

CHAIRMAN ARGENZIANO: Okay. No questions. We can move on to 44. Thank you.

MR. BUYS: Issue 44 is a fallout issue, and it's whether the appropriate -- what is the appropriate capital structure for the projected test year? And that will be determined based on the vote for the -- based on the return, the equity amount. It'll be a fallout issue based on that vote.

CHAIRMAN ARGENZIANO: Okay. Very good. Then we can move on to 45.

MR. BUYS: Issue 45 is the appropriate cost rate for short-term debt for the projected test year, and staff is recommending that 3.72 percent is the appropriate rate for short-term debt.

CHAIRMAN ARGENZIANO: Commissioner Stevens.

COMMISSIONER STEVENS: Could you walk us through staff's calculation that arrived at the 3.72 percent? Because I believe, you know, the OPC's position is 3.06 percent, Progress is at 5.2 percent and staff is at 3.72. But this range from the 3.06 to the 5.25 is huge. And so if you could enlighten me and help me understand what the variables are that cause this, this range.

MR. BUYS: There's three components of that short-term rate. The first is the estimated LIBOR rate for 2010, which the record supports a range of 1 percent to 1.25 percent.

COMMISSIONER STEVENS: Okay.

MR. BUYS: And staff just took the median of that range. The next component is the yield spread between what the utility can issue its short-term rate for and the LIBOR rate, and the record indicated that it was approximately 185 basis points. And then on top of that you have a third component, which is the fees associated with the credit facility, and it's very clear on the record that those fees are 75 basis points. So if you add those three components up, you come up with the staff's recommended interest of 3.72 percent.

COMMISSIONER STEVENS: And what did Progress Energy have as their variables to equal the 5 1/4?

MR. BUYS: Okay. PEF had a 5 1/4 percent cost rate for short-term debt, its assumed commercial borrowing -- CP borrowing rate of 4 1/2 percent, plus the fees of 75 basis points.

COMMISSIONER STEVENS: So instead of using LIBOR, they used the commercial paper rates?

MR. BUYS: They did. Yes, that's what, in essence --

COMMISSIONER STEVENS: That's the major variable, right?

MR. BUYS: Yes.

COMMISSIONER STEVENS: And staff believes that LIBOR is the appropriate method?

MR. BUYS: Correct. Now, that's not a -- that's a projected amount.

COMMISSIONER STEVENS: Right.

MR. BUYS: We don't know what the actual was or will be.

COMMISSIONER STEVENS: And the LIBOR rates, the short-term LIBOR rates over the past year have been cut in half, haven't they?

MR. BUYS: Yes, they've been relatively low.

COMMISSIONER STEVENS: Thank you, Commissioner.

CHAIRMAN ARGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair. And just for the members in the audience, when we're talking about LIBOR, basically, that's the London

Interbank Offer Rate. So it's basically a financial benchmark from over in England that the financial institutions use to pet interest.

CHAIRMAN AGENZIANO: Thank you, Commissioner Skop. That was important. We tend to forget, and that helps those watching and those sitting in the audience, somewhat anyway.

Okay. Commissioner Klement, did you have a question?

COMMISSIONER KLEMENT: No. No, I did not.

CHAIRMAN ARGENZIANO: Okay. Then we can move to the next issue.

MR. BUYS: Issue 46 addresses the appropriate cost rate for long-term debt for the projected test year. And staff is recommending a long-term cost rate, a cost rate for long-term date of 6.18 percent.

COMMISSIONER STEVENS: Madam Chair.

CHAIRMAN ARGENZIANO: Commissioner Stevens.

COMMISSIONER STEVENS: Same questions. Can you walk me -- walk through the variables and what caused the distance between the Progress Energy requested rate and staff's calculations?

MR. BUYS: Yes, Commissioner. The main disagreement between the parties' estimates is based on the difference between the estimated coupon rate for

PEF's projected issuance of a new $750 million bond. PEF estimated that it would be a 6.98 percent blended rate, and we're recommending -- we did a calculation that a reasonable amount would be 5.64 percent.

COMMISSIONER STEVENS: Thank you.

CHAIRMAN ARGENZIANO: Thank you. Any other questions?

Okay. We're good to go to 47.

MR. MAUREY: In Issue 47, the Commission will decide on the appropriate return on equity for purposes of this proceeding. Based on the raw evidence in the record, that range could be between 7.6 percent on the low end and 12.54 percent on the high end. Those represent the results, the lowest indicated return from the models that the witnesses used and the highest indicated result from the models.

Two witnesses filed testimony in this case regarding return on equity. They represented a range of 9.75 percent from the Office of Public Counsel and 12.54 from the company's witness. Based on staff's review of the testimony and the evidence in the record, staff believes the record more strongly supports an ROE for Progress within the range of 10.3 percent to 11.5 percent.

Looking at that range, looking at the equity ratios of the companies that are behind that range, as I mentioned earlier, the 40 to 60 percent, with an equity ratio at 50 percent, staff believes that it was appropriate to shade the ROE a little above the midpoint. The midpoint of that range of 10.3 to 11.5 is 10.9. With an equity ratio of 50 percent, we believed it appropriate to shade the return a little higher than the 10.9, and staff is recommending 11.25 percent with a range of plus or minus 100 basis points.

CHAIRMAN ARGENZIANO: Commissioner Stevens.

COMMISSIONER STEVENS: I appreciate the work that staff put into this, and I think staff is going in the right direction, but I'm thinking a little bit lower than that on the -- than the 11 and a quarter. That's where I am right now.

CHAIRMAN ARGENZIANO: Well, staff -- okay. Okay. I got you. Staff is recommending 11 and a quarter.

COMMISSIONER STEVENS: Yes, ma'am.

CHAIRMAN ARGENZIANO: Okay. Commissioners.

COMMISSIONER KLEMENT: I was going to defer to Commissioner Skop.

CHAIRMAN AGENZIANO: Well, I --

COMMISSIONER KLEMENT: I would ask the staff if the range was driven mostly by growth forecasts, in other words, if you think the economy is going to experience lower growth would dictate a lower recommendation, or if it's going to have higher growth in the near future.

MR. MAUREY: Staff's recommendation is not directly tied to growth in the economy in general. When we mention growth rates with respect to the DCF -- discounted cash flow model, DCF model, we're speaking of growth in earnings or growth in dividends, not specifically to growth in the economy as a whole. To the extent that these models are forward-looking, they're looking at projected dividend growth, projected earnings growth that captures investors' perceptions of the risk-return relationship that's in the market going forward, and it would capture the state of the economy as they expect it to unfold.

COMMISSIONER KLEMENT: Those are driven by the economy and the expectations of the economy, right, the projections?

MR. MAUREY: Correct.

COMMISSIONER KLEMENT: Okay. Thank you.

CHAIRMAN ARGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair. I guess this is always a thorny issue when it comes to rate cases, and ROE is certainly a tremendous driver of revenue requirement. Certainly the record evidence supports a range of ROEs from 9.75 to 12.54, as has been stated by the various witnesses and supported in the record.

I guess from my perspective, at least viewing the evidence before me and the case before me, Progress Energy Florida is a well managed and well operated company. That being said, however, and given the prevailing economic conditions and the expectation in the record evidence, I also have some concern with respect to the staff-recommended ROE of 11.25. I think that -- I'm not sure exactly, you know, what my colleagues' views are in terms of what an appropriate ROE would be. I think part of trying to facilitate that discussion has been the preparation of the hand-out I gave showing the range of ROEs over a large range, starting on the far right with the staff-recommended ROE of 11.25 percent, and then down to a range below which I start to get very uncomfortable of 10.5. And basically should the Commission adopt an ROE lower than that recommended by staff, the yellow line at that respective column will indicate how much revenue requirement or reduction to revenue requirement resultant from that use of discretion.

So again, I would just yield back to the

Chair. Certainly this is an important issue in this rate case, a very contentious issue, and I think it's important to have a well vetted, well informed discussion on the merits to this issue. But again, it boils down to what is reasonable and fair to the company and to the ratepayers in light of prevailing economic conditions and looking at the range of discretion that the Commission has based on the record evidence in this case.

Thank you, Madam Chair.

COMMISSIONER STEVENS: Madam Chairman.

CHAIRMAN AGENZIANO: Commissioner Stevens.

COMMISSIONER STEVENS: Thank you. And I appreciate the chart, this chart. This is a great chart, Commissioner. Thank you very much. I wish it had gone a little bit lower, but that's okay.

I understand the Hope and Bluefield decisions, and I also understand the calculations that were gone through and the discussions from both witness sides on the discounted cash flows and the other discussion. But my question is this: The company came to us and had an interim rate, and that allowed an overall rate of return or 7.84 or a 10 percent return on equity. Why was that okay then, but now we want 12.54, or the company wants 12.54? Can you explain those differences to me, please?

MR. MAUREY: Yes, I'll try. In the interim statute, there's a specific formula for calculating the rate of increase that's afforded under that provision. It specifies that the company use the minimum of its last authorized range. There's no discretion in that. That's why 10 percent was used in that calculation.

For purposes of the rate case going forward, it was the belief of the company that the investor-required return for them is 12.54, and that's what they asked for.

COMMISSIONER STEVENS: Okay. So the interim rate of 10 percent did not negatively impact the company.

MR. MAUREY: Not by itself, no. It afforded a rate increase, an interim rate increase. The company was actually earning in the 9s at that time, so the interim increase did give them an incremental increase in revenues, but it did not bring them up to 10 percent.

COMMISSIONER STEVENS: Thank you.

CHAIRMAN ARGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chairman. And to Commissioner Stevens' point, if I could ask staff to elaborate a little bit further on that situation, because it was a unique one, to the extent that I believe that the 10 percent was the threshold floor under the existing settlement agreement, and that's why they were specifically brought up to 10 percent. Again, there was a lot of discussion on that, but they were earning far under 10, and pursuant to the terms of the settlement agreement. If staff could just elaborate on that a little bit.

MR. MAUREY: Sure. The company proposed 10 for the interim calculation. There was some argument that because the Commission's last -- or the company's last authorized return was actually 12 percent, that it could have asked for interim relief with an 11 percent ROE, but it did not do that. It asked for interim relief at 10 percent, which was tied to the ROE threshold per the 2005 settlement.

COMMISSIONER SKOP: And just as a follow-up on that, the rationale for the Commission taking such extraordinary action in light of that situation was that the company was earning well under a 10 percent return on equity, and basically it was -- someone intended to ensure the financial integrity of the firm as a going concern; is that correct?

MR. MAUREY: Yes. That last point, the interim was granted for that.

You get into the interpretation of the stipulation regarding some of your earlier comments about what they were entitled to and what they weren't. There was some disagreement with the intervenors who were signatories to that settlement, but when it came before the Commission, the majority decided that an interim increase was appropriate under the circumstances.

COMMISSIONER SKOP: Now, at the realized ROE level before the Commission again brought them up to the 10 percent, which again was somewhat related to the settlement agreement and not a full-blown rate case, which is the situation we have before us today, but from just a holistic perspective, once you're earning well below 10 percent as a regulated company and making some of the financial commitments that Progress has, you know, endeavored upon to make, whether it be or new nuclear reactors or new generating units, does there become a point where in order to preserve credit rating and credit quality and financial integrity, if you go below a certain thing, you're likely to see your credit rating substantially impaired and risk a credit downgrade?

MR. MAUREY: Yes. But as I sit before you today, I can't tell with you with specificity what that tipping point would be.

CHAIRMAN ARGENZIANO: Excuse me. To that point, though, I thought that risk had a great deal to do with credit rating and bond rating.

MR. MAUREY: It's certainly a factor, yes.

CHAIRMAN ARGENZIANO: Doesn't Florida companies have less risk?

MR. MAUREY: Less risk than who? becomes the question.

CHAIRMAN ARGENZIANO: Well, do they have very -- isn't their risk minimal?

MR. MAUREY: Utilities are monopolies. They serve a defined service territory. Due to cost recovery mechanisms that by statute this Commission can afford to offer, also by the Legislature which provided other means of recovery --

CHAIRMAN ARGENZIANO: That's what I'm getting at. I believe from what I've identified and looked at that risk is minimal to the companies.

MR. MAUREY: Well, I was getting to that point, that yes, despite all of those available cost recovery mechanisms, the company was -- this company, as well as Tampa Electric, were both earning in the 8s. I can assure you no one in the management of those companies thinks they were earning their authorized return at that point.

So there's no guarantee these companies are going to earn their authorized returns. The Commission affords them an opportunity to earn those returns, and through cost recovery mechanisms and timely recovery of prudently incurred costs, they have a better than average opportunity to earn those authorized returns, but there's no guarantee they're going to earn those returns.

CHAIRMAN ARGENZIANO: I understand that. Excuse me, Commissioner Skop. But in reading Bluefield, risk seems to be a big factor in rating, bond ratings and financial -- the financial area. And the less risk a company has, the more financially -- the better the bond ratings, I guess, would be. Is that correct?

MR. MAUREY: You're absolutely correct. A fundamental tenet of finance is that the lower the risk, the lower the required returns, and the converse also holds true.

CHAIRMAN ARGENZIANO: Commissioner Skop. Commissioner Skop and then Commissioner Klement.

COMMISSIONER SKOP: Thank you, Madam Chairman. And I think again the point that I was merely trying to illustrate is that getting down into the lower digits like 8 or whatever, or 9, you know, could predicate a credit downgrade. And again, that's something that again is worthy of consideration. It should not drive the Commission's decision in totality.

Just to staff in terms of the credit rating, because this kind of tied in a little bit to this. And again, the ROE we have complete discretion over, from 9.75 all the way up to 12.4. Staff has recommended 11.5, but staff's range is 10.3 to 11.5.

In terms of ROE, ROE also is basically cash flow. It's earnings to the company. And in terms of credit ratings of companies, certainly in terms of the rating, a lot of that has to do with metrics associated with free cash flow to cover things as debt and other financial ratios. Is that generally correct?

MR. MAUREY: Yes.

COMMISSIONER SKOP: All right. Like I say, Commissioners, I prepared the chart for the basis of useful discussion. Certainly I'm open to having a full vetted discussion on the issue. I do again believe that the ROE recommended by staff I could not support, and again, I just look forward to having a discussion.

CHAIRMAN ARGENZIANO: Okay. Well, we're at that point of discussion, so I'll tell you right now that I do not support staff's recommended 11.25. And I guess we have to figure out where we all are on what we do support.

And maybe if staff could give us the

ramifications of the different -- how about of what we know now? OPC is at 9.75. What does that mean to the ratepayer, and what does that mean to the company, as well as the company's 12.54? If we could go through that and then maybe move on. The discussion is now.

Commissioner Klement.

COMMISSIONER KLEMENT: Well, I just to, I guess, add to the discussion and enlighten positions, I'm mindful of the Bluefield and Hope as well that Commissioner Stevens referred to. For those in the audience who don't know what that means, those are two U.S. Supreme Court cases going back as far back as the 1920s that overruled regulatory bodies like this in other states who had, the Supreme Court said, imposed confiscatory rates on utilities so that they were, in effect, confiscating their property. In other words, they have a right to a fair and -- I forget the language. A reasonable return. I'll put it at that.

So in making these decisions, we must be mindful of that, or we will see ourselves in court in Florida and Washington. So --

CHAIRMAN ARGENZIANO: How do you want to -- how would you like to proceed now? How about we each go into --

COMMISSIONER STEVENS: Can I make one comment?

CHAIRMAN ARGENZIANO: Well, I want -- Commissioner Klement, let him finish.

COMMISSIONER KLEMENT: I wanted to just comment on the current economic conditions that we're in. I don't think we'll see growth in spending like we saw in the last decade for a long time. I believe that the people and the economy in general will be in a period of austerity for quite a while, and I believe that company profits should reflect that. There are a lot of people hurting, as we've noted here many times. They're out of work, and many have suffered salary reductions or work reductions.

And mindful of the U.S. Supreme Court decisions, I feel it's our duty to provide a climate for our regulated companies to remain healthy, but I find it hard to support any but the most conservative of returns in these times.

I would like to allude to the merger, which I did earlier, that occurred about 10 years ago. In my opinion, it has had a deleterious effect on Progress Energy. They had a high rate of return back then, and after the merger, that has gone down, and the bond ratings were reduced, as I noted. And I think that should be part of our consideration here, the effect of the merger, which did not benefit Florida ratepayers.

CHAIRMAN ARGENZIANO: I think I can --

COMMISSIONER STEVENS: I'll be brief.

CHAIRMAN AGENZIANO: Okay. Commissioner Stevens and then Commissioner Skop.

COMMISSIONER STEVENS: I just wanted to point out that, again, with the Hope and Bluefield decisions that kind of govern how we have to react, the witnesses throughout this issue came up with different -- used different pricing models, came up with different percentages. And I believe the range was between 7.6 percent and 12.54 percent. The recommendations before us range from OPC at 9.75 up to the request of 12.54. And that's all I wanted to point out. Thank you.

CHAIRMAN ARGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair. I just wanted to follow up on some questions to staff to help, I guess, bring out some additional facts that are evidence as to ROE.

At hearing, there was substantial testimony in relation to peer groups, the national average of recently decided rate cases and the peer group average for Progress. Can staff briefly refresh my memory on those?

MR. MAUREY: Sure. Actually, I had a few questions queued up here from other discussion. Let me take this opportunity to touch on a few of them.

The Commission has broad discretion in setting return on equity. The staff is recommending 11.25, but the Commission -- anywhere between 9.75 and 12.54 would be ironclad as far as the appeals process is concerned. And in fact, some would argue as long as it's between 7.6 and 12.54, it's supported by evidence in the record, and that's the standard. Then you get to what was the more persuasive argument, and that's where staff comes with the 10.3 to 11.5. We believe the testimony was more persuasive that the investor-required return was in that range. But still, you're not confined by that in any manner. You really -- as long as it's under 12.54 and above 9, you're solid.

Now, Chairman, you had asked some questions from the company's perspective and the rating agency perspective, what are the ramifications of some of these decisions, and also on the Hope and Bluefield. The Hope and Bluefield standards basically hold that a company must have an authorized return that's commensurate with returns on investments of comparable risk that is sufficient to maintain the financial integrity of the company and sufficient for it to raise capital under reasonable terms. We believe the staff recommendation and the range here complies that.

CHAIRMAN ARGENZIANO: Can I ask you, when you talk about Bluefield in particular, I guess Hope and Bluefield together, yes, those things are -- there are a lot of components that make up those cases. And while you cannot have a taking of a company's reasonable amount of profit that they should be able to make, and that's certainly a large part of the cases, it also -- I go back to risk and to -- I think there was even a mention of economic conditions, from what I remember reading. So there's a lot of things to take into consideration when we talk about Hope and Bluefield. Even though while we're supposed to be allowing a company to make a reasonable, you know, profit and allow them to not have a taking of that, you have to take in a whole bunch of different circumstances. And when I read Hope and Bluefield, I look at all those circumstances, and some of them do apply today, such as the economic conditions and the risk factors.

MR. MAUREY: Yes. And I believe between 9.75 and 12.5, no one could argue that that's confiscatory.

CHAIRMAN ARGENZIANO: All in there.

MR. MAUREY: Yes, within that range, which is the Hope and Bluefield standard. But there's nothing -- while at the low end of that range is less than what the company would like, I don't believe a case could be made that it was confiscatory. Also, at the high end of the range, 12.5, it may be what the company wants, but as the intervenor --

CHAIRMAN ARGENZIANO: Okay. We still have a question to be answered.

COMMISSIONER EDGAR: I'm sorry. I apologize profusely, really. I know you want to keep things moving, and I support and want to cooperate with that, but I also have had a lot of coffee this morning, and I'm wondering, as a point of personal privilege, could we take five-minute break?

CHAIRMAN ARGENZIANO: Absolutely.

COMMISSIONER EDGAR: Thank you very much.

CHAIRMAN AGENZIANO: Five minutes.

(Short recess.)

CHAIRMAN ARGENZIANO: Okay. We're starting back up where we left off.

MR. MAUREY: Chairman, you had asked a question, what would the impact of various ROEs be from a rating agency perspective and from the perspective of the company. And this case, as it was mentioned in the hearing, and it's going to be mentioned when we take up Issue 15 later today, there are certain tensions in the case. There are going to be tradeoffs. And as I mentioned earlier, you have broad discretion here. It's very possible that five independent commissioners can look at the evidence in this case and come to a very different conclusion than what staff did, and it would be supported by competent and substantial evidence in the record.

What will happen after your decision, the rating agencies will take this rate order, they will estimate what the cash flows are going to be from that rate order, and they're going to run their analysis, and the metrics that fall out of that are either going to support the current rating, a split rating of single-A and triple-B, or they won't, and the rating agencies will act accordingly.

Generally, the Commission doesn't try to target a certain rating. It makes judgments on the issues, and the end result falls out. And in this case, as it was mentioned, there's a great deal of discretion. You're going to make adjustments in a number of issues, not just this one. There will be an outcome.

And we do have some indication in the record, some evidence in the record that at a zero rate increase or a negative rate increase, the cash flow metrics for this company may no longer support a single-A rating. They won't fall in the matrix for a single-A rating.

Whether that is an automatic downgrade or not, we can't tell you. We don't know. The rating agencies make both a quantifiable and a qualifiable analysis. So the -- while the ratios may fall in that matrix, they may or may not act on that information. And typically the rating agencies would prefer stronger cash flow metrics over weaker cash flow metrics, but they're going to look at what the rate order produces as well as what happens.

We're looking in the future. Their demand for cash could be off. Expenses could be higher than they expect. A lot of things will influence this that we don't know today. We have to make decisions based on certain assumptions. Return on equity is one of those.

And as I said, the rating agencies will take this rate order and they'll decide if they believe the cash flow coming out of it is sufficient to maintain the current rating or if it's supportive of a different rating.

As for the company, they also will take the rate order, and they will look at what they can do, how they can manage their expenses, how much cash flow is coming off. They'll either earn within their authorized range or they won't.

One of the tradeoffs is, the lower the award in this case, the sooner the company is going to come back before you again. We don't -- that's not unprecedented. In the late '70s through the mid '80s when we were going through a construction cycle, there were rate cases piggybacked upon one another, every 18 months or so, and we could be in another situation like that. That's not unnecessarily a bad outcome. We're all geared up for it now. We will have better information on the new projected test year. We won't be looking as far in the future.

We looked -- now getting back to return on equity, we looked at the evidence in the record. We thought this was a fair return, but we certainly realize that there are other returns that are also fair.

CHAIRMAN ARGENZIANO: Okay. Commissioner Skop.

COMMISSIONER SKOP: Let me go back after that long dialogue and get back to the question that I asked. I appreciate the response, because it touched upon some of the tradeoffs that are inherent in terms of using discretion. You want to use discretion wisely, but abusing discretion can have undesirable outcomes.

The point that I was trying to make and get a question answered regarding was that in the -- at hearing, there was record evidence reflecting, or substantial discussion in the record evidence reflecting peer averages for ROE and the national averages of recently decided rate cases. And I wanted staff to clarify what those specific averages were, not only the peer average, peer group average, but also the average of recently U.S. rate cases.

CHAIRMAN AGENZIANO: Commissioner Skop, you're asking for averages of ROEs or median?

COMMISSIONER SKOP: The median ROE, either/or. I mean, there's a chart, and I don't have it in front of me, but it was in evidence, and basically it looked at recently decided rate cases and the ROEs that were requested and subsequently awarded by the respective commissions, and also there was a peer group analysis done, and I'm trying to get a better handle on what those numbers were.

MR. MAUREY: Okay. If you turn to page 180 of your recommendation, in the paragraph above the heading "Conclusion," that's where we touch on that exhibit, Exhibit 264, which showed the authorized ROEs set during 2009 for electric utilities followed by Regulatory Research Associates.

Now, this went through a certain point of time. It was for all of 2009 up to that point in time, and then the record closes. We do have all of 2009 complete now, but we have this exhibit. And it shows that the authorized return ranged from a low of 8.75 to a high of 11.5 and averaged 10.51 for the group. I will caution that that 8.75, that was for a T&D, transmission and distribution only utility, considered the lower end of the risk spectrum of all utilities as opposed -- they don't have to build generation, so they are considered to be lower risk. I just point that out, that that's out there. And that's the only one that was under 9 as well.

