BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DECLASSIFIED 9.15.03

CONFIDENTIAL

In re: Review of Florida Power Corporation's earnings, including effects of proposed acquisition of Florida Power Corporation by Carolina Power & Light
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Docket No. 000824-EI

DEPOSITION OF:	MARK A. MYERS
TAKEN AT THE INSTANCE OF:	Attorneys for the Citizens of Florida
DATE:	January 15, 2002
TIME:	Commenced at 9:00 a.m. Concluded at 5:00 p.m.
LOCATION:	2540 Shumard Oak Boulevard Room 309 Tallahassee, Florida
REPORTED BY:	Carolyn L. Rankine Notary Public in and for the State of Florida at Large

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

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I N D E X

PROCEEDINGS

The following deposition of **MARK A. MYERS** was taken on oral examination, pursuant to notice, for purposes of discovery, and for use as evidence, and for other uses and purposes as may be permitted by the applicable and governing rules. Reading and signing is not waived.

* * *

Thereupon,

MARK A. MYERS

was called as a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. BECK:

* * *

MR. SASSO: I'm not certain that there is a procedure for staff's handling or receiving these things. Are you -- not taking it Mary Anne, looking at it.

MS. HELTON: I'm taking it, looking at it, and returning it, I guess.

MR. BECK: Every document we're handing out are documents covered by protective order, so I expect everybody to return it to us when we're finished.

BY MR. BECK:

Q Mr. Myers, you'll note that we put some page numbers on the bottom of this exhibit for reference during the deposition. And I would ask you to turn to the page number 4. There's a Bate stamp on the bottom of this OPC3001743. This document, line 23, has the same synergy number that we discussed earlier, $58.7 million, is that right?

A Yes, sir.

Q Now, underneath that there's a footnote that says revised August 16th, 2001, certain expenses to be allocated were reduced and/or eliminated. Could you tell us what expenses to be allocated were reduced or eliminated?

A Without doing further research, I'm not sure what that refers to.

Q Are there any allocated expenses included within the $58.7 million?

A At this point in time I'm not sure what that note referred to. Sorry.

Q I'm going to hand you a chart that we prepared from a few of the pages. Again, this would be treated confidential since it comes from a confidential document. I want to go through this with you.

MR. SASSO: Just to be clear, everybody in the room is with OPC or staff, is that right, or --

apart from the attorneys and Publix, of course.

MR. BECK: Yes.

BY MR. BECK:

Q Do you see the chart I just handed out?

A Yes, sir.

Q And then we've got certain references to source numbers from the response to request number 73, do you see that? I was wondering if you could go through and verify the source of the documents with the chart we just handed out.

A (Perusing document.)

Q As you go through that, we're coming up with a different percent in nonregulated than you just described, so we're going to ask you to try to tell us why there's a difference.

A Okay. I guess the only -- and maybe I'm not doing the math here correctly, but on your schedule for CPL the amount shown for 2002 power operations is off slightly.

Q From what?

A From the numbers shown on here.

Q Hold on a second.

A It's not significant. I mean, it's about a million dollars difference, maybe just giving the numbers -- I mean, I can show you what I've added here off --

Q You think the number per CP&L power operations is about a million more than shown on the chart we've handed out?

A Yes. And that's -- if you look at page 7 and add a couple of numbers on that page, if I'm doing --

Q I think we're there.

A Having said that, I don't think that's really the point you're trying to raise, but just to clarify, the rest of the numbers look like they appear correct based on the backup sheets. The difference here is, as you see the total savings number, there's also another -- I talked about that the regulated savings that we were referring to really is combined of two components, there's the cost synergies, which is what this reflects, and then in the case of CPL, there's also some best practices, some revenue synergies that they expect to achieve, and that makes up the difference, roughly.

Q That would take us to the figure you gave us, which is slightly higher than Florida Power Corporation's?

A Again of the 130, if you're using that as the target, in our component of it, it's about 45 percent. So, yes, they're getting a little bit more than we are because of some best practices that they were able to determine -- that they were able to apply in their area.

Q Are there any revenue synergies you included for Florida Power Corporation?

A No. We were not able to identify any that were as a part of the merger.

Q We've identified on the document we handed out identified as synergy savings reconstruction from POD73, we have had figure there for Carolina Power & Light total savings.

A Yes, sir.

Q How much more than that would be the correct figure for Carolina Power & Light that include revenue synergies?

A Again, trying to avoid numbers. If you look at the total numbers that are reflected on there of total and cost savings, and then you take the difference up to the 130 number, that would be the amount that would roughly be assigned to CPL.

Q On page 8 of the response to POD73, there is a line called corporate services nonregulated. Do you see that?

A Yes, sir.

Q Is the amount that's shown there is that amount a synergy savings related to shared corporate administrative services attributed to Progress Energy's nonregulated companies?

A I'm not -- as I sit here today, I would have to go back and -- you're talking about the line item that reads corporate services nonregulated?

Q Yes.

A I would have to go back and research exactly what that item is. I don't know, as we sit here today. But that's easy enough to figure out. We could provide that to you pretty quickly.

Q I'll hand you another exhibit. This is -- contains confidential information. It's a letter dated December 11th, 2001, along with certain unredacted pages.

Hang on to this one, we're going to pass that -- but we will go to this. I want to ask some other questions before we go into the POD stuff.

I would like to ask you to turn to POD73 document and turn to page 3. This page 3 has a Bate stamp number 0PC3001742, do you see that?

A Yes, sir.

Q Are the costs that are shown on this page, are they transition costs?

A Yes.

Q Could you explain what each item on the page represents?

