ORIGINAL

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January 18, 2002

FEDERAL EXPRESS

Blanca S. Bayó, Director
Division of Records and Reporting
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0870

Re: Docket No.: 000824-EI
Publix Super Market Inc., Direct Testimony of Sheree L. Brown and Theodore Kury

Dear Ms. Bayó:

Enclosed please find fifteen (15) copies of the redacted version of the Direct Testimony of Sheree L. Brown and fifteen (15) copies of the testimony of Theodore J. Kury filed by Publix Super Markets, Inc. in the above-referenced docket. A copy of these filings have been provided on a 1.44MB floppy disc in Word.

Sincerely,

Thomas A. Cloud

GRAY, HARRIS & ROBINSON, P.A.

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FPSC-COMMISSION CLERK

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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 18, 2002

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the redacted direct testimony of Sheree L. Brown and the direct testimony of Theodore J. Kury filed by Publix Super Markets, Inc. in the above-referenced docket has been furnished by U. S. Mail to the following parties of record and interested parties, this 18th day of January 2002:

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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
	:	
	:	Submitted for Filing:
	:	January 18, 2002

DIRECT TESTIMONY OF
THEODORE J. KURY ON BEHALF OF
PUBLIX SUPER MARKETS, INC.

DIRECT TESTIMONY OF
THEODORE J. KURY ON BEHALF OF
PUBLIX SUPER MARKETS, INC.

Q: PLEASE STATE YOUR NAME AND OCCUPATION.

A: My name is Theodore J. Kury and I am a Senior Economist with SVBK Consulting Group, Inc., a subsidiary of Alliant Energy Integrated Services, located at 37 N. Orange Ave, Suite 710, Orlando, Florida 32801.

Q: PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A: A detailed description of my education and experience is included in my resume attached as Exhibit No.___(TJK-2).

Q: ON WHOSE BEHALF ARE YOU SPONSORING THIS TESTIMONY?

A: I am sponsoring this testimony on behalf of Publix Super Markets, Inc. ("Publix").

Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A: I was retained by Publix to provide a critical review of the financial analysis and associated rates of return and common equity capital sponsored by Dr. Charles J. Cicchetti and Dr. James H. Vander Weide for Florida Power Corporation ("FPC" or "the Company"). In the event that I disagreed with their financial analyses and return proposals, I was charged to develop and present a more realistic return proposal.

In addition, I have some concerns regarding real time pricing and time of use rates for commercial customers. These are addressed at the end of my testimony.

RATE OF RETURN

Q: HAVE YOU HAD AN OPPORTUNITY TO REVIEW THE COMPANY'S FINANCIAL ANALYSIS AND RETURN PROPOSALS?

A: Yes, I have. My analysis of FPC's filing has led me to conclude that the return proposal propounded by Dr. Vander Weide is excessive, and therefore inequitable. If granted in this proceeding, this rate of return would unfairly enrich Progress Energy, the parent and sole common equity holder of FPC, at the expense of the Florida customers. In keeping with my charge from Publix, I performed a market-based financial analysis that produced common equity cost estimates and fair rate of return recommendations which, in my judgement, more accurately reflect the current and prospective financial circumstances of FPC and the capital market.

Q: PLEASE IDENTIFY THE FOUR EXHIBITS THAT ACCOMPANY YOUR TESTIMONY.

A: I have prepared four exhibits, attached herein, numbered TJK-3 through TJK-6 to supplement my testimony. Exhibit No.___(TJK-3) shows my recommended rate of return for FPC, Exhibit No.___(TJK-4) shows the results of my Discounted Cash Flow analysis, Exhibit No.___(TJK-5) is a restated version of Dr. Vander Weide's Schedule 1, and Exhibit No.___(TJK-6) is a restated version of FPC Schedule D-1, Page 1 of 17.

Q: WHAT CONCLUSIONS HAVE YOU DRAWN REGARDING THE RATE OF RETURN FOR FPC IN THIS CASE?

A: My recommended return on common equity for FPC is 10.66%, resulting in an overall rate of return of 8.45%, as shown in Exhibit No.___(TJK-3). The effect of this rate of return is

approximately $81.3 million to the FPC retail customer, and has been incorporated into the revised cost of service study prepared by Publix Witness Brown in Exhibit SLB-4.

Q: WHAT CONSTITUTES A COMPANY'S RATE OF RETURN?

A: The rate of return is also known as a weighted average cost of capital. This is the average cost of long-term debt, short-term debt, accumulated deferred income taxes, other deferred balances, preferred stock, and common equity weighted by the percentage of each component in the company's capital structure.

Q: WHAT IS FPC'S CAPITAL STRUCTURE?

A: FPC's capital structure, shown in Exhibit No.___(TJK-3), was reported in Schedule D-1 of the Minimum Filing Requirements filed by FPC in this docket. This reflects FPC's 13 month average capital structure for the test year ended 12/31/2002.

Q: WHAT IS THE COST OF FPC'S LONG TERM DEBT?

A: FPC's cost of long-term debt is 7.14%, shown in Exhibit No.___(TJK-3). This is the average annualized contractual cost of all outstanding long-term debt contained in the capital structure. It includes annual interest charges and amortization of premiums, discounts, and expenses, expressed as a percentage.