COMMISSIONER SKOP: Commissioner.

MR. MAUREY: And as the average, 10.51 --

CHAIRMAN AGENZIANO: Excuse me. Commissioner Skop.

COMMISSIONER SKOP: So the average -- I mean, to condense this concisely into the question I'm asking, the average for recently decided cases in 2009 was an ROE of 10.51 percent; is that correct?

MR. MAUREY: That's correct.

COMMISSIONER SKOP: Okay. Now, what about with respect to the average for the peer group that was used? Where is that discussed. There was --

MR. MAUREY: Which peer group?

COMMISSIONER SKOP: In some of the intervenor's testimony, there were comparison peer groups that established a certain average ROE that was used in comparison.

MR. MAUREY: I apologize. I'm not familiar with that off the top of my head right now. I'm familiar with this exhibit, and it wasn't any peer group other than the ROEs that were set during 2009.

COMMISSIONER SKOP: Okay. That will probably suffice for the purposes of discussion. I think, you know, certainly it's instructive to know what other commissions are doing. I mean, this case should stand and be decided on its own merits.

In terms of -- we've had a lot of discussion on the Bluefield and Hope decisions. At least from my perspective, at least my holding of those cases, under the United States Supreme Court decisions of Bluefield and Hope, a public utility is entitled to earn a fair and reasonable rate of return on the value of property placed in service for the convenience of the public that is sufficient to ensure the financial integrity of the utility, maintain its creditworthiness, and to attract capital. I think that staff has touched upon that, as Commissioner Klement has. Again, there's a lot of uncertainty in that. Again, that's where discretion is the better part of valor here, and we need to make a decision that's predicated on being fair to the consumers, but also fair to the utility.

I think part of the issue is that in instances that we have before us, we regulate companies that are for the most part regulated monopolies. And in an unregulated world, you know, you don't get rate relief. You have to do things to remain competitive, and if you give earnings estimates to analysts, you have to meet your earnings estimates or your stock gets hammered. In the corporate world, nonregulated, you know, the way to accomplish that if you're underearning is to reduce your overhead and reduce expenses.

And I think that certainly, you know, our utilities are regulated, and sometimes I think perhaps they lag, being as lean as need to be or as nimble. And again, when you have excess overhead and excess expenses, obviously, that causes your earnings level to drop below the authorized level.

And as staff has pointed out, you know, we do set a midpoint that's subject to plus or minus 100 basis points, so if they come in under 100 basis points from the midpoint, they're entitled to come in for interim rate relief. If they're overearning, then we're entitled to bring them in or Public Counsel is entitled to bring them in to set a more appropriate ROE.

So I just think that, again, there is a range of alternatives here. I do think that it's incumbent upon the company to take a critical look at reducing its overhead and expenses, and that would help in itself in terms of maintaining its earnings. But in the interim, we're tasked as the Commission with deciding what the appropriate ROE value is, and I think that's the basis of my discussion. But I through that the average value of recently decided cases on a national basis at least is worthy of inclusion in the decision-making calculus.

Thank you.

CHAIRMAN AGENZIANO: Thank you. Commissioner Stevens.

COMMISSIONER STEVENS: Thank you, Commissioner. And I understand where Commissioner Skop is going, and I appreciate that viewpoint, because I think it's a very good point. But one of the things we have to pay attention to is that these ROEs were set in 2009, so when in 2009, we have to think about that, were these set? Was it the beginning of 2009, the middle, or the end? And we have to take that -- you know, take this with a grain of salt, realizing where we are right now with our current economy throughout the State of Florida. And that's just a point I wanted to make. And I appreciate what Commissioner Skop put together, because it helps me a lot.

And I have two questions real quick. I

thought that you had told us what the actual return on equity was for the prior year. Did you tell us that for Progress Energy?

MR. MAUREY: I believe I said it was in the 9s. I don't know it --

COMMISSIONER STEVENS: That's fine.

MR. MAUREY: -- precisely, but it was --

COMMISSIONER STEVENS: So approximately 9 percent?

MR. MAUREY: It was a return in the 9s.

COMMISSIONER STEVENS: And I think you told me, and you may have said it today, but aren't they a single-A rating by one company and a triple-B?

MR. MAUREY: Yes. They have a slip rating. They are a single-A at Moody's and Fitch and a triple-B at Standard & Poor's.

COMMISSIONER STEVENS: Okay. And just so everyone knows, I believe that somewhere between the 7.6 percent bottom floor and the 9.75 that OPC recommends, somewhere -- I'm not as low as the floor, but I am in that gray area. And I think the 9.75 up to the 12.54 is a range, but I'll go ahead and let my colleagues know that I'm somewhere around 9 percent right now.

COMMISSIONER KLEMENT: Madam Chair.

CHAIRMAN AGENZIANO: Commissioner Klement.

COMMISSIONER KLEMENT: To Commissioner Skop's reference to a comparative pool, I wondered if it's relevant. I didn't see much discussion in staff's recommendations, but I reading the transcript, I noted that Progress witness Vander Weide, who was their expert in ROE, it was pointed out that he was using data in the -- the peer group, I guess it's called, that was 20 years old, and that was based on research from three years previously, so it's almost 25 years old. Now, staff didn't deal with this in the recommendation, but it was pointed out, and I wanted to raise that.

CHAIRMAN AGENZIANO: I think it was pointed out by OPC's Mr. Woolridge.

COMMISSIONER KLEMENT: Right. And regarding Commissioner Stevens' recommendation on where he is, I would like to have discussion about a somewhat higher percentage, just to be mindful of the potential impact on the bond rating and to help Progress, but I don't necessarily want to name a figure yet.

COMMISSIONER STEVENS: Well, if I may, that's why I asked our staff what the actual return on equity was for the company. Thanks.

CHAIRMAN AGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chairman. And again, this always seems to be a thorny issue when we get down to deciding the nuts and bolts of rate cases.

I guess my perspective is one of this. You know, put in its most simplest terms, the staff's recommendation has an annual operating revenue requirement of $58.8 million, and that translates to -- a positive number translates to a rate increase.

Now, by virtue of an issue that we just decided in terms of storm reserve, basically, the adjusted revenue requirement, subject to check, is down to $52.8 million. Getting to the win-win scenario that is not embodied or considered within the staff recommendation, again, there are areas where staff did an excellent job, but areas where staff did not fully apply the discretion that the Commissioners have available to them, particularly in ROE and particularly in the theoretical depreciation surplus reserve.

I think the win-win in this case -- again, the consumers not interested in not having a rate increase. We've heard that loud and clear. We've heard that from Public Counsel, the Attorney General, members of AARP that are here today. Again, it seems to me that, you know, we need to be fair to the utility. That's the underlying principle under controlling United States Supreme Court case law. But we also are able to exercise the discretion that we have and make judgment on issues that will ultimately decide as to whether there is a rate increase or rates remain constant or rates go down.

And I think from my perspective, certainly if you could look at things and try to address them a fair and decisive manner, the areas where we have the ability to use that discretion, we've already used it in storm reserve. We have it in ROE, and we have it in depreciation surplus. With respect to ROE, it's not is the end all, be all. It's an important driver of the revenue requirement. There are other interdependencies that play into that.

In this case, I would suggest that the depreciation, theoretical depreciation surplus amortization has almost more impact on what the revenue requirement would be than ROE in this case.

So again, I think using discretion wisely in the combination of the two is a good thing. But just in summation, I do support a lower ROE. I think that we need to be cognizant of setting the ROE in a manner, as well as depreciation surplus, of, you know, doing more harm than good. But I certainly think that an outcome can be achieved that would not result in a rate increase for Progress's customers, and I think that would be fair. I think there's a win-win solution here. But, you know, with a zero rate increase, keeping rates constant, basically you have margin to do that. My understanding is that it would not affect the Standard & Poor's credit rating. It might tweak the margins on Moody's. That's some discussions I've had with staff. But it seems to me that if you are able to find an alternative to the staff recommendation exercising the discretion that Commission has available to it, you could avoid the need for a rate increase here altogether, but reasonably allow the utility to legally recover the expenses which it has prudently incurred. You're just merely offsetting those legally incurred expenses with the theoretical depreciation surplus amount over the amortization period.

Thank you.

CHAIRMAN ARGENZIANO: Commissioner Skop, that's true. It can always be done. There's probably many ways of doing that, and taking the surplus depreciation and the ROE is a real consideration, but there are outcomes to those things to.

COMMISSIONER SKOP: Right.

CHAIRMAN AGENZIANO: As to after -- if you amortized -- this whole week -- I've said that word all my life, and this whole week that word has not come out right once. If you amortized for four years, what happens the fifth year to the ratepayer? If you amortize for six year, what happens in the seventh year? And those are things that we're going to need to discuss, you know, so we have to look at all of that, and it can be very impactive, but also, giving the company the operating revenue that they require to what we think is reasonable.

COMMISSIONER STEVENS: I will --

CHAIRMAN AGENZIANO: Commissioner Stevens.

COMMISSIONER STEVENS: I will go along with Commissioner Skop's recommendations if we're shooting towards a zero rate increase, because that's where I want to be.

CHAIRMAN AGENZIANO: Well, I'm not sure what his recommendation is yet.

COMMISSIONER STEVENS: Well, don't let me put words in your mouth.

CHAIRMAN AGENZIANO: Right. We got that.

COMMISSIONER KLEMENT: I didn't hear a number from Commissioner Skop.

CHAIRMAN AGENZIANO: Right. I heard -- that's exactly what I think we're all thinking, is that there's the surplus depreciation and the ROE, and they both work in both of those. I'm trying to figure out how not to hurt the company.

COMMISSIONER STEVENS: Can we ask staff to give us a calculation on how to do that?

CHAIRMAN AGENZIANO: Well, I asked yesterday for some of that, but let's -- and there are two other sheets here that I think aid in that also, but staff can -- but we haven't really thrown out any numbers yet and told staff exactly what it is we want them to calculate, so -- I think staff is going to tell us something here in a minute.

Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chairman. And again --

MR. MAUREY: I missed the question. I'm sorry.

CHAIRMAN ARGENZIANO: No, no, no. What's we're saying is we haven't really given a number yet. We've talked about how we can go about achieving -- I'm not sure what everybody's goal is. You know, we've heard no rate increase, we've heard a lower ROE I think from most of us, and how we get there. I understand that using the surplus depreciation along with ROE is critical. We just need to find out, once we say that and what numbers we're talking about, if that's what we all wish, what are the ramifications of that and how you

-- Commissioner Skop, go ahead.

COMMISSIONER SKOP: Thank you, Madam Chair. At least my thinking on this, and I'm just one of give equal Commissioners here, certainly I think it's important to decide upon what is the appropriate ROE. And then from that standpoint, you have another item of discretion which you can use, essentially judgment, to achieve -- if the desire of the Commission is to keep rates constant and avoid a rate increase, while allowing Progress to legally entitled -- its costs that it has proven up, we are achieving that to the extent that there is a positive revenue requirement, and we would just merely be offsetting by the use of discretion such that there is no rate increase, but Progress is legally recovering its costs. It's just that there has been a surplus that has been built up over the years that the Commission can tap into.

But the point I would like to emphasize, as you astutely pointed out, Chairman Argenziano, is there are ramifications to the depreciation surplus, six years, four years. There also are significant ramifications. Again, there's a surplus amount of nearly $700 million. And I would reasonably suggest to my colleagues that if you look at the chart that I prepared, once we get into that issue, that we would only reach into that surplus amount sufficient to make the revenue requirement zero, thereby avoiding the rate increase altogether. And I think there's a point at which you go too far and you do more harm than good, but I think the consumer interest here is keeping rates constant or having rates go down, certainly not having rates go up. And I think that we have the discretion, should have we choose to exercise it, to make that happen here today.

Thank you.

CHAIRMAN AGENZIANO: Commissioners? I'm sorry. Okay. Let's move on. We have to keep -- we have to finish with this issue.

COMMISSIONER SKOP: Commissioners, with respect to ROE, again, I do not support the staff-recommended ROE of 11.25 percent. I think that my comfort level is probably somewhere in the area of 10.5 to 10.7, probably at the higher end of that. Again, looking at the risk differential for Progress over its Florida IOUs, I do think that there is record evidence supporting that. I'm trying to be fair to Progress, but I'm also trying to be fair to the intervenors who put on testimony showing that the ROE should be substantially less than the 12.54 that Progress requested. Staff has recommended 11.25. Again, I feel that's too high. But again, I think it's a basis for discussion, and it's also somewhat commensurate with the national average, not that that would drive my decision-making process. But again, I think these are difficult economic times. The utility is going to have to make do with --

CHAIRMAN ARGENZIANO: Do I hear a number?

COMMISSIONER STEVENS: Commissioner, if you change your number to 10, I'll help you.

COMMISSIONER SKOP: Okay. I'll yield.

CHAIRMAN ARGENZIANO: Commissioner Klement.

COMMISSIONER KLEMENT: I'm in the same ballpark as Commissioner Skop, in that -- his 10.5, 10.7.

I had just a thought, as a halfway point between OPC and Progress, that 10.9 is the halfway. That would split the difference, and that's close to the national average. I don't know that it has to be that. I could probably live with one of the numbers that Commissioner Skop named.

CHAIRMAN ARGENZIANO: Commissioner Edgar.

COMMISSIONER EDGAR: A question to staff. With all of the discussion, I'm still think to think through how we try to use our discretion to make the best decisions we possibly can for today and next month and the next month after that for all involved, but also try to make good decisions that set a good foundation for a little longer term than just the next few months. So again -- and art, perhaps, not a science -- but to just add to the discussion, could I ask Andrew or whoever to kind of jump in as to what the decisions that we make, how much is the concerns about the recession and the difficulties that all of us are facing these days financially versus how we try to plan well for the future.

MR. MAUREY: It's a recurring theme. The Commission has a great deal of discretion in this regard, how they want to -- the recession should play in the determination. I can tell you that we did not make any specific adjustment to accommodate the downturn in the economy in our recommendation. The witnesses provided evidence that was forward-looking, that this is the investor-required return going forward, the investors' view of what the economy would be. The reason we don't make -- take that view and then mark some off is for symmetry. If we were in a booming economy, if things were going great, we wouldn't do the opposite, give them an extranormal return because we're in good times and the ratepayers can afford it more. We haven't given them a lower return because they can afford it less, for symmetry purposes.

We look at what the investors are telling us they require. And while it's not directly observable what the equity return is, the debt return is directly observable, and this company is borrowing at 6 or 7 percent. It's going to have to -- investors are going to command a premium of 3 to 500 basis points over that in order to induce them to invest in the equity. Now, whether it's 3 to 5 percent, that's your discretion, the Commission's discretion, its own view of the risk of this company, do these investors require 300 or 500 basis points over the cost of borrowing in order to induce investors to hold their equity. That's the informed judgment that you will exercise. And if the state of the economy should be factored into that view, that's where it occurs.

COMMISSIONER EDGAR: And guess just to follow up -- thank you. Just to follow up on that, you have all heard me say numerous times, and probably will again, that one of the things that I find the most rewarding about this job, but also one of the most somewhat frustrating and stressful is trying to find that balance between short-term needs, desires, and popular decisions with trying to weigh in the impacts on the longer term and trying to make the best decisions we possibly can for the state, taking into account a little longer planning horizon.

And I'm still in my mind, Madam Chair, still trying to grapple with that, with all of the information that we have before us and all of the numbers and the ranges that we have. I too, as I think I have heard from each of you, am comfortable going a bit below what the staff recommendation is, recognizing that there have been a number of changes in many things over the past year.

I am concerned that if we go with some of the numbers to the lower range that have been proposed by some of the many experts that we will maybe lose some opportunities and also be right back here with a rate case sooner. And that may not be -- that certainly would not be the worst of all possible scenarios, but I think that one of the things that we're trying to do is think a little ahead and make good decisions so that we will not be right back here having the same decisions in a shorter period of time.

So, Madam Chair, I thank you for the opportunity to ask a question and think out loud a little bit. I'm still thinking.

CHAIRMAN AGENZIANO: Excuse me. One moment. I keep going back to the witness testimony, all witnesses that the company had, and OPC and others, and then go back into Bluefield and Hope. And if ROE in my mind is minimally related to bond ratings, then if we use bond rating as a test of risk, then it's minimal, so I don't think that is as critical.

Is 10 percent a healthy ROE for the company? I think so. Is 9.75 probably healthy? That's probably healthy too.

I'm not where the staff is. I'm probably -- I'm just going to say what it is now. Unless somebody makes a compelling argument here, one of my colleagues, that is, that 10 percent, 10.25 is probably where I am at.

So you can see we're going to be diverse, and we could be here a long time in trying to convince each other whose argument is best.

But Commissioner Skop, then Commissioner Stevens.

COMMISSIONER SKOP: Thank you, Madam Chairman.

The point was made I think by Commissioner Edgar about having more frequent rate cases. To me, given the prevailing economic conditions, that's probably not a bad thing to have, particularly in fairness to the companies, to the extent that if you do come out of a recession the experience the hyperinflation that the economy experience in the late

'90s, then certainly it provides a mechanism for the companies to come back in and have their ROE readjusted to reflect prevailing economic conditions, but equally in turn, it provides an opportunity to true up all the regulatory accounts. And again, I know Chairman Argenziano has probably stated many times that we haven't had a lot of rate cases, and nearly 70 percent of the customer bills are passed through clauses. So a base rate proceeding, having those more frequently than waiting a quarter of a century in some cases is not necessarily a bad thing. I think it helps keep parity and a pulse on what the economy is doing and what's fair and reasonable in lieu of it, you know, going for longer periods of time without having that ultimate investigation and true-up.

As far as Chairman Argenziano's suggestion of a 10.25, certainly I can get comfortable with that. I guess my thinking on where I was at is that somewhere between a range of, you know, 10.5 to 10.9 -- I think Commissioner Klement mentioned 10.9. I kind of was at the 10.7, looking at a substantial reduction from the staff-recommended ROE. But again, it's not an exact science.

CHAIRMAN AGENZIANO: Could I do this? Could I ask staff to remind everyone, especially some people who are in the room and may be watching, what each basis point equals? Every time we move a basis point, how much money that?

MR. MAUREY: In the record, 100 basis points on ROE equated to approximately $52.6 million in annual revenue. Now, that was based on the company's filing that's in the record. Now that -- due to a number of adjustments, the recommendation before you, the staff is not recommending all of the company's proposed adjustments be accepted. It's a little less than 50 million a year. It's something I think closer to 48 million. But that's a calculation. The 51.6 is the number in the record based on the company's initial filing. That's what we usually use as a rule of thumb. But based on all the other issues, that number will go up or down. Well, in this case, it's going to go down based on other decisions.

COMMISSIONER STEVENS: Go ahead.

CHAIRMAN AGENZIANO: Commissioner Klement.

COMMISSIONER KLEMENT: No, no.

CHAIRMAN AGENZIANO: Commissioner Stevens.

COMMISSIONER STEVENS: Thank you, Commissioner. I appreciate what went into this case, and I certainly don't think that rate cases are something that need to be done annually, but I do think that, you know, if we see these more often, it would probably be better. Looking to the future, we're here to hear a base rate case, and I realize that. Whether or not staff wants to do this every year -- I know it was a big project. But again, I'm looking at things right now and what's going on. I don't see a significant change in the near future, and what I mean by that is the next three years. So I believe, even if a rate case came before us, I would be of a similar opinion right now as I am in the future, as I would be in the future. Thank you.

CHAIRMAN AGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair. One of the important things I think that the Commission -- and I think staff could probably opine on this also -- is that in establishing an ROE, a fair ROE, certainly, you know, that's what we're working on here, and I think we're starting to build consensus. But I also feel based on our five investor-owned utilities, each are differently situated in terms of overall risk, and I think it's important to be somewhat cognizant of differentiating between the risk of one company versus another company versus another company. And I think that what would be of concern to me is if we move too low on a company that potentially has more risk. Then what happens if you have a company with less risk come in? Are they going to be a substantially lower ROE? So I just think that's something we need to be cognizant of. If, Andrew, you would like to speak to that in terms of leverage formula or however you want to speak to it. But risk within the Florida IOUs is also an important consideration.

CHAIRMAN ARGENZIANO: Does that also mean, Commissioner Skop, that we would look at the past rate case that we passed and judge that also as far as --

COMMISSIONER SKOP: No. Actually, it's supposed to be like a stand-alone. But again, the whole --

CHAIRMAN AGENZIANO: No, I mean in allocating risk.

COMMISSIONER SKOP: To some degree, yes.

MR. MAUREY: There are five investor-owned utilities operating in Florida. Four own generation. One does not. And if all the companies came in at the exact same time and we were setting returns on equity for all of them based on the same record, then it would be convenient to rank them according to risk and return. But because they come in on their own accord at different points in time, there will be a different level of capital costs at different points in time, so you can have a situation where an ROE that was set in the past for a particular company at a particular level of risk and you're setting a return today for a different company, different record, there might be some tension there between those two.

If you were to set them all at the same time, you might do things differently, but that's not what we have before us. We have this company on this record on this day, and we're making a decision, and the other decisions will stay in place until those companies come back in and have their day.

CHAIRMAN AGENZIANO: To me, that sounds very appropriate. You look at the circumstances in front of you with each case and take it from there.

Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair. At least I guess summarizing the ROE ranges put out there by my colleagues, I think I've heard a 10, I've heard a 10.25 from Commissioner Argenziano, and I've suggested perhaps, you know, 10.7, 10.75. I guess my concern -- you know, I can get comfortable with the 10.25. I would be more comfortable with 10.4. Again, anything under 10.5, my primary concern -- again, I know this really shouldn't matter, but at the end of the day, it might have some far-reaching ramifications -- would be inadvertently -- you know, someone arbitrarily using discretion that would result in a credit downgrade. And that's the only concern I have. But I'm comfortable if -- should it be the will of the Commission to do 10.25, I could support that. My more comfort level would be, you know, 10.3, 10.4.

CHAIRMAN AGENZIANO: And Commissioner Skop, I don't understand that, and I've been trying. I've been grappling with that, I guess, to figure out how a 10.25 or 10 changes the company's financial -- I keep looking and going back to risk as one of the major, I guess, players in risk, in financial risk. I think debt, as you mentioned before, is something little more substantial than the ROE when it comes to the risk to the company. So I'm still having a hard time figuring out how a 10 percent -- and maybe staff can help here -- versus a 10 1/2 hurts the company financially.

Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair. Again, that's what I'm struggling with too, because --

CHAIRMAN AGENZIANO: I mean not financially as a difference in money, but in their bond ratings,

COMMISSIONER SKOP: I understand. And again, there is -- you know, there is no perfect answer. We have to use discretion, and we have to use discretion wisely.

I think to your point concisely, though, where the choice of ROE can in fact impact credit rating adversely would be that ROE is cash flow to the company. And basically, on Exhibit TRS-19, which is a Progress exhibit, there is the -- and I can pass this around. I just happen to have this copy.

But the gist of this is that ROE is cash flow. And what this chart looks at is a range of funds from operations, and basically -- which is cash from operations, pre-working capital, so that's kind of what ROE drives. And there appears to be a certain range of which is necessary to support a credit rating by Standard & Poor's and also by Moody's.

And as Andrew, Mr. Maurey mentioned, there's a split rating here. S&P, I think you have a triple-B, and on Moody's, you have a single-A. And the only one that -- at a zero rate increase, they would probably be kept constant and there probably would be no downgrade. The only one I would have some concern with would be perhaps Moody's, because on a cash flow basis, you start to fall below that range. But I'll let Andrew explain that.

MR. MAUREY: You're correct, as I mentioned earlier, the split rating, with the triple-B for S&P and the single-A for Moody's, but also rated single-A by Fitch. But the exhibit from the hearing only looked at metrics for S&P and Moody's. We don't have the comparable metrics for Fitch handy. But working with what we have, at a zero rate increase or a $35 million decrease, those metrics, they will remain in the range indicative of a triple-B rating for S&P. There is some evidence that they would no longer be in the range indicative of a single-A. Whether Moody's would downgrade them or not is really up to Moody's, but it's --

CHAIRMAN ARGENZIANO: I'm sorry. Why would that --- what's the evidence leading to -- what's the cause? Of the cash flow or the --

MR. MAUREY: Oh, reduction in cash flow. These metrics are driven by cash flow as a percentage of interest and cash flow as a percentage of debt.

