



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: MAY 3, 2001

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (SLEMKEWICZ, MAUREY, DM
KUMMER, P. LEE) ^{PSR RMT} ^{RVE For ODR} TJS
DIVISION OF LEGAL SERVICES (ELIAS, HART)
DIVISION OF POLICY ANALYSIS AND INTERGOVERNMENTAL LIAISON ALM
(TRAPP) CR
DIVISION OF SAFETY AND ELECTRIC RELIABILITY (JENKINS) ^{JDJ} JLI
UH

RE: DOCKET NO. 000824-EI - REVIEW OF FLORIDA POWER CORPORATION'S EARNINGS, INCLUDING EFFECTS OF PROPOSED ACQUISITION OF FLORIDA POWER CORPORATION BY CAROLINA POWER & LIGHT.

AGENDA: 05/15/01 - REGULAR AGENDA - DECISION ON INTERIM RATES - INTERESTED PERSONS MAY PARTICIPATE ON ISSUES 2 AND 3 ONLY

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\000824.RCM
L:\PSC\LIBRARY\FILINGS\01\02886-01
- ATTACHMENT A (PAGE 2 ONLY)
R:\FPC0201.123 - ATTACHMENT B

CASE BACKGROUND

This docket was opened on July 7, 2000, to review the earnings of Florida Power Corporation (FPC or the company) and the effects of the acquisition of FPC by Carolina Power & Light Company (CPL). The acquisition was consummated on November 30, 2000. Although FPC's reported achieved return on equity (ROE) has been under its authorized ceiling of 13.00% for the past several years, this is due to FPC's discretionary acceleration of the amortization of the Tiger Bay Regulatory Asset that was authorized in Order No. PSC-97-0652-S-EQ, issued June 9, 1997. Without this totally discretionary

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acceleration, FPC would have earned substantially above its authorized ROE. Staff has been concerned about the potentially high level of FPC's earnings and has had several discussions with FPC to find a more permanent solution to the problem. Public Counsel also has been involved in these discussions. In anticipation of a Staff recommendation that would have been considered at the March 13, 2001, Agenda Conference, FPC offered a written proposal (Attachment A) that would defer that recommendation while discussions continued. In exchange, FPC agreed that any subsequent formal Commission action taken under the interim rate statute would be effective as if that action had been taken at the March 13, 2001, Agenda Conference. This recommendation is being filed because FPC has not offered any acceptable written plan to achieve a more permanent solution to its potentially high earnings level. In addition, FPC, along with Florida Power & Light Company and Tampa Electric Company, received approval from the Federal Energy Regulatory Commission (FERC) to form a Regional Transmission Organization (RTO) under FERC Order 2000. The RTO, GridFlorida, is scheduled to become operational December 15, 2001.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission order Florida Power Corporation (FPC) to place money subject to refund?

RECOMMENDATION: Yes. Pursuant to §366.071, Florida Statutes, the Commission should order FPC to place \$97,970,532 of annual revenue subject to refund, including interest, under a corporate undertaking pending final disposition in this proceeding. The effective date of this action is March 13, 2001. An additional amount of \$15,924,217 should be held subject to refund effective July 1, 2001. The total amount to be held subject to refund is \$113,894,749. Consistent with §366.071(2)(b), Florida Statutes, FPC is authorized to continue to collect its previously authorized rates, subject to the appropriate corporate undertaking. (SLEMKEWICZ, MAUREY, P. LEE, ELIAS)

STAFF ANALYSIS: On April 13, 2001, FPC filed its Earnings Surveillance Report (ESR) for the twelve month period ending February 28, 2001. As reported on the ESR, FPC had an achieved ROE of 11.48% on an "FPSC Adjusted" basis. When additional adjustments are made to reverse the effects of FPC's one-time merger costs, discretionary accelerated amortization of the Tiger Bay regulatory asset, the non-recurring write-off of a regulatory asset for previously flowed through taxes and the Crystal River Unit 3 (CR3) adjustment to common equity, the achieved ROE increases to approximately 17.02%. This exceeds the currently authorized maximum ROE of 13.00%.

