

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

Docket No. 090079-EI

Submitted for filing:
March 20, 2009

**DIRECT TESTIMONY OF
JEFF LYASH**

ON BEHALF OF PROGRESS ENERGY FLORIDA

**DIRECT TESTIMONY OF
JEFF LYASH**

1 **I. Introduction and Summary.**

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

3 A. My name is Jeff Lyash. My business address is 299 1st Avenue, North, St.
4 Petersburg, Florida 33701.

5
6 **Q. By whom are you employed and in what capacity?**

7 A. I am employed by Progress Energy Florida, Inc. (“Progress Energy” or the
8 “Company”) as its President and Chief Executive Officer. In this role, I have overall
9 responsibility for the operations of Progress Energy Florida.

10
11 **Q. Please describe your educational background and professional experience.**

12 A. I graduated with a bachelor’s degree in mechanical engineering from Drexel
13 University in 1984. Prior to joining Progress Energy, I worked with the Nuclear
14 Regulatory Commission in a number of capacities. In 1993, I joined Progress
15 Energy, and spent eight years at the Brunswick Nuclear Plant in Southport, North
16 Carolina, ultimately becoming Director of Site Operations. In January 2002, I
17 assumed the position of Vice President of Transmission/Energy Delivery in the
18 Carolinas. On November 1, 2003, I was promoted to Senior Vice President of
19 Energy Delivery-Florida. On June 1, 2006, I was promoted to President and Chief
20 Executive Officer of Progress Energy Florida, which is the position I currently hold.

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Q. What is the purpose of your direct testimony?

A. I provide an overview of the Company's need for rate relief to continue to provide its customers with efficient, reliable power consistent with the energy goals set by the Florida Legislature, the Governor, and this Commission.

Q. Do you have any exhibits to your testimony?

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

- Exhibit No. ___ (JL-1), which is my current resume;
- Exhibit No. __ (JL-2), which reflects PEF's decreasing OSHA injury rate; and
- Exhibit No __ (JL-3), which reflects PEF's improving reliability performance.

These exhibits are true and accurate.

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

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

Q. Please summarize your testimony.

A. Progress Energy Florida has had superior performance – both operationally and in managing our costs – the result of which has been stable and generally flat base rates for more than a quarter century. We have accomplished this while other critical goods and services have increased much more dramatically over the same period. Customer growth and our aggressive cost management practices, however, can no

1 longer cover the investments needed to meet the comprehensive energy goals
2 established for this State by the Florida Legislature, the Governor, and this
3 Commission. We are committed to meeting the Legislature's and Governor's
4 directions to reduce greenhouse gas ("GHG") and other emissions, add new nuclear
5 generation, increase alternative energy resources, increase energy efficiency, and
6 harden the electric system against storms; but this commitment comes at a cost.

7 As the Company is embarking on the largest, most aggressive capital
8 expenditure campaign in its history and in the history of the State for an electric
9 utility, to meet these goals, it is critical that the Company's financial health and
10 integrity be maintained; that it continue to have the ability to attract the significant
11 capital at a reasonable cost that it needs to finance these critical and substantial
12 infrastructure projects; that its rates are set at levels that allow it to actually earn its
13 authorized rate of return, and that capital is returned to it in a timely manner. The
14 outcome of this case will have a clear impact on the financial health of the
15 Company, and ultimately on PEF's ability to meet the Legislature's and Governor's
16 goals.

17
18 **II. Progress Energy Florida's Superior Performance.**

19 **Q. How has Progress Energy Florida performed over the last several years?**

20 A. Progress Energy Florida's performance has been superior in all key areas: cost
21 management; safety and reliability; power production; customer service; and storm
22 response.

