

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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In Re: Petition for increase in rates  
By Progress Energy Florida

DOCKET NO. 090079-EI  
Submitted for filing: April 9, 2009

COMMISSION  
CLERK

**PROGRESS ENERGY FLORIDA, INC.'S NOTICE OF FILING**

Progress Energy Florida, Inc., by and through its undersigned counsel, gives notice of filing supplemental MFR schedule C-41 for 2009.

Respectfully submitted,



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CLK <sup>14817091.1</sup> Reporter

DOCUMENT NUMBER DATE

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FPSC-COMMISSION CLERK

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been served via electronic and U.S. Mail to the following counsel of record as indicated below on this 9<sup>th</sup> day of April, 2009.

  
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FLORIDA PUBLIC SERVICE COMMISSION	Explanation:	Provide a schedule of operation and maintenance expenses by function for the test year, the benchmark year and the variance. For each functional benchmark variance, justify the difference.	Type of data shown:
Company: PROGRESS ENERGY FLORIDA INC.			Projected Test Year Ended 12/31/2010
			X Prior Year Ended 12/31/2009
Docket No.: 090079-EI			Historical Year Ended 12/31/2008
			Witness: See Below

Line No.	<u>Function</u>	<u>Witness</u>	<u>Table of Contents</u>
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6	<u>Function</u>	<u>Witness</u>	<u>Table of Contents</u>
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Supporting Schedules:

Recap Schedules:

DOCUMENT NUMBER-DATE

03247 APR 10 8

FPSC-COMMISSION CLERK

FLORIDA PUBLIC SERVICE COMMISSION

Explanation: Provide a schedule of operation and maintenance expenses by function for the test year, the benchmark year and the variance. For each functional benchmark variance, justify the difference.

Type of data shown:  
 Projected Test Year Ended 12/31/2010  
 X Prior Year Ended 12/31/2009  
 Historical Year Ended 12/31/2008  
 Witness: Sorrick

Company: PROGRESS ENERGY FLORIDA INC.

Docket No. 090079-EI

Line No. FERC Accounts: 500-514, 546-554, and 557. Excludes recoverable fuel expense.

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(In Millions - (Favorable)/Unfavorable )

	2009 Benchmark	2009 Adjusted	Variance From Benchmark
Production - Steam	\$ 80.0	\$ 83.7	\$ 3.8
Production - Other	40.6	55.3	14.8
<b>Total</b>	<b>\$ 120.6</b>	<b>\$ 139.1</b>	<b>\$ 18.5</b>

<u>Summary of Variances</u>	<u>Amount (Favorable)/Unfavorable</u>
New Generation	\$ 11.9
Retirement	(4.0)
Additional Outage Projects	4.8
Emerging Equipment Issues	2.9
Labor and Material Cost increases	2.9
	<u>\$ 18.5</u>

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Company: PROGRESS ENERGY FLORIDA INC.		Projected Test Year Ended	12/31/2010
Docket No.: 090079-EI		X Prior Year Ended	12/31/2009
		Historical Year Ended	12/31/2008

Witness: Sorrick

(\$ Millions)

