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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

DOCKET NO. 000824-EI

Submitted for Filing:
January 7, 2002

FLORIDA POWER CORPORATION'S RESPONSE TO THE FLORIDA INDUSTRIAL POWER USERS GROUP'S FIRST SET OF INTERROGATORIES TO FLORIDA POWER CORPORATION

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 Florida Industrial Power Users Group's First Set of Interrogatories (Nos. 1-23) subject to the previously filed general and specific objections and states as follows:

INTERROGATORIES

The following questions relate to the direct Testimony of Mark A. Meyers submitted for filing on November 15, 2001:

1. **Referring to Page 4 of Mr. Meyers' testimony, he states at Line 17 that the adjustments he makes to the Company's retail cost of service increase its revenue requirement by $40 million. Is the Company requesting to adjust its retail rates to recover the $40 million increased cost of service, as discussed at Page 4 of Mr. Meyers' testimony, and as shown on his Exhibit MAM-5?**

Yes.

2. **Referring to Mr. Meyers' Exhibit MAM-4:**

a. **Please state how the Company has arrived at the rate of return on assets and the discount rate as listed on this exhibit;**

The rate of return on assets is a long-term rate of return that reflects the average rate of earnings expected on funds invested to provide for the benefits included in the

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projected benefit obligation. The expected rate of return does not fluctuate with year-to-year market movements, but is selected based on long-term earnings expectations given investment strategy, historical returns, etc.

The discount rate is used to determine the present value of the pension obligation at a point in time, as well as the related components of pension cost (benefit), i.e. service cost and interest cost. The discount rate is set at December 31 of each year based on rates of return on high-quality long-term debt securities, i.e. high credit quality corporate bonds. Thus, the discount rate does change with year-to-year market conditions.

The Company also consults with its outside actuarial consultants in assessing the reasonableness of the assumption for rate of return on assets and the discount rate.

b. Please explain the relationship between the rate of return on the assets, discount rate, and the associated impact on the Company's net pension cost (benefit);

Generally, the rate of return and the discount rate are two independent inputs into the pension cost (benefit) calculation. An increase in the rate of return and/or the discount rate will result in a higher pension benefit. Conversely a decrease in the rate of return and/or the discount rate will decrease the pension benefit.

c. Please provide a detailed explanation of the line item net amortization and explain the decrease between July and September, and describe the impact on this line item for October and November.

The line "Net Amortizations" is comprised of several pension plan components included in the Pension Plan Actuarial Studies, *i.e.* :

Amortization of unrecognized transition obligation (asset)

Amortization of unrecognized prior service cost

Amortization of unrecognized (gain)/loss

The reference to July and September in Mr. Myers exhibit MAM-4 was meant only to compare Actuarial Pension Plan forecasts for 2002 that were completed in July 2000 against a more current forecast completed in September 2001. The Company develops a Pension Plan forecast each year as part of its budgeting process. Nothing occurred in October or November of 2001 on the Company's books related to the forecast for 2002.

3. Referring to Mr. Meyers' Exhibit MAM-5, please provide a complete description of the RTO cost included on this schedule. With respect to this column item, please provide the following:

The RTO costs included in this schedule represent the costs FPC incurred directly during 2000 and 2001 (as of October 2001) associated with RTO start-up activities. The costs would include primarily payroll and payroll loadings, expense account and travel and outside professional fees.

a. The amount of RTO cost assignable to Florida Power Corporation and which is being requested for recovery in this proceeding;

The entire amount of costs incurred by FPC (as of 10/31/01) associated with RTO start-up have been included in the Company's request for recovery in the proceeding. Reference direct testimony of Mark A. Myers filed 11/15/01 and accompanying exhibit MAM-5.

b. The amortization period of the RTO cost;

The amortization period is assumed to be one year.

c. **Please state whether the Company is seeking a carrying charge on the RTO cost;**

FPC has included a carrying charge on the amount of the unrecovered deferred costs included in rate base during this one year period using a 13 month average calculation of the rate base component.

d. **Please provide a reference to a Commission Order approving the Company's amount of RTO costs.**

The FPSC order associated with the prudency and recovery of these costs was expected the week of December 17, 2001, however the order had not been issued at the time of the drafting of this response. This order will be issued under this docket.