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Base Rates

Despite upward cost pressures, which have affected nearly all other industries, the Company has not increased base rates since 1993, with the exception of adding the Hines 2 and 4 power plants in 2008 (while absorbing the cost of the Hines 3 power plant), and in fact lowered base rates in 2002. We have been able to keep the growth of our price below the growth in the overall consumer price index since 1984. While base rates have remained essentially flat, the Consumer Price Index has increased 106%, the price of housing 113%, the price of food 115%, and the price of medical care 253%. As witnesses Jackie Joyner, Dale Oliver, David Sorrick, Willette Morman, Dale Young, Masceo DesChamps, and Sandy Wyckoff discuss in greater detail, we have accomplished this in large part due to our ability to efficiently and effectively manage costs.

Safety and Reliability

We continue to excel in safety and reliability. Since 2001 we have reduced our OSHA injury rate by 70%, as reflected in my Exhibit No. __ (JL-2). We have been at or near top quartile in the industry since 2003, and improved to top decile in 2007. Similarly, we have reduced customer system average outage minutes by 40% since 1997, as reflected in my Exhibit No. __ (JL-3). We have maintained SAIDI below 80 since 2004, which is outstanding given the size and diversity of the Company's service territory. We have also continued to achieve significant improvements in our Transmission system reliability and safety by decreasing circuit SAIDI by more than 23% since 2003, and reducing OSHA injury rates by 65% since 2002.

1 Power Production

2 Our power generation fleet also has had outstanding performance. Our Crystal River
3 Unit 3 (“CR3”) nuclear power plant continues to perform at record safety and
4 production levels. CR3 has maintained the U.S. Nuclear Regulatory Commission’s
5 highest rating (green status) in all areas since 2006. Since 2000, CR3 has had the
6 four highest performing generating cycles in plant history. In 2007, the station
7 generated more electricity than any other year in which the station had a refueling
8 outage. Our fossil fleet has performed equally well. Fleet equivalent availability,
9 which is a measure of the availability of the units when they are needed to serve
10 customer load, has generally exceeded the NERC average. The fleet has also
11 outperformed the NERC average with respect to equivalent forced outage rates,
12 which measure how often a unit is off-line due to an unexpected or forced condition.
13 Our simple cycle fleet has also demonstrated extremely high levels of starting
14 reliability, with starting reliability levels exceeding 99.5% over the last four years.

15 Customer Service

16 Customer service and satisfaction remain high. We have scored either first or second
17 quartile in customer satisfaction for the past six years and in customer service for the
18 past nine years according to the J.D. Power & Associates survey of residential
19 customers. Over the past four years, we have earned PA Consulting Group’s
20 ServiceOne award twice, the EEI Edison Award, and the J.D. Power & Associates
21 Founder’s Award. Progress Energy was the first utility to receive the Founder’s
22 Award, and only the 15th company to ever receive the award. We were ranked the
23 highest utility in Florida this year for business customer satisfaction by J.D. Power.
24

1 Storm Response

2 Our response to major storms has been second to none. As a result of the
3 implementation of best practices and comprehensive storm plans representing the
4 cumulative experience of both Progress Energy Florida and Progress Energy
5 Carolinas, we have become an industry model for storm preparedness and response.
6 We showed this repeatedly during the 2004 and 2005 hurricane seasons. These
7 plans, and our efforts at putting them into practice quickly and efficiently, allowed
8 us to meet the challenges of restoring power during an unprecedented hurricane
9 season where, in 2004, four back-to-back hurricanes impacted our customers in our
10 service territory. The four hurricanes left an unprecedented number of customers
11 without service at their peak, yet in every case we excelled in restoring service to
12 those customers who could receive service, doing so in as little as two days for
13 Hurricane Ivan and only up to nine days for Hurricane Charley, despite the fact that
14 over 500,000 of our customers, or 1.25 million people, were left without service at
15 the peak of that hurricane. Our employees worked tirelessly and with great
16 dedication to prepare for, respond to, and recover from what turned out to be the
17 worst hurricane season on record for the State of Florida. As a result of our
18 hurricane response efforts, we were awarded the Edison Electric Institute (“EEI”)
19 Emergency Response Award – the highest praise from our peers.