CHAIRMAN ARGENZIANO: Okay. So then wouldn't the -- if we were talking about the surplus depreciation before and how we leave the company with -- if you were -- whatever number, I guess, you choose, wouldn't that -- if you used both of those, wouldn't that help in that area as far as what the company has, the revenue that is left on the table?

MR. MAUREY: Well, they're both variables, but whether you use it all in surplus or all in ROE, once you still get to the zero point, that's where the measures are pegged off of. There's no change in cash flow. There's a zero change. That's where these metrics would indicate that the company going forward is not supportive of a single-A rating.

CHAIRMAN ARGENZIANO: But then by that scenario, and please correct me if I'm just maybe ignorant to that extent, so what you would be saying is that a company needs to earn higher and higher ROE in order to get a good bond rating, which I'm having a hard time with, going back to the Bluefield, Hope and Bluefield cases, which says that ROE is minimal -- I mean risk is minimal impact to the bond rating. So that would mean that if -- and I guess I'm trying to put it all together. If you have less risk, I would think that has to be a good thing for investors.

MR. MAUREY: Absolutely. Less risk is preferable than more risk. But it's risk-return. If there were less risk, they would require a lower return. If it was higher risk, that doesn't mean they will shy away from the investment. They'll just expect a higher return.

CHAIRMAN ARGENZIANO: Right. But that's why I'm saying the lower return -- that's what I'm trying to get to, I guess. If there's less risk, then the return should be lower, but yet I'm hearing if it's lower, they're going to be looked at unfavorably as far as financial cash flow and so on, and that would mean that you would always have to give a much higher ROE in order to -- whether they had risk or not.

MR. MAUREY: Okay. Let me touch on that point. It's going to be specific to the company that's before you. Some companies come in here in a much stronger financial position when they ask for rate relief than other companies, so granting them a rate relief less than they requested won't necessarily drive their metrics down. In this particular case with this particular company, its financial metrics, it's very sensitive to that. Other companies that will come before you are more well-heeled. They'll have larger metrics.

CHAIRMAN ARGENZIANO: Okay. Give that, let me just throw this out to you. Let's say I would be favorable towards a 10 1/2 ROE. How do you -- how can that be adjusted then using this surplus depreciation to get to a point where there's no rate increase for the ratepayer, and yet the company still have a more favorable cash flow and outlook by those companies, S&P and Moody's?

MR. MAUREY: The incremental difference -- staff's recommendation is based on an ROE of 11.25. Any ROE less than that, all else held constant, is going to be a small rate reduction. And not to prejudge what the majority of you approve rate, let's say it's 10.7 for purposes. There's going to be an incremental difference coming off of what staff recommended. It won't be 58 million. It will something less than that.

Then when you get to the surplus issue, you adjust the surplus, the flow-back of surplus. You're going to have a similar sensitivity if you flow back 100 million or 300 million or 500 million. That sensitivity you can match up with what that will provide in terms of rate reduction to what you've already accomplished with the lower ROE. So that's using the two pieces to get it to zero.

CHAIRMAN ARGENZIANO: And for my clarification, when you're telling me that this company is coming in with a probably not as strong financial portfolio, for lack of better words, and that the 10 1/2 versus a 10.25 will be more favorable for the company, and yet we could still, in working with the surplus depreciation, depending on how long we do that, still keep the company in better outlook with S&P, with Fitch's, with Moody's, that can be done? Now -- go ahead. I'm sorry.

MR. MAUREY: The company is going to maintain its investment grade rating. Even at a zero rate increase, it will maintain an investment grade rating. It may no longer be split rated. It may be triple-B across the board, but it will still be a financially strong utility, not as strong as it asked to be, but we rarely -- the Commission rarely grants 100 percent of the request the company asks for.

The point you were -- and I apologize if I was not clear on that. It's indifferent whether they get to that zero all through ROE or all through the surplus or some mix of the two. They're still going to be at zero, and they're going to have some ratios. Now, does that mean they're guaranteed to be downgraded? No. We cannot tell you they will definitely downgrade them. All we can say is that it appears that the cash flow ratios emanating from such a decision would no longer fall into single-A.

CHAIRMAN ARGENZIANO: Okay. Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chairman. And to Mr. Maurey's point, I somewhat disagree. I think it may be semantics, but I somewhat disagree with it's immaterial as to whether it comes from ROE or whether we tap into the theoretical depreciation reserve. Here's the reason why, and maybe Mr. Devlin or Marshall can chime in.

Depreciation surplus is a non-cash item. Ratepayers have already paid into that, so basically, the company is just doing an accounting book entry to offset. They're not paying anyone back. They're just not collecting any more cash. They've already collected it, whereas ROE is actually real cash generated in real time. So I do think that there's a -- in an accounting sense, it probably means nothing, but in terms of cash flow, it does mean something. And so that's where, to me, if I had a preference, again, my goal -- I think Commissioner Stevens has also mentioned that he would be comfortable with avoiding a rate increase for consumers. And that's certainly what I'm looking at trying to do here, exercising discretion to achieve a fair outcome, but one that does not require a rate increase, but it also preserves the financial integrity and the credit rating of the company.

I think that if I had a preference, it would be not to overreach on ROE, to have a fair ROE, 10.5, 10.25. But again, I'm comfortable moving towards the 10.5 number, and then take only what is necessary of the depreciation surplus to offset the residual revenue requirement. That way, if you have a zero revenue requirement, you have no rate increase, consumers win, and the company is kept healthy.

CHAIRMAN AGENZIANO: Well, the consumers may win, but what happens in the fifth year or whatever time period you have to -- you know, to let that run? What happens in the fifth year? Are you going to sock it to the consumers in the fifth year or the sixth year? So that's very important. And the difference could be substantial, depending on what numbers you put in.

Let's do this. Let me say this. We're at five to one. I think we should break for lunch and give it some thought and think about when we come back.

COMMISSIONER SKOP: Madam Chair.

CHAIRMAN AGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair. And actually, I would say you made an excellent point. You know, with the depreciation surplus, you do have to take a look at what's going to happen in the fourth or the sixth year. I just looked at that. I think it's reflected on my chart. But if the Commission were to adopt a 10.5 percent ROE in lieu of the staff recommendation, the revenue requirement resultant from that would be $38.7 million less revenue requirement, so then you would only need to tap into a mere fraction of the surplus, $100 million, which is 25 million over four years, to have a revenue requirement that's zero or less than zero, resulting in possibly a rate decrease. You don't have to tap a lot of the depreciation surplus at a 10.5 percent ROE to get to a zero revenue requirement, very little. A hundred million dollars, you're done, and probably it would be a revenue decrease at that point.

CHAIRMAN ARGENZIANO: Okay. Let's go to lunch and promptly come back at two o'clock, please.

(Recessed at 12:58 p.m.)

CHAIRMAN AGENZIANO: First I want to say our General Counsel came up and told us that the AARP members that are here wanted to make sure we understood that if they got up and left about three o'clock, it wasn't out of disrespect, it was because they have a bus to catch. We understand that. Thank you very much.

Commissioner Skop, I believe you wanted to say something.

COMMISSIONER SKOP: Thank you, Madam Chair. I just -- when we left off for lunch, I was trying to make a point, and I just want to briefly clarify the point I was trying to make.

In terms of the handout that I gave my colleagues, the chart, if you were to look at the handout -- and I know there has been considerable discussion on ROE value, but if the Commission were to adopt a 10.5 percent ROE, which is a significant reduction from that recommended by staff, the reduction to revenue requirement would be approximately $38.7 million. Where that would -- you know, that would serve to further reduce the revenue requirement. And then if you look at the bottom of that chart, once we get to Issue 40 -- I mean Issue 15, in terms of what you might have to do to look at the theoretical depreciation surplus amount, you would only have to amortize $100 million over four years or 25 million per year. That would give you a $16 million revenue requirement reduction. So at the end of the day, you would end up with a revenue requirement at or slightly below zero, which would be a minimal rate decrease for consumers if the Commission were to go in that direction.

Just briefly, with respect to the depreciation surplus amount, I know we'll talk about that on Issue 15. I thought the Public Counsel argument was very well put together on the intergenerational inequity argument, but I think as you astutely pointed out right before we broke, there's an opportunity cost of robbing Peter to pay Paul, and that's that in four or five years, you're going to have to make up that depreciation deficit. So if we're able to tap into it and use discretion and judgment wisely in terms of how it impacts the revenue requirement, then I think we should do that. But normally in different situations, I would probably embrace OPC's argument wholeheartedly, because again, in a deficit situation, certainly the utility would be wanting to recover. In a surplus situation, it's not always a symmetrical desire to do that. But there are some instances where you reach a point where you're doing more harm than good. And I think that if we exercise discretion gingerly, we could probably build consensus and get to a desirable outcome.

So thank you, Madam Chair.

CHAIRMAN ARGENZIANO: Thank you. Okay. Now, where we left off, I guess we have to -- staff, you were basically done with that issue as far as -- we were asking questions. Were there any questions that were left unanswered?

Okay, members. Where do we want to go from here on this issue as we're dealing with the return on equity? Do you want to start discussion on where each one of you may be and see if we get to a motion and if we can -- Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair. I think in this issue block, there's Issue 48, which is the weighted average cost of capital. It's a fallout issue, but I don't know if we want to proceed.

CHAIRMAN ARGENZIANO: Can we do it -- we have a question. Commissioner Edgar with a question for us, and then we'll --

COMMISSIONER EDGAR: Thank you. I just didn't wave fast enough. Thank you.

I guess I'm a little confused. From the discussion that we had prior to the lunch break, we've had a lot of discussion, and good discussion, educational discussion, about the potential interaction between the decisions that we need to make as they pertain to Issue 47 and the decisions that we need to make, I believe, as they pertain to Issue 15. And I do, of course, recognize the interrelationship of those two issues in particular, and every issue as part of the greater whole. But yet with the kind of back and forth of if we as a body reach consensus on a number for the ROE, what we may want to do or need to do with Issue 15 has confused me just a little bit, and so I guess my question to staff is -- and there may be a better way of putting this, or if somebody could help me clarify or expand upon it, I would appreciate it. But I'll start with this.

My question to staff is, are these items, each of them, although impactive on one another, independent and discrete decisions based upon the testimony in evidence on those issues, or is our responsibility to decide together to come up with a goal or to reach a whole?

MR. MAUREY: Typically it's the former, but as the discussion is unfolding, I believe it's going to be the latter. Normally these are stand-alone issues that you can rule on, but as I heard the discussion -- well, I stand corrected.

CHAIRMAN ARGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chairman. I want to emphasize that I'm not trying to rationalize to achieve a goal. What I am trying to do is take each individual issue on the merits and, reviewing the record evidence supporting my basis for decision, and to exercise my discretion and judgment on each of the respective issues. If you end up with a result that is just by coincidence, again, what I'm looking at is each issue independently and exercising judgment.

CHAIRMAN ARGENZIANO: Excuse me. I want to say the same thing, looking at each issue independently, understanding that what you do on one issue has an outcome on another. And I think as a Commissioner, after going through this, listening to the hearings going through the testimony, rereading it, I have figured out where I want to be on all of them, but I have to look at all of them as we're looking at them now to get -- when we get to the end of one of these issues, what I do up front is going to have a tremendous impact on that.

So given that, go ahead. I'm sorry.

MR. MAUREY: Well, to be clear, we approached the -- staff approached the issues independently. In the recommendation before you, we're looking at each issue independently.

CHAIRMAN ARGENZIANO: Absolutely. Any other -- Commissioner Klement.

COMMISSIONER KLEMENT: Commissioner Skop, your opening comment as we came back from lunch, I'm sorry. I was sneezing when you began it. Did you just make that as a suggestion, and did you have the actual numbers for that that would balance to get to a zero?

COMMISSIONER SKOP: Again, I don't want this to be construed as managing to revenue requirement. What I'm looking at specifically is ROE, and at the 10.5 percent ROE, if the Commission adopted that, again, that would be 75 basis points lower than that recommended by staff and nearly 204 basis points lower than what Progress had requested for approval.

The result of the Commission adopting a 10.5 percent ROE would be that the revenue requirement would be reduced by approximately $38.7 million over the staff-recommended revenue requirement. So again, by virtue of an ROE, certain things happen. You get a reduced revenue requirement.

I would emphasize too that the 10.5 percent is the midpoint. The utilities are entitled to earn plus or minus 100 basis points over or below that. Again, it's up to the company to manage earnings based on an authorized rate of return. The realized rate of return is up to how the company manages. But if they were to bring operational efficiencies and reduce overhead expenses, certainly they could earn up to 11.5 percent ROE without being brought back in for an ROE reduction.

So again, it provides a midpoint, but I think it's fair. But again, I'll leave that to my colleagues, because I know Commissioner Stevens had suggested it might be a little bit lower. But again, I'm looking at that critical situation where you want to be fair to the ratepayers. I think Public Counsel made a great, compelling case, but there's a fine point where I think it becomes a situation where you do more harm than good, so I'm looking at trying to find that happy compromise.

And with respect to the theoretical

depreciation amount, that's Issue 15. I think that again, Chairman Argenziano raised some excellent points there to help me refresh my thinking on that. Certainly if you tap that reserve, at the end of four years or six years, whatever the amortization period is, you're going to have to replenish that reserve amount, which means customers are going to pay more later.

OPC again raised an excellent argument, Public Counsel, the intervenors, about amortizing the depreciation amounts over four years. If the company were not in the financial situation it is, that would be I think a very realistic option to consider doing. It would be immediate rate relief to current ratepayers, but ultimately ratepayers in the future would get a substantial rate increase because depreciation rates would go back up. So I think we look at that gingerly, and again, that's a separate issue, Issue 15, that we'll address at the end of the discussion.

Thank you.

CHAIRMAN ARGENZIANO: Commissioner Edgar.

COMMISSIONER EDGAR: Thank you, Madam Chair. Since I think one of the answers that I heard to my question a few moments ago is recognizing that we do have to look at each item somewhat discretely, but realizing the whole result that we are getting to or making happen, so let me ask this question, which is a little -- I fully admit, a little off subject, but to staff, to Andrew or to whoever, if that's better.

Realizing the large capital nuclear project that this company is undertaking that has been need determination approved by the Governor and Cabinet, and initial pre-construction cost recovery approved under the statute by this Commission, what, if any, impact would some of the possibilities that we have discussed here today as to ROE and depreciation treatment potentially have on that project?

MR. MAUREY: The rate decision that the Commission comes up with later today is going to produce a certain amount of cash flow, and the company will consider that. It will look at not just the nuclear program, but all of its capex. Staff recommends significant cuts in O&M in its recommendation. The company would be considering those as well, what O&M it can cut beyond that. But at some point, it will look and see what it can afford to go forward with. A reduction in cash flow means that it will need to go to the external capital markets to fund that incremental difference.

Cash flow can be provided either in terms of a rate increase, in terms of depreciation, in terms of

ROE. All of that provides cash flow. This Commission will decide what it believes the appropriate cash flow is for the company going forward. The company will take that information to decide how it can go forward. I can't tell you today as I sit here how that's going to affect their nuclear plants.

CHAIRMAN ARGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair. If I could get Mr. Willis -- it might be instructive and informative to the people in the audience as well as those who may be listening to gain a better appreciation of how costs are recovered for nuclear construction. I know power plants have different mechanisms.

But it's my understanding that pursuant to statute, under the nuclear cost recover clause, that the companies get their pre-construction costs on an annual basis, and then I believe pursuant to statute -- and again, I would have to pull it and check. But when the nuclear plant does come in service then the amount of the nuclear construction costs or the, costs incurred plus the AFUDC, which is allowance for funds used during construction, will be put into base rates probably in the 2017, 2018 time period, whenever the plants come in service. But can you briefly explain that, because, again, cash flow helps because you're able to internally finance projects, but they have, I believe, adequate recovery mechanisms available to the company that should support construction. I mean, that was the purpose of the whole nuclear statute to begin with; is that correct?

MR. WILLIS: That's correct. The nuclear construction or the nuclear statute provide provides that the pre-construction costs are collected 100 percent up front. Any construction costs between now and when it goes into commercial service, the company gets its cost of debt and equity, in other words, its allowance for funds used during construction. They will get that each year through basically the capacity clause, through the nuclear cost recovery portions of the statute. When the nuclear plant or plants go on into commercial service, the statute provides that that will then go into base rates, which means at that point, the actual construction costs will begin to be recovered at that point in the operating costs of the unit. So it's pretty much covered up front by the nuclear cost recovery statute.

COMMISSIONER SKOP: So in terms of recovery, the utility is adequately protected by the existing statute, and then it just becomes an issue of whether you're going to use internally generated cash flow to fund that construction or whether you're going to go to external markets, as Mr. Maurey stated, to finance construction. But either way, the Commission and the utility have a statutory basis for cost recovery, which would provide some risk mitigation and some financial security to the capital markets; is that correct?

MR. WILLIS: Yes. The statute provides appropriate recovery of those costs up front.

COMMISSIONER SKOP: All right. Thank you.

CHAIRMAN AGENZIANO: Thank you. All right. Any other questions? Well, we have to --0 we're on Issue 47, so anybody want to take a stab at it?

Okay. Commissioner Skop.

COMMISSIONER SKOP: Madam Chair, there may be some discussion on this, but I would respectfully move to adopt a midpoint return on equity of 10.5 percent for Issue 47.

COMMISSIONER STEVENS: I'll second for discussion.

CHAIRMAN ARGENZIANO: So for discussion. Let's move to discussion, then. 10.5 is your proposal. Let me see. Commissioner Stevens. I'm sorry.

COMMISSIONER STEVENS: And the reason I said discussion is, as we go through these issues, which, you know, we've all read the information and put things together, things do balance out in the end. And as I went through the information, my simple calculations came up to pretty close to no rate increase. So the 10 1/2 percent I think is fair to the company. I think it's fair particularly for the next two to three years, and I think it takes that into consideration.

And I don't ever want to negatively impact a company, particularly with the rating agencies. But I think 10 1/2 is fair, and I think we accomplish what I want with the 10 1/2 percent.

CHAIRMAN ARGENZIANO: Commissioner Klement.

COMMISSIONER KLEMENT: I will echo what Commissioner Skop and Stevens have said. 10 1/2 percent is appropriate, given all the caveats that we have already cited regarding the concern for bond rate, the concern for ratepayers, with the economy, and others that I can't remember now, but we've talked about them at length.

CHAIRMAN ARGENZIANO: Commissioner Edgar.

COMMISSIONER EDGAR: Thank you. I do have -- let me start over, if I may. I do think, as I said earlier, that it is important for -- it is important to me individually, but in my view, as the Commission as a whole, for us to, as I know we are, to take into account immediate circumstances and short-term foreseeable circumstances. And I think it is important that we try the best we can to make educated and informed decisions without, unfortunately, that expert excellent crystal ball as to what will come ahead.

I have some slight pause as to how -- and I asked this question a few moments ago. And I think as far as the nuclear project, advance cost recovery, which is, I think, the phrase I heard you use, if we could discuss that more at length. But I'm not sure that would be all that useful today, so I would say just this. I do have some concern about the potential of some of our decisions today to have an impact or increase costs potentially to that project and to maybe have other negative ramifications. And I just wanted to put that out there purely as a concern. I do not have that crystal ball. I hope that concern is totally off base and unmerited, but it is a concern that I have, and so I just wanted to state that.

I think that would we -- I know that we are trying to balance a number of factors. I think that there is a reasonable range, and I appreciate the courtesy today and the opportunity to kind of bounce it around and weigh different numbers as we try to get to the middle. So I will say that there isn't a single number probably for ROE that I would feel completely enthusiastic about, but if indeed this is the consensus, then I think it's a solid one.

CHAIRMAN ARGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair. And just to discussing the 10.5, again, I would just emphasize for the record that 10.5 percent is 204 basis points lower than the 12.54 that Progress Energy requested, and it's also 75 basis points lower than that recommended by staff.

I appreciate Edgar's concerns. Again, I have the same concerns. But I think at the end of the day, the utilities are just going to have to make do in these difficult economic times. I mean, I think it's a fair return. It's commensurate with recently decided rate cases throughout the nation. And in better times or in times of inflation, certainly a higher ROE might be warranted. And the companies have that remedy available to them either through a limited proceeding or refiling for a subsequent rate case should we get into an inflationary period.

But again, for today's prevailing economic conditions, I felt that a 10.5 percent return on equity is fair to the company. It helps them reserve their financial integrity, but it's also inherently fair to the Progress customers to the extent that they're not paying more than necessary in that regard.

Thank you, Madam Chair.

CHAIRMAN ARGENZIANO: Thank you. I agree. There's no number, a number that doesn't give you heartburn. I was originally thinking a lower number, but the consensus of the committee, the Commissioners is 10 1/2, then as long as it didn't go higher, in my mind, than 10 1/2.

I am concerned with the intergenerational issue that comes up and how we do that in Issue 15, I believe, to the degree that I don't know how we get it together without then impacting the company further, and yet still getting back the money due to those people who may not be here down the line that deserve to get their money back, so I have some concern there.

As far as the crystal ball, I understand that. I don't know what that is. I don't think any of us do. I think that the statute was also written that if the company chose not to build, that they would recover all costs also with regard to the nuclear power plant, so they are protected in that manner.

But if that's the will, let's put it in proper motion if we can if we're ready to vote on the ROE. Commissioner Skop, would you like to make the motion?

COMMISSIONER SKOP: I think we had a motion and -- actually, I'll remake it since --

CHAIRMAN ARGENZIANO: It was a motion for discussion.

COMMISSIONER SKOP: I would respectfully move to adopt a midpoint ROE of 10.5 percent for Issue 47.

COMMISSIONER STEVENS: Second.

CHAIRMAN ARGENZIANO: For 10.4 -- 10 1/2.

COMMISSIONER SKOP: Let me restate it.

CHAIRMAN ARGENZIANO: Yes, do it again, please.

COMMISSIONER SKOP: I respectfully move to adopt a midpoint ROE of 10.5 percent for Issue 47.

CHAIRMAN AGENZIANO: And we have a second. All those in favor say aye.

(Affirmative responses.)

CHAIRMAN AGENZIANO: Opposed, same sign.

I said aye, by the way, if you didn't hear me.

Okay. That motion passes. Let's move on. Who's next?

Okay. So we need to go back to 38. No, it's 39. Get me on track here, staff. Is it 39? Yes.

MR. DEVLIN: Well, Issues 39 and 40 I believe we'll have to recalculate, but they're just mechanical issues.

CHAIRMAN AGENZIANO: Okay.

MR. DEVLIN: More important is the issue on the equity ration and some of the other issues in the cost of capital area.

CHAIRMAN ARGENZIANO: Okay.

MR. DEVLIN: So we need to vote.

CHAIRMAN AGENZIANO: On which issue.

COMMISSIONER EDGAR: I'm sorry. If this is the appropriate time -- and if not, I can wait -- I would like to ask Mr. Maurey to speak to us in a little more detail, now that we're on it, on Issue 42, the equity ratio.

CHAIRMAN ARGENZIANO: Yes.

COMMISSIONER EDGAR: In light of the discussion and the decision that we've made.

CHAIRMAN ARGENZIANO: Absolutely.

MR. MAUREY: Actually, the order of the issues are that we approve an equity ratio. That sets a particular level of financial risk, and that drives ROE. Generally we don't go into other direction.

COMMISSIONER EDGAR: But where we are today, I would still like you to speak to --

MR. MAUREY: We still believe that the equity that we're recommending of 50 percent is appropriate. We're not recommending any reduction to the equity ratio other than the removal of imputed equity discussed in

Issue 41. At an ROE of 10.5, obviously, that's within staff's recommended range.

We generally don't do a reverse leverage formula, I guess is my struggle here. I apologize. I must not understand the question.