The following questions relate to the direct testimony of Mark A Meyers submitted for filing on September 14, 2001

4. **At page 3 of Mr. Meyers' testimony, he states the Company is pleased to be able to propose a rate reduction in this case as a result of the operating efficiencies made possible by the merger. He goes on to state the Company is proposing to guarantee $5 million annually in rate relief for 15 years. Please describe exactly how the Company proposes to reduce rates by at least $5 million in this proceeding. Please describe how this $5 million rate reduction is being spread between the rate classes, and how it is reflected in Mr. Meyers' November 15th testimony, specifically as shown on his Exhibit MAB-5.**

The Company has not made a proposal on exactly how this $5 million rate reduction would be implemented or spread between the rate classes. However, the Company believes that it would be appropriate to spread the reduction on a demand basis. The Company has not reflected this proposed rate reduction in its cost of service or rate design work as filed to date. The proposal was discussed in Mr. Myers testimony but not included or presented in any accompanying exhibits.

5. **Referring to Mr. Meyers' Exhibit MAM-1, please provide the following:**

a. The derivation of Line 1 - Florida Progress stock per share;

The Florida Progress stock per share price of $54 is the amount each shareholder received based on the terms of the merger agreement.

b. The derivation of the pre-merger price per share of $44.625;

The pre-merger price per share of $44.625 is the closing sale price per share, as reported in the Wall Street Journal, on August 20, 1999, which was the last full trading day before the public announcement of execution of the exchange agreement.

c. The derivation of the total shares shown on Line 4.

The total shares shown on line 4 represents the outstanding shares of Florida Progress as of November 30, 2000 which represents the acquisition date of Florida Progress by Progress Energy.

6. Referring to Mr. Meyers' Exhibit MAM-1, Line 11, he lists a retail annual acquisition" adjustment of $25.310. Please provide the annual revenue requirement that is necessary to fully recover this annual acquisition adjustment if provided for in FPC's retail cost of service.

The annual revenue requirement that is necessary to fully recover the annual acquisition amount as shown on Exhibit MAM-1, line 11 is $41.29 million.

	($ in Millions)
Line 11, Retail Annual Acquisition Adjustment	$25.310
Net Operating Income Multiplier	1.6313
Annual Revenue Requirement	$41.29

7. Referring to Mr. Meyers' Exhibit MAM-1, Line 11, does the Company have an offset for collection of the annual acquisition adjustment to prevent the revenues received for full recovery of the annual acquisition adjustment to be subject to state and federal income taxes. If such offset is not available, please answer the following:

Mr. Myers' exhibit MAM-1, line 11 represents the after-tax impact of the acquisition adjustment. Florida Power's proposal, as can be seen on MAM-1, would use cost synergies resulting from the merger to offset the acquisition adjustment. This results in a net benefit as shown on line 22 & 23.

a. Could the Company minimize the recovery cost of this <u>annual</u> acquisition adjustment from customers if it recorded goodwill on FPC's books and records to provide an offset to the collection of this <u>annual</u> acquisition adjustment in FPC's state and federal income taxes? Please explain answer.

The goodwill recorded as a result of the acquisition is not deductible for federal and state income tax purposes.

b. Has the Company considered pushing down an amount of goodwill to FPC's books to minimize the revenue requirement needed to fully recover its estimate of the <u>annual</u> acquisition adjustment? Please explain answer.

FPC has decided not to push down an amount of goodwill. As explained in a. above, there is no tax benefit to pushing down the amortization of goodwill.