Section 366.01, Florida Statutes, provides that: "...the regulation of public utilities is declared to be in the public interest and this chapter shall be deemed to be an exercise of the police power of the state for the protection of the public welfare and all the provisions hereof shall be liberally construed for the accomplishment of that purpose." Section 366.06(02), Florida Statutes, authorizes the Commission, on its own motion, to order an interim decrease upon a showing that "the utility is earning outside the range of reasonableness on rate of return." The statute further provides that rate of return "shall be calculated by applying appropriate adjustments consistent with those which were used in the most recent individual rate proceeding of the public utility."

FPC's filed ESR for February 2001 reported an achieved ROE of 11.48%. However, Staff believes that additional adjustments are warranted in order to appropriately evaluate FPC's earnings. FPC's

O&M expenses include a retail amount of \$64.6 million of merger costs incurred as a result of FPC's acquisition by CPL. These costs are mainly one-time severance payments to employees whose jobs were eliminated as a result of the merger.

The second adjustment involves the 2000 deferred earnings. In Order No. PSC-97-0652-S-EQ, the Commission approved a stipulation which allowed FPC to accelerate the amortization of the Tiger Bay regulatory asset at its own discretion as earnings permitted. For the year ending in January 2001, FPC has recorded deferred revenues in the amount of \$63 million. Per Order No. PSC-01-0071-PAA-EI, issued January 9, 2001, the Commission approved FPC's request to defer these earnings for disposition in 2001 and to propose an alternative to using the funds for the amortization of the Tiger Bay regulatory asset. No plan was submitted by FPC by the April 2, 2001 deadline. The \$63 million was subsequently applied against the Tiger Bay regulatory asset. Regardless of the disposition of the \$63 million, it still represents earnings that are under the control of FPC. It is important to remember that FPC is under no obligation or requirement to defer revenues or to accelerate the Tiger Bay regulatory asset amortization. :

There is no requirement or assurance that any additional amounts will be recorded on an ongoing basis. No revenue deferrals or amortization accelerations were included in the calculation of FPC's revenue requirement during its last rate proceeding. Therefore, Staff recommends that it is appropriate, reasonable and consistent with the interim statute to include the deferred revenues in the calculation of the interim amount. Under the current scenario, the Commission is dependent upon FPC's willingness to accelerate the amortization of the Tiger Bay regulatory asset as a necessary measure to mitigate overearnings. This places the Commission in a very weak position with respect to safeguarding consumers from excessive rates due to overearnings.

The third adjustment relates to an additional \$10.7 million write-off of a regulatory asset for previously flowed through taxes. This write-off was due to a change in the methodology for calculating the flowback period. This additional write-off is a non-recurring expense which is normally not included for ratemaking purposes.

Because the merger-related costs are one-time expenses, the \$64.6 million should be removed from FPC's expenses. FPC also has the discretion to retain the \$63 million of the Tiger Bay amortization for its own purposes rather than for the benefit of the ratepayers. Therefore, it is Staff's opinion that an

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adjustment should be made to include the \$63 million in revenues. Staff also recommends that expenses be reduced by \$10.7 million to remove the non-recurring expense related to the write-off of the previously flowed through taxes. These adjustments are necessary for the purposes of reviewing the level of FPC's current earnings and for evaluating FPC's potential earnings for 2001. It should be noted that FPC was recently granted a 60-day extension to May 1, 2001, to file its rule-required forecasted ESR for 2001 in Docket No. 010112-EI. After the previously discussed adjustments are made, FPC's achieved ROE increases from the reported 11.48% to 16.24%. This exceeds the authorized maximum ROE of 13.00% by 324 basis points and represents \$97,970,532 in operating revenues.

A further adjustment involves the CR3 regulatory asset. In Order No. PSC-97-0840-S-EI issued July 14, 1997, the Commission approved a stipulation which allows FPC to make an adjustment to its capital structure so the effect of the amortization of the CR3 regulatory asset as well as the write-off of the additional operating and maintenance expenses associated with the extended outage of CR3 would be excluded in calculating its common equity capitalization ratios used for purposes of surveillance reporting pursuant to Rule 25-6.1352, Florida Administrative Code. The Order notes that "the only two events mentioned by the Company which would trigger an end to this adjustment after the conclusion of the four year amortization period would be a rate proceeding or a change in the law ordering industry restructuring." Therefore, if the Commission approves staff's recommendation to require FPC to file MFRs in this docket, staff recommends the CR3 equity adjustment be reversed for purposes of measuring earnings to be held subject to refund following the June 30, 2001 end of the "four year amortization period" to be consistent with the interim statute regarding adjustments not made in a company's last rate case. Accordingly, staff recommends the amount held subject to refund effective March 13, 2001 be increased by \$15,924,217 for a total amount held subject to refund of \$113,894,749 effective July 1, 2001. The inclusion of this adjustment increases FPC's achieved ROE to 17.02%.

