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January 22, 2002

CONFIDENTIAL

Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket No. 000824-EI

Dear Ms. Bayo:

Enclosed for filing in the above-referenced docket is the original copy of the Direct Testimony of Donna DeRonne, C.P.A., containing information claimed confidential by Florida Power Corporation.

Please indicate the time and date of receipt on the enclosed duplicate of this letter and return it to our office.

Sincerely,

Charles J. Beck

Charles J. Beck
Deputy Public Counsel

CJB:bsr

Enclosure

Document was filed as confidential by Office of Public Counsel; company will follow up with NOI, claim, or request for confidentiality.

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 22, 2002

DIRECT TESTIMONY

OF

DONNA DERONNE, C.P.A.

On Behalf of the Citizens of the State of Florida

DECLASSIFIED 2.21.02 (DN 02099-02)

CONFIDENTIAL

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DIRECT TESTIMONY OF DONNA DERONNE

ON BEHALF OF THE CITIZENS OF FLORIDA

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER CORPORATION

DOCKET NO. 000824-EI

I. INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is Donna DeRonne. I am a Certified Public Accountant licensed in the State of Michigan and a senior regulatory consultant at the firm of Larkin & Associates, PLLC, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.

A. Larkin & Associates, PLLC, is a Certified Public Accounting and Regulatory Consulting Firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.). Larkin & Associates, PLLC, has extensive experience in the utility regulatory field as expert witnesses in over 350 regulatory proceedings, including numerous electric, water and wastewater, gas and telephone utilities.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION?

A. Yes. I have testified before the Florida Public Service Commission on several prior occasions. I have also testified before several other state regulatory commissions.

Q. HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. I have attached Appendix I, which is a summary of my regulatory experience and qualifications.

Q. ON WHOSE BEHALF ARE YOU APPEARING?

A. Larkin & Associates, PLLC, was retained by the Florida Office of Public Counsel (OPC) to review the projected 2002 earnings of Florida Power Corporation (Florida Power or Company) and to review Florida Power Corporation's proposed merger synergies, acquisition adjustment and regulatory plan. Accordingly, I am appearing on behalf of the Citizens of Florida (Citizens).

Q. ARE ANY ADDITIONAL WITNESSES APPEARING ON BEHALF OF THE FLORIDA OFFICE OF PUBLIC COUNSEL IN THIS CASE?

A. Yes. Kim Dismukes, Stephen Stewart, David Dismukes, Earl Poucher and James A. Rothschild are also presenting testimony in this case.

Q. HOW WILL YOU TESTIMONY BE ORGANIZED?

A. I address, in order, the following: Overall Financial Summary, Merger Synergies / Acquisition Adjustment, Rate Base, Operating Income, and Company Updates.

II. OVERALL FINANCIAL SUMMARY

Overall Recommendation

Q. HAVE YOU PREPARED AN EXHIBIT IN SUPPORT OF YOUR TESTIMONY?

A. Yes. I have prepared Exhibit__(DD-1), consisting of Schedules A, B-1, C-1 through C-11 and D. The schedules presented in Exhibit__(DD-1) are also consecutively numbered at the bottom of each page.

Q. WHAT DOES SCHEDULE A, ENTITLED "REVENUE REQUIREMENT" SHOW?

A. Schedule A presents the revenue requirement calculation, at this time, giving effect to all the adjustments I am recommending in this testimony, along with the impacts of the recommendations made by Citizens witnesses Kim Dismukes, David Dismukes, James Rothschild and Earl Poucher. The adjustments presented on Schedule A which impact rate base can be found on Schedule B-1. The OPC adjustments to net operating income are listed on Schedule C-1. Schedules C-2 through C-11 provide supporting calculations for the adjustments to net operating income presented on Schedule C-1.

Q. WHAT IS THE REVENUE REQUIREMENT FOR FLORIDA POWER CORPORATION?

A. As shown on Schedule A, the OPC's recommended adjustments in this case result in a revenue decrease for Florida Power Corporation of $246,427,000.

<u>Capital Structure - CR3 Adjustment</u>

Q. WHAT IS PRESENTED ON SCHEDULE D?

A. The calculation of the recommended rate of return is presented on Schedule D. The overall rate of return calculation is sponsored by Citizens witness James Rothschild. The only revisions made on Schedule D to Mr. Rothschild's recommendations is an adjustment to the return on equity to reflect the impact of a 25 basis point penalty recommended by Citizens witness Earl Poucher.

Q. DOES THE CAPITAL STRUCTURE RECOMMENDED BY CITIZENS WITNESS JAMES ROTHSCHILD INCLUDE THE COMPANY'S PROPOSED CRYSTAL RIVER 3 ADJUSTMENT TO THE COMPANY'S COMMON EQUITY?

A. No, it does not. Company witness Mark Myers addresses in his September 14, 2001 testimony the Company's request to continue the adjustment to its common equity resulting from the extended outage at the Crystal River nuclear unit ("CR3"). This adjustment, for surveillance reporting purposes, was allowed in Commission Order No. PSC-97-0840-S-EI. Citizens witness James Rothschild recommends that the capital structure to be used in this case be based on Progress Energy's consolidated capital structure, not on Florida Power's stand-alone capital structure. Consequently, the Company's proposal for the adjustment to its common equity associated with the extended outage of the Crystal River nuclear unit is moot.

Q. ALTHOUGH THE ISSUE IS MOOT IF THE CITIZENS RECOMMENDED CAPITAL STRUCTURE IS ADOPTED, IS THE COMPANY'S REQUEST WITH REGARDS TO THE ADJUSTMENT TO THE CAPITAL STRUCTURE FOR CR3 CONSISTENT WITH THE COMMISSION'S ORDER IN THAT CASE?

A. No, not in my opinion. The Commission's decision in that case, in Order No. PSC-97-0840-S-EI dated July 14, 1997, approved a Stipulation that was entered into between the parties. Item Number 6 in the Stipulation addressed the adjustment to the capital structure as follows: "In order that Florida Power's financial performance not be distorted in the future, 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 current extended outage of CR3, on Florida Power's capital structure shall be excluded in calculating its common equity capitalization ratios used <u>for purposes of surveillance reporting</u> pursuant to Rule 25-6.1352, F.A.C." (Emphasis added) The Stipulation did not state that the adjustment would continue to be made for purposes of setting rates in a rate case setting. It only addressed the adjustment with regards to surveillance reporting purposes. When addressing this provision of the Stipulation, the Commission stated in its order, at pages 6 - 7, the following:

> Section 6 is also silent with respect to how long this adjustment will be made. The parties indicate it is contemplated within the Stipulation that this adjustment may continue beyond the four year amortization period. 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. (Emphasis added)

There are no specific provisions with the Stipulation or within the Order indicating that the proposed adjustment would be used in a rate case. The language in the Stipulation and the Order specifically indicates that the adjustment was being made "for purposes of surveillance reporting."

III. MERGER SYNERGIES/ACQUISITION ADJUSTMENT

Q. ON MFR SCHEDULE C-3c, THE COMPANY HAS INCLUDED AN ADJUSTMENT THAT INCREASES OPERATING EXPENSES BY $58.7 MILLION FOR AN "ACQUISITION ADJUSTMENT." PLEASE DISCUSS THIS ADJUSTMENT?

A. On MFR Schedule C-3c, the Company describes the adjustment as: "To net the cost of economic benefits of merger against synergies to obtain true net synergies." Florida Power purports that $58.7 million of cost reductions are effectively incorporated in the 2002 operation and maintenance (O&M) expense budget it used in the filing. A significant portion of these projected cost reductions were already incorporated in the 2001 budget and brought forward into the 2002 budget used in the filing, and additional projected 2002 cost savings were rolled into the 2002 O&M expense budget used in the filing. The Company contends that these cost savings will be realized as a result of the merger, which was completed in November 2000. A large portion of the $58.7 million cost reduction has already been achieved by the Company. What the Company has effectively done on MFR Schedule C-3c is add back in $58.7 million of costs that it does not project it will incur.

Q. IS THIS PROPOSAL APPROPRIATE?

A. No, it is not. If the Company's $58.7 million "Acquisition Adjustment" remains in the calculation of base rates in this case, the Company would effectively recover from ratepayers $58.7 million that it does not plan to incur. It would be permitted to recover expenses that will not exist.

Q. WHY IS THE COMPANY PROPOSING TO EFFECTIVELY RECOVER COSTS THAT IT DOES NOT PROJECT TO INCUR?

A. In its filing, the Company has tied the $58.7 million of O&M cost reductions to its proposed recovery of a positive acquisition adjustment and merger transition costs. The first step in the Company's proposal is to remove the cost savings from the calculation of the appropriate revenue requirement in this case. The Company then proposes to offset the cost savings by an amortization of its requested acquisition adjustment and by an amortization of merger transition costs. The Company purports that the net effect would be net synergies (cost savings less acquisition adjustment less transition costs) of $9.871 million on a retail basis, which it proposes to split between ratepayers and shareholders. In trade-off for adding $58.7 million of costs it will not incur in revenue requirement, the Company is proposing that it provide a revenue credit to customers of $5 million annually.

Q. COULD YOU PLEASE EXPLAIN FURTHER THE COMPANY'S NET SYNERGY CALCULATION?

A. Yes. The Company's calculation of its purported net synergies of $9.871 million is addressed by Company witnesses Mark Myers and Dr. Charles Cicchetti. The primary components of the calculation are: (1) merger synergies (or projected O&M expense reductions) of $58.7 million; (2) amortization of $69,676,000 of merger transition costs; and (3) amortization of a positive acquisition adjustment of $285,681,000. Instead of flowing all of the separate components through the revenue requirement calculation, the Company has singled out these items to determine its proposed $5 million revenue credit, which is separate from the revenue requirement calculation in this case.

Q. WHAT IS INCLUDED IN THE MERGER TRANSITION COST?

A. In his September 14, 2001 testimony, at page 24, Florida Power witness Mark Myers indicates that the $69,676,000 "...represents severance payments made by Florida Power to employees displaced by the merger and is a direct outgrowth of Progress Energy's efforts and opportunities that I have described above to consolidate functions and programs and to eliminate redundancy." It is the $69,675,873 that Florida Power is proposing to amortize over 15 years as an offset to the 2002 merger related cost savings. The amortization period selected by the Company results in an annual amortization of $4,645,000.

In response to Citizens POD 73, the Company provided a further breakdown of the $69,676,000. I have included the breakdown of the calculation of the $69.7 million on Confidential Schedule C-2.

-BEGIN CONFIDENTIAL-

As shown on Schedule C-2, the total merger transition costs claimed by the Company are $91,349,484. The Company reduced this amount by $21,673,611 for costs that were allocated to it from Progress Energy, resulting in the net amount of $69,675,873. Included in the $91.3 million (amount prior to the offset for the amounts allocated from Progress Energy) are items such as $15.9 million for change in control severance payments to executives, $8.1 million for change in control Long Term Incentive Plan payments, $3.9 million for Supplemental Executive Retirement Plan cost increases as a result of the change in control, and $4.7 million of retention bonuses. There is also $12.9 million included for Supplemental Executive Retirement Plan (SERP) and Nondiscretionary Plan costs above and beyond the impact on the SERP associated with employees leaving the Company, to make the executives "whole." Schedule C-2 provides a breakdown of the amounts included.

- END CONFIDENTIAL -

Q. IS THERE ANY NON-CONFIDENTIAL INFORMATION YOU CAN DISCUSS REGARDING THE LEVEL OF MERGER TRANSITION COSTS?

A. Yes. Company MFR Schedule C-12 identifies $94,236,000 booked to Account 930.31 - Accrued Business Combination Costs in the year ended December 31, 2000. MFR Schedule C-32 also indicates that $94,236,000 was booked to Account 930 in the year ended December 31, 2000 for "Accrual Business Combination Costs." At this point, I am unsure what causes the slight difference between the $94,236,000 booked to Account 930.31 in 2000 and the total amount identified above in the confidential section of this testimony.

Progress Energy's 2000 Annual Report to its shareholders indicates that Change in Control Payments triggered by the merger and executive termination benefits totaled $50.8 million, part of which would be attributable to Florida Power executives. The report also indicates that an accrual was made for non-executive involuntary termination costs of approximately $52.2 million, $41.8 million of which is attributable to Florida Power employees. (MFR Section F, page 44) Florida Power Corporation's Form 10-Q for the quarter ended June 30, 2001 indicates the Company recorded executive involuntary termination costs of $24.5 million and non-executive involuntary termination costs of $41.8 million in the fourth quarter of 2000. (MFR Section F, page 44)

Q. DO YOU HAVE ANY FURTHER SPECIFICS REGARDING SOME OF THE MERGER TRANSITION COSTS?

A. Yes. Citizens Interrogatory No. 28 asked the Company to identify the amount of change in control and executive termination payments that were made as of December 2000. The supplemental response, dated December 31, 2001, identified the following amounts:

> <u>Florida Power</u>
> Joseph Richardson - $8,099,779; Kenneth Armstrong - $1,691,176; William Kelley - $1,495,931; and Other Executives (11) - $13,760,863
>
> <u>Florida Progress</u>
> Richard Korpan - $15,057,178; Edward Moneypenny - $2,620,450; and Other Executives (3) - $2,620,572
>
> <u>Electric Fuels</u>
> Richard Keller - $7,517,027 and Other Executives (3) - $10,593,668

Combined, these amounts result in total change in control and executive termination payments as of December 2000 of $63,456,644 and total amounts identified as specific to Florida Power of $25,047,749. The Company's response further indicated that the payments made to executives of Florida Progress and Electric Fuels have not been included in Florida Power's monthly reporting of earnings surveillance or in its cost of service supporting the 2002 rate case. However, it does not indicate such for Florida Power executives and does not state that the amounts associated with Florida Power executives are not included in the merger transition cost calculation.