Line No.	FERC Accounts: 500-514, 546-554, and 557. Excludes recoverable fuel expense.	
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3	<b><u>New Generation</u></b>	\$ 11.9
4	Since 2005 PEF has added two power blocks at the Hines Energy complex and is targeting June of 2009 for the addition of the	
5	Bartow Combined Cycle Energy Complex.	
6		
7	The Hines Energy Complex consists of four Power Blocks, each containing two combustion turbines and one steam turbine,	
8	capable of producing a total of 1,930 MW. The third Power Block began commercial operations in November of 2005. The	
9	fourth Power Block was added in late in 2007. As a result of these added additional Power Blocks, staffing levels and	
10	maintenance projects outlays have increased approximately \$7.6 million from 2006 to 2009.	
11		
12	The Bartow Combined Cycle plant is a state of the art plant scheduled to go commercial in June 2009. The plant consists of four	
13	combustion turbines feeding one steam turbine, capable of producing a combined 1,259 MW. In preparation of the plant's	
14	commercial operation, staffing levels and associated costs will increase significantly over 2006 levels since the plant will	
15	become operational in 2009. Base/Routine and project costs will increase by approximately \$4.3 million for half a year of operation.	
16		
17	<b><u>Retirement</u></b>	\$ (4.0)
18	The Bartow Steam facility, which has three heavy oil units that began commercial operation between 1958 and 1963, will be	
19	retired in 2009. A comparison of 2006 O&M spend to budgeted spend in 2009 at the Bartow steam plant indicates a reduction of	
20	approximately \$4.0 million primarily attributable to the reduction in staffing due to the retirement of the Bartow Steam facility when	
21	the Bartow Combined Cycle unit comes onlines. The reduction in staffing was accomplished through retirements,	
22	redeployments and layoffs.	
23		
24	<b><u>Additional Outage Projects</u></b>	\$ 4.8
25	Crystal River Unit 5 is in the process of adding major Clean Air equipment in the form of Flue Gas Desulfurization Systems (FGD)	
26	and Selective Catalytic Reduction (SCRs). These major capital equipment installations, including turbine rotor replacements of	
27	and precipitator upgrades of \$9.8 million, require an unusually long unit shutdown.	
28		
29	The extended outage at Crystal River will allow PEF the opportunity to conduct work on a major boiler and	
30	turbine outage. The type of work that will be performed during the boiler outage includes scaffolding the boiler, inspecting the	
31	boiler and repairing the items identified during the inspection. The type of work that will be performed during the turbine outage,	
32	which is typically performed every 9 years, includes the inspection and repairs of the internal and external steam components.	
33		
34	Therefore, these outages have been scheduled to be performed during the Spring of 2009 at the same time the FGD and SCRs	
35	will be installed. PEF would normally schedule these maintenance outages in the normal course of its operations but PEF	
36	decided to accelerate them to capture synergies in outage costs with the outage for the FGD and SCR work as well as minimize	
37	lost generation instead of taking an additional outage.	
38		
39	This increase at Crystal River is being offset with reduction in planned outages at other plants of \$5.0M.	
40		

FLORIDA PUBLIC SERVICE COMMISSION	Explanation: Provide a schedule of operation and maintenance expenses by function for the test year, the benchmark year and the variance. For each functional benchmark variance, justify the difference.	Type of data shown: Projected Test Year Ended 12/31/2010 X Prior Year Ended 12/31/2009 Historical Year Ended 12/31/2008 Witness: Sorrick
Company: PROGRESS ENERGY FLORIDA INC.		
Docket No.: 090079-EI		

(\$ Millions)

Line No.	FERC Accounts: 500-514, 546-554, and 557. Excludes recoverable fuel expense.	
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2	<b><u>Emerging Equipment Issues</u></b>	<b>\$ 2.9</b>
3	There is approximately \$2.9 million budgeted for emerging equipment issues and parts repairs in 2010. This funding	
4	would be used for forced outage repairs or to take advantage of opportunities to enhance the fleet.	
5		
6	<b><u>Labor and Material Cost Increases</u></b>	<b>\$ 2.9</b>
7	Labor and material escalations have increased the costs to perform unit operations and maintenance, but the work must be done	
8	despite these increasing costs. Some examples include projects that will be performed at Crystal River.	
9		
10	Other increases of \$3.6 million from 2006 to 2009 include the addition of FTE's at Crystal River and the addition of Crystal River	
11	flyash disposal costs. The increases at Crystal River are offset by outage scope reductions of \$700k at the other plants.	
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Docket No. 0900079-EI		X Prior Year Ended 12/31/2009
		Historical Year Ended 12/31/2008
		Witness: Oliver

Line No. FERC Accounts: 517-532, Excludes recoverable fuel expense.

