

ORIGINAL



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January 22, 2001

Blanca S. Bayo, Director  
Division of the Commission Clerk  
and Administrative Services  
Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, FL 32399-0850

Re: Docket No. 000824-E1

Dear Ms. Bayo:

Enclosed for filing in the above-referenced docket is the original and 15 copies of the Direct Testimony of Kimberly H. Dismukes.

Please indicate the time and date of receipt on the enclosed duplicate of this letter.

Sincerely,

Charles J. Beck  
Deputy Public Counsel

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FPSC-COMMISSION CLERK

ORIGINAL

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Review of Florida Power )  
Corporation's earnings, including )  
effects of proposed acquisition of )  
Florida Power Corporation by )  
Carolina Power & Light )  
\_\_\_\_\_ )

Docket No. 000824-EI  
Filed: January 22, 2002

**DIRECT TESTIMONY**

**OF**

**KIMBERLY H. DISMUKES**

**On Behalf of the Citizens of the State of Florida**

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Public Counsel

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Attorney for the Citizens  
of the State of Florida

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FPSC-COMMISSION CLERK

1 TESTIMONY  
2 OF  
3 KIMBERLY H. DISMUKES  
4

5 On Behalf of the  
6 Florida Office of the Public Counsel  
7

8 Before the  
9 Florida Public Service Commission  
10

11 Docket No. 000824-EI  
12  
13

14 **Q. WHAT IS YOUR NAME AND ADDRESS?**

15 A. Kimberly H. Dismukes, 6455 Overton Street, Baton Rouge, Louisiana  
16 70808.

17 **Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?**

18 A. I am a partner in the firm of Acadian Consulting Group, which specializes  
19 in the field of public utility regulation. I have been retained by the Office of  
20 the Public Counsel (OPC) on behalf of the Citizens of the State of Florida to  
21 analyze portions of Florida Power Company's (FPC or the Company)  
22 proposal concerning the treatment of merger costs and synergies and the  
23 treatment of affiliate transactions included in the projected test year.

24 **Q. DO YOU HAVE AN APPENDIX THAT DESCRIBES YOUR  
25 QUALIFICATIONS IN REGULATION?**

26 A. Yes. Appendix I, attached to my testimony, was prepared for this purpose.

27 **Q. DO YOU HAVE AN EXHIBIT IN SUPPORT OF YOUR  
28 TESTIMONY?**

1 A. Yes. Exhibit\_\_(KHD-1) contains 12 schedules that support my testimony.

2 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

3 A. My testimony is organized into two sections. In the first section, I address  
4 merger-related issues. In the second section, I address affiliate cost  
5 allocation issues, focusing on the costs allocated to FPC from Progress  
6 Energy Service Company, LLC (Progress Energy Service).

7 **Section 1: Merger**

8 **Q. WOULD YOU BRIEFLY DESCRIBE THE MERGER BETWEEN**  
9 **FPC AND CAROLINA POWER & LIGHT COMPANY (CP&L)?**

10 Q. The merger of Florida Power and CP&L occurred when CP&L Energy, Inc.  
11 (now Progress Energy), the parent company of CP&L, purchased Florida  
12 Progress Corporation, the parent company of Florida Power. When the  
13 merger closed on November 30, 2000, Progress Energy acquired all of  
14 Florida Progress' issued and outstanding shares of common stock for a  
15 purchase price of \$5.4 billion.

16 **Q. CAN YOU DESCRIBE WHERE THE COMPANY EXPECTS TO**  
17 **ACHIEVE THE PROJECTED SAVINGS IT ESTIMATES WILL**  
18 **RESULT FROM THE MERGER?**

19 A. Yes. As Mr. Myers explained in his testimony, FPC has categorized its  
20 merger synergies into six major categories: Shared Corporate and  
21 Administrative Services, Power Operations, Transmission & Distribution,  
22 Customer Service, Nuclear Operations, and Energy Ventures.

23

1           The largest share of the savings, totaling \$24.8 million, is attributable to  
2           Shared Corporate and Administrative Services. These are the savings  
3           projected to be achieved by Progress Energy Services' provisioning of  
4           administrative and corporate services. These services include finance and  
5           treasury functions, accounting and tax functions, human resources, payroll  
6           and benefits management, risk management, legal and regulatory affairs,  
7           investor relations, public relations, and information technology. Progress  
8           Energy Service will provide these functions to both Florida Power and  
9           CP&L as well as to Progress Energy's other affiliates. The Company also  
10          expects to realize savings through the consolidation of programs such as  
11          employee benefits, fleet management, and purchasing, in which it will now  
12          have greater purchasing power and enjoy other economies of scale.

13

14          In addition, FPC estimates synergy savings of \$15.8 million attributable to  
15          the elimination of redundant functions and programs in areas including  
16          engineering, maintenance, construction, resource planning, and  
17          environmental services.

18

19          FPC also estimates similar reductions and eliminations of redundant  
20          functions will occur in the Transmission & Distribution operations of the  
21          Company, leading to estimated cost savings in 2002 of \$7.1 million in this  
22          area.

23

1 Customer Service functions in Florida Power and CP&L will also be  
2 consolidated. Improvements and consolidations in payment locations, high  
3 bill inquiry, call center management and collections management are  
4 expected to generate savings in 2002 of \$5.9 million attributable to FPC.

5  
6 The Nuclear Operations of Florida Power, which had operated Crystal River  
7 Unit 3, have been merged with those of CP&L, which operates four nuclear  
8 plants. The consolidations and elimination of redundancies in nuclear  
9 operations are projected to generate savings in 2002 of \$4.1 million.

10  
11 Lastly, the Company projects savings of \$1.0 million in 2002 attributable to  
12 Energy Ventures, the trading affiliate of Progress Energy. Following the  
13 merger, Energy Ventures will perform trading functions for Florida Power  
14 as well as Progress Energy's other utilities.

15 **Q. DID THE COMPANY INCUR COSTS IN BRINGING ABOUT**  
16 **THESE CONSOLIDATIONS AND SYNERGY SAVINGS?**

17 A. Yes. The projected savings estimated by Florida Power have, in some  
18 cases, already been adjusted to subtract any costs incurred in bringing about  
19 the merger-related benefits. Mr. Myers states in his testimony:

20 The costs that have already been netted out are the  
21 costs that we are incurring directly to implement the  
22 specific programs and initiatives I have described.  
23 These ongoing costs include, among others, an  
24 estimated \$25 million in information system costs,  
25 benefit plan consolidation costs, and facilities costs  
26 that the merged companies have had to incur to  
27 implement and capture the cost saving initiatives I  
28 have described. These costs are already embedded in

1                   our calculation of synergies. (Myers' Testimony, p.  
2                   21.)  
3

4   **Q.    WOULD YOU EXPLAIN HOW FLORIDA POWER CALCULATED**  
5       **ITS ACQUISITION ADJUSTMENT AND ITS PROPOSAL FOR**  
6       **SHARING SYNERGY SAVINGS?**

7   **A.**   Yes. Schedule 1 of my exhibit reproduces the Company's calculation of the  
8       acquisition adjustment and net synergies. As Schedule 1 shows, the  
9       Company first calculated the total dollar amount of the purchase premium to  
10      be allocated to Florida Power. The premium was calculated by subtracting  
11      the pre-merger price per share of Florida Progress stock of \$44.625 from the  
12      \$54.00 per share Progress Energy paid for the stock. This resulted in a  
13      premium of \$9.375 per share. The premium per share was multiplied times  
14      the total number of shares, 98.617 million, to calculate the total premium of  
15      \$924.534 million. The Company then allocated 30.9% of the premium, or  
16      \$285.681 million, to Florida Power. The 30.9% allocation was derived  
17      from Florida Power's projected share of the merger synergies which the  
18      Company calculated as \$54 million, after transition costs, compared with  
19      total projected synergy savings and synergy revenue of \$175 million.

20  
21      The \$285.681 million premium allocated to Florida Power was next restated  
22      on an annual basis, using an after-tax interest rate of 4.607% and a term of  
23      15 years. The resulting \$26.797 million was multiplied by a retail allocation  
24      of 94.45%, to compute Florida Power's annual after-tax retail acquisition  
25      premium of \$25.310 million.

1 The Company also restated the projected net synergies for 2002 on a post-  
2 tax basis. First, the merger transition costs were stated on an annual basis.  
3 This was done by dividing FPC's projected cost of \$69.676 million by 15  
4 years, for an annual transition cost of \$4.645 million. This amount was  
5 subtracted from the projected pretax savings for 2002 of \$59.800 million,  
6 for an adjusted pretax synergy total of \$54.055 million. The pretax synergy  
7 was adjusted by the same 94.45% retail allocation as the purchase premium,  
8 and then adjusted by the statutory tax rate (38.575%) to arrive at the retail  
9 after-tax synergies of \$31.361 million.

10  
11 The retail annual acquisition adjustment of \$25.310 million was then  
12 subtracted from the projected 2002 retail after-tax savings of \$31.361  
13 million to calculate the 2002 net after-tax synergies of \$6.051 million. This  
14 has also been stated on the schedule in pre-tax dollars as \$9.871.

15 **Q. HOW DOES FLORIDA POWER PROPOSE THAT THE**  
16 **COMMISSION TREAT THIS ACQUISITION ADJUSTMENT?**

17 A. Florida Power proposes that shareholders and ratepayers share the merger-  
18 related savings, net of the purchase premium and transition costs. In other  
19 words, FPC expects its customers to pay the entire amount of this  
20 acquisition premium. Mr. Myers explains that the Company proposes an  
21 annual rate credit of \$5 million for a period of 15 years. For 2002, this  
22 represents approximately one half of the expected \$9.851 million synergy  
23 savings attributed to FPC.

24

1 Florida Power also proposes that the Commission establish an earnings  
2 sharing mechanism to share further earnings between ratepayers and  
3 shareholders.

4 **Q. DO YOU AGREE WITH FPC'S PROPOSAL THAT RATEPAYERS**  
5 **BEAR THE TOTAL COST OF THE ACQUISITION PREMIUM?**

6 A. No, I do not, for at least two reasons. First, FPC has not demonstrated that  
7 there is anything extraordinary about this merger. Second, one of the driving  
8 motivations for the merger was not to benefit the ratepayers, but was  
9 CP&L's desire to position itself as a regional diversified southeastern  
10 energy company and to increase the value to shareholders. In addition,  
11 Progress Energy has estimated significant synergy revenue resulting from  
12 the merger which is attributable to its unregulated operations.

13 **Q. WOULD YOU PLEASE ADDRESS THE COMMISSION'S POLICY**  
14 **ON ACQUISITION ADJUSTMENTS? FIRST, EXPLAIN HOW THE**  
15 **COMMISSION DEFINES AN ACQUISITION PREMIUM OR**  
16 **ACQUISITION ADJUSTMENT.**

17 A. The FPSC defines an acquisition premium as the difference between the  
18 purchase price and the previous owner's original cost adjusted to the time of  
19 the acquisition. (Application for Transfer of Certificates Nos. 469-W and  
20 358-S in Bay County from Bayside Utilities, Inc. to Bayside Utility  
21 Services, Inc. Order No. PSC-99-1818-PAA-WS) A positive acquisition  
22 adjustment results when the purchase price exceeds the net book value of  
23 the acquired property. (Refocusing on the Commission's Acquisition Policy  
24 Regarding Water and Wastewater Utilities, FPSC Division of Policy

1 Analysis & Intergovernmental Liaison, p.7.) For example, if the original  
2 cost rate base valuation is \$100, but an acquiring utility paid \$120 for the  
3 assets, a positive acquisition adjustment, if approved, would inflate the  
4 original cost rate base valuation to \$120. (Ibid.)

5 **Q HOW HAS FPC DEFINED ITS ACQUISITION PREMIUM?**

6 A. The Company has defined its acquisition premium somewhat differently  
7 than the FPSC. Rather than the difference between market and book value,  
8 the Company is defining this premium as the difference between the pre-  
9 merger share price of Florida Progress, and the price paid by Progress  
10 Energy. (Cicchetti Testimony, 9: Footnote 1.)

11 **Q HOW DOES THIS DIFFER FROM THE FPSC'S DEFINITION?**

12 A The main difference is associated with the book to market valuation. The  
13 Company is only looking at the increased market value offered for the utility  
14 as opposed to the total difference between the purchase price per share and  
15 the book cost per share.

16 **Q HAS THE FPSC ALLOWED THE RECOVERY OF ACQUISITION  
17 PREMIUMS IN THE PAST?**

18 A In some instances. However, a utility's ability to recover this acquisition  
19 premium is very limited and in the past, has occurred in rare situations.  
20 Most, but not all, of the examples associated with requests for recovery of  
21 an acquisition premium have been in the water and wastewater industry. In  
22 order to get FPSC approval to recover a positive acquisition premium, a  
23 utility must make a showing that "extraordinary circumstances" were  
24 present.

1 Q COULD YOU BRIEFLY EXPLAIN WHY THE RECOVERY OF  
2 POSITIVE ACQUISITION PREMIUMS HAS BEEN AN ISSUE IN  
3 FLORIDA WITH REGARD TO WATER AND WASTEWATER  
4 UTILITIES?

5 A. Yes. This past year, the FPSC Staff issued a report entitled “Refocusing on the  
6 Commission’s Acquisition Policy Regarding Water and Wastewater Utilities.”  
7 The report provides a good discussion of the changing nature of the water and  
8 wastewater industry, as well as the Commission’s policy on the recovery of  
9 acquisition premiums. The report notes that the composition of the water and  
10 wastewater industry in Florida is a mixture of differently sized municipal,  
11 county, investor and cooperatively owned systems. A majority of these systems  
12 are relatively small, and are often referred to as “mom and pop” utilities. Costs  
13 have been substantially increasing for many of these systems given changes in  
14 environmental laws and regulations. As a result, many have experienced  
15 difficulty in maintaining service quality standards. The Staff report noted that:

16 As a direct result of these rising costs, a large segment of the  
17 industry comprised of utilities serving less than 500  
18 connections are in jeopardy of being unable to continue  
19 operations without environmental or water quality problems.  
20 This also raises concerns over the affordability of water  
21 service. The Commission has long recognized the technical,  
22 managerial and financial problems inherent in most small  
23 utility operations which work against their ability to be  
24 viable and to sustain safe, efficient and cost effective long  
25 term operations. (Refocusing on the Commission’s  
26 Acquisition Policy Regarding Water and Wastewater  
27 Utilities, FPSC Division of Policy Analysis &  
28 Intergovernmental Liaison, p.7.)  
29

1 In the past, the Commission has allowed positive acquisition premiums  
2 provided that “extraordinary conditions” exist that help maintain the service  
3 quality and cost of service integrity of these small systems.

4 **Q. HAVE YOU REVIEWED ANY OF THE PAST FPSC ORDERS**  
5 **ASSOCIATED WITH ACQUISITION PREMIUM RECOVERY?**

6 A. Yes, I have reviewed many orders associated with the acquisition of utility  
7 systems in Florida. A majority of these orders has been in the water and  
8 wastewater industry. In many instances, applicants requested acquisition  
9 premium recovery, but were denied. In several other instances, applicants  
10 requested the recovery of acquisition premiums which were approved on a  
11 finding that the merger resulted in extraordinary circumstances.

12 **Q. WOULD YOU PLEASE DISCUSS THE COMMISSION’S POLICY**  
13 **WITH REGARD TO THE RECOVERY OF POSITIVE**  
14 **ACQUISITION ADJUSTMENTS?**

15 A. Yes. The Commission typically does not allow the recovery of a positive  
16 acquisition adjustment unless the merger presents extraordinary  
17 circumstances. The Commission has noted that:

18 Our policy is that, absent extraordinary circumstances, the  
19 purchase of a utility system at a premium or discount shall  
20 not affect the rate base calculation. The purpose of this  
21 policy is to create an incentive for larger utilities to acquire  
22 small, troubled utilities. This has been our policy since  
23 approximately 1983 and, since that time, few utilities have  
24 had their rate bases changed as a result of a purchase at a  
25 premium or discount. (Investigation Into Acquisition  
26 Adjustment Policy, Order Number 23376.)  
27

28 The Commission goes further in noting that:

1                   Those utilities that are actively acquiring distressed utilities  
2                   have found that our policy gives them the flexibility to make  
3                   some purchases at a premium and still receive rate base  
4                   treatment because of the balancing effect created by  
5                   purchases made at a discount. In other words, multiple  
6                   purchases at a discount have created a new incentive to  
7                   purchase those troubled utilities that can only be purchased at  
8                   a premium. (Ibid.)  
9

10   **Q.    IS THE RECOVERY OF AN ACQUISITION PREMIUM**  
11       **TYPICALLY ASSOCIATED WITH THE PURCHASE OF A**  
12       **DISTRESSED UTILITY?**

13   A.    Yes. In most of the orders that I reviewed, the recovery of a positive  
14       acquisition adjustment was associated with the extraordinary task of taking  
15       a distressed utility to a more positive operating position. In these orders,  
16       positive acquisition recovery amounts were associated with a troubled utility  
17       being acquired by a larger, healthier utility system. These types of mergers  
18       resulted in benefits to customers that were over and beyond a traditional  
19       merger.

20   **Q.    DR. CICHETTI REFERENCES THE FPC ACQUISITION OF**  
21       **SEBRING UTILITIES SYSTEM AS AN EXAMPLE OF AN**  
22       **EXTRAORDINARY MERGER. DO YOU BELIEVE THIS IS A**  
23       **RELEVANT COMPARISON FOR THIS PROCEEDING?**

24   A.    No. Prior to the FPC acquisition, Sebring was experiencing “serious  
25       financial distress.” (Order No. PSC-92-1468-FOF-EU). The Commission  
26       should consider the following facts associated with the Sebring acquisition  
27       before using it as a “comparable” for the FPC-CPL merger.  
28

- 1 • Debt service on \$85 million in bonds had drained Sebring’s  
2 resources and brought it to the verge of bankruptcy;  
3
- 4 • At the time of the acquisition, Sebring was in default of its bond  
5 covenants;  
6
- 7 • The rates that Sebring was recovering were inadequate to service its  
8 debt or to maintain its required reserve margins;  
9
- 10 • Sebring had the highest retail electric service rates in Florida.  
11

12 FPC essentially bailed out a failed utility system with the highest rates in the  
13 state. During the course of the FPSC’s evaluation of this acquisition, it  
14 allowed a positive acquisition adjustment to be made given its unique and  
15 extraordinary circumstances. In fact, the Commission noted that

16 As a general rule, we do not preapprove the prudence  
17 of rate base acquisitions outside of a rate case, nor do  
18 we usually permit acquisition adjustments,  
19 particularly outside of a rate case. As a general rule,  
20 we do not permit utilities to identify a pool of debt  
21 costs and apply those costs to a particular set of  
22 customers. Nevertheless, unique problems require  
23 unique solutions, and under this particular set of  
24 extraordinary circumstances, we believe our decision  
25 is in the best interest of all concerned. To those who  
26 would view our decision here as precedent, we  
27 unconditionally state that this decision has no  
28 precedential value. It is limited to the unique set of  
29 facts in this case. It does not signal a change in our  
30 regulatory policies in any way. (Order PSC-92-1468-  
31 FOF-EU)  
32

33 I do not believe that the merger creating Progress Energy is comparable to  
34 the Sebring acquisition. Both utilities are healthy, strong utilities that are  
35 not going bankrupt, having the highest rates in the state, nor close to  
36 defaulting on their debt obligations.

1 **Q. WHAT ABOUT DR. CICHETTI'S REFERENCE TO THE**  
2 **PEOPLES GAS COMPANY ACQUISITION OF SOUTHERN GAS**  
3 **COMPANY?**

4 R. During the course of the company's rate case, the Commission found that  
5 Southern Gas' services were lacking as the company was "operating at  
6 standards that were minimal or below minimal standards." (Order Number  
7 23858). The Commission found that because of the less than optimal  
8 conditions that Southern Gas was operating under, services, financial, and  
9 operating performance had nowhere to go but up. However, the  
10 Commission still held some reservations about the proposed acquisition.  
11 The Commission required that all funds were "to be held subject to refund  
12 with interest at the short-term average commercial paper rate pending  
13 review of the anticipated savings in the Company's next rate case." (Ibid.)

14 **Q. ARE THERE ANY INSTANCES WHERE AN ACQUISITION**  
15 **ADJUSTMENT WAS ALLOWED FOR HEALTHY UTILITY**  
16 **MERGERS?**

17 A. Yes. In 1993, the Commission allowed Jacksonville Suburban Utilities  
18 Corporation (JSUC) to recover a positive acquisition premium for obtaining  
19 Ponte Vedra Utilities (PV). Both utilities were relatively healthy and not  
20 suffering from quality of service problems. The Commission noted that

21 . . . the customers will be served by a company whose  
22 primary business is water and wastewater utilities – not by a  
23 development company who is divesting itself of its  
24 secondary utility businesses, and, accordingly, has a reduced  
25 interest in the long term needs of the PV facilities. (Order  
26 No. PSC-93-1819-FOF-WS).  
27

1 **Q. WEREN'T REAL ESTATE DEVELOPERS ONE OF THE SOURCES**  
2 **OF PROBLEMS WITH SMALL WATER UTILITY SYSTEMS?**

3 A. Yes. As I noted earlier, the water and wastewater industry in Florida is  
4 relatively diverse. Its membership includes a number of small water utilities  
5 that are primarily real estate development companies. These companies are  
6 in the primary business of creating residential homes and communities, not  
7 in providing utility service. The Commission has had a number of  
8 experiences where these development companies, given their lack of utility  
9 experience and conflicting incentives, have not performed as well as  
10 traditional investor-owned utility systems. One could interpret the  
11 Commission's order as being more forward looking. That is, the acquisition  
12 premium was approved because there may have been a sense of inevitability  
13 about the long run viability of PV. In fact, the Commission's order does  
14 reference its concern about forward-looking issues:

15 Over the next few years, a restructuring of the water and  
16 wastewater industry will have to take place in order for  
17 utilities to be able to meet federal water quality standards at  
18 an affordable price. The consolidation of the PV systems  
19 into the strong regional system operated by JSUC is a very  
20 positive step towards the necessary restructuring. We  
21 believe, based on the foregoing, that "extraordinary  
22 circumstances" exist in this instance and the granting of a  
23 positive acquisition adjustment provides the proper incentive  
24 to the utility, and is in the public interest. (Ibid.)  
25

26 **Q. WAS THERE A DISSENTING OPINION ON THIS ORDER?**

27 A. Yes. Commissioner Julia Johnson provided a dissenting opinion in the  
28 JSUC decision Order. Commission Johnson noted that:

29 The Commission has allowed positive acquisition  
30 adjustments for water and wastewater utilities in very few

1 cases. In the few cases where positive acquisition  
2 adjustments were allowed there were, generally, common  
3 factors leading to the allowance of the acquisition  
4 adjustment. Those factors being: major service problems  
5 with the utility, overall rate reduction to water and  
6 wastewater customers, or savings to customers.

7  
8 The instant case is a shift in Commission policy because the  
9 rationale stated for allowing positive acquisition adjustments  
10 does not exist in the Ponte Vedra case. The Ponte Vedra  
11 transfer does not have any major service problems. It is not a  
12 troubled utility. Additionally, there will be an overall rate  
13 increase to the water and wastewater customers of Ponte  
14 Vedra under Jacksonville Suburban. Furthermore, there is  
15 not an immediate cost reduction to the customers of Ponte  
16 Vedra. Based upon an analysis of past cases, I do not believe  
17 that a positive acquisition adjustment was warranted, nor  
18 should it have been granted.

19  
20 An analysis and application of the purpose for allowing  
21 acquisition adjustments also demonstrates that the  
22 Commission was in error in allowing the positive acquisition  
23 adjustment. The Commission has stated that the purpose for  
24 allowing positive acquisition adjustments is to provide an  
25 incentive for larger utilities to acquire small, troubled  
26 utilities. I am in full support of that policy. (Ibid., Dissenting  
27 Opinion of Commissioner Julia Johnson.)  
28

29 **Q. ARE YOU AWARE OF ANY OTHER MERGERS BETWEEN**  
30 **HEALTHY UTILITIES IN WHICH A POSITIVE ACQUISITION**  
31 **ADJUSTMENT WAS ALLOWED?**

32 A. Yes. In the rate review of City Gas Company of Florida (City Gas), the  
33 company requested the recovery of three acquisition adjustments associated  
34 with the GDU propane system in Martin County. All three of these  
35 adjustments were allowed by the Commission given the extraordinary  
36 nature of the acquisition. In particular, the acquisition of GDU allowed City  
37 Gas to expand their service area at a cost well below that of building an

1 extension. (Order PSC-01-0316-PAA-GU) The Commission ruled that this,  
2 in turn, would allow the Company to prove safer, more reliability and cost  
3 effective service. The Commission noted:

4 [H]ad the Company built a new system to serve these  
5 customers, it would have cost two to three times as much per  
6 mile as it paid for the existing propane system. As a result,  
7 the cost per mile was less than the average embedded cost of  
8 City's system. This purchase enabled the Company to  
9 continue its growth in the Port St. Lucie area at a far lower  
10 cost than it would have incurred had it built a new system.  
11 The conversion also resulted in lower rates for the existing  
12 customers, because propane costs are far higher than natural  
13 gas, and the fixed costs of the system were spread over a  
14 larger base of customers. The customers did not incur any  
15 significant additional costs, and most, if not all, of the  
16 existing appliances were convertible to natural gas for a few  
17 dollars per unit.

18  
19 A system that is converted to natural gas has a higher level of  
20 reliability and safety, which benefits the ratepayers of the  
21 system as well.... Considering the additional safety,  
22 reliability, and lower cost of purchasing an existing system  
23 rather than constructing a new system, we find that the  
24 Company shall be allowed to recover this acquisition  
25 adjustment. (Ibid.)  
26

27 **Q. HOW DOES THE COMMISSION DEFINE "EXTRAORDINARY?"**

28 A. The Commission noted that the evaluation of positive acquisition  
29 adjustment should be based upon five different factors. These include

30 Increased quality of service;

31 Lowered operating costs;

32 Increased ability to attract capital for improvements;

33 A lower overall cost of capital; and

34 More professional and experienced managerial, financial, technical,

35 and operational resources. (Order Number 23376.)

1 Q. WOULD YOU PLEASE ADDRESS EACH OF THESE AS IT  
2 APPLIES TO THE PROGRESS ENERGY MERGER?

3 R. Yes. The Company claims that the quality of service will be improved as a  
4 result of the merger. However, many such improvements could have taken  
5 place absent the merger. Furthermore, as noted by Ms. DeRonne, the  
6 Company has included significant cost increases in its projected 2002 test  
7 year O&M expense to improve the Company's transmission and distribution  
8 system.

9  
10 The Company also claims that it will have an increased ability to attract  
11 capital as a result of the merger, while this may be true this does not qualify  
12 the merger as being extraordinary.

13  
14 The merger did produce a lower cost of capital, at the parent level, however,  
15 the same is not true for FPC. FPC's equity ratio has increased since the  
16 merger. (Response to Staff Interrogatory 160.) In addition, as a result of the  
17 merger FPC's bonds were downgraded by both Moody's and Standard &  
18 Poors. Mr. Myers in his deposition agreed that the bond downgrade was a  
19 result of the merger. (Myers Deposition, p. 125.)

20  
21 Mr. Myer's also addresses the improvements to FPC's managerial,  
22 financial, technical, and operational resources. However, many of the  
23 improvements he speaks to could have been initiated without the merger.  
24 Some existed at CP&L prior to the merger. And, any improvement in

1 human capital is not extraordinary. Certainly, FPC did not hire and retain an  
2 unqualified staff prior to the merger.

3  
4 Finally, with respect to lower operating costs, this remains to be seen. While  
5 FPC has been allocated \$58.7 million in projected synergy savings, it is not  
6 clear that there have not been other increased costs that offset this amount of  
7 projected synergy savings. Under the Company's proposal, this annual  
8 amount would drop to just \$25.310 million pre-tax, after subtracting the  
9 acquisition premium and transition costs. From this pre-tax amount, the  
10 Company wants to take half and give it to stockholders. Thus, on a pre-tax  
11 basis, ratepayers stand to benefit by \$12.9 million annually. However, after  
12 taxes the amount is only \$6.05 million. The large difference between the pre  
13 and post tax amounts result from the fact that the annual acquisition  
14 adjustment used to offset the premium, is not deductible for tax purposes.  
15 Therefore, there is no tax benefit associated with the acquisition  
16 amortization and FPC is asking ratepayers to pay the full amount.

17  
18 Dr. Charles Cicchetti states that the merger is extraordinary under the  
19 guidelines set forth by the Florida Public Service Commission. He states  
20 that "the Progress Energy merger offers extraordinary benefits and  
21 opportunities for both shareholders and customers." (Cicchetti Testimony,  
22 p. 24.) He refutes himself however, by stating that: "...the companies'  
23 estimated synergy savings estimate is relatively close to the synergy savings  
24 predicted by both the ratio and regression methods. This should provide the

1 FPSC with comfort that the projected synergy savings projections are  
2 reasonable when compared with synergy projections in other electric utility  
3 mergers.” (Ibid., p. 37.) If there is anything extraordinary about the merger,  
4 it is clearly not the amount of synergy savings projected by Progress Energy.  
5 Dr. Cicchetti’s analysis shows that the synergy savings are in the ballpark of  
6 other electric utility mergers—not something that is out of the ballpark and  
7 therefore extraordinary. As discussed below, the circumstances of this  
8 merger do not comport with the Commission’s past policy on the recovery  
9 of an acquisition adjustment.

