

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by
Progress Energy Florida, Inc.

Docket No. 050078-EI
Submitted for filing:
April 29, 2005

**DIRECT TESTIMONY OF
H. WILLIAM HABERMEYER, JR.**

ON BEHALF OF PROGRESS ENERGY FLORIDA

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**DIRECT TESTIMONY OF
H. WILLIAM HABERMEYER, JR.**

I. Introduction and Background.

Q. Please state your name and business address.

A. My name is H. William Habermeyer, Jr. My business address is Progress Energy Florida, Inc. ("Progress Energy Florida" or the "Company"), 100 Central Avenue, St. Petersburg, Florida 33701.

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

A. I serve as the Company's President and Chief Executive Officer. In this role, I have overall responsibility for the operations of Progress Energy Florida.

Q. Please describe your educational background and professional experience.

A. Please see Exhibit No. ____ (HWH-1) to my testimony.

II. Purpose and Summary of Testimony.

Q. What is the purpose of your direct testimony?

A. I will discuss the successful combination of two strong, Southeastern electric utilities into a stronger, better managed, and more efficient utility. I will provide an overview of our accomplishments over the last three years as we have improved in nearly every area of our business and have achieved top quartile performance in most key areas. I will further describe our goals for the future, the challenges that we face, and the additional elements necessary to put our plans into action.

1
2 **Q Do you have any exhibits to your testimony?**

3 A. Yes, I have prepared or supervised the preparation of the following exhibits to my
4 direct testimony:

- 5 • Exhibit No. ____ (HWH-1), my current resume.
6 • Exhibit No. ____ (HWH-2), a comparison of PEF price with other consumer goods
7 and services.

8 These exhibits are true and accurate.
9

10 **Q. Do you sponsor any schedules of the Company's Minimum Filing Requirements**
11 **(MFRs)?**

12 A. Yes, I sponsor or co-sponsor Schedule F-9. This is true and correct, subject to being
13 updated during the course of this proceeding.
14

15 **Q. Please summarize your testimony.**

16 A. Following completion of the merger, our goal was to become a world-class utility in
17 the areas of reliability, energy supply, and customer service. To make significant
18 progress toward this goal, we established our Commitment to Excellence program
19 that defined specific objectives in the areas of employee satisfaction, safety, price,
20 customer service, reliability, and generation adequacy over the three-year period
21 between 2002 and 2004. I am proud to report that we substantially achieved each of
22 our objectives, fulfilling the Commitment to Excellence program. In addition, we

1 have strengthened our culture of excellence that will ensure continued improvements
2 in meeting the growing and changing needs of our customers and our communities.

3 We have accomplished this without an increase in our base rates since 1993
4 and, in fact, with substantially lower base rates over the last three years, even though
5 our price decreases are at odds with inflation in the rest of the economy. We cannot
6 continue this trend forever, rather we must seek an increase in base rates to support
7 our future plans.

8 We intend to build on the momentum we have developed through our
9 Commitment to Excellence program. We will continue to meet our customers'
10 increasing demands for more and more reliable energy through additional generation
11 resources and system improvements while preserving our commitment to
12 conservation and the environment. We also need to replenish and increase our storm
13 reserve in light of the harsh lessons learned from the 2004 hurricane season in order
14 to be better prepared for future hurricane seasons. We have in place a strong
15 management team and the processes to ensure that we will achieve these objectives.
16 We need, however, an increase in base rates to ensure that we can execute our plan
17 and provide our customers with the level of service they have come to expect from us.

18
19 **II. Our Performance Improvements.**

20 **Q. What did the merger achieve?**

21 **A.** We have been transformed by the merger into a stronger, more efficient utility.
22 Through our merger, we were able to combine various operational and management
23 functions into a more streamlined and efficient scheme. We were also able to

1 consolidate and eliminate redundant programs and identify and implement best
2 practices, significantly reducing our costs. Some of these efforts and the resulting
3 benefits will be explained more fully by other witnesses in this proceeding. The fact
4 that we have become a more efficient utility is evident, however, in our
5 improvements in performance with significantly lower rates over the last three years.
6 These results demonstrate that the benefits of better performance and cost savings
7 were achieved and that the merger was a success.