20
21 **III. Our Vision and Needs for the Future.**

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

23 A. Our plan is to meet the Legislature’s and Governor’s directives, and this
24 Commission’s goals and expectations to secure Florida’s energy future through our

1 balanced solution. This includes increasing energy efficiency and alternative forms
2 of energy. It also includes constructing state-of-the-art new power plants, enhancing
3 existing plants, and building our Levy nuclear plant, which will be critical to
4 meeting the Legislature's desire to increase fuel diversity and security, and the
5 Governor's and Congress's desire to significantly reduce greenhouse gas emissions
6 in the State.

7
8 **Q. What factors are driving the Company's need for rate relief?**

9 A. A number of factors both at the state and federal levels are requiring additional
10 investment by the Company. The Florida Legislature and Governor have set forth a
11 comprehensive set of energy goals for the State of Florida that, among other things,
12 calls on public utilities like the Company to diversify their fuel resources, reduce
13 their dependence on fossil fuels, increase renewable energy resources, increase
14 energy efficiency, add new nuclear power generation and reduce greenhouse gas and
15 other emissions, and harden their transmission and distribution systems against
16 storm damage. This Commission is committed to implementing these goals by
17 encouraging fuel diversity, fostering increased renewable energy generation and
18 increased energy efficiency, adopting alternative cost recovery mechanisms for the
19 recovery of nuclear power costs, and requiring and approving storm hardening plans
20 by the investor-owned utilities. Meeting these goals, however, comes at a cost.

21 In addition, the national recession has hit Florida particularly hard. This has
22 resulted in near stagnant growth in 2008, 2009, and projected lower than historical
23 growth in the near future. This has resulted in much lower revenues than predicted

1 and lower revenues in our projected test year. This is compounded by the fact that
2 our fixed costs have continued to rise.

3
4 **Q. What is the Company doing to meet the State's energy goals?**

5 A. The Company has adopted its "Balanced Solution" strategy to meet the energy goals
6 of the Legislature, Governor, and this Commission. Our Balanced Solution calls for
7 (1) increasing the Company's already aggressive energy efficiency programs, (2)
8 developing innovative, cost-effective alternative energy resources, and (3)
9 constructing state-of-the-art power plants, including new, advanced nuclear power
10 plants, to meet our customers' current and future energy needs. Each of these
11 strategies is consistent with the energy goals for Florida utilities developed by the
12 Florida Legislature, the Governor, and the Commission.

13
14 **Q. What investments are the Company making to foster more energy efficiency?**

15 A. The Company is already a leader in energy efficiency and demand-side management
16 ("DSM") programs. According to EIA's most recent (2006) data, Progress Energy
17 Florida's DSM programs have produced 1.7% of the electric industry's energy
18 efficiency savings and 6.4% of the electric industry's peak demand reductions even
19 though we represent only about 1.1% of the industry's energy sales and peak
20 demand. This notwithstanding, the Company moved forward with 39 new measures
21 for its DSM plan ahead of the Commission's schedule for revisions to the
22 Company's DSM goals. With PEF's expanded DSM program, PEF expects to
23 reduce the need for an additional 527 winter Megawatts of peak demand load from
24 direct load control and 418 winter Megawatts from energy efficiency, for a total of

1 945 winter Megawatts load reduction. This is in addition to more than 1,500
2 Megawatts of demand reduction that PEF has achieved through its DSM programs
3 since they were initiated; or the equivalent of avoiding the construction of almost 5
4 new 500MW generating plants. In just the first two years of our DSM expansion,
5 we more than doubled energy savings relative to 2006 levels. The Company's
6 commitment to energy efficiency has resulted in an innovative, cost-effective DSM
7 plan that ranks among the largest and most successful programs in the country.
8

9 **Q. What steps has the Company taken to increase its use of alternative energy**
10 **resources?**