CHAIRMAN ARGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair. Again, I was comfortable voting Issue 47 because I was comfortable with the other issues leading up to that. Again, I'm not so sure that we need to make changes. I know Issue 39 will change as modified to reflect the changes in the rate base -- Issue 40, I'm sorry. But also Issue 39 will change because the weighted average cost of capital will change. So again, I'm comfortable with Issues 39, 40, 41, 42, 43, 44, 45, and 46, noting that the decision on the ROE may require recalculation or adjustment of some of those values.

CHAIRMAN AGENZIANO: Remaining comfortable with staff's recommendation?

COMMISSIONER SKOP: Yes, ma'am.

COMMISSIONER STEVENS: Is that a motion to accept staff's recommendation?

CHAIRMAN AGENZIANO: Restate the issue.

COMMISSIONER SKOP: Madam Chair, just as a point of clarification, he has to go through these one by one, so it will probably be easier to do one --

CHAIRMAN ARGENZIANO: To do one by one. Okay.

COMMISSIONER SKOP: And I'll start with Issue 39.

CHAIRMAN ARGENZIANO: Okay. Then that's what we will do.

COMMISSIONER SKOP: Thank you, Madam Chair. I respectfully move to accept the staff recommendation for Issue 39.

COMMISSIONER STEVENS: Second.

COMMISSIONER SKOP: Noting that it will change due to the weighted average cost of capital and any modifications made.

CHAIRMAN AGENZIANO: Okay. Any discussion or debate on that? All in favor, aye.

(Affirmative responses.)

CHAIRMAN AGENZIANO: Aye. Opposed, same sign. Show 39 approved.

Commissioner Skop.

COMMISSIONER SKOP: Yes. As to Issue 40 -- actually, I'm sorry. I need to go back to Issue 39. What I meant to say, and again, I wrote it on the wrong thing, was Issue 39 will be modified to reflect the changes in the rate base. So again, that was the intent of the motion. I'm sorry. I just wanted to clarify that.

CHAIRMAN AGENZIANO: Okay. Do we need to restate the motion and start again? That's okay, as long as we know what the intent was? Okay. Very good.

COMMISSIONER SKOP: As to Issue 40, I would move the staff recommendation on Issue 40, noting that the value for the weighted average cost of capital will change.

COMMISSIONER STEVENS: Second.

CHAIRMAN AGENZIANO: We have a second. All those -- any discussion, debate? All in favor, aye.

(Affirmative responses.)

CHAIRMAN AGENZIANO: Opposed, same sign. Show the motion passing and an aye for me. I keep forgetting to say aye.

Next, please.

COMMISSIONER SKOP: As to Issue 41, Madam Chair, I would respectfully move to adopt the staff recommendation for Issue 41.

COMMISSIONER KLEMENT: Second.

CHAIRMAN AGENZIANO: Any discussion, questions? Okay. All in favor, aye.

(Affirmative responses.)

CHAIRMAN ARGENZIANO: Opposed, same sign. Show that motion passing. Next.

COMMISSIONER SKOP: As to Issue 42, I would respectfully move to adopt the staff recommendation.

COMMISSIONER STEVENS: Second.

CHAIRMAN AGENZIANO: Any discussion, questions? All those in favor, aye.

(Affirmative responses.)

CHAIRMAN AGENZIANO: Aye. Any opposed? Show that motion approved.

Let's move to 43.

COMMISSIONER SKOP: With respect to Issue 43, I would respectfully move to adopt the staff recommendation for Issue 43, noting that there may be changes, as we discussed, and those would be incorporated by virtue of the decision on the return on equity.

COMMISSIONER STEVENS: Second.

CHAIRMAN ARGENZIANO: Questions or discussion? Hearing none, all those in favor, aye.

(Affirmative responses.)

CHAIRMAN AGENZIANO: Aye. Any opposed? Hearing none, that passes. Forty-four.

COMMISSIONER SKOP: Forty-four is a fallout issue. I would respectfully move staff recommendation and give staff the latitude to make the required adjustments on that issue.

COMMISSIONER STEVENS: Second.

CHAIRMAN ARGENZIANO: Second. Any -- all those in favor, aye.

(Affirmative responses.)

CHAIRMAN AGENZIANO: Aye. Opposed, same sign. Forty-five.

COMMISSIONER SKOP: Issue 45 is the cost rate for short-term debt, and I would respectfully move the staff recommendation on that issue.

COMMISSIONER STEVENS: Second.

CHAIRMAN ARGENZIANO: Any discussion or questions. All those in favor, signify by aye.

(Affirmative responses.)

CHAIRMAN ARGENZIANO: Aye. Opposed, same sign. That motion passed. Okay. Now we're --

COMMISSIONER SKOP: Madam Chair, that leaves us with the last issue in that block, Issue 46, which is the cost rate for long-term debt. And on Issue 46, I would respectfully move the staff recommendation.

COMMISSIONER STEVENS: Second.

CHAIRMAN AGENZIANO: Any questions or comments or debate? Okay. Hearing none, all those in favor signify by aye.

(Affirmative responses.)

CHAIRMAN AGENZIANO: Opposed, same sign. Show it approved.

COMMISSIONER SKOP: Then we have -- the last issue is 48, which is the weighted average cost of capital. I would respectfully --

CHAIRMAN AGENZIANO: Fallout issue?

COMMISSIONER SKOP: It's a fallout issue, but it will be modified as a result of our decision in Issue 47, I believe, because the return on equity has been adjusted. So I would respectfully move to accept the staff recommendation as to 48, incorporating the Commission's decision in Issue 47, which will change the value.

COMMISSIONER STEVENS: Second.

CHAIRMAN ARGENZIANO: Hearing a second, any discussion or comments or questions? Hearing none, signify by aye.

(Affirmative responses.)

CHAIRMAN AGENZIANO: Aye. Opposed, same sign. Show that motion passing. And now we are on the next block. If staff would go to our net operating account.

MR. DEVLIN: Issue 49 is the total operating revenues, and that is a fallout issue.

CHAIRMAN AGENZIANO: Okay.

MR. WRIGHT: Issue 50 is what are the appropriate adjustments to reflect the base rate increase for the Bartow repowering project authorized in PSC Order No. PSC-09-0415. And staff is recommending revenues at current rates for the projected test year should be adjusted as addressed in Issue 88. And no adjustment is needed for proposed revenues, since the revenue requirement amounts for the Bartow repowering project are included in the 2010 projected amounts.

CHAIRMAN AGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Actually, I'll probably defer to Issue 50, where the question will be more germane. Thank you.

CHAIRMAN ARGENZIANO: I'm sorry. You said you -- I'm sorry.

COMMISSIONER SKOP: I just was going to ask staff to address the Bartow repowering and the issue behind that, but it's probably better covered on Issue 50, to discuss how that --

CHAIRMAN AGENZIANO: Well, aren't we on 50? Yes.

COMMISSIONER SKOP: We are now?

CHAIRMAN ARGENZIANO: Okay. Then ask your question.

COMMISSIONER SKOP: With respect to the Bartow project, I believe pursuant to the settlement agreement, the 2005 settlement agreement, Progress was allowed to increase base rates for the Bartow repowering commensurate with that plant coming into service. It's my understanding that plant came into service earlier. Actually, it's not 2009 anymore, but it came into service in 2009, in which case Progress came in, and those rates were incorporated in pursuant to the settlement agreement; is that correct?

MR. WRIGHT: Yes, that's correct.

COMMISSIONER SKOP: Okay. And just in the interest of fairness to the company, Bartow was a generating unit that was previously approved by the Commission; is that correct.

MR. WRIGHT: That's correct.

COMMISSIONER SKOP: And the Commission to your knowledge has never denied reasonably and prudently incurred costs associated with a generating asset that the Commission has approved to be placed in service; is that correct?

MR. WRIGHT: That's correct.

COMMISSIONER SKOP: All right. Thank you.

CHAIRMAN ARGENZIANO: Did you have a question?

Okay. We're taking these in block. Commissioners, is that okay, and then we'll --

COMMISSIONER KLEMENT: Yes, ma'am.

CHAIRMAN AGENZIANO: Okay. Next issue.

MS. MARSH: Issue 56, this is aviation costs. Staff recommends that Progress has made the appropriate adjustments, and no further adjustments are necessary.

CHAIRMAN AGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair. Just to staff, I just want to emphasize that with respect to aviation costs, Progress did not seek recovery of those costs at all in this case; is that correct?

MS. MARSH: That's correct. They made a specific adjustment in their MFRs to remove those costs.

COMMISSIONER SKOP: Okay. So they never sought recovery of those expenses?

MS. MARSH: That's correct.

COMMISSIONER SKOP: All right. Thank you.

CHAIRMAN ARGENZIANO: Okay. Issue 59. I'm sorry, 57.

MS. MARSH: Fifty-seven addresses advertising expenses. PEF has made the appropriate adjustments to remove advertising. Staff recommends no further adjustments.

CHAIRMAN ARGENZIANO: Any questions, members. Okay.

MR. MARSH: Issue 59 addresses officers and directors liability insurance. Staff recommends that the costs should be allowed as a necessary cost of doing business for a publicly owned company. No adjustment is necessary.

CHAIRMAN ARGENZIANO: Any questions? Commissioner Skop, go ahead.

COMMISSIONER SKOP: Thank you, Madam Chair. I know that OPC or Public Counsel's position was to deny the recovery of the costs for D&O insurance, but I concur with staff that it seems to be a reasonably and prudently incurred expense in the course of business that's generally accepted. So again, I think I would more align with staff on this issue as opposed to the objection raised by Public Counsel.

CHAIRMAN ARGENZIANO: I just have a question. Is it -- Commissioner Skop, I've heard and I've read that it's usually done that way. Is it ever done where the shareholders pay that rather than the ratepayers?

MR. MARSH: Yes, that has been done routinely in water and wastewater cases. It actually in the past has not come up as an issue until more recently in electric companies, so it basically was just included in there and never was an issue. So in recent electric cases, it has also been allowed for the company, but it has also been disallowed in other companies.

CHAIRMAN ARGENZIANO: Any comments?

Commissioner Skop. Commissioner Klement, did you have any --

COMMISSIONER KLEMENT: No.

COMMISSIONER SKOP: Thank you, Madam Chair. Again, I guess that's just the way the decisional precedent of the Commission has gone, where in certain industries certain things are accepted, and we do different things in other industries. What I strive for is uniformity and consistency across the board. I mean, that's fair and equitable. You want uniform and consistent outcomes across all the utilities that we regulate.

I don't know why we do it different for water and wastewater, why we've denied it for that and granted it for utilities, but it would seem to me that if we want to go to Bluefield and Hope, which I'm sure no one wants to dive into that again, it seems to me it's a legitimate cost of the public service of providing electricity to customers. Again, it's just like normal insurance. It just covers the officers and directors, and some of the officers, at least expenses for PEF Florida are related to Florida.

So I view it as a legitimate expense. If there is a departure from what we do on the water side, maybe we need to take a look at remedying that departure and making it consistent, but I find it hard to make an argument that you could not legitimately consider this a reasonable business expense. And perhaps Commissioner Stevens can add some light on accounting treatment and how it's done.

COMMISSIONER STEVENS: My only comment is, you need it, and I think it benefits both the ratepayer and the shareholder.

COMMISSIONER SKOP: And under Sarbanes-Oxley and the new reporting requirements that public companies are subject to, again, it becomes even more important to indemnify your officers and directors. So I just see it as an unfortunate cost of doing business, but that's the state of regulation.

CHAIRMAN ARGENZIANO: And I understand that. And the reason I asked the question is because I didn't know why it wouldn't be shared. Just as it's shared for the protection of the shareholders as it is for the officers and directors, why wouldn't it a shared cost?

COMMISSIONER SKOP: I think that's a good point, Commissioner Argenziano. I mean, that's --

COMMISSIONER STEVENS: Split it.

COMMISSIONER SKOP: -- a different way to look at it.

CHAIRMAN ARGENZIANO: I mean, I just look at -- you know, it's small in comparison to -- if it's normally done that way -- I just don't know why we're not -- it kind of favors both.

COMMISSIONER KLEMENT: Perhaps the difference in the water versus electric is the exposure risk that is inherent in generating electricity and all of the heavy industrial equipment and plants that are there versus water plants, which there's a lot of testing inherent in that in the first place. So the risk of great harm perhaps is less from water. I'm just -- that's speculating letters.

COMMISSIONER STEVENS: Well, this isn't general liability or property liability. This is directors and officers liability.

COMMISSIONER KLEMENT: But does that mean -- if they make decisions that blow up in their face, they risk being sued, correct?

CHAIRMAN ARGENZIANO: Yes, but the question is who pays for this.

COMMISSIONER KLEMENT: Right, I understand.

CHAIRMAN ARGENZIANO: So the risk of them being sued, is it all on the ratepayer, as this is proposing? And I was just wondering why it wouldn't be on both the shareholder and the ratepayer. It's really a small number compared to what we're dealing with with the whole rate case, but listening to -- you know, going through the rate cases, it seems to me that there's a lot that the shareholder doesn't accept responsibility for, and I'm just looking to kind of even that out even in the small places.

COMMISSIONER STEVENS: I agree, Madam Chair. And, you know, as long as the company has it, whatever your recommendation is, I will follow.

COMMISSIONER KLEMENT: Perhaps there's -- excuse me.

CHAIRMAN ARGENZIANO: Commissioner Klement. Klement.

COMMISSIONER KLEMENT: Is there an industry standard?

CHAIRMAN ARGENZIANO: Well, that's what I was asking, and I think that the industry standard has been that the, that the ratepayer, is that correct, staff, except on the water, water and wastewater utilities?

MS. MARSH: It has been included in the past in electric and gas cases. It simply never came up as an issue. So whatever the company charged was not there.

If I may add one thing, I think in the water and wastewater so few of the companies are publicly traded that it simply hasn't come up since this was decided in TECO.

CHAIRMAN ARGENZIANO: All right.

MS. MARSH: So there may be an opportunity in the future to look at the way the industries are, are treated.

COMMISSIONER KLEMENT: What -- excuse me? What, what about other states and even NARUC standards? Do they have a standard that you're aware of?

MS. MARSH: I think there may have been some testimony. There, there was some testimony for some other states. If you look on Page 192, there's some discussion there near the bottom about some decisions in New York where there have been some partial disallowances. It's going to vary from state to state.

CHAIRMAN ARGENZIANO: I just think that it is a benefit to have obviously for the ratepayer as well as the shareholder. And, you know, it's just my suggestion. I could make a motion. I just didn't -- I wanted to throw it out there to see if there was -- Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

Just looking at the fine print, again, we've got a voluminous record in the staff recommendation. But it seems in the Con Edison case that the denial was based in part on, or the disallowance was based in part on excessive coverage. So I think that might have formed the basis, but I think that -- I don't have the case in front of me, but at least it refers to a case where there was a denial but due in part to excessive coverage limits. So I don't know if that changes the analysis. I think you could approach it either way, either the way you suggested where half the cost is incurred by the ratepayers and half is allowed to come from shareholders, or you can do it the whole thing as a normal and customary business expense. But whatever we do we should be consistent across the board on a forward-going basis.

CHAIRMAN ARGENZIANO: When you say consistent, that makes me nervous because there are some things that the past PSC, the Commissioners have done that I would not consider something I want to do today.

COMMISSIONER SKOP: I understand.

CHAIRMAN ARGENZIANO: So I'm not sure what you mean. As far as regulatory certainty to a certain degree, yes, of course.

COMMISSIONER SKOP: Right.

CHAIRMAN ARGENZIANO: But I'll ask staff, is there any, any major problem in splitting that with shareholders and the ratepayers?

MS. MARSH: None that I'm aware of.

CHAIRMAN ARGENZIANO: Maybe, maybe the ratepayers and the share, you know, the shareholders would look at that as a fair thing to do. So I'll just put it this way -- unless there's further discussion. Anybody else want to comment on that?

COMMISSIONER STEVENS: If, if you'd like, Madam Chair, I will make the motion to split the cost between the ratepayers and the shareholders.

CHAIRMAN ARGENZIANO: As long as we keep the -- is there a second?

COMMISSIONER KLEMENT: Second.

CHAIRMAN ARGENZIANO: Okay. All in favor, aye. Opposed, same sign. Okay. Show the motion passed. Thank you.

I guess we voted on this because of -- I took it out of the block, I guess. All right. We can move on to our next issue.

MS. MARSH: Issue 60 addresses injuries and damages expense. Staff recommends a decrease of 4,778,603 jurisdictional for injuries and damages. Staff is prepared to answer your questions.

CHAIRMAN ARGENZIANO: Commissioners.

COMMISSIONER EDGAR: Madam Chair.

CHAIRMAN ARGENZIANO: Commissioner Edgar.

COMMISSIONER EDGAR: Yes. I apologize again.

I think I'm losing track. So we have now voted on Issue 59.

CHAIRMAN ARGENZIANO: Yes. We took it out of, out of, out of order.

COMMISSIONER EDGAR: Out of order.

CHAIRMAN ARGENZIANO: Yes. Yes, we did. And that 59 is off the table and now we're going back, unless --

COMMISSIONER EDGAR: And we'll be coming back and --

CHAIRMAN ARGENZIANO: Yes.

COMMISSIONER EDGAR: Thank you.

CHAIRMAN ARGENZIANO: Okay. So we're on Issue 60. Any comments, questions? And I'll give us a minute if anybody, you know, needs more time. I don't want to race through anything. Okay. Hearing none, let's move on to Issue 61.

MS. MARSH: Issue 61 addresses administrative and general office supplies and expenses. Staff recommends a reduction of 1,298,435 jurisdictional. I would like to add that the title of this issue really has nothing to do with what it is. This deals with things like hospitality suites for sporting events and such.

COMMISSIONER SKOP: Could you speak up?

MS. MARSH: I'm sorry. I might not have it in front of me well enough. Do I need to repeat what I was saying?

CHAIRMAN ARGENZIANO: If you would, please.

MS. MARSH: Okay. Issue 61 addresses A&G office supplies and expenses. Staff is recommending a reduction of 1,298,435 jurisdictional. And I do want to add that this, the title of the issue doesn't really address what the issue is about. It is reductions for things such as hospitality suites at sporting events and things of that nature.

CHAIRMAN ARGENZIANO: Any comments, questions? Okay. Hearing none, let's move on to Issue 62.

MS. MARSH: Issue 62 addresses the allowance and O&M expense for productivity improvements. Staff is recommending that no disallowance be made for productivity.

CHAIRMAN ARGENZIANO: Commissioners?

COMMISSIONER STEVENS: Madam Chair.

CHAIRMAN ARGENZIANO: Commissioner Stevens.

COMMISSIONER STEVENS: Before we jumped into the, and I realize that we're talking in a block here, but before we jumped into the salary part of this block did you want to take the remainder of the issues up for vote?

CHAIRMAN ARGENZIANO: That's a very good, a very good point. Yes. I think we should do that. So if there are no questions to 62 or comments to 62, then we could I guess vote on the issues if there's a motion. Remember, we've already voted on 59.

COMMISSIONER STEVENS: Yes, ma'am. I would move that --

CHAIRMAN ARGENZIANO: Commissioner Stevens.

COMMISSIONER STEVENS: -- we accept staff's recommendations for Issue 49, 50, 56, 57, 60, 61, 62.

COMMISSIONER SKOP: Second.

CHAIRMAN ARGENZIANO: I have a second. All in favor, aye.

(Simultaneous vote.)

Opposed, same sign. Show that passed.

And now we are on Issue 63, the average salary increases.

MS. MARSH: Okay. Issue 63 addresses the level of salaries and employee benefits. Staff recommends that salary and wages be reduced by 1,454,000 jurisdictional. This is basically a housekeeping issue that reclassifies some amounts from salaries and wages to other accounts where other adjustments were made that you just voted on.

CHAIRMAN ARGENZIANO: Commissioners? We're okay? All right.

MS. MARSH: Issue 64 addresses proposed increases to average salaries for 2010. Staff recommends that salary expense be reduced by 10,146,776 for the 2010 projected test year.

COMMISSIONER STEVENS: May I?

CHAIRMAN ARGENZIANO: Commissioner Stevens.

COMMISSIONER STEVENS: When it's reduced by the 10 million, what's the percent increase for that? I think OPC had a little bit higher reduction. Does that leave a certain percentage increase for the company?

MS. MARSH: The -- OPC's amount is the system amount. If you look at staff there in the parentheses of the recommendation, that's the same number that OPC has.

COMMISSIONER STEVENS: Okay.

MS. MARSH: So we're really saying the same things. They just didn't use the separation factor.

COMMISSIONER STEVENS: Thanks.

CHAIRMAN ARGENZIANO: And if I may ask, how is it allocated? Is it up to the company deciding where it goes; right? Does it go all to the top, does it go throughout?

MS. MARSH: We have no control over that. They can decide -- they indicated in discovery that they were giving, I think, 2 percent to management and 3 percent to non-management, but that's totally up to their discretion.

CHAIRMAN ARGENZIANO: So staff's recommendation is what percentage?

MS. MARSH: It's the 2.35 recommended by OPC.

CHAIRMAN ARGENZIANO: Okay. Any other questions?

Commissioner Skop.

COMMISSIONER SKOP: Just a general comment, and I think this reflects positively on Progress. But with respect to the employee salaries, not necessarily executive compensation, but the rank and file employees, you know, during the course of the proceeding and the hearing we got to review that. We looked at the confidentiality issues associated with that.

But with respect to the base salaries, I found those to be very reasonable, particularly for their operations group. And, again, I think that reflects positively on Progress as a well-managed and well-operated company.

CHAIRMAN ARGENZIANO: I agree, Commissioner Skop. That, that was something that was outstanding when you were looking, when we were looking at that confidential information, and the company does need to be commended on that.

Commissioner Klement. Klement. I'm going to get it right one of these days. I apologize.

COMMISSIONER KLEMENT: I believe you.

CHAIRMAN ARGENZIANO: Klement. Klement.

COMMISSIONER KLEMENT: I would like to open up a discussion of whether a 2.35 percent average salary increase is appropriate in this economic climate at a time when many companies have cut pay, cut pay or frozen, including the state, at least at some universities that I'm aware of. In fact, reduced at this, at this agency in the last year. So I would like to open that up for more discussion and, and ask staff perhaps whether, whether you had any, any metrics on what other companies have done in Florida or for industries in general in the U.S. regarding raises, salary raises.

MS. MARSH: There was testimony provided by the Intervenor witnesses. Beyond that, staff does not have any additional information and it would not be in the record. In deciding the issue we're restricted to presenting those things that are in the record to you. But beyond what Public Counsel has provided, we don't have any further. Now we did ask Public Counsel for surveys and studies that they had and that they referred to, but they were not able to provide those because of confidentiality.

CHAIRMAN ARGENZIANO: Commissioner Skop. I don't know if Commissioner Klement is done.

COMMISSIONER KLEMENT: I don't -- apparently no one else has any concerns for, for this issue.

CHAIRMAN ARGENZIANO: Well, I wouldn't say we have no concerns.

COMMISSIONER STEVENS: No. No. I'm, I'm still listening, Commissioner.

COMMISSIONER KLEMENT: All right.

CHAIRMAN ARGENZIANO: Okay. Commissioner Skop and then we can, we can come back.

COMMISSIONER SKOP: Thank you, Madam Chair.

With respect to this issue, again, going to the salary issue, you know, certainly staff has made the adjustment consistent with that advocated by Public Counsel. I think there's, as Commissioner Klement mentioned, a 2.35 percent increase. I know as a, as a, you know, one of five Commissioners, I took a salary reduction this year, and I'm happy to do so, to keep our dedicated staff from having to take a salary decrease.

But I understand Commissioner Klement's point. I think it's a good one. I don't know if staff's looked at -- I'm comfortable with the staff recommendation because it's consistent with what Public Counsel recommended. I think it's fair, it doesn't shock the conscience.

But in terms of addressing Commissioner Klement's concern, has staff looked at, you know, what 2009 salaries were and perhaps, you know, maybe an austerity adjustment and holding them to the 2009 levels as opposed to the increase that Commissioner -- if I understand Commissioner Klement's concern, I think that's what he's probably suggesting, is it appropriate for a 2.35 percent increase or should they be held at a constant level on a year-to-year basis?