8
9 **Q. What improvements have you made since the merger?**

10 A. First and foremost, we've improved our performance in several areas through
11 successful completion of our Commitment to Excellence program. At the time of the
12 merger, we realized we needed to improve safety and reliability, lower our price to
13 customers, increase the adequacy of our generation, and rally and focus our
14 employees who had been distracted by the inevitable changes brought about by the
15 merger. As a result, we developed our Commitment to Excellence program. The
16 Commitment to Excellence program was a three year plan to achieve top quartile
17 performance among our peer utilities in safety, rates, and customer service and to
18 meet specific goals to improve reliability and increase our generation reserves.
19 Additionally, our Commitment to Excellence program focused our employees on
20 specific goals and objectives for the Company that created a culture of continuous
21 improvement and improved employee morale.

22
23 **Q. How was the Commitment to Excellence program a success?**

1 a. We substantially met or exceeded each of the objectives of the Commitment to
2 Excellence program. Other witnesses will explain in greater detail the specific
3 projects and results achieved, however, we did see improvements each year of the
4 program and in the end we met our objective of improving in each area that we
5 identified and targeted for improvement.

6 We focused our efforts inside the Company and improved our employee
7 safety by 51% over three years, moving to the brink of top quartile performance
8 among our peer utilities based on most current benchmarks. We also improved
9 employee satisfaction dramatically from the beginning of the program to the end of
10 the program. This has resulted in a significant improvement in employee morale and
11 has created the foundation for further operational improvements to the business.

12 We also turned our focus on our customers by improving our service and
13 increasing our investment in our energy delivery system to improve our reliability of
14 service. We met and actually exceeded our "SAIDI 80" goal by 2004, by reducing
15 our SAIDI from 100.6 in 2000 to 77 in 2004, demonstrating that our increased
16 investment in energy delivery paid off with greater reliability of service. In fact, our
17 petition to exclude customer interruption minutes for recognized reasons, which is
18 currently before the Florida Public Service Commission, would, if approved, further
19 reduce this figure to 74.6 minutes. At the same time we were improving reliability,
20 we reduced our residential base rates by 9.25% (as much as 16% for the typical 1,000
21 Kwh) as a result of the settlement of the last base rate proceeding, moving us into the
22 top quartile of Florida electric utilities in providing low cost electric service by the
23 end of 2004. And, our customer service performance, as measured by the JD Power

1 & Associates 2004 Electric Utility Residential Customer Satisfaction Study,
2 improved from the third quartile at the beginning of the program to the first quartile
3 by the end of the program in 2004.

4 Finally, we have improved the quantity and quality of our power supply
5 reserves. We met our commitment to a 20% reserve margin in December, 2003 with
6 the addition of the Hines 2 unit to our generation fleet, a full six months earlier than
7 required. We have also improved the quality of these reserves by increasing the
8 component that is comprised of actual hard assets as opposed to demand side
9 management resources.

10
11 **Q. Has the Company maintained or added to improvements in other areas besides**
12 **the Commitment to Excellence program?**

13 A. Yes, it has. We have maintained a commitment to operational excellence at our
14 nuclear unit, Crystal River Unit 3 ("CR3"), that began before the merger and
15 enhanced our operational performance. We have achieved steadily increasing levels
16 of output at CR3 over the past several years and achieved an all-time station output
17 record in 2004. This is especially important in an era of ever increasing fuel prices
18 because our nuclear unit is the most cost efficient unit in our fleet. These
19 improvements have helped us to mitigate the impact of rising fuel prices, especially
20 oil and gas prices.

21 We have further increased the commercial availability of our steam generation
22 by over 10% from 2000 to 2003, and substantially maintained that performance
23 during 2004. The greater the availability of our existing fleet the longer we can defer

1 the need for new generation. Also, we continue to maintain the most diverse fuel mix
2 among the Florida investor owned utilities. Maintaining greater diversity in our fuel
3 mix is another way we mitigate the effects of increases in prices among the various
4 fuels we use to operate our generation resources.

5 We have also maintained our commitment to assist customers to use energy
6 more efficiently. The Company has been a recognized leader in energy conservation
7 and efficiency since 1981. Over the years the Company's energy efficiency programs
8 have eliminated the need for 17 peaking power plants that otherwise would have been
9 built. In addition, these programs have saved enough energy to power the City of St.
10 Petersburg for about three years. We remain committed to maintaining and further
11 developing our energy efficiency and conservation programs for our customers.

12
13 **Q. What about the environment, does the Company have the same level of**
14 **commitment to improvement of the environment?**

15 **A.** Yes, it does. For example, improving air quality is one of our highest environmental
16 priorities. We use innovative technologies to reduce, avoid, offset, or sequester
17 emissions as much as possible. The energy savings mentioned above produce
18 corresponding emissions savings equivalent to removing over 100,000 cars annually.