Q: WHAT IS THE COST OF FPC'S SHORT TERM DEBT?

A: FPC's cost of short-term debt is 4.92%, shown in Exhibit No.___(TJK-3). This is the average annualized contractual cost of all outstanding short-term debt contained in the capital structure. It includes annual interest charges and amortization of premiums, discounts, and expenses, expressed as a percentage.

Q: WHAT IS THE COST OF FPC'S PREFERRED STOCK?

A: FPC's cost of preferred stock is 4.51%, shown in Exhibit No.___(TJK-3). This is the average annualized contractual cost of all outstanding preferred stock contained in the capital structure, expressed as a percentage.

Q: WHAT IS THE COST OF FPC'S COMMON EQUITY?

A: FPC's witness, Dr. Vander Weide, proposes a cost of common equity of 13.20%. As I explain later in my testimony, this proposed cost of equity is excessive due to the improper application of a growth rate, a comparable group that is too broad, and the improper inclusion of a flotation cost adjustment. I am proposing a cost of common equity of 10.66%, as shown in Exhibit No.___(TJK-3). This represents a fair and reasonable rate of return on FPC's common equity.

Q: WHAT CONSTITUTES A FAIR AND REASONABLE RATE OF RETURN ON COMMON EQUITY?

A: The concept of a fair and reasonable rate of return on common equity is a relatively straightforward deduction from modern economic and finance theory. It is based on the economic principle of risk-adjusted, investor opportunity costs. At this conceptual level, the fair rate of return is normally not the subject of great dispute. By contrast, its estimation in regulatory proceedings is typically controversial.

Fortunately, there are sensible and useful economic and financial guidelines or standards established by the Supreme Court in the Bluefield and Hope opinions which may be

employed in the estimation of this all-important common equity cost measure.[1] These Court-established economic guidelines serve as the underpinnings of both my financial analysis and final estimates of the fair and reasonable rate of return on FPC's common equity.

In the Hope opinion, for example, the Court provided the basic standards and tests of a fair rate of return on equity as:

1. ... the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks.
2. The return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and attract capital.

The Court has thus established two standards -- a standard of risk-adjusted, comparable return to investors and a standard of capital attraction -- as essential characteristics of a fair rate of return on common equity.

These standards are precise analogues of the generally recognized operational principles of a free market, viz., that a firm, in order to maintain its ability to attract capital at reasonable rates, must be able to earn a rate of return on common equity which is at least equal to the risk-adjusted opportunity costs of investors in the market. The risk-adjusted opportunity costs of investors in the market, in turn, may be defined as the rate that investors could earn by placing their capital in other enterprises entailing comparable measures of risk exposure. In

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[1]Bluefield Water Works and Improvement Company v. Public Service Commission of West Virginia, 262 U.S. 879, 893 (1923). Federal Power Commission v. Hope Natural Gas Company, 320 U.S. 591 (1944).

terms of regulatory principles, the Court-established standards of regulation mandate that regulated firms be granted the opportunity to earn a rate of return on common equity which is equal to the risk-adjusted opportunity costs of investors in the market.

The Court-established regulatory concept of a fair rate of return on common equity incorporates considerations of both equity and economic efficiency. The rate will be equitable to investors in that it just compensates them for the risk to which they are exposed in purchasing and/or holding the common stock of a specific firm. At the same time, that rate will be equitable to customers in that it is the minimum supply price required to assure a continuing supply of equity capital to the company. The fair rate of return thus achieves the primary objective of regulation -- a balancing of the competing interests of customers and stockholders. The fair rate of return, being the market-established minimum supply price of equity capital, is that rate which is both necessary and sufficient to maintain the financial integrity and capital attracting ability of the firm.

A rate of return greater than that which is necessary and sufficient would serve to both enrich investors at the expense of customers and to encourage an excessive rate of investment spending, resulting in a misallocation of resources coupled with a larger-than-necessary future revenue requirement and level of rates. A rate of return which is less than sufficient would result in inadequate profits, thus penalizing investors and inhibiting the firm's ability to meet its public service responsibility. The fair rate of return, therefore, is not only equitable, but is also economically efficient in that it is the level that is sufficient to guarantee the firm's access to necessary capital, while assuring its ability to serve customers at the

market-established minimum, necessary cost.

Q: WOULD YOU EXPLAIN THE METHOD YOU USE TO DEVELOP YOUR RATE OF RETURN RECOMMENDATION?

A: My primary analysis is based upon the traditional specifications of the Two-Stage Discounted Cash Flow ("DCF") stock valuation model.

Q: PLEASE EXPLAIN WHY YOU PLACE PRIMARY RELIANCE UPON THE DCF MODEL.

A: The DCF method is analytically sound in that it is: rooted in observable economic behavior; relatively explicit in terms of method, assumptions, data requirements, and calculations; and, when reasonably applied, produces estimates consistent with the regulatory standards established in the Bluefield and Hope decisions. Moreover, because of its explicit nature, it is a method by which the results may be tested or replicated.