A The first four or five items relate to change of control and certain items that were provided to those members of the executive management team of Florida Power and in Florida Progress in this number that were provided certain benefits in the way of severance, certain amount of weeks based on years of service, there was a long-term incentive plan that they participated in, and the change of control had certain elements that triggered final payments in the case of an acquisition. There were certain excise taxes that got triggered, taxes that the participants would have to pay that were -- they were made whole. So that's what the first few are.

For retention bonuses related to a variety of people, could be individual contributors, management, people that were considered essential during the lengthy time it takes to close the deal and were provided bonuses to stay for the duration until the deal closed, and then in some cases had to stay beyond that a certain amount of days like depends, but like 60 days something like that.

The directors' plan related to payments that were made as a part of the arrangements provided to the board of directors. And then the majority of the amount that's on the schedule is the -- what's called broad-based termination and that was severance and benefits that were paid to those individuals that were terminated, that are essentially a lot of synergy savings that were ultimately achieving here through the reduction of manpower.

And then the final one is the nondiscretionary plan. There were some benefit plans provided to the executives to make them whole due to their compensation as far as certain amounts that got capped, otherwise, and the way that was calculated. If you need more precise descriptions of each of these, I would be glad to file that, but that's kind of a high-level description.

Q In your Exhibit MAM-1 you list merger transition costs as $69.676 million in total.

A That's correct.

Q How would you account for the difference between the transition costs listed in MAM-1 and the cost we just described from page 3 of the POD73 document?

A If you turn to page 2 in that same, you'll see that there was the total amount, and then there was a component that's roughly $21 million that relates to the piece that is Florida Progress' executives and others. What we've done here in this process is we excluded Progress' executives that were -- essentially received, you know, change of control payments. So what we've tried to do here is be conservative in how we've applied this and we -- you know, we could have maybe said, well, you know, there are normal allocation of costs would still be appropriate in this situation but we erred on the side of conservative in building our numbers and building the acquisition and so we've excluded that specifically from the number, which brings us down to the $69 million that we're using in our calculation.

Q On page 2, you have the Progress' merger costs, you mentioned $21 million or so, which lines would that apply to on page 3 of the document? Would it be to all the COC lines?

A Well, for instance, if you took the lines that have similar descriptions and netted the numbers, for instance, the first number that shows severance of 15,916,222 and netted that against the -- on page 2, the 4,813,550, and you would get a net number and, likewise, if you went all the way down and netted them, that would be the way to do it.

Q Let me ask you about the line on page 2 for LTIP. Do you see the figure there? The $10.8-million figure.

A Yes.

Q When we go to page 2 there the LTIP is less than that. Why would that be?

A Yes. When we filed this originally, the amount shown -- the amount shown on page 2, the 10,881,890, we incorrect -- the number should have been a reduction of

3,835,705. So in actuality the $69-million number that we used should have been higher by that difference. That was an error that we subsequently discovered.

So what we've done here is we benefited the customer by that difference of about $8 million. That was -- again, as we've gone through and checked some of this stuff, that was an error we made when we originally filed it, but we didn't choose to refile because it was to our disadvantage.

Q You're saying the $10-million figure should have been less?

A Yes. It should have been 3,835,705.

Q And so that the amount allocated to Power Corp would have been less than the total --

A Yes.

Q -- so the total -- oh, I'm sorry. Progress Energy would have been less -- so the total to Florida Power Corporation would have been more?

A The $69-million number would have been 77 million.

Q Are there any other mistakes on pages 2 or 3 that you're aware of?

A No; not on these schedules.

Q I have to ask, what other mistakes are you aware of anywhere in the filing?

A Well, these particular schedules there aren't any adjustments to be made. There was -- there is a calculation that we've made to the severance accrual amount. We had to book our best guess of what we thought the severance accrual would be at the end of 2000. At the end of the year we reflected about a $9-million adjustment to true up for what we actually experienced.

So the reality is when you net that difference with this difference, there is still a slight reduction that we will -- you know, once we finish closing the books and we get everything finalized -- that we would ultimately reflect in our calculation here of our 4.6 million. When you amortize it out, it doesn't change it by much. But the 69-million number might be like 68 and some change. So those are -- that's the one change that -- it's not on these schedules, but does get reflected in the calculation that we're talking about.

Q They have two errors that are more or less about $9 million, and they more or less offset each other?

A Well, the severance accrual I wouldn't say was an error, it was a change in the estimate based on knowledge.

Q One accrual an error --

A Yes.

Q -- and they more or less offset each other?
A Correct.
Q On our POD73, if you'll look at the question for subpart B.
A (Perusing document.)
Q It asks, please, provide work papers and all other documents which show how the synergies were allocated or otherwise distributed between CP&L and FPC for each of their respective subsidiaries and/or affiliates. This includes but is not limited to the 15-year period covered in the analysis and a detailed breakdown of the synergy savings. Is there a document that shows how synergies were allocated or otherwise distributed between CP&L and FPC and each of their respective subsidiaries and affiliates?
A I mean, in essence, you've more or less determined from the analysis that we've given you a separate schedule that you developed that we've concurred with that would represent the synergies by CPL and FPC with the one amendment or adjustment that we talked about that related to some growth in new revenue opportunities that CPL has. So I --
Q But you're not aware of any documents that the company has that would have shown that other than the one we derived from that exhibit?

A I mean, we've given you 60-day reports which provide a lot of detail to develop this. I mean, I think we've been -- I think we've been responsive to your request in trying to give you what we thought were relevant to answer your questions.

Q But other than the 60-day documents -- or do you know of any document that would directly answer that question other than the ones you've given us?

A No; not to my knowledge. Again, what the 60-day documents -- you have to understand -- what the 60-day documents were used to do was develop targets that now have been embedded in the budgeting process in setting budgets for each of the areas and that's the way we've done it. So what we've tried to do here is show you what our thinking was and how we came up with the target-setting process, but having said that, that's really all we have.