11 A. The Company is committed to aggressively pursuing investments in future
12 renewable energy generation. Through its recent renewable energy purchase power
13 agreements the Company will potentially add 367 Megawatts of new renewable
14 generation to its system. This renewable energy generation is in addition to the
15 Company's current contracts with five renewable energy providers for more than
16 173 Megawatts of renewable energy, the most of any Florida utility. PEF is a leader
17 among Florida utilities in encouraging renewable energy resources and it will
18 continue to make the investments necessary to promote to the extent possible the
19 development of further, cost-effective renewable energy resources in Florida.
20

21 **Q. What investments will the Company make in start-of-the-art plants and in its**
22 **transmission and distribution system to meet policy-maker goals and to**
23 **continue to reliably provide cost-effective energy to its customers?**

1 A. Fulfilling the State's energy goals developed by the Florida Legislature, the
2 Governor, and this Commission, as well as new FERC, NERC, and FRCC
3 mandates, requires substantial capital investment. The Company is making the
4 investment commitment necessary to fulfill these goals. For example, we will have
5 spent approximately \$800 million to repower the Company's existing 450 megawatt
6 oil-fired Bartow steam plant with cleaner burning natural gas and increased the
7 megawatt ("MW") output of the plant by an additional approximately 827 MWs
8 when the repowered units come on line in June of this year. This will reduce the
9 Company's carbon footprint, increase reliability, and provide customers the
10 opportunity to save significant fuel costs over the life of the plant.

11 At our Crystal River Energy Complex, we are installing \$1.3 billion in
12 environmental control equipment on two of our coal-fired units, which will
13 significantly lower the Company's air emissions. This project, undertaken pursuant
14 to our Commission-approved environmental controls plan, will be completed this
15 year.

16 To further improve fuel diversity and security, and to further lower emissions,
17 we are also increasing capacity at our existing CR3 nuclear plant. The CR3 uprate,
18 which this Commission approved last year, will increase carbon-free capacity by
19 180MWs and save customers approximately \$2.6 billion in fuel costs over the life of
20 the plant when we complete the uprate in 2011. Similarly, to assure that CR3 will
21 operate efficiently now and for the next 30 years, we are replacing the plant's steam
22 generators. This \$299 million project is underway and will be completed by the end
23 of this year.
24

1 Similarly on the Transmission and Distribution side, the Company has made
2 and will continue to make substantial capital and operation and maintenance
3 (“O&M”) investments. This investment is necessary to replace aging equipment,
4 meet growth, and implement the Company’s storm hardening plan that this
5 Commission approved, and to satisfy new FERC and NERC requirements to
6 strengthen and secure the electric power grid. The Company estimates it will
7 require over \$611 million in future annual revenue requirements for its transmission
8 and distribution systems to meet these objectives.

9
10 **Q: What other factors are driving the Company’s need for rate relief?**

11 A. Progress Energy Florida is facing the same pressures as other businesses, state
12 agencies, and people throughout the state. Despite aggressive cost management, as
13 Mr. DesChamps testifies, the Company’s employee benefit costs have increased.
14 Although we have effectively managed overall labor cost increases, the cost for
15 several high demand job functions have increased; principally engineers, including
16 those with nuclear experience, and project management positions. Finally, given the
17 recession and the significant stock market decline, Progress Energy Florida’s
18 pension costs have increased.