MS. MARSH: Well, actually --

CHAIRMAN ARGENZIANO: Wait a minute. Commissioner Skop, are you asking if it's appropriate? I think that's the decision we have to make.

COMMISSIONER SKOP: No. I'm asking if I understood Commissioner Klement's concern, he seems to be taking exception to the granting of --

CHAIRMAN ARGENZIANO: Of an increase.

COMMISSIONER SKOP: Yes.

CHAIRMAN ARGENZIANO: Okay. Right. If I can do this, may I? And then if staff can answer that, I guess I would appreciate it.

I look at it as it was reduced to where OPC felt comfortable. I look at it, and I'm hoping and that's why I asked how it was allocated, because we have a lot of frontline workers that have been hit very hard with the economy also. And as long as it was reduced to a reasonable amount, at least they get something. And I hope the company allocates it that way, and it looks like the company has done a good job with their employees.

And the only reason I would say I'm going to stick with this recommendation is because I don't want to hurt those, those people who are out there, the workers of the company who do a great job. And I would not want to, you know, to negatively impact them. Now hopefully, hopefully the company does not give it all to the top, but that's their discretion. I'm going to bank on how they've done business in the past with their employees and I'm going to think that they're going to share that. And that's the reason I say because it's a lower amount and even OPC felt good with that, that that's the reason I am comfortable with it.

COMMISSIONER STEVENS: I didn't know if part of this, the remaining 2.35 percent had to do with any type of union negotiations or a bargaining unit. So that might also be part of it, which would take care of the real workers there, so.

CHAIRMAN ARGENZIANO: Do we -- is there an answer to that?

MS. MARSH: The company did indicate a difference, that it was actually giving a higher increase to the non-management employees. So I think they're covered.

CHAIRMAN ARGENZIANO: Okay.

MS. MARSH: I think that the remaining 2.35 percent pertains more to things like increasing salaries due to market conditions and things of that nature rather than across the board increases that they're actually going to give them.

CHAIRMAN ARGENZIANO: Commissioner Klement.

COMMISSIONER KLEMENT: Well, since I've been here and have been reading the cases that have been decided or proposed, a lot of that has, the costs have to do with the projected -- the need to be competitive, to pay higher salaries at all levels, not just the lower levels but at all levels including the top management, so as to retain the top talent and to not be left with no, no, with second-rate employees, in other words, to put it bluntly. And I understand that, especially I understand that for companies with nuclear plants where there's specific skills that are, that are scarce. I've gotten that message from this company and the one that we'll be discussing Wednesday.

However, I wonder how many -- if there is any, any study or analysis, it's not in the record, so perhaps we can't talk about it here, but comparing the kinds of jobs that utilities require for auditors, CPAs, accountants and so forth in which the average person in those, with those skills translate to utilities. Because I suspect there are thousands of unemployed workers who, with those skills in the State of Florida who would love to have a job with a company like Progress at perhaps a lower pay just because they'd be glad to have a good job. And that -- which leads into our whole thing about this, this recession, this current economic climate, giving pay raises instead of considering pay cuts to, to reduce our labor costs. In other words, I've seen, saw the expression "tighten our belts" many times in the, in the testimony. I don't see much belt tightening here.

CHAIRMAN ARGENZIANO: Do you want me to say something?

COMMISSIONER KLEMENT: I'm just aware --

CHAIRMAN ARGENZIANO: What I will say is I understand what you're saying. I have -- my particular concern is with upper salaries.

COMMISSIONER KLEMENT: Of course, and we're getting into that next.

CHAIRMAN ARGENZIANO: And that we're going to get into. I'm looking at the average guy and women out there that work for Progress Energy that I don't want to hurt that's out there having, facing foreclosures and higher electric bills and higher phone bills and so on, and I understand that. I understand your point too.

I guess in my opinion I think I at this point would rather see the non-management staff receive somewhat of an increase, and my concern is more with the upper level. Because as you've indicated before, we've heard many times that it's usually based on what's comparable. And to me I see this circle of, kind of this vicious circle going around, there's never an incentive for a state, another company in another state to say that we're not going to go higher because then you've got -- if Alabama says we're going to have a higher salary for this particular title in upper management, then what's to stop them the next year or the next state to say we have to go comparable. Before you know it somebody is making something that's just, you know, it just never ends. I just think it -- I'm looking at the lower level, but I understand your concern too.

COMMISSIONER KLEMENT: Well, I certainly share that concern for the lower level employees. I don't mean to imply that I'm callous toward them.

CHAIRMAN ARGENZIANO: No. No.

COMMISSIONER KLEMENT: Because I know they're the ones who are out repairing the lines and so forth in the cold or the storms. However, we just need to look across the board I think at belt tightening.

CHAIRMAN ARGENZIANO: Okay. All right. Any other questions on this, this issue? All right. We'll move on to 65.

MS. MARSH: Issue 65 addresses increases in employee positions for 2010. Staff recommends that the proposed increases in employee positions be reduced by 80 positions for a dollar reduction of 4,156,891.

COMMISSIONER EDGAR: Madam Chair.

CHAIRMAN ARGENZIANO: We're on 65.

Commissioner Edgar, yes.

COMMISSIONER EDGAR: I do have a question.

CHAIRMAN ARGENZIANO: You're recognized.

COMMISSIONER EDGAR: I do have a question on this, one or two maybe, and I hope that my questions follow along logically from some of the discussion that we've just had. That is certainly my intent.

I found it a little confusing both with the testimony that was presented at hearing and then also when I was reviewing the staff recommendation as to, as positions are discussed, how many or what categories were existing positions, existing, existing and funded positions that were, had been vacant for a period of time and how many positions were being requested above and beyond or new positions beyond that, and how the recommendation of a reduction of 80 was spread perhaps between those two categories. So I guess could you kind of help me understand what the status here is of that?

MS. MARSH: I'll try to. I think the company summed it up rather well in their brief which is in the first paragraph of the parties' arguments. 26 of the positions were totally new; 25 positions were vacant, and some of those may have been new positions for 2009 that were simply never filled; and 29 positions were allocated from the service company. Those would be additional allocations above and beyond those that have been allocated in previous years. So that totals the 80 positions.

COMMISSIONER EDGAR: Okay. So to, to I hope restate what you just told me in a slightly different way, the company had requested 26 new positions which the staff recommendation would disallow, the company had 25 currently funded but vacant positions that the staff recommendation would disallow, and 29 positions from the parent company that the staff recommendation would disallow.

MS. MARSH: Yes. That's what the numbers are comprised of.

COMMISSIONER EDGAR: Okay. And those disallowances, could you give me the rationale for recommending those disallowances?

MS. MARSH: It basically comes down to a matter of whether you believe they're going to fill them or not is my opinion. I'm in agreement with Public Counsel that it's unlikely that they're going to have that many positions filled, including the vacancies in particular. That was an area that Public Counsel specifically looked at the vacancies. There's an ongoing number of vacancies at any given time. It primarily comes down to a lack of support. This is one of the issues where the company withdrew its witness and there is no rebuttal to OPC. And staff is in agreement with OPC that it's unlikely that 497 new positions are going to be added.

COMMISSIONER EDGAR: Okay. Then I guess I need you to tell me --

MS. MARSH: And that's, that's the grand total of actually over a period of two years. And part of those come out of the 2009 that they add in their MFRs but actually never fill. So does that answer your question? Do I need to, need to try again?

COMMISSIONER EDGAR: So are you telling me that the opinion of staff is that the testimony did not support the existence of these 80 positions?

MS. MARSH: Yes.

COMMISSIONER EDGAR: I guess just, just a thought, which is I'm a tad uncomfortable second guessing to that degree the needs of the company to perform the functions that they are required and directed to do. And I also just have, I'm just going to say it, I have some concern with eliminating any potential jobs or work positions, just, just a concern. I'm a little uncomfortable second guessing that. And as to eliminating a portion of the vacancies, you know, we get into that Catch-22. And, Commissioner Argenziano, I say this with absolute and total respect for all past, current and future legislators, but having worked at a variety of state agencies, there is that dynamic of, you know, if you don't fill a position right away, you may lose it when indeed there may be a need for it, say, in six months or nine months. And so you can put managers in the position of having to fill a position before indeed they need it or they might lose it, or then needing the position but it can take two or three years to go through the entire process to get it reapproved. And my own philosophy on that is I am more comfortable leaving those sorts of hiring and workforce issues to the managers who are out there in the field and know what they need better than any of us who are second guessing from a distance.

So I don't know what the right answer to this one is, but those are some of the questions and concerns I had as I was listening at hearing and reviewing the recommendation.

COMMISSIONER STEVENS: Madam Chair.

CHAIRMAN ARGENZIANO: Commissioner Stevens.

COMMISSIONER STEVENS: Did the company use any type of, when they were going through the numbers, did they look at any vacancy factors and build in and discount the salaries expense for those vacancy factors at all?

MS. MARSH: My understanding is they did not.

COMMISSIONER STEVENS: They did not. Okay. And the reason I asked that is a lot of times when you put together a budget or put together salaries expense, you budget for those full-time equivalents, you put those numbers together, both filled positions and unfilled, realizing that the unfilled positions sometime during the year will be filled. So 100 percent funding for those unfilled positions isn't necessary. Thank you. But if they did not discount it and they requested the full amount, and I hear Commissioner Edgar and there are some good points there, but if they did not use a vacancy factor and discount some of those unfilled positions, I would be interested where the other Commissioners might want to go with this.

CHAIRMAN ARGENZIANO: Anyone else? I'm, I'm fine with staff's recommendation.

COMMISSIONER SKOP: Madam Chair, I'm also fine with staff's recommendation. I think that to the point raised by Commissioner Stevens, if they have a vacancy factor that they could have, you know, looked at or applied that might have, you know, softened that number up a little bit in terms of the unfilled positions -- you know, I'm somewhat torn because, again, an unfilled position is a potential hire and a job opportunity created in Florida. But, you know, as rate cases go typically, you get only what you request. So, again, there's no guarantee that the positions would be filled in a timely manner, and I think that's a judgment call that the Commission has to make as to what's fair and reasonable. You know, certainly if the costs go up, they have the opportunity to come back in for recovery. But, again, I think making such adjustments is, is prudent in the forefront of a filing of a rate case as opposed to leaving yourself exposed to large unfilled vacancy numbers and expecting recovery on those issues.

COMMISSIONER STEVENS: Right.

CHAIRMAN ARGENZIANO: Commissioner Stevens.

COMMISSIONER STEVENS: No. I'm fine.

CHAIRMAN ARGENZIANO: Commissioner Klement.

All right. Well, let me, let me ask staff this. There was originally 25 vacant positions; is that correct?

MS. MARSH: Let me get back to that page.

CHAIRMAN ARGENZIANO: And they were --

MS. MARSH: Yes. That's part of the 80, this 25.

CHAIRMAN ARGENZIANO: So then there would be no vacant positions at all if we voted on staff's recommendation?

MS. MARSH: I'm not sure that's, that's quite correct.

CHAIRMAN ARGENZIANO: Neither am I. That's why I need --

MS. MARSH: Let me look here for a moment. There was some discussion by Witness Schultz of that. If you'll look under staff analysis in the second paragraph, he calculated a vacancy rate of 1.94 yielding

103 vacant positions, and we're only recommending reducing those by 25.

CHAIRMAN ARGENZIANO: Okay. So there would still be vacant positions?

MS. MARSH: I think, I think there would be, yes.

CHAIRMAN ARGENZIANO: Okay. Well, then I'm okay with that, as long as there are some vacant positions that the company still would be able to, if they needed to, hire.

COMMISSIONER STEVENS: Yes, ma'am. And I believe if I'm reading where you're pointing, the 1.94 percent yields 103 vacant positions and we're reducing, going, reducing 80?

CHAIRMAN ARGENZIANO: 80. Yeah.

COMMISSIONER STEVENS: The 80 total?

MS. MARSH: The reduction of 80 is actually comprised of several different components.

COMMISSIONER STEVENS: Right. Right.

MS. MARSH: But that 80 is the overall number, including a portion of the vacant positions.

COMMISSIONER STEVENS: Thank you.

CHAIRMAN ARGENZIANO: Okay. Any other discussion? Okay. We'll move on.

Let's see. 66, I think, if it's okay with other Commissioners, I'd like to pull this out of the block. Okay? And we can start discussion. If you would go to it.

Oh, I'm sorry. No. Weren't we going to do -- we were going to do the others in block; is that correct, Commissioners? Did we agree? Right. So we don't need to do a motion on the other at this time. You're talking about on 65?

COMMISSIONER STEVENS: It would be 63, 64, 65.

CHAIRMAN ARGENZIANO: 63, 64, 65. Okay. Yes.

COMMISSIONER STEVENS: I didn't know if you wanted to wait until we had gone through 67 for the, for the employee stuff.

CHAIRMAN ARGENZIANO: I think we should. Let's just separate, if we can. Or do you want to go on to 67 and backtrack? Whatever -- let's do that. Let's go on, if we can, to 67 and then backtrack.

MS. MARSH: Yes, ma'am. That's what I was going to suggest.

CHAIRMAN ARGENZIANO: Okay. Thank you.

MS. MARSH: 67 is the reduction in fringe benefits associated with the reductions in employees. If you reduce the number of positions that we just discussed, you would also make this adjustment 1,706,667 to reduce the benefits associated with those positions.

CHAIRMAN ARGENZIANO: Okay. All right. And we're good to go. Now do we want to vote on that block? I'm sorry.

Go ahead, Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

At this time I respectfully make a motion to adopt the staff recommendation for Issue 63, 64, 65 and 67.

COMMISSIONER STEVENS: Second.

CHAIRMAN ARGENZIANO: Okay. Any discussion or debate, questions? Hearing none, all in favor, signify aye.

(Simultaneous vote.)

Opposed, same sign. Show that motion passing.

And we'll move back to Issue 66.

MS. MARSH: Issue 66 addresses incentive compensation. Staff is recommending a reduction of 22,181,891 for the 2010 test year.

CHAIRMAN ARGENZIANO: Okay. Let me get to 66. Commissioners, any comments, questions?

Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

Just a quick question for staff. It seems that the staff recommendation embodies the argument of, made by Public Counsel that the expense should be reduced in the amount of 25,371,639 or somewhere close to that, given some rounding errors (phonetic). But the staff recommendation generally tracks on a system basis the OPC position; is that correct?

MS. MARSH: No, not exactly. Public Counsel said that they took all of the incentive compensation out, but they actually did not.

COMMISSIONER SKOP: Okay. I'm sorry.

MS. MARSH: What staff tracks more closely is FIPUG's position that half of the incentive compensation should be taken out. But FIPUG also did not take all of the incentive compensation into consideration when they made their adjustment. So what staff has done is a hybrid of the two and took all of the incentive compensation and took half of it, which staff believes represents the portion of incentive compensation related to earnings per share. About half of this amount is stock awards that staff is recommending reducing.

CHAIRMAN ARGENZIANO: So it's 50/50.

MS. MARSH: It's 50/50.

CHAIRMAN ARGENZIANO: Okay. Can I ask what benefit to the ratepayers does incentive pay have? I've been reading and I'm not sure. I think it does and then I read again and it looks like it's more for the financial interest of the company. But then again that benefits the ratepayer if the company is in good financial standing. So if you could kind of help me clarify.

MS. MARSH: Well, that basically is the company's argument is that the ratepayers benefit by having a well-run company with good employees who are well paid and properly incented to do a good job.

The concern is whether it is appropriate to, to have the ratepayers pay for things such as stock in particular, but for things that are tied to earnings per share where the goals aren't necessarily in line with what's doing the best for the ratepayers.

CHAIRMAN ARGENZIANO: Okay. And if I can, the, that is, that incentive compensation is allocated at the discretion of the company, right, or the board of directors, or how is that done?

MS. MARSH: I think there's a committee. It's somewhere in here. I believe there's a compensation committee.

CHAIRMAN ARGENZIANO: Right. Right. That's right. Okay.

MS. MARSH: Okay.

CHAIRMAN ARGENZIANO: And -- hang on one second. I guess I have some heartburn on the incentive compensation. I believe there should be incentive compensation. But in reviewing it it looked like anybody and everybody gets incentive compensation. And that's great if everybody is doing such a great job, but I'm not so certain that the ratepayers should pay for it. So I understand that staff has split it 50/50, which gives me a little more comfort with it. But I'm not sure I'm there with it yet.

Commissioner Klement and then Commissioner Skop.

COMMISSIONER KLEMENT: I believe the number I saw was 99 point some percent of employees got incentive pay last year.

CHAIRMAN ARGENZIANO: All right. And that's what my concern was, was that if -- is it being used as an additional source of income for salaries?

COMMISSIONER KLEMENT: Right.

CHAIRMAN ARGENZIANO: I don't know.

COMMISSIONER KLEMENT: I did note in reading the testimony of the Progress HR director DesChamps, and there was considerable question by the Intervenors regarding the incentive goals and how rigid they were and how diligently they kept, they tracked the success of them. And in fact I believe that at one point I read that Mr. DesChamps wasn't sure, wasn't really sure about the goal, what the goals are, all of the goals are. Now

I stand to be corrected, but I do have that somewhere in my notes. So I guess I would like to hear some discussion about meeting incentives and whether they were justified.

CHAIRMAN ARGENZIANO: Okay. Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

I remember in the evidentiary hearing we had a lengthy discussion on that issue. They actually had a, I believe a foursquare performance chart that correlated performance to incentive compensation award. And I believe that the emphasis that Progress places on incentive compensation across all of its employees, including rank and file employees, was to emphasize the use of stock awards to achieve incentive compensation. Some companies I think hand out bonuses and such, but it seems to be I think driven in large part by, by incentive or performance shares of the company's stock, which, you know, depending upon which business expert you listen to, there's various theories as to how that incentivizes performance in a positive manner.

I just -- you know, in terms of whether that's a right thing or wrong thing, I don't know. I know it seemed to be spread consistently. On Page 29 (sic.), the second to the last paragraph, they talk a little bit about that on 229, about the operational goals in relation to incentive compensation. And I guess it appeared to staff that the goals are set to reward a high level of achievement on a consistent basis. I think there was a large payout across the board on performance shares that were given out of the company's stock. I don't know, you know, if that's right or wrong. I appreciate Commissioner Argenziano's concern. I know I had some concern with it.

But I'm trying to gain a better appreciation and understanding of how staff arrived at its recommendation. I think again that's at the bottom of 229 where they took 50 percent of FIPUG Witness Marz's testimony and applied it not only to the incentive compensation but the long-term compensation. Is that generally correct?

MS. MARSH: Yes. That's what staff did. And Witness Marz had indicated a desire to reduce the amounts -- let me see if I can find the word I'm looking for -- reduce the amounts related to the earnings per share. But he, when making his adjustment, there are two lines in the MFRs and he only addressed one of them. And the second line also contains amounts that relate to earnings per share, and that's the long-term incentives which would have some of the stock awards, excuse me, that you're talking about. So that's why staff used his methodology but increased the amount because he, he missed a line. And I don't know if that was, there was any reason why or it just, he just didn't pick up on the fact that there were two lines and not one.

COMMISSIONER SKOP: Okay. And so basically that adopts the FIPUG position in terms of its witnesses' testimony as opposed to the OPC position, which basically, if I can do some quick math here, essentially in lieu of a $25 million disallowance by staff, that OPC I think would recommend a disallowance of approximately 37.4 million; is that correct? On Page 217.

MS. MARSH: Yes. It looks to be about 37 total. You can see there that OPC in their position included the long-term incentive compensation. That's the piece that Witness Marz left out.

COMMISSIONER SKOP: Okay. Like I say, I apologize. My eyes are giving out on me going between my distance glasses and blurriness up front. So I'll give it back to the Chair.

CHAIRMAN ARGENZIANO: Okay. You know, if it's truly incentive based, then it does benefit ratepayer and shareholder. I'm just not convinced with the 99.9, and I don't want to discourage as many employees from doing their best, I just wasn't convinced. But it has been reduced by 50 and it's, I guess, the will of this Commission. I'm not sure where to go.

COMMISSIONER STEVENS: I'm okay with staff's recommendation.

CHAIRMAN ARGENZIANO: Any other discussion on the matter?

COMMISSIONER SKOP: Madam Chair, I could go either way. I see both points of view. I think that a substantial reduction has been made to the incentive compensation line item. And, you know, I'm not so sure what more might be gained by, you know, going after the additional 12 million in terms of how that ultimately translates into revenue requirement. Again, I see both points, so I'm flexible on this one.

COMMISSIONER KLEMENT: Madam Chair.

CHAIRMAN ARGENZIANO: Commissioner Klement.

COMMISSIONER KLEMENT: Well, one way to state it would be to suggest that the parent company, if incentive pay is so very important for high quality performance, let the parent company pick up all of the cost of it, thereby improving the entire company as, as a suggestion.

CHAIRMAN ARGENZIANO: Well, I can't say that I disagree at the moment because I'm having a difficult time with the incentive pay. I originally after reading and hearing the testimony felt that it was just not a benefit, I hadn't been convinced that it was truly incentive based all the way, and I'm having difficulty I think with that still. So if there's a motion one way or the other, we'll take it from there. Or if there is continued discussion or questions, then we'll go.

COMMISSIONER STEVENS: I'll move staff's recommendation.

COMMISSIONER EDGAR: Second.

CHAIRMAN ARGENZIANO: Okay. Move it and a second. All those in favor --

COMMISSIONER SKOP: I have a discussion.

CHAIRMAN ARGENZIANO: Sorry. Discussion. Commissioner Skop.

COMMISSIONER SKOP: Just to go to Commissioner, Chairman Argenziano's point, Commissioner, are you suggesting that a more appropriate adjustment in light of what staff's recommendation was would be to adopt Public Counsel's position not only to take out the 25.4 million in incentive compensation, but also to further reduce that by 12 million for the long-term incentive compensation?

COMMISSIONER KLEMENT: Yes.

CHAIRMAN ARGENZIANO: Yes, exactly. And I think that covers Commissioner Klement's, Klement's concern. But we have a motion. There has been a second. So if we want to vote on that or ask -- I don't know where we are. We have a motion and a second.

COMMISSIONER SKOP: A second.

CHAIRMAN ARGENZIANO: So now if we want to vote on that issue, let's go ahead and do that. I don't hear any retraction of the motion or the second. So all those in favor of the motion, signify by aye.

COMMISSIONER EDGAR: Aye.

COMMISSIONER STEVENS: Aye.

CHAIRMAN ARGENZIANO: I hear two. All those opposed, aye -- same sign, aye.

COMMISSIONER SKOP: Aye.

COMMISSIONER KLEMENT: Aye.

CHAIRMAN ARGENZIANO: Aye. The motion fails. Is there another motion on the table?

COMMISSIONER SKOP: Madam Chair, I'd respectfully put forth a motion to deny staff recommendation on Issue 66 and adopt in turn Public Counsel's recommendation.

COMMISSIONER KLEMENT: Second.

CHAIRMAN ARGENZIANO: Okay. All those -- any discussion or debate, questions on the motion? If not, all those in favor, signify by aye --

COMMISSIONER KLEMENT: Aye.

COMMISSIONER SKOP: Aye.

CHAIRMAN ARGENZIANO: Aye.

-- in the affirmative.

And opposed, same sign.

COMMISSIONER STEVENS: Aye.

CHAIRMAN ARGENZIANO: Okay. Motion passes.

Okay. Now we are on sixty -- no, we went to -- where are we?

MR. SLEMKEWICZ: Issue 68.

CHAIRMAN ARGENZIANO: 68. Thank you.

MR. SLEMKEWICZ: Okay. Issue 68 deals with the storm damage accrual. And based on your decision in Issue 33, you should deny staff and approve an annual accrual of zero.

CHAIRMAN ARGENZIANO: Commissioners? Yes, can you, can you repeat that?

MR. SLEMKEWICZ: Okay. In Issue 33 we, you determined that there should not be any storm damage accrual, and the fallout on the income statement side is Issue 68. And based on what you decide on Issue 33, you should deny staff's recommendation on Issue 68 and approve an annual accrual of zero, which will result in an adjustment of $14,922,000 reduction to the storm damage accrual expense.