Q How did the company determine the synergies that relate to nonregulated companies?

A I think, as you can see from a lot of the 60-day reports, again, it was based on looking at what opportunities there were in different areas, and without going through a lot of the examples because, you know, a lot of them relate to, you know, building new power plants and new opportunities and things like that. I would suggest to you that the cost synergies that we're including are all but for the merger as it relates to Florida Power and -- and the CPL. But on the gross side, on the unregulated components, many of those maybe could have been done by CPL prior to merging and weren't necessarily required. Maybe at some point you needed to scale the companies, but in large part they could have gone and built those power plants on their own if they so chose to do.

So what we've done here in trying to develop our approach to suggest to the commission is that we, again, have tried to build conservatism into the equation. If you look at my Exhibit 1, footnote 1, we have taken the 54 million, which is our adjusted synergy number and divided that by a hundred and seventy-five million. We've included all of the unregulated components of this, we could have easily said, well, the 54 is a part of the 130 which is really regulated in part of the deal. We've erred on the side of including everything in there even though some of it is aspirational and will depend on a lot of factors about market conditions and other things as it relates to the energy business. So, again, what we've tried to do here is to build a conservative way of approaching this that we thought was fair and reasonable to try and allocate the premium cost.

Q Do you know of any documents that would show the total synergy savings projected for 2003 for Power Corp, Carolina Power, and the unregulated affiliates?

A For 2003?

Q Yes.

A It would be -- again, we would have to look to the 60-day reports and the target-setting procession that we went through.

Q The number for 2003, how does it relate to the $175-million figure for the total system?

A Based on some of the early synergy targets that were in the 60-day reports, I think when you look at the totals, the 175 number that we're referring to is 2003 synergy target. The 2002 number is lower. It's more like a $153 million. So part of what we've done, again, is we've erred on the side of looking ahead, trying not to get into, well, is '02 going to be better than '03, and looking at the total of what aspirationally this company wanted to try to achieve in total and that's what we've tried to build into our numbers.

Q Let's go to the POD supplement if we could that we handed out earlier. Could you turn to the Bate stamped page 9743.

A (Witness complies.)

Q Does this page reflect the most recent estimate of synergy savings for Florida Power Corporation?

A The most recent projection of synergy savings was what we built into our 2002 plan.

Q Page 9743. Are these for Florida Power Corporation's alone, synergies?

A Again -- I mean, we provided you a ton of documents as the 60-day reports, and without knowing exactly where this fits in, I can't say definitively. But there's an item on here that doesn't appear to have anything to do with the regulated part of Florida Power but without sort of seeing how this fits into all the documents we gave you, I don't know. It appears to have some unregulated stuff in it.

Q At the bottom of this page there are certain explanations of variances for what is shown on this page.

A Yes, sir.

Q There is one that talks about the merger transmission path being reduced in half. Could you explain that?

A No; I can't. Without --

Q You don't know what that's referring to?

A Not right off.

Q There is mention of Santa Rosa project. Do you see that?

A Right.

Q Is that a regulated or merchant facility? Do you know?

A I don't know. But it certainly wouldn't be regulated since it talks about Southern Company.

Q Let me ask you to turn to Bate stamp 9766, which is the next page.

A (Witness complies.)

Q This is dated July 12th, 2000, at the bottom of the page, is that right?

A Yes, sir.

Q And it says it provides a synergies update?

A Yes, that's what it says at the top.

Q There are three areas in here that are blacked out and highlighted for the analysis of synergies update, which is cost savings, revenues enhancements, and growth and expansion, do you see that? The three areas.

A Right. The tables --

Q Those are headings.

A -- has three headings and those are the headings, that's right.

Q It appears that the overwhelming part of the revenue enhancements are associated with generation expansion, is that right?

A Yeah, that would be correct for the revenue enhancements.

Q Would the generation enhancement associated with these revenue enhancements be associated with building regulated or unregulated power plants?

A I don't know that I could tell by looking at this sheet. But in all likelihood it's unregulated.

Q At the bottom of the page there are a couple of bullets under generation expansion. Do you see them?

A Yes, sir.

Q First one says, on target for 2001 goal, tactical change may be required to achieve 2002 and 2003 targets. And next says anticipated need to expand geographic footprint to achieve revenue targets. Do you see those?

A Yes, sir.

Q Would it be safe to conclude from these bullets that in order to meet these revenue enhancement goals, the company is going to have to become more aggressive in generation development as well as consider developing projects in states other than North Carolina and Florida?

A Again, not knowing the context of what these conclusions were derived from, I can't say whether that's an accurate conclusion or not.

Q Do you know if there are any updates to this update that you're aware of?

A Again, as we researched our records, I'm trying to respond to you, we gave you everything we had, so I would say no.

Q Under the heading for revenue enhancements we're looking at the totals for 2002 and 2003.

A Okay.

Q As I understood it, you said in all likelihood, or something to the effect that these would be unregulated, is that right?

A That would be my assumption subject to trying to go back and validate it.

Q And these would be included as part of your synergy targets, is that correct, for the total system?

A Yes.

Q Now, in 2003, as I recall, you said that the $175-million synergy estimate for the system was for 2003?

A Yes.

Q Now, in here we have a 2003 total of $78.4 million for revenue enhancements, is that right?

A That's what it says.

Q So that would leave a balance of less than a hundred million dollars for nonrevenue enhancements out of 175 million in synergies, is that right?

A Again, as you look at all this stuff, I mean, part of it is aspirational and what we think we can do, the amount of expansion we think we can do in trying to guesstimate what's possible. And so, you know, it's a function of the market place and what we can accomplish. So at that point in time based on whatever was produced -- it would be others that could more accurately address this -- but that was the conclusion, I guess, that was reached at that point in time.