10 **Q. WOULD YOU PLEASE DISCUSS WHAT PROGRESS ENERGY**  
11 **AND FPC HAVE SAID ABOUT WHY THE MERGER TOOK**  
12 **PLACE?**

13 R. Yes. In its 1999 letter to shareholders, Mr. Korpan, then Chairman of the  
14 Board, President and Chief Executive Officer of Florida Progress and  
15 Chairman of the Board of Florida Power Corporation, explained the reasons  
16 for the proposed merger:

17 On August 22, 1999, our board made a historic decision to  
18 accept an offer to combine Florida Progress with Carolina  
19 Power & Light Company (CP&L). It was an opportunity for  
20 us to become part of a larger, stronger energy company and  
21 create one of the most powerful regional electric and natural  
22 gas companies in the Southeast U.S.  
23

24 In response to OPC’s discovery, a final draft of Questions and Answers and  
25 Key Messages to be addressed by Mr. Korpan at an annual meet master,  
26 gives insight into the reasons for the merger. Under key messages the first  
27 bullet addressed the merger: **BEGIN CONFIDENTIAL**

1 This information claimed confidential by Florida Power Corporation

2 **END CONFIDENTIAL**

3  
4 Similar reasons for the merger are addressed in the letter to Progress  
5 Energy's shareholders for the year 2000. In the very first paragraph of this  
6 letter, the Chairman, President, and CEO of Progress Energy wrote:

7 In 1997 we set out to change our future. Our guiding vision,  
8 then as now, was to transform CP&L into a more dynamic,  
9 diverse and innovative competitor – an energy company  
10 capable of creating and growing value for shareholders in a  
11 rapidly evolving industry. Our strategy included an ambitious  
12 five-year plan to grow the company. On November 30, 2000,  
13 we took a giant step in meeting that goal by officially  
14 completing our acquisition of Florida Progress Corporation.  
15 As a result, we're not only bigger, we're stronger. And we  
16 have a new name. One that clearly sets the pace and direction  
17 of our company: *Progress Energy*.

18  
19 Mr. Cavanaugh, Chairman, President, and CEO of Progress Energy,  
20 explicitly states that CP&L took a giant step to grow value for shareholders  
21 when it acquired Florida Progress Corporation. There is no mention of the  
22 benefit or value for ratepayers.

23  
24 On Progress Energy's website, Mr. Cavanaugh, again focused on becoming  
25 a regional total energy provider states:

26 At Progress Energy, our focus is on expanding our range of  
27 services, diversifying our product offerings, and further  
28 solidifying our role as a regional total energy provider.  
29 Already, we are leveraging the assets in our portfolio -  
30 expanding our existing fiber-optic network, building on the  
31 success of our energy-related subsidiaries, and capitalizing  
32 on new opportunities in wholesale energy.  
33

1 In a presentation at the Fifth Annual Electric Power Conference, Mr.  
2 Cavanaugh explained the benefits of the merger: In explaining his  
3 confidence in achieving the synergies previously announced, he addressed  
4 five points: 1) the joint marketing arrangement with Progress Telecom (an  
5 unregulated affiliate of FPC) to grow revenues and build out their fiber  
6 systems; 2) the purchase by FPC of four synthetic fuel plants and the fact  
7 that CP&L purchased a 90% ownership interest in two of the facilities.  
8 (these are unregulated facilities); 3) the building of the Hines Unit 2; 4) the  
9 authority to organize as a holding company; and 5) that they have a post-  
10 closing organizational framework. There is no mention of the benefits of the  
11 merger to ratepayers.

12 **Q. FPC HAS INDICATED THAT ITS SHARE OF THE SYNERGY**  
13 **SAVINGS BEFORE TRANSITION COSTS WILL AMOUNT TO**  
14 **\$58.7 MILLION. HOW DOES THIS COMPARE TO THE**  
15 **ANNOUNCED SYNERGY SAVINGS OF \$175 MILLION?**

16 **A.** Although OPC through the discovery process requested a breakdown of the  
17 synergy savings between FPC, CP&L, and their nonregulated affiliates, such  
18 information was either not available in the form requested, or not provided.  
19 Nevertheless, I attempted to reconstruct from documents produced by FPC  
20 and the deposition of Mr. Mark Myers, how the synergy savings and  
21 revenues would be distributed between FPC, CP&L and their nonregulated  
22 affiliates. Schedule 2, shows how the total \$175 million is distributed. As  
23 depicted on this Schedule, \$58.7 million is attributed to FPC, **BEGIN**  
24 **CONFIDENTIAL XXXXXX END CONFIDENTIAL** is attributed to

1 CP&L, and the remainder **BEGIN CONFIDENTIAL XXXXXXXXX END**  
2 **CONFIDENTIAL** is attributed to Progress Energy's nonregulated  
3 affiliates. Thus, CP&L and Progress Energy's nonregulated operations will  
4 receive **BEGIN CONFIDENTIAL XXXX END CONFIDENTIAL** of the  
5 synergies and FPC will receive 30.9%, after transition costs. From this  
6 analysis, FPC is getting a much smaller share of the potential synergy  
7 savings than CP&L and Progress Energy's unregulated affiliates. The  
8 percentage of synergies being attributable to the nonregulated operations of  
9 Progress Energy is greater than their current contribution to Progress  
10 Energy's net income. It is also important to keep in mind that some of the  
11 net income from these nonregulated affiliates is derived from purchases of  
12 goods and services by FPC. In addition, FPC provides skilled persons to  
13 assist these unregulated companies in their operations. The profits and  
14 potential profits to be earned by Progress Energy's nonregulated companies  
15 are not due solely to their own efforts. Yet, the majority of the revenue  
16 synergies estimated from the merger are attributable to Progress Energy's  
17 unregulated companies.

18  
19 Progress Energy is expecting substantial growth in its unregulated  
20 operations. It is possible that the premium paid for FPC's stock relates to  
21 the enhanced potential for profits from future unregulated operations.  
22 According to Progress Energy, it expects its unregulated operations to grow  
23 to make-up 50% of its revenues by 2004. Originally, this goal was set to be  
24 met in 2005, but it has apparently been pushed up. A recent Press Release

1 of January 11, 2001, announcing the purchase of gas facilities, said that the  
2 purchase “. . .will help Progress advance toward its goal of earning about  
3 50% of its earnings by 2004 from Progress Ventures and nonregulated  
4 businesses. That figure is about 20% now. . .” In his deposition, Mr.  
5 Bazemore indicated that the information relayed to the press was true.  
6 While there is growth in the retail electric markets in both Florida and the  
7 Carolinas, it is nowhere near the growth expected from the unregulated  
8 operations of Progress Energy. As discussed in greater detail in the next  
9 section of my testimony, Progress Ventures has recently announced several  
10 expansions of its nonregulated operations.

11 **Q. HAVE YOU REVIEWED ANY OTHER STATE ORDERS**  
12 **ASSOCIATED WITH THE RECOVERY OF ACQUISITION**  
13 **PREMIUMS?**

14 A. Yes. I have reviewed 25 orders associated with a number of proposed  
15 mergers across the U.S. A table summarizing the regulatory treatment of  
16 acquisition costs by other state regulatory commissions has been provided in  
17 Schedule 3. In general, I found that few utilities actually requested recovery  
18 of their acquisition premium from ratepayers during the course of their  
19 merger approval. In some instances, regulatory commissions issued orders  
20 directly denying the recovery of acquisition premiums during the course of  
21 their merger application reviews. Some commissions went so far as to  
22 actually issue prohibitions on acquisition premium recovery even when  
23 merging utilities did not request them. Of the orders reviewed, I found only  
24 one instance where a state regulatory commission allowed the recovery of

1 an acquisition premium during the course of a merger approval. This  
2 recovery occurred in Nevada during the course of the proposed Sierra  
3 Pacific and Nevada Power Company merger.

4 **Q. HOW DID YOU SELECT THE REGULATORY ORDERS THAT**  
5 **YOU REVIEWED?**

6 A. The starting point for my investigation were the regulatory orders that were  
7 referenced by Dr. Charles Cicchetti his exhibit. Dr. Cicchetti's exhibit  
8 outlined orders by a number of states that had allowed sharing mechanisms  
9 on incentive returns associated with mergers. The exhibit, however, did not  
10 discuss the regulatory treatment of merger costs – especially those  
11 associated with acquisition premiums. In some instances, I expanded my  
12 analysis to include orders from other states in which the merging parties  
13 operated. For instance, Entergy-Gulf States Utilities (EGSI), which is the  
14 operating company formed from the merger of Entergy and Gulf States  
15 Utilities, had to seek regulatory approval in both Texas and Louisiana.  
16 While the Louisiana order is referenced in Cicchetti's Exhibit, the Texas  
17 order was not. In those instances, where time constraints allowed, I  
18 attempted to obtain and review these other orders. However, it is important  
19 to note that I was unable to review all orders, in all mergers, so the listing is  
20 not comprehensive.

21 **Q. IN GENERAL, WHAT ARE YOUR CONCLUSIONS FROM THE**  
22 **REGULATORY ORDERS ISSUED BY OTHER JURISDICTIONS**  
23 **THAT YOU REVIEWED?**

24 A. In general, I found that the recovery of the acquisition premium was the

1           exception rather than the rule in most jurisdictions. Some commissions have  
2           come down rather firmly that acquisitions premiums should not be  
3           recovered.

4   **Q.    WOULD YOU PLEASE DISCUSS THE KANSAS COMMISSION'S**  
5   **DECISION IN THE WESTERN RESOURCES/KCP&L MERGER?**

6   A.    In the merger application that was under consideration by the Kansas  
7         Commission, Western Resources and Kansas City Power & Light (KCP&L)  
8         requested that the acquisition premium associated with the merger be  
9         included in rate base. The Kansas Commission, while offering conditional  
10        approval of the merger, was relatively emphatic about the acquisition  
11        premium not being recovered from retail ratepayers. The Commission  
12        noted that: "The acquisition premium shall not be included in rate base for  
13        Westar or any of its successors in any ratemaking or stranded cost  
14        proceeding." The Kansas Commission also noted in its order that it  
15        believed "...that rate base treatment of the acquisition premium would  
16        subject Kansas ratepayers to undue burden of the costs of the merger."

17 **Q    WHAT ABOUT THE LOUISIANA COMMISSION?**

18 A.    The Louisiana Commission has a long standing practice of rejecting the  
19        recovery of acquisition premiums in approving mergers. During the  
20        Entergy/GSU merger, the Commission conditioned its approval of the  
21        merger, and the sharing mechanism, with the restriction that "...Entergy  
22        will not recover the acquisition adjustment from Louisiana ratepayers now  
23        or in the future." Later, the LPSC, during the course of approving the AEP-  
24        CSW merger, reiterated this policy.

1 Q. WHAT ABOUT THE CONNECTICUT COMMISSION'S DECISION  
2 DURING THE COURSE OF THE CON ED-NORTHEASTERN  
3 UTILITIES MERGER?

4 A. The Connecticut Department of Public Utility Control (DPUC) did not  
5 allow the recovery of the acquisition premium in rates during the course of  
6 its approval of the Con Ed-NU merger. In fact, during the course of the  
7 proceedings it appears that the applicants clarified their position that they  
8 were, in fact, not seeking to recover this premium in rates. However, during  
9 the proceedings some concerns were raised that the premium could be  
10 recovered through FERC jurisdictional rates. The DPCU noted that there  
11 was not a strong likelihood of this happening. However, the Commission  
12 did emphasize its general policy on the issue by noting:

13 The Department has not allowed recovery of acquisition  
14 premium costs through rates when utilities merge. The  
15 Department must ensure that utility rates reflect only real  
16 costs. Further, the buying and selling of utilities could  
17 escalate rates without the benefit to ratepayers. An  
18 assumption that the Department would allow full recovery of  
19 an acquisition premium through customer rates, regardless of  
20 the cost, creates a disincentive for the purchasing utility to  
21 minimize the amount of such premium. (Docket No 00-01-  
22 11, Order at 66-67.)  
23

24 The DPUC did recognize that the Company would have the opportunity to  
25 recover a portion of its acquisition premium through a sharing mechanism.  
26 However, this premium was wholly recovered out of the Company's share  
27 of the savings, not ratepayers' share. The DPUC noted that "...an earnings  
28 sharing mechanism that may allow for some indirect recovery of the  
29 acquisition premium by the Applicants to provide an incentive to encourage

1 efficient utility operations.” (Ibid., at 68.)

2

3

4 **Q. HOW DID THE PENNSYLVANIA COMMISSION RULE ON THE**  
5 **RECOVERY OF ACQUISITION PREMIUMS IN THE GPU/FIRST**  
6 **ENERGY MERGER?**

7 A. In this proceeding, the applicants asserted to the Commission that they  
8 would not attempt to recover the acquisition premium associated with the  
9 merger from the state’s regulated ratepayers. It appears that the uncertainty  
10 associated with the recovery of the premium forced the Administrative Law  
11 Judge (ALJ) to directly address the issue in his recommendation. The  
12 Commission adopted the ALJ’s recommendation that approval of the  
13 merger be conditioned on the applicants not recovering the acquisition  
14 premium from ratepayers.

15 **Q. WHAT ABOUT THE NORTH CAROLINA COMMISSION’S**  
16 **DECISION IN THE SCANA-PSNC MERGER?**

17 A The Commission found that:

18 With respect to costs, the costs that would be most likely to  
19 affect PSNC’s customers are those directly associated with  
20 the consummation of the merger. The Applicants committed  
21 in their testimony not to pass those costs on to PSNC’s  
22 ratepayers. Regulatory Condition 26 specifically tracks that  
23 commitment by providing that all direct and indirect  
24 corporate cost increases, such as severance pay, associated  
25 with the merger will be excluded from consideration for  
26 ratemaking purposes. In addition, Regulatory Condition 27  
27 prohibits any acquisition premium from being flowed  
28 through into PSNC’s rates. While a number of other states  
29 did not resolve the issue in the merger proceeding of whether  
30 an acquisition premium is recoverable or allowed it to be  
31 recovered to the extent merger savings or other benefits  
32 could be shown in later proceedings, Regulatory Condition  
33 27 resolves this issue in PSNC’s ratepayers’ favor by

1 excluding the acquisition adjustment from rates in any  
2 subsequent proceeding. (Docket No. G-5, SUB 400, Docket  
3 No. G-43, Order at 16.)  
4

5 **Q. HOW DID THE NORTH CAROLINA COMMISSION RULE IN THE**  
6 **CPL-FPC MERGER?**

7 A. The North Carolina Commission did not allow CPL to recover the  
8 acquisition premium in its regulatory approval proceeding. The North  
9 Carolina Commission found:

10 Any acquisition adjustment that results from the business  
11 combination of CP&L Energy and FPC shall be excluded  
12 from CP&L's and NCNG's utility accounts and treated for  
13 regulatory reporting and ratemaking purposes so that it does  
14 not affect CP&L's North Carolina retail electric rates and  
15 charges and NCNG's natural gas rates and charges. (Docket  
16 No. E-2, SUB 760, Commission Order at paragraph 4.)  
17

18 **Q. YOU NOTED EARLIER THAT THE NEVADA COMMISSION**  
19 **ALLOWED RECOVERY OF THE ACQUISITION PREMIUM.**  
20 **WOULD YOU PLEASE DISCUSS THIS DECISION?**

21 A. Yes. During the course of the Sierra Pacific and Nevada Power Company  
22 merger, the companies requested that the Nevada Commission approve their  
23 request to recover the acquisition premium from ratepayers. The Staff in  
24 this proceeding argued strongly against this position. In the end, however,  
25 the Commission did allow the applicants the opportunity to recover the  
26 premium, provided that the synergy savings generated from the merger were  
27 large enough to offset these costs.

28 **Q. WHAT ABOUT THE TRANSITION COSTS. IS FPC ASKING**  
29 **RATEPAYERS TO PAY FOR THESE COSTS TOO?**

1 A. Yes. FPC is essentially requesting that ratepayers pay for \$69.7 million of  
2 the transition costs. It proposes to recover these costs over 15 years, by  
3 offsetting them from the amount of the synergy savings.

4 **Q. HAS THE COMMISSION TYPICALLY ALLOWED THE**  
5 **RECOVERY OF MERGER TRANSITION COSTS?**

6 A. No. The Commission has not historically allowed recovery of transition  
7 costs associated with a merger. For instance in the JSUC decision, the  
8 Commission denied JSUC's request to recovery its transition costs (i.e.,  
9 county and PSC filing fees, legal fees, noticing and recording fees.) In the  
10 decision, the Commission noted:

11 It is Commission practice that the costs incurred for a  
12 transfer are not capitalized and shall be recorded as below the  
13 line costs of the shareholder. We believe the only  
14 organizational costs that should be allowed are those which  
15 are incurred when a utility is first organized. Any  
16 organizational costs incurred beyond that time frame serve to  
17 benefit the shareholder and not the ratepayer. If this were not  
18 the practice, it is conceivable that if a utility was purchased  
19 and resold several times, rate base could be artificially  
20 inflated above the original costs of the assets. (Order No.  
21 PSC-93-1819-FOF-WS.)  
22

23 In 1991, a transfer of majority organizational control of Mid-County to  
24 Utilities, Inc. was approved. The transaction involving the acquisition of  
25 stock was completed and closed in May, 1991. Mid-County was acquired by  
26 a total stock purchase. The auditor's Audit Disclosures 3, 4 and 5 (discussed  
27 in the document) refer to acquisition costs that were capitalized by Utilities,  
28 Inc subsequent to the purchase. The utility asserted that these costs were  
29 necessary and proper in order to transfer the utility and expedite the plant

1 upgrade. However, the Commission was not persuaded that these costs  
2 should be recovered through rates.

3 We believe that the costs incurred for a transfer should not be  
4 capitalized and should be recorded as below the line costs of  
5 the shareholder. If a utility were purchased and resold several  
6 times, capitalizing acquisition costs would result in the rate  
7 base being artificially inflated above the original cost of the  
8 assets. We believe the only organizational costs which  
9 should be allowed are those that are incurred when a utility is  
10 first organized. Those organizational costs incurred beyond  
11 that time frame serve to benefit the shareholder and not the  
12 ratepayer. Based on the foregoing, we have reduced the  
13 treatment plant in service account by \$ 71,711, and made  
14 corresponding adjustments of \$ 5,964 and \$ 1,733 to  
15 accumulated depreciation and depreciation expense,  
16 respectively. (Order No. PSC-93-1713-FOF-SU.)

17 In a recent Order involving Wedgefield, the Commission disallowed  
18 transition costs.

19 We believe that the costs incurred for a transfer should not be  
20 capitalized and should be recorded as below the line costs of  
21 the shareholder. If a utility were purchased and resold several  
22 times, capitalizing acquisition costs would result in the rate  
23 base being artificially inflated above the original cost of the  
24 assets. We believe the only organizational costs which  
25 should be allowed are those that are incurred when a utility is  
26 first organized. Those organizational costs incurred beyond  
27 that time frame serve to benefit the shareholder and not the  
28 ratepayer." Accordingly, plant-in-service is reduced by \$  
29 1,417. (Order No. PSC-00-1528-PAA-WU.)  
30

31 In Order No. PSC-97-0531-FOF-WU, the Commission disallowed the  
32 transition costs associated with the transfer of LUSI to Utilities, Inc. In this  
33 order the Commission explained that these costs should be retained at the  
34 parent level and not passed onto ratepayers:

35 The expenses discussed above shall not be recorded as  
36 organization costs for these reasons: (1) it was not  
37 appropriate to treat these expenses as organization cost,

1 because LUSI was already incorporated and in business when  
2 the sale of stock took place; (2) no expenses previously  
3 included in LUSI's organization account have been removed;  
4 and (3) the expenses should be borne by the stockholders of  
5 LUSI's parent utility because the purchase of LUSI through  
6 the transfer of stock is not the ratepayers' decision, nor has  
7 LUSI demonstrated how the customers have benefited from  
8 this transaction. Because these expenses are directly  
9 associated with the change of ownership of LUSI to Utilities,  
10 Inc., they should be recorded on Utilities, Inc.'s books rather  
11 than on LUSI's books. (Order No. PSC-97-0531-FOF-WU.)  
12

13 **Q. HAS PROGRESS ENERGY REPRESENTED THAT SOME OF**  
14 **THESE COSTS WOULD NOT BE BORNE BY RATEPAYERS?**

15 A. It appears that way. In a confidential document produced in response to  
16 OPC's discovery, a final draft of Questions and Answers to be addressed by  
17 Mr. Korpan, former Chairman of the Board, President and Chief Executive  
18 Officer of Florida Progress and Chairman of the Board of Florida Power  
19 Corporation, at an annual meet master, the question was posed: **BEGIN**  
20 **CONFIDENTIAL**

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26 This information claimed confidential by Florida Power Corporation.  
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**END CONFIDENTIAL**

The representation of Mr. Korpan, appears to contradict the Company's  
current proposal that some of these change in control costs be borne by

1 ratepayers.

2 **Q. THE COMMISSION'S DECISIONS ON ACQUISITION**  
3 **ADJUSTMENTS AND TRANSITION COSTS ADDRESS THE ISSUE**  
4 **FROM THE PERSPECTIVE OF RATE BASE ADJUSTMENTS. IN**  
5 **THE INSTANT PROCEEDING FPC IS NOT REQUESTING RATE**  
6 **BASE TREATMENT. SHOULD THIS MAKE A DIFFERENCE IN**  
7 **HOW THE COMMISSION TREATS THESE COSTS FOR**  
8 **RATEMAKING PURPOSES?**

9 A. FPC's proposed treatment of the acquisition premium and transition costs  
10 and rate base treatment addressed in the Commission's order is a distinction  
11 without a difference. Under both the rate base treatment addressed by the  
12 Commission and the expensing treatment proposed FPC, ratepayers bear the  
13 cost of the acquisition adjustment and transition costs. In both cases, the  
14 rates would increase due to the recovery from ratepayers of these costs.  
15 Therefore, any attempts by FPC to suggest that its proposal somehow  
16 removes it from past Commission policy on the treatment of these costs  
17 should be rejected. Furthermore, FPC must believe that it must meet the  
18 Commission's tests for recovery of the cost of the acquisition premium,  
19 because Mr. Myers addressed each of the requirements identified by the  
20 Commission that would warrant the recovery of a positive acquisition  
21 adjustment.

22 **Q. WOULD YOU PLEASE SUMMARIZE THIS SECTION OF YOUR**  
23 **TESTIMONY?**

1 A. Certainly. The Commission should reject FPC's request to pass onto  
2 customers the acquisition premium paid for FPC's stock and the related  
3 transition costs. The Company has not demonstrated that the merger is  
4 extraordinary, or that there will be extraordinary benefits to customers. FPC  
5 has not demonstrated that this merger meets the Commission's policy on  
6 allowing positive acquisition adjustments to be recovered from ratepayers.  
7 Much of the benefit of this merger appears to be related more to Progress  
8 Energy's unregulated businesses than its regulated businesses and to  
9 position it for competition. From the other commission decisions that I have  
10 reviewed, the practice in mergers with large acquisition premiums is not to  
11 allow recovery of these costs from ratepayers.

12  
13 With respect to transition costs, as discussed above, the Commission has  
14 consistently required that these costs be borne by stockholders, not  
15 ratepayers. FPC has not provided any evidence that the Commission's  
16 policy should be changed, or that it should not be applied in the instant  
17 proceeding.

**Section 2: Affiliate Transactions**

19 **Q. WHY IS IT IMPORTANT TO CLOSELY EXAMINE AFFILIATE**  
20 **TRANSACTIONS?**

21 A. In a situation involving the provision of services between affiliated  
22 companies, the associated transactions and costs do not represent arms-  
23 length dealings. Cost allocation techniques and methods of charging  
24 affiliates should be frequently reviewed and analyzed to ensure that the

1 company's regulated operations are not subsidizing the non-regulated  
2 operations. Because of the affiliation between FPC and the affiliates that  
3 contribute to expenses included on the books of FPC, the arms-length  
4 bargaining of a normal competitive environment is not present in their  
5 transactions. Although each of the affiliated companies is supposedly  
6 separate, relationships between FPC and these affiliates are still close; they  
7 all belong to one corporate family.

8  
9 In the absence of regulation, there is no assurance that affiliate transactions  
10 and allocations will not translate into unnecessarily high charges for FPC's  
11 customers. Even when the methodologies for cost allocation and pricing  
12 have been explicitly stated, close scrutiny of affiliate relationships is still  
13 warranted. Regardless of whether or not FPC explicitly establishes a  
14 methodology for the allocation and distribution of affiliate costs, there is an  
15 incentive to misallocate or shift costs to regulated companies so that the  
16 unregulated companies can reap the benefits.

17 **Q. WOULD YOU PLEASE DESCRIBE THE PROGRESS ENERGY**  
18 **ORGANIZATION?**

19 A. Yes. Progress Energy is a large, complex, and diverse organization, consisting  
20 of numerous affiliates that are engaged in regulated and nonregulated activities.  
21 The primary affiliates, include the following companies which provide the  
22 following services:

- 23 • Progress Energy: The parent company of CP&L, Florida Power,  
24 NCNG, Progress Telecom, SRS, Progress Ventures and Progress Rail.  
25

- 1 • CP&L: Provides electricity to 1.2 million customers in the Carolinas.
- 2
- 3 • Florida Power: Provides electricity to 1.4 million customers in Florida.
- 4
- 5 • NCNG: Provides natural gas and related services to 173,000
- 6 commercial and residential customers in south-central and eastern
- 7 North Carolina.
- 8
- 9 • Progress Ventures: Provides management of diversified, non-regulated
- 10 operations including wholesale energy marketing and trading, merchant
- 11 generation, fuel properties and rail subsidiaries.
- 12
- 13 • Progress Telecom: Provides broadband capacity to
- 14 telecommunications companies throughout the eastern United States.
- 15
- 16 • Progress Rail: One of the largest integrated suppliers of railroad and
- 17 transit system products and services in North America serving all Class
- 18 I railroads, various regional and short-line railroads, major North
- 19 American transit systems, principal railcar builders, and several major
- 20 railcar lessors.
- 21
- 22 • SRS: Provides facilities and energy-related services such as building
- 23 automation, facilities management, and lighting to educational and
- 24 commercial customers.
- 25

26 **Q. WHAT IS PROGRESS ENERGY SERVICE COMPANY, LLC?**

27 A. Progress Energy Service Company, LLC, is a wholly-owned subsidiary of

28 Progress Energy, formed to provide administrative and general corporate

29 functions for Progress Energy affiliates. The company was created prior to the

30 purchase of Florida Progress Corporation by CP&L Energy, Inc. (now Progress

31 Energy), in anticipation of the purchase of Florida Progress and subsequent

32 merger of the operations of CP&L and Florida Power.

33

34 According to the Public Utility Holding Company Act of 1935 (PUHCA),

35 administered by the Securities and Exchange Commission (SEC), a registered

36 holding company, such as Progress Energy, can only provide goods and

1 services to affiliates through an approved subsidiary service company.  
2 Because Progress Energy became a registered holding company as a result of  
3 the merger, it could not provide goods or services directly to its subsidiaries.

4  
5 The creation of Progress Energy Service was approved by the SEC in the same  
6 order in which it authorized the merger of CP&L Energy and Florida Progress.  
7 According to Mr. Bazemore, the SEC approved Progress Energy Service's  
8 organization as well as its cost allocation methodologies, which it examined as  
9 part of its investigation into the merger. Mr. Bazemore states: "After a service  
10 company is established, the SEC monitors all financing activities, intercompany  
11 cost allocations, and affiliate transactions to ensure that all processes,  
12 methodologies, and policies support the full and equitable allocation of service  
13 company costs to all associate companies (including the holding company),  
14 both regulated and non-regulated." (Bazemore Testimony, p. 6.)

15 **Q. WHAT SERVICES DOES PROGRESS ENERGY SERVICE PROVIDE**  
16 **TO FLORIDA POWER AND THE OTHER PROGRESS ENERGY**  
17 **AFFILIATES?**

18 A. Progress Energy Service will provide a wide range of general and  
19 administrative services. The organizational chart provided as Exhibit RHB-2 to  
20 Mr. Bazemore's testimony shows the Financial Services division of Progress  
21 Energy Service organized into Accounting; Strategic Planning; Tax; Finance  
22 and Information Technology; IT Systems Delivery; Technology Delivery;  
23 Treasury; Telecommunications; and Regulatory Services. The Corporate  
24 Relations and Administrative Services division includes Regulatory & Public

1 Affairs-Florida; Public Affairs; Legal; Environment, Health & Safety; and  
2 Administrative Services, which is composed of Audit Services, Corporate  
3 Services, Economic Development, and Real Estate. There are also two  
4 additional divisions, Corporate Communications and Human Resources.

5 **Q. HOW WILL PROGRESS ENERGY SERVICE ALLOCATE THE**  
6 **COSTS OF THE SERVICES IT PROVIDES TO THE PROGRESS**  
7 **ENERGY AFFILIATES?**

8 A. Where costs are clearly incurred by an affiliate for a specific project, the costs  
9 are directly charged to that affiliate. For example, if Florida Power receives  
10 specific regulatory services from Progress Energy Service, the costs of the  
11 services will be billed to Florida Power.

12  
13 Costs that are incurred in providing services to two or more affiliates are  
14 allocated among the concerned affiliates using a number of different allocation  
15 factors. These indirect cost allocations can be based on such measurements as  
16 number of square feet, number of customers, generation capacity, labor costs, or  
17 number of employees.

18  
19 Schedule 4 of my exhibit shows the various categories of costs charged to  
20 Progress Energy Service affiliates, and if the cost is a direct assignment or  
21 allocation. Schedule 5 shows the allocation methods used for the various  
22 accounts and the resulting allocation factors. Schedule 6 is similar to Schedule  
23 5, however it also provides a description of the product or service being  
24 allocated to the affiliates. Schedule 7 shows for each affiliate of Progress

1 Energy the amount of costs allocated to them from Progress Energy Service. As  
 2 shown on this schedule for the budgeted year 2001, and as depicted in the table  
 3 below, of the \$413.7 million in Progress Energy Service costs, \$127.1 million  
 4 was allocated to FPC. Of the total costs allocated, 94.6% was charged to  
 5 Progress Energy's regulated businesses, 2.8% was allocated to its nonregulated  
 6 businesses, and 2.7% was allocated to Progress Energy. As is evident, the  
 7 majority of the costs from Progress Energy Service are charged to the regulated  
 8 businesses of Progress Energy.