The possibility for overearnings in 2001 is increased when taking into account the effects of Progress Energy's acquisition of FPC. Beginning in January 2001, certain functions, primarily in the administrative area, are being integrated with CPL's, an affiliate of Progress Energy. FPC has indicated that this will result in significant cost savings for FPC. Other factors involve nuclear decommissioning and fossil dismantlement.

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FPC filed its updated nuclear decommissioning study for Crystal River Unit 3 on December 29, 2000. It should be noted, however, that FPC's study indicates a \$11,865,002 decrease in its annual accrual, effective January 1, 2001. If this magnitude of a decrease in decommissioning accruals is approved, this will serve to further increase FPC's 2001 earnings. As an added note, the decrease in the annual accrual appears to be totally related to an increase in the assumed fund earnings rate in the annuity calculation. In the 1995 nuclear decommissioning study, the Commission approved the use of a 4.9% assumed fund earnings rate. The current study utilizes a 6.0% fund earnings rate.

In addition, the recently filed dismantlement study reflects an annual accrual of \$7.7 million. However, the current stipulation that FPC is operating under frozen fossil dismantlement accrual levels at the 1995 levels of \$17 million. As filed, the study represents an annual decrease of \$9.3 million from the current authorized accrual level. Staff is currently reviewing both of these studies and anticipates filing recommendations for the Commission's consideration at the November 5, 2001, Agenda Conference.

In consideration of all of the foregoing discussion, Staff recommends that the Commission order FPC to place \$97,970,532 of annual revenue under corporate undertaking subject to refund, plus interest, pending final disposition in this proceeding. And based on FPC's agreement in its proposal (Attachment A), the effective date of this action is March 13, 2001. Staff further recommends that an additional \$15,924,217 be placed subject to refund effective July 1, 2001. The total amount to be held subject to refund is \$113,894,749, plus interest. Staff's calculation of the amount to be held subject to refund is included in Attachment B.

ISSUE 2: Should the Commission order Florida Power Corporation to file Minimum Filing Requirements?

RECOMMENDATION: Yes. The Commission should order FPC to file Minimum Filing Requirements (MFRs) by September 14, 2001, based on a projected calendar year 2002 test year. (SLEMKEWICZ, KUMMER, TRAPP, JENKINS)

STAFF ANALYSIS: In Staff's opinion, a due date of September 14, 2001 (approximately 120 days from the date of the vote), provides sufficient time to incorporate any effects of any deregulation legislation that might be passed by the Florida Legislature during the current session. In addition, The Financial Accounting Standards Board is currently scheduled to issue a pronouncement in June 2001 that could affect the recording and recovery of goodwill (acquisition adjustment). This could be a major expense item in light of FPC's acquisition by CPL. This filing date should also allow FPC the time necessary to evaluate the effects of the merger on its operations.

Staff also believes that a projected calendar year 2002 test year is a reasonable basis for determining future rates. If the MFRs are filed by September 14, 2001, new base rates would be placed into effect no later than May 14, 2002.

In addition to the reasons for an earnings investigation outlined above, full MFRs are necessary to ensure proper rate making and cost allocations between rate classes to reflect changes that have occurred since the company's last rate case. FPC's most recent fully allocated cost of service study was filed in 1991 for a projected 1993 test years. Since that time, significant changes have taken place in the company's operations as well as the cost shifting among rate classes that takes place over time.