19 We also support alternative energy use. In Central Florida, we have partnered
20 with the Florida Department of Environmental Protection and other companies in a
21 pilot program in the development of fuel cell vehicles. As a result, we will be using
22 hydrogen-fueled cars at our operations centers for meter readers and our energy-
23 efficiency counselors who meet with customers. We have further sponsored the use

1 of photovoltaic systems for research and the study of alternative energy sources in the
2 statewide SunSmart Schools Program and teamed up again with the Florida
3 Department of Environmental Protection to develop a sustainable hydrogen generator
4 and fuel cell for the Homosassa Springs State Wildlife Park.

5 We also partnered with the Florida Solar Energy Center at the University of
6 Central Florida and Palm Harbor Homes on the Manufactured Housing Photovoltaic
7 Pilot Project to increase the use of low-cost solar energy in manufactured housing.
8 As a result of this effort, Florida Governor Jeb Bush named Progress Energy the
9 winner of the Sustainable Florida Award in September 2003. This award honors
10 outstanding contributions to Florida's long-term prosperity and environmental health.

11 These are just a few examples of our strong environmental record.
12 Environmental responsibility is a core value of the Company. We have managed our
13 environmental performance well and we are committed to excellence in our
14 environmental practices and performance in the future.

15
16 **Q. In what other ways do you believe the Company has excelled?**

17 **A.** You only need to look back to our response during the 2004 hurricane season to see
18 some of the benefits of our emphasis on identifying and implementing best practices.
19 As a result of best practices we responded to the 2004 hurricane season with
20 comprehensive storm plans representing the cumulative experience of both Progress
21 Energy Florida and Progress Energy Carolinas. These plans, and our efforts at
22 putting them into practice quickly and efficiently, allowed us to meet the challenges
23 of restoring power during an unprecedented hurricane season where four back-to-

1 back hurricanes impacted our customers in our service territory. The four hurricanes
2 left an unprecedented number of customers without service at their peak, yet in every
3 case we excelled in restoring service to those customers who could receive service,
4 doing so in as little as two days for Hurricane Ivan and only up to nine days for
5 Hurricane Charley, despite the fact that over 500,000 of our customers, or 1.25
6 million people, were left without service at the peak of that hurricane. Our employees
7 worked tirelessly and with great dedication to prepare for, respond to, and recover
8 from what turned out to be the worst hurricane season on record for the State of
9 Florida. As a result of our hurricane response efforts, we were awarded the Edison
10 Electric Institute (“EEI”) Emergency Response Award.

11 I also want to point out that our dedication extends to our communities where
12 we live and work. Being a strong corporate citizen is another core value of the
13 Company. Through the Company and our employees, we look for and act upon ways
14 to bring additional value to the communities in which we serve. Over the past several
15 years, I believe we’ve been successful in building stronger relationships with our
16 communities by increasingly partnering with them and working shoulder-to-shoulder
17 to solve a variety of issues.

18
19 **IV. Our Vision and Needs for the Future.**

20 **Q. What is the Company’s plan for the future?**

21 **A.** Our plan is to maintain and build upon the momentum we created through our
22 Commitment to Excellence program and to maintain and improve upon all areas of
23 our business. That is one reason the emphasis on a culture of continuous

1 improvement was so important to our Commitment to Excellence program. We
2 believe we have strengthened in our management and employees a sense of
3 dedication to improvement that will influence all areas of our business. We have the
4 management team and processes in place to achieve our objectives.

5 We will continue to look for ways to meet the expanding needs and
6 expectations of our customers. For example, we will continue to automate solutions
7 where possible, such as in meter reading, to improve customer service while
8 controlling costs. Also, following up on our investment in upgrading our
9 transmission and distribution systems and improving our restoration time following
10 outages, we will emphasize ways to prevent faults from occurring on our system in
11 the first place. In this way, we look to maintain and build upon the high level of
12 reliability that we have achieved in the most efficient manner possible. These are just
13 two examples of our plans to continue what we have achieved in terms of customer
14 satisfaction and reliability. Other witnesses in this proceeding will develop these
15 examples further and provide further detail to our plans in these areas.

16 We recognize that our customers' needs for energy continue to grow. As a
17 result, we have added or will add two new, state-of-the-art, gas-fired combined cycle
18 units, Hines 2 and Hines 3, to our generation resources in December 2003 and
19 December 2005, respectively. Additionally, the Commission has approved the need
20 for another gas-fired combined cycle unit, Hines 4, which is expected to achieve
21 commercial operation in December 2007.