9

<b>Progress Energy Service Budget 2001</b>	
<b>Allocations</b>	
10 Holding Company	\$ 11,019,933
11 CPL	\$ 240,876,154
12 FPC	\$ 127,059,466
13 NCNG	\$ 23,376,811
14 Nonregulated	\$ 11,361,449
15 Total	\$ 413,693,813

16  
17

18 **Q. HOW WERE COSTS FROM PROGRESS ENERGY SERVICE**  
 19 **ALLOCATED TO FPC AND THE OTHER AFFILIATES FOR THE**  
 20 **PROJECTED TEST YEAR?**

21 A. In response to OPC's Interrogatory 48, FPC indicated that for the projected test  
 22 year ending 2002, Progress Energy Service costs were allocated in the same  
 23 manner as they were budgeted to be allocated in 2001:

24 The 2002 Progress Energy Services allocation to Florida Power  
 25 in the rate case proceeding was based on the allocation factors  
 26 in effect for 2001. A summary of the 2001 allocation metrics for  
 27 each product or service has been provided. At the time that the  
 28 numbers were provided for the rate case proceeding, the  
 29 detailed budgets by product/service had not been prepared for  
 30 the Services Company for 2002. For rate case purposes, in  
 31 general, we assumed that each departmental budget would have  
 32 the same split by product/service as in the 2001 budget and that

1 the allocation metrics for each product/service would be the  
2 same as were used in the 2001 budget. Therefore, in aggregate  
3 the allocation of each department's budget to each legal entity in  
4 the rate proceeding forecast is materially the same as used in the  
5 2001 budget.  
6

7 The Information Technology and Telecommunications  
8 expenses were handled as exceptions. A detailed description of  
9 the approach used in the allocation of Information Technology  
10 costs is provided. The Telecommunications costs were  
11 allocated based on an estimate of the distribution of devices.  
12

13 Progress Energy Service uses a variety of allocation factors, however, many of  
14 the accounts are allocated using the "Modified Massachusetts" (MM) formula,  
15 which consists of an equal weighting of labor dollars and undepreciated assets.  
16 The MM formula is altered depending upon each account and the client  
17 companies that use the service of Progress Energy Service. The total MM  
18 formula and three other allocation factors used during the test year are depicted  
19 on Schedule 8.

20 **Q. DO YOU AGREE WITH THE ALLOCATION METHOD USED TO**  
21 **ALLOCATE PROGRESS ENERGY SERVICE COSTS TO FPC**  
22 **DURING THE PROJECTED TEST YEAR?**

23 A. No, I do not. There has been substantial growth in Progress Energy's  
24 nonregulated activities in 2001 and 2002. Progress Energy intends to expand  
25 and has expanded considerably in this area. On December 03, 2001, Progress  
26 Telecom, a provider of wholesale telecommunications services, announced that  
27 it is expanding its sales division. According to the press release, "the  
28 announcement adds to a year in which the three-year-old company, previously  
29 engaged only in direct sales to wholesale providers, has exceeded its growth  
30 projections."

1 Further expansion developments were identified in a news release issued  
2 December 12, 2001. Progress Energy is expanding its telecommunications  
3 operations to accommodate its extensive growth:

4 Progress Telecom, a super-regional telecommunications  
5 provider of wholesale lit broadband services and transport, has  
6 announced the relocation of its network operations center  
7 (NOC) to an upgraded, 4000 square foot facility within St.  
8 Petersburg, FL. This relocation is in response to the company's  
9 extensive growth, as well as its expanding role as an  
10 international telecom player. The new state-of-the-art center,  
11 with several years' future growth accommodation in its design,  
12 will coordinate with Progress Telecom's redundant NOC in  
13 Raleigh, NC, to provide unsurpassed reliability in serving its  
14 global network.

15  
16 "The move to the new, larger NOC is a statement of our  
17 commitment to network reliability and quality customer  
18 service," said Ron Mudry, president and CEO of Progress  
19 Telecom. "Increased capacity and equipment upgrades translate  
20 into faster response time, faster problem resolution and  
21 constant, secure service. The redundancy inherent in our two  
22 NOCs further positions Progress Telecom as the premiere  
23 provider of telecommunications services in the Southeast.

24  
25 Progress Telecom's new NOC now shares facilities with a data  
26 center operated by its affiliate, Florida Power Corporation. The  
27 NOC includes requisites such as a sophisticated fire  
28 suppression system and a dual powered air-conditioning  
29 system. The new NOC is hurricane-hardened and has multiple  
30 fiber rings into the facility to provide extra security and  
31 redundancy. Its capacity was enlarged by tripling its console  
32 count to 20 and by quadrupling its video display capacity. Some  
33 10 staff members and a manager are on-site and on call around  
34 the clock.

35  
36 The move to the larger NOC caps a year of rapid corporate  
37 growth which has seen Progress Telecom complete its metro  
38 fiber optic network in Miami, Atlanta, Washington DC and  
39 expanded its broadband network through long-haul extensions  
40 from Miami to Atlanta and from Washington, DC, to New  
41 York City.

42  
43 Telecommunications is not the only nonregulated business that Progress Energy

1 is expanding. On January 11, 2002, Progress Energy Ventures announced that  
2 it had entered into a letter of intent with Westchester Gas Company to acquire  
3 approximately 215 producing gas wells, 52 miles of intrastate pipeline, and 170  
4 miles of gas gathering systems. The properties are located within a twenty-five  
5 mile radius in Texas and Louisiana.

6 Westchester Gas Company is a privately held natural gas  
7 company located in Jonesville, Texas. Progress Ventures  
8 participates in the wholesale energy business through fuel  
9 extraction, manufacturing and delivery; merchant generation;  
10 and energy marketing and trading. The parties intend to  
11 negotiate a definitive agreement and complete due diligence in  
12 the first quarter 2002. The investment is expected to be  
13 accretive to Progress Energy's earnings in 2002.

14  
15 "This is an outstanding opportunity for Progress Ventures to  
16 diversify our asset base with a high quality, low risk set of  
17 assets in a great market," said Tom Kilgore, president, Progress  
18 Ventures. "Our subsidiary Mesa Hydrocarbons' gas wells in  
19 western Colorado, coupled with the Westchester wells, gives us  
20 annual gas production of approximately 18-20 billion cubic feet  
21 (Bcf) and a natural hedge for our merchant generation. The  
22 pipeline and gathering systems of which we will own 100  
23 percent will permit us to control delivery of our gas to market  
24 and to earn fees on gas gathered and transported for other  
25 companies.

26  
27 The transaction is expected to be completed in the first quarter  
28 of 2002 and is subject to approval by applicable regulatory  
29 agencies.  
30

31 On November 6, 2001, Progress Ventures Inc. announced that it had entered  
32 into a definitive agreement with LG&E Energy Corp., a subsidiary of  
33 Powergen plc, to acquire two electric generating projects totaling 1,182  
34 megawatts in Georgia for a total cash consideration of \$345 million. The two  
35 projects consist of: (1) the Monroe project in Monroe, Ga., a 496 MW natural

1 gas-fired plant placed in service in June 2001 and (2) the Tiger Creek project in  
2 Washington County, Ga., a planned 686 MW natural gas-fired plant expected to  
3 be operational by June 2003. The president of Progress Ventures stated: "This  
4 is an outstanding opportunity for Progress Ventures to execute on our  
5 generation expansion strategy in the Southeast . . . Our existing generation  
6 adjacent to this Monroe facility and our expansion plans underway in  
7 Effingham County, Georgia provide synergy opportunities and give us a greater  
8 ability to create value from these plants."

9 **Q. HAVE THERE BEEN NEW DEVELOPMENTS ON THE**  
10 **REGULATED SIDE OF THE BUSINESS THAT ARE NOT**  
11 **ACCOUNTED FOR IN THE ALLOCATIONS FROM PROGRESS**  
12 **ENERGY SERVICE COMPANY TO PROGRESS ENERGY'S**  
13 **AFFILIATES?**

14 A. Yes. November 30, 2001, Progress Energy announced that the Eastern North  
15 Carolina Natural Gas Project (EasternNC), has begun contacting prospective  
16 customers in Edenton, Wynfall, Elizabeth City and Cape Colony. According to  
17 the new release:

18 Representatives of EasternNC will begin leaving door-hangers  
19 for potential customers beginning in mid-December. The only  
20 fee for connecting a residence or business to the EasternNC  
21 natural gas pipeline is \$25. However, the company will waive  
22 that fee if customers sign up during construction.

23 EasternNC is a new natural gas distribution company formed  
24 between the Albemarle Pamlico Economic Development  
25 Corporation (APEC) and Progress Energy in an effort to bring  
26 natural gas service to the region. EasternNC will own the  
27 natural gas transmission and distribution system and operate as  
28 a public utility regulated by the North Carolina Utilities  
29 Commission (NCUC).

30 The project will be constructed using a combination of \$188.3

1 million state bonds -- approved by voter referendum in 1998 -  
2 and a \$22 million investment by Progress Energy.  
3 Construction of the transmission pipeline and distribution  
4 pipeline systems will occur simultaneously. Phase I  
5 construction is slated to be completed by mid-summer 2002.  
6 The entire project should be finished by late 2004.  
7

8 **Q HOW DO THE AFFILIATES AFFECT THE COSTS FPC INCLUDED**  
9 **IN THE TEST YEAR?**

10 A. As discussed above, Progress Energy Service allocates costs out to Progress  
11 Energy's affiliates. FPC receives its allocated share of these costs. The  
12 Progress Energy Service cost assignments (100% assigned to a specific  
13 affiliate) and allocations (allocated to various affiliates in accordance with  
14 numerous allocation factors) to FPC are a function of the affiliates selected to  
15 receive services and/or charges and the factors used to allocate costs/charges. If  
16 the underlying data used to calculate the allocation factors is incorrect, this will  
17 cause either an under charge or an over charge to FPC.

18  
19 Although the costs of Progress Energy Service for the test year reflect  
20 expectations for the year ending 2002, there was no adjustment by FPC to  
21 modify the allocation factors used to reflect what the year 2002 will look like  
22 relative to the data that make up the allocation factors.

23  
24 When asked in discovery about some of the news releases announcing new  
25 investments and companies, the Company indicated that these events had not  
26 been incorporated into the allocation factors used in the test year. In response to

1 Interrogatory 125, which asked if EasternNC was included in the development  
2 of the allocation factors used to allocate costs from Progress Energy Service  
3 Company to the various affiliates that it provides service to in the projected test  
4 year, FPC responded: “No – the test year data was filed several months prior to  
5 this press release. We estimate total Service Company charges to Eastern to be  
6 less than \$250,000 annually.”

7  
8 When asked if the allocation factors considered the expansion of Progress  
9 Telecom, the Company responded: “No – this expansion took place several  
10 months after the test year data was developed. For purposes of computing  
11 actual charges in 2002, we periodically update the underlying metrics  
12 (headcount) for any changes so that the impact of these is considered.”  
13 (Response to OPC Interrogatory 129.)

14 **Q. WERE YOU ABLE TO CHANGE THE ALLOCATION**  
15 **METHODOLOGY USED BY FPC IN THE TEST YEAR TO REFLECT**  
16 **THE 2001 AND 2002 GROWTH OF PROGRESS ENERGY’S**  
17 **UNREGULATED OPERATIONS AND THE ADDITION OF**  
18 **EASTERNNC?**

19 **A.** In part yes, however, my recommended changes do not fully reflect the growth  
20 expected on the unregulated side of Progress Energy’s business for the year  
21 2002. However, the allocation factors that I recommend are much more  
22 appropriate for use in the projected test year than those used by FPC. The use of  
23 2001 allocation factors with a 2002 projected test year, significantly overstates  
24 the costs allocated to FPC by Progress Energy Service.

1 Q. HOW DID YOU MAKE CHANGES TO THE ALLOCATION  
2 FACTORS FOR THE PROJECTED TEST YEAR?

3 A. In response to Staff RFP 19, the Company provided allocation metrics for the  
4 year 2002 for some accounts. Attached to the response to Staff RFP 19 was a  
5 letter to the SEC requesting to change several of its allocation metrics from  
6 what had been previously allowed by the SEC. For 47 different accounts where  
7 Progress Energy Service had used a variation of the MM formula, Progress  
8 Energy Service is requesting a change to the use of **BEGIN**  
9 **CONFIDENTIAL XXXXXXXXXXXXXXXX** factor **END CONFIDENTIAL**.  
10 Schedule 9 of my exhibit reproduces the metric changes proposed by Progress  
11 Energy Service. While I would not necessarily endorse the change being  
12 requested by Progress Energy Service because it excludes the **BEGIN**  
13 **CONFIDENTIAL XXXXX** **END CONFIDENTIAL** of the MM formula,  
14 the information provided in response to the Staff's RFP is much more current  
15 and reflective of the year 2002. In addition, the exclusion of the **BEGIN**  
16 **CONFIDENTIAL XXXXXX** **END CONFIDENTIAL** tends to under  
17 allocate costs to the nonregulated affiliates which appear to be more **BEGIN**  
18 **CONFIDENTIAL XXXXXXXX** **BEGIN CONFIDENTIAL** than the  
19 regulated electric and gas companies.

20  
21 Schedule 10 of my exhibit compares the **BEGIN CONFIDENTIAL XXX**  
22 **XXX END CONFIDENTIAL** formula used by FPC during the test year to the  
23 new factor proposed to the SEC. As demonstrated on this schedule, the

1 allocation factors to Progress Energy's nonregulated affiliates increase  
2 significantly from 2001 to 2002. For example, Energy Ventures percent of total  
3 assets for the year 2001 was .05%. For 2002 this factor increased to **BEGIN**  
4 **CONFIDENTIAL XXX END CONFIDENTIAL** Likewise, Electric Fuels'  
5 percent of total assets for the year 2001 was just .01%, but it increased to  
6 **BEGIN CONFIDENTIAL XXX END CONFIDENTIAL** in 2002. For all  
7 of the nonregulated operations of Progress Energy, the 2001 allocation factor  
8 increased from 4.83% to **BEGIN CONFIDENTIAL XXXX END**  
9 **CONFIDENTIAL** This comparison shows how the nonregulated operations  
10 of Progress Energy were clearly under allocated costs during the projected test  
11 year.

12  
13 I did not modify all allocation factors. I modified those allocation factors  
14 proposed to be changed by Progress Energy Service as well has a handful of  
15 other factors where it appeared the change would not significantly distort the  
16 intent of the allocation factor. The other factors that I modified are depicted on  
17 Schedule 10 and are labeled A1, A2, A3.

18  
19 Schedule 11 of my exhibit shows the change in the amounts allocated to FPC  
20 using the new updated allocation factors as applied to budgeted 2001 dollars.  
21 As shown on Schedule 11, if these new allocation factors are applied to the  
22 2001 budgeted dollars, the amount allocated to FPC would be reduced by  
23 **BEGIN CONFIDENTIAL XXXXXX END CONFIDENTIAL** Because  
24 FPC did not have information analogous to that shown on Schedule 11 for the

1 projected 2002 test year, I translated the change in the amount allocated to FPC  
2 into a percentage difference for the major categories of expense accounts. For  
3 example, for the account human resources, the changes that I recommend  
4 reduced 2001 expenses allocated to FPC by **BEGIN CONFIDENTIAL**  
5 **XXXX END CONFIDENTIAL** For each of these major categories of  
6 expenses, I applied the percentage changes resulting from the 2001 reallocation  
7 to the amount of expenses allocated to FPC in the projected test year. The  
8 results of this process are shown on Schedule 12. As shown on Schedule 12, my  
9 recommended changes indicated that costs charged to FPC during the projected  
10 test year from Progress Energy Service should be reduced by \$8.0 million.

11 **Q. IS YOUR ADJUSTMENT CONSERVATIVE?**

12 A. Yes. As explained above, although the allocation factors that I recommend are  
13 superior to the ones used by FPC, they still tend to under allocate costs to the  
14 nonregulated companies of Progress Energy for at least two reasons. First, I did  
15 not update some of the allocation factors, therefore these costs are allocated as  
16 they were by FPC. Second, excluding the **BEGIN CONFIDENTIAL XXX**  
17 **XXX END CONFIDENTIAL** from the allocation factor tends to under  
18 allocate costs to the nonregulated companies. Therefore, the adjustment that I  
19 recommend is very conservative.

20 **Q. ARE YOU RECOMMENDING ANY OTHER ADJUSTMENTS**  
21 **RELATED TO COSTS ALLOCATED FROM PROGRESS ENERGY**  
22 **SERVICE TO FPC?**

23 A. Yes. I am recommending that the Commission disallow the aircraft expenses  
24 allocated to FPC in the amount of \$1.4 million. In POD 130, OPC requested

1 aircraft logs. In its responses FPC stated: "FPC objects to this request as  
2 irrelevant, immaterial, and not reasonably calculated to lead to the discovery of  
3 admissible evidence. No expenses for corporate aircraft are included in the  
4 2002 test year." However, as shown on page 1 of Schedule 12, for the projected  
5 test year, FPC was allocated \$1.4 million from Progress Energy Service for  
6 aircraft use. The information shown on Schedule 12 was provided by the  
7 Company in response to OPC's Interrogatory 48. In addition, the total charges  
8 allocated to FPC match the total affiliates charge shown on page C-60 of the  
9 MFRs. In his deposition, Mr. Bazemore indicated that the \$101,084,000 of  
10 affiliate charges shown on Schedule C-60 for Progress Energy Service, was  
11 included in the projected test year. Therefore, I recommend that these expenses  
12 be removed.

13 **Q. DOES THIS COMPLETE YOUR TESTIMONY PREFILED ON**  
14 **JANUARY 22, 2001?**

15 A. Yes, it does.

## APPENDIX I

QUALIFICATIONS OF KIMBERLY H. DISMUKES

1 APPENDIX I

2 QUALIFICATIONS

3 KIMBERLY H. DISMUKES

4

5 Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

6 A. I graduated from Florida State University with a Bachelor of Science degree in  
7 Finance in March, 1979. I received an M.B.A. degree with a specialization in  
8 Finance from Florida State University in April, 1984.

9 Q. WOULD YOU PLEASE DESCRIBE YOUR EMPLOYMENT HISTORY IN  
10 THE FIELD OF PUBLIC UTILITY REGULATION?

11 A. In March of 1979 I joined Ben Johnson Associates, Inc., a consulting firm  
12 specializing in the field of public utility regulation. While at Ben Johnson  
13 Associates, I held the following positions: Research Analyst from March 1979  
14 until May 1980; Senior Research Analyst from June 1980 until May 1981;  
15 Research Consultant from June 1981 until May 1983; Senior Research Consultant  
16 from June 1983 until May 1985; and Vice President from June 1985 until April  
17 1992. In May 1992, I joined the Florida Public Counsel's Office, as a Legislative  
18 Analyst III. In July 1994 I was promoted to a Senior Legislative Analyst. In July  
19 1995 I started my own consulting practice in the field of public utility regulation.

20 Q. WOULD YOU PLEASE DESCRIBE THE TYPES OF WORK THAT YOU  
21 HAVE PERFORMED IN THE FIELD OF PUBLIC UTILITY  
22 REGULATION?

1 A. Yes. My duties have ranged from analyzing specific issues in a rate proceeding to  
2 managing the work effort of a large staff in rate proceedings. I have prepared  
3 testimony, interrogatories and production of documents, assisted with the  
4 preparation of cross-examination, and assisted counsel with the preparation of  
5 briefs. Since 1979, I have been actively involved in more than 170 regulatory  
6 proceedings throughout the United States.

7 I have analyzed cost of capital and rate of return issues, revenue  
8 requirement issues, public policy issues, market restructuring issues, and rate  
9 design issues, involving telephone, electric, gas, water and wastewater, and  
10 railroad companies. I have also examined performance measurements,  
11 performance incentive plans, and the prices for unbundled network elements  
12 related to telecommunications companies.

13 **Q. WOULD YOU PLEASE DESCRIBE YOUR WORK INVOLVING**  
14 **PERFORMANCE MEASUREMENTS AND PERFORMANCE INCENTIVE**  
15 **PLANS?**

16 A. I have assisted the Staff of the Louisiana Public Service Commission in  
17 establishing BellSouth's performance measurements and performance incentive  
18 plan. My involvement in this area began in August 1988 and continues through the  
19 present. In this capacity I assisted the Staff by holding 9 technical workshops  
20 consisting of 26 days of collaborative efforts between BellSouth and the CLECs to  
21 craft a set of performance metrics that could be used to evaluate BellSouth's  
22 performance to the CLEC community. In addition, these efforts also resulted in a

1 performance incentive plan to be used to incent BellSouth to provide CLECs with  
2 parity service.

3 I also assisted the Staff of the Public Service Commission of Nevada in  
4 holding workshops to craft performance metrics for Nevada Bell, Sprint, and GTE  
5 (now Verizon). My assistance with the Staff of the Public Service Commission of  
6 Nevada began in April 1998 and concluded in April 2000. The collaborative  
7 efforts of the CLECs, the ILECs, the Staff, and the BCP resulted in a set of  
8 performance metrics for each ILEC in Nevada. I filed testimony in Docket No.  
9 97-9022 addressing a few issues that could not be resolved through the  
10 collaborative efforts of the parties to that proceeding.

11 Through my work in Louisiana and Nevada I have become familiar with  
12 various performance measurement plans and performance incentive plans of other  
13 ILECs including Bell Atlantic-New York, Southwestern Bell Texas, Missouri,  
14 Oklahoma, Kansas, and BellSouth Georgia and Florida.

15 **Q. WHAT IS YOUR EXPERIENCE CONCERNING COST OF CAPITAL?**

16 A. In the area of cost of capital, I have analyzed the following parent companies:  
17 American Electric Power Company, American Telephone and Telegraph  
18 Company, American Water Works, Inc., Ameritech, Inc., CMS Energy, Inc.,  
19 Columbia Gas System, Inc., Continental Telecom, Inc., GTE Corporation,  
20 Northeast Utilities, Pacific Telecom, Inc., Southwestern Bell Corporation, United  
21 Telecom, Inc., and U.S. West. I have also analyzed individual companies like  
22 Connecticut Natural Gas Corporation, Duke Power Company, Idaho Power

1 Company, Kentucky Utilities Company, Southern New England Telephone  
2 Company, and Washington Water Power Company.

3 **Q. HAVE YOU PREVIOUSLY ASSISTED IN THE PREPARATION OF**  
4 **TESTIMONY CONCERNING REVENUE REQUIREMENTS?**

5 A. Yes. I have assisted on numerous occasions in the preparation of testimony on a  
6 wide range of subjects related to the determination of utilities' revenue  
7 requirements and related issues.

8 I have assisted in the preparation of testimony and exhibits concerning the  
9 following issues: abandoned project costs, accounting adjustments, affiliate  
10 transactions, allowance for funds used during construction, attrition, cash flow  
11 analysis, conservation expenses and cost-effectiveness, construction monitoring,  
12 construction work in progress, contingent capacity sales, cost allocations,  
13 decoupling revenues from profits, cross-subsidization, demand-side management,  
14 depreciation methods, divestiture, excess capacity, feasibility studies, financial  
15 integrity, financial planning, gains on sales, incentive regulation, infiltration and  
16 inflow, jurisdictional allocations, non-utility investments, fuel projections, margin  
17 reserve, mergers and acquisitions, pro forma adjustments, projected test years,  
18 prudence, tax effects of interest, working capital, off-system sales, reserve margin,  
19 royalty fees, separations, settlements, used and useful, weather normalization, and  
20 resource planning.

21 Companies that I have analyzed include: Alascom, Inc. (Alaska), Arizona  
22 Public Service Company, Arvig Telephone Company, AT&T Communications of

1 the Southwest (Texas), Blue Earth Valley Telephone Company (Minnesota),  
2 Bridgewater Telephone Company (Minnesota), Carolina Power and Light  
3 Company, Central Maine Power Company, Central Power and Light Company  
4 (Texas), Central Telephone Company (Missouri and Nevada), Consumers Power  
5 Company (Michigan), C&P Telephone Company of Virginia, Continental  
6 Telephone Company (Nevada), C&P Telephone of West Virginia, Connecticut  
7 Light and Power Company, Danube Telephone Company (Minnesota), Duke  
8 Power Company, East Otter Tail Telephone Company (Minnesota), Easton  
9 Telephone Company (Minnesota), Eckles Telephone Company (Minnesota), El  
10 Paso Electric Company (Texas), Entergy Corporation, Florida Cities Water  
11 Company (North Fort Myers, South Fort Myers and Barefoot Bay Divisions),  
12 Florida Power and Light, General Telephone Company (Florida, California, and  
13 Nevada), Georgia Power Company, Jasmine Lakes Utilities, Inc. (Florida),  
14 Kentucky Power Company, Kentucky Utilities Company, KMP Telephone  
15 Company (Minnesota), Idaho Power Company, Louisiana Gas Service Company,  
16 Oklahoma Gas and Electric Company (Arkansas), Kansas Gas & Electric  
17 Company (Missouri), Kansas Power and Light Company (Missouri), Lehigh  
18 Utilities, Inc. (Florida), Mad Hatter Utilities, Inc. (Florida), Mankato Citizens  
19 Telephone Company (Minnesota), Michigan Bell Telephone Company, Mid-  
20 Communications Telephone Company (Minnesota), Mid-State Telephone  
21 Company (Minnesota), Mountain States Telephone and Telegraph Company  
22 (Arizona and Utah), Nevada Bell Telephone Company, North Fort Myers

1 Utilities, Inc., Northwestern Bell Telephone Company (Minnesota), Potomac  
2 Electric Power Company, Public Service Company of Colorado, Puget Sound  
3 Power & Light Company (Washington), Sanlando Utilities Corporation (Florida),  
4 Sierra Pacific Power Company (Nevada), South Central Bell Telephone Company  
5 (Kentucky), Southern Union Gas Company (Texas), Southern Bell Telephone &  
6 Telegraph Company (Florida, Georgia, and North Carolina), Southern States  
7 Utilities, Inc. (Florida), Southern Union Gas Company (Texas), Southwestern Bell  
8 Telephone Company (Oklahoma, Missouri, and Texas), Sprint, St. George Island  
9 Utility, Ltd., Tampa Electric Company, Texas-New Mexico Power Company,  
10 Tucson Electric Power Company, Twin Valley-Ulen Telephone Company  
11 (Minnesota), United Telephone Company of Florida, Virginia Electric and Power  
12 Company, Washington Water Power Company, and Wisconsin Electric Power  
13 Company.

14 **Q. WHAT EXPERIENCE DO YOU HAVE IN RATE DESIGN ISSUES?**

15 A. My work in this area has primarily focused on issues related to costing. For  
16 example, I have assisted in the preparation of class cost-of-service studies  
17 concerning Arkansas Energy Resources, Cascade Natural Gas Corporation, El  
18 Paso Electric Company, Potomac Electric Power Company, Texas-New Mexico  
19 Power Company, and Southern Union Gas Company. I have also examined the  
20 issue of avoided costs, both as it applies to electric utilities and as it applies to  
21 telephone utilities. I have also evaluated the issue of service availability fees, reuse

1 rates, capacity charges, and conservation rates as they apply to water and  
2 wastewater utilities.

3 **Q. HAVE YOU TESTIFIED BEFORE REGULATORY AGENCIES?**

4 A. Yes. I have testified before the Arizona Corporation Commission, the Connecticut  
5 Department of Public Utility Control, the Florida Public Service Commission, the  
6 Georgia Public Service Commission, Louisiana Public Service Commission, the  
7 Missouri Public Service Commission, the Public Utilities Commission of Nevada,  
8 the Public Utility Commission of Texas, and the Washington Utilities and  
9 Transportation Commission. My testimony dealt with revenue requirement,  
10 financial, policy, rate design, cost study issues unbundled network pricing, and  
11 performance measures concerning AT&T Communications of Southwest (Texas),  
12 Cascade Natural Gas Corporation (Washington), Central Power and Light  
13 Company (Texas), Connecticut Light and Power Company, El Paso Electric  
14 Company (Texas), Florida Cities Water Company, Kansas Gas & Electric  
15 Company (Missouri), Kansas Power and Light Company (Missouri), Houston  
16 Lighting & Power Company (Texas), Lake Arrowhead Village, Inc. (Florida),  
17 Lehigh Utilities, Inc. (Florida), Louisiana Gas Service Company, Jasmine Lakes  
18 Utilities Corporation (Florida), Mad Hatter Utilities, Inc. (Florida), Marco Island  
19 Utilities, Inc. (Florida), Mountain States Telephone and Telegraph Company  
20 (Arizona), Nevada Bell Telephone Company, North Fort Myers Utilities, Inc.  
21 (Florida), Southern Bell Telephone and Telegraph Company (Florida, Louisiana  
22 and Georgia), Southern States Utilities, Inc. (Florida), Sprint of Nevada, St.

1 George Island Utilities Company, Ltd. (Florida), Puget Sound Power & Light  
2 Company (Washington), and Texas Utilities Electric Company.

3 I have also testified before the Public Utility Regulation Board of El Paso,  
4 concerning the development of class cost-of-service studies and the recovery and  
5 allocation of the corporate overhead costs of Southern Union Gas Company and  
6 before the National Association of Securities Dealers concerning the market value  
7 of utility bonds purchased in the wholesale market.

8 **Q. HAVE YOU BEEN ACCEPTED AS AN EXPERT IN THESE**  
9 **JURISDICTIONS?**

10 A. Yes.

11 **Q. HAVE YOU PUBLISHED ANY ARTICLES IN THE FIELD OF PUBLIC**  
12 **UTILITY REGULATION?**

13 A. Yes, I have published two articles: "Affiliate Transactions: What the Rules Don't  
14 Say", Public Utilities Fortnightly, August 1, 1994 and "Electric M&A: A  
15 Regulator's Guide" Public Utilities Fortnightly, January 1, 1996.