One of the most significant changes that has occurred since the company's last rate case that will have immediate impacts on Florida consumers is FPC's proposed participation in the GridFlorida RTO. The planned implementation of GridFlorida RTO in December 2001 calls for RTO rates to be filed with FERC in October, 2001. FPC has declared its intent to turn over operational control of its transmission facilities to the RTO. FPC will pay the RTO rate determined by FERC for transmission service to both its wholesale and retail ratepayers. The RTO in turn will reimburse FPC for its revenue requirement associated with the transmission assets. There are a number of issues that are raised by this decision.

Prudence - The first issue to be addressed is the prudence of subjecting its retail and wholesale load to the RTO. FPC originally proposed holding its retail load out of the RTO and using the RTO only for wholesale transactions. It retreated from this position in order to reach agreement on a joint RTO proposal with FPL and TECO. Up to this point, the FPSC has been foreclosed from addressing whether FPC's decision to voluntarily participate in forming an RTO is prudent, cost-effective, and in the best interests of FPC's ratepayers. In Order No. 2000, FERC stated:

"Based on the wide array of comments received, which we discuss next, and the voluminous record compiled in this rulemaking proceeding, we conclude that a voluntary approach to RTO formation represents a measured and appropriate response to the technical impediments to competition that have been identified as well as the lingering discrimination concerns that have been raised. We believe that voluntary formation of RTOs will address the fundamental economic and engineering issues which confront the industry and the Commission, and will help eliminate any actual or perceived discriminatory conduct by entities that continue to control both generation and transmission facilities. Further, we believe that the voluntary process adopted in this rule, in conjunction with the innovative transmission pricing reforms that we will permit RTOs to seek, will be successful in achieving widespread formation of RTOs in a timely manner. Our adoption of a voluntary approach to RTO formation in this Final Rule does not in any way preclude the exercise of any of our authorities under the FPA to order remedies to address undue discrimination or the exercise of market power, including the remedy of requiring participation in an RTO, where supported by the record."

(Order No.2000, pages 100-101)

Although all the Joint Applicants maintain that FERC required them to join an RTO, Order 2000 clearly says the formation of an RTO is voluntary and no Florida utility has filed a formal challenge to FERC's authority in this area. One might suspect that FPC succumbed to the threat, real or imagined, that the FERC would not have approved the FPC/CPL merger without the merging parties specifically addressing their participation in an RTO. This, however, does not justify imposing unnecessary or imprudent costs on FPSC jurisdictional ratepayers.

One justification cited for forming GridFlorida is that economic benefits could be derived for Florida consumers by providing access to more economical generation sources. GridFlorida is unlikely to achieve this goal unless Florida reinforces its internal generation market by allowing merchant plants to construct and operate new generation facilities and sell their generation in Florida's wholesale marketplace. Until the restriction on siting merchant plants in Florida is lifted, it is not clear that FPC can expect any "enhanced competition" benefits from GridFlorida.

Another benefit cited for the formation of GridFlorida is that the transmission owners of the Transco could achieve lower long-run transmission costs by developing a more organized, more centralized, and larger transmission network. At present, however, no GridFlorida participant or stakeholder has quantified the potential savings or benefits that would result from the creation of GridFlorida. In fact, no party has disputed that costs of transmission are likely to increase, at least initially, as a result of participation in GridFlorida due to the cost of the GridFlorida organization itself. FPC has not quantified the benefits it expects to realize for its ratepayers.

With regard to benefits that may be created through economies of scope and scale, FPC has not provided any information on the synergies and savings that may be created by its participation in GridFlorida or how those savings would be passed on to its retail ratepayers. Only in the context of a full base rate proceeding can all of these areas be adequately addressed. Until the Commission makes a finding of prudence on FPC's participation in GridFlorida, Florida ratepayers should not incur any additional costs.

Costs - In addition to questions of prudence, FPC's decision to promote a separate and for-profit RTO and to transfer operational control of its transmission facilities to the GridFlorida RTO raises a number of questions pertaining to the costs, benefits, and potential impact on ratepayers. While the stakeholder discussions which have taken place in the development of the GridFlorida RTO are a necessary and important undertaking, these discussions have not addressed many of the important public policy issues or specific rate or rate structure issues. In fact, there have been numerous disagreements on what costs properly belong to the transmission operation and how any difference between a utility's embedded transmission cost and costs for GridFlorida's services should be recovered.