The logic of the DCF model derives from the sensible and widely applied notion that the value or market price of any asset is a direct reflection of the prospective holder's perception of the ability of that asset to yield a flow of services or income over time. This concept is illustrated in the equation below:

$$P_t = \frac{D_t}{(1+r)} + \frac{D_t(1+g_{t+1})}{(1+r)^2} + \ldots + \frac{D_t(1+g_{t+n}) + P_{t+n}}{(1+r)^{n+1}}$$

Where:

P_t = Market price at time t;

D_t = Expected dividend payment at time t;

r = Investors' discount rate;

g_t = Investors' expected dividend growth rate at time t.

The discount rate represents investors' risk-adjusted opportunity costs and is equal to the investor-perceived rate of return on comparable risk alternatives available in the market. This variable (r) is frequently referred to as the investor capitalization rate, i.e., the rate at which investors capitalize a prospective flow of income payments.

This stock valuation model simply says that, given the market price of a stock at a point in time, investors will make buy-sell decisions with respect to that particular stock, and thus alter its price, by comparing its potential to yield a rate of return (an expected flow of dividends and capital gains) with the rate of return currently being earned on comparable risk stocks. If the rate of return on the stock of a given company is either greater or less than is being earned on comparable risk stocks, then investors will alter their buy-sell decisions in such a way as to change the market price of the stock so as to equalize rates of return among assets with similar risks.

If it is assumed that the market evaluates the income potential of a stock over a long period of time and that the prospective growth rate of dividends can be reasonably described by a compound rate, then the DCF equation above can be simplified mathematically into the more familiar DCF equation:

$$P_t = \frac{D_t}{r - g}$$

This equation simply says that the observed market price of a share of stock is equal to the current nominal dividend divided by the difference between the investor capitalization rate and the rate of growth expected by investors.

Consider, for example, a common stock which is currently paying a $2.00 per annum dividend (D) which is expected to grow in the foreseeable future at a 3.0 percent annual compound rate (g) for a company which has an investors' risk-adjusted opportunity cost or capitalization rate (r) of 11.0 percent. Under these circumstances, the stock in question would necessarily have an equilibrium, or market-clearing, price (P) of $25.00 per share. If the actual market price were either higher or lower than $25.00 per share, supply and demand forces would operate to drive the price to the $25.00 figure. Given the dividend yield and expected rate of growth, this is the only price which allows investors to receive a rate of return equal to the 11.0 percent posited as currently available on comparable risk alternatives in the market, i.e., a rate of return which is just equal to investors' risk-adjusted opportunity costs.

The use of this DCF stock valuation model for estimating the market-determined cost of common equity (r) is based on the presumption that meaningful measures of P, D, and g can be estimated. If such measures can be established, then the cost of common equity can be estimated by solving for r in the following equation:

$$r = \frac{D_t}{P_t} + g$$

In order to allow for the real world fact that dividends are most commonly paid on a quarterly basis, the above equation can be respecified as:

$$r = \frac{D_t(1+0.5g)}{P_t} + g$$

Q: ARE FPC'S DIVIDEND YIELDS AND GROWTH FACTORS READILY AVAILABLE?

A: No, FPC's common equity is not publicly traded. All of the common equity of FPC is held by its parent company, Progress Energy. FPC-specific information is thus not available. The theory of efficient markets relies on a large number of buyers and sellers and thousands of transactions to determine the fair market value of a commodity. These conditions are not met in the case of FPC's common equity.

Q: HOW WOULD THE COST OF FPC'S COMMON EQUITY BE DETERMINED?

A: FPC is a wholly-owned subsidiary of Progress Energy, and, as such, has no market presence for its common equity. All FPC common equity comes through the parent company, Progress Energy. This means that the cost of common equity capital to FPC can be no greater than the cost of common equity capital to Progress Energy. It follows, then, that in this proceeding it

is appropriate for the analysis to focus on Progress Energy, to estimate the cost of common equity capital on Progress Energy, and to impute this equity cost rate to FPC.

Q: HOW CAN THE COST OF PROGRESS ENERGY'S COMMON EQUITY BE DETERMINED WITH A MARKET-BASED METHODOLOGY?

A: The DCF method can be applied to a group of utilities that are similar to Progress Energy. Because investors should require the same return from companies with similar risks, the required return on a group of comparable companies can be used to infer the required return on Progress Energy.

Q: PLEASE EXPLAIN YOUR COMPARABLE GROUP DCF RESULTS.

A: I prepared DCF analyses using the data available in the Value Line Investment Survey ("Value Line"). Value Line rates the relative Safety and Financial Strength for each company it evaluates. Progress Energy is rated 1 for Safety and B++ for Financial Strength. For my comparable group, I chose companies that sell electricity and natural gas, but are classified within the Electric Utility industry group, and are rated either 1 for Safety or B++ for Financial Strength. There are 18 such companies.

For the dividend yield component of the DCF model, I used the average dividend yield for the previous three months ending December 31, 2001, the most recent quarter as of the date of writing. For the growth component, I implemented a "two-stage" DCF model, consisting of the average of a short-term and a long-term growth rate.

For the short-term growth rate, I used the average of Value Line's three-to-five year projected growth rates of earnings and dividends. However, an assumption of the DCF model is that

investors have a long-term investment horizon, and these growth estimates are only valid for the short term. It is reasonable to assume that investors will base long-term expectations on the rate at which the economy is expected to grow. For a long-term growth rate, therefore, I have used the long-term nominal GDP forecast of 6.1% from the 2002 Annual Energy Outlook published by the Department of Energy's Energy Information Administration. I then averaged these short-term and long-term growth rates to determine the growth rate used in the DCF model. I performed the DCF calculation for each company in the comparable group for Progress Energy, and averaged these DCF results to determine a fair rate of return on Progress Energy's common equity.