16 **Q. DO YOU BELONG TO ANY PROFESSIONAL ORGANIZATIONS?**

17 A. Yes. I am a member of the Eastern Finance Association, the Financial  
18 Management Association, the Southern Finance Association, the Southwestern  
19 Finance Association, and the Florida and American Water Association.

# INDEX OF EXHIBITS

## DIRECT TESTIMONY--KIMBERLY H. DISMUKES

DOCKET NO. 000824-EI

EXHIBIT NAME	EXH. NO.	
CALCULATION OF NET SYNERGIES	<u>KHD-1</u>	_____
<b>CONFIDENTIAL</b>		
SYNERGY SAVINGS RECONSTRUCTION FROM OPC POD 73	<u>KHD-2</u>	_____
REGULATORY TREATMENT OF ACQUISITION PREMIUM	<u>KHD-3</u>	_____
PROGRESS ENERGY SERVICE COMPANY PRODUCT/SERVICE COST DISTRIBUTION MODEL	<u>KHD-4</u>	_____
PROGRESS ENERGY SERVICE COMPANY INDIRECT PRODUCT/SSERVICE COST DISTRIBUTION METHODOLOGY	<u>KHD-5</u>	_____
PROGRESS ENERGY SERVICE COMPANY 2001 COST MODEL (BUDGET)	<u>KHD-6</u>	_____
PROGRESS ENERGY SERVICE COMPANY 2001 SERVICE COMPANY BUDGET BY PRODUCT/SERVICE-CONSOLIDATED CHARGES	<u>KHD-7</u>	_____
PROGRESS ENERGY SERVICE COMPANY MODIFIED MASSACHUSETTES FORMULA RATIO 2001 BUDGET	<u>KHD-8</u>	_____
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PROGRESS ENERGY SERVICE COMPANY 2002 COST DISTRIBUTION MODEL METRIC CHANGES	<u>KHD-9</u>	_____
<b>CONFIDENTIAL</b>		
PROGRESS ENERGY SERVICE COMPANY COMPARISON OF ALLOCIATION FACTORS 2001 BUDGET AND 2002 BUDGET	<u>KHD-10</u>	_____

**CONFIDENTIAL**

PROGRESS ENERGY SERVICE COMPANY  
OPC ADJUSTED 2001 SERVICE COMPANY

KHD-11

\_\_\_\_\_

PROGRESS ENERGY SERVICE COMPANY  
TEST YEAR ALLOCATIONS TO FPC  
OPC RECOMMENDED ADJUSTMENT

KHD-12

\_\_\_\_\_

**Florida Power Corporation**  
**Calculation of Net Synergies**

Description	Amount (000,000) (except share amounts)
Florida Progress Stock per share	\$ 54.000
Pre-merger price per share	44.625
Premium per share	\$ 9.375
Total shares	98.617
Total stock premium	\$ 924.534
Pro rata share to Florida Power <sup>(1)</sup>	30.9%
Premium allocated to Florida Power	\$ 285.681
System Annual Acquisition Adjustment <sup>(2)</sup>	\$ 26.797
Retail allocation	94.45%
Retail Annual Acquisition Adjustment	\$ 25.310
Pretax synergies	\$ 58.700
Merger Transition Costs <sup>(3)</sup>	4.645
Pretax Adjusted Synergies	\$ 54.055
Retail allocation	94.45%
Retail pretax synergies	\$ 51.055
Inverse of Statutory Tax Rate	61.425%
Retail after tax Synergies	\$ 31.361
Net Synergies - after tax	\$ 6.051
Net Synergies (available for sharing) - pretax	\$ 9.851

(1) Florida Power's pro rata share calculated as  $\$54/\$175 = 30.9\%$

(2) After tax merger related debt calculated with after tax interest of 4.607% ( $7.5\% * .61425$ ) and a term of 15 years

(3) Annual merger transition costs calculated as  $\$69.676/15$  years

Source: Myers' Exhibit, MAM-1.

**PUBLIC**

**Florida Power Corporation  
 Synergy Savings Reconstruction from OPC POD 73  
 (000,000)**

<b>Category</b>	<b>CPL</b>	<b>FPC</b>	<b>Non Regulated</b>	<b>Total</b>
Transmission and Distribution Savings		\$ 7.2		
Customer Service Center		\$ 5.9		
Power Operations		\$ 15.7		
Nuclear Team		\$ 4.1		
Energy Ventures		\$ 1.0		
A&G		\$ 24.8		
Total Savings		\$ 58.7		
Revenue Synergies				
Total Synergies		\$ 58.7		
Transition Costs		\$ 4.6		
Net Synergies		\$ 54.0		
Percent to CPL FPC and Nonregulated		30.9%		

**Florida Power Corporation**  
**Regulatory Treatment of Acquisition Premiums**

State	Merging Companies	Docket Number	Order Number	Regulatory Approval	Acquisition Premium Treatment Authorization	Notes
1 Arkansas	Utilicorp/Empire	00-021-U	6	No	No	Companies recommended that 50 percent of unamortized balance be recovered through rate base. Staff recommendation that all merger costs (premium and transaction costs) be paid by shareholders. Merger was rejected by Commission as not being in public interest.
2 California	Sierra Pacific/WWP	94-08-043	95-10-045	Yes	No	Settlement reached between parties in proceedings. Rates were decreased by 7.3 percent and frozen for five years. Rate case to be held in 2000. Merger related transaction costs and cost to achieve shall be deferred and amortized, for regulatory purposes, over the five year period 1995-1999. Rate case to be held in 2000. Company did not appear to ask for recovery of any premium.

**Florida Power Corporation  
 Regulatory Treatment of Acquisition Premiums**

State	Merging Companies	Docket Number	Order Number	Regulatory Approval	Acquisition Premium Treatment Authorization	Notes
3 Colorado	NCE/NSP	99A-337EG	C00-393	Yes	No	Order provides for the amortization of the merger costs over a 30 month period. Merger costs shall be reflected as above the line expense for the purpose of electric earnings test calculations, up to a cap of \$30 million. Cost to achieve the merger will be excluded from test expenses used to set base rates. No premium recovery appears to have been requested by company.
4 Connecticut	Con Ed/NU	00-01-11		Yes	No	Acquisition premium estimated to be \$1.5 billion. "This amount will not be recovered directly through CL&Ps or Yankee's distribution rates charged to its customers. However, because a possibility exists that the Applications might, in the future, attempt to recover some portion of that premium directly through distribution or transmission rates that are passed on to all Connecticut customers, the Department conditions this merger upon a prohibition against the Applications seeking any form of recovery of acquisition premium at any time, through distribution rates or through transmission rates now or in the future."

**Florida Power Corporation**  
**Regulatory Treatment of Acquisition Premiums**

State	Merging Companies	Docket Number	Order Number	Regulatory Approval	Acquisition Premium Treatment Authorization	Notes
5 District of Columbia	BG&E/PEPCO	951		Conditionally	No	Does not appear that merging companies asked for recovery of acquisition premium.
6 Idaho	Sierra Pacific/WWP	WWP-E-94-7, WWP-G-94-4	26122	Yes	No	Merger related transaction costs (capped at \$25 million) and costs to achieve were deferred and amortized, for regulatory purposes, over a five year period. Merging companies did not appear to have asked for recovery of acquisition premium.
7 Indiana	AEP-CSW	41210		Yes	No	Cost to achieve recovered over an 8 year period. Does not appear that companies asked for recovery of acquisition premium.
8 Kansas	Western Resources/ KCP&L	97-WSRE-676-MER		Conditionally	No	"The acquisition premium shall not be included in rate base for Westar or any of its successors in any ratemaking or stranded cost proceeding. The Commission believes that rate base treatment of the acquisition premium "would subject Kansas ratepayers to undue burden of the costs of the merger."

**Florida Power Corporation**  
**Regulatory Treatment of Acquisition Premiums**

State	Merging Companies	Docket Number	Order Number	Regulatory Approval	Acquisition Premium Treatment Authorization	Notes
9 Kentucky	LG&E/KU	97-300		Yes	No	Companies allowed to recover cost to achieve which were netted against synergy savings over five years. Split on 50/50 basis. Companies do not appear to have asked for recovery of acquisition premium.
10 Louisiana	Entergy/GSU	U-19994		Yes	No	"The Commission conditions its approval of the merger, and the sharing mechanism, on the situation that Entergy will not recover the acquisition adjustment from Louisiana ratepayers now or in the future."
11 Michigan	WEC/NSP	U-10913		Yes	No	Mergers savings net transaction costs and cost to achieve. Companies did not request rate base treatment or recovery of acquisition premium.
12 Nevada	Sierra Pacific/ Nevada Power	98-7023		Conditionally	Yes	Transition costs, transaction costs and goodwill costs, after being properly assigned or allocated to noncompetitive services, will be deemed eligible for recovery from ratepayers upon a showing that the level of such costs was prudent and that merger savings are sufficient to cover such costs.

**Florida Power Corporation**  
**Regulatory Treatment of Acquisition Premiums**

State	Merging Companies	Docket Number	Order Number	Regulatory Approval	Acquisition Premium Treatment Authorization	Notes
13 New Hampshire	Con Ed/NU	DE 00-009	23,594	Yes	No	New Hampshire law precludes CEI from recovering of an acquisition premium from New Hampshire ratepayers in any manner, either by increasing rates or by failing to pass along a rate decrease."
14 New Mexico	NCE/NSP	33116		Yes	No	SPS allowed to recover transition costs, transaction costs, and cost to achieve. Net savings shared 50/50 with ratepayers over 54 months.
15 North Carolina	SCANA/PSNC	G-5, SUB 400; G-43		Yes	No	Any acquisition adjustment that results from the business combination of SCANA and PSNC will be excluded from PSNC's utility accounts and treated for accounting and ratemaking purposes so that it does not affect PSNC's natural gas rates and charges.
16 Pennsylvania	GPU/First Energy	A-110300, F.0095		Yes	No	The Commission "agrees with and shall adopt herein the ALJ's recommendations that the merger include (1) a condition that the acquisition premium associated with the merger not be recovered from the ratepayers...(2) ...applicants be required to expense or amortize the costs to achieve the merger..."

**Florida Power Corporation**  
**Regulatory Treatment of Acquisition Premiums**

State	Merging Companies	Docket Number	Order Number	Regulatory Approval	Acquisition Premium Treatment Authorization	Notes
17 Pennsylvania	DQE/Allegheny	A-110150, F.0015		Yes	No	Companies did not request. Synergy savings net of transition and transaction costs.
18 Pennsylvania	PECO/Unicom	A-0110550, F.0147		Yes	No	Companies do not appear to have asked for premium recovery.
19 North Carolina	CPL/FPC	E-2, SUB 760		Yes	No	Any acquisition adjustment that results from the business combination of CP&L Energy and FPC shall be excluded from CP&L's and NCNG's utility accounts and treated for regulatory reporting and ratemaking purposes so that it does not affect CP&L's North Carolina retail electric rates and charges and NCNG's natural gas rates and charges.

**Florida Power Corporation**  
**Regulatory Treatment of Acquisition Premiums**

State	Merging Companies	Docket Number	Order Number	Regulatory Approval	Acquisition Premium Treatment Authorization	Notes
20 Texas	NCE/NSP	21190			No	Stipulation provides merger savings credit of 89% of projected non-fuel and non-purchased power merger savings through Dec. 2005. Order includes divestiture of between 1750 and 2843 MW. Customers receive 100% of savings from fuel and purchased power savings. No premium recovery appears to have been requested by company.
21 Louisiana	AEP-CSW	U-23327		Yes	No	Requires owners to bear entire cost to achieve the merger and merger savings. Requires 100% of fuel savings to be flowed through to ratepayers. Requires a merger savings tracking mechanism to pass through actual rather than estimated savings and is calculated before and deduction of merger costs or costs to achieve. Savings split 50/50. Owners requested savings to be divided after costs to achieve were removed. Does not appear that an acquisition premium was requested.

**Florida Power Corporation**  
**Regulatory Treatment of Acquisition Premiums**

State	Merging Companies	Docket Number	Order Number	Regulatory Approval	Acquisition Premium Treatment Authorization	Notes
22 Washington	Washington Energy / Washington Natural Gas / Puget Sound Power & Light Co	UE-960195		Yes	No	Does not appear that an acquisition premium was requested.
23 Texas	PSCo/SPS	14980		Yes	No	Does not appear that a an acquisition premium was requested. Merger savings split after costs to achieve and includes a guaranteed minimum. Requires merger tracking mechanism to ensure any additional savings are returned to ratepayers. Flows 82% of estimates savings to ratepayers. Shareholders are allowed to recover 50%of transaction costs and 100% of transition costs that are incurred within two years of the closing.

**Florida Power Corporation  
 Regulatory Treatment of Acquisition Premiums**

State	Merging Companies	Docket Number	Order Number	Regulatory Approval	Acquisition Premium Treatment Authorization	Notes
24 Texas	Entergy/GSU	11292		Yes	No	Does not appear that an acquisition premium was requested, but final order states, "Applicants SHALL NOT recover the accounting acquisition adjustment associated with the merger." Rates are capped for five years, all fuel costs savings will be flowed through to ratepayers, and 50 percent of synergy savings will be added to the next GSU cost of service study.
25 Texas	AEP-CSW	19265		Yes	No	Stipulation was reached that included resolving other regulatory proceedings before the PUCT. Includes a rate moratorium until 1/1/2003, a market power mitigation plan, and a share of off system sales margins. Will provide a rate reduction rider in each service company based on share of merger savings (includes a minimum) less costs to achieve. Provides monetary penalties for failure to improve service. Does not appear that companies requested recovery of acquisition premium.

**Florida Power Corporation  
 Progress Energy Service Company  
 Product/Service Cost Distribution Model**

Service Company Group/Department	Product	Description	2001 Budget by Method		
			Direct Project Billing	Direct Assignment	Indirect/ Allocated
Executive	C01 Executive Management	Provides management oversight across the entire Holding and Service Company	X		X
	C82 EEI Dues	Edison Electric Institute professional dues			X
President	C83 Service Company President	Provides management oversight across the entire Holding and Service Company			X
Corp Relations & Administrative Services	C06 CR & AS Group Management	Provides management oversight across the entire Administrative Services and Relations Group	X		X
	C63 Admin Service Group Management	Provides management oversight across the entire Administrative Services Group	X		X
Audit	C07 Internal Audit	Provide an independent and objective appraisal of the adequacy of business controls and effectiveness and efficiency of company operations. Includes financial, information technology; operations, environmental, and health and safety audits. Also includes administration of the Corporate Ethics Program and business controls education.	X		X
Corporate Services	C08 Corporate Services Management	Provides management oversight across the entire Corporate Services function. Also includes facilities management governance services and other department activities not readily assignable to a specific product/service	X		X
	C09 Employee ID Cards-Corp	Produce and maintain employee ID cards, including the database			X
	C11 Real Estate	Buy, sell, lease, and develop real estate. Provide lake, timber, and land management. Coordinate and support right-of-way activities.			X
	C12 Nuclear Access Authorization/ Physical	Access Authorization, Nuclear Background Investigations and Fitness for Duty Programs. Nuclear security programs support through program implementation assistance, management of nuclear safeguards information, commonality, industry best practices, assessment.			X
	C13 Physical Security Invest/EAP	Executive and headquarters protection services, professional investigative and physical security services, proprietary information protection, employment, background investigations and workplace violence prevention programs. Managed EAP designed to effectively support employees and their families. Subsidiary Drug and Alcohol testing Program management and workplace violence intervention services.			X
	C15 Corporate Air (fixed)	Maintain and pilot corporate aircraft. Includes lease of aircraft, hangar fees, pilots' salaries and other fixed expenses.			X

**Florida Power Corporation  
 Progress Energy Service Company  
 Product/Service Cost Distribution Model**

Service Company Group/Department	Product	Description	2001 Budget by Method		
			Direct Project Billing	Direct Assignment	Indirect/ Allocated
	C16	Records and Procedures			X
	C74	Property Management (Corp HDQ)			X
	C80	Corporate Leases			X
	S01	Fleet Management			X
	S03	Property Management (System)	X		X
	S04	Facilities Project Management	X		X
	S06	Contracts/Leasing			X
	S11	Oil-Filled Equipment Repairs			X
	S13	Research and Technical Data			X
	S14	Mail Services			X
	S15	Copy Center Services	X		X

**Florida Power Corporation  
Progress Energy Service Company  
Product/Service Cost Distribution Model**

Service Company Group/Department	Product	Description	2001 Budget by Method		
			Direct Project Billing	Direct Assignment	Indirect/ Allocated
Economic Dev	C43 Economic Development	Provide services associated with promoting economic development within our service territory. This includes attendance at trade shows and events to represent the company; recruitment of businesses; assistance with strategic planning for communities to aid in attracting businesses; facility location services; assistance to local, state, and regional allies with attracting businesses, etc.			X
	C33 Corporate EHS Management	Provides management oversight across the entire Corporate Environmental, Health and Safety function.	X		X
	C34 Regulatory Affairs/Technical Support	Develops programs and procedures; tracks regulatory issues; reviews events; investigates accidents and operating experiences; keeps records on compliance, tracks contractor safety for shared services/retail sales; provides health and safety support; provides industrial hygiene support			X
	C36 Energy Supply Safety Services	Implements health and safety policies and procedures; performs hazard analyses and compliance assessments; performs health and safety training; performs accident investigation and analyses.			X
	C37 Energy Delivery Safety Services	Implements health and safety policies and procedures; performs hazard analyses and compliance assessments; conducts health and safety training; performs accident investigation and analysis.			X
	C38 Retail Gas/Pipeline Safety	Implements health and safety policies and procedures; performs hazard analysis and compliance assessments; performs health and safety training; conducts accident investigation and analysis, performs DOT pipeline safety (RSPA) drug/alcohol testing and training.			X
	C39 Occ. Health Services	Implements OH policies and procedures; conducts medical evaluations (nuclear, fossil, pipeline safety); performs medical surveillance (lead, asbestos, hearing conservation); conducts free climbing medical fitness tests; evaluates ergonomics of work activities.			V
	C40 DOT Motor Carrier Safety	Conducts driver (CDL) qualification; performs drug/alcohol testing and training, conducts medical evaluations.			X
	C41 Workers' Compensation	Performs claims management, case management, TPA coordination and workers compensation oversight. Includes the costs to maintain the reserve for workers' compensation (self-insurance).	X		X

**Florida Power Corporation  
Progress Energy Service Company  
Product/Service Cost Distribution Model**

Service Company Group/Department	Product	Description	2001 Budget by Method		
			Direct Project Billing	Direct Assignment	Indirect/ Allocated
	C42 Environmental Services	Provides environmental services.			X
Legal	C17 Legal Services	All activities associated with providing legal services and support in all matters related to company operations and relations for consolidated or Services Company. Also provides management oversight across the entire function.	X	X	X
	C18 Corporate Secretary	Coordination of Board of Directors ("BOD") activities and handling shareholder relations, including related corporate governance activities and shareholder services.		X	
	C19 Claims	Provides investigation and settlement support and payment of general liability and motor vehicle accidents against the Company. Coordinates the collection of monies owed to Company for damage to Company facilities and equipment as a result of third party negligence.	X		X
Regulatory Affairs	C20 Regulatory Affairs	Manage retail regulatory issues and activities with the utilities commissions in North and South Carolina, and provide support for federal and state legislative affairs regarding retail matters. Obtain state utilities commissions' approvals of all Company initiatives.			X
Public Affairs	C21 Public Affairs	Influencing legislation and shaping public policy & opinion on major corporate issues; ally development and training for NC & SC allies; support for "Citizens for a Brighter Carolina" group; monitoring & tracking legislation, building goodwill & relationships at the Fed., NC& SC state levels.		X	
Financial Services Group	C44 Fin Svcs Group Exec Management	Provides management oversight across the entire Financial Services Group.	X		X
	C75 Finance Executive Management	Provides management oversight across the entire Finance Group.	X		X
Accounting	C45 Accounting Management	Provides management oversight across the entire Accounting function.	X		X
	C46 Management Reporting	Develops and distributes cost reports, and develops and coordinates materials presented to the Board of Directors and its committees.	X		X
	C47 Financial Reporting	Develops internal and external financial reports and profit/loss reports.	X		X
	C49 Benchmarking	Develops benchmarking processes to support cost vs market and quality of service comparisons.			X

**Florida Power Corporation  
Progress Energy Service Company  
Product/Service Cost Distribution Model**

Service Company Group/Department	Product	Description	2001 Budget by Method		
			Direct Project Billing	Direct Assignment	Indirect/ Allocated
	C52 Rates	Develops and implements jurisdictional rates and competitive pricing options; provides embedded and marginal cost-of-service expertise and analyses in support of rate development and strategic business unit needs; provides expertise and guidance in the application of state and FERC rate schedules, riders and service regulations.			X
	S30 General Ledger Accounting	Maintains general ledger, account keys and journal entries; manages the monthly and annual closing process; performs bank reconciliations.			X
	S31 Property Accounting	Maintains core fixed assets and materials records, including the entry of work orders in field organizations.			X
	S32 Disbursements	Enters accounts payable invoices and other invoice/payments.			X
	S33 Revenue Accounting	Maintains certain customer accounting records; reconciles customer system to general ledger; maintains non-electric service accounts receivable system; performs revenue analysis.		X	X
	S34 Regulatory Accounting	Develops regulatory financial reports and consults on proper regulatory treatment of various accounting transactions; maintains records and reports on fuel-related transactions.	X	X	X
	S35 Diversified Investments	Handles all intercompany billing processes for subsidiaries of CP&L Energy. Also, maintains accounting records for certain subsidiaries	X		X
Information Technology	C69 IT Infrastructure Management	Provide management oversight across the entire function.			X
	C70 Applications Maintenance	Maintain and repair business software applications.	X		
	C71 Infrastructure & Maintenance	Provides and maintains the local area data networks, wide area data networks, fiber usage, video conferencing, voice mail, as well as network support.			X
	S49 Applications Develop & Enhance	Planning, design, implementation, and enhancement of business software applications	X		
	S50 Applications Operations - Mainframe	Provide computing, data storage, and printing for business software applications running on mainframe computers.	X		
	S51 Applications Operations - HP/UNIX	Provide computing, data storage, and printing for business software applications running on HP/UNIX servers.	X		
	S54 Personal Computers	Provide personal computer hardware, software, remote access, and associated support personnel.	X		
	S55 Personal Computer Network	Provide e-mail, shared calendars, shared storage, Inter/Intranet access, and access to application servers	X		

**Florida Power Corporation  
Progress Energy Service Company  
Product/Service Cost Distribution Model**

Service Company Group/Department	Product	Description	2001 Budget by Method		
			Direct Project Billing	Direct Assignment	Indirect/ Allocated
Strategic Planning	C64 Strategic Planning	Maintains responsibility for corporate strategic planning (does not develop long-term plans for line or individual corporate organizations).			X
	C67 Market Research - Global	Provides market research services to the consolidated entity.			X
	C68 Investor Relations/Funds Mgmt	Manages relations with the financial community and the performance of external trust funds.			X
	C79 Market Research - Utility				X
Tax	C50 Tax Administration	Provides market research services to the utility.	X	X	X
	C77 CP&L Tax Services	Provides CP&L Tax Services.			X
	C78 FPC Tax Services	Provides FPC Tax Services.			X
	S59 Payroll	Conducts time entry; maintains payroll system; runs payroll; produces payroll-related reports and processes employee expense reports.			X
Treasury	C51 Treasury Management	Provides management oversight across the entire Treasury function	X		X
	C54 Cash Management	Manages the efficient movement of company funds through the banking system and secures short-term debt financing and/or investments.			X
	C55 Insurance Risk Management	Manages the corporate insurance program.			X
	C56 Financial Risk Management	Measures, independently, and reports corporate risk exposures; provides risk management training, tools, controls and strategies.			X
	C57 Financial Forecasting	Coordinates and develops plans and budgets for corporate and line organizations. Prepares and presents results of financial forecasts and provides financial and planning support for the regulatory and strategic planning process.			X
	C58 Load Forecasting	Prepares and presents economic, load and energy forecasts.			X
	C59 Property Insurance	Property insurance premiums			X
	C60 Liability & Workers Comp Insurance	Liability and workers' compensation insurance premiums.			X
	C61 Other Insurance	Crime, directors & officers, aircraft, fiduciary and special insurance premiums.			X
	C62 Nuclear Premiums & Credits	Nuclear property and liability insurance credit for good experience			X
	C76 Financial Administration Fees	Includes financial administration fees, such as bank fees.		X	X
	S36 Business Case Analysis	Provides analysis support for business case development for various initiatives.	X		X

**Florida Power Corporation  
Progress Energy Service Company  
Product/Service Cost Distribution Model**

Service Company Group/Department	Product	Description	2001 Budget by Method		
			Direct Project Billing	Direct Assignment	Indirect/ Allocated
Corporate Communications	C22 Corporate Communications	Includes management oversight across the entire Corporate Communications function. Develops and distributes key company messages to external media as primary corporate spokespersons; manages company's strategic philanthropy; manages the company's brand position and ensures consistency in brand message for both internal and external audiences, directs the corporate image through advertising; coordinates support activities for special corporate events; and provides communication planning and counseling	X	X	X
	C23 Donations	Corporate donations			X
	C24 CP&L Image Advertising	Manages the company's brand position and ensures consistency in brand message for internal and external audiences. Directs the corporate image through advertising.			X
	C26 NCNG Image Advertising	Manages the company's brand position and ensures consistency in brand message for both internal and external audiences. Directs the corporate image through advertising.			X
	S17 Internal Communications	Manages systems and creates tactical tools to keep employees informed and engaged about strategic business developments and their role in ensuring company success, tools include newsletters, e-mail (info bulletins), Intranet and Internet employee briefings.		X	X
	S18 Customer Communications	Includes communications to Energy Delivery customers.		X	
Human Resources	C27 Human Resources Management	Provides management oversight across the Human Resources entire function.	X		X
	C28 Labor Relations	Provides corporate support for labor-related issues (union & non-union).			X
	C30 Compensation	Administers base compensation, MICP, LTIP, deferred compensation, ECIP and other compensation programs.	X		X
	C31 EEO/AA/Diversity	Provides consultation and support on affirmative action, equal employment opportunity and diversity			X
	S19 HRIS	Manages overall HR information; administers the PeopleSoft HR system; provides benefits administration.			X
	S20 Policy/Pay/Benefit Admin	Provides the employee information line, benefits administration, compensation administration, and policies/practices administration of corporate relocation services and pre-retirement seminars.			X
	S21 Organizational Effectiveness	Designs and implements HR process improvements			X

**Florida Power Corporation**  
**Progress Energy Service Company**  
**Product/Service Cost Distribution Model**

Service Company Group/Department	Product	Description	2001 Budget by Method		
			Direct Project Billing	Direct Assignment	Indirect/ Allocated
	S22 Staffing/Recruiting	Recruits, screens, tests, interviews applicants, consults with managers on staffing plans and issues.			X
	S23 Training & Development	Provides executive and personal developmental training and employee development programs. Course attendance charged by and to customer.	X		X
	S24 HR- Nuclear Generation Group	Includes cost of the HR service manager and representatives who provide HR management. Consultation & support to managers & employees in the Nuclear Generation Group.		X	
	S25 HR - Power Ops Group	Includes cost of the HR service manager and representatives who provide HR management. Consultation & support to managers & employees in the Power Operations Group.		X	
	S26 HR - Energy Delivery	Includes cost of the HR service manager and representatives who provide HR management. Consultation & support to managers & employees in the Energy Delivery Group.		X	
	S28 HR- NCNG	Includes cost of the HR service manager and representatives who provide HR management. Consultation & support to managers & employees in the Gas and Energy Services Group.		X	
Other (Benefits/Burdens)	C01 Executive Management	Provides management oversight across the entire Holding and Service Company	X		X
	C10 Corp HQ Leasehold Improvements	Amortization of leasehold improvement projects for corporate headquarters leased facilities.			X
	S47 Service Co Burden Allocation	Exceptional hours, payroll tax, benefits and stores burdens.			X

**Florida Power Corporation  
Progress Energy Service Company  
Indirect Product/Service Cost Distribution Methodology**

Service Company Group/Department	Product	Allocation Factor	Holding Company	CP&L		CP&L Retail	Energy Ventures	NCNG	
				CP&L (Corp)	Energy Distribution				CP&L Energy Supply
Executive	C01 Executive Management	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%
	C82 EEI Dues	Evenly Distributed			25.00%	25.00%			
President	C83 Service Company President	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%
Corp Relations & Administrative Services	C06 CR & AS Group Management	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%
	C63 Admin Service Group Management	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%
Audit	C07 Internal Audit	MM18	0.05%		33.21%	58.10%	1.24%	1.33%	3.30%
Corporate Services	C08 Corporate Services Management	MM5			20.54%	35.93%	0.77%	0.82%	2.04%
	C09 Employee ID Cards-Corp	Headcount			20.09%	31.73%	0.62%	2.17%	4.03%
	C11 Real Estate	MM5			20.54%	35.93%	0.77%	0.82%	2.04%
	C12 Nuclear Access Authorization/ Physical	Nuclear Plants				80.00%			
	C13 Physical Security Invest/EAP	Headcount			19.46%	30.73%	0.60%	2.11%	3.91%
	C15 Corporate Air (fixed)	Based on prior year usage as % of total			34.53%	55.78%	3.84%	3.82%	
	C16 Records and Procedures	Headcount			20.50%	32.36%	0.63%	2.22%	4.12%
	C74 Property Management (Corp HDQ)	CPB & OH Sq Ft occupied			11.18%	9.76%	0.30%	8.07%	4.20%
	C80 Corporate Leases	100% of CP&L (MMI to BU's)			35.27%	61.93%	1.35%	1.45%	
	S01 Fleet Management	No. of vehicles managed							
	S03 Property Management (System)	% of FTEs assigned			88.00%				12.00%
	S04 Facilities Project Management	Charged to customer			28.71%	13.20%			18.81%
		Residual is allocated based on % of FTE's assigned							
	S06 Contracts/Leasing	% of FTEs assigned			11.43%	48.57%		22.86%	
	S11 Oil-Filled Equipment Repairs	100% CP&L-ED			100.00%				
S13 Research and Technical Data	% based on prior year usage			9.71%	45.86%	0.90%	3.14%	8.00%	
S14 Mail Services	Headcount			20.37%	32.16%	0.63%	2.20%	4.09%	
S15 Copy Center Services	Headcount ratio			34.26%	54.09%	1.06%	3.71%	6.88%	
Economic Dev	C43 Economic Development	MM2	0.05%		34.05%	59.80%	1.30%	1.40%	3.40%
	C33 Corporate EHS Management	MM21			20.19%	35.30%	0.75%	0.81%	2.01%
	C34 Regulatory Affairs/Technical Support	Headcount			20.50%	32.36%	0.63%	2.22%	4.12%
	C36 Energy Supply Safety Services	100% ES				100.00%			
	C37 Energy Delivery Safety Services	100% ED				100.00%			
	C38 Retail Gas/Pipeline Safety	100% NCNG							100.00%
	C39 Occ Health Services	100% ES				100.00%			
	C40 DOT Motor Carrier Safety	100% ED			100.00%				
C41 Workers' Compensation	MM12			20.06%	35.03%	0.74%	0.79%	1.99%	