The economic costs of forming GridFlorida include start-up costs, an initial public offering (IPO), salaries and staffing, administration, and security coordination. On December 14, 2000, FERC approved FPC's request to defer the start-up costs. The FPSC has not addressed the accounting treatment of these start-up costs. Nevertheless, for retail jurisdictional purposes, the company is currently including these start-up costs as above-the-line rate base adjustments for surveillance purposes. Absent a showing of prudence, it is not clear that it is appropriate for the company to include start-up costs in rate base. Staff would recommend that until such time as FPC demonstrates that volunteering to participate in the formation of an RTO is likely to convey a net benefit to FPC's customers, the costs associated with forming the GridFlorida RTO should be accumulated in a non-interest bearing non-rate base account so that retail rates are not affected. Further, FPC's allocation of GridFlorida costs should be excluded from the company's surveillance reports.

The GridFlorida stakeholders have also conceded that there will be winners and losers once GridFlorida is operational due to cost-shifting. The issue of cost-shifting arises because GridFlorida intends to charge a single, statewide average uniform access rate within the region it serves. Cost-shifting occurs because of two changes associated with the GridFlorida rate. The first is the elimination of pancaked rates mandated by the FERC. Pancaked rates occur when a buyer and seller pays more than one transmission charge to transport power from the point of generation to the point of receipt by the retail-serving utility. Under Order No. 2000, only one transmission charge may be applied to a transaction, no matter how many utilities it traverses. As a result, utilities will lose some of the revenue they now receive. A second cost-shift involves a single, statewide rate. Transmission increases and decreases to individual utilities are certain to occur depending on how the embedded costs of transmission owners compare to the uniform access rate. Again, the filing of MFRs is needed to identify the extent to which FPC will experience increased costs, or decreased costs, associated with cost-shifting. How these cost-shifts are to be born by the different retail rate classes must also be identified in a fully allocated cost of service study

Rates - As GridFlorida becomes operational, it will submit a filing with the FERC for approval of rates. As stated above, FPC has stated its intent to turn over operational control of, but not divest, its existing transmission facilities to GridFlorida. Although the company has not proposed to divest its transmission assets, the retail rates which currently include a cost component

to recover transmission facility costs must be reconciled with the new wholesale transmission rates charged FPL by GridFlorida. Rates charged by GridFlorida, including a GridManagement charge, are likely to be greater than embedded transmission costs. If the rates charged under the FERC tariff exceed the amount currently recovered through bundled base rates, FPC has indicated it may seek to collect the difference through some type of automatic cost recovery clause.

One option to allow the FPSC to maintain oversight of the transmission costs included in retail rates is to unbundle base rates and specifically identify the cost associated with transmission. Depending on the ratemaking treatment approved by the Commission for the transmission component of unbundled retail rates, the Commission could either (1) estimate costs associated with purchasing transmission service from GridFlorida and roll these costs back into base rates on a going forward basis; or (2) establish a new cost recovery mechanism to separately recover these unbundled costs. In any event, as a starting point for this process, MFRs are necessary to determine what transmission costs are currently included in base rates. Any rate recovery, however, must be predicated on a finding that FPC's actions in joining GridFlorida were prudent before any costs associated with transmission above those currently born by ratepayers should be not allowed to be recovered through retail rates. If the decision to join GridFlorida is shown to be imprudent, all costs associated with GridFlorida should be included below-the-line in the surveillance reports of the company. If the decision to join GridFlorida was to primarily to achieve corporate objectives, shareholders should bear the cost.

These issues are far too complex and interwoven to be addressed in a piecemeal basis. Only with full revenue requirements proceeding with full MFRs including a fully allocated cost study, can this Commission fulfill its obligation to protect Florida ratepayers and ensure that the decision to join GridFlorida was prudent and that costs are properly assigned and recovered.

For the above reasons, Staff recommends that FPC be required to file MFRs based on a 2002 projected test year by September 14, 2001. This will allow adequate time to address the ramifications of any significant events so that they can be taken into consideration by the Staff and FPC.

DOCKET NO. 000824-EI

DATE: May 3, 2001

ISSUE 3: Should this docket be closed?

