

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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In re: Review of Florida Power Corporation's Earnings, Including Effects of Proposed Acquisition of Florida Power Corporation by Carolina Power & Light

COMMISSION CLERK
DOCKET NO. 000824-01
Submitted for Filing:
November 19, 2001

FLORIDA POWER CORPORATION'S RESPONSE TO STAFF'S FIFTH SET OF INTERROGATORIES TO FPC

Pursuant to § 350.0611(1), Fla. Stat. (2000), Fla. Admin. Code R. 28-106.206, and Fla. R. Civ. P.1.340, Florida Power Corporation ("FPC") responds to the Staff of the Florida Public Service Commission's ("Staff") Fifth Set of Interrogatories and states as follows:

GENERAL OBJECTIONS

FPC objects 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, whether such privilege or protection appears at the time the response is first made to these interrogatories or is later determined to be applicable based on the discovery of documents, investigation or analysis. FPC in no way intends to waive any such privilege or protection.

In certain circumstances, FPC may determine upon investigation and analysis that

information responsive to certain interrogatories to which objections are not otherwise asserted are confidential and proprietary and should be produced only under an appropriate confidentiality agreement and protective order, if at all. By agreeing to provide such information in response to such interrogatory, FPC is not waiving its right to insist upon appropriate protection of

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confidentiality by means of a confidentiality agreement and protective order. FPC hereby asserts its right to require such protection of any and all documents that may qualify for protection under the Florida Rules of Civil Procedure and other applicable statutes, rules and legal principles.

FPC objects to these interrogatories and any definitions and instructions that purport to expand FPC's obligations under applicable law.

FPC objects to these interrogatories to the extent they are intended to require any expert/consultant retained by FPC in connection with this proceeding to provide a response, except those interrogatories that are expressly permitted to be directed at an expert/consultant as set forth in Florida Rule of Civil Procedure 1.280(b)(4). Rule 1.340 permits interrogatories to be directed only to parties, and FPC is not obligated to have experts/consultants respond to interrogatories other than those limited interrogatories that are specifically authorized as stated above. However, in the spirit of cooperation, FPC will agree at this point to have its experts/consultants provide responses to this set of interrogatories, but preserves its right to refuse to continue to do so at any point should it so choose. FPC in no way intends to waive this objection.

FPC objects to the interrogatories to the extent they purport to require FPC to provide responses on behalf of Florida Progress Corporation, Progress Energy, Inc., Progress Energy Service Company, LLC. FPC does not have an obligation under the rules to respond to interrogatories on behalf of these companies, but FPC agrees to do so in any event to expedite discovery, to the extent such interrogatory responses are relevant to the issues in this case. FPC reserves the right to decline to respond to any interrogatories that are not pertinent to the issues in the case.

FPC also objects to these interrogatories to the extent they purport to require FPC to prepare information or perform calculations not previously prepared or performed as an attempt to expand FPC's obligations under applicable law. FPC will comply with its obligations under the applicable rules of procedure.

FPC incorporates by reference all of the foregoing general objections into each of its specific objections set forth below as though pleaded therein.

In addition, FPC reserves its right to count interrogatories and their sub-parts (as permitted under the applicable rules of procedure) in determining whether it is obligated to respond to additional interrogatories served by any party.

INTERROGATORIES

159. Please provide a schedule for Florida Progress and Progress Energy for fiscal years 1999, 2000, and through the second quarter of 2001, which itemizes the amount and relative percentage of total equity, assets, revenue, net income, and return on equity for each subsidiary, i.e., FPC, CPL, etc. The sum of the amounts should balance to the consolidated amounts for Florida Progress and Progress Energy, respectively, and the sum of the relative percentages should equal 100%.

FPC objects to this interrogatory to the extent it purports to require FPC to conduct an analysis or create information not prepared by FPC in the normal course of business. Florida Power further objects to this request to the extent it calls for information relating to non-regulated subsidiaries of Florida Progress or Progress Energy. Without waiving these objection, FPC directs staff to Florida Progress and Progress Energy 10Ks and 10Qs are available on the SEC Web Site. CP&L, Florida Progress and Progress Energy Annual Reports are available on the Progress Energy Web Site.