**Florida Power Corporation**  
**Progress Energy Service Company**  
**Indirect Product/Service Cost Distribution Methodology**

Service Company Group/Department	Product	Allocation Factor	Holding Company	CP&L (Corp)	CP&L		CP&L Retail	Energy Ventures	NCNG	
					Energy Distribution	CP&L Energy Supply				
Legal	C42 Environmental Services	MM10	0.03%		20.23%	35.32%	0.74%	0.80%	2.01%	
	C17 Legal Services	MM18	0.05%		33.21%	58.10%	1.24%	1.33%	3.30%	
	C18 Corporate Secretary	100% to HC	100.00%							
	C19 Claims	Historical Claims Ratio			95.00%	2.00%			3.00%	
	Regulatory Affairs C20 Regulatory Affairs	MM4			34.07%	59.83%	1.30%	1.40%	3.40%	
Public Affairs	C21 Public Affairs	100% to HC (below the line)	100.00%							
Financial Services Group	C44 Fin Svcs Group Exec Management	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%	
	C75 Finance Executive Management	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%	
	Accounting	C45 Accounting Management	MM5			20.54%	35.93%	0.77%	0.82%	2.04%
		C46 Management Reporting	MM5			20.54%	35.93%	0.77%	0.82%	2.04%
		C47 Financial Reporting	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%
	C49 Benchmarking	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%	
	C52 Rates	MM4			34.07%	59.83%	1.30%	1.40%	3.40%	
	S30 General Ledger Accounting	MM14	0.05%		33.96%	59.67%	1.30%	1.40%	3.39%	
	S31 Property Accounting	% of undepreciated (See MM4)			34.07%	59.83%	1.30%	1.40%	3.40%	
	S32 Disbursements	Invoice Ratio			51.37%	31.50%	8.16%	3.76%	4.61%	
	S33 Revenue Accounting	MM15			34.49%	60.72%	1.34%		3.45%	
	S34 Regulatory Accounting	MM15			34.49%	60.72%	1.34%		3.45%	
	S35 Diversified Investments	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%	
	Information Technology	C69 IT Infrastructure Management	IT Distributed Cost Ratio (headcount used temporarily)			25.65%	12.51%	2.28%	3.03%	2.79%
		C70 Applications Maintenance	na - all direct charged							
		C71 Infrastructure & Maintenance	Headcount ratio							
		S49 Applications Develop & Enhance	na - all direct charged							
		S50 Applications Operations - Mainframe	IT application Index Ratio							
		S51 Applications Operations - HP/UNIX	IT application Index Ratio							
		S54 Personal Computers	IT standard PC count rate							
S55 Personal Computer Network		IT standard headcount rate								
Strategic Planning	C64 Strategic Planning	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%	
	C67 Market Research - Global	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%	
	C68 Investor Relations/Funds Mgmt	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%	
	C79 Market Research - Utility	MM16			21.12%	37.01%	0.79%			
Tax	C50 Tax Administration	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%	
	C77 CP&L Tax Services	MM1			35.27%	61.93%	1.35%	1.45%		
	C78 FPC Tax Services	MM11								
	S59 Payroll	Headcount			18.81%	29.70%	0.58%	2.04%	3.78%	
Treasury	C51 Treasury Management	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%	

**Florida Power Corporation**  
**Progress Energy Service Company**  
**Indirect Product/Service Cost Distribution Methodology**

Service Company Group/Department	Product	Allocation Factor	Holding Company	CP&L					
				CP&L (Corp)	Energy Distribution	CP&L Energy Supply	CP&L Retail	Energy Ventures	NCNG
	C54 Cash Management	MM20	0.03%		19.93%	34.76%	0.73%	0.77%	1.98%
	C55 Insurance Risk Management	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%
	C56 Financial Risk Management	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%
	C57 Financial Forecasting	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%
	C58 Load Forecasting	MM19			34.46%	60.66%		1.43%	3.44%
	C59 Property Insurance	Undepreciated assets (Default to MM6)			23.40%	34.84%	0.03%	0.05%	2.10%
	C60 Liability & Workers Comp Insurance	Labor Dollars (Default to MM7)			27.66%	58.28%	2.40%	2.55%	3.13%
	C61 Other Insurance	MM8			20.03%	34.99%	0.74%	0.79%	1.99%
	C62 Nuclear Premiums & Credits	Budgeted Dollars/Direct Cost for Actuals		82.00%					
	C76 Financial Administration Fees	MM1			35.27%	61.93%	1.35%	1.45%	
	S36 Business Case Analysis	MM5			20.54%	35.93%	0.77%	0.82%	2.04%
Corporate Communications	C22 Corporate Communications	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%
	C23 Donations	MM18 (below the line)	0.05%		33.21%	58.10%	1.24%	1.33%	3.30%
	C24 CP&L Image Advertising	MM1			35.27%	61.93%	1.35%	1.45%	
	C26 NCNG Image Advertising	100% to NCNG							100.00%
	S17 Internal Communications	Headcount			19.92%	31.45%	0.61%	2.16%	4.00%
	S18 Customer Communications	100% to ED (G)			100.00%				
Human Resources	C27 Human Resources Management	Headcount			20.50%	32.36%	0.63%	2.22%	4.12%
	C28 Labor Relations	Headcount			19.96%	31.51%	0.62%	2.16%	4.01%
	C30 Compensation	Headcount			34.24%	54.06%	1.06%	3.71%	6.87%
	C31 EEO/AA/Diversity	Headcount			20.09%	31.71%	0.62%	2.17%	4.03%
	S19 HRIS	Headcount			20.09%	31.71%	0.62%	2.17%	4.03%
	S20 Policy/Pay/Benefit Admin	Headcount			20.50%	32.36%	0.63%	2.22%	4.12%
	S21 Organizational Effectiveness	Headcount			20.50%	32.36%	0.63%	2.22%	4.12%
	S22 Staffing/Recruiting	Headcount			34.24%	54.06%	1.06%	3.71%	6.87%
	S23 Training & Development	Headcount			20.50%	32.36%	0.63%	2.22%	4.12%
	S24 HR- Nuclear Generation Group	100% to CP&L-ES				100.00%			
	S25 HR - Power Ops Group	100% to CP&L-ES				100.00%			
	S26 HR - Energy Delivery	100% to CP&L-ED			100.00%				
	S28 HR- NCNG	100% to NCNG							100.00%
Other (Benefits/Burdens)	C01 Executive Management	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%
	C10 Corp HQ Leasehold Improvements	CPB & OH Sq Ft			33.75%	36.34%	0.72%	15.78%	13.41%
	S47 Service Co Burden Allocation	Global Ratio by Department							

**Florida Power Corporation**  
**Progress Energy Service Company**  
**Indirect Product/Service Cost Distribution Methodology**

Service Company Group/Department	Product	Allocation Factor	FPC (Corp)	FPC En Supply	FPC Elect Dist	Electric Fuels	Progress Telecom	SRS	Monroe	Total
Executive	C01 Executive Management	MM0		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C82 EEI Dues	Evenly Distributed		25.00%	25.00%					100.00%
President	C83 Service Company President	MM0		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
Corp Relations & Administrative Services	C06 CR & AS Group Management	MM0		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C63 Admin Service Group Management	MM0		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
Audit	C07 Internal Audit	MM18						2.53%	0.23%	100.00%
Corporate Services	C08 Corporate Services Management	MM5		18.47%	21.42%					100.00%
	C09 Employee ID Cards-Corp	Headcount		13.90%	25.45%		2.00%			100.00%
	C11 Real Estate	MM5		18.47%	21.42%					100.00%
	C12 Nuclear Access Authorization/ Physical	Nuclear Plants		20.00%						100.00%
	C13 Physical Security Invest/EAP	Headcount		13.47%	24.65%		1.93%	3.11%	0.04%	100.00%
	C15 Corporate Air (fixed)	Based on prior year usage as % of total						2.02%		100.00%
	C16 Records and Procedures	Headcount		14.16%	25.96%				0.04%	100.00%
	C74 Property Management (Corp HDQ)	CPB & OH Sq Ft occupied						1.00%		34.51%
	C80 Corporate Leases	100% of CP&L (MM1 to BU's)								100.00%
	S01 Fleet Management	No. of vehicles managed		7.00%	38.00%					45.00%
	S03 Property Management (System)	% of FTEs assigned								100.00%
	S04 Facilities Project Management	Charged to customer. Residual is allocated based on % of FTE's assigned		4.62%	34.65%					100.00%
	S06 Contracts/Leasing	% of FTEs assigned		14.29%	2.86%					100.00%
	S11 Oil-Filled Equipment Repairs	100% CP&L-ED								100.00%
	S13 Research and Technical Data	% based on prior year usage		20.10%	12.29%					100.00%
S14 Mail Services	Headcount		14.09%	25.80%	0.66%				100.00%	
S15 Copy Center Services	Headcount ratio								100.00%	
Economic Dev	C43 Economic Development	MM2								100.00%
	C33 Corporate EHS Management	MM21		18.15%	21.04%		1.76%			100.00%
	C34 Regulatory Affairs/Technical Support	Headcount		14.18%	25.96%				0.04%	100.00%
	C36 Energy Supply Safety Services	100% ES								100.00%
	C37 Energy Delivery Safety Services	100% ED								100.00%
	C38 Retail Gas/Pipeline Safety	100% NCNG								100.00%
	C39 Occ. Health Services	100% ES								100.00%
	C40 DOT Motor Carrier Safety	100% ED								100.00%
	C41 Workers' Compensation	MM12		18.02%	20.87%	0.74%	1.74%			100.00%

**Florida Power Corporation  
Progress Energy Service Company  
Indirect Product/Service Cost Distribution Methodology**

Service Company Group/Department	Product	Allocation Factor	FPC (Corp)	FPC En Supply	FPC Elect Dist	Electric Fuels	Progress Telecom	SRS	Monroe	Total	
Legal	C42 Environmental Services	MM10		18.16%	21.04%			1.52%	0.14%	100.00%	
	C17 Legal Services	MM18						2.53%	0.23%	100.00%	
	C18 Corporate Secretary	100% to HC								100.00%	
	C19 Claims	Historical Claims Ratio								100.00%	
	Regulatory Affairs C20 Regulatory Affairs	MM4								100.00%	
	Public Affairs C21 Public Affairs	100% to HC (below the line)								100.00%	
Financial Services Group	C44 Fin Svcs Group Exec Management	MM0		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%	
	C75 Finance Executive Management	MM0		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%	
	Accounting	C45 Accounting Management	MM5		18.47%	21.42%					100.00%
		C46 Management Reporting	MM5		18.47%	21.42%					100.00%
		C47 Financial Reporting	MM0		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
		C49 Benchmarking	MM0		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
		C52 Rates	MM4								100.00%
		S30 General Ledger Accounting	MM14							0.23%	100.00%
		S31 Property Accounting	% of undepreciated (See MM4)								100.00%
		S32 Disbursements	Invoice Ratio						0.53%	0.06%	100.00%
		S33 Revenue Accounting	MM15								100.00%
		S34 Regulatory Accounting	MM15								100.00%
	S35 Diversified Investments	MM0		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%	
	Information Technology	C69 IT Infrastructure Management	IT Distributed Cost Ratio (headcount used temporarily)	3.16%	5.30%	30.67%		0.94%		0.04%	86.37%
		C70 Applications Maintenance	na - all direct charged								
		C71 Infrastructure & Maintenance	Headcount ratio								
		S49 Applications Develop & Enhance	na - all direct charged								
		S50 Applications Operations - Mainframe	IT application Index Ratio								
		S51 Applications Operations - HP/UNIX	IT application Index Ratio								
		S54 Personal Computers	IT standard PC count rate								
S55 Personal Computer Network		IT standard headcount rate									
Strategic Planning	C64 Strategic Planning	MM0		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%	
	C67 Market Research - Global	MM0		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%	
	C68 Investor Relations/Funds Mgmt	MM0		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%	
	C79 Market Research - Utility	MM16		19.01%	22.07%					100.00%	
Tax	C50 Tax Administration	MM0		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%	
	C77 CP&L Tax Services	MM1								100.00%	
	C78 FPC Tax Services	MM11		46.39%	53.61%					100.00%	
	S59 Payroll	Headcount		13.02%	23.82%				0.04%	91.78%	
Treasury	C51 Treasury Management	MM0		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%	

**Florida Power Corporation  
Progress Energy Service Company  
Indirect Product/Service Cost Distribution Methodology**

Service Company Group/Department	Product	Allocation Factor	FPC (Corp)	FPC En Supply	FPC Elect Dist	Electric Fuels	Progress Telecom	SRS	Monroe	Total
	C54 Cash Management	MM20		17.88%	20.70%		1.73%	1.47%		100.00%
	C55 Insurance Risk Management	MM0		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C56 Financial Risk Management	MM0		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C57 Financial Forecasting	MM0		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C58 Load Forecasting	MM19							0.23%	100.00%
	C59 Property Insurance	Undepreciated assets (Default to MM6)		18.70%	19.24%	0.01%	1.35%		0.28%	100.00%
	C60 Liability & Workers Comp Insurance	Labor Dollars (Default to MM7)				2.45%	3.53%			100.00%
	C61 Other Insurance	MM8		17.99%	20.85%	0.74%	1.74%		0.14%	100.00%
	C62 Nuclear Premiums & Credits	Budgeted Dollars/Direct Cost for Actuals	18.00%							100.00%
	C76 Financial Administration Fees	MM1								100.00%
	S36 Business Case Analysis	MM5		18.47%	21.42%					100.00%
Corporate Communications	C22 Corporate Communications	MM0		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C23 Donations	MM18 (below the line)						2.53%	0.23%	100.00%
	C24 CP&L Image Advertising	MM1								100.00%
	C26 NCNG Image Advertising	100% to NCNG								100.00%
	S17 Internal Communications	Headcount		13.78%	25.22%	0.64%	1.98%	0.20%	0.04%	100.00%
	S18 Customer Communications	100% to ED (G)								100.00%
Human Resources	C27 Human Resources Management	Headcount		14.18%	25.96%				0.04%	100.00%
	C28 Labor Relations	Headcount		13.81%	25.27%	0.65%	1.98%		0.04%	100.00%
	C30 Compensation	Headcount							0.07%	100.00%
	C31 EEO/AA/Diversity	Headcount		13.90%	25.44%		2.00%		0.04%	100.00%
	S19 HRIS	Headcount		13.90%	25.44%		2.00%		0.04%	100.00%
	S20 Policy/Pay/Benefit Admin	Headcount		14.18%	25.96%				0.04%	100.00%
	S21 Organizational Effectiveness	Headcount		14.18%	25.96%				0.04%	100.00%
	S22 Staffing/Recruiting	Headcount							0.07%	100.00%
	S23 Training & Development	Headcount		14.18%	25.96%				0.04%	100.00%
	S24 HR- Nuclear Generation Group	100% to CP&L-ES								100.00%
	S25 HR - Power Ops Group	100% to CP&L-ES								100.00%
	S26 HR - Energy Delivery	100% to CP&L-ED								100.00%
	S28 HR- NCNG	100% to NCNG								100.00%
Other (Benefits/Burdens)	C01 Executive Management	MM0		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C10 Corp HQ Leasehold Improvements	CPB & OH Sq Ft								100.00%
	S47 Service Co Burden Allocation	Global Ratio by Department								100.00%

**Florida Power Corporation  
Progress Energy Service Company  
2001 Cost Model (Budget)**

Service Company Group/Department	Product	Description	Allocation Basis for Percent Allocation	Holding Company	CP&L Distributio n (Corp)	CP&L Energy Supply	CP&L Retail	Energy Ventures	NCNG	FPC (Corp)
Executive	C01	Executive Management	Provides management oversight across the entire Holding and Service Company	MM0	0.03%	19.78%	34.46%	0.72%	0.77%	1.96%
	C82	EEL Dues	Edison Electric Institute professional dues	Direct Cost		25.00%	25.00%			
President	C83	Service Company President	Provides management oversight across the entire Holding and Service Company	MM0	0.03%	19.78%	34.46%	0.72%	0.77%	1.96%
Corp Relations & Administrative Services	C06	CR & AS Group Management	Provides management oversight across the entire Administrative Services and Relations Group	MM0	0.03%	19.78%	34.46%	0.72%	0.77%	1.96%
	C63	Admin Service Group Management	Provides management oversight across the entire Administrative Services Group	MM0	0.03%	19.78%	34.46%	0.72%	0.77%	1.96%
Audit	C07	Internal Audit	Provide an independent and objective appraisal of the adequacy of business controls and effectiveness and efficiency of company operations. Includes financial, information technology, operations, environmental, and health and safety audits. Also includes administration of the Corporate Ethics Program and business controls education.	MM18	0.05%	33.21%	58.10%	1.24%	1.33%	3.30%
Corporate Services	C08	Corporate Services Management	Provides management oversight across the entire Corporate Services function. Also includes facilities management, governance services and other department activities not readily assignable to a specific product/service.	MM5		20.54%	35.93%	0.77%	0.82%	2.04%
	C09	Employee ID Cards-Corp	Produce and maintain employee ID cards, including the database.	Headcount		20.09%	31.73%	0.62%	2.17%	4.03%
	C11	Real Estate	Buy, sell, lease, and develop real estate. Provide lake, timber, and land management. Coordinate and support right-of-way activities.	MM5		20.54%	35.93%	0.77%	0.82%	2.04%
	C12	Nuclear Access Authorization/ Physical	Access Authorization, Nuclear Background Investigations and Fitness for Duty Programs. Nuclear security programs support through program implementation assistance, management of nuclear safeguards information, commonality, industry best practices, assessment.	Nuclear Plants			80.00%			

**Florida Power Corporation  
 Progress Energy Service Company  
 2001 Cost Model (Budget)**

Service Company Group/Department	Product	Description	Allocation Basis for Percent Allocation	Holding Company	CP&L (Corp)	CP&L Energy Distribution	CP&L Energy Supply	CP&L Retail	Energy Ventures	NCNG	FPC (Corp)
	C13 Physical Security Invest/EAP	Executive and headquarters protection services, professional investigative and physical security services, proprietary information protection, employment, background investigations and workplace violence prevention programs. Managed EAP designed to effectively support employees and their families. Subsidiary Drug and Alcohol testing Program management and workplace violence intervention services.	Headcount			19.46%	30.73%	0.60%	2.11%	3.91%	
	C14 Corporate Air Services (variable)	Operate company aircraft. Includes fuel, landing fees, inspections, and other variable expenses.	Average Hourly Rate								
	C15 Corporate Air (fixed)	Maintain and pilot corporate aircraft. Includes lease of aircraft, hangar fees, pilots' salaries and other fixed expenses.	Based on prior year usage as % of total			34.53%	55.78%	3.84%	3.82%		
	C16 Records and Procedures	Provide governance services, common programs/standards, contract management for records and procedure/controlled document needs (outside nuclear OA)	Headcount			20.50%	32.36%	0.63%	2.22%	4.12%	
	C74 Property Management (Corp HDQ)	Full service management of facilities (including rent, utilities, security, card access, janitorial, renovations, operations/repairs/maintenance, landscaping, food service, parking, pest control, retail tenants, vending, furniture, plants, artwork, etc.) for corporate headquarters buildings.	CPB & OH Sq Ft occupied			11.18%	9.76%	0.30%	8.07%	4.20%	
	C80 Corporate Leases	Manage facilities for future use	100% of CP&L (MM1 to BU's)			35.27%	61.93%	1.35%	1.45%		
	S01 Fleet Management	Provides management oversight of fleet purchases, operations and maintenance services and DOT and DOE regulatory compliance activities	No. of vehicles managed								
	S02 Fleet Operation & Maintenance	Operate, maintain, and replenish vehicle fleet, including DOT and DOE regulatory compliance activities	Miles and Hours of Usage			VMS	VMS	VMS	VMS	VMS	
	S03 Property Management (System)	Same as above for administration, crew, shop, and other buildings throughout the CP&L system (Power Operations, Nuclear Generation, EDG, Shared Services, and other Groups, including subsidiaries)	% of FTEs assigned			88.00%				12.00%	

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Service Company Group/Department	Product	Description	Allocation Basis for Percent Allocation	Holding Company	CP&L (Corp)	CP&L Energy Distribution	CP&L Energy Supply	CP&L Retail	Energy Ventures	NCNG	FPC (Corp)
	S04 Facilities Project Management	Facility planning and programming from conceptual need identification to design construction and occupancy. Includes budget and schedule preparation for each facility and an annual integrated 5-year facilities plan for the Company	Charged to customer Residual is allocated based on % of FTE's assigned			28.71%	13.20%			18.81%	
	S05 Supplier Diversity	Facility engineering Manage the corporate effort to increase the utilization of women and minority-owned enterprises through ???									
	S06 Contracts/Leasing	Identifies sources, prepares contracts for services and leasing and resource sharing	% of FTEs assigned			11.43%	48.57%		22.86%		
	S07 Purchasing										
	S03 Investment Recovery										
	S09 Warehousing	Receive, store, and distribute material									
	S10 Inventory Planning and Analysis	Evaluate material needs and manage inventory levels									
	S11 Oil-Filled Equipment Repairs	Repair transformers and other oil-filled equipment and test rubber goods (Lineman's safety equipment) Also includes PCB and oil handling	100% CP&L-ED			100.00%					
	S12 Supply Chain Data Services	End user support for computing systems, including corporate supply chain and other systems used in Corporate Services functions									
	S13 Research and Technical Data	Conduct negotiation/management and application support for industry standards, technical documents, and common business research tools; direct research support for critical business decisions	% based on prior year usage			9.71%	45.86%	0.90%	3.14%	8.00%	
	S14 Mail Services	Manage labor, supplies, equipment, postage, and contracts in support of corporate mail operations (excluding printing and mailing bills)	Headcount			20.37%	32.16%	0.63%	2.20%	4.09%	
	S16 Print and Mail Bills		Direct Cost			100.00%					
	S15 Copy Center Services	Manage program and contracts to provide copy equipment, maintenance, supplies, and paper in user locations and for bulk and special copy services	Headcount ratio			34.26%	54.09%	1.06%	3.71%	6.88%	

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**Progress Energy Service Company**  
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Service Company Group/Department	Product	Description	Allocation Basis for Percent Allocation	Holding Company	CP&L (Corp)	CP&L Energy Distribution	CP&L Energy Supply	CP&L Retail	Energy Ventures	NCNG	FPC (Corp)
Economic Dev	C43 Economic Development	Provide services associated with promoting economic development within our service territory. This includes attendance at trade shows and events to represent the company, recruitment of businesses, assistance with strategic planning for communities to aid in attracting businesses, facility location services, assistance to local, state, and regional allies with attracting businesses, etc	MM2	0.05%		34.05%	59.80%	1.30%	1.40%	3.40%	
	C33 Corporate EHS Management	Provides management oversight across the entire Corporate Environmental, Health and Safety function	MM21			20.19%	35.30%	0.75%	0.81%	2.01%	
	C34 Regulatory Affairs/Technical Support	Develops programs and procedures, tracks regulatory issues; reviews events, investigates accidents and operating experiences, keeps records on compliance, tracks contractor safety for shared services/retail sales, provides health and safety support, provides industrial hygiene support	Headcount			20.50%	32.36%	0.63%	2.22%	4.12%	
	C35 Public Safety					20.50%	32.36%	0.63%	2.22%	4.12%	
	C36 Energy Supply Safety Services	Implements health and safety policies and procedures; performs hazard analyses and compliance assessments; performs health and safety training, performs accident investigation and analyses	100% ES				100.00%				
	C37 Energy Delivery Safety Services	Implements health and safety policies and procedures, performs hazard analyses and compliance assessments, conducts health and safety training, performs accident investigation and analysis	100% ED			100.00%					
	C38 Retail Gas/Pipeline Safety	Implements health and safety policies and procedures; performs hazard analysis and compliance assessments, performs health and safety training, conducts accident investigation and analysis, performs DOT pipeline safety (RSPA) drug/alcohol testing and training	100% NCNG							100.00%	

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Service Company Group/Department	Product	Description	Allocation Basis for Percent Allocation	Holding Company	CP&L (Corp)	CP&L Energy Distribution	CP&L Energy Supply	CP&L Retail	Energy Ventures	NCNG	FPC (Corp)
	C39 Occ Health Services	Implements OH policies and procedures, conducts medical evaluations (nuclear, fossil, pipeline safety), performs medical surveillance (lead, asbestos, hearing conservation), conducts free climbing medical fitness tests, evaluates ergonomics of work activities	100% ES				100 00%				
	C40 DOT Motor Carrier Safety	Conducts driver (CDL) qualification, performs drug/alcohol testing and training, conducts medical evaluations.	100% ED			100 00%					
	C41 Workers' Compensation	Performs claims management, case management, TPA coordination and workers compensation oversight Includes the costs to maintain the reserve for workers' compensation (self-insurance)	MM12			20.06%	35 03%	0.74%	0.79%	1 99%	
	C42 Environmental Services	Provides environmental services	MM10	0.03%		20 23%	35 32%	0 74%	0 80%	2.01%	
Legal	C17 Legal Services	All activities associated with providing legal services and support in all matters related to company operations and relations for consolidated or Services Company. Also provides management oversight across the entire function	MM18	0 05%		33 21%	58.10%	1.24%	1 33%	3 30%	
	C18 Corporate Secretary	Coordination of Board of Directors ("BOD") activities and handling shareholder relations, including related corporate governance activities and shareholder services	100% to HC	100 00%							
	C19 Claims	Provides investigation and settlement support and payment of general liability and motor vehicle accidents against the Company. Coordinates the collection of monies owed to Company for damage to Company facilities and equipment as a result of third party negligence.	Historical Claims Ratio			95 00%	2 00%			3 00%	
Regulatory Affairs	C20 Regulatory Affairs	Manage retail regulatory issues and activities with the utilities commissions in North and South Carolina, and provide support for federal and state legislative affairs regarding retail matters Obtain state utilities commissions' approvals of all Company initiatives	MM4			34.07%	59 83%	1 30%	1 40%	3 40%	

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Service Company Group/Department	Product	Description	Allocation Basis for Percent Allocation	Holding Company	CP&L (Corp)	CP&L Energy Distribution	CP&L Energy Supply	CP&L Retail	Energy Ventures	NCNG	FPC (Corp)
	Public Affairs C21	Public Affairs	Influencing legislation and shaping public policy & opinion on major corporate issues, ally development and training for NC & SC allies, support for "Citizens for a Brighter Carolina" group, monitoring & tracking legislation, building goodwill & relationships at the Fed , NC& SC state levels	100% to HC (below the line)	100 00%						
Financial Services Group	C44	Fin Svcs Group Exec Management	Provides management oversight across the entire Financial Services Group	MM0	0 03%	19 78%	34.46%	0.72%	0.77%	1.96%	
	C75	Finance Executive Management	Provides management oversight across the entire Finance Group	MM0	0 03%	19 78%	34.46%	0.72%	0.77%	1.96%	
Accounting	C45	Accounting Management	Provides management oversight across the entire Accounting function.	MM5		20.54%	35.93%	0.77%	0.82%	2.04%	
	C46	Management Reporting	Develops and distributes cost reports, and develops and coordinates materials presented to the Board of Directors and its committees	MM5		20.54%	35.93%	0.77%	0.82%	2.04%	
	C47	Financial Reporting	Develops internal and external financial reports and profit/loss reports	MM0	0 03%	19 78%	34.46%	0.72%	0.77%	1.96%	
	C49	Benchmarking	Develops benchmarking processes to support cost vs market and quality of service comparisons	MM0	0 03%	19 78%	34.46%	0.72%	0.77%	1.96%	
	C52	Rates	Develops and implements jurisdictional rates and competitive pricing options, provides embedded and marginal cost-of-service expertise and analyses in support of rate development and strategic business unit needs, provides expertise and guidance in the application of state and FERC rate schedules, riders and service regulations	MM4		34.07%	59.83%	1.30%	1.40%	3.40%	
	S30	General Ledger Accounting	Maintains general ledger, account keys and journal entries; manages the monthly and annual closing process. performs bank reconciliations	MM14	0 05%	33.96%	59.67%	1.30%	1.40%	3.39%	
	S31	Property Accounting	Maintains core fixed assets and materials records, including the entry of work orders in field organizations.	% of undepreciated (See MM4)		34.07%	59.83%	1.30%	1.40%	3.40%	
	S32	Disbursements	Enters accounts payable invoices and other invoice/payments	Invoice Ratio		51.37%	31.50%	8.16%	3.76%	4.61%	
	S33	Revenue Accounting	Maintains certain customer accounting records, reconciles customer system to general ledger, maintains non-electric service accounts receivable system. performs revenue analysis.	MM15		34.49%	60.72%	1.34%		3.45%	