RECOMMENDATION: No. This docket should not be closed.
(SLEMKEWICZ, ELIAS, HART)

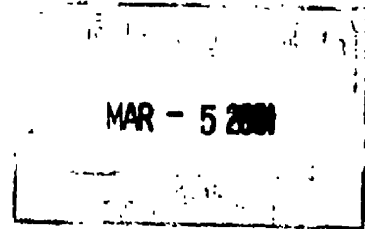
STAFF ANALYSIS: This docket should remain open for the investigation of FPC's earnings and the filing of its MFRs.



JAMES A. MCGEE
ASSOCIATE GENERAL COUNSEL

March 5, 2001

Mr. William Talbott
Executive Director
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850



Re: Docket No. 000824-EI

Dear Mr. Talbott:

As you know, Staff's recommendation in the subject earnings review docket is scheduled to be filed shortly and considered by the Commission at its March 13, 2001 Agenda Conference. I understand that Staff may intend to recommend that the Commission take some form of formal action in an attempt to move the issues pending in the docket toward resolution. Florida Power is concerned that taking such action could be detrimental to ongoing informal discussions with Staff and interested parties regarding these issues that may occur in the future.

Because of this concern, Florida Power proposes as an alternative that Staff's currently scheduled recommendation be indefinitely deferred in order to allow future discussions with Staff and interested parties to proceed unfettered by formal Commission action. This would also facilitate these discussions by allowing time to resolve the uncertainty that presently surrounds the outcome of industry restructuring proposals in the current legislative session. To ensure ratepayers are fully protected, Florida Power agrees that, in the event the Commission subsequently decides to take formal action under the interim rate statute, the effective date of that action may be the same as if the Commission had taken the action at the March 13, 2001 Agenda Conference.

Very truly yours,

James A. McGee

JAM/scc

FLORIDA POWER CORPORATION
For the Year Ended February 28, 2001
Excluding the CR3 Adjustment

NET OPERATING INCOME PER THE ESR		\$305,167,152
Staff Adjustments:		
Merger Related Costs	\$64,645,275	
Deferred Earnings	63,000,000	
Non-recurring Write-off	10,700,000	
CR3 Adjustment Interest Reconciliation - Income Tax Effect	0	
Income Taxes	(49,363,520)	
Total Adjustments		88,981,755
Adjusted Net Operating Income		\$394,148,907
RATE BASE PER THE ESR		\$3,519,639,998
Staff Adjustments:	\$0	
Total Adjustments		0
Adjusted Rate Base		3,519,639,998
Overall Rate of Return @ 13.00% Return on Equity	x	9.49%
Maximum Allowed Net Operating Income		334,013,836
Achieved Net Operating Income		394,148,907
Excess Net Operating Income		60,135,071
NOI Multiplier (Federal & State Income Tax & Reg. Assess. Fee)	x	1.62917
TOTAL REVENUE SUBJECT TO REFUND		\$97,970,532
ACHIEVED RETURN ON EQUITY		16.24%

FLORIDA POWER CORPORATION
 For the Year Ended February 28, 2001
 Average Capital Structure
 Excluding the CR3 Adjustment

	FPSC Adjusted Retail	Staff Adjustments	Staff Adjusted	Ratio	Cost Rate	Weighted Cost
Common Equity	\$1,844,817,569	\$0 (1)	\$1,844,817,569	52.63%	13.00%	6.84%
Preferred Stock	30,057,989		30,057,989	0.86%	4.51%	0.04%
Long Term Debt						
Fixed Rate	892,584,678		892,584,678	25.47%	7.27%	1.85%
Variable Rate	81,129,477	0 (1)	81,129,477	2.31%	6.47%	0.15%
Short Term Debt	107,376,724		107,376,724	3.06%	6.61%	0.20%
Revenue Decoupling	0		0	0.00%	5.55%	
Customer Deposits						
Active	104,180,959		104,180,959	2.97%	6.21%	0.18%
Inactive	453,853		453,853	0.01%	0.00%	0.00%
Investment Tax Credit						
Equity	37,945,802		37,945,802	1.08%	12.86%	0.14%
Debt	19,705,068		19,705,068	0.56%	7.20%	0.04%
Deferred Income Taxes	387,639,938		387,639,938	11.06%	0.00%	0.00%
FAS 109 Liability - Net	(25,389,043)		(25,389,043)	-0.72%	0.00%	-0.00%
Deferred Earnings	39,136,984	(14,608,839) (2)	24,528,145	0.70%	6.18%	0.04%
Total	\$3,519,639,998	(\$14,608,839)	\$3,505,031,159	100.00%		9.49%