19
20 **Q. Can the Company meet the State’s energy goals at your current rates?**

21 A. We cannot. With the exception of adding the Hines 2 and 4 power plants in rates
22 beginning in 2008, the Company has not had an increase in base rates since 1993. In
23 fact, the Company substantially reduced its base rates from 2002 through 2007 as a
24 result of the settlement of its last two base rate proceedings. Our base rates have

1 essentially remained flat for the past quarter century and are roughly the same as
2 they were in the early 1980's. Since 2005 increases in the total price paid by
3 customers have been driven primarily by escalating fuel costs, which have increased
4 dramatically in the last few years, despite the Company's best efforts to mitigate the
5 impact of the increases on its customers. Increases in the cost of fuel, of course, are
6 largely outside the control of any utility, including the Company. PEF's residential
7 base rates have increased by only 1% since 1984. By contrast, the consumer price
8 index has increased by 106%, housing has increased 113%, food has increased by
9 115%, and medical care has increased by 253% over the same time frame. These
10 cost escalation figures demonstrate the Company's ability to hold base rates
11 relatively constant by controlling its costs during a period of time when costs were
12 otherwise rising in the rest of the economy. The Company has accomplished this
13 while continuing to provide customers with superior service.

14 In an era of ever increasing costs and lower growth, however, we cannot
15 continue to provide superior service and reliability and meet the energy goals as
16 mandated by the Legislature and Governor at our current rates.

17
18 **Q. What is the Company seeking in this proceeding?**

19 A. The Company is asking the Commission to set base rates at a level consistent with
20 the service and operational performance that customers expect and that allows the
21 Company to meet the comprehensive energy goals established for this State by the
22 Florida Legislature, the Governor, and this Commission. We believe an appropriate
23 level will require an annual revenue requirements increase in base rates by
24 approximately \$499 million, beginning January 1, 2010. The requested increase will

1 provide the Company with a reasonable opportunity to earn a fair return on its
2 investment, including a 12.54% rate of return on the company's common equity, and
3 will allow the Company to meet policy-makers' established goals and to secure
4 Florida's energy future. We are seeking interim and limited relief in the amount of
5 \$76 million beginning July 1, 2009, driven by the commercial in-service date of the
6 Bartow Repowering project and lower customer growth and revenues. This relief,
7 along with other accounting treatment relief, will help the Company to maintain its
8 financial integrity in a critical time when PEF needs access to capital markets on
9 reasonable terms and at reasonable costs.

10
11 **Q. Why is it critical for the State to have a financially healthy utility?**

12 A. To implement the State's comprehensive energy policy, the Company has embarked
13 upon the largest, most aggressive capital investment campaign in its history. It is
14 critical that the Company's financial health and integrity be maintained, and that it
15 continue to have the ability to attract the significant capital at a reasonable cost that
16 it needs to finance these critical and substantial infrastructure projects.

17 Although return on equity and capital structure are extremely important to the
18 Company's ability to successfully meet the State's energy policy goals, it is equally
19 important that the Company's rates are set at levels that *allow it* to actually earn its
20 authorized rate of return, *and* that capital is returned to it in a timely manner. If the
21 Company is hamstrung by a low ROE, unacceptable capital structure, or the inability
22 to actually earn its authorized return, it will undoubtedly have a significant, negative
23 impact on the Company's cash flow and earnings, and on its ability to attract much
24 needed capital at reasonable terms and at reasonable costs, and to maintain strong

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credit quality; all of which are essential to financing the Company's Levy nuclear project, as well as its multi-billion dollar day-to-day operations. Such a course will result in increased costs to consumers and an inability of the Company to continue to provide superior service and to complete the significant capital projects that are critical to the successful implementation of the State's energy goals.

Q. Does this conclude your testimony?

A. Yes, it does.

Bio – Jeffrey J. Lyash
President & CEO
Progress Energy Florida, Inc.