Q: WHY DO YOU RELY ON VALUE LINE'S DATA AND RANKINGS?

A: When dealing with the expectations of investors, it is best to get information from a source on which investors rely. Value Line is a widely disseminated investment advisory letter, available in public libraries across the country. Value Line's Safety and Financial Strength ratings encompass a broad spectrum of financial data, leading to Value Line's assessment of a company's business and financial risk. Further, while interest coverage ratios, common equity ratios, and other traditional measures of financial strength could be individually examined, the Value Line ratings provide a non-biased opinion based on significant market research.

Q: WHAT ARE THE RESULTS OF YOUR COMPARABLE GROUP ANALYSIS OF DCF MODELS?

A: I chose two distinct comparable groups for my analysis. The first group consisted of the

companies that received the Value Line Safety rating of 1. The average cost of common equity for these companies, as determined by the DCF model, would be 10.38%. The second group consisted of the companies that are rated B++ by Value Line for Financial Strength. The average cost of common equity for these companies, as determined by the DCF model, would be 10.95%. A cost of common equity of 10.66% would be the midpoint of this range. These calculations are shown in the attached Exhibit No.___(TJK-4).

Q: HOW DO YOU RECONCILE YOUR RECOMMENDED RETURN ON COMMON EQUITY WITH DR. VANDER WEIDE'S RECOMMENDED RETURN OF 13.20%?

A: Dr. Vander Weide's analysis differs from mine on three major points. First, Dr. Vander Weide uses an improper growth rate. Second, Dr. Vander Weide uses a comparable group for FPC that is too large. Third, Dr. Vander Weide improperly employs a flotation cost adjustment to his cost of common equity.

Q: WHY DO YOU BELIEVE THAT DR. VANDER WEIDE HAS USED AN IMPROPER GROWTH RATE?

A: Dr. Vander Weide has used the I/B/E/S earnings growth rates in his DCF model. These growth rates are analysts' projections of short-term earnings growth only, typically the next five years. The DCF model assumes a constant, infinite growth rate, and it is inappropriate to assume that investors expect such a short-term rate to continue indefinitely. This is why I chose a two-stage growth rate, a combination of a short-term rate and a long-term rate. This two-stage growth rate better reflects investor expectations over the time horizon of the DCF model.

Q: WHY DO YOU BELIEVE THAT DR. VANDER WEIDE'S COMPARABLE GROUP IS TOO BROAD?

A: Dr. Vander Weide selected two comparable groups for his DCF analysis. The first consisted of electric utilities in the Value Line universe, and the second consisted of natural gas distribution companies in the Value Line universe.

Dr. Vander Weide selected all of the electric utilities with a Value Line Safety rating of 1, 2, or 3 for his first comparable group. Progress Energy's Safety rating is 1. There are currently 63 companies classified as electric utilities in the Value Line universe, and of those 63, only 7 receive the 4 or 5 rating for Safety. Dr. Vander Weide is therefore suggesting that, absent any other criteria, 55 of the 62 other electric utility companies in the Value Line universe are comparable in risk to Progress Energy -- yet Progress Energy was one of only 11 companies to receive the top Value Line Safety rating of 1. Because we would expect companies that receive a lower Safety rating to be inherently riskier, and therefore require higher rates of return, the inclusion of these companies rated 2 or 3 would be expected to skew the results of his DCF analysis upward.

Dr. Vander Weide selected all of the natural gas distribution companies with a Value Line Safety rating of 1, 2, or 3 for his second comparable group. Progress Energy is a diversified electric and gas utility that derives the majority of its revenues from the sale of electricity. It is comparable in business risk to other electric utilities that derive a portion of their revenues from natural gas distribution, not to companies for whom gas is their sole business interest. Progress Energy is no more comparable to a natural gas distribution company than it is to a

telecommunications, mining, or rail transportation firm.

Further, if the existence of the Progress Energy subsidiary North Carolina Natural Gas skews the required rate of return for Florida Power, the associated higher costs of equity should not be subsidized by customers of Florida Power.

Q: WHAT ARE FLOTATION COSTS?

A: Flotation costs are the costs associated with new issues of debt or equity. They include expenses such as underwriting expenses, the printing of stock certificates or bonds, and any associated administrative expenses. Dr. Vander Weide has included a flotation cost adjustment by dividing the dividend yield in his DCF model by 0.95.

Q: DO YOU AGREE WITH DR. VANDER WEIDE'S FLOTATION COST ADJUSTMENT TO HIS COST OF COMMON EQUITY?

A: No. Dr. Vander Weide's proposed flotation cost adjustment significantly overstates the required return on equity for FPC, and, if implemented, would result in unfairly enriching Progress Energy at the expense of the Florida customer. I have modified Dr. Vander Weide's Schedule 1 as Exhibit No.___(TJK-5) to illustrate this point.

Q: HOW DID YOU MODIFY DR. VANDER WEIDE'S SCHEDULE 1?