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(In Millions - (Favorable)/Unfavorable )

	2009 Benchmark	2009 Adjusted	Variance From Benchmark
Production - Nuclear	\$ 89.8	\$ 96.9	\$ 7.1

<u>Summary of Variances:</u>	Amount (Favorable)/Unfavorable
Contracts	\$ 1.5
Licenses & Fees	1.5
Labor Costs	2.5
Security Costs	1.4
Miscellaneous Costs	0.2
	<u>\$ 7.1</u>

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Docket No. 0900079-EI		

(\$ Millions)

Line No.	FERC Accounts: 517-532, Excludes recoverable fuel expense.	
1	<b><u>Contracts</u></b>	\$ 1.5
2	Contract increases resulting from increased Operations Training and Training Material & Development,	
3	Water Treatment, Engineering Services and Cost increases greater than standard escalation.	
4		
5		
6	<b><u>Licenses &amp; Fees</u></b>	\$ 1.5
7	License and fee increases due to increased cost of NRC and FEMA fees.	
8		
9		
10	<b><u>Labor Costs</u></b>	\$ 2.5
11	Increase in Company labor due to approximately 23 more positions than were filled in 2006. This includes	
12	new positions which were added primarily for Operations & Training to support increased training needs.	
13		
14		
19	<b><u>Security Costs</u></b>	\$ 1.4
20	General security cost increases above the benchmark amount that are not recovered through the Capacity	
21	Cost Recovery (CCR) clause.	
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26	<b><u>Miscellaneous cost</u></b>	\$ 0.2
27	Other miscellaneous cost increases	
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Supporting Schedules: C-6, C-37, C-39

Recap Schedules:



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		Historical Year Ended 12/31/2008
		Witness: Oliver

Line No. FERC Accounts: 556, 560-573

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(In Millions - (Favorable)/Unfavorable )

	2009 Benchmark	2009 Adjusted	Variance From Benchmark
<b>Other Power Supply</b>	\$ 4.3	\$ 2.1	\$ (2.1)
<b>Transmission</b>	37.6	35.1	(2.5)
<b>Total</b>	<u>\$ 41.9</u>	<u>\$ 37.2</u>	<u>\$ (4.7)</u>

<u>Summary of Variances:</u>	<u>Amount (Favorable)/Unfavorable</u>
<b>Routine Substation Maintenance</b>	\$ (1.1)
<b>Bonding &amp; Grounding Program</b>	(1.0)
<b>FERC Account Reclasses</b>	<u>(2.6)</u>
	<u>\$ (4.7)</u>

FLORIDA PUBLIC SERVICE COMMISSION	Explanation:	Provide a schedule of operation and maintenance expenses by function for the test year, the benchmark year and the variance. For each functional benchmark variance, justify the difference.	Type of data shown:
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			Historical Year Ended 12/31/2008
Docket No.: 090079-EI			Witness: Oliver

(\$ Millions)

Line No.	FERC Accounts: 556, 560-573	
1		
2	<b><u>Routine Substation Maintenance</u></b>	\$ (1.1)
3	Based on prioritization of projects for 2009, a greater portion of routine substation maintenance will be capitalized.	
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5		
6		
7	<b><u>Bonding &amp; Grounding Program</u></b>	\$ (1.0)
8		
9	Decrease due to \$1M in incremental O&M spending dedicated to transmission line bonding and grounding in 2006 but not 2009.	
10		
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12		
13	<b><u>FERC Account Reclasses</u></b>	\$ (2.6)
14	During 2008, a company-wide effort was made to improve expense classification, ensuring costs are classified in the most appropriate FERC O&M accounts. PEF began recording amounts previously charged and budgeted to 566 (Trans Misc Expenses) and 556 (System Control & Load Dispatch) in accounts 582 (Dist station Expenses) and 592 (Dist Maint of Station Equip). An offsetting increase can be found in the Distribution section of this MFR.	
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Docket No.: 090079-EI			Historical Year Ended 12/31/2009
			Witness: Joyner

Line No. FERC Accounts: 580-598

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3		<i>(In Millions - (Favorable)/Unfavorable )</i>		
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5				<b>Variance</b>
6		<b>2009</b>	<b>2009</b>	<b>From</b>
7		<b>Benchmark</b>	<b>Adjusted</b>	<b>Benchmark</b>
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9				
10	<b>Distribution</b>	<b>\$ 127.7</b>	<b>\$ 125.8</b>	<b>\$ (1.9)</b>