Q Are there witnesses in this proceeding that provide that information or can answer those types of questions?

A No. We don't have any witnesses to address unregulated expansion.

Q But I am correct to conclude that $78.4 million listed for 2003 would be a part of the total 175 million that you told us relates to 2003?

A There is a difference between these updates and what was provided at that point in time and what ultimately got reflected in the budget target-setting process and so these were what teams were looking at, at that point in time but, again, as a part of the process, management has to look at those assumptions and whether or not they think they can achieve what some of the recommendations are. And so, again, since that's on the unregulated side as to how it ultimately got reflected, I would say that got scaled back.

Q Could you turn to the Bate stamp 10115.

A (Witness complies.)

Q This provides -- this document provides information on the company's parent trading and wholesale power and marketing activities, does it not?

A Yes.

Q And to the right there's a block that breaks out synergies into cost savings and revenue enhancements, are there not?

A Yes.

Q At the bottom are total rows, the first is total synergy projection and the other is synergy target. Do you see them?

A I do.

Q Could you tell me what the difference is between a synergy projection and a synergy target?

A Give me just a second. If I could back up for just a second, on your last question where we were referring to all the unregulated growth initiatives, I guess, I would point to the fact, also, when you look at the total schedules that are a part of this package and they show you what the total base and stretch synergy goals would be is still reflective of a number that at this point in time, August of '99, the total synergy numbers for the company at that point in time for 2003 were 165,973,456. So just to clarify the point, again, some of these updated schedules, you know, it's hard for me to know what kind of discussion went around them, but these were still the schedules and the totals that the company management thought was reasonable and appropriate to achieve. I just would like to get that clear.

Q Sure.

A I'm sorry. You're on number --

Q 10115. I think the pending question is what's the difference between a synergy projection and a synergy target?

A I can't tell you. I don't know.

Q Can you look under the section at the bottom of this page, it says key assumptions.

A Okay.

Q Second key assumption listed is trading efficiency synergies come from unit commitment function and moving to power marketing. Does this mean that dispatch and commitment or regulated units will move to the power marketing section of the company?

A I'm not sure what this relates to without trying to do more research. We have reflected synergy savings from our marketing operations in our numbers that is shown as part of energy ventures, so there is an amount that's reflected in our synergy totals.

Q Could you explain the third bullet. It says power marketing organization has priority on the merger transmission path and is free to trade around that asset.

A No; I don't know that I could explain that.

Q Next bullet says, under key assumptions, is that the FPSC will continue to allow FPC to pass through cogen-related expenses. Is there any reason to believe that anything other than that would occur; and why is that an assumption?

A Not having been part of the team that prepared this, I don't know. That is the status quo.

Q Could you turn to page 10120, which I think is two more pages down.

A (Witness complies.)

Q This page has some potential capital savings listed. Do you see that?

A Yes.

Q Were these savings removed from rate base in the projected 2002 test year?

A Yes. We've reflected those in what we've done. The item that talks about FPC options on the Westinghouse equipment, we had placed an option on that, which is our Hines II equipment and that did provide a savings to the customer which was one of the reasons why it was ultimately determined to be the best option for the company to move forward. And we are using the existing Hines site which eliminated having to go out and buy another site. So those are reflected in our Hines cost which is a piece that we are asking to recover once the plant is up, used, and useful.

Q So it's reflected in your exhibit for the post test year adjustment for the Hines plant, is that what you're saying?

A Yeah. I mean, it's the -- I guess, it's all a matter of where you start in saying you saved the money, but the fact that we got the Westinghouse equipment cheaper than if we had gone out and purchased it at a later time, if we hadn't got that option, did result in savings of being able to build the facility at a cheaper cost.

Q And that's reflected on your estimate for the Hines unit number 2?

A Yes, sir.

Q And the same would be true for using existing permitted site?

A Well, the Hines site is already in our --

Q So you didn't include any incremental amount for that in your exhibit?

A Right.

Q The options for the Westinghouse equipment that you mentioned, how were they obtained? How and when? Could you give us some background on those options?

A That would be something that our witness on energy supply could do a better job, Michael Williams. That predated the merger but it was something Mike had secured in anticipation.

Q Of what?

A We had put an option down to secure Westinghouse equipment. If we did not ultimately win the right to build that plant, we could have perhaps sold that option to someone else but -- I mean, there was a cost to do that, but that saved, ultimately, the purchase price of the equipment. That's reflected in our Hines cost assessment.

Q Those options you said were obtained premerger?

A Yeah, but they're not part of the synergy. I mean, it's just -- it's lowering our overall costs of building the Hines II facility. It's sort of a different thing. But the customer is benefiting.

Q But those options would have existed whether or not the merger had occurred?

A We had secured those options prior to.

Q Still on that same page, at the bottom -- or next to the potential capital savings, there's an -- one issue is listed as resolution of market power issues. Do you know what that is?

A No. It's too cryptic.

Q Would you now turn to page 10178, just a few pages down from where we are.

A (Witness complies.)

Q This document describes some bases for revenue enhancements from increased operational efficiency and effectiveness. Is that what it says at the top?

A Yes, sir.

Q Key consideration number 5. It indicates that CP&L and FPC trading centers will generate revenue in excess of $250 million with a margin of 60 million. It says 40 million will benefit stockholders and 20 million will benefit ratepayers. It also states that an increase in performance of at least five percent is anticipated due to the above considerations, thereby, resulting in a minimum increase of $2 million in shareholder value and one million in retail value. Now, could you explain how the stockholders get $40 million and ratepayers get 20 million in this analysis?

A I don't know what went into doing this analysis, and I couldn't tell you what they were -- how they concluded this.

Q The very last thing we mentioned was $1 million in retail customer value. Do you know whether that's included in your $58.7-million estimate?