CHAIRMAN ARGENZIANO: Any discussion, or do we have a motion on what he just said?

COMMISSIONER STEVENS: Second.

COMMISSIONER SKOP: Hold on. Let me, let me make the motion.

CHAIRMAN ARGENZIANO: Okay. Make it. Yes.

COMMISSIONER SKOP: As to Issue 68, and I'll try and get this right, I would move, I would move to, move to deny staff recommendation as to Issue 8 and adopt an annual, annual storm reserve accrual amount of zero. And I believe the revised number is $14,922,000. Is that --

MR. SLEMKEWICZ: Right. That would be the reduction.

COMMISSIONER SKOP: Reduction.

CHAIRMAN ARGENZIANO: Commissioner Skop, you did say Issue 68, not 8; right?

COMMISSIONER SKOP: 68. Yes.

CHAIRMAN ARGENZIANO: Okay. And we have a second.

COMMISSIONER STEVENS: Second. Yes, ma'am.

CHAIRMAN ARGENZIANO: Any discussion?

COMMISSIONER EDGAR: Yes.

CHAIRMAN ARGENZIANO: Commissioner Edgar.

COMMISSIONER EDGAR: Madam Chair, I

respectfully understand and will of course support the vote of the majority. But in keeping with my position on the related item earlier, in order to be consistent I will vote no on this.

CHAIRMAN ARGENZIANO: Understood. Any other -- Commissioner Klement?

COMMISSIONER KLEMENT: Can I have this clarified. Commissioner Skop, what, what is the amount we're suggesting? Zero or --

CHAIRMAN ARGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

Basically the motion was to deny staff recommendation on Issue 68, adopt an annual storm reserve accrual of zero, and that the decrease would result in $14,922,000. Is that correct, staff?

MR. SLEMKEWICZ: That's correct, because they had accrued $16 million during the, on a system basis during the test year.

COMMISSIONER SKOP: Okay.

COMMISSIONER KLEMENT: I believe that I would side with Commissioner Edgar on this to be consistent as well.

CHAIRMAN ARGENZIANO: With your vote. Uh-huh. Understood. Okay. Any other discussion on the issue? Comments?

We have a motion. We had the motion, the motion was seconded. All those in favor of the motion, indicate by aye.

COMMISSIONER STEVENS: Aye.

COMMISSIONER SKOP: Aye.

CHAIRMAN ARGENZIANO: Aye.

All those opposed.

COMMISSIONER KLEMENT: Aye.

COMMISSIONER EDGAR: Aye.

CHAIRMAN ARGENZIANO: Show the motion approved. And if I can just do this, can I take a three-minute break? Chairman's prerogative.

(Recess taken.)

Okay. It looks like we are ready to go; if we could pick up where we left off.

MS. MARSH: Issue 69 is addressing Progress' 2010 generation O&M expense. Staff recommends that plant-in-service be increased by 3,479,776.

Accumulated depreciation should be increased by 19,706.

O&M should be decreased by 9,004,955, and depreciation expense should be increased by 41,680.

CHAIRMAN ARGENZIANO: Commissioners, anything? Okay. We are good to move on.

MS. MARSH: Issue 70 addresses the

transmission O&M expense. Staff recommends a reduction to transmission O&M of 1,717,042 for the 2010 test year.

CHAIRMAN ARGENZIANO: Commissioners? Okay. We're good.

MS. MARSH: Issue 71 addresses the distribution O&M expense. Staff recommends a reduction of 8,924,197 for the 2010 test year.

CHAIRMAN ARGENZIANO: Any questions or comments? I don't want to move too quick.

Commissioner Klement.

COMMISSIONER KLEMENT: Well, there was considerable discussion in the hearings -- I'm sorry, I'm getting feedback. There was considerable discussion about whether the company was front-loading 2010, having deferred maintenance in previous years. I don't think I feel strongly one way or the other, and I wanted to ask if anyone else did.

CHAIRMAN ARGENZIANO: Okay. Any other comments from any other Commissioners?

COMMISSIONER STEVENS: No, ma'am. I agree with staff's recommendation.

CHAIRMAN ARGENZIANO: Okay. We can move to the next issue.

MS. MARSH: Issue 73 addresses the rate case expense. Staff recommends that rate case expense be set at 2,153,855 with a four-year amortization period. The annual amortization amount is 538,464. The total rate case expense should be reduced by 633,145, and the annual amortization should be reduced by 855,036.

CHAIRMAN ARGENZIANO: Any comments or questions? It looks like there are none. We can move on to the next issue.

MS. MARSH: Issue 75 addresses test year --

CHAIRMAN ARGENZIANO: Aren't we to hold that -- we're going to hold that.

MS. MARSH: We are going to hold that.

CHAIRMAN ARGENZIANO: Okay. We are going to go to 76.

MS. MARSH: Issue 76 addresses depreciation and fossil dismantlement. The depreciation expense is a fallout. The annual provision for dismantlement is 3,845,221.

CHAIRMAN ARGENZIANO: Commissioners, any comments or questions on Issue 76? Okay. It looks like we have none, and we can move on to 80.

MR. SLEMKEWICZ: Issue 80 is taxes other than income taxes, and that's just a fallout issue of other issues.

CHAIRMAN ARGENZIANO: Okay. 80 is a fallout. 81.

MR. BUYS: Issue 81 addresses whether it's appropriate to make a parent debt adjustment as per Rule 25-14.004, Florida Administrative Code, and staff is recommending, yes, that it is.

CHAIRMAN ARGENZIANO: Commissioners?

Commissioner Stevens and Commissioner Skop.

COMMISSIONER STEVENS: This is a significant item, and I do agree with staff's recommendation.

CHAIRMAN ARGENZIANO: Okay. Thank you.

Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

Can staff just explain the parent debt adjustment just for anyone that may be listening or in the audience just briefly.

CHAIRMAN ARGENZIANO: Yes, that would be nice. Thank you.

MR. BUYS: The parent debt adjustment occurs when you have a parent company, such as Progress Energy who is the parent of Progress Energy Florida. Progress Energy incurs debt at the parent level. It uses that debt to make equity infusions into the subsidiary, and we make an adjustment to lower the income tax expense for PEF because the parent company enjoys lower income tax because of its interest expense on that debt. And I hope that explains it.

COMMISSIONER SKOP: Yes. Thank you.

CHAIRMAN ARGENZIANO: Anyone else? Okay. 82.

MR. SLEMKEWICZ: Issue 82, which deals with income tax expense; Issue 83, which is total operating expenses; and Issue 84, the net operating income are all fallout issues.

CHAIRMAN ARGENZIANO: Fallout. Okay. Then how about 85?

MS. MARSH: Issue 85 addresses affiliate transactions. Staff recommends that no adjustment be made.

CHAIRMAN ARGENZIANO: Any comment, Commissioners? Hearing none. Tim, are we ready to take a break and have staff --

MR. DEVLIN: Yes. We need to vote those out, actually.

CHAIRMAN ARGENZIANO: Oh, I'm sorry. Yes, that would be good, after all of that. Let's vote on those block issues, and then we are going to take a break and let staff tell us where we are at in recalculating --

MR. SLEMKEWICZ: Excuse me. We do need to take up Issue 88, which is the revenues at current rates, because that really includes the Bartow issue.

CHAIRMAN ARGENZIANO: Okay. Anything else that we need to take up now that would help staff? So it's just 88?

COMMISSION STAFF: Well, 87 is a fallout.

COMMISSIONER SKOP: Yes, 87 is a fallout, too.

CHAIRMAN ARGENZIANO: A fallout, right. Okay. Do we have a motion? Commissioner Skop.

COMMISSIONER SKOP: Madam Chair, thank you.

Just for simplicity, I would want to kind of break this into two motions. I would respectfully at this time move to approve the staff recommendation for Issues 69, 70, 71, and 73.

COMMISSIONER STEVENS: Second.

CHAIRMAN ARGENZIANO: Discussion; questions; debate; anything?

Hearing none. All in favor signify aye.

(Simultaneous vote.)

The same for opposed?

Hearing none. The motion passes.

Commissioner Skop.

COMMISSIONER SKOP: And then moving on, again, we are going to take up Issue 75 last, so I would like to also make another motion to adopt the staff recommendation for Issues 76, 80, 81, 82, 83, 84, and 85, noting that some of those are fallout issues and noting that some of the numbers may change and give staff the flexibility to make those adjustments within those issues based on the decisions the Commission has already made on prior issues.

COMMISSIONER STEVENS: Second.

CHAIRMAN ARGENZIANO: Hearing a second, any discussion, questions, debate? All in favor aye.

(Simultaneous vote.)

Opposed, same sign.

Hearing none. The motion passes.

Commissioner Skop.

COMMISSIONER SKOP: And then I believe we have -- the last motion would be to adopt the staff recommendation on Issue 88, which I believe staff needs a vote on before we can adjourn for a brief break.

CHAIRMAN ARGENZIANO: Right. Okay, we'll --

COMMISSIONER STEVENS: Second.

CHAIRMAN ARGENZIANO: We've got a second. Any discussion? Are we going to have staff explain it? All right.

Let's take a step back. 88. We need to discuss 88. Is there any discussion on 88? There is none. Okay.

Well, then, we have a motion and a second. Did I hear a second?

COMMISSIONER STEVENS: Yes, ma'am.

CHAIRMAN ARGENZIANO: Okay. Any discussion, any questions, any debate? All those in favor signify by aye.

(Simultaneous vote.)

All opposed same sign.

The motion passes.

And now we are going to take a break. How much time do you need? This is the proper time.

MR. DEVLIN: Would 30 minutes be too much, Madam Chair?

CHAIRMAN ARGENZIANO: No. If you need 30 minutes, that's what we're going to give you. If you need more, let us know. It is subject to extension if needed.

COMMISSIONER SKOP: Madam Chair.

CHAIRMAN ARGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair. Just to Mr. Devlin, with respect to Issue 87, am I correct to understand that the staff is going to go back and do the recalculation to provide the Commission with a revised number for 87, or what?

MR. DEVLIN: Yes, sir. What we are going to do, John is going to be heading this up, is we're going to take into account all the votes today, the ones that affect revenue requirements, come up with a new revenue requirement that would be considered in dealing with the issues regarding depreciation, and that would affect Issue 87, as well.

CHAIRMAN ARGENZIANO: Hang on a minute. I think we missed one, so, Commissioner Edgar.

COMMISSIONER EDGAR: I wasn't sure where we were with 87, but I think Mr. Devlin has just explained it in order to get the more accurate number, so we can hold on that. I would ask, Madam Chair, before we take our break to allow staff to do what they need to do, could you -- and it's because I really don't know -- give us sort of the lay of the land as to when we come back how you suggest or would recommend that we kind of approach, so I can be thinking while we are on break.

CHAIRMAN ARGENZIANO: Okay. Well, staff, is thirty minutes enough time? And if not, we will extend.

MR. DEVLIN: Forty minutes.

CHAIRMAN ARGENZIANO: Forty minutes. I had a feeling 30 minutes was really kind of a rush. So 40 minutes, and then -- well, the will of the Commissioners, we will take it -- when we come back staff will give us an update on where we are with what we have already voted on and where the numbers are.

Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

And just as a point of information, if I understood Mr. Devlin and staff's position correctly, is they are going to go back and recalculate the annual operating revenue requirement based on the decisions the Commission has made. We'll come back, have the revised number for Issue 87, vote that issue, and then address the remaining issues as well as the depreciation -- theoretical depreciation surplus issue, is that correct?

MR. DEVLIN: That's correct.

COMMISSIONER SKOP: All right. Thank you.

CHAIRMAN ARGENZIANO: Does that help, Commissioner?

COMMISSIONER EDGAR: So when we come back 87, and then 15, and then back to 89 and on?

CHAIRMAN ARGENZIANO: There's 28, and then 75.

COMMISSIONER EDGAR: All right.

CHAIRMAN ARGENZIANO: Okay. All right. With that we are on recess for 40 minutes.

(Recess.)

Okay. Is staff ready?

MR. DEVLIN: We're ready.

CHAIRMAN ARGENZIANO: Okay. We are good to go. We're back.

MR. SLEMKEWICZ: Okay. On the package I just gave you, those are the five schedules that show the calculation of the revenue requirements. And if you just turn to Schedule 5, which is the very last page. Based on what you've voted on up till now without considering the depreciation, the theoretical surplus, the rate increase would be $5,840,613.

COMMISSIONER EDGAR: One more time.

CHAIRMAN ARGENZIANO: Yes. I was just going to say the same thing. Would you give us that one more time?

MR. SLEMKEWICZ: Okay. It is 5,840,000.

CHAIRMAN ARGENZIANO: Did you say the rate increase?

MR. SLEMKEWICZ: Would be --

COMMISSIONER STEVENS: Excluding Bartow.

MR. SLEMKEWICZ: Yes, excluding Bartow, would be $5,840,613 without any consideration of the depreciation reserve surplus.

CHAIRMAN ARGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair. And just to staff, I note the double asterisk footnote there. For comparative purposes, Bartow was included, but previously included in base rates as a result of the settlement agreement. So in terms of the rate case as before it today, the 5.8 reflects all the other prudently incurred costs that Progress has requested and been adjusted by staff and the Commission with the exception of Bartow, is that correct?

MR. SLEMKEWICZ: That's correct.

COMMISSIONER SKOP: Thank you.

CHAIRMAN ARGENZIANO: Mr. Devlin.

MR. DEVLIN: Madam Chairman, if you're satisfied with that number, then I think we are ready to embark on looking at the depreciation issues. But, quite frankly, I have a suggestion.

CHAIRMAN ARGENZIANO: Please suggest.

MR. DEVLIN: This is not a significant number at this juncture, and if the desire is to have a zero increase, I don't think we need to go through a large scale change in theoretical reserve and recalculate depreciation rates, either. I'm going to have Pat Lee speak to that because it would be such a significant effect on the depreciation rates.

If we took care, if you will, of this $5.8 million through a straight-up amortization over four years, there would not be a rate increase, and then the reserve surplus would accommodate that, and it would only be like $22 million over a four-year period.

COMMISSIONER STEVENS: That's a good point.

MR. DEVLIN: I would like Pat Lee to discuss that, but that is kind of where we are heading as opposed to what we were doing before where we pulled out whatever number, 100 million, 200 million, and then we would have to recalculate the depreciation rates and figure out the rate base effect, and all that. I would suggest that this is immaterial enough that we would not have to recalculate depreciation rates, but I would turn that over to Pat Lee at this time.

CHAIRMAN ARGENZIANO: Okay. Before we do that, Commissioner Skop, and Commissioner Stevens, and Pat.

COMMISSIONER SKOP: Thank you, Madam Chair.

Getting into the depreciation surplus, or theoretical depreciation surplus reserve on Item 15. I know Ms. Lee is going to speak to that. At least with the amount here in terms of having to recalculate the depreciation rates, and I need to get a little bit more clarity on what Mr. Devlin said, but if that number were to become zero, or we were to look at using our discretion on Item 15 to make that number zero, basically it would only have to be ten million per year amortized -- I mean, 40 million of the surplus -- 40 million of the 700 million surplus amortized over four years, which is ten million a year to basically zero that out. Is that roughly correct?

MS. LEE: According to my esteemed colleague, Mr. Slemkewicz, the amount is 23. The total amount amortized would be 23.6 million.

COMMISSIONER SKOP: The total amount.

MS. LEE: The total over the four years. It would be 5.8 million a year.

COMMISSIONER SKOP: Okay. I'm doing some rough math on ratios.

MS. LEE: I had thought that, also. I had thought it would be about 10 million a year also, but it is only 5.8 a year for four years.

COMMISSIONER SKOP: Close enough for government work. That's good. Thank you.

CHAIRMAN ARGENZIANO: Commissioner Stevens.

COMMISSIONER STEVENS: I would go with Tim's recommendation, too. That's the way to do it. Let staff handle it.

MR. DEVLIN: To clarify, though, to consider Commissioner Skop's concern, before we did consider rate base effect and the change in depreciation rates, et cetera, and that is why it would have been a little higher number. For simplicity purposes, we were just going to stay with the straight-up revenue requirement knowing there are some revenue taxes involved, but it would be insignificant. And in four years that will build up to about a $23 million effect.

CHAIRMAN ARGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

So, Mr. Devlin, I guess are they actually using a portion of the theoretical surplus to accomplish that, or are you using a different mechanism?

MR. DEVLIN: I would say that we would be using approximately $23 million, that's 690 over a four-year period.

COMMISSIONER SKOP: Okay. Thank you.

CHAIRMAN ARGENZIANO: Bear with me. What is the effect of doing that on the surplus as far as the intergenerational issue is concerned?

MR. DEVLIN: Well, Ms. Lee will speak to it, but basically it would be a $23 million reduction of the surplus. The surplus is approximately 690 million. Over a four-year period we would be using about $23 million of that surplus.

CHAIRMAN ARGENZIANO: So the effect of those people getting their money back, what are we saying they actually would be getting become over the four years? For some reason it's not clicking here.

MR. DEVLIN: Well, I guess what I'm trying to say is that part of the surplus, a very minor part of the surplus will be used to negate the rate increase here.

CHAIRMAN ARGENZIANO: Okay.

MR. DEVLIN: And then the rest of the surplus would be used over remaining life or in accordance with the staff recommendation.

CHAIRMAN ARGENZIANO: So then we are not addressing the intergenerational issue when it comes to the large portion of the surplus.

MR. DEVLIN: I think if you went beyond that you would be looking at rate reductions, customer rate reductions.

CHAIRMAN ARGENZIANO: Commissioner Stevens.

COMMISSIONER STEVENS: Commissioner, as we went through things we made adjustments and staff put things together to come up with this number. And the reason I like Mr. Devlin's point here is although there is an estimated over accrual of depreciation, and we are not refunding, quote, that to the ratepayers, I think we are getting to a -- we are at almost -- we are going to be at a zero increase to the ratepayers. I think if we go further with this depreciation we will have negative impacts on the company, significant negative impacts on the company. I would be very wary of going any further. Thank you.

CHAIRMAN ARGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

And I think that you, as well as Commissioner Stevens raised some equally valid points. You know, I think OPC made a very valid point. We have a substantial surplus and there is an intergenerational inequity argument, but then, again, you need to use such discretion cautiously and wisely. And I think the point that you raised is a very good one. If you address the intergenerational inequity argument here, you create a problem for six years later where you have to substantially increase and play catch-up on depreciation rates.

I think that, you know, as we move towards a zero revenue requirement and there is no rate increase to base rates, I mean, I think that's certainly a huge win for the consumers, but it is equally being fair to the company. And my concern is in trying to find the proper balance between using the discretion to go further and to address intergenerational inequity arguments and using it more judiciously is to not cause great harm to the company.

And I think that, you know, the surplus is not a cash item. It impacts cash flow to the extent that, you know, we are asking them to kind of make a credit to rates. But, you know, if we're at zero revenue requirement or slightly below, that's no rate increase for consumers, and I think that that is a probably a good win/win happy solution without going further.

Because I do feel if you go substantially further -- I was comfortable going to -- before we got into the ROE discussion, I was comfortable going up to, you know, possibly half of the surplus. But I think that once you start digging into it and there's really not a whole lot of need that I see to possibly do that now, but if you dig deep now I think you start risking credit downgrades and other bad things. And I think that it's sufficient to hold rates constant or have rates slightly less than what they are today. I think that is a good happy medium.

CHAIRMAN ARGENZIANO: Well, and I understand that. I just know that there are other ways of getting to the same place, and I didn't know whether I wanted to take a different position or not. So what I need probably is a couple of minutes to think about that and talk to my staff on something I was thinking about before.

And, Commissioner Klement.

COMMISSIONER KLEMENT: I would just like to concur with what has been said. I think that there are tradeoffs in the intergenerational inequities either way. So what Commission Skop said regarding taking any more from the company could risk -- and Commissioner Stevens, too -- could risk damaging them, and I concur with Mr. Devlin's proposed solution.

CHAIRMAN ARGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: And just for the record, I want to emphasize that my thinking on this is I do believe OPC, Public Counsel's argument is the correct argument. Again, weighing that against the financial predicament of the company, though, there is a certain line that you need to take a look at there, and in a different situation under different circumstances, you know, I could equally see adopting a OPC position verbatim. But in this particular case, I'm trying to temper the financial condition of the company, maintain its financial integrity, but also be fair to the ratepayers.

And I think, you know, no rate increase to consumers or a slight rate decrease is a pretty good thing. So, again, I just would ask my colleagues to consider it, and should we need to tap into the reserve, I'm prepared to do so. But I think that Mr. Devlin's suggestion is a reasonable and prudent one.

CHAIRMAN ARGENZIANO: Okay. I'm going to take five minutes.

(Off the record.)

Is staff ready? Do you need a minute, Marshall?

MR. WILLIS: No.

CHAIRMAN ARGENZIANO: Okay. If you could just do me one more time, do me a favor one more time. Go over the numbers that would be left in the surplus to go over the long haul, the 20 year, or the life of the -- I have the sheet in front of me, but if you could -- we are talking -- 607. I'm dyslexic, 670, not 607. 670 would be left over the life.

MS. LEE: Madam Chairman, on Issue 14, yes, the total reserve surplus as calculated is 697.4 million. At the end the four years that reserve surplus will be reduced by approximately 23 or 24 million.

CHAIRMAN ARGENZIANO: Okay. Of course I wouldn't want to hurt the company in a negative way, either. I just thought there was another way, and, of course, it would be recalculating. And since the rest of the Commission is happy or is okay, I think I'm not speaking out of turn with what I heard with Mr. Devlin's suggestion, I would just vote the way I want to accordingly on this particular issue, and we could move on rather than -- I just have a real problem of so much of that surplus not getting back to those people who may never be around to get it in the future. So that's troubling for me, so I could dissent on the motion if there is motion.

Commissioner Skop.

COMMISSIONER SKOP: Thank you.

Just a question of staff. And, again, you know, when I came into this and I look at -- you know, I tried to prepare a sensitivity analysis based on the spreadsheet that I made, not staff's. If you look at the theoretical depreciation reserve that Commissioner Argenziano is speaking to on Issue 15, you currently have a reserve amount of $697.4 million, almost for, you know, layman's sake $700 million.

MS. LEE: Correct.

COMMISSIONER SKOP: Now, I don't know how much of the reserve, Commissioner, that -- you know, would you want to amortize all of it over a four-year period, or a portion of it, or --

CHAIRMAN ARGENZIANO: Commissioner Skop, I have no intention of hurting the company to that degree. I don't mean it in that sense. I don't want to hurt the company. I'm trying to be mindful that there is a whole bunch of people out there who have this money coming to them.

COMMISSIONER SKOP: A question to staff. Again, Mr. Devlin's suggestion -- and, again, my numbers are differing slightly. I guess we are looking at ratios and differences because I went back during the break and tried to say, okay, you know, if the revenue requirement comes out in this range, you know, what does that do to my calculations that aren't shown on this page. And I came up with ten million per year, 40 million total, which would, you know, I guess get you to zero, but staff is saying not that much is necessary, it is only 22 million. But what if, you know, you amortized, you know, I guess, as shown on this sheet, 100 million, 25 million over four years. You would still have a $16 million or somewhat less than that revenue requirement negative, and then you would have a, you know, rate decrease to some degree.

MS. LEE: Correct.

COMMISSIONER SKOP: I guess I'm just trying to understand, Commissioner, because, again, I was prepared to consider this issue. I think that, you know, OPC made the textbook argument as to why you should give it back. I just think that the only impediment for even going down that direction -- and, again, I'm willing to go some. I think all would be extreme. But, you know, my, I guess, thought process on this would be, you know, if you can zero out the revenue requirement, you have no rate increase. If you go below zero, which would result from refunding a portion of the surplus, then rates would go down by some small amount.

But then, again, the trade-off for that is four years later rates are going to go back up substantially because you have to play depreciation catch-up. So, again, it's trying to find that fine balance. If you have some suggestions, I'm open to them. Again, I'm comfortable with Mr. Devlin's suggestion, but I'm not locked or wed to that. I'm looking at, you know, all reasonable alternatives. I was hesitant to go above, you know, half of the depreciation reserve because, again, it got into a situation of creating irreparable harm for the company given its financial condition. Not because it's not right to give it back. I think that the rationale is clearly there.