8. Referring to Page 33 of Mr. Meyers' testimony, on Line 17 he refers to the Company's desired capital structure. Please state what the Company's desired capital structure is, along with its target bond rating, and explain the reasonableness of the Company's targets.

The targeted bond rating is single A. The desired capital structure is one that would support the single A rating after taking into consideration all other factors rating agencies use in assigning debt ratings.

9. **FPC witness Meyer indicates the Company has included costs related to its Hines Power Block Unit 2 in its projected 2002 test year. With respect to this adjustment, please answer the following:**

a. **Is it accurate that the Company is including rate base and operating expenses for the Hines Power Block Unit 2 in its projected 2002 test year even though the unit is not projected to be in service until November 2003?**

b. **Please identify all rate base expenses, working capital, deferred taxes, and all other rate base items included in the 2002 forecast.**

c. **Please identify all depreciation expense, operation and maintenance expense, A&G and common expense, and all other operating expenses attributable to Hines Power Block Unit 2 in the 2002 test year.**

a-c.

Florida Power Corporation has not included cost related to its Hines Power Block Unit 2 in its projected 2002 test year. Mr. Myers brings to the attention of the Commission this subsequent event which will result in an increase in revenue requirements and requests that this be taken into consideration when setting the Company's base rates going forward so as to avoid volatility.

<u>The following questions relate to the direct testimony of Dale E. Young submitted for filing on November 15, 2001</u>

10. **Referring to Page 11 of Mr. Young's direct testimony, he begins a discussion of a proposed adjustment to the MFR for the "last core" of nuclear fuel, and end-of-life nuclear materials and supplies at the Company's Crystal River Nuclear Unit No. 3. With respect to these proposed adjustments, please provide the following:**

a. **Please state whether the Company has considered, or has already requested, a nuclear operating license extension at Crystal River Unit No. 3 from the Nuclear Regulatory Commission.**

FPC has notified the NRC of plans to evaluate license extension and has committed to advising the NRC of its decision the end of the 4^{th} quarter 2005.

b. **If the Company has not pursued an operating license extension, please explain why.**

N/A

c. **Please explain why useable materials and supplies inventory and unused nuclear fuel costs would not be fully recovered in either the Company's salvage value reflected in the CR3 depreciation rate, or in its decommissioning expense fund.**

The calculation of the CR3 depreciation rate is based on electric plant in service which does not include either end-of-life materials and supplies inventory or fuel. Also, the intent of nuclear decommissioning is to recover the anticipated cost required to decommission the facility, which does not include materials and supplies inventory or unused nuclear fuel. Title 10 of the Code of Federal Regulations, Section 50.2 (10 CFR 50.2) defines decommissioning as safe removal of a facility from service and reduction of residual radioactivity to a level that permits the termination of the NRC license.

The following questions relate to the direct testimony of John B. Crisp Submitted for Filing on November 15, 2001

11. On Pages 14 and 15 of Mr. Crisp's testimony he summarizes the adjustments the Company has made to its 2002 energy sales forecast, Mr. Crisp states that the Company adjusted downward its projected sales forecast to reflect the weakening service area economy. With respect to this testimony, please answer the following:

a. **For what period does the Company expect the service area economy to be depressed to a level not previously seen since the 1990-1991 recession?**

Florida Power expects that the service area economy will reflect declining rates of growth – similar to the recession of 1990-1991 – into the second quarter of 2002.

b. **Do the Company' s projections expect that the service area economy and its sales will increase in 2003, relative to 2002, as the service area economy improves?**

The Company's projections of the service area economy and energy sales do increase in 2003, relative to 2002. However, due to the weaker growth rate projections now being made for the economy in late 2001 and 2002, the "level" or size of the service area economy, and thus, KWh sales in 2003, and beyond, remain below originally projected levels.