A I don't know.

Q If it's fuel related, it would come through the fuel clause, is that right?

A That's correct. I mean, our company continues there our power trading options to look for ways to benefit the customers through different things and, you know, we have saved the customer, you know, a fair amount of money through trading activities that passes through automatically to the customer. But that's on the fuel side.

Q On the next page which is Bate stamp 10179. This discussed revenue enhancements from the transmission path between CP&L and FPC, is that right?

A Yes.

Q And it talks about securing 100 megawatts of firm transmission service from FPC to CP&L. How are the costs to secure that 100 megawatt firm transmission path treated?

A I don't know right off. I mean, we could -- if that's important to you, we could go back and provide that information to you.

Q Could you describe what it -- I mean, could you give us a little background on what that 100 megawatt transmission path is?

A I mean, I could be mistaken, but I think we're talking about -- it's a 50 megawatt path. I would prefer just to do a late-file exhibit and we can get the experts to get you an answer.

Q Let's do that.

MR. BECK: I think that's our first exhibit, isn't it? Or haven't we made an exhibit of anything?

THE COURT REPORTER: I haven't.

MS. HELTON: You talked about the late-filed one, the actuarial backed up to an MAM-4, but --

MR. BECK: All right.

MR. SASSO: That was requested.

MR. BECK: We kind of informally. We can call it 1, if you like. I think they're going to be providing that information, as I understand it.

MS. HELTON: Okay.

MR. BECK: It's an exhibit to be filed. It's going to deal with the -- what shall we call it -- the firm transmission path.

BY MR. BECK:

Q And would it be possible to include in that exhibit show where those costs are going to be recovered, whether any of the costs are allocated to the wholesale portion of your operation, if capitalized, on whose books will they reside.

A You're talking faster than I --

MR. SASSO: Could you repeat those.

MR. BECK: Sure. It's how are those costs going to be recovered; are any of the costs going to be recovered from the wholesale portion of your operations; if any of the costs are capitalized, on whose books will they reside; and whether any of the costs are included in the projected test year; and if so, how much and where are they found.

BY MR. BECK:

Q Mr. Myers, you mentioned earlier that you thought the amount of change to 50 megawatts instead of 100 megawatts that is on that document?

A We'll respond to your questions and we'll -- if that's not correct, we'll so state.

Q What we would want to know as part of that is if there's cost for a hundred megawatts, but it's been reduced to 50, how is 50 that's not being utilized being recovered as well.

Mr. Myers, let me just confirm, I believe, short-term memory loss on my part. The $58.7-million figure, that does not include any revenue synergies, is that right?

A Those are cost synergies, that's correct.

Q Right. Would you turn to Bate stamp 10181. It's about two or three more down.

A (Witness complies.)

Q There are certain key considerations listed on this page, and you'll see under key consideration number 1, it says as a baseline assumption all existing FPC wholesale term business is being exited at the fastest contractual rate?

A What was the Bate's number again?

Q This is 10181.

A Is that the page (indicating)?

Q Right. And there are certain key considerations listed.

A Item 1?

Q In the second sentence under item 1.

A Okay. I'm sorry.

Q The second sentence says, as a baseline assumption all existing FPC wholesale term business is being exited at the fastest contractual rate. I was wondering if you could explain why.

A No. And not having worked as part of this team, I don't know what all their assumptions were.

Q I'll start to the next page, which is Bate stamp 10182.

A (Witness complies.)

Q It says certain issues listed with both desired outcomes and undesirable outcomes, is that right?

A Yes.

Q An undesirable outcome listed under key issue 1 is extremely limited or prohibited dealings between affiliates. Why would that be an undesirable outcome?

A I don't know what was involved in not having worked as part of the power team here that does this. This refers to power operations and power trading and ultimately the code of conduct that we have to follow is what ultimately will be the outcome of how we have to do business. So I'm not sure what this refers to.

Q Under key issue 2, to the extent you know, it indicates the desired outcome is for FPC to get the same treatment as CPL. Do you know any steps underway by the company to obtain that treatment?

A No. This is referring to the treatment and how expenses and margins relating to trading activity might be different between CPL and Florida Power. The commission has certainly provided its own conclusions as to how that should be handled and so, you know, that's sort of been decided through docketed discussions and Florida Power is adhering to all of that. So I'm not sure -- there certainly is no move afoot to try to change that. I don't think we could if we wanted to.

Q Do you know what the projections of revenue synergies, what assumptions they have with respect to Florida Power Corporation's trading center?

A No.

Q Concerning treatment. I'm sorry. Do you know what -- the projections of revenue synergies, do you know what assumptions they have about the treatment of Power Corp's trading center?

A No. I mean, any trading revenues that they're going to achieve on the Florida Power side are going to flow back through to the customer through the fuel process. So those margins, in large part, go to the customer by the rules established for us and the other utilities in Florida.

Q Could you turn to the next page which is Bate stamp 10183.

A Okay.

Q And if you look at issue 3.

A (Perusing document.)

Q It states that an undesirable outcome under issue 3 is that the combined entity will not be allowed to participate in the unregulated market in Florida. My question is do your synergy savings estimates assume that the combined company will be able to participate in the

Florida wholesale markets and charge market-based rates or cost-based rates?

A I don't know what assumptions went into the unregulated generation of assumptions.

Q With respect to key issue number 4, the undesirable outcome for issue 4 is that the transmission organization owns the transmission path and posts it on Oasis. Do you know why that's an undesirable outcome?

A No.

Q Turn to Bate stamped page 11000, which is about three or four more down.

A (Witness complies.)

Q This page shows revenue synergies associated with the customer service team of $1 million in 2001, two, and three, is that right?

A Yes, it does.