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13				<b>Amount</b>
14	<b>Summary of Variances:</b>			<b>(Favorable)/Unfavorable</b>
15				
16	<b>Routine Substation Maintenance</b>			<b>\$ (1.1)</b>
17	<b>Environmental</b>			<b>2.6</b>
18	<b>FERC Account Reclasses</b>			<b>2.6</b>
19	<b>Operational Cost Efficiencies and Re-Organization</b>			<b>(6.0)</b>
20				<b>\$ (1.9)</b>

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Docket No.: 090079-EI				Historical Year Ended 12/31/2008
				Witness: Joyner

(\$ Millions)

Line No.	FERC Accounts: 580-598		
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3	<b><u>Routine Substation Maintenance</u></b>		
4	Based on prioritization of projects for 2009, a greater portion of routine substation maintenance will be capitalized.	\$	(1.1)
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10	<b><u>Environmental</u></b>	\$	2.6
11	The main driver of the O&M increase related to environmental costs is due to the transition of the environmental portion of the TRIP (Transformer Remediation Inspection Program) from a clause recoverable activity to a base rate activity. During 2008, it was determined that the Phase I TRIP environmental inspection period following the DEP and Commission approved Environmental Remediation Strategy (ERS) would be completed by year end. Upon that completion, Phase II would begin in which another state-approved protocol, MODEF, would be followed. The transition to the new protocol, as well as the completion of the inspection phase of transformers approved for clause recoverability, warranted the movement of this ongoing maintenance into base rates. As such, this expense was not contemplated in the benchmark year, 2006, due to the cost recoverable status.		
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23	<b><u>FERC Account Reclasses</u></b>	\$	2.6
24	During 2008, a company-wide effort was made to improve expense classification, ensuring costs are classified in the most appropriate FERC O&M accounts. PEF began recording amounts previously charges and budgeted to 566 (Trans Misc Expenses) and 556 (System Control & Load Dispatch) in accounts 582 (Dist station Expenses) and 592 (Dist Maint of Station Equip). An offsetting decrease can be found in the Transmission section of this MFR.		
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Docket No.: 090079-EI			Witness: Joyner

(\$ Millions)

Line No.	FERC Accounts: 580-598	
1		
2	<b><u>Operational Cost Efficiencies and Re-Organization</u></b>	<b>\$ (6.0)</b>
3	We take a number of steps to ensure that we aggressively manage our distribution-related costs and that we are focused on the right priorities, our budgets are reasonable, and we are spending our money wisely. We utilize benchmarking as part of how we strive for continuous improvement, set targets, allocate budget dollars, and monitor performance. Our organization performs well overall on distribution cost benchmark ranking near first quartile on "Distribution O&M and Capital Maintenance per Customer".	
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10	A Distribution Project Review Group ("PRG") comprised of management from a range of functional areas within PEF provides another cross-check on programs, plans and budgets and provides a mechanism to continuously adjust priorities as changing events warrant. At a more detailed level, system load growth prioritization and reliability/maintenance prioritization teams ensure that our budgeted dollars and work plans are targeted to the most critical issues. Our budgets and performance metrics are woven into incentive compensation goals for employees at all levels of the organization to ensure focus. Finally, our Business Operations group monitors spending each month for reasonableness and compliance with budget, while also acting as a facilitator for operational analysis, the development of improvement ideas, and the revision of spending projections. These mechanisms for cost management have led to various operational cost efficiencies that have been incorporated into the distribution 2009 base budget.	
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21	In our continued effort to drive cost efficiencies, the workforce assessment reorganization is designed to focus on service and restoration as construction volume decreases. The Distribution Department is focused on system planning, performance and compliance. At the same time the operation centers in the four regions are focused on outage response, operations and local management for improved customer and community relations. These changes will streamline decision-making and calibrate staffing levels with construction activity in the current economy providing cost savings to the organization.	
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			Historical Year Ended 12/31/2008
			Witness: Morman