A: I isolated the adjusted dividend yield from Dr. Vander Weide's DCF result by subtracting the I/B/E/S growth factor from his DCF result for each company. The adjusted dividend yield was then multiplied by 0.95 to remove the effects of Dr. Vander Weide's flotation cost adjustment. This dividend yield without the flotation cost adjustment was then added back to the I/B/E/S growth factor to determine the DCF results without the effects of the flotation

cost adjustment. The market weighted DCF result for Dr. Vander Weide's comparable group is decreased by 26 basis points when the flotation cost adjustment is removed.

Q: WHAT IS THE EFFECT OF THIS FLOTATION COST ADJUSTMENT ON FPC'S RETAIL CUSTOMERS?

A: If the 26 basis points is subtracted from Dr. Vander Weide's recommended return on equity the return on equity is decreased to 12.94% and FPC's overall rate of return falls to 9.67% after taxes, or 14.03% before taxes. If the equity portion of Dr. Vander Weide's requested rate of return is grossed-up for taxes, the overall rate of return is 14.25% with a return on equity of 13.20%. Applying these before-tax rates of return to FPC's adjusted rate base of $3,665,497,000 results in a revenue requirement of $522,333,323 at a return on equity of 13.20%, and a revenue requirement of $514,269,229 at a return on equity of 12.94%. Dr. Vander Weide's flotation cost adjustment, therefore, will cost the Florida customer more than $8 million annually.

Dr. Vander Weide is proposing that this flotation cost adjustment be applied in part because Progress Energy incurred $18,460,000 in flotation costs for its August 2001 equity issue. As he states in his testimony, "An adjustment for flotation costs on equity is not meant to recover any cost that is properly assigned to prior years. In fact, the adjustment allows Florida Power to recover only the current carrying costs associated with flotation expenses incurred at the time stock sales were made. The original flotation costs themselves will never be recovered, because the stock is assumed to have an infinite life." (Vander Weide, p. 24) Under this theory, the adjustment he proposes results in an annual "carrying cost" of

approximately 43%.

Even if the Commission decides that a flotation cost adjustment is necessary, the adjustment should not be applied to the portion of common equity financed by retained earnings. There are no costs of underwriting, printing stock certificates, or program administration associated with retained earnings; therefore, it is inappropriate to subject the Florida customer to a charge designed to recover a carrying charge on costs that do not exist.

Q: DID YOU PERFORM A RISK-PREMIUM ANALYSIS SUCH AS THE ONES PERFORMED BY DR. VANDER WEIDE?

A: I did not. Risk premium analyses, like the ones performed by Dr. Vander Weide, are backward looking analyses. Dr. Vander Weide himself has demonstrated that it is more appropriate to use forward-looking estimates in these analyses. The instant issue is the equitable rate of return for FPC on a going forward basis. Dr. Vander Weide's risk premium analyses rely on backward looking data and make the implicit assumption that these historical relationships will continue indefinitely into the future without presenting any supporting evidence, statistical or otherwise, for this conclusion.

Dr. Vander Weide's Ex-Ante Risk Premium Approach measures the difference between the DCF measured cost of equity for a group of natural gas distribution companies and the yield to maturity for an investment in 20 year Treasury bonds for the past 36 months. He maintains that this represents the risk premium for Florida Power despite the fact that Florida Power is not a natural gas distribution company. Natural gas distribution companies are not appropriate proxies for Florida Power. Further, he has not demonstrated that any relationship

that may have existed in the past 36 months is statistically significant, or can be reasonably expected to continue into the future.

Dr. Vander Weide's Ex Post Risk Premium Study simply calculated the difference between the average of the relative returns of the S&P Utility stocks and the Moody's A-rated Utility Bonds over a 63 year period. As with the Ex-Ante Risk Premium Study, he has not demonstrated that any relationship that may have existed between these indices is statistically significant, or that this relationship can be reasonably expected to continue into the future.

Q: DO YOU BELIEVE THAT YOUR RECOMMENDED RATE OF RETURN IS EQUITABLE FOR FPC AND THE FLORIDA CUSTOMER?

A: Yes, I do. My recommended rate of return is fair for FPC, and to the Florida customer.

Q: WHAT SHARING PROVISION HAS DR. CICCHETTI PROPOSED?

A: Dr. Cicchetti has proposed a 100 basis point dead band about the return on equity of 13.20% proposed by Dr. Vander Weide. Then, he proposes and earning sharing mechanism ("ESM") by which customers receive a portion of any earnings over the 14.20% dead band. He proposes that the customer receive 80% of the excess earnings between 14.21% and 14.70%, 50% of the excess earnings between 14.71% and 15.20%, and 20% of the excess earnings over 15.20%.

Q: DO YOU AGREE WITH THE SHARING MECHANISM PROPOSED BY DR. CICCHETTI?

A: No, I do not. He seeks to encourage the Company to maximize its cost cutting and other efficiency improvements, but the Company's return on equity may increase for many reasons,

many out of its control. The Company's rate of return may increase if sales increase due to extreme weather, if customers act to shift load to off peak hours, or if the Company were to implement imprudent reductions in operation and maintenance costs. The Company has done nothing positive in any of these instances, yet would be rewarded. Dr. Cichetti's proposed bands are not equitable, and assign a majority of the benefits of an increased return on equity to the Company.