Q. WHEN DID THE COMPANY BOOK THE MERGER TRANSITION COSTS?

A. According to Mark Myers' testimony, the amount was booked by Florida Power for financial reporting purposes in 2000. The amount was included in the annual report to shareholders for the year ended December 31, 2000. According to Mark Myers' September 14, 2001 testimony, for surveillance report purposes, the Company reversed the entry in 2000 and included the amount in expenses in 2001.

Q. IN YOUR OPINION, SHOULD THE MERGER SYNERGIES ACHIEVED BY FLORIDA POWER CORPORATION BE OFFSET BY THE AMORTIZATION OF THE $69,676,000 OF "MERGER TRANSITION" COSTS?

A. No. First and foremost, a substantial portion of the costs are associated with change in control payments made to prior executives. Ratepayers should not be required to effectively pay large sums to prior executives as a result of the merger. The salaries and wages of executives, along with associated benefits, are included in the base rates charged to ratepayers. They should not be required to also fund additional amounts to these executives triggered by a change in corporate control. Additionally, these costs have already been recognized on the books of the Company in the year ended December 31, 2000 and were reported as an expense to the Company's shareholders in that period. They are historic costs recognized in a prior period. During the period the amounts were booked, Florida Power still achieved a reasonable level of return on equity, and was still able to accelerate its amortization of the Tiger Bay regulatory asset with over-earnings. The Company included the amounts for surveillance reporting purposes in 2001. During the year 2001, the Company still achieved a reasonable rate of return on equity and was able to accelerate its amortization of the Tiger Bay regulatory asset with over-earnings.

Q. WOULD YOU PLEASE DISCUSS THE NEXT COMPONENT OF FLORIDA POWER'S NET SYNERGY CALCULATION, CONSISTING OF THE ACQUISITION ADJUSTMENT?

A. Yes. The calculation is presented on Exhibit MAM-1 attached to Mark Myers September 14th testimony and is discussed in the testimony of Dr. Charles Cicchetti. In determining the amount, the Company calculated the difference between the Florida Progress stock price per share just prior to the merger announcement of $44.625 and the amount paid to acquire the stock of $54.00 per share to determine a net premium per share of $9.375. It applied this premium per share to the number of shares outstanding of 98,616,658 to determine a total stock premium of $924,534,000 to purchase Florida Progress. Considering the premium paid for each share of Florida Progress' stock of $9.375 (which is 21% above the pre-merger announcement price), Florida Power's previous owners, or stockholders, have already benefitted significantly from the merger.

The Company then allocated the resulting stock premium to Florida Power at a rate of 30.9%. According to Company witness Myers, the 30.9% is Florida Power's pro rata share of synergies calculated as projected Florida Power 2002 retail synergies of $54 million divided by total projected synergies of $175 million. Based on the deposition of Mark Myers, it was indicated that the $175 million of total synergies is based on 2003 projections and includes synergies for Florida Power, Carolina Power & Light Company and unregulated subsidiaries.

The application of the 30.9% rate to the stock premium paid results in the requested level of premium allocated to Florida Power of $285,681,000.

Q. HOW DID THE COMPANY TRANSLATE THE $285,681,000 INTO AN ANNUAL AMORTIZATION AMOUNT?

A. The Company is proposing that the amount be amortized over a 15-year period. In addition to the straight amortization rate, which would be $19,045,400 annually ($285,681,000 / 15 years), Florida Power is proposing that it also earn a return on these amounts. The return would be based on a 4.607% after-tax interest rate (7.5% pre-tax), resulting in annual amortization of $25,310,000. The inclusion of the return on the amount results in an annual increase of $6,264,600 beyond the straight amortization ($25,310,000 - $19,045,400). The Company's proposal would result in not only a return of the proposed amounts, but also an annual return on the amounts.

Q. WHAT IS THE DIFFERENCE BETWEEN THE COMPANY'S PROPOSED ACQUISITION PREMIUM AND GOODWILL?

A. Stated simply, goodwill (or positive acquisition adjustment) would be the difference between the total amount paid to acquire Florida Progress and the net book value of

Florida Progress at acquisition. The Company's proposed acquisition premium is a portion of this amount. Specifically, it is the difference between the price paid and the value of the stock just prior to the announcement of the merger. The Company is effectively requesting recovery of a portion of its goodwill or positive acquisition adjustment.

Q. COMPANY WITNESSES MYERS AND CICCHETTI SEEM TO INDICATE THAT THE ACQUISITION ADJUSTMENT WILL NOT BE INCLUDED IN BASE RATES RECOVERED FROM RATEPAYERS. IS THIS AN ACCURATE ASSESSMENT?

A. No, it is not. At page 21 of his testimony, Dr. Cicchetti states that "Importantly, FPC is not proposing an acquisition adjustment be included in base rates, even though this merger falls under the parameters of the FPSC's definition of extraordinary circumstances." At page 27 of Mark Myers testimony, he states that "We are not proposing that the Commission adjust Florida Power's rate base, and we are not asking to recover the difference between Florida Power's book value and the price paid (which amounts to about $3.4 billion in goodwill)."

While Florida Power's witnesses attempt to stress that the acquisition premium will not be included in rate base, they seem to miss the point that the Company's proposal will have a similar effect. The Company is attempting to reduce cost savings that will occur in 2002 by its proposed amortization of the acquisition premium and has included not only a return of, but also a return on, the acquisition premium. While the Company has not technically included the acquisition premium as an increase to rate base, it is applying a return on the amount. I do acknowledge that the return applied is lower than the overall requested rate of return, but the Company is still proposing to receive a return on the acquisition premium amount from ratepayers. While the mechanics do not have the amount going through the base rate calculation in the Company's MFRs, the acquisition premium would impact rates the Company proposes to charge to ratepayers none-the-less. It is the overall impact of the proposed recovery of the acquisition premium on ratepayers that the Commission needs to consider, not the mechanics by which the Company is proposing to recover it or the terminology the Company has carefully chosen in this case. You may call it whatever you like (i.e., acquisition premium, net merger synergies, guaranteed rate credit), but the bare essence of the Company's request results in ratepayers funding a portion of the positive acquisition adjustment that was paid by Carolina Power & Light Company's parent for Florida Progress, including Florida Power Corporation.

Q. SHOULD THE PREMIUM PAID BY PROGRESS ENERGY FOR FLORIDA POWER CORPORATION BE CHARGED TO FLORIDA POWER'S RATEPAYERS?

A. No, it should not be charged to ratepayers by any methodology. It should not be charged to ratepayers either in base rates or through the Company's proposed revenue credit / net synergy calculation. Florida Power's ratepayers have historically paid and continue to pay for the system used to serve them in rates. If Progress Energy determined that the value of Florida Power to Progress Energy is greater than the book costs, that is Progress Energy's judgement for its purposes. Ratepayers should not be responsible for paying for the system originally and again having to pay an additional premium for the system. Charging ratepayers for a premium that Progress Energy decided to pay to acquire Florida Power Corporation is clearly inappropriate. Ratepayers should not have to fund a premium that one group of stockholders chose to pay another group of stockholders. The amortization of and recovery of any such premium should not impact rates charged to Florida Power Corporation's ratepayers, either under traditional regulatory plans or under the Company's proposed net merger synergy calculation.

Q. ARE THERE OTHER REASONS TO BE CONCERNED REGARDING THE REQUESTED RECOVERY OF AN ACQUISITION PREMIUM FROM RATEPAYERS?

A. Yes. If the Company is allowed to recover its acquisition premium (defined by the Company in this case as the difference between the price paid for Florida Progress' stock and the price prior to the announcement of the merger) from the Florida ratepayers, it could send a dangerous signal to other entities seeking to acquire utilities in Florida. If the shareholders are essentially able to recover the premium paid to acquire the stock from captive ratepayers, it could result in even higher acquisition premiums in future mergers.

Q. HAS THE FLORIDA PUBLIC SERVICE COMMISSION ALLOWED THE RECOVERY OF A POSITIVE ACQUISITION ADJUSTMENT IN PRIOR CASES IN FLORIDA?

A. Only on very rare occasions and in extraordinary circumstances. As a general rule, the Commission has not allowed the impact of either positive or negative acquisition adjustments in calculating rates. I am aware of an extremely limited number of proceedings in which a small positive acquisition adjustment was allowed in cases involving the acquisition of troubled water companies. In those few and rare instances, there were extreme circumstances which caused the Commission to deviate from its long-standing policy of not allowing positive acquisition adjustments. The utilities being purchased were troubled utilities. While Citizens witness Earl Poucher addresses serious concerns with Florida Power's service quality, Florida Power would hardly qualify as a "troubled utility."

Q. HAS THE COMPANY ADDRESSED THE COMMISSION'S GENERAL POLICY OF NOT ALLOWING A POSITIVE ACQUISITION ADJUSTMENT ABSENT EXTRAORDINARY CIRCUMSTANCES IN ITS TESTIMONY?

A. Yes. At page 24 of his testimony, Dr. Charles Cicchetti states that the merger is extraordinary under the guidelines set forth by the Florida Public Service Commission. He states that the merger "...offers extraordinary benefits and opportunities for both shareholders and customers." However, when addressing merger synergy savings later in his testimony, Dr. Cicchetti, at page 37, states that:

"...the companies' estimated synergy savings estimate is relatively close to the synergy savings predicted by both the ratio and regression methods. This should provide the FPSC with comfort that the projected synergy savings projections are reasonable when compared with synergy projections in other electric utility mergers." On the one hand, Dr. Cicchetti feels that the merger offers extraordinary benefits that should qualify for recovery of the acquisition premium from ratepayers, and on the other hand, he indicates that the level of merger synergies projected by the Company are basically the norm and comparable to other electric utility mergers within the country.

Q. THE COMPANY HAS INDICATED THAT IT INTENDS TO IMPROVE THE QUALITY OF SERVICE AS A RESULT OF THE MERGER. WOULD THIS QUALIFY AS AN EXTRAORDINARY CIRCUMSTANCE?

A. No, not in my opinion. The Company has included significant cost increases in its projected 2002 test year O&M expense to improve the Company's transmission and distribution system. According to the testimony of Robert Sipes, the Company's 2002 O&M expense budget includes $7 million for increased distribution reliability initiatives. Company witness Sarah Rogers indicates in her testimony that the Company's 2002 O&M expense budget includes $9.7 million for increased transmission reliability initiatives. Combined, these costs result in projected 2002 O&M expense increases of approximately $17 million over prior year levels for reliability. The Company has not demonstrated that the increased spending for system reliability could not have been done absent the merger. In fact, the Company has had enough over-earnings in recent years to significantly accelerate its amortization of the Tiger Bay regulatory asset. I would not qualify the improvements the Company is proposing to its transmission and distribution system as direct benefits of the merger or as "extraordinary" results of the merger.

Q. HAS THE COMMISSION REVISITED ITS LONGSTANDING PRINCIPLE OF NOT ALLOWING POSITIVE OR NEGATIVE ACQUISITION ADJUSTMENTS TO IMPACT RATES ABSENT EXTRAORDINARY CIRCUMSTANCES?

A. Yes. There is currently a docket open before the Commission addressing the appropriate treatment of acquisition adjustments for water and wastewater utility acquisitions. The issue is currently being reviewed by the Commission in Docket No. 001502-WS - Proposed Rule 25-30.0371, F.A.C., Acquisition Adjustment. A full Commission Workshop was held in the docket in February 2001. In December 2001, the Commission Staff issued its proposed Rule 25-30.0371, F.A.C., which modifies existing Commission policy on acquisition adjustments in the water and wastewater industry. Under Staff's proposed rule, the Commission's existing policy on positive acquisition adjustments would remain in effect. That is, positive acquisition adjustments would only be considered in extraordinary circumstances.

Q. COULD YOU PLEASE SUMMARIZE YOUR RECOMMENDATION WITH REGARDS TO THE COMPANY'S PROPOSED MERGER SYNERGY ADJUSTMENT AND ITS PROPOSED NET MERGER SHARING

CALCULATION?

A. Yes. First, the Company should not be permitted to add $58.7 million to its 2002 budgeted O&M expenses to effectively remove its projected merger related cost savings. The Company does not project to incur these costs in the 2002 test year. These non-existent costs should not be included in calculating base rates to be charged to ratepayers. On Schedule C-1, page 2, I have reversed the Company's adjustment, resulting in a decrease in O&M expense of $58.7 million.

Second, the Company should not be permitted to recover the $69,676,000 of employee related merger transition costs from customers as it is effectively proposing. A large portion of these costs are associated with change in control payments to high level executives. Additionally, the Company has already recognized these costs on its books in a historic period and continued to earn a reasonable rate of return on equity during the period the expense was booked.

Additionally, the Company should not be permitted to recover the acquisition premium that Progress Energy's shareholders chose to pay to acquire the stock of Florida Power Corporation's parent company. The Company's proposal would effectively result in the recovery of a portion of the positive acquisition adjustment from the captive ratepayers. This is inconsistent with longstanding Commission policy and is unfair to the captive ratepayers who are already paying a return on the assets used to serve them.

The Company's proposed net synergy adjustment, as addressed by Company witnesses Myers and Cicchetti, should be denied.

Q. ARE YOU AWARE OF ANY REVISIONS THE COMPANY INTENDS TO MAKE TO ITS NET MERGER SYNERGY CALCULATION?

A. Yes. During the deposition of Mark Myers, he indicated that the Company intends to make two revisions to its merger transition cost estimate. One of the revisions is to reflect updated estimates and the other is to correct an error in the original calculation. As the specific amounts for the components of the Company's proposed $69,676,000 of merger transition costs are confidential, I will not address the details of the revisions. However, the revisions, once provided, do not impact my overall recommendation that these costs not be used to offset merger synergies or be passed on to ratepayers in a future period.