<u>The following questions relate to the direct testimony of William C. Slusser submitted for filing on November 15, 2001</u>

12. Referring to the direct testimony of William C. Slusser, page 25, explain in detail the basis for determining that interruptible and curtailable demand credits should be developed using a benefit to cost ratio of 1.2. Why was this specific benefit to cost ratio selected? Is there any Commission rule or case precedent that supports the use of this specific ratio in the development of interruptible or curtailable demand credits? If so, describe such rule or precedent.

FPC selected a benefit-cost ratio that will provide a cost-effectiveness margin to help ensure the Interruptible and Curtailable Service programs maintain their cost-effectiveness over time. This margin is especially important for dispatchable types of demand side management programs that pay (1) an on-going monthly credit to program participants, and (2) a constant dollar per kW of monthly billing demand regardless of whether any interruptions or curtailments actually occur. As a result, program cost-effectiveness is subject to change over time but the monthly credit payments do not change (without regulatory review and approval). If the demand credits were based on a benefit-cost ratio of 1.0, any decline in cost-effectiveness would render those credits non-cost-effective. Thus, there is a need for some level of margin. The 1.2 level of cost-effectiveness reflects Florida Power's best judgement regarding a reasonable margin and has been used in the past to establish Florida Power's current interruptible and curtailable rate schedules (IS-2, IST-2, CS-2 and CST-2), as well as to establish it's current residential load management tariff (RSL-1).

In Docket No.950645-EI, Order No. PSC-96-0842-FOF-EI, issued July 1, 1996, the Florida Public Service Commission approved new Interruptible and Curtailable rate schedules for Florida Power that were designed to reflect a 1.2 benefit-cost ratio. This Order is provided as a document response to FIPUG's First Request for Production of Documents, Question 12.

13. Referring to the direct testimony of William C. Slusser, page 25, explain in detail how Florida Power quantified the benefits and costs of providing interruptible and curtailable service for the purpose of developing its proposed demand credits for these rates.

This information is presented in Schedule E of the Supplement Schedules supporting Schedule E-17 (pages 188 thru 196 of the volume filed on November 15, 2001 containing MFRs Section E - Rate Schedules). An incorrect reference was described in the direct testimony.

14. Referring to the direct testimony of William C. Slusser, page 25, explain in detail how the Company determined the curtailable service is 75% as valuable as interruptible service.

In the event that the Company must shed load for generation reliability reasons, curtailable load may not be as effective as interruptible load in satisfying this need for the two reasons provided in the direct testimony: (1) actual curtailment remains an option of the customer although rate penalties are applied for non-compliance and (2) time is required to convey a curtailment request to the customer and for the customer to effect the curtailment. The Company does not have these limitations with interruptible service since the Company has equipment installed on the customer's point of delivery that allows the Company full interruptible control over the customer's load. Therefore, the

Company has determined that curtailable load should receive something less than the level of credit provided to interruptible load.

15. **Referring to the direct testimony of William C. Slusser, page 25, explain in detail all underlying assumptions supporting the Company' s quantification of the benefits and costs associated with interruptible service. Provide citations to any Commission rules or precedent supporting FPC' s proposed method of quantifying these costs and benefits.**

The information supporting the Company's quantification of benefits and costs associated with interruptible service was provided in Schedule E-17 Supplement, Schedule E, on pages 188 thru 195 of the volume filed on November 15, 2001 containing MFRs Section E - Rate Schedules.

A Commission order citing the same methodology that the Company is proposing in this proceeding for quantifying the benefits and costs associated with interruptible service is Order No. PSC-96-0842-FOF-EI, issued July 1, 1996, in Docket No. 950645-EI. This Order is provided as a document in response to FIPUG's First Request for Production of Documents, Question 12.

Minimum Filing Requirements – General

16. **Referring to the Company's Minimum Filing Requirement (MFR), Section C "Net Operating Income Schedules," Schedule C-3a, Page 1, under Column B the Company's adjustments include "remove recoverable fuel." With respect to this adjustment please answer the following:**

a. **Please provide a complete description of the purpose of removing fuel from the Company's total revenue requirements.**

Fuel is removed as it is recovered through the fuel clause not in base rates.

b. **If this adjustment is intended to remove fuel which is not recovered through base rates, please provide a detailed explanation of why this adjustment results in a reduction to base revenue net operating income of $9.63 million.**

c. **Please provide an explanation of why the Company's forecast includes lower fuel revenues than fuel expense.**

b. and c.