Q: DO YOU HAVE A SHARING PROPOSAL?

A: Yes. Excess earnings above the recommended return on equity of 10.66% should be shared equally between the Company and the FPC's customers. However, as explained by Witness Brown, the Company's portion of any excess earnings should be used to accelerate recovery of the Transition and Transaction Costs of the merger. Witness Brown proposes that the Transition Costs be amortized over a 20 year period and the Transaction Costs be amortized over a 40 year period, with no guaranteed recovery once retail competition begins in Florida. The desire of Florida Power to recover the Transition and Transaction Costs of the merger before retail competition begins will provide the necessary incentive to implement efficiency improvements. A 50/50 sharing of these excess earnings is a more equitable proposal than Dr. Cicchetti's, as the Company's return on equity may be increased through actions of the Company, actions of the customers, or actions under the control of neither party.

RATE DESIGN

Q: DOES PUBLIX HAVE ANY CONCERNS WITH FPC'S CURRENT RATE STRUCTURES?

A: Yes. As explained by Witness Brown, Publix stores operate at an average load factor of 75% with approximately 72% of their energy usage during Off-Peak hours. Publix is thus penalized by the payment of average system fuel costs through the fuel adjustment clause. Publix is interested in the development of a high-load factor rate, a true Real Time Pricing ("RTP") rate, and Time-of-Use ("TOU") rates to recognize the lower-cost structure of the high load factor customers like Publix.

Q: DOES FPC CURRENTLY HAVE AN RTP RATE?

A: FPC does not currently have a RTP rate, however, we have been advised that FPC is planning to implement a RTP rate similar to the rates currently in existence for Carolina Power & Light Company ("CP&L").

Q: DO YOU HAVE ANY CONCERNS WITH THE CP&L RTP RATE DESIGN?

A: Yes. The CP&L rates are "two-part", with the first part a firm tariff baseline (the Customer Baseline Load pattern, or "CBL"), and any load deviating from the CBL (both incremental and decremental) as RTP. Under this type of rate design, the only way to increase the portion of load under the RTP rate is through load growth. This is generally not possible for customers like Publix because load growth is developed through the addition of stores, not through expansion of existing load at specific stores. This basically renders the CBL based RTP rate useless for customers like Publix. Publix is interested in the developed of a "true"

RTP rate, such as that offered by Gulf Power, where the entire load of a particular account is subject to real time pricing at the utility's incremental energy cost. However, the Gulf Power rate is also restricted to customers with 2000 kW billing demand. There do not appear to be any reasons for this limitation; therefore, Publix would like to see a true RTP rate applicable to customers with over 250 kW of billing demand.

Q: WHY WOULD THE COMPANY NEED TO ESTABLISH A RATE WITH A CBL?

A: The use of a CBL would allow the Company to remain revenue neutral with respect to existing load on the system by only allowing RTP for load growth.

Q: IS THIS NECESSARY AT THIS TIME?

A: No. The RTP rate could be designed in the context of this rate proceeding, thereby allowing the Company to recover its total cost of providing service while recognizing the lower costs imposed by high load factor customers such as Publix.

Q: DOES THE COMPANY CURRENTLY HAVE A TOU RATE?

A: Yes. However, for customers with an annual consumption of 24,000 kWh or greater, FPC offers only one TOU rate. This rate does not recognize the value of high load factor customers to the system.

Q: WHAT TYPE OF RATE DESIGN CHANGES WOULD PUBLIX LIKE TO SEE IN THE TOU RATE?

A: Publix would like to see better recognition of load factor differentials in the development of the TOU rate. This could be accomplished by establishing rates for different load factor levels. While many TOU rates recognize varying levels of demand, this type of rate design

simply rewards customers for placing more demand on the system, rather than for better utilization of the capacity required to serve the customer's loads. A load factor differential would establish better incentives to increase effective utilization of FPC's generating capacity.

Q: DOES THE CURRENT GENERAL SERVICE DEMAND RATE RECOGNIZE LOAD FACTOR DIFFERENCES?

A The current General Service Demand rate applies to all customers with an annual consumption of 24,000 kWh or greater and charges a flat demand and energy rate. Since the high load factor customers are less expensive to serve than low load factor customers within the same rate class, the rates charged to these customers should reflect that difference through implementation of load factor differentials.

Q: DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

A: Yes, it does.

Exhibit No.___(TJK-2)

THEODORE J. (TED) KURY

Position Senior Economist, SVBK Consulting Group

Education

B. A. in Economics
State University of New York at Buffalo
Buffalo, New York

M.A. in Economics
State University of New York at Buffalo
Buffalo, New York

[45 credit hours post MA graduate work]

Professional and Business History

SVBK CONSULTING GROUP	1996 - Present
University of Central Florida	1997 - Present
Adjunct Faculty in the School of Business Administration, Department of Economics	
University of Central Florida	1996
State University of New York at Buffalo	1993 - 1995

Professional Experience

Mr. Kury is a Senior Economist in the Firm and has been extensively involved in assisting clients with electric industry restructuring issues. He has presented expert testimony pertaining to issues relating to stranded cost calculation and recovery, market pricing, and public policy concerns before the New Hampshire Public Utilities Commission and has assisted in the preparation of expert testimony on restructuring issues before the Federal Energy Regulatory Commission and various state commissions. He has participated in technical conferences and generic proceedings held to set policy issues associated with restructuring. Mr. Kury has been instrumental in developing stranded cost recovery alternatives for mediation and settlement negotiation. Mr. Kury has been involved with helping clients value electric generation assets and analyze alternate rate structures, as traditional regulation gives way to the advent of competition.