Line No. FERC Accounts: 901 - 906

1			
2		<i>(In Millions - (Favorable)/Unfavorable )</i>	
3			
4			Variance
5		2009	2009
6		Benchmark	Adjusted
7		_____	_____
8	<b>Customer Accounts</b>	<b>\$ 56.2</b>	<b>\$ 51.4</b>
9			<b>\$ (4.8)</b>

10			
11			Amount
12	<b><u>Summary of Variances</u></b>		<b><u>(Favorable)/Unfavorable</u></b>
13			
14	<b>Call Services Supervision</b>		<b>\$ 2.0</b>
15	<b>Mobile Meter Reading</b>		<b>(3.3)</b>
16	<b>Customer Records &amp; Collection Expense</b>		<b>1.0</b>
17	<b>Uncollectible Accounts</b>		<b>(1.5)</b>
18	<b>Information Technology</b>		<b>(3.1)</b>
19			<b>\$ (4.8)</b>

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Docket No.: 090079-EI			Historical Year Ended	12/31/2008
			Witness: Morman	

(\$ Millions)

Line No.	FERC Accounts: 901 - 906		
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2	<b><u>Call Services Supervision</u></b>		\$ 2.0
3	Several factors account for the variance in Call Services Supervision between the benchmark and 2009 adjusted amount.		
4	Approximately \$.9M of Call Services Supervision expenses were reclassified from FERC 907 to FERC 901 based on		
5	interpretation of the Code of Federal Regulations. The remaining \$1.1M are services provided by the Progress Energy Carolina		
6	Call Center.		
7			
8			
9	<b><u>Mobile Meter Reading</u></b>		\$ (3.3)
10	The decrease in mobile meter reading expenses is due to fully implementing Mobile Meter Reading (MMR). This technology		
11	enables PEF to read residential customer meters electronically through the use of special meters that send a radio frequency to		
12	receivers located in company vehicles versus manually through hand-held meter reader devices. PEF has experienced significant		
13	savings in meter reading due to reduced staff, training and equipment.		
14			
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16			
17	<b><u>Customer Records &amp; Collection Expense</u></b>		\$ 1.0
18	PEF expects increased reconnect, disconnect and account transfer expenses due to current economic		
19	conditions.		
20			
21			
22	<b><u>Uncollectible Accounts</u></b>		\$ (1.5)
23	Bad debt continues to increase due to the economic downturn; however, 2009 budget costs are somewhat		
24	less than the benchmark because of practices implemented by PEF to mitigate its exposure to charge-offs.		
25			
26			
27	<b><u>Information Technology</u></b>		\$ (3.1)
28	Decrease due to shifting much of PEF's Information Technology Department costs to the Corporate Services		
29	level. In addition, the Information Technology Department restructured its organization to achieve further cost		
30	savings.		
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FLORIDA PUBLIC SERVICE COMMISSION  
 Explanation: Provide a schedule of operation and maintenance expenses by function for the test year, the benchmark year and the variance. For each functional benchmark variance, justify the difference.  
 Type of data shown:  
 Projected Test Year Ended 12/31/2010  
 X Prior Year Ended 12/31/2009  
 Historical Year Ended 12/31/2008  
 Witness: Morman

Company: PROGRESS ENERGY FLORIDA INC.

Docket No.: 090079-EI

Line No. FERC Accounts: 907 - 910

1

2

(In Millions - (Favorable)/Unfavorable )

3

4

Variance

5

2009

2009

From

6

Benchmark

Adjusted

Benchmark

7

Customer Service

8

and Information

\$ 4.0 \$ 2.5 \$ (1.5)

9

10

11

Amount

12

Summary of Variances

(Favorable)/Unfavorable

13

14

Customer Svc & Information Supervision

\$ (0.9)

15

Customer Assistance

(0.6)

16

\$ (1.5)

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19

20

21

Customer Service & Information Supervision

\$ (0.9)

22

Call Services Supervision charges were reclassified from FERC 907 to FERC 901 based on interpretation of the Code of Federal Regulations.