The presentation of this adjustment is only taken to the net operating income level rather than the net income. The $9.63 million primarily represents interest on Tiger Bay $6.5M and interest on under-recovery and line losses of $3.0M which occur after net operating income on the P&L.

17. **Referring to the Company's MFR Schedule C-3a, Page 2, Column I "Acquisition Adjustment," please confirm that this acquisition adjustment reflects the total amount of projected acquisition savings FPC expects to realize from its merger with CP&L in the 2002 test year.**

Yes, the amount shown on MFR C-3a, page 2, column I does represent the acquisition adjustment plus any net savings which is equal to the synergies reflected on Exhibit MAM-1, line 14. The adjustment was presented in this fashion in order to show the annual revenue requirements absent the impact of the merger. This will permit the Commission to evaluate the acquisition adjustment independently.

18. **Concerning the Company MFR Schedule C-3a, Page 3, Column D "Accelerated Recovery of Tiger Bay," please provide the following:**

a. **The amount of unrecovered Tiger Bay regulatory asset at the beginning of the 2002 test year.**

See response to Staff's Sixth Set of Interrogatories to FPC Question #172, attached hereto.

b. **State the amount of Tiger Bay accelerated recovery expected to be expensed in 2000 and 2001.**

See response to Staff's Sixth Set of Interrogatories to FPC Question #172, attached hereto.

c. **Please identify the amount of normal amortization expense for this regulatory asset in the 2002 test year.**

See response to Staff's Sixth Set of Interrogatories to FPC Question #172, attached hereto.

d. **Please state whether the unrecovered Tiger Bay regulatory asset is included in the Company's rate base. If affirmative, please identify the average amount included in the 2002 test year, all related deferred income taxes, and all other rate base items.**

The unrecovered Tiger Bay regulatory asset is not included in rate base.

19. **Explain in detail the Company's rationale for treating interruptible and curtailable service as demand-side management programs for the purpose of developing interruptible and curtailable demand credits.**

The Company treats interruptible and curtailable service as demand-side management programs because these two offerings are programs contained in the Company's Demand-Side Management Plan approved by the Florida Public Service Commission. (See Commission orders approving FPC's Demand-Side Management Plan provided as response to Question 22 of FIPUG First Request for Production of Documents).

20. **Referring to Schedule A-5, pages 4 and 5 of the Company's filing, explain in detail why the Company proposes to increase the distribution charge in its standby rates by 68%.**

All the charges in Standby rates are based on average embedded functional unit costs. The unit cost for Distribution Service, as determined from the allocated class cost of service for the GSD rate class for which SS-1 is included, is $2.52 per customer max. demand per month. This is the charge that is proposed.

21. Is Florida Power aware of any proceedings in which the Florida Commission has rejected the use of the Equivalent Peaker Method for the allocation of production capacity costs? If so, please provide citations to any such Commission orders.

No.

22. Provide a history of the interruptions or curtailments experienced by customers on the IS-1, IS-2, CS-1, and CS-2 rates for the period December 1999 through November 2001. For each interruption or curtailment requested during this period, provide the reason for the interruption or curtailment (reliability or economics), the number of customers impacted, the amount of load interrupted or curtailed, the duration of the interruption or curtailment, the amount of load buying through the interruption or curtailment, and the price charged for buying through the interruption or curtailment. Provide this information separately for each of the IS-1, IS-2, CS-1, and CS-2 service offerings.

See attachment.

23. Did the Company prepare an Equivalent Peaker Method Analysis in developing its cost of service studies? If not, explain why not.