Q Were any of those revenue synergies included in your estimate of 58.7 million?

A What we've included in our cost synergies that we provided to you is reflected in an answer we gave you, I believe yesterday, to question 135E that shows the composite of the $5.9 million that's resulted from the customer service area and where the pieces are which would be Florida Power's share.

Q And it doesn't include any of these revenue synergies?

A It has -- it has components for closing field offices and opening pay stations, it has application of best practices which could include streamlining work processes, realigning span of control, or eliminating vacancies. It has an item for providing technologies and training to resolve billing inquiries more timely. It has an item for realignment of community support functions and the establishment of a dedicated economic development organization. It also has an item for elimination of redundant functions within customer service and an item for credit cards.

Q None of those items are revenue items, are they?

A No, sir.

Q And this indicates a summary of a million dollars for revenue synergies. I guess my question is: does your test year include the revenue synergies?

A No. It -- all we're showing -- and, again, this was a part of a document that was done in August of '99 and as we continue to refine it, what we have now for customer service is 5.9 million of cost synergies.

Q This document was created on February 7th, 2000, wasn't it, as shown on the bottom?

A I'm sorry. You're right. I thought it was part of the other documents we were working through.

Q Do you know whether that million-dollar figure is for both Power Corp and CP&L or would it just be Power Corp?

A The synergy numbers actually are -- these would have to be combined numbers.

Q For both companies?

A Yes, sir.

Q Just a few more about this package of papers and then maybe we'll be at a good point for a break. Toward the back -- I think it's the fourth page back -- there's a Bate stamp 11616.

A 11616. So we're jumping through a bunch?

Q Yes. You may be missing 616.

A Okay. A test question.

Q No, no. I'm sorry. It's there just out of order.

A Let's see. Where would it be?

Q Toward the back.

A Oh, just behind -- okay. I got it.

Q On page 616, this is an out of order, this is described as a synergy log printed on November 13th, 2000. Do you see that?

A I do.

Q And it says Florida Progress implementation at the top, does it not?

A It does.

Q Are these Florida Progress estimated synergies?

A No. I would say these are, at this point in time, would be the combined company, although the totals still seem too high. But it would be more than just Florida Progress.

Q So this would be the entire consolidated entity?

A Yes, sir.

Q And this shows 194,709,000 in 2003, is that right?

A That's what it shows.

Q Was that number the best estimate as of November 13th, 2000?

A I don't know how this document was used. So I don't know.

Q There's a line item for energy venture revenues.

A Yes.

Q Do you know how those revenue estimates were derived?

A I do not.

Q Would any of those revenues go to retail customers?

A No. In all likelihood that would be unregulated.

Q Earlier, a fair time ago, we looked at a page 4 of the response to POD73 -- you can keep this item. I want to compare the two, if we could.

A (Perusing documents.)

Q Where could we find the numbers that are listed, if we can, on page 4 of the response to POD73 on Bate stamped page 11616 that we just discussed?

A Well, again, it's -- the Florida Power is encompassed in these numbers in total, and I guess they would also challenge the total numbers that are shown in the '03 as being awfully aggressive based on kind of where the company is at that point in time, but they are encompassed in the totals.

MR. BECK: I think for now we're through with that packet of documents. Is this a good time for lunch?

MR. SASSO: Sure. I think we should plan to have two transcripts starting with the confidential section. One will start with the discussion of confidential documents, because there's been a lot of discussion of contents, create a separate transcript of confidential materials that's sealed.

(Luncheon recess.)

BY MR. BECK:

Q Good afternoon.

A Greetings.

Q I'm going to hand out an exhibit called project Ray evaluation synergy book 1.

MS. HELTON: And this one is also confidential?

MR. BECK: Yes.

BY MR. BECK:

Q Mr. Myers, do you know what project Ray is?

A I think that was a code name that was used, basically it was the merger. There were different names assigned to it, but that's -- it basically refers to the Florida Progress-CPL merger.

Q Can you turn to the -- I think it's the third page in, which is Bate stamp 9779.

A Okay.

Q And this is project Ray synergy list is what it says at the top, does it not?

A Yes.

Q Do you know whether this document reflects Florida Power Corporation only or does it include CP&L and the unregulated affiliates of Progress Energy?

A This would include everything.

Q Do you see that there's -- at times there is both base and stretch for synergy terms?

A Yes.

Q Can you tell us what the difference is between base and stretch?

A I believe when they were developing this, which was early in the process -- I think the document is dated August of '99, August 20th, which would be right about the time of the announcement of the merger -- that there were certain items that had been identified. I described earlier that there was a process where a very small group of people had worked about a week or so ahead of the announcement of the merger to try to do their best high-level guess of where there would be some potential synergies, and then it was the job of the 60-day teams after that to work to validate or adjust those numbers. Based on the date of this document, I would assume this was probably the document that was used as a starting point in that process.

So to answer your question, the base appears to be items that -- based on that early initial review, were things that small core group thought they could achieve. And the stretch, then, was their best estimate of some additional things, if more work is done, that could possibly be achieved with more analysis.

Q Were the terms "base" and "stretch" continued to be used when you got to the point where you were using your 60-day teams?

A The 60-day teams took what would be the totals for each of these areas, base and stretch, and then tried to validate the numbers by looking at all the various initiatives that could be achieved and so they -- I don't know right off whether there were still some stretch included, but I think for the most part it was defined by the projects and the initiatives that they thought they could achieve.

Q Would you consider that your 50 -- whether your $58.7 million, do you believe it has any stretch included in that or no?

A Well, to the degree that we discussed this morning that -- on the pension credit -- that the amount that was included has been adjusted down slightly, that would include a certain component of stretch.

Q Are there any other examples you can think of?

A Not right off. The other items -- for the most part, we've identified through reductions of individual FTEs and some of the stuff that we responded to in yesterday's batch of interrogatories.