IV. RATE BASE

Closed Business Offices

Q. WHEN DISCUSSING EMPLOYEE BENEFITS RESULTING FROM THE MERGER, FLORIDA POWER WITNESS MARK MYERS DISCUSSES THE ADDITION OF 150 NEW PAYMENT LOCATIONS AND THE CLOSURE OF 33 BUSINESS OFFICES. DID THE COMPANY ACCURATELY REFLECT THE FULL IMPACT OF THESE CHANGES IN ITS FILING?

A. No, it did not. Mr. Myers September 14^{th} testimony indicated that the Company was phasing out the 33 business offices during 2001. The Company's 2002 budget used in its filing included the additional costs associated with the new payment locations (Citizens Interrogatory No. 133) and the reduction of employee costs associated with the closure of the business offices (Citizens Interrogatory No. 134). However, the Company did not remove from the projected 2002 test year all impacts of the 33 business offices that have been phased out.

Q. PLEASE EXPLAIN.

A. According to the response to Citizens Interrogatory No. 133, the projected 2002 rate base still includes $13,684,000 in plant in service consisting of land and leasehold improvements for these phased-out business offices. Also included in rate base is accumulated depreciation of $3,147,000, resulting in a net book value included in the filing of $10,536,000. The response also indicates that $419,000 of depreciation expense is included in the projected 2002 test year for these offices.

Q. WHAT DOES THE COMPANY INTEND TO DO WITH THE 33 BUSINESS OFFICES?

A. For seven of these offices, the lease expired in 2001, and three leases expire or are being terminated in 2002. Of the remaining offices, the Company sold three in 2001 and intends to sell the rest in 2002 and 2003.

Q. SHOULD AN ADJUSTMENT BE MADE TO REMOVE THESE BUSINESS

OFFICES FROM THE PROJECTED 2002 TEST YEAR?

A. Yes. As shown on Schedule B-1, page 2, I recommend that plant in service be reduced by $13,684,000 and accumulated depreciation be reduced by $3,147,000. On Schedule C-1, page 2, I also reduce depreciation expense by $419,000. These business offices are no longer used and useful in providing service to the Company's customers. The Company should not be permitted to recover both the costs associated with the 150 new payment locations and the discontinued costs associated with the 33 closed business offices the payment locations are replacing.

V. OPERATING INCOME

Miscellaneous Service Revenues - Account 451.10

Q. WHY HAVE YOU INCREASED MISCELLANEOUS SERVICE REVENUES ON SCHEDULE C-1, PAGE 2?

A. In its filing, at MFR Schedule C-12, the Company projected that revenues recorded in Account 451.10 - Miscellaneous Service Revenues, would decline from the actual historic test year ended December 31, 2000 level of $9,771,000 to $9,560,000 in the projected test year ending December 31, 2002. The adjustment on Schedule C-1, page 2, increases the projected test year miscellaneous service revenues by $818,246, resulting in adjusted revenues in this account of $10,378,246. This account is used primarily for recording amounts collected for changing, connecting or disconnecting service.

Q. WHY DID THE COMPANY REDUCE THE MISCELLANEOUS SERVICE REVENUES?

A. The Company was asked this very question in Citizens Interrogatory No. 68. Florida Power's response was as follows:

> The Company makes its projections based on historical trends tempered with any known probable future changes. This account balance trend over the last five years shows a zero growth rate, with some years having positive growth rates and some years having negative growth. The year-end 2001 balance in this account was projected to have a 2 percent decrease, using the first five months of actuals and the last seven months of budget. As this balance has not had a decline for two consecutive years, the projected year 2002 was held flat with no growth.

Q. IN YOUR OPINION, IS THE COMPANY'S REASONING FOR REDUCING THE AMOUNT OF MISCELLANEOUS SERVICE REVENUES IT PROJECTS TO RECEIVE COMPELLING?

A. No, it is not. The Company has not adequately explained why a $211,000 reduction to these revenues is appropriate or likely to be reflective of 2002 conditions.

Q. HOW MUCH REVENUE HAS THE COMPANY RECORDED IN THIS ACCOUNT IN RECENT YEARS?

A. According to Company MFR Schedule C-12, the actual miscellaneous service revenues recorded in Account 451.10 were $9,598,000 in 1999 and $9,771,000 in 2000. In its filing, the Company projected that the Miscellaneous Service Revenues would increase to $9,861,000 in the year 2001, and then drop to $9,560,000 in 2002.

-BEGIN CONFIDENTIAL-

According to Florida Power's November 2001 Operating Report, the actual revenues recorded in this account for the first eleven months of the year 2001 were $9,513,391.81, which was $474,391.81 higher than the budgeted amount for that same eleven-month period. Annualized, the 2001 miscellaneous service revenues would be $10,378,246 ($9,513,392 / 11 months x 12 months). I recommend that the projected 2002 Miscellaneous Service Revenues be increased by $818,246 ($10,378,246 - $9,560,000) to reflect the 2001 annualized level of revenues recorded in this account. This would result in the revenues in this account be based upon more recent actual experience for Florida Power.

-END CONFIDENTIAL-

<u>Other Electric Revenues - Account 456.20</u>

Q. ARE YOU RECOMMENDING ANY ADDITIONAL ADJUSTMENTS TO FLORIDA POWER'S OTHER OPERATING REVENUES?

A. Yes. I recommend that the projected revenues in Account 456.20 - Other Electric Revenues be increased by $64,195.

Q. WHY ARE YOU RECOMMENDING AN INCREASE IN OTHER OPERATING REVENUES?

A. The actual amount of Other Electric Revenues recorded by Florida Power in the historic test year in Account 456.20 was $249,000. The Company projects that these revenues will decline to $84,000 in the 2002 projected test year. In response to Citizens Interrogatory No. 70, the Company indicated that revenues recorded in this account are primarily from remittance processing revenues for third-parties and non-FPC bill collection revenues. The response indicated that the Company did not forecast to collect as much revenue for these services during 2002, but it did not provide any information or justification in the response for the projected decline. In response to Citizens Interrogatory No. 139, the Company did indicate that historic test year revenues in this account included the collection of a $150,000 lease payment from Pinellas County to rent property, and that the lease was discontinued. Consequently, I agree that a decline in the revenue recorded in this account is likely, but not to the level reflected by the Company.

Q. WHAT IS YOUR RECOMMENDATION WITH REGARDS TO OTHER ELECTRIC REVENUES?

A. In response to Citizens Interrogatory No. 139, the Company provided the actual revenues recorded int his account through November 2001 of $135,845. The Company projected revenues of $80,000 for the year 2001 in its filing for this account. I recommend that the projected 2002 test year Other Electric Revenues be based on the annualization of the actual revenues received in 2001, which would exclude the revenues from the discontinued lease with Pinellas County. The calculation of the adjustment, which increases revenues by $64,195, is shown on Schedule C-3.

Salaries & Wages Expense

Q. YOU MENTIONED PREVIOUSLY THAT THE COMPANY INDICATED IT INCORPORATED $58.7 MILLION OF COST SAVINGS TRIGGERED BY THE MERGER IN THE 2002 PROJECTED TEST YEAR. DOES THE 2002 PROJECTED SALARY AND WAGE EXPENSE INCORPORATE THE FULL IMPACT OF COST SAVINGS THAT WILL LIKELY RESULT FROM EMPLOYEE REDUCTIONS?

A. Based on the information provided by the Company to date, it does not appear so.

Q. HOW DID THE COMPANY PROJECT THE AMOUNT OF 2002 TEST YEAR EMPLOYEE PAYROLL COSTS?

A. According to Company MFR Schedule C-33, the 2002 projected test year base payroll for regular full-time employees is $241,541,709 and is based on 4,200 average regular full-time employees. The schedule indicates that the 2001 budgeted year base payroll for regular full-time employees is $237,535,600 and is based on 4,326 average regular full-time employees. In other words, based on Company MFR Schedule C-33, the Company's filing includes the projection that payroll costs for its full-time employees will increase by $4,006,109 (or 1.7%), while the average number of employees will decline by 126 positions (or 2.9%).

A footnote contained at the bottom of the Company's response to Citizens Interrogatory 103 provided the following description of how the 2002 payroll amounts included in the rate filing were determined:

> At the time of the rate proceeding, the detailed monthly payroll budget for 2002 had not yet been prepared. The payroll numbers presented in the rate filing were developed by taking the 2001 monthly payroll budget and reducing it by any synergies and then applying a merit increase effective in January for the bargaining unit employees and effective the first pay period of April for exempt and non-exempt employees. There was also no monthly headcount information collected for the rate filing.

Q. HAVE YOU BEEN PROVIDED ANY FURTHER INFORMATION REGARDING HOW THE NUMBER OF AVERAGE REGULAR FULL-TIME EMPLOYEES FOR 2002 OF 4,200 WAS DETERMINED?

A. Yes. Jan A. Umbaugh, a Certified Public Accountant and partner with the firm of Deloitte & Touche LLP, submitted testimony on behalf of Florida Power Corporation in this case. According to that testimony, Deloitte & Touche LLP performed an examination of the financial forecast prepared by Florida Power for 2002. Citizens POD 114 asked for copies of all workpapers prepared by Deloitte & Touche LLP related to its examination of the financial forecast prepared by Florida Power Corporation for 2002.

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Included at the beginning of the workpapers provided was documentation of Deloitte & Touche's understanding of the financial projections model and the overall projection process related to different components of the financial statements. The following paragraph was included under the discussion of expenses:

> As a modeling tool for employee related cost, a head count of ~ 4,200 employees was used. This staffing level was derived by Adrian Aldredge

> (Progress Energy - HR) and is consistent with June 2001 level. Determined based on conversations with Lori Cross, that with 2001 job displacements and current hiring requirements the amount of employees for 2002 should approximate 4,200. (Bates No. OPC8 000065)

Apparently the 4,200 employee headcount effectively incorporated in the Company's 2002 payroll expense projection used in the filing is based on the actual level of employees on-hand in June 2001.

Q. DO YOU HAVE REASON TO BELIEVE THAT THE NUMBER OF REGULAR FULL-TIME EMPLOYEES FOR FLORIDA POWER WILL DECLINE BELOW THE JUNE 2001 LEVEL INCORPORATED IN THE FILING?

A. Yes. According to Florida Power's November 2001 Operating Report, the number of regular full-time employees as of that month was 4,176, which is 24 positions less than incorporated in the 2002 forecast used in the filing.

Additionally, in response to Citizens First Set of Requests for Production of Documents, the Company provided a box of information discussing the projected merger synergies. The response to Citizens Interrogatory No. 25 identified twenty core teams of people who developed the estimations of merger synergy savings. Included within the information provided in response to the First Set of PODs were 60-Day Reviews prepared by the synergy teams. These reports provided information regarding projected synergies that would result on a combined basis from the merger and integration. The reports provided breakdowns of estimated cost savings, by year, for years 2001, 2002 and 2003. Also included were various updates and revisions to the reports. Several of the reports indicated that additional employee reductions were projected to occur both in 2002 and 2003 as a result of the merger. At this point, based on the reports and various updates to the reports, I have been unable to determine exactly how many positions are projected to be eliminated at Florida Power in 2002.

Q. COULD YOU GIVE SOME EXAMPLES FROM THE REPORTS OF ADDITIONAL PROJECTED EMPLOYEE REDUCTIONS FOR 2002?

A. Yes. The Energy Delivery - T&D Team projected that the total headcount reduction in this area from the merger would be 59 in 2001, 80 in 2002 and 126 in 2003. (Bates No. OPC 010229) In other words, 21 more employees would leave in 2002 (80 - 59) and 46 more in 2003. The customer service team estimated that the total reduction in positions would be 138 in 2001 and 231 in 2002, for an additional decrease of 93 (231 - 138) positions in 2002. (Bates No. OPC 011310) The Nuclear Integration Team projected that the total number of positions at Crystal River Unit 3 would decline from 606 at year end 2001 to 566 at year end 2002, a reduction of 40 positions in 2002. (Bates No. OPC 011226) The Power Operations Team projected that the number of bargaining unit positions to be eliminated would be 111 total in 2001 and 126 in 2002, resulting in a 15 (126 - 111) employee reduction in 2002. (Bates No. OPC 0011208) The Financial Services Team estimated that the total reduction of positions in its area would be 51 in 2001 and increasing to 75 in 2002, meaning 24 additional positions would be eliminated in 2002. (Bates No. OPC 010850) Combined, these numbers result in incremental employee reductions in 2002 of 172 positions.

Q. WERE ALL OF THE PROJECTED EMPLOYEE REDUCTIONS IDENTIFIED ABOVE SPECIFIC TO FLORIDA POWER?

A. No. These reductions would be based on the total projected reductions, including both Florida Power and Carolina Power and Light. The reductions at Crystal River Unit 3 would be specific to Florida Power, but the remaining reduction in positions would likely occur at both Florida Power and CP&L. The projected reductions occur, in part, as a result of combining operations.

Q. AS YOU ARE UNSURE BASED ON THE INFORMATION PROVIDED REGARDING THE NUMBER OF ADDITIONAL POSITIONS SPECIFIC TO FLORIDA POWER THAT ARE PROJECTED TO BE ELIMINATED IN 2002, DO YOU HAVE ANY RECOMMENDATIONS ON HOW THE AMOUNT COULD BE ESTIMATED?

A. Yes. As indicated above, the reduction in employees at Crystal River Unit 3 (i.e., 40 employees) are likely to be specific to Florida Power. This would leave 132 (172 - 40) additional non-Crystal River positions to be eliminated in 2002. The response to Citizens Interrogatory No. 84 indicated that there were 6,618 employees at CP&L in 2000. Florida Power's December 2000 Operating Report indicates that there were

4,567 regular full-time employees at Florida Power at that date. Combined, this results in total employees of 11,185 employees, approximately 40% of which were employed by Florida Power. As a way to estimate the distribution of the projected additional 2002 employee reductions between the entities, I recommend that the 40% factor be applied to the remaining 132 positions identified above, resulting in 53 of the eliminated positions being assigned to Florida Power. These 53 positions, combined with the 40 positions specific to the Crystal River nuclear plant, would result in a total projected reduction to Florida Power positions in 2002 of 93. Assuming these reductions occur evenly throughout the year, the average reduction to the 2002 employee compliment would be approximately 47 employees.