Mr. Kury has assisted clients with resource management issues. He has been instrumental in developing chronological generation computer models and market price forecasting to explore the effects of a competitive electric market on the way a utility makes its decisions. He has also aided utilities in expanding their business options in the marketing of capacity and energy.

Mr. Kury has been involved in a variety of electric, water and wastewater utility projects. He has represented clients in rate proceedings, including review of company filings, and assistance in the development of testimony, cross-examination of witnesses, and legal briefs and pleadings. Mr. Kury has prepared retail rate and cost-of-service studies, including the preparation and development of allocated cost-of-service computer models, determination of net revenue requirements, forecasting and development of billing determinants, rate design, rate comparisons, and the development of rate/tariff sheets. In addition, Mr. Kury has been responsible for developing computerized models for numerous financial and economic analyses for a variety of projects nationwide.

Mr. Kury has been involved in the development of consulting engineers' or financial feasibility reports for use in revenue bond official statements supporting the issuance of utility revenue bonds. These letter reports include historical and projected operating results, debt service coverage calculations, water use projections, and rate determination.

Mr. Kury also teaches economic theory at the University of Central Florida, and is a frequent speaker there on transitions from a regulated monopoly to a competitive industry.

Prior to joining SVBK, Mr. Kury was employed as an instructor at the State University of New York at Buffalo where he taught micro- and macro-economics. He has also worked for the University of Central Florida under a research grant in the field of industrial organization and technological change.

Papers and Publications

"The Use of Voluntary Export Restrictions as a Weapon in International Trade" - Presented for Dr. Winston Chang's graduate seminar on international trade.

"A Probit Analysis of Rehiring Decisions in Major League Baseball" - Presented for Dr. In-Moo Kim's graduate seminar on the econometrics of limited-dependent variables.

Publix Super Markets
Exhibit No.___(TJK-3)
FPC Cost of Capital - 13 Month Average (in $000)

	FPSC Adjusted Retail	Ratio	Cost Rate	Weighted Cost
Common Equity	1,966,206	53.64%	10.66%	5.72%
Preferred Stock	30,245	0.83%	4.51%	0.04%
Long-Term Debt				
Fixed Rate Debt	1,210,276	33.02%	7.14%	2.36%
Variable Rate Debt	6,220	0.17%	4.92%	0.01%
Short Term Debt	2,268	0.06%	4.92%	0.00%
Customer Deposits				
Active	112,388	3.07%	6.13%	0.19%
Inactive	387	0.01%	0.00%	0.00%
Investment Tax Credit				
Post '70-Equity	28,053	0.77%	13.07%	0.10%
Post '70- Debt	17,092	0.47%	7.13%	0.03%
Deferred Income Taxes	321,038	8.76%	0.00%	0.00%
FAS 109 Liabiltiy - Net	(28,675)	-0.78%	0.00%	0.00%
Total Capital Structure	3,665,498			8.45%

Publix Super Markets
Exhibit No.___(TJK-4)
DCF Results

Company	Ticker Symbol	Value Line Safety	Value Line Financial Strength	3 Month Dividend Yield	Value Line Earnings	Value Line Dividends	ST Growth Rate[1]	LT AEO Growth Rate	2 Stage Growth Rate[2]	DCF[3]
Progress Energy	PGN	1	B++							**10.66%**
Con Edison	ED	1	A++	5.58%	2.50%	1.00%	1.75%	6.10%	3.93%	9.62%
Ameren	AEE	1	A+	6.33%	4.00%	0.50%	2.25%	6.10%	4.18%	10.63%
CH Energy Group	CHG	1	A+	5.18%	3.00%	0.00%	1.50%	6.10%	3.80%	9.07%
Duke Energy	DUK	1	A+	2.91%	15.00%	0.00%	7.50%	6.10%	6.80%	9.81%
MDU Resources	MDU	1	A+	3.65%	8.00%	4.50%	6.25%	6.10%	6.18%	9.94%
Allegheny Energy	AYE	1	A	4.78%	14.00%	1.50%	7.75%	6.10%	6.93%	11.87%
NStar	NST	1	A	4.82%	6.50%	3.00%	4.75%	6.10%	5.43%	10.38%
WPS Resources	WPS	1	A	6.11%	7.50%	2.00%	4.75%	6.10%	5.43%	11.70%
Average										**10.38%**
Dominion Resources	D	2	B++	4.34%	19.00%	0.00%	9.50%	6.10%	7.80%	12.31%
Entergy	ETR	2	B++	3.35%	7.00%	2.50%	4.75%	6.10%	5.43%	8.87%
Great Plains Energy	GXP	2	B++	6.78%	4.50%	0.00%	2.25%	6.10%	4.18%	11.09%
Idacorp	IDA	2	B++	4.95%	2.50%	0.00%	1.25%	6.10%	3.68%	8.71%
NiSource	NI	2	B++	5.26%	16.00%	9.50%	12.75%	6.10%	9.43%	14.93%
OGE Energy	OGE	2	B++	6.00%	2.50%	0.00%	1.25%	6.10%	3.68%	9.78%
Public Service Enterprise Grou	PEG	2	B++	5.30%	6.50%	0.50%	3.50%	6.10%	4.80%	10.22%
Reliant Energy	REI	2	B++	5.61%	9.50%	0.00%	4.75%	6.10%	5.43%	11.19%
Sempra Energy	SRE	2	B++	4.21%	12.00%	-5.00%	3.50%	6.10%	4.80%	9.11%
Xcel Energy	XEL	2	B++	5.38%	15.00%	3.50%	9.25%	6.10%	7.68%	13.26%
Average										**10.95%**