160. Please provide a schedule which shows the actual common equity ratio for Florida Progress and Progress Energy and each of their subsidiaries for fiscal years 1999, 2000, and through the second quarter of 2001. For purposes of this response, the actual equity ratio is calculated by dividing total common equity by the sum of total common equity, preferred stock, long-term debt, and short-term debt. Show all amounts used in the calculations. The sum of the total equity for the subsidiaries should reconcile with the total equity for Florida Progress and Progress Energy, respectively.

FPC refers Staff to FPC's objections and response to interrogatory # 159.

161. For the years 1999, 2000, and through the second quarter of 2001, what were Florida Progress and Progress Energy's respective common equity ratios for non-regulated businesses, i.e., excluding all regulated operations (FPC, CPL, Progress Energy's natural gas distribution companies, etc.)?

FPC objects to this interrogatory as irrelevant, immaterial, and not reasonably calculated to lead to the discovery of admissible evidence. FPC further objects to this interrogatory as seeking information pertaining to non-regulated activities which are not recovered in base rates.

162. Please discuss in detail the justification for the difference between the equity ratio maintained at the regulated utility level (for FPC) and (1) the equity ratio levels maintained at the Florida Progress and Progress Energy levels, respectively, and (2) the equity ratio levels of the other subsidiaries of Florida Progress and Progress Energy.

FPC objects to this interrogatory as compound and reserves its right to count this interrogatory as two (2) separate interrogatories for purposes of determining its obligation to continue to provide responses under the order governing procedure in this case. Without waiving these objections, FPC directs Staff to FPC's response to Citizens interrogatory number 9.

163. Discuss in detail the impact S&P's decision to lower FPC's rating from AA- to BBB+ will have on FPC's ability to attract capital and the rates at which it must now pay for newly issued securities.

S&P's decision to lower FPC's debt rating should not have any effect on FPC's access to capital. The rates investors expect on new debt securities are based on many factors, including an issuer's rating. These factors include the size of the issuance, industry risk, business risk specific to an issuer, and the financial condition of the issuer.

The impact of S&P's decision to lower FPC's rates would be difficult to isolate given the other factors cited above and the fact that Moody's did not lower FPC's rating as much as S&P. Ignoring all factors other than an issuer's rating, a lower-rated issuer would likely pay higher rates than an issuer of similar size and industry characteristics who has a higher debt rating.

164. Absent the merger between Florida Progress and CPL, does FPC believe its rating would have been downgraded? Why or why not?

FPC objects to this interrogatory as compound and reserves its right to count this interrogatory as two (2) separate interrogatories for purposes of determining its obligation to continue to provide responses under the order governing procedure in this case. FPC further objects to this interrogatory to the extent it calls for FPC to speculate about a set of circumstances that did not occur. Without waving these objections, FPC states as follows:

FPC has no information about what action any rating agency would have taken absent the merger. FPC notes that the rating agencies have identified other issues that may impact or be

impacting FPC's rating, including the uncertainty surrounding the issue of restructuring in the state of Florida as well as the effect of the expiration of FPC's CR3 rate stipulation and any potential rate proceeding.

165. With respect to cost of capital, please specifically identify all quantifiable synergies that FPC believes have accrued to the utility as a result of the merger between Florida Progress and Carolina Power & Light.

Cost of capital synergies are difficult to isolate and quantify. However, FPC is now a part of a much larger entity, Progress Energy. As a large capital (large cap) company, Progress Energy provides large institutional investors with sufficient liquidity for both its debt issuances and common stock. As a large cap company, Progress Energy attracts a broader investor base which avoids the premium investors may charge a smaller capitalized company.

One benefit that has accrued to FPC as a result of the merger is the greater flexibility FPC enjoys with its short-term borrowing program. The added flexibility is due to its participation in the utility money pool program, which was established as a result of the merger. By having a utility money pool, FPC can reduce the amount of its revolving credit facilities which support its commercial paper program.