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Service Company Group/Department	Product	Description	Allocation Basis for Percent Allocation	Holding Company	CP&L (Corp)	CP&L Energy Distribution	CP&L Energy Supply	CP&L Retail	Energy Ventures	NCNG	FPC (Corp)	
	S34	Regulatory Accounting	Develops regulatory financial reports and consults on proper regulatory treatment of various accounting transactions, maintains records and reports on fuel-related transactions	MM15			34.49%	60.72%	1.34%	3.45%		
	S35	Diversified Investments	Handles all intercompany billing processes for subsidiaries of CP&L Energy. Also, maintains accounting records for certain subsidiaries	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%	
Information Technology	C69	IT Infrastructure Management	Provide management oversight across the entire function	IT Distributed Cost Ratio (headcount used temporarily)			25.65%	12.51%	2.28%	3.03%	2.79%	3.16%
	C70	Applications Maintenance	Maintain and repair business software applications.	na - all direct charged								
	C71	Infrastructure & Maintenance	Provides and maintains the local area data networks, wide area data networks, fiber usage, video conferencing, voice mail, as well as network support.	Headcount ratio								
	S48	Billed Labor		Direct Cost								
	S37	Applications Operations - Sun										
	S49	Applications Develop & Enhance	Planning, design, implementation, and enhancement of business software applications	na - all direct charged								
	S50	Applications Operations - Mainframe	Provide computing, data storage, and printing for business software applications running on mainframe computers	IT application Index Ratio								
	S51	Applications Operations - HP/UNIX	Provide computing, data storage, and printing for business software applications running on HP/UNIX servers.	IT application Index Ratio								
	S52	Applications Operations - NT										
	S53	Applications Operations - Other										
	S54	Personal Computers	Provide personal computer hardware, software, remote access, and associated support personnel	IT standard PC count rate								
	S59	Telecom Projects										
	S57	Voice and Data Services										

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Service Company Group/Department	Product	Description	Allocation Basis for Percent Allocation	Holding Company	CP&L (Corp)	CP&L Energy Distribution	CP&L Energy Supply	CP&L Retail	Energy Ventures	NCNG	FPC (Corp)
	S55 Personal Computer Network	Provide e-mail, shared calendars, shared storage, Inter/Intranet access, and access to application servers	IT standard headcount rate								
Strategic Planning	C64 Strategic Planning	Maintains responsibility for corporate strategic planning (does not develop long-term plans for line or individual corporate organizations).	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%	
	C67 Market Research - Global	Provides market research services to the consolidated entity	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%	
	C68 Investor Relations/Funds Mgmt	Manages relations with the financial community and the performance of external trust funds	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%	
	C79 Market Research - Utility		MM16			21.12%	37.01%	0.79%			
Tax	C50 Tax Administration	Provides market research services to the utility	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%	
	C77 CP&L Tax Services	Provides CP&L Tax Services.	MM1			35.27%	61.93%	1.35%	1.45%		
	C78 FPC Tax Services	Provides FPC Tax Services	MM11								
	S59 Payroll	Conducts time entry; maintains payroll system, runs payroll, produces payroll-related reports and processes employee expense reports	Headcount			18.81%	29.70%	0.58%	2.04%	3.78%	
Treasury	C51 Treasury Management	Provides management oversight across the entire Treasury function	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%	
	C53 Financing			0.03%		19.93%	34.76%	0.73%	0.77%	1.98%	
	C54 Cash Management	Manages the efficient movement of company funds through the banking system and secures short-term debt financing and/or investments	MM20	0.03%		19.93%	34.76%	0.73%	0.77%	1.98%	
	C55 Insurance Risk Management	Manages the corporate insurance program	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%	
	C56 Financial Risk Management	Measures, independently, and reports corporate risk exposures, provides risk management training, tools, controls and strategies	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%	
	C57 Financial Forecasting	Coordinates and develops plans and budgets for corporate and line organizations. Prepares and presents results of financial forecasts and provides financial and planning support for the regulatory and strategic planning process	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%	
	C58 Load Forecasting	Prepares and presents economic, load and energy forecasts.	MM19			34.46%	60.66%		1.43%	3.44%	
	C59 Property Insurance	Property insurance premiums	Undepreciated assets (Default to MM6)			23.40%	34.84%	0.03%	0.05%	2.10%	

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Service Company Group/Department	Product	Description	Allocation Basis for Percent Allocation	Holding Company	CP&L (Corp)	CP&L Energy Distribution	CP&L Energy Supply	CP&L Retail	Energy Ventures	NCNG	FPC (Corp)
	C60	Liability & Workers Comp Insurance	Liability and workers' compensation insurance premiums	Labor Dollars (Default to MM7)			27.66%	58.28%	2.40%	2.55%	3.13%
	C61	Other Insurance	Crime, directors & officers, aircraft, fiduciary and special insurance premiums.	MM8			20.03%	34.99%	0.74%	0.79%	1.99%
	C62	Nuclear Premiums & Credits	Nuclear property and liability insurance credit for good experience	Budgeted Dollars/Direct Cost for Actuals		82.00%					18.00%
	C76	Financial Administration Fees	Includes financial administration fees, such as bank fees	MM1			35.27%	61.93%	1.35%	1.45%	
	S36	Business Case Analysis	Provides analysis support for business case development for various initiatives	MM5			20.54%	35.93%	0.77%	0.82%	2.04%
Corporate Communications	C22	Corporate Communications	Includes management oversight across the entire Corporate Communications function. Develops and distributes key company messages to external media as primary corporate spokespersons, manages company's strategic philanthropy, manages the company's brand position and ensures consistency in brand message for both internal and external audiences, directs the corporate image through advertising, coordinates support activities for special corporate events, and provides communication planning and counseling	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%
	C23	Donations	Corporate donations	MM18 (below the line)	0.05%		33.21%	58.10%	1.24%	1.33%	3.30%
	C24	CP&L Image Advertising	Manages the company's brand position and ensures consistency in brand message for internal and external audiences. Directs the corporate image through advertising.	MM1			35.27%	61.93%	1.35%	1.45%	
	C26	NCNG Image Advertising	Manages the company's brand position and ensures consistency in brand message for both internal and external audiences. Directs the corporate image through advertising.	100% to NCNG							100.00%
	S17	Internal Communications	Manages systems and creates tactical tools to keep employees informed and engaged about strategic business developments and their role in ensuring company success; tools include newsletters, e-mail (info bulletins), Intranet and Internet employee briefings	Headcount			19.92%	31.45%	0.61%	2.16%	4.00%

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Service Company Group/Department	Product	Description	Allocation Basis for Percent Allocation	Holding Company	CP&L (Corp)	CP&L Energy Distribution	CP&L Energy Supply	CP&L Retail	Energy Ventures	NCNG	FPC (Corp)
	S18 Customer Communications	Includes communications to Energy Delivery customers	100% to ED (G)			100.00%					
Human Resources	C27 Human Resources Management	Provides management oversight across the Human Resources entire function	Headcount			20.50%	32.36%	0.63%	2.22%	4.12%	
	C28 Labor Relations	Provides corporate support for labor-related issues (union & non-union)	Headcount			19.96%	31.51%	0.62%	2.16%	4.01%	
	C30 Compensation	Administers base compensation, MICP, LTIP, deferred compensation, ECIP and other compensation programs	Headcount			34.24%	54.06%	1.06%	3.71%	6.87%	
	C81 Benefit Plan Integration	Provides integration of client company benefit plans	Headcount			20.50%	32.37%	0.63%	2.22%	4.12%	
	C31 EEO/AA/Diversity	Provides consultation and support on affirmative action, equal employment opportunity and diversity	Headcount			20.09%	31.71%	0.62%	2.17%	4.03%	
	S19 HRIS	Manages overall HR information, administers the PeopleSoft HR system; provides benefits administration.	Headcount			20.09%	31.71%	0.62%	2.17%	4.03%	
	S20 Policy/Pay/Benefit Admin	Provides the employee information line, benefits administration, compensation administration, and policies/practices administration of corporate relocation services and pre-retirement seminars	Headcount			20.50%	32.36%	0.63%	2.22%	4.12%	
	S21 Organizational Effectiveness	Designs and implements HR process improvements	Headcount			20.50%	32.36%	0.63%	2.22%	4.12%	
	S22 Staffing/Recruiting	Recruits, screens, tests, interviews applicants, consults with managers on staffing plans and issues	Headcount			34.24%	54.06%	1.06%	3.71%	6.87%	
	S23 Training & Development	Provides executive and personal developmental training and employee development programs	Headcount			20.50%	32.36%	0.63%	2.22%	4.12%	
	S24 HR- Nuclear Generation Group	Includes cost of the HR service manager and representatives who provide HR management Consultation & support to managers & employees in the Nuclear Generation Group	100% to CP&L-ES				100.00%				
	S25 HR - Power Ops Group	Includes cost of the HR service manager and representatives who provide HR management Consultation & support to managers & employees in the Power Operations Group	100% to CP&L-ES				100.00%				

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Service Company Group/Department	Product	Description	Allocation Basis for Percent Allocation	Holding Company	CP&L (Corp)	CP&L Energy Distribution	CP&L Energy Supply	CP&L Retail	Energy Ventures	NCNG	FPC (Corp)
	S26	HR - Energy Delivery	Includes cost of the HR service manager and representatives who provide HR management Consultation & support to managers & employees in the Energy Delivery Group			100.00%					
	S32	Staffing Record Keeping & Compliance		Headcount		20.50%	32.36%	0.63%	2.22%	4.12%	
	S58	HR - Service Company (A)	Includes cost of the HR service manager and representatives who provide HR management, consultation and support to managers & employees in the Service Company			100% to Service Co using headcount					
	S29	HR-FPC		Direct Cost							35.33%
	S27	HR-RS&S		FTE's assigned ratio				90.00%			
	S28	HR- NCNG	Includes cost of the HR service manager and representatives who provide HR management Consultation & support to managers & employees in the Gas and Energy Services Group			100% to NCMG				100.00%	
Other (Benefits/Burdens)	C01	Executive Management	Provides management oversight across the entire Holding and Service Company	MMO	0.03%	19.78%	34.46%	0.72%	0.77%	1.96%	
	C10	Corp HQ Leasehold Improvements	Amortization of leasehold improvement projects for corporate headquarters leased facilities	CPB & OH Sq Ft		33.75%	36.34%	0.72%	15.78%	13.41%	
	S47	Service Co Burden Allocation	Exceptional hours, payroll tax, benefits and stores burdens	Global Ratio by Department							
	X00	C85	Operating Lease		0.07%						4.47%
Corporate		C02	Depreciation Expense		0.03%	19.78%	34.46%	0.72%	0.77%	1.96%	
Corporate		C03	Capital Leases		0.03%	19.78%	34.46%	0.72%	0.77%	1.96%	
Corporate		C04	Property Tax - Service Company		0.03%	19.78%	34.46%	0.72%	0.77%	1.96%	
Corporate		C05	Interest Expenses		0.03%	19.78%	34.46%	0.72%	0.77%	1.96%	
Corporate		C88	Service Company Income Tax Expense		0.03%	19.78%	34.46%	0.72%	0.77%	1.96%	

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Service Company Group/Department	Product	Description	Allocation Basis for Percent Allocation	FPC En Supply	FPC Elect Dist	Electric Fuels	Progress Telecom	SRS	Monroe	Total	
Executive	C01	Executive Management	Provides management oversight across the entire Holding and Service Company	MM0	17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C82	EEI Dues	Edison Electric Institute professional dues	Direct Cost	25.00%	25.00%					100.00%
President	C83	Service Company President	Provides management oversight across the entire Holding and Service Company	MM0	17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
Corp Relations & Administrative Services	C06	CR & AS Group Management	Provides management oversight across the entire Administrative Services and Relations Group	MM0	17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C63	Admin Service Group Management	Provides management oversight across the entire Administrative Services Group	MM0	17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
Audit	C07	Internal Audit	Provide an independent and objective appraisal of the adequacy of business controls and effectiveness and efficiency of company operations. Includes financial, information technology, operations, environmental, and health and safety audits. Also includes administration of the Corporate Ethics Program and business controls education.	MM18				2.53%	0.23%		100.00%
Corporate Services	C08	Corporate Services Management	Provides management oversight across the entire Corporate Services function. Also includes facilities management, governance services and other department activities not readily assignable to a specific product/service.	MM5	18.47%	21.42%					100.00%
	C09	Employee ID Cards-Corp	Produce and maintain employee ID cards, including the database.	Headcount	13.90%	25.45%		2.00%			100.00%
	C11	Real Estate	Buy, sell, lease, and develop real estate. Provide lake, timber, and land management. Coordinate and support right-of-way activities.	MM5	18.47%	21.42%					100.00%
	C12	Nuclear Access Authorization/ Physical	Access Authorization, Nuclear Background Investigations and Fitness for Duty Programs. Nuclear security programs support through program implementation assistance, management of nuclear safeguards information, commonality, industry best practices assessment.	Nuclear Plants	20.00%						100.00%

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	C13 Physical Security Invest/EAP	Executive and headquarters protection services, professional investigative and physical security services, proprietary information protection, employment, background investigations and workplace violence prevention programs. Managed EAP designed to effectively support employees and their families. Subsidiary Drug and Alcohol testing Program management and workplace violence intervention services.	Headcount	13.47%	24.65%		1.93%	3.11%	0.04%	100.00%
	C14 Corporate Air Services (variable)	Operate company aircraft. Includes fuel, landing fees, inspections, and other variable expenses.	Average Hourly Rate							
	C15 Corporate Air (fixed)	Maintain and pilot corporate aircraft. Includes lease of aircraft, hangar fees, pilots' salaries and other fixed expenses.	Based on prior year usage as % of total					2.02%		100.00%
	C16 Records and Procedures	Provide governance services, common programs/standards, contract management for records and procedure/controlled document needs (outside nuclear OA).	Headcount	14.16%	25.96%				0.04%	100.00%
	C74 Property Management (Corp HDQ)	Full service management of facilities (including rent, utilities, security, card access, janitorial, renovations, operations/repairs/maintenance, landscaping, food service, parking, pest control, retail tenants, vending, furniture, plants, artwork, etc.) for corporate headquarters buildings.	CPB & OH Sq Ft occupied					1.00%		34.51%
	C80 Corporate Leases	Manage facilities for future use.	100% of CP&L (MM1 to BUs)							100.00%
	S01 Fleet Management	Provides management oversight of fleet purchases, operations and maintenance services and DOT and DOE regulatory compliance activities.	No. of vehicles managed	7.00%	38.00%					45.00%
	S02 Fleet Operation & Maintenance	Operate, maintain, and replenish vehicle fleet, including DOT and DOE regulatory compliance activities.	Miles and Hours of Usage							0.00%
	S03 Property Management (System)	Same as above for administration, crew, shop, and other buildings throughout the CP&L system (Power assigned Operations, Nuclear Generation, EDG, Shared Services, and other Groups, including subsidiaries).	% of FTEs assigned							100.00%

**Florida Power Corporation  
 Progress Energy Service Company  
 2001 Cost Model (Budget)**

Service Company Group/Department	Product	Description	Allocation Basis for Percent Allocation	FPC En Supply	FPC Elect Dist	Electric Fuels	Progress Telecom	SRS	Monroe	Total
	S04 Facilities Project Management	Facility planning and programming from conceptual need identification to design construction and occupancy. Includes budget and schedule preparation for each facility and an annual integrated 5-year facilities plan for the Company. Facility engineering	Charged to customer. Residual is allocated based on % of FTE's assigned	4 62%	34 65%					100.00%
	S05 Supplier Diversity	Manage the corporate effort to increase the utilization of women and minority-owned enterprises through ???								
	S06 Contracts/Leasing	Identifies sources, prepares contracts for services and leasing and resource sharing	% of FTEs assigned	14 29%	2 86%					100 00%
	S07 Purchasing									
	S03 Investment Recovery									
	S09 Warehousing	Receive, store, and distribute material								
	S10 Inventory Planning and Analysis	Evaluate material needs and manage inventory levels								
	S11 Oil-Filled Equipment Repairs	Repair transformers and other oil-filled equipment and test rubber goods (lineman's safety equipment). Also includes PCB and oil handling	100% CP&L-ED							100.00%
	S12 Supply Chain Data Services	End user support for computing systems, including corporate supply chain and other systems used in Corporate Services functions								
	S13 Research and Technical Data	Conduct negotiation/management and application support for industry standards, technical documents, and common business research tools, direct research support for critical business decisions	% based on prior year usage	20 10%	12.29%					100 00%
	S14 Mail Services	Manage labor, supplies, equipment, postage, and contracts in support of corporate mail operations (excluding printing and mailing bills)	Headcount	14 09%	25 80%	0 66%				100 00%
	S16 Print and Mail Bills		Direct Cost							100 00%
	S15 Copy Center Services	Manage program and contracts to provide copy equipment, maintenance, supplies, and paper in user locations and for bulk and special copy services	Headcount ratio							100.00%

**Florida Power Corporation  
 Progress Energy Service Company  
 2001 Cost Model (Budget)**

Service Company Group/Department	Product	Description	Allocation Basis for Percent Allocation	FPC En Supply	FPC Elect Dist	Electric Fuels	Progress Telecom	SRS	Monroe	Total
Economic Dev	C43 Economic Development	Provide services associated with promoting economic development within our service territory. This includes attendance at trade shows and events to represent the company, recruitment of businesses, assistance with strategic planning for communities to aid in attracting businesses, facility location services, assistance to local, state, and regional allies with attracting businesses, etc	MM2							100.00%
	C33 Corporate EHS Management	Provides management oversight across the entire Corporate Environmental, Health and Safety function.	MM21	18.15%	21.04%		1.76%			100.00%
	C34 Regulatory Affairs/Technical Support	Develops programs and procedures, tracks regulatory issues, reviews events; investigates accidents and operating experiences, keeps records on compliance, tracks contractor safety for shared services/retail sales, provides health and safety support; provides industrial hygiene support.	Headcount	14.18%	25.96%				0.04%	100.00%
	C35 Public Safety			14.18%	25.96%				0.04%	100.00%
	C36 Energy Supply Safety Services	Implements health and safety policies and procedures; performs hazard analyses and compliance assessments, performs health and safety training; performs accident investigation and analyses	100% ES							100.00%
	C37 Energy Delivery Safety Services	Implements health and safety policies and procedures, performs hazard analyses and compliance assessments, conducts health and safety training; performs accident investigation and analysis	100% ED							100.00%
	C38 Retail Gas/Pipeline Safety	Implements health and safety policies and procedures, performs hazard analysis and compliance assessments, performs health and safety training, conducts accident investigation and analysis, performs DOT pipeline safety (RSPA) drug/alcohol testing and training	100% NCNG							100.00%

**Florida Power Corporation  
 Progress Energy Service Company  
 2001 Cost Model (Budget)**

Service Company Group/Department	Product	Description	Allocation Basis for Percent Allocation	FPC En Supply	FPC Elect Dist	Electric Fuels	Progress Telecom	SRS	Monroe	Total
	C39	Occ. Health Services	Implements OH policies and procedures, conducts medical evaluations (nuclear, fossil, pipeline safety), performs medical surveillance (lead, asbestos, hearing conservation), conducts free climbing medical fitness tests, evaluates ergonomics of work activities	100% ES						100.00%
	C40	DOT Motor Carrier Safety	Conducts driver (CDL) qualification, performs drug/alcohol testing and training, conducts medical evaluations	100% ED						100.00%
	C41	Workers' Compensation	Performs claims management, case management, TPA coordination and workers compensation oversight. Includes the costs to maintain the reserve for workers' compensation (self-insurance)	MM12	18.02%	20.87%	0.74%	1.74%		100.00%
	C42	Environmental Services	Provides environmental services	MM10	18.16%	21.04%		1.52%	0.14%	100.00%
Legal	C17	Legal Services	All activities associated with providing legal services and support in all matters related to company operations and relations for consolidated or Services Company. Also provides management oversight across the entire function.	MM18				2.53%	0.23%	100.00%
	C18	Corporate Secretary	Coordination of Board of Directors ("BOD") activities and handling shareholder relations, including related corporate governance activities and shareholder services.	100% to HC						100.00%
	C19	Claims	Provides investigation and settlement support and payment of general liability and motor vehicle accidents against the Company. Coordinates the collection of monies owed to Company for damage to Company facilities and equipment as a result of third party negligence.	Historical Claims Ratio						100.00%
Regulatory Affairs	C20	Regulatory Affairs	Manage retail regulatory issues and activities with the utilities commissions in North and South Carolina, and provide support for federal and state legislative affairs regarding retail matters. Obtain state utilities commissions' approvals of all Company initiatives.	MM4						100.00%

**Florida Power Corporation  
 Progress Energy Service Company  
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Service Company Group/Department	Product	Description	Allocation Basis for Percent Allocation	FPC En Supply	FPC Elect Dist	Electric Fuels	Progress Telecom	SRS	Monroe	Total	
	Public Affairs C21	Public Affairs	Influencing legislation and shaping public policy & opinion on major corporate issues, ally development and training for NC & SC allies, support for "Citizens for a Brighter Carolina" group, monitoring & tracking legislation, building goodwill & relationships at the Fed, NC & SC state levels.	100% to HC (below the line)						100.00%	
Financial Services Group	C44	Fin Svcs Group Exec Management	Provides management oversight across the entire Financial Services Group.	MM0	17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C75	Finance Executive Management	Provides management oversight across the entire Finance Group	MM0	17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
Accounting	C45	Accounting Management	Provides management oversight across the entire Accounting function.	MM5	18.47%	21.42%					100.00%
	C46	Management Reporting	Develops and distributes cost reports, and develops and coordinates materials presented to the Board of Directors and its committees	MM5	18.47%	21.42%					100.00%
	C47	Financial Reporting	Develops internal and external financial reports and profit/loss reports.	MM0	17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C49	Benchmarking	Develops benchmarking processes to support cost vs market and quality of service comparisons.	MM0	17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C52	Rates	Develops and implements jurisdictional rates and competitive pricing options, provides embedded and marginal cost-of-service expertise and analyses in support of rate development and strategic business unit needs; provides expertise and guidance in the application of state and FERC rate schedules, riders and service regulations	MM4							100.00%
	S30	General Ledger Accounting	Maintains general ledger, account keys and journal entries; manages the monthly and annual closing process. performs bank reconciliations	MM14						0.23%	100.00%
	S31	Property Accounting	Maintains core fixed assets and materials records, including the entry of work orders in field organizations.	% of undepreciated (See MM4)							100.00%
	S32	Disbursements	Enters accounts payable invoices and other invoice/payments.	Invoice Ratio					0.53%	0.06%	100.00%
	S33	Revenue Accounting	Maintains certain customer accounting records, reconciles customer system to general ledger, maintains non-electric service accounts receivable system; performs revenue analysis.	MM15							100.00%

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Service Company Group/Department	Product	Description	Allocation Basis for Percent Allocation	FPC En Supply	FPC Elect Dist	Electric Fuels	Progress Telecom	SRS	Monroe	Total	
	S34	Regulatory Accounting	Develops regulatory financial reports and consults on proper regulatory treatment of various accounting transactions, maintains records and reports on fuel-related transactions.	MM15						100.00%	
	S35	Diversified Investments	Handles all intercompany billing processes for subsidiaries of CP&L Energy. Also, maintains accounting records for certain subsidiaries.	MM0	17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
Information Technology	C69	IT Infrastructure Management	Provide management oversight across the entire function.	IT Distributed Cost Ratio (headcount used temporarily)	5.30%	30.67%		0.94%		0.04%	86.37%
	C70	Applications Maintenance	Maintain and repair business software applications.	na - all direct charged							
	C71	Infrastructure & Maintenance	Provides and maintains the local area data networks, wide area data networks, fiber usage, video conferencing, voice mail, as well as network support.	Headcount ratio							
	S48	Billed Labor		Direct Cost							
	S37	Applications Operations - Sun									
	S49	Applications Develop & Enhance	Planning, design, implementation, and enhancement of business software applications.	na - all direct charged							
	S50	Applications Operations - Mainframe	Provide computing, data storage, and printing for business software applications running on mainframe computers.	IT application Index Ratio							
	S51	Applications Operations - HP/UNIX	Provide computing, data storage, and printing for business software applications running on HP/UNIX servers.	IT application Index Ratio							
	S52	Applications Operations - NT									
	S53	Applications Operations - Other									
	S54	Personal Computers	Provide personal computer hardware, software, remote access, and associated support personnel.	IT standard PC count rate							
	S59	Telecom Projects									
	S57	Voice and Data Services									

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Service Company Group/Department	Product	Description	Allocation Basis for Percent Allocation	FPC En Supply	FPC Elect Dist	Electric Fuels	Progress Telecom	SRS	Monroe	Total
	S55 Personal Computer Network	Provide e-mail, shared calendars, shared storage, Inter/Intranet access, and access to application servers.	IT standard headcount rate							
Strategic Planning	C64 Strategic Planning	Maintains responsibility for corporate strategic planning (does not develop long-term plans for line or individual corporate organizations)	MM0	17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C67 Market Research - Global	Provides market research services to the consolidated entity	MM0	17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C68 Investor Relations/Funds Mgmt	Manages relations with the financial community and the performance of external trust funds	MM0	17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C79 Market Research - Utility		MM16	19.01%	22.07%					100.00%
Tax	C50 Tax Administration	Provides market research services to the utility	MM0	17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C77 CP&L Tax Services	Provides CP&L Tax Services	MM1							100.00%
	C78 FPC Tax Services	Provides FPC Tax Services	MM11	46.39%	53.61%					100.00%
	S59 Payroll	Conducts time entry, maintains payroll system; runs payroll, produces payroll-related reports and processes employee expense reports	Headcount	13.02%	23.82%				0.04%	91.78%
Treasury	C51 Treasury Management	Provides management oversight across the entire Treasury function	MM0	17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C53 Financing			17.88%	20.70%		1.73%	1.49%		100.00%
	C54 Cash Management	Manages the efficient movement of company funds through the banking system and secures short-term debt financing and/or investments.	MM20	17.88%	20.70%		1.73%	1.49%		100.00%
	C55 Insurance Risk Management	Manages the corporate insurance program	MM0	17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C56 Financial Risk Management	Measures, independently, and reports corporate risk exposures; provides risk management training, tools, controls and strategies	MM0	17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C57 Financial Forecasting	Coordinates and develops plans and budgets for corporate and line organizations. Prepares and presents results of financial forecasts and provides financial and planning support for the regulatory and strategic planning process	MM0	17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C58 Load Forecasting	Prepares and presents economic, load and energy forecasts	MM19						0.23%	100.00%
	C59 Property Insurance	Property insurance premiums	Undepreciated assets (Default to MM6)	18.70%	19.24%	0.01%	1.35%		0.28%	100.00%

**Florida Power Corporation**  
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Service Company Group/Department	Product	Description	Allocation	FPC En Supply	FPC Elect Dist	Electric Fuels	Progress Telecom	SRS	Monroe	Total	
			Basis for Percent Allocation								
	C60	Liability & Workers Comp Insurance	Liability and workers' compensation insurance premiums.	Labor Dollars (Default to MM7)		2.45%	3.53%			100.00%	
	C61	Other Insurance	Crime, directors & officers, aircraft, fiduciary and special insurance premiums	MM8	17.99%	20.85%	0.74%	1.74%	0.14%	100.00%	
	C62	Nuclear Premiums & Credits	Nuclear property and liability insurance credit for good experience	Budgeted Dollars/Direct Cost for Actuals						100.00%	
	C76	Financial Administration Fees	Includes financial administration fees, such as bank fees	MM1						100.00%	
	S36	Business Case Analysis	Provides analysis support for business case development for various initiatives	MM5	18.47%	21.42%				100.00%	
Corporate Communications	C22	Corporate Communications	Includes management oversight across the entire Corporate Communications function. Develops and distributes key company messages to external media as primary corporate spokespersons, manages company's strategic philanthropy, manages the company's brand position and ensures consistency in brand message for both internal and external audiences; directs the corporate image through advertising, coordinates support activities for special corporate events, and provides communication planning and counseling.	MM0	17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C23	Donations	Corporate donations	MM18 (below the line)				2.53%	0.23%	100.00%	
	C24	CP&L Image Advertising	Manages the company's brand position and ensures consistency in brand message for internal and external audiences. Directs the corporate image through advertising.	MM1						100.00%	
	C26	NCNG Image Advertising	Manages the company's brand position and ensures consistency in brand message for both internal and external audiences. Directs the corporate image through advertising.	100% to NCNG						100.00%	
	S17	Internal Communications	Manages systems and creates tactical tools to keep employees informed and engaged about strategic business developments and their role in ensuring company success; tools include newsletters, e-mail (info bulletins), intranet and Internet employee briefings	Headcount	13.78%	25.22%	0.64%	1.98%	0.20%	0.04%	100.00%