(1) CR3 Adjustment
 (2) $(\$63,000,000 + \$63,316,313 + \$63,598,598) / 13$

Interest Reconciliation Adjustment due to CR3 Adj	
0	Additional Variable Rate Debt
x 6.47%	Variable Rate Debt Cost Rate
0	Additional Interest Expense
0.38575	Income Tax Rate
0	Reduction in Income Taxes

FLORIDA POWER CORPORATION
 For the Year Ended February 28, 2001
 Including the CR3 Adjustment

NET OPERATING INCOME PER THE ESR		\$305,167,152
Staff Adjustments:		
Merger Related Costs	\$64,645,275	
Deferred Earnings	63,000,000	
Non-recurring Write-off	10,700,000	
CR3 Adjustment Interest Reconciliation - Income Tax Effect	2,735,128	
Income Taxes	<u>(49,363,520)</u>	
Total Adjustments		<u>91,716,882</u>
Adjusted Net Operating Income		<u><u>\$396,884,034</u></u>
RATE BASE PER THE ESR		\$3,519,639,998
Staff Adjustments:	<u>\$0</u>	
Total Adjustments		<u>0</u>
Adjusted Rate Base		3,519,639,998
Overall Rate of Return @ 13.00% Return on Equity	x	<u>9.29%</u>
Maximum Allowed Net Operating Income		326,974,556
Achieved Net Operating Income		<u>396,884,034</u>
Excess Net Operating Income		69,909,478
NOI Multiplier (Federal & State Income Tax & Reg. Assess. Fee)	x	<u>1.62917</u>
TOTAL REVENUE SUBJECT TO REFUND		<u><u>\$113,894,749</u></u>
ACHIEVED RETURN ON EQUITY		<u><u>17.02%</u></u>

FLORIDA POWER CORPORATION
For the Year Ended February 28, 2001
Average Capital Structure
Including the CR3 Adjustment

	FPSC Adjusted Retail	Staff Adjustments	Staff Adjusted	Ratio	Cost Rate	Weighted Cost
Common Equity	\$1,844,817,569	(\$109,589,103) (1)	\$1,735,228,466	49.51%	13.00%	6.44%
Preferred Stock	30,057,989		30,057,989	0.86%	4.51%	0.04%
Long Term Debt						
Fixed Rate	892,584,678		892,584,678	25.47%	7.27%	1.85%
Variable Rate	81,129,477	109,589,103 (1)	190,718,580	5.44%	6.47%	0.35%
Short Term Debt	107,376,724		107,376,724	3.06%	6.61%	0.20%
Revenue Decoupling	0		0	0.00%	5.55%	
Customer Deposits						
Active	104,180,959		104,180,959	2.97%	6.21%	0.18%
Inactive	453,853		453,853	0.01%	0.00%	0.00%
Investment Tax Credit						
Equity	37,945,802		37,945,802	1.08%	12.86%	0.14%
Debt	19,705,068		19,705,068	0.56%	7.20%	0.04%
Deferred Income Taxes	387,639,938		387,639,938	11.06%	0.00%	0.00%
FAS 109 Liability - Net	(25,389,043)		(25,389,043)	-0.72%	0.00%	-0.00%
Deferred Earnings	39,136,984	(14,608,839) (2)	24,528,145	0.70%	6.18%	0.04%
Total	\$3,519,639,998	(\$14,608,839)	\$3,505,031,159	100.00%		9.29%

(1) CR3 Adjustment

(2) $(\$63,000,000 + \$63,316,313 + \$63,598,598)/13$

Interest Reconciliation Adjustment due to CR3 Adj.	
109,589,103	Additional Variable Rate Debt
x 6.47%	Variable Rate Debt Cost Rate
7,090,415	Additional Interest Expense
0.38575	Income Tax Rate
<u>2,735,128</u>	Reduction in Income Taxes