- END CONFIDENTIAL -

Q. DID YOU ATTEMPT TO OBTAIN MORE RECENT FORECASTS OF PROJECTED 2002 EMPLOYEE POSITIONS FOR FLORIDA POWER?

A. Yes. Citizens Interrogatory No. 103 asked for the following information:

> For Florida Power Corporation provide a schedule for each month of the years 2000, 2001, and 2002 showing the total number of employees, separately showing the employee counts by management and non-management. In addition show the salary amounts for the management and non-management groupings. Please also indicate for each grouping the dollar amount of salary that was or will be capitalized. Please use actual numbers where available; otherwise please use your most recent forecasted data. Please also show the forecasted data for 2003, but for 2003 please only provided data for the year in total rather than on a month by month basis.

As indicated above, the question asked for actual numbers where available, or where not available, the <u>most recent forecasted data</u>. The information provided by the Company for 2002 was the amount included in its filing based on the 4,200 employee headcount.

On November 20, 2001, the Office of Public Counsel filed its Second Motion to Compel in this case, requesting that the Prehearing Officer compel the Company to provide the information requested in Interrogatory No. 103. The Motion stated, in part, as follows:

> Information produced in response to previous discovery requests indicates that FPC's employee level may change materially during the course of the test year 2002. Information on employee and salary levels during each month of the test year is therefore necessary in order to make an adjustment to test year salary levels which will reflect an appropriate going-forward amount for salaries. Information for the years 2000 and 2001 are relevant for analyzing trends.
>
> FPC should be required to provide information as requested. If information cannot be provided exactly in the form requested, FPC should be ordered to provide sufficient detail on salary levels on a month-by-month basis to allow a computation of an adjustment for changing employee levels over the course of the test year...

Q. HOW WAS THIS ISSUE RULED?

A. The OPC's Motion was addressed in the Second Order on Discovery Motions. That Order stated, in part, as follows:

> Upon review of the pleadings and consideration of the arguments, OPC's motion to compel complete responses to its Interrogatory No. 103 is granted as it relates to the data for years 2000, 2001 and 2002. ... OPC's discovery request may lead to the discovery of admissible evidence. Therefore, FPC shall respond to OPC's Interrogatory No. 103 by the close of business on December 31, 2001. Additionally, FPC's response shall provide sufficient detail on salary levels on a month-by-month basis as to allow the

computation of an adjustment for changing employee levels over the course of the test year, if such an adjustment is ultimately determined to be appropriate.

Q. DID THE RESPONSE TO OPC INTERROGATORY NO. 103 INCLUDE THE SALARY AND EMPLOYEE INFORMATION FOR 2002 ON A MONTH-BY-MONTH BASIS TO ALLOW THE COMPUTATION OF AN ADJUSTMENT FOR CHANGING EMPLOYEE LEVELS?

A. No, it did not. The information showed a headcount of 4,200 for each of the twelve-month periods. The information also spread the total projected base payroll for regular full-time employees identified in MFR Schedule C-33 of $241,541,709 as being spread evenly throughout the year. In other words, the total projected amount included in the initial MFRs was essentially divided by twelve, and each monthly balance is shown as 1/12th of the total.

Q. SHOULD AN ADJUSTMENT BE MADE TO THE AMOUNT OF PAYROLL EXPENSE INCLUDED IN THE COMPANY'S FILING?

A. Yes. As indicated previously in this testimony, the 4,200 average regular full time employee headcount used by Florida Power in its filing is not likely to be representative of the 2002 test year. As Florida Power still has not provided its most recent forecasts of employee levels or of monthly payroll expense amounts for the projected 2002 test year, I am recommending a reduction to the projected payroll expense included in the Company's filing based on the information that has been provided to date.

Q. BASED ON THE EXTREMELY LIMITED INFORMATION PROVIDED BY THE COMPANY, HOW DO YOU PROPOSE AN ADJUSTMENT BE CALCULATED?

A. As a first step, I recommend that the total projected base payroll expense for the regular full-time employees included in the filing be divided by the projected number of employees included (4,200) to determine an average per employee amount. According to the Company's response to Citizens Interrogatory No. 103, of the total base payroll for regular full-time employees included in the filing of $241,541,709, $119,217,820 (or 49%) was charged to Operation and Maintenance expense. This results in an estimated amount charged to O&M expense for payroll on a per employee basis of $28,385. The calculation of this amount is shown on Schedule C-4. As shown on Schedule C-4, I then recommend that the 4,200 regular full-time employees included in the 2002 test year in the Company's filing be reduced by 71 positions. This adjustment, as shown on line 5 of Schedule C-4, results in a reduction to Operation and Maintenance expense of $2,015,335. As shown on the schedule, payroll tax expense should also be reduced by $154,173 as a result of this revision.

Q. WHY ARE YOU RECOMMENDING THAT THE 4,200 REGULAR FULL-TIME POSITIONS INCLUDED IN THE FILING FOR FLORIDA POWER BE REDUCED BY 71 POSITIONS?

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A. As indicated previously, the Company's actual regular full-time employee count as of November 30, 2001 was 4,176, which is 24 positions less than the average included in the Company's projected 2002 test year. I recommend this 24 employee reduction already realized be added to the projected additional 2002 average employee reduction resulting from the merger synergies of 47 positions. Combined, these amounts result in my recommended total reduction of 71 employees.

- END CONFIDENTIAL -

Employee Benefits - Medical Expense

Q. DOES YOUR RECOMMENDED REDUCTION TO THE EMPLOYEE COMPLIMENT ALSO IMPACT EMPLOYEE BENEFIT EXPENSE?

A. Yes. Any reduction to the employee compliment would likewise result in a reduction to the amount of medical insurance expense included in the Company's filing. In response to Citizens Interrogatory No. 82, the Company provided the projected average 2002 cost per employee for medical insurance, dental insurance and new benefit programs, consisting of vision, wellness and flue shots. On Schedule C-5, I applied the recommended minimum reduction to the employee count of 71 employees to the average per employee cost of $4,911. I then applied an estimated percentage of the costs that are charged to expense based on the allocation of payroll to operation and maintenance expense. As shown on Schedule C-5, the projected 2002 test year medical costs should be reduced by $348,681, resulting in a $172,109 reduction to projected expense.

Q. HAVE YOU SEEN ANY ADDITIONAL INFORMATION SUPPORTING YOUR PROJECTION THAT EMPLOYEE BENEFIT EXPENSE WILL DECLINE FROM THE AMOUNTS CONTAINED IN THE FILING?

A. Yes. In response to Citizens Interrogatory 148(c), only 3,990 active employees were participating in the medical plan as of the first pay period in 2002. The response indicates that this is 47 employees less than the 4,037 employees that were projected to participate in the plan in the filing. As this participation level is based on the first pay period in 2002, it would not take into account any additional employee reductions projected to occur during 2002.

Employee Benefits - FAS 106

Q. WHAT IS THE PURPOSE OF YOUR ADJUSTMENT ON SCHEDULE C-6 FOR EMPLOYEE BENEFITS - FAS 106?

A. In its filing, Florida Power included $20,228,000 as its projected 2002 expense for postretirement benefits other than pension, or FAS 106 expense. The amount consisted of $17,058,000 for retiree medical costs and $3,170,000 for retiree life insurance costs. According to the Company's response to Citizens Interrogatory No. 150, the Company recently received the projected 2002 FAS 106 expense from its outside actuaries, based on the 2001 actuarial report. Based on the more recent actuarial estimates, the projected 2002 expense is now $19,569,482 instead of the

$20,228,000 included in the Company's filing. I recommend that the amount of expense included in the projected 2002 test year be based on the current recent actuarial results, which would incorporation more recent known amounts. Schedule C-6 presents the necessary adjustment, resulting in a $658,518 expense reduction.

Employee Benefits - FAS 112

Q. HAVE ANY SIGNIFICANT CHANGES OCCURRED IN THE COMPANY'S MISCELLANEOUS EMPLOYEE BENEFITS COSTS?

A. Yes. During the historic test year, Florida Power recorded $863,000 in Account 926.70 - Miscellaneous Employee Benefits. The Company has projected a 2002 balance for this account of $3,725,000. The response to Citizens Interrogatory No. 84 provided a breakdown of the significant projected increase in this account. One of the factors causing the change was a projection that the Executive Benefits would increase from $797,400 to $1,873,800. The other major change causing the increase was that projected FAS 112 costs increased from $0 in 2000 to $1,690,000 in 2002.

Q. WHAT IS YOUR UNDERSTANDING OF FLORIDA POWER'S CLAIM FOR INCREASED COSTS OF $1,690,000 FOR FAS 112 COSTS?

A. In determining the 2002 budgeted miscellaneous benefit expense in Account 926.70, the Company included an increase of $1,690,000 for FAS 112 costs. Financial Accounting Standard No. 112, which pertains to employers' accounting for post employment benefits, provides that employers who provide benefits to former or inactive employees after employment must recognize the cost of post employment benefits on an accrual basis. The adjustment proposed by the Company, which increases total expense by $1,690,000, does not appear to be reasonable on its face.

Q. WHY NOT?

A. First, Florida Power's response to Citizens Interrogatory No. 84 shows that Florida Power's FAS 112 cost in the year 2000 was zero. In other words, the Company is claiming that it provided no post retirement benefits, or at least did not accrue for those post retirement benefits prior to the projected test year. Florida Power's response to the interrogatory stated: "Previously, Florida Power would retire disabled employees so that they would receive pension benefits and no FAS 112 calculation was required." In effect, Florida Power is stating that if an employee had a disability which would no longer allow that employee to continue to work, that employee would no longer receive benefits such as medical, life and dental benefits which the company may provide to other employees. Essentially, Florida Power's response seems to indicate that the employee would receive pension benefits but nothing else. This does not seem to be accurate. A disabled employee, who for instance, might have heart problems which would not allow them to continue to work, would be cut loose on their own without continuing medical benefits. This does not appear to be likely. If this is the case, Florida Power would be the only large corporation that I am aware of that would not have provided continuing medical care and other benefits to employees who were disabled. However, the claim that Florida

Power is making would conclude that these employees are going from zero benefits to full benefits in the year 2002.

Q. WHAT OTHER CONCERNS DO YOU HAVE WITH THE COMPANY'S CLAIM?

A. Florida Power's estimated FAS 112 expense is not based on an actuarial study. Rather, the projected 2002 cost estimate is based on an estimate of costs incurred by Carolina Power & Light (CP&L). The estimate concludes that Florida Power will incur $881,259 of health and life insurance costs for its disabled employees based on costs incurred by CP&L. There was no corresponding adjustment made for costs currently incurred by Florida Power for the health benefits that it most likely provides to its disabled employees. This would appear to me to be a double count in that the expenses for the test year would include whatever benefits that are provided to the currently disabled employee. This component of the FAS 112 costs should be rejected until a proper accounting is made through an actuarial report and the current costs being incurred for the disabled employees are deducted or otherwise accounted for.

Q. WHAT IS THE SECOND COMPONENT OF THE FAS 112 COST WHICH FLORIDA POWER IS REQUESTING?

A. Florida Power is asking for an additional $807,528 of salary continuation costs. Even though the current disabled employees are receiving pension benefits, Florida Power is estimating that their costs will increase by $807,528 for salary continuation benefits. As far as I can tell, no accounting has been made for the current benefits being received by disabled employees. In addition, the calculation shows that the average per long-term disabled employee, which once again is based on CP&L costs, would be $115,000 per year. The Company escalated this amount, which was based on 2000 amounts, by 14.49% in determining the projected 2002 expense. Under the calculation used by the Company, a disabled employee would receive an average annual salary continuation amount of $131,663.50 while that employee was disabled. This seems extremely high for an average salary for Florida Power Corporation. In any case, the calculation does not appear to account for the current pension costs being incurred for these employees which would likely be included in the actuarial calculations. This cost should also be rejected until there is a proper accounting for what the average disabled employees' salary is and what pension costs are currently being incurred for that employee.

Q. WHAT IS YOUR OVERALL RECOMMENDATION?

A. I recommend that the Company's projected 2002 test year increase in miscellaneous employee benefit expense for FAS 112 costs be removed. This adjustment, which reduces test year O&M expense by $1,690,000, is reflected on Schedule C-1, page 2.

<u>Miscellaneous Benefits - Change in Control Cash Payment</u>

Q. ARE YOU RECOMMENDING ANY ADDITIONAL REVISIONS TO THE

PROJECTED TEST YEAR MISCELLANEOUS BENEFITS EXPENSE?

A. Yes. Included in the projected 2002 executive benefits expense is $81,250 for a Change of Control Cash Payment. (Bates No. OPC5 000940) I recommend that this new benefit offered to only certain high level executives be removed. The removal of this $81,250 is reflected on Schedule C-1, page 2.

Power Marketing Expense - Account 912.70

Q. DID YOU REVIEW THE LEVEL OF SALES EXPENSE INCLUDED IN THE COMPANY'S FILING?

A. Yes. Company Schedule C-12, page 8, identified projected 2002 sales expenses of $6,426,000. The majority of the sales expenses, $4,897,000, are projected in Account 912.70 - Power Marketing Services. The actual expense recorded in this account in the 2000 historic test year was $2,581,000.