23

24

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28

Customer Assistance Expenses

\$ (0.6)

29

This account includes the expenses incurred in providing instructions or assistance to customers, the object of which is to encourage safe, efficient, and economical use of the utility's service. All expenses are budgeted by the FL CIG (Commercial, Industrial, & Governmental) & DSM (Demand Side Management) groups. The reduction is due to a change in the FERC charging by the External Relations CRM group.

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FLORIDA PUBLIC SERVICE COMMISSION	Explanation: Provide a schedule of operation and maintenance expenses by function for the test year, the benchmark year and the variance. For each functional benchmark variance, justify the difference.	Type of data shown:	Projected Test Year Ended 12/31/2010
Company: PROGRESS ENERGY FLORIDA INC.		X Prior Year Ended	12/31/2009
Docket No.: 090079-EI		Historical Year Ended	12/31/2008
		Witness: Moman	

Line No. FERC Accounts: 912.00 - 916.00

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(In Millions - (Favorable)/Unfavorable )

	2009 Benchmark	2009 Adjusted	Variance From Benchmark
Sales Expense	\$ 2.6	\$ 1.5	\$ (1.1)

Summary of Variances	Amount (Favorable)/Unfavorable
Economic Development	\$ (0.8)
Sales Expense	(0.3)
	<u>\$ (1.1)</u>

**Demonstration & Selling** \$ (0.8)  
Decrease in demonstration & selling expenses due to restructuring of the CRM (Community Relations Manager) groups.

**Miscellaneous Sales Expense** \$ (0.3)  
Miscellaneous sales expenses are continually reviewed to manage expenses and use the most efficient channel to communicate with current and prospective customers.

FLORIDA PUBLIC SERVICE COMMISSION Explanation: Provide a schedule of operation and maintenance expenses by function for the test year, the benchmark year and the variance. For each functional benchmark variance, justify the difference.

Company: PROGRESS ENERGY FLORIDA INC.

Docket No. 090079-EI

Type of data shown:  
 Projected Test Year Ended 12/31/2010  
 X Prior Year Ended 12/31/2009  
 Historical Year Ended 12/31/2008  
 Witness: Wyckoff, DesChamps, Toomey

Line FERC Accounts: 920.00-935.00  
 No.

	<i>(In Millions - (Favorable)/Unfavorable )</i>		
	2009 Benchmark	2009 Adjusted	Variance From Benchmark
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9			
10	Administrative & General \$ 217.9	\$ 266.6	\$ 48.7

	Amount (Favorable) / Unfavorable
11	
12	
13	
14	<b>Summary of Variances:</b>
15	Pension Expense \$ 48.1
16	Long Term Compensation 7.7
17	Employee Benefit Costs 4.2
18	\$ 60.0
19	
20	Other A&G (11.3)
21	\$ 48.7
22	
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FLORIDA PUBLIC SERVICE COMMISSION Company: PROGRESS ENERGY FLORIDA INC. Docket No. 090079-EI	Explanation: Provide a schedule of operation and maintenance expenses by function for the test year, the benchmark year and the variance. For each functional benchmark variance, justify the difference.	Type of data shown: Projected Test Year Ended 12/31/2010 X Prior Year Ended 12/31/2009 Historical Year Ended 12/31/2008 Witness: Wyckoff, DesChamps, Toomey
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Line FERC Accounts: 920.00-935.00  
 No.

1 **Pension Expense/(Credit)** \$ 48.1

2 The accounting for pension costs is performed using the guidelines as established in FAS No. 87, "Employer's Accounting for Pensions". The  
 3 Commission approved the use of FAS 87 for ratemaking purposes in Docket No. 910890-EI, Order No. PSC-92-1197-FLF-EI, dated 10/22/02.  
 4 The 2009 budget was prepared using the results from an actuarial study prepared by a third party in accordance with FAS 87.