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Service Company Group/Department	Product	Description	Allocation Basis for Percent Allocation	FPC En Supply	FPC Elect Dist	Electric Fuels	Progress Telecom	SRS	Monroe	Total
	S18 Customer Communications	Includes communications to Energy Delivery customers	100% to ED (G)							100.00%
Human Resources	C27 Human Resources Management	Provides management oversight across the Human Resources entire function	Headcount	14 18%	25 96%				0 04%	100.00%
	C28 Labor Relations	Provides corporate support for labor-related issues (union & non-union)	Headcount	13 81%	25 27%	0.65%	1.98%		0 04%	100.00%
	C30 Compensation	Administers base compensation, MICP, LTIP, deferred compensation, ECIP and other compensation programs	Headcount						0.07%	100.00%
	C81 Benefit Plan Integration	Provides integration of client company benefit plans	Headcount	14 18%	25.97%				0 04%	100.00%
	C31 EEO/AA/Diversity	Provides consultation and support on affirmative action, equal employment opportunity and diversity.	Headcount	13 90%	25 44%		2.00%		0.04%	100.00%
	S19 HRIS	Manages overall HR information, administers the PeopleSoft HR system; provides benefits administration	Headcount	13 90%	25 44%		2 00%		0 04%	100.00%
	S20 Policy/Pay/Benefit Admin	Provides the employee information line, benefits administration, compensation administration, and policies/practices administration of corporate relocation services and pre-retirement seminars	Headcount	14 18%	25 96%				0 04%	100.00%
	S21 Organizational Effectiveness	Designs and implements HR process improvements	Headcount	14 18%	25 96%				0 04%	100.00%
	S22 Staffing/Recruiting	Recruits, screens, tests, interviews applicants, consults with managers on staffing plans and issues.	Headcount						0 07%	100.00%
	S23 Training & Development	Provides executive and personal developmental training and employee development programs Course attendance charged by and to customer	Headcount	14 18%	25 96%				0 04%	100.00%
	S24 HR- Nuclear Generation Group	Includes cost of the HR service manager and representatives who provide HR management Consultation & support to managers & employees in the Nuclear Generation Group	100% to CP&L-ES							100.00%
	S25 HR - Power Ops Group	Includes cost of the HR service manager and representatives who provide HR management Consultation & support to managers & employees in the Power Operations Group	100% to CP&L-ES							100.00%

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Service Company Group/Department	Product	Description	Allocation Basis for Percent Allocation	FPC En Supply	FPC Elect Dist	Electric Fuels	Progress Telecom	SRS	Monroe	Total	
	S26	HR - Energy Delivery	Includes cost of the HR service manager and representatives who provide HR management Consultation & support to managers & employees in the Energy Delivery Group	100% to CP&L-ED						100.00%	
	S32	Staffing Record Keeping & Compliance		Headcount	14.18%	25.96%			0.04%	100.00%	
	S58	HR - Service Company (A)	Includes cost of the HR service manager and representatives who provide HR management, consultation and support to managers & employees in the Service Company	100% to Service Co using headcount							
	S29	HR-FPC		Direct Cost	64.67%					100.00%	
	S27	HR-RS&S		FTE's assigned ratio				10.00%		100.00%	
	S28	HR- NCNG	Includes cost of the HR service manager and representatives who provide HR management Consultation & support to managers & employees in the Gas and Energy Services Group	100% to NCMG						100.00%	
Other (Benefits/Burdens)	C01	Executive Management	Provides management oversight across the entire Holding and Service Company	MM0	17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C10	Corp HQ Leasehold Improvements	Amortization of leasehold improvement projects for corporate headquarters leased facilities	CPB & OH Sq Ft						100.00%	
	S47	Service Co Burden Allocation	Exceptional hours, payroll tax, benefits and stores burdens	Global Ratio by Department							
X00	C85	Operating Lease			40.30%	46.34%	1.55%	3.83%	3.14%	0.33%	100.00%
Corporate	C02	Depreciation Expense			17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
Corporate	C03	Capital Leases			17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
Corporate	C04	Property Tax - Service Company			17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
Corporate	C05	Interest Expenses			17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
Corporate	C88	Service Company Income Tax Expense			17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%

**Florida Power Corporation**  
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**2001 Service Company Budget by Product/Service - Consolidated Charges**

Service Company Group/Department	Product	Holding Company	CP&L Entries					Eastern NCNG
			CP&L (Corp)	Energy Distribution	Energy Supply	Retail	Energy Ventures	
Executive	C01 Executive Management	\$ 2,799		\$ 1,845,494	\$ 3,215,154	\$ 67,177	\$ 71,842	\$ 182,870
	C82 EEI Dues			\$ 363,750	\$ 363,750			
President	C83 Service Company President	\$ 692		\$ 456,547	\$ 795,379	\$ 16,618	\$ 17,773	\$ 45,239
Corp Relations & Administrative Services	000 Unspecified				\$ 125,000			
	C06 CR & AS Group Management	\$ 300		\$ 197,565	\$ 344,190	\$ 7,191	\$ 7,691	\$ 19,577
	C63 Admin Service Group Management	\$ 200		\$ 131,841	\$ 229,689	\$ 4,799	\$ 5,132	\$ 13,064
Audit	C07 Internal Audit	\$ 1,788		\$ 1,187,470	\$ 2,077,805	\$ 44,338	\$ 47,556	\$ 117,996
Corporate Services	000 Unspecified		\$ 85,500	\$ 17,987,961	\$ 4,004,312	\$ 16,590		\$ 7,270,106
			\$ 800,000	\$ 1,630,700	\$ 70,000			\$ 220,000
	258 T&D Transformer Solutions			\$ 70,665				
	259 T&D Transformer Solutions			\$ 105,999				
	C08 Corporate Services Management			\$ 1,528,827	\$ 2,675,075	\$ 57,312	\$ 61,034	\$ 151,841
	C09 Employee ID Cards-Corp			\$ 61,811	\$ 97,670	\$ 2,269	\$ 4,059	\$ 11,090
	C11 Real Estate			\$ 281,679	\$ 492,870	\$ 10,560	\$ 11,245	\$ 27,976
	C12 Nuclear Access Authorization/Physical				\$ 2,702,622			
	C13 Physical Security Invest/EAP			\$ 286,129	\$ 451,968	\$ 10,394	\$ 18,800	\$ 81,357
	C15 Corporate Air (fixed)			\$ 2,123,063	\$ 3,430,225	\$ 236,101	\$ 234,871	
	C16 Records and Procedures			\$ 81,841	\$ 129,270	\$ 2,985	\$ 5,390	\$ 14,677
	C74 Property Management (Corp HDQ)			\$ 1,441,493	\$ 1,258,406	\$ 38,681	\$ 1,040,505	\$ 541,527
	C80 Corporate Leases			\$ 116,391	\$ 204,369	\$ 4,455	\$ 4,785	
	S01 Fleet Management							
	S03 Property Management (System)			\$ 513,392				\$ 70,008
	S04 Facilities Project Management			\$ 130,028	\$ 59,828			\$ 85,190
	S06 Contracts/Leasing			\$ 104,085	\$ 583,096	\$ 41,689	\$ 83,286	
	S11 Oil-Filled Equipment Repairs			\$ 2,574,540				
	S13 Research and Technical Data			\$ 21,629	\$ 105,451	\$ 2,435	\$ 4,397	\$ 18,911
	S14 Mail Services			\$ 154,260	\$ 243,544	\$ 4,771	\$ 16,660	\$ 30,973
	S15 Copy Center Services			\$ 8,021	\$ 12,668	\$ 294	\$ 528	\$ 1,439
Economic Dev	C43 Economic Development	\$ 2,051		\$ 1,396,857	\$ 2,453,217	\$ 53,331	\$ 57,433	\$ 139,481
	C33 Corporate EHS Management			\$ 242,984	\$ 424,224	\$ 8,959	\$ 9,564	\$ 24,093
	C34 Regulatory Affairs/Technical Support			\$ 78,588	\$ 124,133	\$ 2,866	\$ 5,176	\$ 14,093
	C36 Energy Supply Safety Services				\$ 535,329			

**Florida Power Corporation**  
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**2001 Service Company Budget by Product/Service - Consolidated Charges**

Service Company Group/Department	Product	Holding Company	CP&L Entries							
			CP&L (Corp)	Energy Distribution	Energy Supply	Retail	Energy Ventures	NCNG	Eastern NCNG	
	C37 Energy Delivery Safety Services			\$ 254,443						
	C38 Retail Gas/Pipeline Safety								\$ 65,261	
	C39 Occ. Health Services				\$ 648,349					
	C40 DOT Motor Carrier Safety			\$ 50,000						
	C41 Workers' Compensation			\$ 31,449	\$ 54,907	\$ 1,160	\$ 1,238	\$ 3,118		
	C42 Environmental Services	\$ 288		\$ 189,777	\$ 330,623	\$ 6,908	\$ 7,388	\$ 18,805		
Legal	C17 Legal Services	\$ 4,068		\$ 2,701,920	\$ 5,382,815	\$ 100,885	\$ 108,207	\$ 268,483		
	C18 Corporate Secretary	\$ 3,228,876								
	C19 Claims			\$ 1,368,323	\$ 28,807			\$ 43,210		
Regulatory Affairs	C20 Regulatory Affairs			\$ 443,981	\$ 779,670	\$ 16,941	\$ 18,244	\$ 44,307		
Public Affairs	C21 Public Affairs	\$ 6,300,810								
Financial Services Group	C44 Fin Svcs Group Exec Management	\$ 491		\$ 323,693	\$ 563,926	\$ 11,783	\$ 12,601	\$ 32,075		
	C75 Finance Executive Management	\$ 108		\$ 71,081	\$ 123,835	\$ 2,587	\$ 2,767	\$ 7,043		
Accounting	000 Unspecified							\$ 82,224		
	C45 Accounting Management			\$ 1,450,409	\$ 2,537,862	\$ 54,373	\$ 57,903	\$ 144,052		
	C46 Management Reporting			\$ 394,723	\$ 690,669	\$ 14,797	\$ 15,758	\$ 39,203		
	C47 Financial Reporting	\$ 473		\$ 311,579	\$ 542,821	\$ 11,342	\$ 12,129	\$ 30,874		
	C49 Benchmarking	\$ 25		\$ 16,433	\$ 28,629	\$ 598	\$ 640	\$ 1,628		
	C52 Rates			\$ 258,694	\$ 454,290	\$ 9,871	\$ 10,630	\$ 25,816		
	S30 General Ledger Accounting	\$ 83		\$ 56,356	\$ 99,022	\$ 2,157	\$ 2,323	\$ 5,626		
	S31 Property Accounting			\$ 93,632	\$ 164,427	\$ 3,573	\$ 3,848	\$ 9,344		
	S32 Disbursements			\$ 420,163	\$ 288,315	\$ 66,742	\$ 164	\$ 37,706		
	S33 Revenue Accounting			\$ 86,317	\$ 151,962	\$ 3,354		\$ 8,634		
	S34 Regulatory Accounting			\$ 117,396	\$ 206,677	\$ 4,561		\$ 11,743		
	S35 Diversified Investments	\$ 80		\$ 52,577	\$ 91,597	\$ 1,914	\$ 2,047	\$ 5,210		
Information Technology	000 Unspecified			\$ 7,635,832	\$ 11,000	\$ 1,705,654	\$ 819,524	\$ 4,359,905	\$ 400,000	
	111 Native Load Generation			\$ 2,500		\$ 6,155,959	\$ 298,567			
	451 IT Services - Regulated				\$ 5,213,606		\$ 41,528			
	C69 IT Infrastructure Management			\$ 4,489,843	\$ 2,190,705	\$ 399,590	\$ 529,841	\$ 487,701		
	C70 Applications Maintenance			\$ 1,971,653						
	C71 Infrastructure & Maintenance			\$ 6,299,451	\$ 2,738,892	\$ 273,889	\$ 547,778	\$ 821,668		
	S49 Applications Develop & Enhance		\$ 2,657,242		\$ 86,400		\$ 10,000			
	S50 Applications Operations - Mainframe			\$ 1,669,705	\$ 270,000		\$ 476,650			
				\$ 5,477,912						

**Florida Power Corporation**  
**Progress Energy Service Company**  
**2001 Service Company Budget by Product/Service - Consolidated Charges**

Service Company Group/Department	Product	Holding Company	CP&L Entries								
			CP&L (Corp)	Energy Distribution	Energy Supply	Retail	Energy Ventures	NCNG	Eastern NCNG		
	S51 Applications Operations - HP/UNIX			\$ 5,806,285				\$ 39,460			
	S54 Personal Computers			\$ 1,552,305			\$ 262,760	\$ 587,862	\$ 769,893		
	S55 Personal Computer Network			\$ 941,543				\$ 181,820			
Strategic Planning	C64 Strategic Planning	\$ 833		\$ 549,524	\$ 957,361	\$ 20,003	\$ 21,392	\$ 54,452			
	C67 Market Research - Global	\$ 80		\$ 52,462	\$ 91,397	\$ 1,910	\$ 2,042	\$ 5,198			
	C68 Investor Relations/Funds Mgmt	\$ 252		\$ 166,134	\$ 289,433	\$ 6,047	\$ 6,467	\$ 16,462			
	C79 Market Research - Utility			\$ 611,435	\$ 1,071,458	\$ 22,871					
Tax	C50 Tax Administration	\$ 1,076		\$ 709,295	\$ 1,235,708	\$ 25,819	\$ 27,612	\$ 70,284			
	C77 CP&L Tax Services			\$ 55,718	\$ 97,835	\$ 2,133	\$ 2,291				
	C78 FPC Tax Services										
	S59 Payroll			\$ 154,322	\$ 243,502	\$ 4,758	\$ 16,737	\$ 31,012			
Treasury	C51 Treasury Management	\$ 447		\$ 294,797	\$ 513,584	\$ 10,731	\$ 11,476	\$ 29,211			
	C54 Cash Management	\$ 153		\$ 100,729	\$ 175,424	\$ 3,661	\$ 3,915	\$ 10,017			
	C55 Insurance Risk Management	\$ 172		\$ 113,296	\$ 197,380	\$ 4,124	\$ 4,410	\$ 11,226			
	C56 Financial Risk Management	\$ 98		\$ 64,532	\$ 112,426	\$ 2,349	\$ 2,512	\$ 6,395			
	C57 Financial Forecasting	\$ 221		\$ 145,384	\$ 253,282	\$ 5,292	\$ 5,660	\$ 14,406			
	C58 Load Forecasting			\$ 70,081	\$ 123,365		\$ 2,915	\$ 7,012			
	C59 Property Insurance			\$ 1,989,000	\$ 2,961,400	\$ 2,550	\$ 4,250	\$ 178,500			
	C60 Liability & Workers Comp Ins			\$ 323,622	\$ 681,876	\$ 28,080	\$ 29,835	\$ 36,621			
	C61 Other Insurance			\$ 203,572	\$ 355,615	\$ 7,521	\$ 8,029	\$ 20,225			
	C62 Nuclear Premiums & Credits		\$(12,482,735)								
	C76 Financial Administration Fees			\$ 536,500	\$ 942,032	\$ 20,535	\$ 22,056				
	S36 Business Case Analysis			\$ 144,610	\$ 252,961	\$ 5,492	\$ 5,773	\$ 14,362			
	Corporate Communications	C22 Corporate Communications	\$ 4,309		\$ 2,841,361	\$ 4,950,116	\$ 103,427	\$ 110,609	\$ 281,550		
		C23 Donations	\$ 1,043		\$ 692,428	\$ 1,211,593	\$ 25,854	\$ 27,731	\$ 68,805		
C24 CP&L Image Advertising				\$ 1,176,150	\$ 2,065,183	\$ 45,019	\$ 48,353				
C26 NCNG Image Advertising								\$ 37,000			
S17 Internal Communications				\$ 516,230	\$ 815,627	\$ 18,949	\$ 34,109	\$ 92,580			
S18 Customer Communications				\$ 369,200							
Human Resources	C27 Human Resources Management			\$ 1,275,092	\$ 2,014,051	\$ 46,508	\$ 83,973	\$ 228,664			
	C28 Labor Relations			\$ 27,469	\$ 43,395	\$ 1,006	\$ 1,811	\$ 4,930			
	C30 Compensation			\$ 456,755	\$ 721,626	\$ 16,742	\$ 30,084	\$ 81,881			
	C31 EEO/AA/Diversity			\$ 40,760	\$ 64,418	\$ 1,497	\$ 2,678	\$ 7,317			
	S19 HRIS			\$ 158,742	\$ 250,883	\$ 5,831	\$ 10,430	\$ 28,496			
	S20 Policy/Pay/Benefit Admin			\$ 138,611	\$ 218,941	\$ 5,056	\$ 9,128	\$ 24,857			

**Florida Power Corporation**  
**Progress Energy Service Company**  
**2001 Service Company Budget by Product/Service - Consolidated Charges**

Service Company Group/Department	Product	Holding Company	CP&L Entries						
			CP&L (Corp)	Energy Distribution	Energy Supply	Retail	Energy Ventures	NCNG	Eastern NCNG
	S21 Organizational Effectiveness			\$ 192,092	\$ 303,416	\$ 7,006	\$ 12,650	\$ 34,448	
	S22 Staffing/Recruiting			\$ 247,108	\$ 390,405	\$ 9,058	\$ 16,276	\$ 44,298	
	S23 Training & Development			\$ 128,778	\$ 203,410	\$ 4,697	\$ 8,481	\$ 23,094	
	S24 HR- Nuclear Generation Group				\$ 499,445				
	S25 HR - Power Ops Group				\$ 328,907				
	S26 HR - Energy Delivery			\$ 389,526					
	S28 HR- NCNG							\$ 169,948	
Other	000 Unspecified		\$ 55,944,995					\$ 3,596,796	
(Benefits/Burdens)	C01 Executive Management	\$ 1,074,111						\$ 363,714	
	C10 Corp HQ Leaschold Improvements			\$ 1,400,625	\$ 1,508,110	\$ 29,880	\$ 654,870	\$ 556,515	
	S47 Service Co Burden Allocation	\$ 394,006	\$ 10,495	\$ 3,862,691	\$ 6,479,627	\$ 244,580	\$ 201,377	\$ 421,498	
	<b>Total Service Company</b>	<b>\$ 11,019,933</b>	<b>\$ 47,015,497</b>	<b>\$ 99,862,216</b>	<b>\$ 89,670,201</b>	<b>\$ 4,328,240</b>	<b>\$ 7,272,780</b>	<b>\$ 22,976,811</b>	<b>\$ 400,000</b>

**Florida Power Corporation  
Progress Energy Service Company  
2001 Service Company Budget by Product/Service - Consolidated Cha**

		Florida Progress Entries							
Service Company Group/Department	Product	FPC (Corp)	En Supply	Elect Dist	Electric Fuels	Progress Telecom	SRS	Monroe	Total
Executive	C01 Executive Management		\$ 1,654,227	\$ 1,913,604	\$ 67,177	\$ 159,545	\$ 137,153	\$ 13,062	\$ 9,330,104
	C82 EEI Dues		\$ 363,750	\$ 363,750					\$ 1,455,000
President	C83 Service Company President		\$ 409,230	\$ 473,396	\$ 16,618	\$ 39,469	\$ 33,929	\$ 3,231	\$ 2,308,121
Corp Relations & Administrative Services	000 Unspecified								\$ 125,000
	C06 CR & AS Group Management		\$ 177,089	\$ 204,856	\$ 7,191	\$ 17,080	\$ 14,683	\$ 1,398	\$ 998,811
	C63 Admin Service Group Management		\$ 118,177	\$ 136,707	\$ 4,799	\$ 11,398	\$ 9,798	\$ 933	\$ 666,537
Audit	C07 Internal Audit						\$ 90,464	\$ 8,224	\$ 3,575,641
Corporate Services	000 Unspecified			\$ 14,600,000					\$ 43,964,469
									\$ 1,920,700
									\$ 800,000
	258 T&D Transformer Solutions								\$ 70,665
	259 T&D Transformer Solutions								\$ 105,999
	C08 Corporate Services Management		\$ 1,374,753	\$ 1,594,327					\$ 7,443,169
	C09 Employee ID Cards-Corp		\$ 49,250	\$ 86,899		\$ 6,552			\$ 319,600
	C11 Real Estate		\$ 253,292	\$ 293,747					\$ 1,371,369
	C12 Nuclear Access Authorization/ Physical		\$ 675,655						\$ 3,378,277
	C13 Physical Security Invest/EAP		\$ 227,895	\$ 402,140		\$ 30,417	\$ 48,758	\$ 611	\$ 1,558,469
	C15 Corporate Air (fixed)						\$ 124,199		\$ 6,148,459
	C16 Records and Procedures		\$ 65,215	\$ 115,050				\$ 166	\$ 414,594
	C74 Property Management (Corp HDQ)					\$ 128,935			\$ 4,449,547
	C80 Corporate Leases								\$ 330,000
	S01 Fleet Management		\$ 58,417	\$ 317,122					\$ 375,539
	S03 Property Management (System)								\$ 583,400
	S04 Facilities Project Management		\$ 20,924	\$ 156,930					\$ 452,900
	S06 Contracts/Leasing							\$ 104,085	\$ 916,241
	S11 Oil-Filled Equipment Repairs								\$ 2,574,540
	S13 Research and Technical Data		\$ 53,187	\$ 30,375					\$ 236,385
	S14 Mail Services		\$ 106,702	\$ 195,381	\$ 4,998				\$ 757,289
	S15 Copy Center Services								\$ 22,950
Economic Dev	C43 Economic Development								\$ 4,102,370
	C33 Corporate EHS Management		\$ 218,165	\$ 252,670	\$ 8,959	\$ 21,066			\$ 1,210,684
	C34 Regulatory Affairs/Technical Support		\$ 62,624	\$ 110,477				\$ 159	\$ 398,116
	C36 Energy Supply Safety Services								\$ 535,329

**Florida Power Corporation**  
**Progress Energy Service Company**  
**2001 Service Company Budget by Product/Service - Consolidated Cha**

		Florida Progress Entries								
Service Company Group/Department	Product	FPC (Corp)	En Supply	Elect Dist	Electric Fuels	Progress Telecom	SRS	Monroe	Total	
	C37 Energy Delivery Safety Services								\$ 254,443	
	C38 Retail Gas/Pipeline Safety								\$ 65,261	
	C39 Occ Health Services								\$ 648,349	
	C40 DOT Motor Carrier Safety								\$ 50,000	
	C41 Workers' Compensation		\$ 28,237	\$ 32,703	\$ 1,160	\$ 2,727			\$ 156,699	
	C42 Environmental Services		\$ 170,109	\$ 196,781	\$ 6,908	\$ 16,406	\$ 14,104	\$ 1,343	\$ 959,440	
Legal	C17 Legal Services						\$ 205,837	\$ 18,712	\$ 8,790,927	
	C18 Corporate Secretary								\$ 3,228,876	
	C19 Claims								\$ 1,440,340	
Regulatory Affairs	C20 Regulatory Affairs								\$ 1,303,143	
Public Affairs	C21 Public Affairs								\$ 6,300,810	
Financial Services Group	C44 Fin Svcs Group Exec Management		\$ 290,145	\$ 335,639	\$ 11,783	\$ 27,984	\$ 24,056	\$ 2,291	\$ 1,636,467	
	C75 Finance Executive Management		\$ 63,715	\$ 73,705	\$ 2,587	\$ 6,145	\$ 5,283	\$ 503	\$ 359,359	
	Accounting								\$ 82,224	
	000 Unspecified								\$ 82,224	
	C45 Accounting Management		\$ 1,304,238	\$ 1,512,549					\$ 7,061,386	
	C46 Management Reporting		\$ 354,943	\$ 411,634					\$ 1,921,727	
	C47 Financial Reporting		\$ 279,287	\$ 323,078	\$ 11,342	\$ 26,936	\$ 23,156	\$ 2,205	\$ 1,575,222	
	C49 Benchmarking		\$ 14,730	\$ 17,040	\$ 598	\$ 1,421	\$ 1,221	\$ 116	\$ 83,079	
	C52 Rates								\$ 759,301	
	S30 General Ledger Accounting							\$ 382	\$ 165,949	
	S31 Property Accounting								\$ 274,824	
	S32 Disbursements						\$ 4,335	\$ 491	\$ 817,916	
	S33 Revenue Accounting								\$ 250,267	
	S34 Regulatory Accounting								\$ 340,377	
	S35 Diversified Investments		\$ 47,128	\$ 54,517	\$ 1,914	\$ 4,545	\$ 3,907	\$ 372	\$ 265,808	
Information Technology	000 Unspecified	\$ 1,883,793	\$ 1,275,820	\$ 14,389,816		\$ 81,566		\$ 24,910	\$ 32,587,820	
	111 Native Load Generation		\$ 3,273,786						\$ 301,067	
	451 IT Services - Regulated								\$ 6,155,959	
	C69 IT Infrastructure Management	\$ 552,815	\$ 927,172	\$ 5,371,384		\$ 165,077		\$ 7,101	\$ 8,528,920	
	C70 Applications Maintenance	\$ 503,500	\$ 67,887	\$ 3,619,211					\$ 346,204	
	C71 Infrastructure & Maintenance	\$ 3,012,781	\$ 4,382,227	\$ 5,477,784					\$ 15,121,229	
	S49 Applications Develop & Enhance	\$ 9,868,926	\$ 492,900						\$ 6,162,251	
	S50 Applications Operations - Mainframe		\$ 427,000	\$ 1,347,351				\$ 10,600	\$ 23,554,470	
									\$ 13,115,468	
									\$ 4,201,306	
									\$ 5,477,912	

**Florida Power Corporation  
Progress Energy Service Company  
2001 Service Company Budget by Product/Service - Consolidated Cha**

		Florida Progress Entries								
Service Company Group/Department	Product	FPC (Corp)	En Supply	Elect Dist	Electric Fuels	Progress Telecom	SRS	Monroe	Total	
	S51 Applications Operations - HP/UNIX								\$ 5,845,745	
	S54 Personal Computers	\$ 337,280	\$ 1,586,121	\$ 6,856,370		\$ 497,500			\$ 12,450,091	
	S55 Personal Computer Network								\$ 181,820	
Strategic Planning	C64 Strategic Planning		\$ 492,571	\$ 569,805	\$ 20,003	\$ 47,507	\$ 40,839	\$ 3,889	\$ 2,778,179	
	C67 Market Research - Global		\$ 47,024	\$ 54,398	\$ 1,910	\$ 4,535	\$ 3,899	\$ 371	\$ 265,226	
	C68 Investor Relations/Funds Mgmt		\$ 148,916	\$ 172,266	\$ 6,047	\$ 14,362	\$ 12,347	\$ 1,176	\$ 839,909	
	C79 Market Research - Utility		\$ 550,349	\$ 638,937					\$ 2,895,050	
Tax	C50 Tax Administration		\$ 635,784	\$ 735,472	\$ 25,819	\$ 61,319	\$ 52,713	\$ 5,020	\$ 3,585,921	
	C77 CP&L Tax Services								\$ 157,977	
	C78 FPC Tax Services		\$ 891,165	\$ 534,687					\$ 1,425,852	
	S59 Payroll		\$ 106,819	\$ 195,425				\$ 328	\$ 752,903	
Treasury	C51 Treasury Management		\$ 264,244	\$ 305,676	\$ 10,731	\$ 25,485	\$ 21,909	\$ 2,087	\$ 1,490,378	
	C54 Cash Management		\$ 90,305	\$ 104,441	\$ 3,661	\$ 8,695	\$ 7,475		\$ 508,476	
	C55 Insurance Risk Management		\$ 101,554	\$ 117,477	\$ 4,124	\$ 9,795	\$ 8,420	\$ 802	\$ 572,780	
	C56 Financial Risk Management		\$ 57,844	\$ 66,914	\$ 2,349	\$ 5,579	\$ 4,796	\$ 457	\$ 326,251	
	C57 Financial Forecasting		\$ 130,316	\$ 150,749	\$ 5,292	\$ 12,569	\$ 10,805	\$ 1,029	\$ 735,005	
	C58 Load Forecasting							\$ 469	\$ 203,842	
	C59 Property Insurance		\$ 1,589,500	\$ 1,635,400	\$ 850	\$ 114,750		\$ 23,800	\$ 8,500,000	
	C60 Liability & Workers Comp Ins				\$ 28,665	\$ 41,301			\$ 1,170,000	
	C61 Other Insurance		\$ 182,838	\$ 211,905	\$ 7,521	\$ 17,684		\$ 1,423	\$ 1,016,333	
	C62 Nuclear Premiums & Credits	\$ (2,740,113)							\$ (15,222,848)	
	C76 Financial Administration Fees								\$ 1,521,123	
	S36 Business Case Analysis		\$ 130,036	\$ 150,805					\$ 704,039	
Corporate Communications	C22 Corporate Communications		\$ 2,546,882	\$ 2,946,224	\$ 103,427	\$ 245,638	\$ 211,163	\$ 20,111	\$ 14,364,817	
	C23 Donations						\$ 52,751	\$ 4,796	\$ 2,085,001	
	C24 CP&L Image Advertising								\$ 3,334,705	
	C26 NCNG Image Advertising								\$ 37,000	
	S17 Internal Communications		\$ 411,468	\$ 725,754	\$ 31,131	\$ 54,682	\$ 5,414	\$ 1,083	\$ 2,707,027	
	S18 Customer Communications								\$ 369,200	
Human Resources	C27 Human Resources Management		\$ 1,016,068	\$ 1,792,492				\$ 2,584	\$ 6,459,432	
	C28 Labor Relations		\$ 21,892	\$ 38,623	\$ 1,653	\$ 2,904		\$ 58	\$ 143,741	
	C30 Compensation							\$ 916	\$ 1,308,004	
	C31 EEO/AA/Diversity		\$ 32,473	\$ 57,312		\$ 4,323		\$ 84	\$ 210,862	
	S19 HRIS		\$ 126,468	\$ 223,208		\$ 16,835		\$ 328	\$ 821,221	
	S20 Policy/Pay/Benefit Admin		\$ 110,454	\$ 194,856				\$ 281	\$ 702,184	

**Florida Power Corporation**  
**Progress Energy Service Company**  
**2001 Service Company Budget by Product/Service - Consolidated Cha**