Q. WHAT FACTORS CAUSE THE LARGE PROJECTED INCREASE IN THIS ACCOUNT?

A. Citizens Interrogatory No. 143 asked the Company to provide a detailed description of the Power Marketing Services expense included in the projected test year of $4.9 million and to explain, in detail, how the amount was determined and why the projected amount increased so significantly above the actual 2000 level. The Company responded as follows:

The 2002 projected $4.9M in Power Marketing Services expense includes

> natural gas and residual oil trading and supply services, power trading, trading support services and Energy Ventures management. The $4.9M was determined by reclassifying portions of Fuel Supply expenses (FERC Accounts 501 and 547) into Power Marketing Services (FERC Account 912). Furthermore, historical actuals with an escalation factor determined the 2002 projections. The increase between 2000 actuals and the 2002 projected expenses is due to the accounting reclassification and enhanced Information Technology systems and business management procedures.

Q. THE RESPONSE INDICATES THAT COSTS WERE RECLASSIFIED FROM ACCOUNTS 501 AND 547 INTO ACCOUNT 912. DID THE LEVEL OF EXPENSE INCLUDED IN ACCOUNTS 501 AND 547 IN THE PROJECTED TEST YEAR INDICATE A DECLINE?

A. According to Company MFR Schedule C-12, at page 5, the projected costs in Account 501.00 - Fuel - Non-recoverable increase from the historic test year level of $4,709,000 to $7,869,000 in 2002. The costs in Account 547.00 - Fuel - Other Production - Base declined slightly from $559,000 in 2000 to $521,000 projected in 2002.

Q. ARE THESE THE TYPE OF COSTS THAT WOULD TYPICALLY BE CLASSIFIED AS SALES EXPENSES CHARGED TO ACCOUNT 912?

A. No. Under the FERC Uniform System of Accounts (USOA), Account 912 is for demonstration and selling expenses. The FERC USOA provides the following definition for Account 912: "This account shall include the cost of labor, materials used and expenses incurred in promotional, demonstrating, and selling activities, except by merchandising, the object of which is to promote or retain the use of utility services by present and prospective customers." The Company's response to Citizens Interrogatory No. 143 indicated that: "The 2002 projected $4.9M in Power Marketing Services expense includes natural gas and residual oil trading and supply service, power trading, trading support services and Energy Ventures Management." This Company provided description does not appear to be demonstration and selling costs.

Q. ARE YOU RECOMMENDING AN ADJUSTMENT TO THE PROJECTED 2002 TEST YEAR ASSOCIATED WITH THE POWER MARKETING SERVICES?

A. Yes. I recommend that the amount included in the projected 2002 test year for Account 912.70 - Power Marketing Services be reduced by $2,316,000 to reflect the actual historic test year amount of $2,581,000. This adjustment is presented on Schedule C-1, page 2. The Company was asked to explain, in detail, how its projected amount was determined and to explain why it increased so significantly. The Company's response, which was quoted previously, was not compelling. It did not adequately explain the cause of the significant increase, nor did it adequately show how the projected amount was determined.

General Advertising Expense

Q. DO YOU HAVE ANY CONCERNS WITH THE LEVEL OF GENERAL ADVERTISING EXPENSE THE COMPANY HAS INCLUDED IN ITS FILING?

A. Yes, I do. On Schedule C-7, I present the actual amount of expense recorded by

Florida Power Corporation in Account 930.13 - Other General Advertising Expense for the period 1997 through 2000. As shown on the schedule, the level of general advertising expense for Florida Power Corporation has ranged from a low of $70,000 in 1997 to a high of $1,061,000 in 1998. The historic test year expense was $167,000. In the 2002 test year, the Company has projected that its other general advertising expense will increase to $9,156,000. The Company made an adjustment in its filing to reduce this amount by $4,007,000 to remove institutional and promotional advertising. However, even after the $4 million is removed, projected test year expenses still include $5,149,000 for other general advertising. This is almost $5 million more than the historic test year amount and $4,693,000 higher than the four-year average expense for this account.

Q. WAS AN INQUIRY MADE INTO THE SUBSTANTIAL PROJECTED INCREASE IN THIS COST?

A. Yes. Citizens Interrogatory No. 85 asked the Company to explain, in detail, what factors caused the substantial increase in Account 930.13 between the historic test year and the projected test year. The question also asked the Company to include a detailed description of the projected 2002 advertising campaigns and to include all assumptions, calculations and workpapers with regards to the amount. The response indicated that the 2002 budget included "many different corporate communication activities..." The Company identified some of these activities as advertisements and bill inserts regarding reliability, safety, conservation, emergency procedures and information regarding services available. It also indicated that it included costs such as responding to public concerns regarding environmental and security issues and media relations regarding storms, power failures or other events. The response provided current estimates of costs by category, totaling $6,116,000. This amount (i.e., $6,116,000) did not tie into the amount being requested by the Company in the filing. Included in the $6.1 million identified in the response was $4,052,000 for television, radio and print ads. Also included was $96,000 for sponsorship advertising. The response indicated that "A detailed description of the projected advertising campaigns in 2002 is not yet available."

Q. WERE ANY ADDITIONAL INQUIRIES MADE INTO THE COMPANY'S ANTICIPATED 2002 ADVERTISING CAMPAIGNS?

A. Yes. Citizens POD 115 asked the Company to provide the most recent 2002 marketing program for Florida Power Corporation, whether final, in draft form, or any other stage of preparation. The responsive document was identified as being confidential.

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The document provided in response was titled "2002 Section Goals" and was dated December 12, 2001. The first three of the five goals listed were: (1) "Build clear understanding of the relationship between Florida Power and the Progress Energy parent;" (2) "Develop new external messages for 2002 focusing on the key attributes of trust, reliability, safety, conservation and the environment to begin running in May

2002;" and (3) "Integrate communications to ensure synergy of messages for consistency and impact."

Under the strategies to meet the goal of building a clear understanding of the relationship between Florida Power and Progress Energy were the following four items:

- Educate employees on importance of using brand identity (logo) guidelines for consistency and clarity
- Focus advertising spending in electronic media (television and radio) for broad reach and to quickly change customer perceptions and behaviors
- Consider local editions of consumer magazines to reach targeted audiences
- Use newspaper to increase frequency

Obviously, these costs are geared toward improving Florida Power's image and recognition of the brand name. Ratepayers should not be required to fund such costs.

Q. WAS THERE ANY OTHER INFORMATION PROVIDED IN THE RESPONSE THAT CAUSED CONCERN?

A. Yes. The marketing plan also indicated that the Company would "Implement municipalities campaign, beginning with Winter Park with a focus on reliability, safety and community involvement." The plan also indicated that in the first quarter of 2002, the Company would "Continue implementation of Winter Park campaign." It is my general understanding that there have been significant concerns in the Winter Park area with regards to system reliability and customer satisfaction. Also, under the goal of integrating communications to ensure synergy of messages for consistency and impact, included were strategies to "Coordinate paid media with PR, events, sports marketing, community giving to increase impact" and "Surround strategic sports marketing opportunities with advertising and promotion to reach targeted audiences." Clearly costs such as these, which appear to primarily serve to improve the Company's image, should not be passed on to the Company's ratepayers.

- END CONFIDENTIAL -

Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING FOR GENERAL ADVERTISING EXPENSE?

A. As previously mentioned, the Company's filing includes an adjustment to reduce the $9,156,000 budgeted in this account by $4,007,000, resulting in an adjusted balance of $5,149,000. I recommend that the expenses in Account 930.13 - Other General Advertising be reduced by an additional $4,693,000 to reflect the four-year average level for this account of $456,000, which is still higher than the actual historic test year balance of $167,000. The calculation of this adjustment is presented on Schedule C-7. Ratepayers should not be required to fund this significant increase in advertising costs, particularly as it appears the main purpose of the costs are to improve the Company's image within the community. Citizens witness Earl Poucher addresses quality of service and reliability issues in his testimony. The Company's ratepayers should not be required to fund advertising expenditures that may be aimed, in part, to attempt to improve the Company's tarnished image with its customers.

Nuclear Property and Liability Insurance Credits

Q. WHAT AMOUNT DID THE COMPANY INCLUDE IN THE PROJECTED 2002 TEST YEAR FOR NUCLEAR PROPERTY AND LIABILITY INSURANCE?

A. Projected 2002 expense included in Account 924.31 - Property Insurance - Nuclear is ($2,872,000). This differs considerably from the 2000 historic test year amount of ($5,345,000).

Q. WHY IS THE EXPENSE A NEGATIVE AMOUNT, AND WHY DID THE AMOUNT CHANGE SO SUBSTANTIALLY FROM 2000 TO 2002?

A. The projected 2002 expense includes a positive expense of $1,713,000, offset by an estimated credit of $4,585,097 projected to be received from the Nuclear Electric Insurance Limited (NEIL) based on good experience. The cause of the large discrepancy between 2000 actual amounts and the projected 2002 amounts is because the Company reduced its actual 2000 NEIL credit from ($6,607,256) to ($4,585,097).

Q. ARE YOU RECOMMENDING ANY REVISIONS TO THE PROJECTED TEST YEAR NUCLEAR PROPERTY AND LIABILITY INSURANCE EXPENSE?

A. Yes. The Company also projected a substantial decline in the amount of NEIL credit it would receive in 2001. The total projected expense in Account 924.31 - Property Insurance - Nuclear in 2001 was ($2,740,000), which is comparable to the projected 2002 level of ($2,872,000). As previously mentioned, the Company projected that the NEIL credit would be reduced from a credit of $6.6 million in 2000 to $4.6 million in 2002. In response to Citizens Interrogatory 126, the Company provided the actual credit for 2001, which was ($6,285,895). Clearly the Company's projections of a significant decline in the NEIL credit has not yet occurred. Consequently, I recommend that the Company's projected 2002 NEIL credit of ($4,585,097) be replaced with the actual 2001 credit amount of ($6,285,895). This is the most recent known and actual amount for the Company. This revision results in a $1,700,798 reduction to projected test year expense, which I have reflected on Schedule C-1, page 2.

<u>Nuclear Materials & Supply Inventory</u>

Q. WHY HAVE YOU REVISED THE COMPANY'S REQUESTED AMORTIZATION OF NUCLEAR MATERIALS & SUPPLY INVENTORY ON SCHEDULE C-1?

A. In response to Citizens Interrogatory No. 62, the Company indicated that the amount included in its filing for this item was incorrect. The amount reflected in the filing of $1,667,000 reflected the total projected annual amortization for this item instead of limiting the amount to Florida Power's ownership percentage. According to the Company, the correct amount should have been $1,467,000, which is $200,000 less than the amount included in the filing. I reflected this correction, reducing O&M expense by $200,000, on Schedule C-1.

Rate Case Expense

Q. WHAT IS THE COMPANY REQUESTING WITH REGARDS TO RATE CASE EXPENSE FOR THIS CASE?

A. Florida Power Corporation is requesting recovery of $1,644,000 of estimated rate case expense over a two-year period, resulting in an annual amortization expense of $822,000 to be recovered from ratepayers. The estimated cost consists of $1.5 million for outside consultants, $57,000 for "meals and travel," $22,000 for overtime and $65,000 for other expenses, such as copying fees, postage and materials.

Q. HOW DOES THE COMPANY'S REQUEST IN THIS CASE COMPARE TO AMOUNTS INCURRED IN THE PREVIOUS RATE CASE?

A. According to MFR Schedule C-24, the Company incurred $596,726 in rate case expense in its previous rate case, Docket No. 910890-EI, in which the final order was dated November 1, 1992. In that case, the Company incurred $426,348 for outside consultants, compared to a projected amount of $1.5 million in this case.

Q. IS THE COMPANY'S REQUEST IN THIS CASE REASONABLE?

A. No, it is not. I recommend several revisions to the projected expense, along with a revision to the amortization period.

Q. WHY ARE YOU RECOMMENDING REVISIONS TO THE PROJECTED EXPENSE?

A. In response to Citizens POD 1, the Company provided the workpapers supporting its MFRs, including workpapers pertaining to rate case expense. Contained within those workpapers was an agreement with Deloitte & Touche, a certified public accounting firm, for services to be provided by Deloitte & Touche in this case. The agreement indicates that Deloitte & Touche estimated its professional fees for the examination of Florida Power's financial forecast and the preparation of initial written testimony at $60,000, and the firm would charge additional amounts at its hourly rates for additional services. The Company included $110,000 for Deloitte & Touche's professional fees in its requested rate case expense, which is almost double the estimate submitted by the firm. I recommend that the amount included in rate case expense for these services be $80,000, consisting of the $60,000 estimated by Deloitte & Touche plus an additional $20,000 for further services.

I am also concerned with the level of hourly rates being charged by some of the experts being retained by Florida Power in this case. For example, Dr. Charles Cicchetti is charging an hourly rate of $450 for his participation in this case. Dr. Vander Weide is charging $375 per hour for his services. While I do not question Dr. Cicchetti's or Dr. Vander Weide's qualifications, I am concerned that Florida Power has not attempted to hold down the level of costs it is incurring in this case, particularly as Florida Power is requesting that ratepayers fund 100% of the rate case costs.

Of further concern is that the Company has included $180,000 in fees for John Scardino, who the Company identified in its workpapers as an accounting consultant. It is my understanding that Mr. Scardino is the previous Vice President and Controller of Florida Power. At his deposition, Company Witness Mark Myers was unsure of what hourly rate was being charged by Mr. Scardino for his participation in this case; however, the overall cost estimate for his services of $180,000, when taken into consideration with the high level of other outside services being engaged for this case, seems high.

Q. ARE YOU RECOMMENDING AN ADDITIONAL ADJUSTMENT BE MADE TO THE LEVEL OF OUTSIDE CONSULTANT EXPENSE INCLUDED IN RATE CASE EXPENSE?

A. Yes. I recommend that the costs associated with Dr. Cicchetti's, Dr. Vander Weide's and John Scardino's work in this case be shared 50/50 between ratepayers and shareholders. Florida Power is free to retain the level of experts it sees fit; however, steps should be taken to ensure that ratepayers are not burdened with excessive or unreasonable rate case costs. Removal of 50% of the projected hourly costs associated with these consultants services results in a $245,000 reduction to projected rate case expense.