5  
 6  
 7 The 2009 pension expense is \$41.7M compared to a benchmark credit of \$6.4M. The pension expense reflects the fact that the expected  
 8 return on plan assets did not exceed the service cost and other applicable components of pension expense. The volatility in the stock market  
 9 significantly impacts the investment return of the plan assets and can cause the amount of the pension expense or credit to vary significantly  
 10 from year to year. The current economic downturn has negatively impacted the investment returns of pension plans in general including the  
 11 Company's pension plan. The impact of the stock market and other FAS 87 expense determination factors make comparison to a benchmark  
 12 based on CPI and consumer growth inappropriate.

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18 **Long Term Compensation** \$ 7.7

19 The Company's long-term compensation plans are designed to provide competitive and reasonable long-term compensation that align the  
 20 interests of customers, shareholders, employees and management. The plans reward operational performance results that are consistent  
 21 with reliable and efficient electric service and they are designed to attract and retain an experienced and capable management team. The  
 22 Board of Directors, through its Organization and Compensations Committee, establish the Company's executive compensation philosophy,  
 23 approves all plan designs and files the proxy disclosures. The Committee engages an external consultant to provide advice on current  
 24 long-term compensation trends, perform benchmarking and market analysis, review current plan designs and recommend changes  
 25 as appropriate.

26  
 27 A variance of \$7.7 million exists between the 2009 benchmark of \$8.5 million and the 2009 budget of \$16.2 million. Of this,  
 28 approximately \$1.5 million of the variance is caused by an understatement of 2006 baseline expense due to a lower than expected payout of  
 29 Performance Share Sub-Plan. The remaining \$6.2 million is driven by an increase in plan participants and plan design changes  
 30 made to increase the competitiveness of the long-term compensation plans.

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FLORIDA PUBLIC SERVICE COMMISSION Company: PROGRESS ENERGY FLORIDA INC. Docket No. 090079-EI	Explanation: Provide a schedule of operation and maintenance expenses by function for the test year, the benchmark year and the variance. For each functional benchmark variance, justify the difference.	Type of data shown: Projected Test Year Ended 12/31/2010 X Prior Year Ended 12/31/2009 Historical Year Ended 12/31/2008 Witness: Wyckoff, DesChamps, Toomey
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Line No. FERC Accounts: 920.00-935.00

1	<b>Employee Benefit Cost</b>		<b>\$ 4.2</b>
2	The Progress Energy employee benefits program is designed to: be competitive and align with the Company's strategy; facilitate the attraction and		
3	retention of a skilled workforce; and provide high-quality, affordable benefits to both employees and the company.		
4			
5	Factors impacting benefits costs include, but are not limited to, plan design, employee participation, utilization of the benefits being offered,		
6	changes in actuarial assumptions, and dynamic market conditions impacted by macro economic factors such as high medical cost inflation. Due		
7	to the independent nature of these variables, a universal benchmark based upon CPI and customer growth will not properly predict benefit		
8	cost changes. The actual and projected inflation rate for health benefit costs is higher than the benchmark of approximately 11.64% for 2007		
9	through 2009. In addition, the actual benefit costs, to which the 11.64% benchmark was applied, were lower than normal because the benefit		
10	plans had fewer participants due to the Company's Voluntary Employee Retirement Program (VERP) of 2005. Under this program, more than		
11	700 Florida employees retired leaving vacancies for the company to fill throughout 2006 and 2007.		
12			
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18	<b>Other A&amp;G</b>		<b>\$ (11.3)</b>
19	The A&G area includes many cost efficiencies due to process improvements and improved technology and systems. Various software		
20	systems placed in service as part of the integration work resulting from the merger have reached the end of their depreciable life and have		
21	resulted in ongoing favorable depreciation expenses. Other efficiencies have been gained through the renegotiation of contracts with		
22	telecommunications and other network monitoring service providers standardization of desktop hardware and software have contributed to the		
23	resulting budget under benchmark. Continuous efforts are made to reduce costs in the general administrative costs of the company as a		
24	whole.		
25	Highlights of cost reductions in corporate staff functions of the Service Company as compared to the benchmark are outlined below:		
26			
27			
28	Depreciation Expense	\$	(6.5)
29	IT&T		(1.2)
30	Insurance		(0.7)
31	Various Other		(2.9)
32		\$	(11.3)
33			
34			
35			
36			