Q Could you turn to page 9781.

A (Witness complies.)

Q About a third of the way down there is category revenue synergies, and then there's some revenue synergies for both base and stretch in this document, are there not?

A Yes.

Q Do you know whether these would be regulated on unregulated revenue synergies?

A It appears that this would probably be unregulated.

Q Down further there is an item for amortization of goodwill.

A Yes.

Q And it says over 40 years. Could you tell us what that is?

A At the time this was prepared the way the accounting rules worked at that point in time for the treatment of goodwill, you still had an option of amortizing the goodwill cost over a 40-year period and it looks like that was what the assumption was.

Q When did those requirements change?

A The -- I don't have all the dates right on the top of my head, but FASB has been looking at this whole purchase accounting issue for quite a while, long before this merger was contemplated and in looking how that purchase accounting should be handled as well as the amount of years that were appropriate for goodwill treatment. I believe that FASB was recommending a much shorter time period and some of the early documents, but have since changed their view and position. Be happy to provide the final FASB rule that came out, but today the -- there is no amortization period per se. It's just the -- once the goodwill is recorded, you only write it down for impairment that might be determined going forward.

Q So the parent company is no longer writing off any goodwill because of those changes?

A They continue to analyze it and will continue to analyze it on annual basis and determine whether or not impairment has taken place, and if there is, for that piece of it, there would a write down. I'm not certain.

Q Do you know how Progress Energy treated the goodwill during the year 2001?

A Well, we were -- the rule had not changed initially. I'm not sure when it was exactly effective. So we were starting to amortize goodwill.

Q Did you amortize goodwill over 40 years during the calendar year 2001?

A Again, I would have to go back and look and see what they've actually done, but we were starting with a 40-year time period initially.

Q And, currently, I guess for the year 2002 and forward, there is no longer allowed any amortization of goodwill, is that right?

A That's correct. Other than any impairment that might be determined.

Q So if there's no impairment in 2002, there would be no write off at all of goodwill in 2002?

A Not as it relates to this merger.

Q Let me hand you another document. It's titled preliminary performance targets.

A (Perusing document.)

Q Do you recognize this document, Mr. Myers?

A I mean, I guess we provided it to you as part of the 60-day reports. I don't know that I've seen it before.

Q Do you know what this document is measuring?

A Without knowing more of the context in which this is done, no; I wouldn't be able to -- I wouldn't be comfortable speculating.

Q It shows both retail benefits and shareholder benefits, and then shareholders both on the margin and on margin net present value. Is that what it shows?

A That's what it says.

Q Do you know what each of those terms means?

A Well, I know what the terms mean. I'm not sure how the context of how it's being used in this document. This refers to power trading and term marketing. And, again, at Florida Power we're following the rules that have been determined by PSC as far as how trading takes place, and that the vast majority of the benefits are -- go to the shareholders. But, again, how these numbers were calculated and how they're being used, I don't know.

MR. SASSO: Did you mean to say shareholder or customer?

THE WITNESS: I'm sorry. Customer. The vast majority goes to customer's benefit.

BY MR. BECK:

Q Well, not on this chart, though, it shows the majority going to the shareholder, does it not?

A Not for Florida Power. Again, I don't know how this is being utilized. Well, 1999, is what I'm referring to. The years beyond that would be speculation.

Q Do you know conceptually what the difference would be between measurements on the dollar margin and dollar margin at present value?

A Again, I don't know how this document was calculated so I would prefer not to speculate on how it was determined.

Q One more document.

A Thank you. (Perusing document.) Go ahead.

Q Do you recognize what this document is? Do you know what it is?

A I'm not absolutely certain. But it looks like it's a Q and A that was prepared to answer some questions.

Q And would it be for the annual meeting, if you know?

A It could very well have been.

Q If you would turn to page 8323.

A (Witness complies.)

Q Toward the top of the page there is an area where the syn fuel plant sale question and answer is listed. Do you see that?

A I do.

Q Am I correct that these plants were sold at least in part to Carolina Power & Light because Florida Power Corporation could not utilize all of the tax credits?

A I don't know if that's absolutely accurate.

Q Could you tell us about the sale of this syn fuel plant, what your understanding is.

A Well, the company entered into -- prior to the merger we were in the process of entering into ownership interest on the syn fuel facilities and had acquired a couple of them prior to the merger date. And then there were a couple of more that we were looking to potentially get into subsequent to the merger announcement date.

Q Could you look at question number 34 and the answer.

A The question says, did you realize any gain on the sale of these plants to CPL.

Q And at the end, it says for tax purposes, you did recognize a gain?

A That's what this document says.

Q Do you know whether, for book purposes, a gain was recognized or not?

A I don't know right off without researching it.

Q Do you think we could get a late-filed exhibit just describing the gain for book and tax purposes, what it was, how much it was?

A Okay. Sure we can do that.

MR. BECK: Number 2 late filed, syn fuel plant gain.

Q Mr. Myers, I would like to go back a little bit and get a bigger picture of how you utilize your budget for 2001 to come up with your 2002 forecast that you use for the test year.

A Okay.

MS. HELTON: Are we finished with the confidential part?

MR. BECK: We may go back to some of them a little bit. Give me a second and I can go through the one more additional confidential document, and then we can close down confidential.

MS. HELTON: I think it will be easier to deal with in the transcript that way.

BY MR. BECK:

Q Mr. Myers, I'm going to switch a little bit, cover one last confidential thing, then go back to the budget. I want to ask you about branding.

A Okay.

Q I show you a page -- and I only have the one copy here -- but it's page OPC14529 and it says key issue, branding, and ask you to take a look at that, if you would.

A (Perusing document.)