Q. SHOULD THE TWO-YEAR AMORTIZATION PERIOD REQUESTED BY FLORIDA POWER BE REVISED?

A. Yes, it should. The final order in Florida Power's last rate case proceeding was issued in November 1992, which is over nine years ago. A two-year amortization period is unreasonable and not likely to be reflective of the period rates from this case will be in effect. I recommend a four-year amortization period be used in this case.

Q. WHY DID THE COMPANY USE A TWO-YEAR AMORTIZATION PERIOD?

A. I am unsure. In fact, in the workpapers provided by the Company in response to Citizens POD 1, at Bates Number OPC 001480, an internal Company memo dated August 8, 2001 addressed the issue as follows:

> One item left off the list and not discussed yesterday is the amortization of rate case expenses. In our last order, we were required to amortize rate case expenses over 4 years (the expected time between rate proceedings). Mark is wanting to file our case with a 2 year amortization.

There was no further explanation provided by the Company for why a two-year amortization period was selected.

Q. WHAT IS THE IMPACT OF YOUR RECOMMENDED REVISIONS TO RATE CASE EXPENSE?

A. The calculation of my recommended rate case expense, along with the recommended four-year amortization period, is presented on Schedule C-8. As shown on the schedule, Florida Power's requested annual level of rate case expense should be reduced from $822,000 to $342,250, a reduction of $479,750.

Nuclear Energy Institute Dues - Lobbying

Q. PLEASE DISCUSS YOUR ADJUSTMENT ON SCHEDULE C-1, PAGE 2, TO REDUCE NUCLEAR ENERGY INSTITUTE DUES.

A. According to MFR Schedule C-27, test year expenses include $128,000 on a total Florida basis for Nuclear Energy Institute Dues. The Company included an actual invoice from Nuclear Energy Institute for its year 2000 dues in response to Citizens POD 1 at Bates Number OPC001590. The invoice states: "NEI has estimated that 20% of the 2000 dues will be used for lobbying expenses in 2000 and as such are not deductible as business expenses." I recommend that the amount of Nuclear Energy Institute dues associated with lobbying efforts of 20%, or $25,600, be removed from the 2002 test year.

Tiger Bay Regulatory Asset

Q. FLORIDA POWER'S FILING INCLUDES AN ADJUSTMENT TO ACCELERATE THE RECOVERY OF THE TIGER BAY REGULATORY ASSET. SHOULD THIS ADJUSTMENT BE USED IN DETERMINING THE OVERALL REVENUE REQUIREMENT OF FLORIDA POWER?

A. No, it should not. On Schedule C-1, page 2, I reversed the Company's proposed adjustment, resulting in a $9 million reduction to amortization expense. The acceleration of the recovery of the regulatory asset should not be included as a component in determining base rates for Florida Power. Under the provisions of the Commission's Order Approving Stipulation and Supplemental Stipulation in Docket

No. 970096-EQ, Order No. PSC-97-0652-S-EQ dated June 9, 1997, once the Company recovers the full amount for the Tiger Bay regulatory assets, customers rate will be reduced. In his deposition, Mark Myers indicated that Company projects it will fully recover the regulatory asset around the end of 2003. The inclusion of an acceleration of the recovery of the asset in the calculation of base rates would result in continued recovery of a portion of the asset after it is fully recovered.

<u>Nuclear Decommissioning Expense</u>

Q. WHAT AMOUNT HAS FLORIDA POWER INCLUDED IN ITS FILING FOR NUCLEAR DECOMMISSIONING EXPENSE?

A. The Company's filing incorporates $9,250,000 for nuclear decommissioning expense for Crystal River 3.

Q. SHOULD ANY REVISIONS BE MADE TO THIS AMOUNT?

A. Yes. In December 2001, the Commission voted on its Staff's recommendation in Docket No. 001835-EI. That docket addresses the Petition of Approval of Revised Annual Accrual for Nuclear Decommissioning Costs by Florida Power Corporation. It is my understanding that the Commission's vote in that docket will result in annual decommissioning expense for Florida Power of $7 million. Consequently, the decommissioning expense incorporated in the rate case filing should be reduced by $2,250,000 to reflect the current status of Docket No. 001835-EI. The calculation of this adjustment is presented on Schedule C-9. This results in a reduction to expense on a retail basis of $2,162,000.

Property Tax Expense

Q. COULD YOU PLEASE DESCRIBE HOW FLORIDA POWER CALCULATED THE PROJECTED 2002 PROPERTY TAX EXPENSE INCLUDED IN ITS FILING?

A. Yes. The actual 2000 historic test year property tax expense for Florida Power Corporation was $75,710,000. The Company increased this amount to $85,374,000 in the 2002 projected test year. This is an increase of 12.8% for a two year period. The calculation of the projected test year property tax expense was provided by the Company in response to Citizens POD 1 at Bates Numbers OPC 001958 through 001960. On its workpapers, the Company calculated the five-year and the ten-year average growth rates in total net taxes, assessed values and average net millage rates. The five-year average net millage rate growth rate was -1.20%. The five-year average assessed values growth rate was 4.77%, and the five year average net taxes growth rate was 3.51%. After calculating these amounts, the Company opted not to use them in calculating the projected 2002 property tax expense.

The narrative in the workpaper indicates that despite the fact the average millage rates declined over the last several years, the Company decided that with the economy slowing in 2001, it estimated that the 2001 millage rates would remain flat. The Company also estimated that millage rates would increase by 1% in 2002 due to "...a continued slowdown in the economy..."

The narrative also indicated that: "...assessed values continue to rise due to capital additions and more aggressive valuation techniques employed by property appraisers..." As a result, the Company projected that the assessed values would rise by 4.5% in 2001 and 5% in 2002, not including taxes related to the new peaking unit installed in Intercession City.

As a result of the above identified factors, the Company increased the actual property taxes for 2000 by 4.5% (4.50% increase in assessed value plus 0% increase in millage rates) in determining the 2001 projected property taxes. It added $1,427,982 to this amount for the new Intercession City peaking unit. The Company then increased the resulting amount by 6% to determine its projected 2002 property tax cost included in the filing. The 6% increase was determined by combining the assumed increase in assessed value of 5% with the assumed increase in millage rates of 1%.

Q. DO YOU RECOMMEND ANY REVISIONS TO THE COMPANY'S PROJECTED 2002 PROPERTY TAX EXPENSE:

A. Yes, I do. The Company's estimated 4.5% increase in property tax expense for 2001 is too high. Likewise, the estimated increase for 2002 is also too high.

- BEGIN CONFIDENTIAL -

According to Florida Power Corporation's October 2001 Financial Analysis Report, at page 12 (Bates No. OPC11 000104), property tax expenses were under budget for the month due to a $1.2 million adjustment to reflect a change in the estimate of total property taxes for the year 2001. The page indicates that "The $1.2 million adjustment is being made monthly through the end of 2001." The November 2001 Financial Analysis Report, at page 12 (Bates No. OPC11 000123) confirms that in November the monthly accrual for property taxes was again reduced by $1.2 million to "...reflect a change in the estimate for total property taxes for the year 2001." Consequently, the Company's projected 2001 property tax expense should be reduced by $3.6 million ($1.2 million x 3 months) to reflect the Company's revisions to its projected 2001 property tax expense.

- END CONFIDENTIAL -

Q. HOW DO YOU PROPOSE THE PROJECTED PROPERTY TAX EXPENSE BE CALCULATED?

A. My recommended adjustment is presented on Schedule C-10. First, the Company's projected 2001 property tax expense should be reduced by the $3.6 million discussed above to determine a revised estimate of 2001 property tax expense. I then recommend that the Company's projected 2002 property tax expense growth factor of 6% be replaced by the Company's actual five-year average net property taxes growth rate of 3.51%. This results in a revised projected 2002 property tax expense for Florida Power of $79,641,746. As shown on Schedule C-10, Florida Power's projected 2002 property tax expense should be reduced by $5,731,834.

VI. COMPANY UPDATES

Q. HAVE YOU REFLECTED THE COMPANY'S NOVEMBER 15, 2001 UPDATES TO ITS FILING IN YOUR REVENUE REQUIREMENT CALCULATIONS?

A. In his November 15, 2001 testimony, Company witness Mark Myers proposed four separate revisions to the Company's original MFRs. The revisions are for a new sales forecast, a new pension expense forecast, additional security costs, and costs associated with RTO start-up. Mr. Myers also requests that a "subsequent year adjustment" be made for costs associated with a new plant at the Hines Energy Complex, called Hines Unit 2.

On Schedule B-1, page 2, and Schedule C-1, page 2 of my exhibit, I reflected the Company's proposed updates to its pension expense and security costs. I have not reflected the impact of the Company's revision to the sales forecast. Citizens witness David Dismukes is addressing the sales forecasts in his testimony and does not agree with the Company's update for this item.

I also have not reflected the impact of the Company's proposed RTO cost recovery. While this is a legal issue, the Office of Public Counsel does not agree that it is appropriate to recover these federal related costs from the Florida retail ratepayers.

Q. DOES YOUR REFLECTION OF THE COMPANY'S UPDATES CAUSE ANY ADDITIONAL ADJUSTMENTS TO BE NEEDED?

A. Yes. The Company's merger synergy cost savings estimate of $58.7 million included significant savings caused by Florida Power's non-bargaining employees converting to the Progress Energy cash balance pension plan. According to Company MFR Schedule C-57g, at page 3: "This difference in early retirement benefit produced a savings of approximately $18 million for 2002. The $18 million is considered a synergy savings." According to Exhibit MAM-4, the Company's November 15, 2001 update to pension plan costs caused the increase in the pension credit due to converting to the cash balance plan to decline to $12 million.

During his deposition on January 15, 2001, Company witness Mark Myers was asked if the reduction to the pension credit resulting from converting to the cash balance plan in his updated cost estimates would likewise cause the amount of total estimated synergies of $58.7 million to decline. Mr. Myers indicated that the Company would still expect to achieve total merger related cost reductions in 2002 of $58.7 million and that the difference caused by the change in the pension credit would be made up for by the Company by finding other synergies.

Since I have reflected the full impact of the Company's pension cost revision in the OPC's revenue requirement calculation, it is also necessary to reflect the additional cost savings that the Company intends to achieve to make up for the change in the pension credit caused by converting to the cash balance plan. Mr. Myers clearly indicated that this would be the Company's intent (i.e., the difference would be made up for somehow so that total merger synergies remain at $58.7 million in 2002). I have reflected the additional Company anticipated cost savings, totaling $6 million, on Schedule C-1, page 2. The $6 million is calculated as the difference between the cost savings caused by converting to the cash balance pension plan included in the original filing of $18 million and the updated amount of $12 million indicated on Myers Exhibit MAM-4.

Q. DO YOU HAVE ANY ADDITIONAL COMMENTS WITH REGARDS TO THE COST SAVINGS RESULTING FROM THE CONVERSION TO THE CASH BALANCE PLAN?

A. Yes. During his deposition, Mark Myers also indicated that the amount identified in the original filing as merger synergies caused by switching to Progress Energy's cash balance pension plan should have been $15 million, not $18 million. MFR Schedule C-57g, at page 3, which is sponsored by Company witness Bazemore, clearly identifies that the cost savings resulting from switching to the cash balance plan are $18 million.

- BEGIN CONFIDENTIAL -

The Company's confidential response to Citizens POD 73 identifies both $18 million and $15 million as the merger synergies resulting from switching to the cash balance plan. In the response, at Bates Number OPC3 001743, the Company provided a Summary of Synergy Savings in 2002, which totaled the $58.7 million identified by the Company. This page identifies $18 million as the merger synergies resulting from the additional pension credit. However, another page in the response that breaks down the Shared Corporate and Administrative Services synergies (Bates Number OPC3 001747) identifies the pension credit as $15 million.

- END CONFIDENTIAL -

At this point, as Mr. Bazemore is the witness who sponsors the MFR schedule identifying and discussing the increase in the pension credit caused by switching to Progress Energy's cash balance plan and sponsors the issue in his testimony, I utilized the $18 million identified in the Company's September 14th filing in calculating the adjustment.

Q. WHAT DID THE COMPANY PROPOSE IN ITS NOVEMBER 15, 2001 TESTIMONY WITH REGARDS TO HINES UNIT 2?

A. Company witness Mark Myers proposes that the projected costs associated with Hines 2 be taken into account in this case, and that the Commission adopt a "subsequent year adjustment" whereby rates would be increased effective with the first billing cycle following Hines Unit 2 being placed into service. On Exhibit MAM-7, Mr. Myers calculates that the resulting rate increase on a retail jurisdictional basis would be $51,194,000.

Q. WHEN DOES THE COMPANY PROJECT THAT HINES UNIT 2 WILL BE PLACED IN SERVICE?

A. The Company anticipates that the unit will go into service by November 2003. This is almost two years away and is substantially outside the 2002 projected test year used in this case.

Q. SHOULD THE COMPANY'S PROPOSED "SUBSEQUENT YEAR ADJUSTMENT" BE APPROVED IN THIS CASE?

A. No, it should not. The test year in this case is the projected twelve-months ending December 31, 2002. Hines Unit 2 is projected to be placed in service well beyond the end of that test year. The Company's proposal would result in a serious mismatch of investment, revenues and costs. Subsequent to the projected test year, changes in the Company's cost structure will occur. Rate base will increase as new plant is added to serve new customers, rate base items will decline as plant is depreciated and retired, revenue will increase as customers are added, and expenses will fluctuate. Changes to the individual components of a utility's overall cost of service do not occur in a vacuum or in isolation. It is very important to be consistent with a test period to ensure that there is a consistent matching between investment, revenues and costs. The Company's proposal with regards to Hines Unit 2 reaches well beyond the end of the projected test year and should be denied. It would result in single issue ratemaking that ignores all other components of the Company's cost structure. Such single-issue ratemaking is not appropriate.