1 **Q. Can you achieve your Company's plan of maintaining and building upon the**
2 **improvements in your Company's operations at your current rates?**

3 A. Unfortunately the answer is no, we cannot. The Company has not had an increase in
4 base rates since 1993. In fact, the Company has substantially reduced its base rates
5 over the last three years as a result of the settlement of our last base rate proceeding to
6 a level that last existed in 1983. This recent rate reduction has saved Progress Energy
7 Florida's customers more than half a billion dollars over the term of the rate
8 stipulation. Increases in the total price paid by customers have been driven by
9 escalating fuel costs, which have increased dramatically in the last two years, despite
10 the Company's best efforts to mitigate the impact of the increases on its customers.
11 Increases in the cost of fuel, of course, are largely outside the control of any utility,
12 including the Company. As shown in Exhibit No. ____ (HWH-2), PEF's residential
13 base rates and total rate have increased by only 16% and 34%, respectively, since
14 February, 1983, the most recent month in which base rates were lower than today. By
15 contrast, the consumer price index has increased by 95%, postage stamps have
16 increased by 85%, and medical care has increased by 220% over the same time frame.
17 These cost escalation figures demonstrate the Company's ability to hold base rates
18 constant and even lower them by controlling its costs during a period of time when
19 costs were otherwise rising in the rest of the economy.

20 The Company, therefore, has done a good job of reducing its operating costs
21 following the merger, providing the customers many of the synergies that were
22 identified in our last base rate proceeding. The Company was able to provide such
23 significant improvements in service, reliability, and generation resources in the past

1 three years while lowering base rates significantly only because of the synergies from
2 the cost reductions following the merger and the Company's steadfast focus on cost
3 control and operating efficiency.

4 The Company certainly will continue to focus on cost control and efficient
5 operation of its business. One way the Company is doing this is with our recent
6 corporate reorganization to once again streamline our operations where possible to
7 reduce costs. This initiative is expected to generate O&M savings of almost \$20
8 million in 2006 for the Company which has been included in our rate request. We
9 will continue our efforts to control costs wherever possible to operate as efficiently as
10 possible. In an era of ever increasing costs, however, we cannot continue to provide
11 improving levels of service and reliability as well as expanding generation capacity at
12 our current rates.

13
14 **Q. What is the Company seeking in this proceeding?**

15 A. The Company is asking the Commission to set base rates at a level consistent with the
16 service and operational performance that customers expect. We believe an
17 appropriate level will require an annual revenue requirements increase in base rates
18 by approximately \$206 million, beginning January 1, 2006. The requested increase
19 will provide the Company with a reasonable opportunity to earn a fair return on its
20 investment, including a 12.8% rate of return on the company's common equity. This
21 increase in base rates is, in part, necessary to add capacity to meet the continued
22 growth in customer demand. As I explained above, the Company has added new
23 generation capacity in December 2003, will add new generation capacity in

1 December 2005, and will further add generation capacity in December 2007. We
2 further expect to continue to invest in operational and reliability improvements that
3 our customers have come to expect from us. And, significantly, we need to replenish
4 and increase our storm reserve following the devastating impact of the catastrophic
5 hurricane season of 2004. This hurricane season has taught us that severe storms can
6 in fact reach regions far inside the state and cause significant damage. We need to
7 replenish the storm reserve to plan for future hurricane seasons with those lessons in
8 mind.

9 We believe this plan best represents a balance of cost versus the benefits that
10 our customers have enjoyed and come to expect from their electric utility. In this
11 way, our plan represents a true "win-win" situation for the utility and the customer.

