

REDACTED

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**In re: Progress Energy Florida, Inc.'s)
 petition for approval of long-term fuel) Docket No.: 041414-EI
 supply and transportation contracts for)
 Hines Unit 4 and additional system)
 supply and transportation.)**

**PROGRESS ENERGY FLORIDA, INC.'S RESPONSES TO
 COMMISSION STAFF'S THIRD SET OF INTERROGATORIES TO
PROGRESS ENERGY FLORIDA, INC. (NOS. 59-61)**

Pursuant to Fla. Admin. Code R. 28-106.206, and Rule 1.340, Fla. R. Civ. P., Progress Energy Florida, Inc. ("PEF") responds to the Staff of the Florida Public Service Commission's Third Set of Interrogatories (Nos. 59-61) and states as follows:

GENERAL RESPONSES

PEF intends to respond fully to Staff's Interrogatories whenever possible but, PEF must object to any interrogatory that calls for information protected by the attorney-client privilege, the work product doctrine, the accountant-client privilege, the trade secret privilege, or any other applicable privilege or protection afforded by law. Also, in certain circumstances, PEF may determine upon investigation and analysis that information responsive to certain interrogatories

IP _____ is confidential and proprietary and should be produced only under an appropriate confidentiality
 JM _____ agreement, protective order, or the procedures otherwise provided by law. Accordingly, PEF
 R _____ will make every effort to respond but PEF cannot waive but must insist upon appropriate
 DR _____ protection of confidential information under the Florida Rules of Civil Procedure and other
 DL _____ applicable statutes, rules and legal principles.
 PC _____
 MS _____
 CA _____
 CR _____
 SEC 1
 TH _____

60. How was the 8.16% discount rate developed?

Response: The 8.16% cost of capital utilized in the Cypress analysis represents Progress Energy Florida's (PEF) weighted average cost of capital (WACC). This WACC is predicated on a utility capital structure of 48% debt and 52% equity funding.

The cost of debt estimate utilized was based on a combination of the 10-year Treasury rate, a market-based measure of the PEF utility's spread over the 10 year Treasury (risk free rate), and an estimate of the premium that would be charged by the market in order to lock in these borrowing costs for a point in the future. Our last comprehensive update of the utility's borrowing costs was performed during the early summer 2004, utilizing market data available as of April 30, 2004. At that time, the 10-year Treasury was yielding 4.51%, the current PEF spread over a 10-year period was 0.99%, and we estimated that to lock in rates for any period greater than 30 months into the future, the market would require about a 100 basis point premium (or 1%). Therefore, the PEF cost of debt appropriate for analyzing this project was estimated as follows:

Cost of debt = 10-year Treasury + PEF 10-year spread + forward premium for period greater than 30 months in the future.

$$\begin{aligned} &\text{or} \\ &= 4.51\% + .99\% + 1.00\% \\ &= 6.5\%. \end{aligned}$$

The PEF cost of equity utilized in the analysis is the regulated allowed return for the utility, or 12.0%.

We have relied upon an estimated marginal tax rate of 38.575% for PEF. This is composed of a marginal federal tax rate of 35.0% and the company's marginal corporate state income tax rate of 3.575%.

The basic calculation for deriving the WACC is: Combine the cost of equity and the after-tax cost of debt, according to the mix indicated by the capital structure. Formulaically, the calculation is:

$$\begin{aligned} \text{WACC} &= (\text{Cost of Equity} * \text{Equity \%}) + ((\text{Pre-tax Cost of Debt}) * (1 - \text{tax rate}) * (\text{Debt \%})) \\ \text{WACC} &= (12.0\% * 52\%) + ((6.5\%)*(1-38.575%)*(48\%)) \\ \text{WACC} &= (.0624) + (.0192) \\ \text{WACC} &= 8.16\% \end{aligned}$$

61. Has Progress Energy Florida discussed these supply and transportation contracts with bond rating agencies such as Standard and Poor's or Moody's? If yes, please explain or describe the discussion.

Response: Progress Energy Florida contacted its analysts at Standard and Poor's in advance of the press release announcing the supply and transportation contracts to provide preliminary notice of the transaction. Progress Energy Florida, however, had no substantive conversations with Standard and Poor's regarding the transaction.