Q. ARE YOU AWARE OF ANY FACTORS SUBSEQUENT TO THE END OF THE PROJECTED TEST YEAR THAT COULD CAUSE THE COMPANY'S COSTS

TO DECLINE?

A. Yes.

- BEGIN CONFIDENTIAL -

As previously mentioned in this testimony, the Company provided a box of documents in response to Citizens First Set of Requests for Production of Documents discussing and addressing merger synergies. The information provided discusses numerous additional incremental projected cost savings occurring in 2003. The information also indicated that there was projected to be additional employee reductions occurring in 2003. These are events that are projected to occur after the end of the projected test year that would result in additional cost reductions.

- END CONFIDENTIAL -

The above example demonstrates why it is not appropriate to consider only one change in a Company's overall cost structure in isolation.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes, it does.

APPENDIX I

QUALIFICATIONS OF DONNA DERONNE, C.P.A.

APPENDIX I

QUALIFICATIONS OF DONNA DERONNE, C.P.A.

Q. WHAT IS YOUR OCCUPATION?

A. I am a certified public accountant and regulatory consultant in the firm of Larkin & Associates, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan.

Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

A. I graduated with honors from Oakland University in Rochester, Michigan in 1991. I have been employed by the firm of Larkin & Associates since 1991.

As a certified public accountant and regulatory consultant with Larkin & Associates, my duties have included the analysis of utility rate cases and regulatory issues, researching accounting and regulatory developments, preparation of computer models and spreadsheets, the preparation of testimony and schedules and testifying in regulatory proceedings. A partial listing of cases which I have participated in are included below:

Performed Analytical Work in the Following Cases:

Docket No. 92-06-05	The United Illuminating Company State of Connecticut, Department of Public Utility Control
Docket No. R-00922428	The Pennsylvania American Water Company Pennsylvania Public Utility Commission

Cause No. 39498	PSI Energy, Inc. Before the State of Indiana - Indiana Utility Regulatory Commission
Docket No. 6720-TI-102	Wisconsin Bell, Inc. Wisconsin Citizens' Utility Board
Docket No. 90-1069 (Remand)	Commonwealth Edison, Inc. Before the Illinois Commerce Commission
Docket Nos. 920733-WS & 920734-WS	General Development Utilities, Inc. - Port Labelle and Silver Springs Shores Divisions. Before the Florida Public Service Commission
Case No. PUE910047	Virginia Electric and Power Company (State Corporation Commission)
Docket No. U-1565-91-134	Sun City Water Company Residential Utility Consumer Office
Docket No. 930405-EI	Florida Power & Light Company Before the Florida Public Service Commission
Docket No. UE-92-1262	Puget Sound Power & Light Company Before the Washington Utilities & Transportation Commission
Docket No. R-932667	Pennsylvania Gas & Water Company Before the Pennsylvania Public Utility Commission
Docket No. 7700	Hawaiian Electric Company, Inc. Before the Public Utilities Commission of the State of Hawaii
Docket No. R-00932670	Pennsylvania American Water Company Before the Pennsylvania Public Utility Commission
Case No. 78-T119-0013-94	Guam Power Authority vs. U.S. Navy Public Works Center, Guam - Assisting the Department of Defense in the investigation of a billing dispute.
Case No. 90-256	South Central Bell Telephone Company Before the Kentucky Public Service Commission –

Case No. 94-355	Cincinnati Bell Telephone Company Before the Kentucky Public Service Commission
Docket No. 7766	Hawaiian Electric Company, Inc. Before the Public Utilities Commission of the State of Hawaii
Docket No. 2216	Narragansett Bay Commission On Behalf of the Division of Public Utilities and Carriers, Before the Rhode Island Public Utilities Commission
Docket No. 2216	Narragansett Bay Commission - Surrebuttal On Behalf of the Division of Public Utilities and Carriers, Before the Rhode Island Public Utilities Commission
Docket No. 94-0097	Citizens Utilities Company, Kauai Electric Division Before the Public Utilities Commission of the State of Hawaii
Docket No. 5863*	Central Vermont Public Service Corporation Before the Vermont Public Service Board
Docket No. E-1032-95-433	Citizens Utilities Company - Arizona Electric Division Before the Arizona Corporation Commission
Docket No. R-00973947	United Water Pennsylvania Before the Pennsylvania Public Utilities Commission
Docket No. 95-0051	Hawaiian Storm Damage Reserve Case Before the Public Utilities Commission of the State of Hawaii
Application Nos. 96-08-070, 96-08-071, 96-08-072	Pacific Gas & Electric Company, Southern California Edison Company & San Diego Gas & Electric Co.; Phases I & II; Before the California Public Utilities Commission
Docket No. E-1072-97-067	Southwestern Telephone Company Before the Arizona Corporation Commission
Docket No. 920260-TL	BellSouth Telecommunications Inc. - Florida On Behalf of the Florida Office of Public Counsel

Docket No. R-00973953	PECO Energy Company Before the Pennsylvania Public Utilities Commission
Docket No. 5983	Green Mountain Power Corporation Before the Vermont Public Service Board
Case No. PUE-9602096	Virginia Electric and Power Company Before the Commonwealth of Virginia State Corporation Commission
Docket No. 97-035-01	PacifiCorp, dba Utah Power & Light Company Before the Public Service Commission of Utah
Docket No. G-34930705	Black Mountain Gas Division - Northern States Power Before the Arizona Corporation Commission
Docket No. T-01051B-99-105*	US West/Qwest Corporation Before the Arizona Corporation Commission
Docket No. 98-10-019	Verizon Audit Report on Behalf of California Office of Ratepayers Advocates
Docket No. 99-057-20*	Questar Gas Company Before the Utah Public Service Commission

Submitted Testimony in the Following Cases

Docket No. 92-11-11	Connecticut Light & Power Company State of Connecticut, Department of Public Utility Control
Docket No. 93-02-04	Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control
Docket No. 95-02-07	Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control
Case No. 94-0035-E-42T	Monongahela Power Company Before the Public Service Commission of West Virginia

Case No. 94-0027-E-42T	Potomac Edison Company Before the Public Service Commission of West Virginia
Case No. 95-0003-G-42T*	Hope Gas, Inc. Before the West Virginia Public Service Commission
Case No. 95-0011-G-42T*	Mountaineer Gas Company Before the West Virginia Public Service Commission
Docket No. 950495-WS	Southern States Utilities Before the Florida Public Service Commission
Docket No. 960451-WS	United Water Florida Before the Florida Public Service Commission
Docket No. 5859	Citizens Utilities Company - Vermont Electric Division Before the Vermont Public Service Board
Docket No. 97-12-21	Southern Connecticut Gas Company State of Connecticut, Department of Public Utility Control
Docket No. 98-01-02	Connecticut Light & Power Company State of Connecticut, Department of Public Utility Control
Docket No. 98-07-006	San Diego Gas and Electric Company Public Utilities Commission of the State of California
Docket No. 99-04-18 Phase I	Southern Connecticut Gas Company State of Connecticut, Department of Public Utility Control
Docket No. 99-04-18 Phase III	Southern Connecticut Gas Company State of Connecticut, Department of Public Utility Control
Docket No. 99-09-03 Phase II	Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control
Docket No. 99-09-03	Connecticut Natural Gas Corporation

Phase III	State of Connecticut, Department of Public Utility Control
Docket No. 99-035-10	PacifiCorp dba Utah Power & Light Company Public Service Commission of Utah
Docket No. 00-12-01	Connecticut Light & Power Company State of Connecticut, Department of Public Utility Control
Docket No. 6460*	Central Vermont Public Service Corporation Before the Vermont Public Service Board
Docket No. 01-035-01*	PacifiCorp dba Utah Power & Light Company Public Service Commission of Utah
Docket No. G-01551A-00-0309	Southwest Gas Corporation Arizona Corporation Commission
Docket No. 01-05-19	Yankee Gas Services Company State of Connecticut Department of Public Utility Control
Docket No. 01-035-23 Interim (Oral testimony)	PacifiCorp dba Utah Power & Light Company Public Service Commission of Utah
Docket No. 010503-WU	Aloha Utilities, Inc. - Seven Springs Water Division Before the Florida Public Service Commission

Case Settled*

Exhibit__(DD-1)

FLORIDA POWER CORPORATION

Docket No. 000824-EI
Schedules of Donna DeRonne

TABLE OF CONTENTS

*** Schedule Contains Confidential Information**

FLORIDA POWER CORPORATION
Projected Test Year Ended December 31, 2002

Docket No. 000824-EI
Exhibit__(DD-1)
Schedule A

Revenue Requirement
(Thousands of Dollars)

Line No.	Description	Per Company Amount (A)	Company Revised Amount (B)	Per OPC Amount (C)	Col. (C) Reference:
1	Jurisdictional Adjusted Rate Base	3,665,497	3,664,332	3,656,821	Schedule B-1
2	Required Rate of Return	9.809%	9.809%	7.470%	Schedule D
3	Jurisdictional Income Required	359,549	359,434	273,165	Line 1 x Line 2
4	Jurisdictional Adj. Net Operating Income	359,551	334,840	424,227	Schedule C-1
5	Income Deficiency (Sufficiency)	(2)	24,594	(151,062)	Line 3 - Line 4
6	Earned Rate of Return	9.809%	9.138%	11.601%	Line 4 / Line 1
7	Net Operating Income Multiplier	1.631300	1.631300	1.631300	Co. Exh. MAM-5
8	Revenue Deficiency (Sufficiency)	(3)	40,120	(246,427)	Line 5 x Line 7

FLORIDA POWER CORPORATION
Projected Test Year Ended December 31, 2002

Docket No. 000824-EI
Exhibit__(DD-1)
Schedule B-1
Page 1 of 2

Adjusted Rate Base
(Thousands of Dollars)

Line No.	Rate Base Components	Adjusted Juris. Total Amount per Company	OPC Adjustments	Adjusted Juris. Total Amount per OPC
		(A)	(B)	(C)
1	Plant In Service	6,876,125	(3,307)	6,872,818
2	Accum. Depreciation & Amortization	3,414,348	(2,345)	3,412,003
3	Net Plant In Service	3,461,777		3,460,815
4	Construction Work In Progress	72,527		72,527
5	Plant Held for Future Use	6,426		6,426
6	Nuclear Fuel (Net)	47,554		47,554
7	Net Utility Plant	3,588,284		3,587,322
8	Working Capital Allowance	77,213	(7,714)	69,499
9	Unamortized Gain on Sale of Property	-		-
10	Other Rate Base Adjustments	-		-
11	Total Rate Base	3,665,497		3,656,821

Source/Notes:

Col. (A): Company MFR Schedule B-3, page 2
Col. (B): See Schedule B-1, page 2

FLORIDA POWER CORPORATION
Projected Test Year Ended December 31, 2002

Adjusted Rate Base - Summary of Adjustments
(Thousands of Dollars)

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Schedule B-1
Page 2 of 2

Line No.	Adjustment Title	Reference	Total Adjustment	Jurisdictional Separation Factor	Jurisdictional Amount
	Plant in Service Adjustments:				
1	Company Update for Security Costs	Exhibit MAM-5	11,300	0.8407	9,500
2	Remove 33 Closed Business Offices	Testimony	(13,684)	0.9359	(12,807)
3	*Total Plant in Service*		(2,384)		(3,307)
	Accumulated Depreciation Adjustments:				
4	Company Update for Security Costs	Exhibit MAM-5	700	0.8571	600
5	Remove 33 Closed Business Offices	Testimony	(3,147)	0.9359	(2,945)
6	*Total Accumulated Depreciation*		(2,447)		(2,345)
	Working Capital Adjustments:				
7	Company Update for Pensions	Exhibit MAM-5	(11,550)	0.9193	(10,618)
8	Company Update for Security Costs	Exhibit MAM-5	4,000	0.7260	2,904
9	*Total Working Capital*		(7,550)		(7,714)

FLORIDA POWER CORPORATION
Projected Test Year Ended December 31, 2002

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Schedule C-1
Page 1 of 2

Adjusted Net Operating Income
(Thousands of Dollars)

Line No.	Description	Adjusted Jurisdictional Total per Company	OPC Adjustments	Adjusted Jurisdictional Total per OPC
		(A)	(B)	(C)
	Operating Revenues:			
1	Sales of Electricity	1,363,973	28,404	1,392,377
2	Other Operating Revenues	70,829	878	71,707
3	Total Operating Revenues	1,434,802		1,464,084
	Operating Expenses:			
4	Fuel and Net Interchange	4,412		4,412
6	Other Operation & Maintenance	498,721	(60,423)	438,298
7	Depreciation & Amortization	323,658	(10,354)	313,304
8	Taxes Other Than Income	92,870	(5,234)	87,636
9	Current/Deferred Income Taxes	164,472	40,617	205,089
11	Charge Equivalent to Investment Tax Credit	(7,140)		(7,140)
14	(Gain)/Loss on Disposition of Utility Property	(1,742)		(1,742)
15	Total Operating Expenses	1,075,251		1,039,857
16	Net Operating Income	359,551		424,227

Source/Notes:
Col. (A): Company MFR Schedule C-2, page 1
Col. (B): See Schedule C-1, page 2

FLORIDA POWER CORPORATION
Projected Test Year Ended December 31, 2002

Net Operating Income - Summary of Adjustments
(Thousands of Dollars)