12
13 **Q. Does this conclude your testimony?**

14 **A.** Yes, it does.
15
16

H. William (Bill) Habermeyer Jr.
President and Chief Executive Officer
Progress Energy Florida

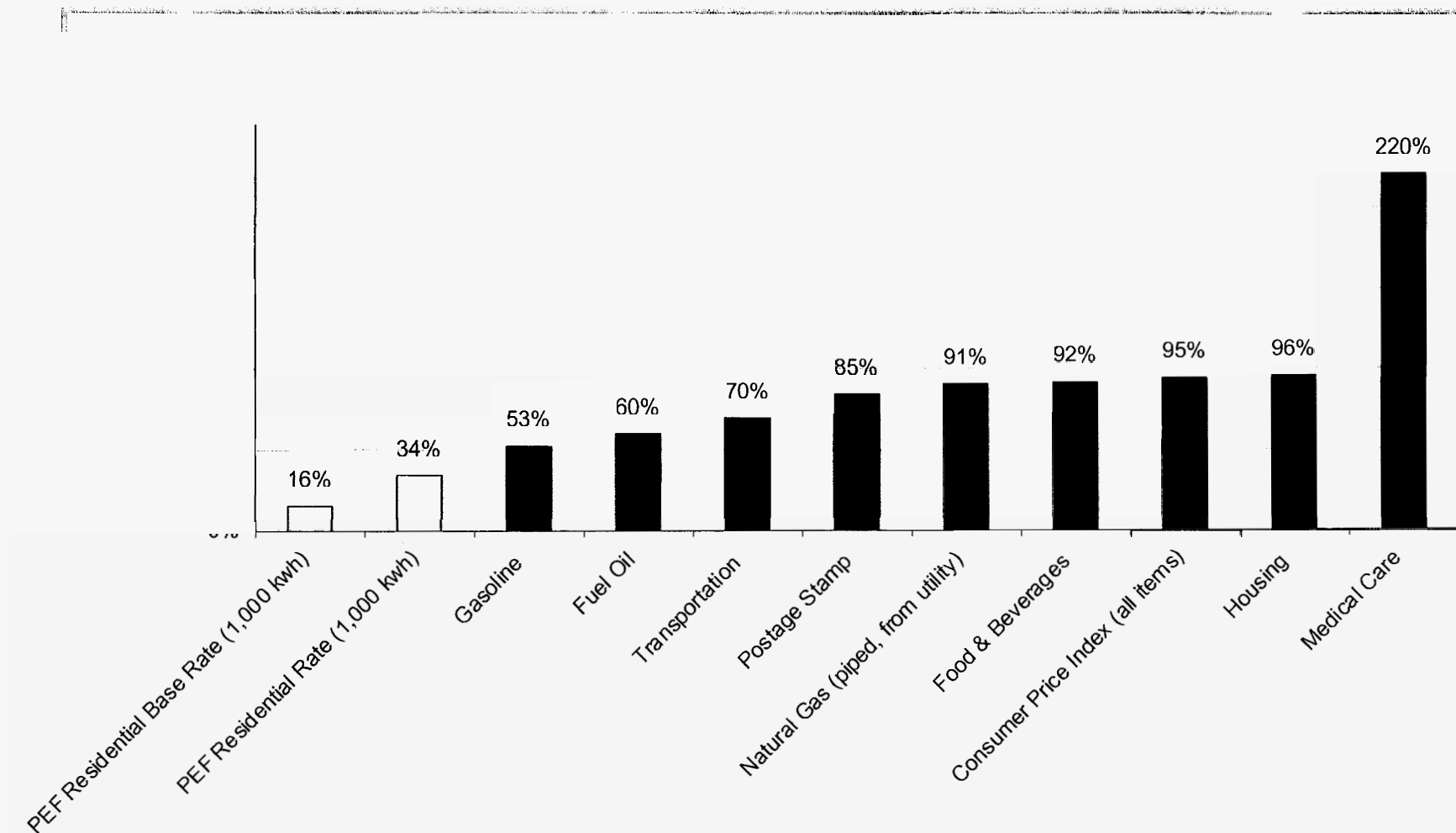
Bill Habermeyer is president and chief executive officer – Progress Energy Florida (formerly Florida Power), one of two major utility subsidiaries of Progress Energy. Habermeyer joined Progress Energy (formerly CP&L) in 1993 after a career in the U.S. Navy.

During his tenure with the company, Habermeyer has served as vice president – Nuclear Services and Environmental Support; vice president – Nuclear Engineering; and vice president – Western Region. While overseeing Western Region operations, Habermeyer was responsible for regional distribution management, customer support and community relations.

Habermeyer is the current chairman of the Tampa Bay Partnership. He also serves on the board of directors of Enterprise Florida Inc., the Pinellas Education Foundation, the Florida Chamber of Commerce, the Suncoast Boys and Girls Clubs, the University of South Florida-St. Petersburg, Eckerd College, the Council for Educational Change, the Salvador Dali Museum and the Museum of Fine Arts-St. Petersburg. His public company board membership is with Raymond James Financial.

Habermeyer is a graduate of the U.S. Naval Academy and has a master's degree in public administration from George Washington University.

PEF Price vs. Other Consumer Goods & Services 1983 to Present



Source: US Department of Labor, Bureau of Labor Statistics; price changes from February, 1983 to January, 2005