		Florida Progress Entries								
Service Company Group/Department	Product	FPC (Corp)	En Supply	Elect Dist	Electric Fuels	Progress Telecom	SRS	Monroe	Total	
	S21 Organizational Effectiveness		\$ 153,071	\$ 270,039				\$ 389	\$ 973,111	
	S22 Staffing/Recruiting							\$ 495	\$ 707,640	
	S23 Training & Development		\$ 102,618	\$ 181,033				\$ 261	\$ 652,372	
	S24 HR- Nuclear Generation Group								\$ 499,445	
	S25 HR - Power Ops Group								\$ 328,907	
	S26 HR - Energy Delivery								\$ 389,526	
	S28 HR- NCNG								\$ 169,948	
Other	000 Unspecified	\$ 4,384,057							\$ 63,925,848	
(Benefits/Burdens)	C01 Executive Management								\$ 1,437,825	
	C10 Corp HQ Leasehold Improvements								\$ 4,150,000	
	S47 Service Co Burden Allocation		\$ 2,162,178	\$ 2,938,702	\$ 55,554	\$ 138,338	\$ 116,282		\$ 17,025,328	
	<b>Total Service Company</b>	<b>\$ 17,803,039</b>	<b>\$ 32,483,934</b>	<b>\$ 76,772,493</b>	<b>\$ 454,771</b>	<b>\$ 2,071,070</b>	<b>\$ 1,289,696</b>	<b>\$ 273,132</b>	<b>\$ 413,693,813</b>	

**Florida Power Corporation  
Progress Energy Service Company  
Modified Massachusettes Formula Ratio  
2001 Budget**

	2001 Annual Labor Budget	% of Total Labor	2001 Undepreciated Assets Budget	% of Total Assets	Total Modified Mass %	(C59) Property Insurance (Assets Only)	(C60) Liability Insurance (Labor Only)	(S31) CP&L with EV and NCNG
Progress Energy Holding Company	\$ -	0.0%	\$ 10,476,796	0.1%	0.03%			
CP&L - Energy Supply	226,307,909	34.1%	6,298,662,192	34.8%	34.46%	34.84%	58.29%	59.83%
CP&L - Energy Delivery	107,391,551	16.2%	4,228,946,384	23.4%	19.78%	23.40%	27.66%	34.07%
CP&L - Energy Services	9,318,471	1.4%	5,966,669	0.0%	0.72%	0.03%	2.40%	1.30%
CP&L - Energy Ventures	9,896,595	1.5%	9,223,064	0.1%	0.77%	0.05%	2.55%	1.40%
SRS	19,129,572	2.9%	8,690,022	0.0%	1.47%			
NCNG	12,140,671	1.8%	379,171,417	2.1%	1.96%	2.10%	3.13%	3.40%
Monroe Power			50,546,596	0.3%	0.14%	0.28%	0.00%	
Total Carolina Fuels	\$ 31,270,243	4.7%	\$ 438,408,035	2.4%	3.57%	2.38%	3.13%	
FPC - Energy Supply	111,348,381	16.8%	3,379,438,962	18.7%	17.73%	18.70%		
FPC - Energy Delivery	144,632,314	21.8%	3,477,346,965	19.2%	20.51%	19.24%		
Electric Fuels	9,513,950	1.4%	2,018,243	0.0%	0.72%	0.01%	2.45%	
Progress Telecom	13,708,736	2.1%	244,929,547	1.4%	1.71%	1.35%	3.53%	
Total Florida Fuels & Telecom	23,222,686	3.5%	246,947,790	1.4%	2.43%			
<b>Total</b>	<b>\$ 663,388,150</b>	<b>100.0%</b>	<b>\$ 18,095,416,857</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

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Florida Power Corporation  
 Progress Energy Service Company  
 2002 Cost Distribution Model Metric Changes

Ref. No.	Department	Product/Service	Product Code	Description	Allocation Basis for GL Allocations	Progress Energy Holding Co.	CP&L	Progress Energy Ventures	ENCNG	NCNG	Florida Power Corporation	Electric Fuels	Progress Telecom	SRS	Total <sup>(1)</sup>
1	Executive Management	Executive Management	C01	Provides management oversight across the entire Holding and Service Company. Includes executive benefits.											
2	President	Service Company President	C83	Provides management oversight across the entire Holding and Service Company											
3	Executive Management	Corporate Relations & Administrative Services Group Management	C06	Provides management oversight across the entire Corporate Relations and Administrative Services Group.											
4	Executive Management	Administrative Services Group Management	C63	Provides management oversight across the entire Administrative Services Group											
5	Audit Services	Internal Audit	C07	Provide an independent and objective appraisal of the adequacy of business controls and effectiveness and efficiency of company operations. Includes financial, information technology, operations, environmental, and health and safety audits. Also includes administration of the Corporate Ethics Program and business controls education.											
6	Corporate Services	Corporate Services Management	C04	Provides management oversight across the entire Corporate Services function.											
7	Legal	Legal Services	C17	All activities associated with providing legal services and support in all matters related to company operations and relations for consolidated or Services Company. Also provides management oversight across the entire function.											
8	Real Estate	Real Estate	C11	Buy, sell, lease, and develop real estate. Provide lake, timber, and land management.											

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Florida Power Corporation  
 Progress Energy Service Company  
 2002 Cost Distribution Model Metric Changes

Ref. No.	Department	Product/Service	Product Code	Description	Allocation Basis for GL Allocations	Progress Energy Holding Co.	CP&L	Progress Energy Ventures	ENCNG	ENCNG	Florida Power Corporation	Electric Fuels	Progress Telecom	SRS	Total <sup>(1)</sup>
9	Regulatory Affairs	Regulatory Affairs	C20	Manage retail regulatory issues and activities with the utilities commissions in North and South Carolina, and provide support for federal and state legislative affairs regarding retail matters. Obtain state utilities commissions' approvals of all Company initiatives											
10	Public Affairs	Public Affairs-Carolinas	C91	Influencing legislation and shaping public policy & opinion on major corporate issues; ally development and training for NC & SC allies; support for "Citizens for a Brighter Carolina" group; monitoring & backing legislation, building goodwill & relationships at the NC & SC state level											
11	Public Affairs	Public Affairs-Federal	C21	Influencing legislation and shaping public policy & opinion on major corporate issues; monitoring & tracking legislation, building goodwill & relationships at the Federal level											
12	Corporate Communications	Corporate Communications	C22	Includes management oversight across the entire Corporate Communications function. Develops and distributes key company messages to external media as primary corporate spokesperson, manages company's strategic philanthropy, manages the company's brand positions and ensures consistency in brand message for both internal and external audiences, directs the corporate image through advertising, coordinates support activities for special corporate events; and provides communication planning and counseling											
13	Corporate Communications	Donations	C23	Corporate donations											
14	Human Resources	Executive Benefits Administration	C93	Administers officer and director specific benefit plans, including but not limited to, the administration of stock, option, health insurance, retirement and other plans											

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**Florida Power Corporation  
 Progress Energy Service Company  
 2002 Cost Distribution Model Metric Changes**

Ref. No.	Department	Product/Service	Product Code	Description	Allocation Basis for GL Allocations	Progress Energy Holding Co.	CP&L	Progress Energy Ventures	ENCNG	NCNG	Florida Power Corporation	Electric Fuels	Progress Telecom	SRS	Total <sup>(1)</sup>
15	Corporate Environment, Health & Safety	Corporate Environment, Health & Safety Management	C33	Provides oversight across the entire Corporate Environment, Health & Safety function.											
16	Corporate Environment, Health & Safety	Public Safety	C35	Maintains electrical and gas safety information; provides school programs, ensures regulatory compliance											
17	Corporate Environment, Health & Safety	Workers' Compensation	C41	Performs claims' management, case management, third party administration coordination and workers compensation oversight. Includes the costs to maintain the reserve for workers' compensation (self-insurance)											
18	Corporate Environment, Health & Safety	Environmental Services	C42	Provides environmental services											
19	Economic Development	Economic Development	C48	economic development within our service territory This includes attendance at trade shows and events to represent the company; recruitment of businesses, assistance with strategic planning for communities to aid in attracting businesses, facility location services, assistance to local, state, and regional allies with											
20	Executive Management	Financial Services Executive Management	C44	Provides management oversight across the entire Financial Services Group											
21	Executive Management	Finance Executive Management	C75	Provides management oversight across the entire Finance Group											
22	Accounting	Accounting Management	C45	Provides management oversight across the entire Accounting function											
23	Accounting	General Ledger Accounting	S30	Maintains general ledger, account keys and journal entries, manages the monthly and annual closing process, performs bank reconciliations											

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Florida Power Corporation  
 Progress Energy Service Company  
 2002 Cost Distribution Model Metric Changes

Ref. No.	Department	Product/Service	Product Code	Description	Allocation Basis for GL Allocations	Progress Energy Holding Co.	CP&L	Progress Energy Ventures	ENCNG	NCNG	Florida Power Corporation	Electric Fuels	Progress Telecom	SRS	Total <sup>(1)</sup>
24	Accounting	Property Accounting	S31	Maintains core fixed assets and materials records, including the entry of work orders in field organizations											
25	Accounting	Diversified Investments	S35	Handles all intercompany billing process for subsidiaries of Progress Energy. Also, maintains accounting records for certain subsidiaries.											
26	Accounting	Management Reporting & Financial Systems	C46	Develops and distributes cost reports, and develops and coordinates materials presented to the Board of Directors and its committees											
27	Accounting	Financial Reporting	C47	Develops internal and external financial reports.											
28	Regulatory Accounting	Regulatory Accounting	S34	Develops regulatory financial reports and consults on proper regulatory treatment of various accounting transactions; maintains records and reports in fuel related transactions											
29	Tax	Tax Administration	C50	Conducts tax planning and prepares returns, including taxes other than income.											
30	Treasury	Treasury Management	C51	Provides management oversight across the entire Treasury function											
31	Treasury	Financing	C53	Manages external financing and investments, bank relationships and the cost of capital, insures compliance with financing documents											
32	Treasury	Cash Management	C54	Manages the efficient movement of company funds through the banking system and secures short-term debt financing and/or investments.											
33	Treasury	Insurance Risk Management	C55	Manages the corporate insurance program											
34	Treasury	Business Case Analysis	S36	Provides analysis support for business case development for various initiatives											

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**Florida Power Corporation  
 Progress Energy Service Company  
 2002 Cost Distribution Model Metric Changes**

Ref. No.	Department	Product/Service	Product Code	Description	Allocation Basis for GL Allocations	Progress Energy Holding Co.	CP&L	Progress Energy Ventures	ENCNG	NCNG	Florida Power Corporation	Electric Fuels	Progress Telecom	SRS	Total <sup>(1)</sup>
35	Treasury	Financial Risk Management	C56	Measures, independently, and reports corporate risk exposures, provides risk management training, tools, controls and strategies.											
36	Treasury	Financial Forecasting, Budgeting & Business Planning	C57	Coordinates and develops plans and budgets for corporate and line organizations. Prepares and presents results of financial forecasts and provides financial and planning support for the regulatory and strategic planning process											
37	Treasury	Property Insurance	C59	Property insurance premiums.											
38	Treasury	Other Insurance	C61	Crime, directors & officers, aircraft, fiduciary and special insurance premiums											
39	Strategic Planning	Strategic Planning	C64	Maintains responsibility for corporate strategic planning (does not develop long-term plans for line or individual corporate organizations).											
40	Strategic Planning	Market Research - Global	C67	Provides market research services for the consolidated entity											
41	Strategic Planning	Investor Relations/Funds Management	C88	Manages relations with the financial community and the performance of external trust funds.											
42	Strategic Planning	Market Research - Utility	C79	Provides market research services to the electric utility.											
43	X00	Operating Lease	C86	Payments made on operating leases to CP&L, for the use of space to support non-CP&L companies											
44	Corporate	Depreciation Expense	C02	Depreciation expense on Service Company assets.											
45	Corporate	Capital Lease	C03	Lease payments on capital assets.											
46	Corporate	Property Tax-Service Company	C04	Property tax payments											
47	Corporate	Interest Expense and Income	C05	Interest expense payments.											

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**Florida Power Corporation  
 Progress Energy Service Company  
 2002 Cost Distribution Model Metric Changes**

Ref. No.	Department	Product/Service	Product Code	Description	Allocation Basis for GL Allocations	Progress Energy Holding Co.	CP&L	Progress Energy Ventures	ENCNG	NCNG	Florida Power Corporation	Electric Fuels	Progress Telecom	SRS	Total <sup>(1)</sup>
48	Corporate	Transitional Expenses	C87	Service Company transitional expenses related to the merger, such as severance, administrative leave and other items budgeted at a corporate level. Also includes the Management Incentive Compensation Plan and Employee Incentive Compensation Plan accruals, accrual reversals and pay-outs.											

<sup>(1)</sup> Total may not sum to 100.00% due to rounding

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**Florida Power Corporation  
 Progress Energy Service Company  
 Comparison of Allocation Factors  
 2001 Budget and 2002 Budget**

	2001 Annual Labor Budget	% of Total Labor	2001 Head Count	% of Total Head Count	2001 Undepreciated Assets Budget (A)	2001 % of Total Assets	2002 A0 % of Total Assets	2002 A1 Assets Factor	2002 A2 Assets Factor	2002 A3 Assets Factor
Progress Energy Holding Company	0	0.00%	-		10,476,796	0.06%				
CP&L - Energy Supply	226,307,909	34.11%	3,224	31.51%	6,298,662,192	34.81%				
CP&L - Energy Delivery	107,391,551	16.19%	2,042	19.96%	4,228,946,384	23.37%				
CP&L - Energy Services	9,318,471	1.40%	63	0.62%	5,966,669	0.03%				
CP&L Regulated	\$ 343,017,931	51.71%	5,329	52.08%	\$ 10,533,575,245	58.21%				
CP&L - Energy Ventures	9,896,595	1.49%	221	2.16%	9,223,064	0.05%				
SRS	19,129,572	2.88%	4	0.04%	8,690,022	0.05%				
NCNG	12,140,671	1.83%	410	4.01%	379,171,417	2.10%				
ENCNG						0.00%				
Monroe Power			326		50,546,596	0.28%				
CP&L Nonregulated	\$ 41,166,838	6.21%	635	6.21%	\$ 447,631,099	2.47%				
FPC - Energy Supply	111,348,381	16.78%	1,413	13.81%	3,379,438,962	18.68%				
FPC - Energy Delivery	144,632,314	21.80%	2,586	25.27%	3,477,346,965	19.22%				
FPC Regulated	\$ 255,980,695	38.59%	3,999	39.08%	\$ 6,856,785,927	37.89%				
Electric Fuels	9,513,950	1.43%	66	0.65%	2,018,243	0.01%				
Progress Telecom	13,708,736	2.07%	203	1.98%	244,929,547	1.35%				
FPC Nonregulated	23,222,686	3.50%	269	2.63%	246,947,790	1.36%				
Total	\$ 663,388,150	100.00%	10,232	100.00%	\$ 18,095,416,857	100.00%	100.00%	100.00%	100.00%	100.00%

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**Florida Power Corporation**  
**Progress Energy Service Company**  
**OPC Adjusted 2001 Service Company Budget by Product/Service - Consolidated Charges**

Service Company Group/Department	Product	Total	Revised Allocation Factor	Allocation Factor Code	Revised Allocation to FPC	Adjustment to FPC Allocation	Prior Allocation to FPC	Revised Allocation to FPC by Service Group	Prior Allocation to FPC by Service Group	Percent Change in FPC Allocation
Executive	C01 Executive Management	\$ 9,330,104		sec						
	C82 EEI Dues	\$ 1,455,000		2001						-26.60%
President	C83 Service Company President	\$ 2,308,121		sec						0.00%
Corp Relations & Administrative Services	000 Unspecified	\$ 125,000		2001						-26.60%
	C06 CR & AS Group Management	\$ 998,811		sec						
	C63 Admin Service Group Management	\$ 666,537		sec						-26.60%
Audit	C07 Internal Audit	\$ 3,575,641		2001						
Corporate Services	000 Unspecified	\$ 43,964,469		2001						
		\$ 1,920,700		2001						
		\$ 800,000		2001						
	258 T&D Transformer Solutions	\$ 70,665		2001						
	259 T&D Transformer Solutions	\$ 105,999		2001						
	C08 Corporate Services Management	\$ 7,443,169		Sec						
	C09 Employee ID Cards-Corp	\$ 319,600		2001						
	C11 Real Estate	\$ 1,371,369		Sec						
	C12 Nuclear Access Authorization/ Physical	\$ 3,378,277		2001						
	C13 Physical Security Invest/EAP	\$ 1,558,469		A1						
	C15 Corporate Air (fixed)	\$ 6,148,459		2001						
	C16 Records and Procedures	\$ 414,594		A2						
	C74 Property Management (Corp HDQ)	\$ 4,449,547		2001						
	C80 Corporate Leases	\$ 330,000		2001						
	S01 Fleet Management	\$ 375,539		2001						
	S03 Property Management (System)	\$ 583,400		2001						
	S04 Facilities Project Management	\$ 452,900		2001						
	S06 Contracts/Leasing	\$ 916,241		2001						
	S11 Oil-Filled Equipment Repairs	\$ 2,574,540		2001						
	S13 Research and Technical Data	\$ 236,385		2001						
	S14 Mail Services	\$ 757,289		A2						
	S15 Copy Center Services	\$ 22,950		2001						-4.55%
Economic Dev	C43 Economic Development	\$ 4,102,370		2001						
	C33 Corporate EHS Management	\$ 1,210,684		sec						

**Florida Power Corporation  
 Progress Energy Service Company  
 OPC Adjusted 2001 Service Company Budget by Product/Service - Consolidated Charges**

Service Company Group/Department	Product	Total	Revised Allocation Factor	Allocation Code	Revised Allocation to FPC	Adjustment to FPC Allocation	Prior Allocation to FPC	Revised Allocation to FPC by Service Group	Prior Allocation to FPC by Service Group	Percent Change in FPC Allocation
	C34 Regulatory Affairs/Technical Support	\$ 398,116		sec						
	C36 Energy Supply Safety Services	\$ 535,329		2001						
	C37 Energy Delivery Safety Services	\$ 254,443		2001						
	C38 Retail Gas/Pipeline Safety	\$ 65,261		2001						
	C39 Occ. Health Services	\$ 648,349		2001						
	C40 DOT Motor Carrier Safety	\$ 50,000		2001						
	C41 Workers' Compensation	\$ 156,699		sec						
	C42 Environmental Services	\$ 959,440		sec						-26.28%
Legal	C17 Legal Services	\$ 8,790,927		2001						
	C18 Corporate Secretary	\$ 3,228,876		2001						
	C19 Claims	\$ 1,440,340		2001						
Regulatory Affairs	C20 Regulatory Affairs	\$ 1,303,143		2001						
Public Affairs	C21 Public Affairs	\$ 6,300,810		2001						
Financial Services Group	C44 Fin Svcs Group Exec Management	\$ 1,636,467		sec						
	C75 Finance Executive Management	\$ 359,359		sec						-26.60%
Accounting	000 Unspecified	\$ 82,224		2001						
	C45 Accounting Management	\$ 7,061,386		sec						
	C46 Management Reporting	\$ 1,921,727		sec						
	C47 Financial Reporting	\$ 1,575,222		sec						
	C49 Benchmarking	\$ 83,079		A0						
	C52 Rates	\$ 759,301		2001						
	S30 General Ledger Accounting	\$ 165,949		2001						
	S31 Property Accounting	\$ 274,824		2001						
	S32 Disbursements	\$ 817,916		2001						
	S33 Revenue Accounting	\$ 250,267		2001						
	S34 Regulatory Accounting	\$ 340,377		2001						
	S35 Diversified Investments	\$ 265,808		sec						-21.76%
Information Technology	000 Unspecified	\$ 32,587,820		2001						
		\$ 301,067		2001						
	111 Native Load Generation	\$ 6,155,959		2001						
		\$ 8,528,920		2001						
	451 IT Services - Regulated	\$ 346,204		2001						

**Florida Power Corporation**  
**Progress Energy Service Company**  
**OPC Adjusted 2001 Service Company Budget by Product/Service - Consolidated Charges**

Service Company Group/Department	Product	Total	Revised Allocation Factor	Allocation Code	Revised Allocation to FPC	Adjustment to FPC Allocation	Prior Allocation to FPC	Revised Allocation to FPC by Service Group	Prior Allocation to FPC by Service Group	Percent Change in FPC Allocation	
	C69	IT Infrastructure Management	\$ 15,121,229		2001						
	C70	Applications Maintenance	\$ 6,162,251		2001						
	C71	Infrastructure & Maintenance	\$ 23,554,470		2001						
	S49	Applications Develop & Enhance	\$ 13,115,468		2001						
			\$ 4,201,306		2001						
	S50	Applications Operations - Mainframe	\$ 5,477,912		2001						
	S51	Applications Operations - HP/UNIX	\$ 5,845,745		2001						
	S54	Personal Computers	\$ 12,450,091		2001						
			\$ 181,820		2001						
	S55	Personal Computer Network	\$ 941,543		2001						0.00%
	Strategic Planning	C64	Strategic Planning	\$ 2,778,179		sec					
		C67	Market Research - Global	\$ 265,226		sec					
		C68	Investor Relations/Funds Mgmt	\$ 839,909		sec					
	Tax	C79	Market Research - Utility	\$ 2,895,050		sec					-23.28%
		C50	Tax Administration	\$ 3,585,921		sec					
		C77	CP&L Tax Services	\$ 157,977		2001					
	Treasury	C78	FPC Tax Services	\$ 1,425,852		2001					
		S59	Payroll	\$ 752,903		2001					-11.77%
		C51	Treasury Management	\$ 1,490,378		sec					
	Corporate Communications	C54	Cash Management	\$ 508,476		sec					
		C55	Insurance Risk Management	\$ 572,780		sec					
		C56	Financial Risk Management	\$ 326,251		sec					
		C57	Financial Forecasting	\$ 735,005		sec					
C58		Load Forecasting	\$ 203,842		2001						
C59		Property Insurance	\$ 8,500,000		sec						
C60		Liability & Workers Comp Ins	\$ 1,170,000		2001						
C61		Other Insurance	\$ 1,016,333		sec						
C62		Nuclear Premiums & Credits	\$ (15,222,848)		2001						
C76		Financial Administration Fees	\$ 1,521,123		2001						
S36		Business Case Analysis	\$ 704,039		sec						-3.61%
C22		Corporate Communications	\$ 14,364,817		sec						
C23		Donations	\$ 2,085,001		2001						

**Florida Power Corporation**  
**Progress Energy Service Company**  
**OPC Adjusted 2001 Service Company Budget by Product/Service - Consolidated Charges**

Service Company Group/Department	Product	Total	Revised Allocation Factor	Allocation Code	Revised Allocation to FPC	Adjustment to FPC Allocation	Prior Allocation to FPC	Revised Allocation to FPC by Service Group	Prior Allocation to FPC by Service Group	Percent Change in FPC Allocation
	C24 CP&L Image Advertising	\$ 3,334,705		2001						
	C26 NCNG Image Advertising	\$ 37,000		2001						
	S17 Internal Communications	\$ 2,707,027		A0						
	S18 Customer Communications	\$ 369,200		2001						-27.72%
Human Resources	C27 Human Resources Management	\$ 6,459,432		A2						
	C28 Labor Relations	\$ 143,741		A1						
	C30 Compensation	\$ 1,308,004		2001						
	C31 EEO/AA/Diversity	\$ 210,862		A3						
	S19 HRIS	\$ 821,221		A3						
	S20 Policy/Pay/Benefit Admn	\$ 702,184		A2						
	S21 Organizational Effectiveness	\$ 973,111		A2						
	S22 Staffing/Recruiting	\$ 707,640		A2						
	S23 Training & Development	\$ 652,372		A2						
	S24 HR- Nuclear Generation Group	\$ 499,445		2001						
	S25 HR - Power Ops Group	\$ 328,907		2001						
S26 HR - Energy Delivery	\$ 389,526		2001							
S28 HR- NCNG	\$ 169,948		2001						-22.49%	
Other (Benefits/Burdens)	000 Unspecified	\$ 63,925,848		2001						
	C01 Executive Management	\$ 1,437,825		2001						
	C10 Corp HQ Leasehold Improvements	\$ 4,150,000		2001						
	S47 Service Co Burden Allocation	\$ 17,025,328		2001						0.00%
Total Service Company		\$ 413,693,813								

**Florida Power Corporation  
Progress Energy Service Company  
Test Year Allocations to FPC  
OPC Recommended Adjustment**

Account	Information Technology	Telecom	Donations	Corp Svr Rent	Corp Svr Facilities	Corp Svr Aircraft Alloc	Executive Mgt	Corp Rels Group	Corporate Services	Real Estate	Physical Security	Corp Comm	Human Resources	Corp Enviroinal
500 00	\$ 1,352,028													
506 00		\$ 3,232,884												
517 00	\$ 1,567,920													
524 00	\$ 940,752	\$ 3,681,396												
524 10	\$ 156,792													
528 00	\$ 470,376													
546 00	\$ 2,067,756													
549 00	\$ 223,608	\$ 472,860												
560 00	\$ 882,648													
566 00	\$ 529,572	\$ 1,045,104		\$ 120,372										
568 00	\$ 353,052													
569 00					\$ 270,000									
580.00	\$ 1,159,560													
586.00	\$ 289,872													
588 00	\$ 3,478,584	\$ 4,302,612												
589.00				\$ 361,128										
590 00	\$ 579,756				\$ 1,730,000									
902 00	\$ 289,872													
903 10	\$ 10,312,896	\$ 4,057,488												
905 00	\$ 2,578,212													
921 20						\$ 1,400,000								
921.30		\$ 1,962,252												
923 00							\$ 3,912,996	\$ 390,000	\$ 5,268,000	\$ 972,000	\$ 1,497,996	\$ 4,212,000	\$ 5,132,004	\$ 1,302,000
924.30														
924 31														
925 05														
930 13														
930.22														
930.30	\$ 2,715,684													
Total Reg O&M	\$ 29,948,940	\$ 18,754,596	\$ -	\$ 481,500	\$ 2,000,000	\$ 1,400,000	\$ 3,912,996	\$ 390,000	\$ 5,268,000	\$ 972,000	\$ 1,497,996	\$ 4,212,000	\$ 5,132,004	\$ 1,302,000
163	\$ 439,980													
184	\$ 257,820													
421			\$ 2,500,000											
908 35	\$ 1,034,844	\$ 306,324												
Total Allocated														
Costs	\$ 31,681,584	\$ 19,060,920	\$ 2,500,000	\$ 481,500	\$ 2,000,000	\$ 1,400,000	\$ 3,912,996	\$ 390,000	\$ 5,268,000	\$ 972,000	\$ 1,497,996	\$ 4,212,000	\$ 5,132,004	\$ 1,302,000
Adjustment Percent	0.00%	0.00%	0.00%	-4.55%	-4.55%	0.00%	-26.60%	-26.60%	-4.55%	-4.55%	-4.55%	-27.72%	-22.49%	-26.28%
Adjustment Allocations	-	-	-	(21,886)	(90,906)	-	(1,040,668)	(103,721)	(239,447)	(44,180)	(68,089)	(1,167,710)	(1,154,259)	(342,214)
Adjustment Aircraft						(1,400,000)								
Total														

**Florida Power Corp  
 Progress Energy Ser  
 Test Year Allocation:  
 OPC Recommended**

Account	Financial Services	Accountng	Tax Admin	Treasury	Admin Srv Group	Strategic Planning	President	IT Fin Services	Prop Ins Non-Nuke	Nuclear Insurance	Liability Insurance	Advertising	Industry Assoc Dues	Total
500.00														\$ 1,352,028
506.00														\$ 3,232,884
517.00														\$ 1,567,920
524.00														\$ 4,622,148
524.10														\$ 156,792
528.00														\$ 470,376
546.00														\$ 2,067,756
549.00														\$ 696,468
560.00														\$ 882,648
566.00														\$ 1,695,048
568.00														\$ 353,052
569.00														\$ 270,000
580.00														\$ 1,159,560
586.00														\$ 289,872
588.00														\$ 7,781,196
589.00														\$ 361,128
590.00														\$ 2,309,756
902.00														\$ 289,872
903.10														\$ 14,370,384
905.00														\$ 2,578,212
921.20														\$ 1,400,000
921.30														\$ 1,962,252
923.00	\$ 693,000	\$ 4,955,004	\$ 3,461,004	\$ 2,261,004	\$ 308,004	\$ 2,925,000	\$ 1,481,004	\$ 183,000						\$ 38,954,016
924.30									\$ 3,225,000					\$ 3,225,000
924.31										\$ (2,871,996)				\$ (2,871,996)
925.05											\$ 1,134,000			\$ 1,134,000
930.13												\$ 2,718,996		\$ 2,718,996
930.22													\$ 799,992	\$ 799,992
930.30														\$ 2,715,684
Total Reg O&M	\$ 693,000	\$ 4,955,004	\$ 3,461,004	\$ 2,261,004	\$ 308,004	\$ 2,925,000	\$ 1,481,004	\$ 183,000	\$ 3,225,000	\$ (2,871,996)	\$ 1,134,000	\$ 2,718,996	\$ 799,992	\$ 96,545,044
163														\$ 439,980
184														\$ 257,820
421														\$ 2,500,000
908.35														\$ 1,341,168
Total Allocated														
Costs	\$ 693,000	\$ 4,955,004	\$ 3,461,004	\$ 2,261,004	\$ 308,004	\$ 2,925,000	\$ 1,481,004	\$ 183,000	\$ 3,225,000	\$ (2,871,996)	\$ 1,134,000	\$ 2,718,996	\$ 799,992	\$ 101,084,012
Adjustment Percent	-26.60%	-21.76%	-11.77%	-3.61%	-26.60%	-23.28%	-26.60%	0.00%	-3.61%	-3.61%	-3.61%	-27.72%	0.00%	
Adjustment Allocations	(184,305)	(1,078,338)	(407,242)	(81,588)	(81,914)	(680,847)	(393,876)	-	(116,374)	103,636	(40,920)	(753,798)	-	\$ (7,988,647)
Adjustment Aircraft														\$ (1,400,000)
Total														\$ (9,388,647)