We could do this. We have the discretion to do it. It is just in this particular instance, given the financial condition of the company, there comes a point of diminishing returns. Not to say that it's not fair to the consumers, but in a different circumstance I would not hesitate to amortize the reserve surplus over four years without thinking about it, because I thought that the OPC argument was spot on. But in this particular case, it's like at what point do you do greater harm than good. So if you have some suggestions, I'm open to hear them.

CHAIRMAN ARGENZIANO: My suggestion at this point probably is that it seems that the Commissioners are comfortable with Mr. Devlin's suggestion. I did not intend to go negative on the -- it's not where I wanted to go, and I'm not sure that -- on your chart here, your first figure here would go below, and I'm just not sure at this point if there would be consensus on -- and I'm not talking about going below, I'm talking about just trying to be at the same place where we have no rate increase for the ratepayer. And I don't want to cause detrimental harm, but I do -- I don't know, maybe I should ask staff if there is a place -- a little bit more, to try to capture a little bit more of that surplus, and if it would be better to do it over a six year rather than a four year, I don't know, without getting into that area where it really hurts the company, because that's not my intention.

COMMISSIONER EDGAR: Madam Chair, while they are looking at that, or thinking of it either now or in a moment, whichever, I think that I am comfortable and probably leaning towards, realizing the totality of all of the circumstances, what Mr. Devlin has suggested to us, but I would like to ask him to restate it just in that ongoing effort in an abundance of clarity.

CHAIRMAN ARGENZIANO: I agree.

Mr. Devlin.

MR. DEVLIN: Yes, Commissioner.

John Slemkewicz recalculated the revenue requirement increase based on all the adjustments that the Commission voted on, and it came out to be 5.8 million, I believe. And in an abundance of basically simplicity because it's such a small amount, as opposed to recalculating depreciation rates and trying to figure out what the effect on the reserve would be if you do a transfer, I would just suggest a straight-up amortization to offset that amount over a four-year period.

There is some revenue tax implication there, but it's probably minor. So the bottom line effect of that is that Pat Lee wouldn't recalculate depreciation rates; it would just be a credit to the surplus of 5.8 million and some change over a four-year period. I think we calculated that at somewhere in the neighborhood of $23 million would be the reduction in the surplus to accommodate this revenue requirement.

The company would gain in that the rate base would be $23 million higher at the end of year four. The customers would gain because there is no rate increase. I think we're all hesitant -- at least I'm hesitant when you go further than that, there is a point there where you do jeopardize the financial integrity of the company. You have got cash flow considerations. You have credit issues, et cetera. And none of us know where that is, but it's there somewhere. And if we go further, I'm fearful that we may run into those kind of financial situations.

CHAIRMAN ARGENZIANO: And I just suggest that the Commission make a motion on what you feel comfortable with.

Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

With respect to Issue 15 regarding the treatment of the theoretical depreciation reserve surplus, I would like to embody Mr. Devlin's suggestion and make the following motion. And, Staff, please correct me if I'm not speaking to it correctly. But, basically the motion would be to use a portion of the theoretical depreciation surplus to amortize -- to be amortized over four years, which -- let me start over.

The motion would be to use a portion of the theoretical depreciation surplus to be amortized over four years to the extent necessary to zero out the revenue requirement.

MR. DEVLIN: Yes, that's a fair interpretation.

COMMISSIONER STEVENS: Second.

MS. LEE: Additionally -- excuse me. Additionally, the Commission would need to approve the staff recommended reserve allocations in Issue 15, because that is built into the depreciation rates that have been approved.

COMMISSIONER SKOP: Okay. And that would be embodied within the motion.

COMMISSIONER STEVENS: Yes, ma'am.

COMMISSIONER SKOP: For those depreciation rates.

CHAIRMAN ARGENZIANO: Okay. We have a motion and a second. All in favor -- any discussion or debate or questions, though I think we have already done that. All in favor indicate by aye.

COMMISSIONER EDGAR: Aye.

COMMISSIONER SKOP: Aye.

COMMISSIONER KLEMENT: Aye.

COMMISSIONER STEVENS: Aye.

CHAIRMAN ARGENZIANO: Opposed? Aye. The motion passes. Now we move on. Staff.

MR. DEVLIN: Madam Chairman, we still have some rate structure issues.

CHAIRMAN ARGENZIANO: Right.

COMMISSIONER STEVENS: And because of what we did, we are covered in Item 28 and 75, or does staff need a motion on those?

CHAIRMAN ARGENZIANO: No, we need --

COMMISSIONER SKOP: Yes, 28 and 75.

CHAIRMAN ARGENZIANO: 28 and 75, right. We have to -- we just don't have to go there. So where are we going next?

MR. DEVLIN: I believe we had voted on Issue 15, so Issue 28 is next.

CHAIRMAN ARGENZIANO: 28. Okay, let's go to 28.

MS. MARSH: Issue 28 is the calculation of the depreciation that comes out of the previous votes. There is no change recommended to this issue as it's stated.

COMMISSIONER SKOP: Madam Chair.

CHAIRMAN ARGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: A question to Mr. Devlin. In light of the prior motion that was adopted by the Commission as to Issue 15, are there any specific words we need to incorporate into a motion to approve Item 28 over and above the staff recommendation?

MR. DEVLIN: I don't believe so, because part of the decision on 15 was not to change depreciation rates and the concomitant effect on reserves.

COMMISSIONER EDGAR: Okay, great.

Madam Chair, with that in mind, I would respectfully move to adopt the staff recommendation on Issue 28.

COMMISSIONER STEVENS: Second.

CHAIRMAN ARGENZIANO: Any comments, questions? Okay. All in favor indicate by aye.

(Simultaneous vote.)

Opposed? Show that motion passing. And we can move on to 75.

MR. DEVLIN: 75.

MS. MARSH: Issue 75 is the depreciation expense, and that expense number should be -- and I do want to point out, and I think I forgot to point out --

COMMISSIONER SKOP: I'm having trouble hearing you.

MS. MARSH: I'm sorry.

CHAIRMAN ARGENZIANO: Crank up the volume.

MS. MARSH: Okay. I wasn't leaning into it enough. I did fail to mention one thing on Issue 28. That dollar amount should be as was revised earlier this morning. Okay. And Issue 75 is the depreciation expense, and that is as modified this morning, also, the 112,753,601 is the depreciation expense.

MR. SLEMKEWICZ: Plus there will be the additional amount for the amortization, which is approximately the $5.8 million each year.

CHAIRMAN ARGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

If there are no questions, I would make a motion to approve the staff recommendation for Issue 75 as modified to reflect the changes -- necessary changes that staff just spoke of.

COMMISSIONER STEVENS: Second.

CHAIRMAN ARGENZIANO: Any questions, discussion? Okay. All those in favor signify by aye.

(Simultaneous vote.)

Opposed?

Show that motion passing. And now we are -- I lost my sheet.

COMMISSIONER STEVENS: 87 is a fallout.

CHAIRMAN ARGENZIANO: Let's go to 87, which was the fallout issue. I'm sorry, hang on one second.

Commissioner Skop, go ahead.

COMMISSIONER SKOP: Thank you, Madam Chair.

Mr. Devlin, just in light of the Commission's adoption of the motion on Issue 15, am I correct to understand that as we fashion a motion for Issue 87, which is the annual operating revenue requirement, do we -- does that embody the numbers shown in the revised Schedule 5, or is that number now zero that we will be approving?

MR. DEVLIN: I believe that number is zero based on your votes at this point.

COMMISSIONER SKOP: All right. Thank you. Madam Chair, if there are no further --

CHAIRMAN ARGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

If there is no further discussion as to Issue 87, I would deny the staff recommendation and adopt the zero annual operating revenue increase as voted by the Commission.

COMMISSIONER STEVENS: Second.

CHAIRMAN ARGENZIANO: Any questions, debate, discussion? Okay. All those in favor aye.

(Simultaneous vote.)

Opposed? Show that motion passing.

The next issue.

COMMISSIONER SKOP: 89.

CHAIRMAN ARGENZIANO: Separation of costs and revenues.

MS. DRAPER: Elizabeth Draper with staff. On Issue 89 staff recommends that you approve the staff recommendation that the issue does not change based on your recent decision not to increase the revenues.

Issue 90 is the cost of service issue. Here you have two options. You either approve the staff recommendation, which does not change the total revenue requirement, however it does change rates for all customers since it changes the allocation of costs to the classes.

Staff's recommendation would shift costs from the residential customers to the commercial/industrial customers. If your goal is to keep rates for all customers the same, then you should deny the staff and any change in the cost of service methodology and continue -- and order Progress to continue to use the 12 CP and 1/13th methodology, which is the current methodology.

CHAIRMAN ARGENZIANO: Any questions, Commissioners?

COMMISSIONER STEVENS: If I understand staff's recommendation, I agree with denying staff's recommendation.

CHAIRMAN ARGENZIANO: And keeping -- wait a minute.

COMMISSIONER STEVENS: And keeping it --

MS. DRAPER: And keeping it the same.

CHAIRMAN ARGENZIANO: Gotcha.

Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

And to the point that was just made by Commissioner Stevens and staff, I just want to make sure I understand that with respect to Issue 90, that change has no impact on the annual operating revenue requirement. The staff recommendation as proposed would shift additional rate cost to industrial users, and if we were to deny the staff recommendation, basically, the rate structure would remain as it currently is, is that correct, under the 12 CP and 1/13 AD.

MS. DRAPER: That is correct, yes.

COMMISSIONER SKOP: Okay.

CHAIRMAN ARGENZIANO: Okay. So then if we are voting on this in a block, this would mean on this issue we would deny staff on --

COMMISSIONER STEVENS: Yes, ma'am.

CHAIRMAN ARGENZIANO: Okay. All right. And we can that, I guess, just vote on a block with that.

Next.

MS. DRAPER: Issue 91 is a fallout of Issue 90. If you are denying the staff recommendation then there is no change to the cost-recovery factors, so, again, you would deny the staff recommendation.

CHAIRMAN ARGENZIANO: Okay.

MS. DRAPER: Issue 92 is moot since there is no change in the revenue requirement.

CHAIRMAN ARGENZIANO: Uh-huh.

MS. DRAPER: Issue 95 concerns the elimination of the IS-1 rate which has been closed to new customers since 1996. Again, you have two options. Staff recommends that it is appropriate to eliminate the IS-1 rate and move the customers to the IS-2 rate, since it is not cost-effective. The base rates and adjustment clauses are the same for both IS-1 and IS-2. The only difference is the credit. The credit for the IS-2 customers is lower and it is applied differently.

If you want to eliminate the IS-1 rate, some IS-1 customers will see an increase in their total bill due to the lower credit. Again, if you want to make -- do not want to make this change and keep bills for all customers the same, then we recommend that you deny staff and keep the IS-1 rate schedule.

CHAIRMAN ARGENZIANO: Commissioner Stevens.

COMMISSIONER STEVENS: I would deny staff's recommendation and keep them the same.

CHAIRMAN ARGENZIANO: Anyone else? Okay. We will move on.

MS. DRAPER: Issue 96 is a fallout of 95, and based on what you just said it would be moot.

Issues 99, 100, and 101 deal with service charges. I recommend now that you deny the staff recommendation and approve no change and no increase to those charges.

CHAIRMAN ARGENZIANO: I agree. That is on 99, 100, and 101?

MS. DRAPER: Yes.

Issue 107 deals with the method, the design of time-of-use rates, and staff is recommending that Progress's design is appropriate. The staff recommendation also includes a recommendation that Progress filed a study on how to file a new time-of-use rate, and staff is recommending that you approve this language as it is.

CHAIRMAN ARGENZIANO: Any questions? Okay.

COMMISSIONER EDGAR: Just a comment.

CHAIRMAN ARGENZIANO: Commissioner Edgar.

COMMISSIONER EDGAR: My understanding is that study is kind of in progress, and I look forward to seeing the information, and I think that is a good thing for us to ask them to continue.

CHAIRMAN ARGENZIANO: Commissioner Stevens.

COMMISSIONER STEVENS: Are we okay with 98?

CHAIRMAN ARGENZIANO: 98 was stipulated. Right, that was stipulated.

COMMISSIONER STEVENS: Okay.

CHAIRMAN ARGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

On Item 107, do you know in terms of that time-of-use rate study, are they looking at a three-tier system or a four-tier system? I know that they come up with -- for instance, PGE out in California uses a three-tier and, you know, a four-tier kind of makes super costs there in that four-tier. So I just wanted to get some better understanding on that.

MS. KUMMER: Commissioner, based on Witness Slusser's testimony, they are looking at multi-tier rates. I'm not sure exactly what particular arrangement they have looked at. I know that Gulf Power and Tampa Electric both have multi-tier rates for residential rates and small commercial. I expect that they will looking at something similar to those.

COMMISSIONER SKOP: I guess my concern on that is, you know, you have super off-peak, peak, I mean, intermediate, or peak, or whatever they are, but they had like critical peak, which some of the rate structures gets the pricing way out in the -- almost a dollar per kilowatt hour, and that gets to be, for those consumers that aren't cognizant of that, like at least PG&E has a program where it's the lesser of your normal bill or whatever. During that learning curve you just don't get sticker shock if you mess up. So think that in designing a rate structure that's important to take those aspects into consideration, the best practices that other utilities have used.

MS. KUMMER: Certainly. Those are the things that we could look at based on the report. Based on what Progress comes in with, the Commission would be approving any rate changes specifically that they would bring in, too, and we could look at the options at that time.

There is no problem with them bringing any new rate schedule between rate classes. Optional rate schedules can be offered at any time to customers so there would be no need to wait for another rate case to implement a new rate.

COMMISSIONER SKOP: And, Madam Chair, just going back briefly, I had some problem understanding what staff was recommending on Issues 99, 100, and 101. Is that to deny the staff recommendation or to adopt the staff recommendation?

MS. DRAPER: Deny the staff recommendation.

COMMISSIONER SKOP: Great. That's what I wrote down, I wasn't sure, though. Thank you.

CHAIRMAN ARGENZIANO: Okay.

MS. DRAPER: I believe we are next on Issue 109, and 109 based, on your discussion not to eliminate the IS-1 rate, the recommendation -- I believe you only need to vote on the first sentence which essentially leaves the credits as they currently are. It just restates the current IS-1 and IS-2 credits.

CHAIRMAN ARGENZIANO: Anything, Commissioners? Go ahead, I'm sorry. No questions? Okay.

I'm sorry, go ahead. We're okay.

MS. DRAPER: Okay. I thought I heard somebody.

CHAIRMAN ARGENZIANO: It was me.

MS. DRAPER: Issue 110. The staff recommendation as written can be approved.

CHAIRMAN ARGENZIANO: Any questions? Okay. We can move on.

MS. DRAPER: And Issue 114, again, you can approve the current staff recommendation.

CHAIRMAN ARGENZIANO: Concur did you say?

MS. DRAPER: Approve the current as it written. There's no change necessary.

CHAIRMAN ARGENZIANO: Right, I concur. Okay.

MS. DRAPER: Issue 115, the effective date.

CHAIRMAN ARGENZIANO: Anything? No. And then we move into our other issues.

Oh, yes. We need to get rid of those first. Yes, because we have quite a few things here. So, staff, listen up, and if Commissioner Skop gets it wrong let him know.

COMMISSIONER SKOP: Okay. I'm going to try and take a stab at this one, and I guess do we need to start with 98 or 90?

MS. DRAPER: 89.

CHAIRMAN ARGENZIANO: 89, right.

COMMISSIONER SKOP: Okay. All right. Bear with me one second so I can catch up with my notes.

CHAIRMAN ARGENZIANO: That's okay.

Commissioner Stevens.

COMMISSIONER STEVENS: Commissioner Skop, if we wanted to separate the deny staffs between the deny staff and supporting the staff recommendation, I could make a motion that adopts staff recommendations on Item 89, 91, 92, 96, 107, 109, 110, 114, and 115.

COMMISSIONER SKOP: Madam Chair.

CHAIRMAN ARGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: I think on 92 it might be moot. I'm ready to go with a full motion that would get all of it, if Commissioner Steven will yield.

COMMISSIONER STEVENS: Yes.

CHAIRMAN ARGENZIANO: Commissioner Skop, go for it.

COMMISSIONER SKOP: All right. I would move to approve staff recommendation on Issue 89. Move to deny staff recommendation on Issue 90 adopting the 12 CP 1/13 AD. Denying the staff recommendation on Issue 91. Issue 92 is moot. On Issue 95, it would be to deny the staff recommendation, and thereby keeping the IS-1 rate. On 96, it's a fallout issue, and it would be moot. On Issues 99, 100, and 101, the motion would be to deny the staff recommendation. On Issue 107, the motion would to be approve the staff recommendation. On Issue 109 it would be to leave the existing credits as they are. On Issue 110 it would be to adopt the staff recommendation. And on Issue 114 it would be to adopt the staff recommendation. And on Issue 115 to adopt the staff recommendation. And with respect to, I believe, 109, that was the one where we just needed to approve the first credit, is that correct, staff?

MS. DRAPER: The first sentence.

COMMISSIONER SKOP: The first sentence, yes. The first sentence in 109.

COMMISSIONER STEVENS: Second.

CHAIRMAN ARGENZIANO: Let's make sure that that was right on 109.

MS. DRAPER: Commissioners, I'm sorry, I just had a thought. On Issue 115, the effective date, if we are not coming back for a second rates agenda, it should be 30 days from today, because the current staff recommendation has it 30 days from the rates agenda.

CHAIRMAN ARGENZIANO: Good catch.

MS. KUMMER: The Commission vote has basically been that there would be no rate change.

CHAIRMAN ARGENZIANO: Right.

MS. KUMMER: And so there is no need to wait for the second agenda.

COMMISSIONER SKOP: All right. I'll revise my notion to reflect the staff addition.

CHAIRMAN ARGENZIANO: Show the motion revised to reflect staff's comment.

COMMISSIONER STEVENS: Second.

CHAIRMAN ARGENZIANO: And we have a second. Any discussion, questions?

COMMISSIONER SKOP: A question just to make sure.

CHAIRMAN ARGENZIANO: Commissioner Skop.

COMMISSIONER SKOP: Yes, Madam Chair.

Just to clarify to staff that my motion

embodied all of what I was supposed to say, so we don't have to repeat this process. That was a long one.

MS. DRAPER: Well, you got it all right.

CHAIRMAN ARGENZIANO: Okay. We are good to go. Any discussion? Hearing none. All of those in favor indicate by aye.

(Simultaneous vote.)

All opposed, same sign? Okay. It looks like we have gotten through that.

Now, Staff, help me out here as to other issues, which was the page I just flipped over. Here we go, 116.

MR. WILLIS: Commissioners, 116 deals with the interim rate increase that was granted when the case was originally filed of $13,078,000. Staff's recommendation still holds that no refund of the interim rate increase is required based on our calculations.

COMMISSIONER KLEMENT: I agree with staff's recommendation.

CHAIRMAN ARGENZIANO: Any questions?

COMMISSIONER STEVENS: No, ma'am.

COMMISSIONER SKOP: Do you want to just take a motion on that?

Madam Chair, I would move to approve the staff recommendation on Issue 116.

COMMISSIONER STEVENS: Second.

CHAIRMAN ARGENZIANO: Any questions, comments, debate? Hearing none. All those in favor say aye.

(Simultaneous vote.)

Opposed, same sign. Show that motion passing. And now we are on 119.

MS. FLEMING: Commissioners, Issues 119, 120, and 121 arise from a protest of this Commission's PAA order. The parties agreed that the protested issues would be addressed in this proceeding as Issues 119, 120, and 121.

Issue 119 addresses whether the creation of a regulatory asset and the deferral of pension expense violates the 2005 stipulation.

Issue 120 addresses whether the creation of a regulatory asset and deferral of pension expense would constitute retroactive ratemaking.

Issue 121 addresses whether the creation of a regulatory asset and the deferral of pension expense would result in double recovery.

Staff's analysis on all three issues is contained in Issue 119. Staff recommends that the creation of a regulatory asset for pension expense does not violate the terms of the stipulation, does not constitute retroactive ratemaking, and will not lead to double recovery. In addition, staff recommends that certain conditions be put in place in the event that the Commission approves the creation of the regulatory asset.

COMMISSIONER STEVENS: I agree with staff's recommendation on all three of these items.

CHAIRMAN ARGENZIANO: I'm not so sure I do.

COMMISSIONER STEVENS: Okay.

CHAIRMAN ARGENZIANO: Maybe take them separately, if we can.

Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

To take them separately, as to Issue 119, I would move to approve the staff recommendation for that item.

COMMISSIONER STEVENS: Second.

CHAIRMAN ARGENZIANO: Hang on one second. Okay. Any discussion, comments, any questions?

Hearing none. All those in favor, signify by aye.

COMMISSIONER EDGAR: Aye.

COMMISSIONER SKOP: Aye.

COMMISSIONER KLEMENT: Aye.

COMMISSIONER STEVENS: Aye.

CHAIRMAN ARGENZIANO: Opposed, same sign.

Aye.

Show the motion adopted.

COMMISSIONER SKOP: Madam Chair, I think that takes us to Issue 120, and I would also adopt the staff recommendation for Issue 1120.

COMMISSIONER STEVENS: Second.

CHAIRMAN ARGENZIANO: I would like to ask a question of staff first. Can you help me on how it does not constitute -- what your basis was for how it doesn't constitute a retroactive ratemaking? I mean, I've read it. I would really rather hear it.

MS. FLEMING: Sure, Commissioner. The principle of retroactive ratemaking as determined by the Florida Supreme Court, the Supreme Court has recognized that it occurs when a new rate is requested and it is applied retroactively, or it's applied to new rates to past consumption.

In this instance, what the utility is requesting for is a deferral of costs and they are requesting a deferral of costs before the costs have even been incurred. So in this situation we are not going to be applying new rates to past consumption. If and when there is an issue of the pension coming to fruition in 2015, it will be applied on a going-forward basis. It will not be applied to past consumption.

CHAIRMAN ARGENZIANO: But isn't it allowing the company to recover the past expenses in the future rates?

MS. FLEMING: I know that OPC in their briefs raised the United Water case in this, and in that instance the costs had already been incurred and they were seeking to recover costs as a regulatory asset for costs that have already been incurred. In this instance, these costs have not yet been incurred. The books have not closed for these pension expenses.

CHAIRMAN ARGENZIANO: Did you want to add anything?

MS. HELTON: I was just going to say and the customers will be given an opportunity in this case, as I am understanding Ms. Fleming, to adjust their consumption accordingly on a going-forward basis whereas I don't think that was the case before.

CHAIRMAN ARGENZIANO: I don't know, for some reason I have this feeling that you are taking something and applying it in the future. I'm just having a hard time not thinking that is not retroactive. But you've answered my questions; I appreciate that. I don't know where we were. Did we have a motion and a second?

COMMISSIONER SKOP: Madam Chair, I would move to approve the staff recommendation on Issue 120.

COMMISSIONER STEVENS: Second.

CHAIRMAN ARGENZIANO: Any questions, comments, debate? Hearing none. All in favor, say aye.

COMMISSIONER EDGAR: Aye.

COMMISSIONER SKOP: Aye.

COMMISSIONER KLEMENT: Aye.

COMMISSIONER STEVENS: Aye.

CHAIRMAN ARGENZIANO: Opposed? Aye.

And the motion is adopted. Okay.

Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

I think that takes us to Issue 121. And then before we proceed to Issue 122, I think there may be some discussion necessary on the next page of the handout about the January 28th agenda conference, because I heard two things. One, we are not going to have it, so then we would have to address some of those issues, particularly 115A and 115B and other issues. So I will make the motion on 121, and then I'll let staff speak, if it's your pleasure, and then we can worry about closing the docket later after we resolve that issue. But with respect to Issue 121, I would move to approve the staff recommendation on that issue.

COMMISSIONER STEVENS: Second.

CHAIRMAN ARGENZIANO: Any comments or questions? All those in favor say aye.

(Simultaneous vote.)