By establishing a utility money pool, Progress Energy can essentially look at both FPC and Carolina Power & Light in aggregate when determining the size of its revolving credit facilities.

166. Please discuss in detail why FPC believes the Crystal River Unit 3 (CR3) equity adjustment to its earnings surveillance report should continue to be made.

See the Direct Testimony of Mark A. Myers filed 9/14/01 page 5, line 22 to page 6 line 8.

167. What is the acquisition premium amount from the merger of Florida Progress and CPL and how was it calculated?

See the Direct Testimony of Mark A. Myers filed 9/14/01 particularly page 24, lines 1-8 and MAM-1. See also the Direct Testimony of Charles J. Cicchetti filed 9/14/01 particularly page 22, line 1 to page 23, line 3.

168. What is the impact of the acquisition upon FPC's retail rates and service?

See the Direct Testimony of Mark A. Myers filed 9/14/01 particularly page 3, lines 22-23, page 4, lines 1-4, page 5, lines 1-20 and page 28, lines 6-20. See also the Direct Testimony of Charles J. Cicchetti filed 9/14/01 particularly pages 13-17 and page 22.

For service related impacts, see the Direct Testimony of Martha W. Barnwell, Sarah S.Rogers, Robert A. Sipes, and E. Michael Williams filed 11/15/01.

169. What benefits (synergies) are directly related to the acquisition and could not have been achieved without the acquisition?

FPC defines synergies as those benefits achieved as a result of the merger. For more detailed description of those synergies, FPC directs Staff to the Direct Testimony of Mark A.

Myers filed 9/14/01, and the Direct Testimony of Robert H. Bazemore, Jr., Martha W. Barnwell, Sarah S. Rogers, Robert A. Sipes, and E. Michael Williams filed 11/15/01.

170. How has the acquisition affected FPC's system reliability?

FPC does not anticipate a negative impact on system reliability as a result of the merger. Indeed, FPC is in the process of improving its system reliability and availability by incorporating best practices identified in the integration process and through the on-going interactions between utility personnel. See the Direct Testimony of Sarah S. Rogers, Robert A. Sipes and E. Michael Williams filed on 11/15/01.

FPC is also pleased to report that its plan to share resources during major storm/outage events favorable impacted FPC's system reliability during Tropical Storm Gabrielle. During this weather event, approximately 325 employees from the Carolinas assisted with the restoration effort while others assisted with handling customer phone calls. Because of our integrated storm plans, FPC was able to get high quality resources on the ground in Florida very quickly and speed up the restoration process.

171. How has the acquisition affected FPC's customer service?

FPC expects that its customers will enjoy an enhanced quality of service. See the Direct testimony of Martha W. Barnwell filed on 11/15/01.

FLORIDA POWER CORPORATION

[Handwritten Signature]
Signature

STATE OF Florida
COUNTY OF Pinellas

BEFORE ME, the undersigned authority, duly authorized to administer oaths, personally appeared MARK A. MYERS (to me well known) (who has produced _____ as identification), on behalf of Florida Power Corporation, as its Vice President-Finance and who, after first being duly sworn, deposes and says that he/she executed the above and foregoing SWORN TO and subscribed before me this 16th day of NOVEMBER, 2001.

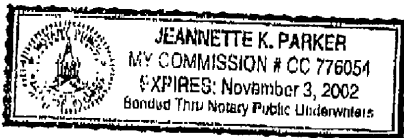
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(Signature)

Jeannette K. Parker
(Printed Name)

NOTARY PUBLIC, STATE OF FLORIDA

Nov. 3, 2002
(Commission Expiration Date)

CC 776054
(Serial Number, If Any)



As to the objections:

Respectfully submitted,
[Handwritten Signature]

For

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of foregoing has been furnished via U.S. Mail to the following this 19 day of November, 2001.

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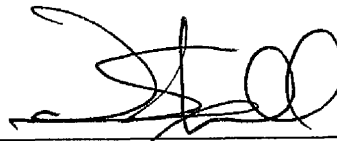
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