Due to the time limitations in preparing the company's filing requirements and that the Company was not planning to propose full reliance on the Equivalent Peaker Method for class cost responsibility in this proceeding, no specific calculation was prepared as to the Equivalent Peaker Investment for the test period.

____
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 7th day of JANUARY, 2002.

Anne M. Sheloski
(Signature)

ANNE M. SHELOSKI
(Printed Name)
NOTARY PUBLIC, STATE OF FLORIDA

____
(Commission Expiration Date)

____
(Serial Number, If Any)

Anne M. Sheloski
MY COMMISSION # CC725907 EXPIRES
April 12, 2002
BONDED THRU TROY FAIN INSURANCE, INC.

[redacted] **FIPUG/INTERROGATORY # 18** [redacted]

	Actual 2000	Projected 2001	Projected 2002	Projected 2003
A. Beginning of the year balance	297,817,871	226,656,451	104,184,061	54,517,912
B. Amount recovered through the fuel adjustment clause	24,624,022	28,604,823	40,666,149	49,254,766
C. Amount of accelerated amortization	46,537,398	* 93,867,567	9,000,000	5,263,146
D. Other Adjustments	-	-	-	-
E. End of year balance	226,656,451	104,184,061	54,517,912	-

*Represents deferral from 2000 of $63,867,567 plus projected accelerated amortization of $30,000,000.

FIPUG/INTERROG #22

Florida Power Corporation
Response to FIPUG first set of interrogatories
Question # 22
Summarry of IS/CS interruptions for period Dec. 1999 - Nov. 2001

	Jul-00		
Reason	IS-1 RELIABILITY	IS-2 RELIABILITY	CS-1 RELIABILITY
# of customers affected	134	2	8
MW shed	195 - 245	inc. IS-2	10 - 13
Length of interruption			
7/20/00			
Group A	15:09 - 15:48	15:09 - 15:48	15:09 - 15:48
Group B	13:58 - 16:18	13:58 - 16:18	13:58 - 16:18
Group C	14:46 - 16:08	14:46 - 16:08	14:46 - 16:08
Purchase Power			
Length			
7/07/00	15:58 - 16:44	15:58 - 16:44	15:58 - 16:44
7/19/00	13:57 - 15:28	13:57 - 15:28	13:57 - 15:28
7/20/00	14:00 - 16:39	14:00 - 16:39	14:00 - 16:39
KWH of PP	582,486	inc. IS-2	71,129
Price			
7/07/00	$ 0.16819	16:00 - 17:00	
7/19/00	$ 0.13645	14:00 - 15:00	
	$ 0.28396	15:00 - 16:00	
7/20/00	$ 0.22633	14:00 - 15:00	
	$ 0.38258	15:00 - 16:00	
	$ 0.49928	16:00 - 17:00	

Florida Power Corporation
Response to FIPUG first set of interrogatories
Question # 22
Summary of IS/CS interruptions for period Dec. 1999 - Nov. 2001

	Jan-01		
Reason	IS-1 RELIABILITY	IS-2 RELIABILITY	CS-1 RELIABILITY
# of customers affected	143	6	7
01/03/01			
MW shed	105	inc. IS-2	3
Length of interruption			
Group C	7:05 - 8:26	7:05 - 8:26	7:05 - 8:26
01/05/01			
MW shed	200 - 235	inc. IS-2	9 - 13
Length of interruption			
Group A	5:55 - 9:17	5:55 - 9:17	5:55 - 9:17
Group B	6:01 - 9:11	6:01 - 9:11	6:01 - 9:11
Group C	6:04 - 8:56	6:04 - 8:56	6:04 - 8:56
Purchase Power			
01/03/01			
Group C	none	none	none
Length			
01/05/01	6:23 - 7:02	6:23 - 7:02	6:23 - 7:02
KWH of PP	71,748	inc. IS-2	3,252
Price			
01/05/01	$ 2.06305	6:00 - 7:00	