Opposed, same sign.

Show the motion adopted. And, Staff --

COMMISSIONER SKOP: Madam Chair, if you, I guess, would yield to staff as to the disposition of Issues 98, 108, 111, 112, 113, 115A, and 115B.

MS. FLEMING: Commissioners, based on your decisions today, it is my understanding if you turn to Page 4 of 5 of your handout, the items to be decided at the January 28th, 2010, agenda, it's my understanding that Issues 98, 108, 111, 112, and 113 will be moot. With respect to Issues 115A and B, staff is prepared to make an oral recommendation at this time.

CHAIRMAN ARGENZIANO: Staff.

MR. SAYLER: Good afternoon. Good evening, Commissioners, my name is Eric Sayler with Commission legal staff.

Staff's oral recommendation for 115A is this issue is moot, and that is the entirety of staff's recommendation.

For Issue 115B, staff's recommendation is as follows: In this proceeding, the Commission and its staff thoroughly reviewed and evaluated Progress' petition and MFRs, the testimony and exhibits of all parties, including the testimony by Progress customers at a number of service hearings, and all the evidence in the record following a full evidentiary hearing. Staff then filed its recommendation upon which the Commission based its decision.

The Commission then deliberated and voted as permitted within its statutory discretion pursuant to Sections 366.01 and 366.041, Subsection 1, Florida Statutes, and the confines of the evidentiary record. And the Commission approved a change in base rates which was materially different from that proposed by Progress. Based upon the foregoing, the staff recommends that the Commission find that it fulfilled its statutory mandate in this proceeding. That is the end of staff's recommendation.

CHAIRMAN ARGENZIANO: Commissioner Skop. Commissioner Stevens.

COMMISSIONER SKOP: Thank you, Madam Chair.

Could I ask Mr. Sayler to repeat the last part? I'm having trouble hearing, the microphone levels.

DR. TAYLOR: Certainly. Based upon the foregoing, staff recommends that the Commission find that it fulfilled its statutory mandate in this proceeding.

COMMISSIONER SKOP: Okay. And then just one question following the question on Issue 115A. Would that be moot or should the Commission also make a finding that it fulfilled its statutory obligation that the rates were fair, just, and reasonable?

MR. SAYLER: It would be at the pleasure of the Commission, what the Commission would decide. Staff believes that based upon all the decisions made here today, this issue has been rendered moot, but you could also make a finding that this issue is moot, or you could make a finding that you fulfilled the statutory -- or as you indicated.

COMMISSIONER SKOP: My concern would be I just hate -- you know, there is a zero rate increase, so rates are basic and stable as they are. Rates are not going up. But I would hate to see a rate case be appealed on a technicality. And, again, I think it might be important instead of just mandating that issue to be moot to make a determination that no rate increase is fair, just, and reasonable.

MS. FLEMING: If I may interject, Issue 115A, the way it's worded is are the rates proposed by Progress Energy Florida fair, just, and reasonable. The reason the staff's recommendation is that this is moot is because the Commission has made different decisions today based on its discretion, and so, therefore, we are not voting on whether the proposed rates are fair, just, and reasonable.

COMMISSIONER SKOP: Okay. Thank you for that clarification.

Madam Chair, I think -- I don't know if Commissioner Stevens had a question. If not, I'm prepared to make a motion.

COMMISSIONER STEVENS: (Indicating no.)

CHAIRMAN ARGENZIANO: Okay.

COMMISSIONER SKOP: Okay. Madam Chair, I would make the following motion. Issue 98 is rendered moot. Issue 108 is rendered moot. Issue 111 is rendered moot. Issue 112 is rendered moot. Issue 113 is rendered moot. Issue 115A is rendered moot.

And I would move to adopt the oral staff recommendation as to Issue 115B.

COMMISSIONER STEVENS: Second.

CHAIRMAN ARGENZIANO: And a second. Any discussion? Hearing none. All those in favor say aye.

(Simultaneous vote.)

Opposed, same sign. The motion is adopted.

And now 122 to close the docket.

MS. FLEMING: Commissioners, on the close the docket issue we do have an oral modification. The issue as currently worded is should this docket be closed. We need to take into account that this docket, the rate case docket was consolidated with the Bartow and the pension dockets, the storm hardening, 090144-EI and 090145-EI.

So as part of staff's recommendation we would recommend that this be reworded to should these dockets be closed, and these dockets should be closed after the time for filing an appeal has run.

COMMISSIONER SKOP: Madam Chair, Commissioner Stevens is the new Commissioner on the block, so I will give him the privilege of making the motion.

COMMISSIONER STEVENS: I would adopt staff's recommendation. I will make it easy.

COMMISSIONER SKOP: Second.

CHAIRMAN ARGENZIANO: Wow. Okay. All those in favor say aye.

(Simultaneous vote.)

Opposed, same sign.

The motion is adopted. And before I move to say good night, I want to make sure -- is there anything else before I move to adjourn?

Commissioner Stevens.

COMMISSIONER STEVENS: I know I sound like a broken record player --

CHAIRMAN ARGENZIANO: I know what you're going to say.

COMMISSIONER STEVENS: Thank you, staff. You all made it a lot easier. Thank you very much.

CHAIRMAN ARGENZIANO: Great job, staff. I want to thank everybody, because it really was -- this is the first rate increase in a long time, and I think we did -- everybody, the companies, all the parties. Thank you, staff, for making it very easy. And fellow Commissioners, thank you very much.

Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

And, again, this is the -- I appreciate the thoughtful discussion and thorough vetting that we had on the issues related to this rate case. I think that the decision of the Commission basically reflects matching being fair to the ratepayers and the company, but also appreciating the economic realities that exist today.

I want to take this opportunity again to thank our staff for their dedicated effort on this rate case. I don't see the team mascot. It's probably hid. Oh, there it is. But I'm glad that that could make a nice cameo appearance. And, again, I would commend our staff for all their hard work. This has been a very thoroughly litigated rate case, but, again, it has gone very smoothly. So, thank you.

CHAIRMAN ARGENZIANO: Commissioner Klement.

COMMISSIONER KLEMENT: I would like to add my thanks, also. It has been long hard slog for me particularly, and probably for Commissioner Stevens to catch up. I feel we have done that, and we have done justice to all parties, and thank you for that making that possible.

CHAIRMAN ARGENZIANO: Commissioner Klement, I want to say that you two guys really did a yeoman's job in catching up. I think you knew the issues very well, and I have to say after we sat through all of that, you guys really had to hustle up, and I think you did a good job.

I wanted to say one other thing, if I may, because I didn't say this. Not everybody is always going to be happy with everything we do, and we know that. I think we tried to do it in a fair, just, and reasonable way. I'm sure we have. I just wanted to make one comment that I didn't get to do before the company, because I wanted to tell them that I really appreciate the fact that they have maintained the value of their assets the way they have. I think that's to be noted, and that's something very important, and the ratepayers have to appreciate that. I didn't get a chance to say that before, and I just wanted to commend the company on that.

Commissioner Skop, and then we are going to adios.

COMMISSIONER SKOP: Thank you, Madam Chair.

And I will make this brief. I forgot this, and it touches upon a point that you made. Again, I would like to commend all of the litigants, Public Counsel, FIPUG, the Florida Retail Federation, the Attorney General's Office. Again, this has been a very well litigated, thoroughly litigated case. Very good participation from all the parties. And to Progress, I know that, you know, the results are what they are, but that should not in any way take away from the fact that Progress Energy Florida is a very well managed and very well operated company. And I appreciate the professional manner in which you presented your case.

Your counsel, Mr. Glenn and Mr. Burnett conducted yourselves in an admirable fashion. And, again, thank you, again.

CHAIRMAN ARGENZIANO: Hearing nothing else, we are adjourned. Thank you.

(The Special Agenda concluded at 5:28 p.m.)

STATE OF FLORIDA)
: CERTIFICATE OF REPORTER
COUNTY OF LEON)

I, LINDA BOLES, RPR, CRR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

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' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 12th day of January, 2010.

Linda Boles

LINDA BOLES, RPR, CRR
FPSC Official Commission Reporter
(850) 413-6734

STATE OF FLORIDA)

: CERTIFICATE OF REPORTER

COUNTY OF LEON)

I, JANE FAUROT, RPR, Chief, Hearing Reporter Services Section, FPSC Division of Commission Clerk, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

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 12th day of January, 2010.

JANE FAUROT, RPR
Official FPSC Hearings Reporter
(850) 413-6732

certificate rec'd on 1-13-10 -ac

CERTIFICATE OF REPORTER

STATE OF FLORIDA:

COUNTY OF LEON:

I, MARY ALLEN NEEL, Registered Professional Reporter, do hereby certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter translated under my supervision; and the foregoing pages are a true and correct record of the aforesaid proceedings.

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

DATED THIS 12th day of January, 2010.

Mary Allen Neel

MARY ALLEN NEEL, RPR, FPR
2894-A Remington Green Lane
Tallahassee, Florida 32308
(850) 878-2221

Reduction to Revenue Requirement for Different ROE Values ($ millions)

ROE Value	10.50%	10.55%	10.60%	10.65%	10.70%	10.75%	10.80%	10.85%	10.90%	10.95%	11.00%	11.05%	11.10%	11.15%	11.20%	11.25%
Revenue Requirement Reduction	($38.700)	($36.120)	($33.540)	($30.960)	($28.380)	($25.800)	($23.220)	($20.640)	($18.060)	($15.480)	($12.900)	($10.320)	($7.740)	($5.160)	($2.580)	$0.000
Adjusted Operating Revenue Requirement	$20.113	$22.693	$25.273	$27.853	$30.433	$33.013	$35.593	$38.173	$40.753	$43.333	$45.913	$48.493	$51.073	$53.653	$56.233	$58.813

Reduction to Revenue Requirement Resulting from Four Year Amortization of Theoretical Depreciation Reserve Amounts ($ millions)

Theoretical Depreciation Surplus Amount	$100	$150	$200	$250	$300
Per Year (4 year amortization)	$25	$37.5	$50	$62.50	$75
Revenue Requirement Reduction	($16)	($24)	($32)	($40)	($48)
Adjusted Operating Revenue Requirement	$42.813	$34.813	$26.813	$18.813	$10.813

Commissioner Skop
Parties/Staff Handout
Internal Affairs/Agenda
on 1/11/10
Item No. 15 & 47 – SA
090079-EI
090144EI
090145EI

PROGRESS ENERGY FLORIDA, INC.
DOCKET NO. 090079-EI
13-MONTH AVERAGE RATE BASE
DECEMBER 2010 TEST YEAR

SCHEDULE 1
REVISED

Issue No.		Plant in Service	Accumulated Depreciation	Net Plant in Service	CWIP	Plant Held for Future Use	Nuclear Fuel - No AFUDC (Net)	Net Plant	Working Capital	Total Rate Base
	Adjusted per Company	10,381,341,000	(4,437,117,000)	5,944,224,000	151,145,000	25,723,000	126,566,000	6,247,658,000	(9,040,000)	6,238,618,000
	Staff Adjustments:									
24	Non-Utility Activities	(874,089)	(18,405)	(892,494)	0	0	0	(892,494)	0	(892,494)
25-S	Bartow Repowering	0	0	0	0	0	0	0	0	0
26-S	Recovery & Reinvestment Act	0	0	0	0	0	0	0	0	0
27	Plant in Service	0	0	0	0	0	0	0	0	0
28	Depreciation Study	0	46,549,627	46,549,627	0	0	0	46,549,627	0	46,549,627
29	Accumulated Depreciation & Amort.	0	0	0	0	0	0	0	0	0
30	CWIP	0	0	0	0	0	0	0	0	0
31	Property Held for Future Use	0	0	0	0	0	0	0	0	0
32	Nuclear Fuel	0	0	0	0	0	0	0	0	0
33	Storm Damage Reserve	0	0	0	0	0	0	0	17,329,872	17,329,872
34-S	Non-Nuclear Fuel Inventories	0	0	0	0	0	0	0	0	0
35	Rate Case Expense	0	0	0	0	0	0	0	(2,787,000)	(2,787,000)
36	Asset Retirement Obligations	0	0	0	0	0	0	0	0	0
37	Working Capital	0	0	0	0	0	0	0	0	0
69	Generation O&M Expense	3,479,776	(19,706)	3,460,070	0	0	0	3,460,070	0	3,460,070
		0	0	0	0	0	0	0	0	0
		0	0	0	0	0	0	0	0	0
		0	0	0	0	0	0	0	0	0
		0	0	0	0	0	0	0	0	0
		0	0	0	0	0	0	0	0	0
		0	0	0	0	0	0	0	0	0
		0	0	0	0	0	0	0	0	0
		0	0	0	0	0	0	0	0	0
		0	0	0	0	0	0	0	0	0
		0	0	0	0	0	0	0	0	0
				0				0		0
				0				0		0
				0				0		0
				0				0		0
				0				0		0
---	Total Staff Adjustments	2,605,687	46,511,516	49,117,203	0	0	0	49,117,203	14,542,872	63,660,075
38	Fall Out - Staff Adjusted Rate Base	10,383,946,687	(4,390,605,484)	5,993,341,203	151,145,000	25,723,000	126,566,000	6,296,775,203	5,502,872	6,302,278,075

Parties/Staff Handout
Internal Affairs/Agenda
on 1/11/10
Item No. 5A
090079-EI
090144-EI
090145-EI

PROGRESS ENERGY FLORIDA, INC.
DOCKET NO. 090079-EI
13-MONTH AVERAGE CAPITAL STRUCTURE
DECEMBER 2010 TEST YEAR

SCHEDULE 2
REVISED

Company As Filed	($) Amount	Ratio	Cost Rate	Weighted Cost
Common Equity	3,151,819,000	50.52%	12.54%	6.34%
Long-term Debt	2,637,596,000	42.28%	6.42%	2.71%
Short-term Debt	38,609,000	0.62%	5.25%	0.03%
Preferred Stock	19,881,000	0.32%	4.51%	0.01%
Customer Deposits - Active	111,734,000	1.79%	5.95%	0.11%
Customer Deposits - Inactive	1,129,000	0.02%	0.00%	0.00%
Deferred Income Taxes	389,297,000	6.24%	0.00%	0.00%
FAS 109 DIT - Net	(115,057,000)	-1.84%	0.00%	0.00%
Tax Credits - Weighted Cost	3,610,000	0.06%	9.74%	0.01%
Total	6,238,618,000	100.00%		9.21%
Equity Ratio	53.90%			

Staff Adjusted	($) Amount	($) Specific Adjustments	($) Adjusted Total	Ratio	($) Pro Rata Adjustments	($) Staff Adjusted	Ratio	Cost Rate	Weighted Cost
Common Equity	3,151,819,000	(235,793,000)	2,916,026,000	46.74%	29,755,698	2,945,781,698	46.74%	10.50%	4.908%
Long-term Debt	2,637,596,000	180,112,000	2,817,708,000	45.17%	28,752,442	2,846,460,442	45.17%	6.18%	2.791%
Short-term Debt	38,609,000	2,636,000	41,245,000	0.66%	420,872	41,665,872	0.66%	3.72%	0.025%
Preferred Stock	19,881,000	1,358,000	21,239,000	0.34%	216,727	21,455,727	0.34%	4.51%	0.015%
Customer Deposits - Active	111,734,000	32,385,000	144,119,000	2.31%	1,470,618	145,589,618	2.31%	5.95%	0.137%
Customer Deposits - Inactive	1,129,000	328,000	1,457,000	0.02%	14,868	1,471,868	0.02%	0.00%	0.000%
Deferred Income Taxes	389,297,000	26,584,000	415,881,000	6.67%	4,243,731	420,124,731	6.67%	0.00%	0.000%
FAS 109 DIT - Net	(115,057,000)	(7,857,000)	(122,914,000)	-1.97%	(1,254,238)	(124,168,238)	-1.97%	0.00%	0.000%
Tax Credits - Weighted Cost	3,610,000	247,000	3,857,000	0.06%	39,358	3,896,358	0.06%	8.36%	0.005%
Total	6,238,618,000	0	6,238,618,000	100.00%	63,660,075	6,302,278,075	100.00%		7.881%
Equity Ratio	53.90%					50.31%			

Interest Synchronization	($) Adjustment Amount	Cost Rate	($) Effect on Interest Exp.	Tax Rate	($) Effect on Income Tax
Dollar Amount Change					
Long-term Debt	208,864,442	6.18%	12,907,823	38.575%	(4,979,193)
Short-term Debt	3,056,872	3.72%	113,716	38.575%	(43,866)
Customer Deposits	33,855,618	5.95%	2,014,409	38.575%	(777,058)
Tax Credits - Weighted Cost	286,358	8.36%	23,947	38.575%	(9,238)
					(5,800,117)
Cost Rate Change					
Long-term Debt	2,637,596,000	-0.24%	(6,330,230)	38.575%	2,441,886
Short-term Debt	38,609,000	-1.53%	(590,718)	38.575%	227,869
Tax Credits - Weighted Cost	3,610,000	-1.38%	(49,718)	38.575%	19,179
					2,688,934
TOTAL					(3,111,182)

PROGRESS ENERGY FLORIDA, INC.
DOCKET NO. 090079-EI
NET OPERATING INCOME
DECEMBER 2010 TEST YEAR

SCHEDULE 3
REVISED

Issue No.		Operating Revenues	O&M - Fuel & Purchased Power	O&M Other	Depreciation and Amortization	Taxes Other Than Income	Total Income Taxes and ITCs	(Gain)/Loss on Disposal of Plant	Total Operating Expenses	Net Operating Income
	Adjusted per Company	1,517,918,000	8,125,000	713,371,000	357,869,000	129,587,000	42,943,000	(2,523,000)	1,249,372,000	268,546,000
	Staff Adjustments:									
4-S	Revenue Forecast	0	0	0	0	0	0	0	0	0
5-S	Billing Determinants Forecast	0	0	0	0	0	0	0	0	0
24	Non-Utility Activities	0	0	0	(26,039)	(8,300)	13,246	0	(21,093)	21,093
49	Total Operating Revenues	0	0	0	0	0	0	0	0	0
50	Bartow Repowering	0	0	0	0	0	0	0	0	0
51-S	ECCR Revenues and Expenses	0	0	0	0	0	0	0	0	0
52-S	FAC Revenues and Expenses	0	0	0	0	0	0	0	0	0
53-S	CCR Revenues and Expenses	0	0	0	0	0	0	0	0	0
54-S	ECRC Revenues and Expenses	0	0	0	0	0	0	0	0	0
56	Aviation Costs	0	0	0	0	0	0	0	0	0
57	Advertising Expenses	0	0	0	0	0	0	0	0	0
59	D&O Liability Insurance	0	0	(964,612)	0	0	372,099	0	(592,513)	592,513
60	Injuries & Damages Expense	0	0	(4,778,603)	0	0	1,843,346	0	(2,935,257)	2,935,257
61	A&G Office Supplies and Expenses	0	0	(1,298,435)	0	0	500,871	0	(797,564)	797,564
62	Productivity Improvements	0	0	0	0	0	0	0	0	0
63	Salaries and Employee Benefits	0	0	(1,454,000)	0	0	560,881	0	(893,120)	893,120
64	2010 Salary Increases	0	0	(10,146,776)	0	0	3,914,119	0	(6,232,657)	6,232,657
65	2010 Employee Position Increases	0	0	(3,454,626)	0	0	1,332,622	0	(2,122,004)	2,122,004
66	2010 Incentive Compensation	0	0	(32,854,378)	0	0	12,673,576	0	(20,180,802)	20,180,802
67	Employee Benefits Expense	0	0	(1,706,667)	0	0	658,347	0	(1,048,320)	1,048,320
68	Storm Damage Accrual	0	0	(14,922,000)	0	0	5,756,162	0	(9,165,839)	9,165,839
69	Generation O&M Expense	0	0	(9,004,955)	41,680	0	3,457,583	0	(5,505,692)	5,505,692
70	Transmission O&M Expense	0	0	(1,717,042)	0	0	662,349	0	(1,054,693)	1,054,693
71	Distribution O&M Expense	0	0	(8,924,197)	0	0	3,442,509	0	(5,481,688)	5,481,688
73	Rate Case Expense	0	0	(855,036)	0	0	329,830	0	(525,206)	525,206
74-S	Bad Debt Expense	0	0	0	0	0	0	0	0	0
75	Depreciation Study	0	0	0	(112,753,601)	0	43,494,702	0	(69,258,899)	69,258,899
76	Depreciation & Dismantlement Exp.	0	0	0	0	0	0	0	0	0
77-S	Nuclear Decommissioning	0	0	0	0	0	0	0	0	0
78-S	End of Life M&S Inventories	0	0	0	0	0	0	0	0	0
79-S	Nuclear Fuel Last Core	0	0	0	0	0	0	0	0	0
80	Taxes Other Than Income	0	0	0	0	0	0	0	0	0
81	Parent Debt Adjustment	0	0	0	0	0	(14,487,526)	0	(14,487,526)	14,487,526
82	Income Tax Expense	0	0	0	0	0	0	0	0	0
83	Total Operating Expenses	0	0	0	0	0	0	0	0	0
85	Affiliated Transactions	0	0	0	0	0	0	0	0	0
88	Bartow Repowering	132,101,000	0	0	0	95,113	50,921,271	0	51,016,384	81,084,616
		0	0	0	0	0	0	0	0	0
		0	0	0	0	0	0	0	0	0
		0	0	0	0	0	0	0	0	0
		0	0	0	0	0	0	0	0	0
	Interest Synchronization	0	0	0	0	0	(3,111,182)	0	(3,111,182)	3,111,182
	Total Staff Adjustments	132,101,000	0	(92,081,327)	(112,737,960)	86,813	112,334,804	0	(92,397,670)	224,498,670
84	Fall Out - Staff Adjusted NOI	1,650,019,000	8,125,000	621,289,673	245,131,040	129,673,813	155,277,804	(2,523,000)	1,156,974,330	493,044,670

SCHEDULE 4

PROGRESS ENERGY FLORIDA, INC.
DOCKET NO. 090079-EI
DECEMBER 2010 PROJECTED TEST YEAR
NET OPERATING INCOME MULTIPLIER

Line No.		(%) As Filed	(%) **ISSUE 86 Stipulated**
1	Revenue Requirement	100.000	100.000
2	Gross Receipts Tax	0.000	0.000
3	Regulatory Assessment Fee	(0.072)	(0.072)
4	Bad Debt Rate	(0.284)	(0.284)
5	Net Before Income Taxes	99.644	99.644
6	Income Taxes (Line 5 x 38.575%)	(38.437)	(38.437)
7	Revenue Expansion Factor	61.207	61.207
8	Net Operating Income Multiplier (100%/Line 7)	1.63381	**1.63381**

SCHEDULE 5
REVISED

PROGRESS ENERGY FLORIDA, INC.
DOCKET NO. 090079-EI
DECEMBER 2010 PROJECTED TEST YEAR
OPERATING REVENUE INCREASE CALCULATION

Line No.		As Filed		Staff Adjusted	
1.	Rate Base	$6,238,617,000		$6,302,278,075	
2.	Overall Rate of Return	9.21%		7.88%	
3.	Required Net Operating Income (1)x(2)	574,577,000		496,619,512	
4.	Achieved Net Operating Income	268,546,000		493,044,670	
5.	Net Operating Income Deficiency (3)-(4)	306,031,000		3,574,842	
6.	Net Operating Income Multiplier	1.63380		1.63381	
7.	Operating Revenue Increase (5)x(6)	$499,997,000	*	$5,840,613	**

NOTES: * PEF's requested operating revenue increase of $499,997,000 includes the operating revenue requirements associated with the Bartow Repowering Project. PEF's current base rates include the $126,212,000 base rate increase for the Bartow repowering Project that was authorized in Order No. PSC-09-0415-PAA-EI, issued June 12, 2009, in Docket No. 090144-EI, In re: Petition for limited proceeding to include Bartow repowering project in base rates, by Progress Energy Florida, Inc. The effective date for implementing the base rate increase was the first billing cycle in July 2009.

** For comparative purposes, the Bartow Repowering Project base rate increase of $126,212,000 should be added to staff's recommended base rate increase.