Q Mr. Myers, this is from one of the 60-day reports that you mentioned earlier, is it not?

A Yes, it is. It's a 60-day report from the corporate communications support team.

Q And on page 14529 it indicates that a $6 million synergy target was transferred to the corporate communications team to be used for communicating the new brand in Florida, is that right?

A That's what it says.

Q Could you turn to page 14544.

A 544?

Q Yes, 14544.

A (Witness complies.)

MS. HELTON: Charlie, just so the record is clear, is that part of POD response?

MR. BECK: Yes.

MS. HELTON: Do you know the number of the response?

MS. KAUFMAN: It came in and it said supplement to first POD.

MR. BECK: Yes. In our first set of production documents it asks for synergy type documents. This was a late-filed supplement to what was originally produced and it's one of the 60-day reports that Mr. Myers mentioned.

BY MR. BECK:

Q Mr. Myers, you have page Bate stamped 14544 in front of you?

A Yes, sir.

Q It indicates there the launch for Florida Power in 2001 would cost more than $6 million, does it not?

A That's what it says.

Q You've used the year 2001 and then adjusted it to develop your 2002 projected test year, have you not?

A That's correct, along with any known changes.

Q I guess where I'm finally going, let me give you the ultimate question: do you have expenses for branding included in your 2002 projected test year?

A The -- what we show in our advertising expense, there is a piece that's about 9 million, as I recall off the top, in total, there is a piece of about $4 million that we're recording as below the line that would not be passed on to the customers and that would be branding type activities. So there is an amount that's in there, but it's not something we're asking for cost recovery on.

Q Do you know, does the company have any specific areas it's targeting where the franchise obligations are ending, where you're spending extra dollars there on branding or other advertising relating to the franchise?

A That's in our budget for '02?

Q Yes.

A I'm not aware. I don't know whether we are or not.

Q Let me get that back from you, if I could.

A Sure.

Q Did you incur the $6 million of branding in 2001?

A No.

Q It was more in the level of 4 million you're telling us?

A No. What I was referring to was 2002. I don't know what right off what we spent in '01. But any branding cost would have been below the line.

Q What other types of activities do companies do relating to branding?

A Be more specific about what you're asking for.

Q Well, I mean, what are you spending the money on for branding?

A Well, initially what -- and, again, we're in the process of developing our ultimate campaign for 2002 and what the company is trying to accomplish. But initially some branding activity that was spent in '01 talked about the merger, and the benefits of that, and bringing two strong companies together and trying to, you know, tout what is possible here for us in delivering benefits to customers and other types of things to a scale of a large company. But, again, all of that are costs that went below the line that our customers aren't being asked to pay for.

Q I'm going to ask you to accept, subject to check, that this morning's Tallahassee Democrat had a little add, or whatever you want to call it, by Florida Power Corporation that was energy saving tip, you know, recommending that people close the flu on their chimneys to save energy. Where would that type of expense be found in your budget?

A Well, if it's energy savings, it would be part of our recoverable costs.

Q And would that be an advertising cost to put something in the Tallahassee Democrat?

A I mean, the types of advertising that we do, which I believe what you've referred to falls into, is the areas of safety, education, conservation, and reliability, and if we're doing advertising that promotes some of those things, typically, we put those and look for recovery of them.

Q Now, how would you contrast that with a branding advertising? How would that differ?

A Branding is image building, things like that. The other things that we've done at Florida Power was we've been involved with the Devil Rays' stadium signage and that type of thing, which would be below the line.

Q Let me go back. Let's put aside the branding go back to the basic budget process. You have base operation and maintenance expenses contained in your filing that are based on the 2001 budget, do you not?

A What we've tried to do here -- because of the timing of the rate case and everything we've done, we took the 2001 budget, we made adjustments for any known changes, we tried to reflect the synergies that we knew were there as well as inflationary changes for liability and other things that we wanted to do in '02, and that's what's reflected in our '02 budget.

Q The $58.7 million of merger cost savings, were those savings incorporated in the 2001, based on an O&M expense budget and then brought forward into the forecasted 2002 O&M?

A There are many, many of the synergy savings that are already taking place in '01, and there are some more that will take effect in '02. The cash balance plan is a good example. That doesn't take effect until beginning of '02. So -- I mean, there are some additional amounts in '02. But many of -- as we continue to contract the work organization, there are synergies that are, you know, already occurring in '01.

Q What was the amount that you included in the 2001 budget for synergy savings?

A I don't have that right with me today to answer your question.

MS. HELTON: Charlie, can I interrupt one more time? Are we out of the confidential realm now?

MR. BECK: Yes.

* * *

(Deposition concluded at 5:00 p.m.)

CERTIFICATE OF ADMINISTERING OATH

STATE OF FLORIDA:
COUNTY OF LEON:

I, CAROLYN L. RANKINE, Registered Professional Reporter and Notary Public in and for the State of Florida at Large:

DO HEREBY CERTIFY that on the date and place indicated on the title page of this transcript, an oath was duly administered by me to the designated witness before testimony was taken.

DATED THIS 23 day of January, 2002.

Carolyn L. Rankine
Commission # CC 843731
Expires July 23, 2003
Bonded Thru
Atlantic Bonding Co., Inc.

NOTARY PUBLIC STATE OF FLORIDA

CAROLYN L. RANKINE
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850/878-2221

My commission expires: July 23, 2003

CERTIFICATE OF REPORTER

STATE OF FLORIDA:

COUNTY OF LEON:

I, CAROLYN L. RANKINE, do hereby certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter translated under my supervision; and the foregoing pages numbered 1 through 55 are a true and correct record of the aforesaid proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor relative or employee of such attorney or counsel, or financially interested in the foregoing action.

DATED THIS 23 day of January, 2002.

Carolyn Rankine

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