Notes:

[1]Average of Value Line Earnings and Dividends Growth Rates

[2]Average of Short Term and Long Term Growth Rate

[3]Dividend Yield multiplied by 1 plus 0.5 times the Growth Rate plus the Growth Rate

Publix Super Markets
Exhibit No.___(TJK-5)
Restated Vander Weide Schedule 1

Company	Dividend	Average Price	IBES	Market Value	DCF	Adjusted Yield[1]	Yield without FC[2]	DCF without FC[3]
Allegheny Energy	0.430	48.940	9.69%	6,103	13.95%	4.26%	4.05%	13.74%
ALLETE	0.268	23.347	8.42%	1,767	13.92%	5.50%	5.23%	13.65%
Ameren Corp.	0.635	42.097	4.50%	5,776	11.41%	6.91%	6.56%	11.06%
American Electric Power	0.600	47.310	5.85%	15,241	11.75%	5.90%	5.61%	11.46%
Cinergy Corp.	0.450	33.530	5.71%	5,332	11.94%	6.23%	5.92%	11.63%
Cleco Corp.	0.218	22.808	10.03%	1,028	14.63%	4.60%	4.37%	14.40%
CMS Energy Corp.	0.365	28.478	8.69%	3,759	14.87%	6.18%	5.87%	14.56%
Dominion Resources	0.645	63.025	9.86%	15,592	14.85%	4.99%	4.74%	14.60%
DPL Inc.	0.235	27.967	9.54%	3,541	13.61%	4.07%	3.87%	13.41%
DQE	0.420	22.118	5.67%	1,236	14.45%	8.78%	8.34%	14.01%
DTE	0.515	44.574	6.60%	6,053	12.01%	5.41%	5.14%	11.74%
Duke Energy	0.275	42.335	11.66%	31,413	14.88%	3.22%	3.06%	14.72%
FPL Group	0.560	58.643	6.75%	10,313	11.14%	4.39%	4.17%	10.92%
Hawaiian Elec.	0.620	37.358	2.50%	1,246	9.92%	7.42%	7.05%	9.55%
IDACORP Inc.	0.465	37.303	6.40%	1,403	12.23%	5.83%	5.54%	11.94%
Kansas City Power & Lt.	0.415	25.080	5.67%	1,553	13.39%	7.72%	7.33%	13.00%
MDU Resources	0.220	34.252	10.82%	2,251	13.97%	3.15%	2.99%	13.81%
NiSource Inc.	0.290	28.412	9.36%	5,868	14.13%	4.77%	4.53%	13.89%
NSTAR	0.515	41.908	6.80%	2,223	12.54%	5.74%	5.45%	12.25%
Pinnacle West Capital	0.375	47.310	7.80%	4,013	11.48%	3.68%	3.50%	11.30%
Progress Energy	0.530	42.810	6.79%	8,822	12.57%	5.78%	5.49%	12.28%
Public Serv. Enterprise	0.540	47.582	6.47%	9,896	11.78%	5.31%	5.04%	11.51%
Reliant Energy	0.375	38.553	7.76%	11,173	12.37%	4.61%	4.38%	12.14%
Southern Co.	0.335	22.963	6.82%	15,730	13.71%	6.89%	6.55%	13.37%
TECO Energy	0.345	30.798	7.99%	4,179	13.25%	5.26%	5.00%	12.99%
TXU Corp.	0.600	46.895	8.21%	12,047	14.34%	6.13%	5.82%	14.03%
UIL Holdings	0.720	47.498	2.33%	669	9.08%	6.75%	6.41%	8.74%
Vectren Corp.	0.255	21.660	7.75%	1,467	13.28%	5.53%	5.25%	13.00%
Xcel Energy Inc.	0.375	28.875	6.64%	9,888	12.74%	6.10%	5.80%	12.44%
Market Weighted Average					**13.24%**			**12.98%**

Notes:
[1]DCF Result minus IBES Growth Rate
[2]Adjusted Yield times 0.95
[3]Yield without FC plus IBES Growth Rate

Publix Super Markets
Exhibit No.___(TJK-6)
Restated Schedule D-1 Page 1 of 17

	FPSC Adjusted Retail	Ratio	Cost Rate	Weighted Cost
Common Equity	1,966,206	53.64%	12.94%	6.94%
Preferred Stock	30,245	0.83%	4.51%	0.04%
Long-Term Debt				
Fixed Rate Debt	1,210,276	33.02%	7.14%	2.36%
Variable Rate Debt	6,220	0.17%	4.92%	0.01%
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Total Capital Structure	3,665,498			9.67%