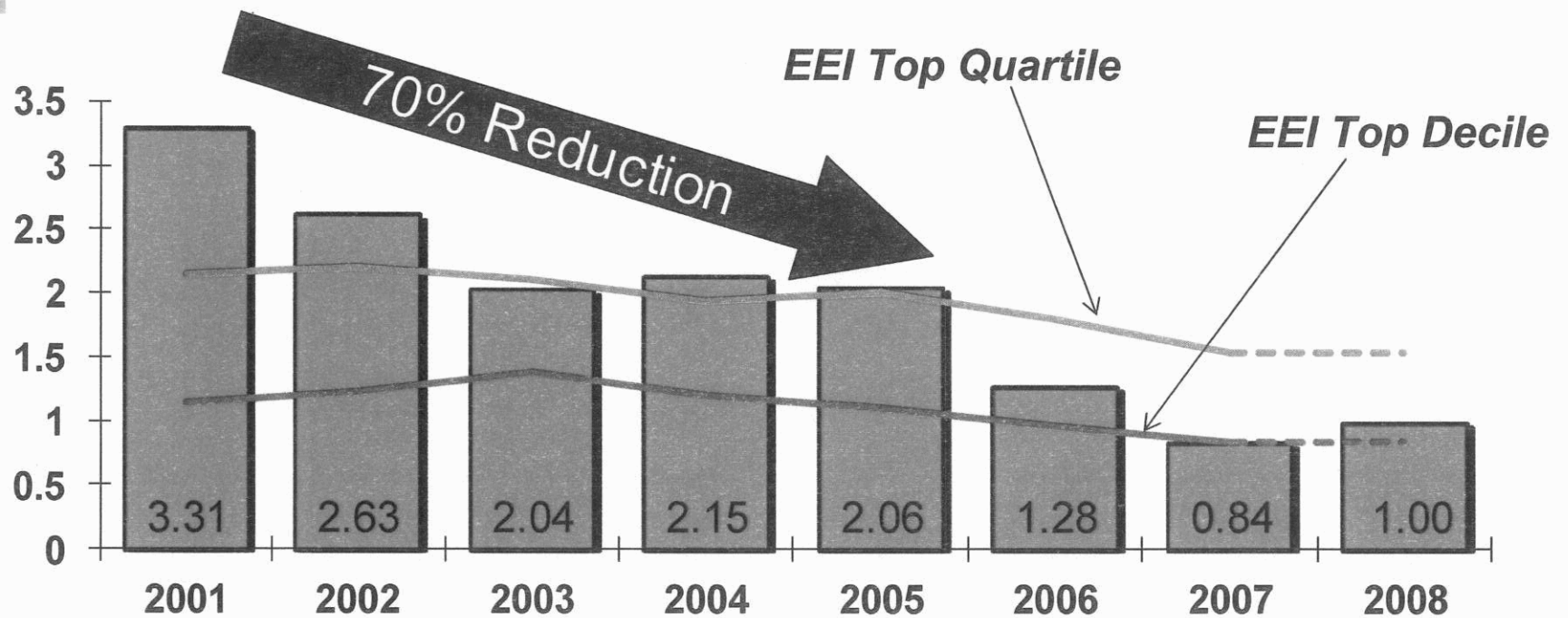
February 2009

Jeff Lyash is president and chief executive officer, Progress Energy Florida. He previously served as senior vice president, Energy Delivery, Progress Energy Florida. In that role, he managed the four operations and customer service regions, the Distributions Operations & Support function, and the Transmission department in Florida.

Lyash joined Progress Energy in 1993 and spent his first eight years with the company at the Brunswick Nuclear Plant, where he served as operations manager, engineering manager and plant manager. His last position at Brunswick was as director of site operations. Previously, he had served as vice president – Transmission. Between 1984 and 1993 Lyash worked with the Nuclear Regulatory Commission in a number of technical and management capacities.

Lyash has a bachelor's degree in mechanical engineering from Drexel University, an NRC Service Reactor Operator License, and is a graduate of the U.S. office of Personnel Management Executive Training Program and the Duke Fuqua School of Business Advanced Management Program. He serves as the chair of the Florida Chamber of Commerce Foundation, vice chair of The Tampa Bay Partnership, and serves on the boards of Enterprise Florida, The Florida Council of 100, The Florida Chamber of Commerce, SunTrust Bank Tampa Bay, and The Florida High Tech Corridor.

Safety: Reducing OSHA Injury Rate



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Reliability: Improving SAIDI Performance