Docket No 000824-EI
Exhibit__(DD-1)
Schedule C-1

Line No	Adjustment Title	Reference	Total Adjustment	Jurisdictional Separation Factor	Jurisdictional Amount
	Operating Revenue Adjustments:				
1	Adjustment to Sales of Electricity	(2)	28,404	Direct	28,404
	Other Operating Revenue				
2	Miscellaneous Service Revenues - Account 451.10	Testimony	818	0.9997	818
3	Other Electric Revenues - Account 456 20	Schedule C-3	64	0 9406	60
4	*Total Other Operating Revenue*		882		878
	Operating Expense Adjustments:				
	Operation and Maintenance				
5	Reverse Company's Removal of Merger Synergies	MFR Sch C-3c	(58,700)	0.9445	(55,442)
6	Additional Synergies Due to Pension Revision	Testimony	(6,000)	0 9445	(5,667)
7	Reduction to Allocations from Progress Energy Services	(1)	(9,389)	0.9445	(8,868)
8	Salaries & Wages Expense	Schedule C-4	(2,015)	0 9445	(1,903)
9	Medical Insurance Expense	Schedule C-5	(172)	0.9445	(162)
10	Employee Benefits - FAS 106 Expense	Schedule C-6	(659)	0 9445	(622)
11	Employee Benefits - FAS 112 Expense	Testimony	(1,690)	0.9445	(1,596)
12	Misc Benefits - Change in Control Cash Payment	Testimony	(81)	0 9445	(77)
13	Demonstration & Selling Exp. - Power Marketing Services	Testimony	(2,316)	1.0000	(2,316)
14	Other General Advertising Expense	Schedule C-7	(4,693)	0.9452	(4,436)
15	Nuclear Property & Liability Insurance Credits	Testimony	(1,701)	0.9455	(1,608)
16	Correction to Amortization of Nuclear M&S Inventory	Testimony	(200)	0.9596	(192)
17	Rate Case Expense	Schedule C-8	(480)	1 0000	(480)
18	Nuclear Energy Institute Dues - Remove Lobbying	Testimony	(26)	0 9460	(25)
19	Company Update to Pension Expense	Exhibit MAM-5	23,050	0 9445	21,771
20	Company Update to Security Expense	Exhibit MAM-5	1,300	0.9231	1,200
21	*Total Operation and Maintenance*		(63,772)		(60,423)
	Depreciation and Amortization:				
22	Reverse Accelerated Recovery of Tiger Bay	MFR Sch. C-3c	(9,000)	1 0000	(9,000)
23	Nuclear Decommissioning Expense	Schedule C-9	(2,250)	0 9611	(2,162)
24	Depreciation on 33 Closed Business Offices	Testimony	(419)	0.9359	(392)
25	Company Update to Security Expense	Exhibit MAM-5	1,400	0 8571	1,200
26	*Total Depreciation and Amortization*		(10,269)		(10,354)
	Taxes Other Than Income:				
27	Property Tax Expense	Schedule C-10	(5,732)	0 9200	(5,273)
28	Payroll Tax Expense	Schedule C-4	(154)	0 9445	(145)
29	Company Update to Security Expense	Exhibit MAM-5	200	0 9211	184
30	*Total Taxes Other Than Income*		(5,686)		(5,234)
	Income Taxes.				
31	Impact of Other Adjustments	Schedule C-11		Various	40,617
32	*Total Income Tax*				40,617

Notes

Jurisdictional Separation factors from MFR Schedule C-9 or other schedules within the Company's filing

(1) Adjustment sponsored by OPC Witness Kim Dismukes

(2) Adjustment sponsored by OPC Witness David Dismukes

FLORIDA POWER CORPORATION
Projected Test Year Ended December 31, 2002

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Exhibit__(DD-1)
Schedule C-2

Breakdown of Merger Transition Costs

- CONFIDENTIAL -

Line No.	Description	Total Amount	Allocation from Progress Energy	Amount Requested by Company
		(A)	(B)	(C) = (A) - (B)
1	Change of Control (COC) - Severance	15,916,222	4,813,550	11,102,672
2	COC - Long Term Incentive Plan	8,102,484	10,881,890	(2,779,406)
3	COC - Miscellaneous	366,250	47,500	318,750
4	COC - Excise Taxes	5,226,045	2,016,936	3,209,109
5	COC - Supplemental Executive Retirement Plan Increases	3,903,371	821,243	3,082,128
6	Non-COC - Long Term Incentive Plan	427,509	75,057	352,452
7	Retention Bonuses	4,738,355	106,907	4,631,448
8	Director's Plan	106,907		106,907
9	Broad Based Termination (Severance/Benefits)	39,645,000		39,645,000
10	Supplemental Executive Retirement Plan and Nondiscretionary Plan (make executives whole)	12,917,341	2,910,528	10,006,813
11	Total Amount	91,349,484	21,673,611	69,675,873

Source:
Amounts from Company's response to Citizens' POD 73 (Bates Numbers OPC3 001741 and 001742)

FLORIDA POWER CORPORATION
Projected Test Year Ended December 31, 2002

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Exhibit__(DD-1)
Schedule C-3

Other Electric Revenues - Account 456.20

Line No.	Description	Amount
1	Actual 2001 Revenues in Account 456.20 as of November 30, 2001 (1)	135,845
2	2001 Revenues - Annualized (Line 1 / 11 x 12)	148,195
3	2002 Projected Test Year Revenues, per Company (2)	84,000
4	Adjustment to Increase Other Electric Revenues, Account 456.20	64,195

Source:

(1) Company's response to Citizens' Interrogatory No. 139.

(2) Company MFR Schedule C-12, page 2

FLORIDA POWER CORPORATION
Projected Test Year Ended December 31, 2002

Docket No. 000824-EI
Exhibit__(DD-1)

Salary & Wage Expense

Schedule C-4

Line No.	Description	Amount
1	Total 2002 Payroll Charged to O&M Expense, per Company	119,217,820
2	Employee Headcount Included in 2002 Budget, per Company	4,200
3	Payroll Charged to O&M per Employee	28,385
4	Minimum Recommended Reduction to Projected Employee Count	71
5	Minimum Recommended Reduction to Payroll Charged to Operation & Maintenance Expense	(2,015,335)
6	FICA Tax Rate	7.65%
7	Reduction to Payroll Tax Expense	(154,173)

Source:

Lines 1 & 2: Company's response to Citizens' Interrogatory No. 103
Line 6: Company MFR Schedule C-38a

FLORIDA POWER CORPORATION
Projected Test Year Ended December 31, 2002

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Exhibit__(DD-1)

Medical Insurance Expense

Schedule C-5

Line No.	Description	Amount
1	Average 2002 Medical Insurance Cost per Employee	4,258
2	Average 2002 Dental Cost per Employee	364
3	Average 2002 New Program (Vision, etc.) Cost per Employee	289
4	Average 2002 Employee Medical Benefit Cost per Employee	4,911
5	Minimum Recommended Reduction to Employee Count	71
6	Reduction To Medical Costs	(348,681)
7	Estimated Percentage Charged to O&M Expense	49.36%
8	Reduction to Medical Expense	(172,109)

Source:

Lines 1 - 3: Company's Response to Citizens' Interrogatory No. 82
Line 4: See Schedule C-4
Line 7: Percentage estimated based on amounts provided by Company in response to Citizens' Interrogatory No. 103 ($119,217,820 / $241,541,610 = 49.36%)

FLORIDA POWER CORPORATION
Projected Test Year Ended December 31, 2002

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Exhibit__(DD-1)

Employe Benefits - FAS 106

Schedule C-6

Line No.	Description	Amount
	FAS 106 Expense Included in Filing:	
1	- Retiree Medical	17,058,000
2	- Retiree Life Insruance	3,170,000
3	Subtotal	20,228,000
	Revised FAS 106 Expense, per Company:	
4	- Retiree Medical	16,360,114
5	- Retiree Life Insruance	3,209,368
6	Subtotal	19,569,482
7	Adjustment to Reflect Updated Estimate of Postretirement Benefits Other Than Pensions	(658,518)

Source:

Company MFR Schedule C-12, page 9 and response to Citizens' Interrogatory No. 150

FLORIDA POWER CORPORATION
Projected Test Year Ended December 31, 2002

Docket No. 000824-EI
Exhibit__(DD-1)
Schedule C-7

Other General Advertising Expense
(Thousands of Dollars)

Line No.	Description	Amount
	Account 930.13 - Other General Advertising Expense:	
1	- 1997 Actual	70
2	- 1998 Actual	1,061
3	- 1999 Actual	524
4	- 2000 Actual	167
5	Four Year Average Actual Balance - Acct. 930.13	456
6	Company Adjusted Other General Advertising Expense (1)	5,149
7	Reduction to Other General Advertising Expense	(4,693)

Source/Notes:

Amounts from Company MFR Schedule C-12, page 10.

(1) Company projected 2002 expense, per MFR Schedule C-12, page 10, is $9,156,000. The Company's filing includes an adjustment to reduce this amount by $4,007,000, resulting in an adjusted expense in Account 930.13 of $5,149,000.

FLORIDA POWER CORPORATION
Projected Test Year Ended December 31, 2002

Docket No. 000824-EI
Exhibit__(DD-1)
Schedule C-8

Rate Case Expense

Line No.	Description		Amount
1	Rate Case Costs, per Company		1,644,000
	Deloitt & Touche Fees:		
2	Agreed Upon Fees, per Contract	60,000	
3	OPC Estimated Fees for Additional Services	20,000	
4	Revised Fees, per OPC	80,000	
5	Deloitte & Touche Fees Included in Filing	110,000	
6	Reduction to Projected Rate Case Expense	(30,000)	(30,000)
	Pacific Economic Group Fees (Dr. Cicchetti):		
7	Amount Included in Filing	200,000	
8	OPC Recommended Reduction for Sharing	(100,000)	(100,000)
	Financial Strategy Associates (Dr. Vander Weide)		
9	Amount Included in Filing	110,000	
10	OPC Recommended Reduction for Sharing	(55,000)	(55,000)
	Accounting Consultantant - John Scardino (1)		
11	Amount Included in Filing	180,000	
12	OPC Recommended Reduction for Sharing	(90,000)	(90,000)
13	OPC Recommended Rate Case Costs		1,369,000
14	OPC Recommended Amortization Period (Years)		4
15	Rate Case Amortization Expense, per OPC		342,250
16	Rate Case Amortization Expense, per Florida Power		822,000
17	Reduction to Rate Case Expense Amortization		(479,750)

Notes:

(1) John Scardino is a prior Vice President and Controller of Florida Power.

FLORIDA POWER CORPORATION
Projected Test Year Ended December 31, 2002

Docket No. 000824-EI
Exhibit__(DD-1)
Schedule C-9

Nuclear Decommissioning Expense

Line No.	Description	Amount
1	Nuclear Decommissioning Expense Included in Filing (1)	9,250,000
2	Revised Nuclear Decommissioning Expense per Commission's Vote in Docket No. 001835-EI	7,000,000
3	Reduction to Nuclear Decommissioning Expense	2,250,000

Notes:

(1) MFR Schedule C-34, page 17. Includes Nuclear Decommissioning - Retail of $8,733,000 and Nuclear Decommissioning - Wholesale of $517,000 for total Nuclear Decommissioning of $9,250,000.

FLORIDA POWER CORPORATION
Projected Test Year Ended December 31, 2002

Docket No. 000824-EI
Exhibit__(DD-1)
Schedule C-10

Property Tax Expense

Line No.	Description	Amount
1	Original Projected 2001 Property Tax Expense, per Company (1)	80,541,113
2	Reduction to Projected 2001 Property Tax Expense (2)	(3,600,000)
3	Revised 2001 Property Tax Expense	76,941,113
4	Reasonable Estimate of Percentage Increase (3)	3.51%
5	2002 Projected Property Tax Expense, per OPC	79,641,746
6	2002 Projected Property Tax Expense, per Company (4)	85,373,580
7	Reduction to Property Tax Expense	(5,731,834)

Source:

(1) Amount from Company workpapers provided in response to Citizens' POD 1, at Bates No. 001958.
(2) See testimony for discussion of how amount was determined.
(3) Based on 5 year average growth rate in net property taxes from Company workpapers provided in response to Citizens' POD 1, Bates No. 001959.
(4) Amount from Company workpapers provided in response to Citizens' POD 1, at Bates No. 001958. Amount ties to MFR Schedule C-38A, page 1 of 2.

FLORIDA POWER CORPORATION
Projected Test Year Ended December 31, 2002

Docket No. 000824-EI
Exhibit__(DD-1)
Schedule C-11

Income Tax Expense
(Thousands of Dollars)

Line No.	Description	Amount
1	Jurisdictional Operating Income Adjustments (1)	(105,293)
2	Composite Income Tax Rate (2)	38.575%
3	Adjustment to Income Tax Expense	40,617

Source:
(1) Schedule C-1, p. 2
(2) Company MFR Schedule C-3c, p. 2

FLORIDA POWER CORPORATION
Projected Test Year Ended December 31, 2002

Docket No. 000824-EI
Exhibit__(DD-1)
Schedule D

Overall Cost of Capital, per OPC

Line No.	Description	Ratio	Cost Rate	Weighted Cost
1	Debt	53.51%	7.12%	3.81%
2	Preferred Stock	0.83%	4.51%	0.04%
3	Common Equity (1)	33.36%	9.95%	3.32%
	Customer Deposits			
4	Active	3.07%	6.13%	0.19%
5	Inactive	0.01%	0.00%	0.00%
	Intestment Tax Credit			
6	Post '70- Equity	0.77%	10.10%	0.08%
7	Post '70- Debt	0.47%	7.13%	0.03%
8	Deferred Income Taxes	8.76%	0.00%	0.00%
9	FAS 109 Liability - Net	-0.78%	0.00%	0.00%
10	Total Capital Structure	100.00%		7.47%

Source/Reference:

Above amounts are sponsored by Citizens' witness James A. Rothschild and may be found on Schedule JAR 1, page 1, included with Mr. Rothschild's testimony.

(1) The return on equity recommended by Citizens' witness James A. Rothschild of 10.20% was reduced by 25 basis points to 9.95% to reflect the impact of a return on equity penalty recommended by Citizens' witness Earl Poucher.