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Florida adjacent to the attractive Georgia market, should complement Carolina Power & Light's generating assets, located in North Carolina and South Carolina, and should provide the combined company with greater access to these competitive markets. (Page 48)

(iii) The combined company's greater generation assets and customer base should provide the combined company with the size and scope to compete in the increasing competitive utility markets. (Page 49)

(iv) Greater scale should result in significant cost efficiencies and lower per unit costs, resulting in the improvement of the utility businesses' competitive position in a deregulating and increasingly competitive industry with resulting benefits to utility customers. (Page 49)

(v) The resulting lower cost structure for CP&L Energy's regulated businesses should reduce potential customer and margin loss that could occur due to the effects of deregulation. (Page 49)

In a Finance Committee presentation to CP&L given on August 4, 1999, page 7, "Wall Street Highlights" listed several anticipated benefits, including the strengthening of the competitive position of the expanding generation asset base and the expansion of business diversification. These reports, along with several analysts' reports also indicated that the merger was anticipated to be accretive in the first full year after closing.

In a merger announcement which was published on August 23, 1999, Mr. William Cavanaugh, Chairman, President and Chief Executive Officer of CP&L recognized that the acquisition would enhance CP&L's competitive position. The press release further recognized that the combined companies' non-utility businesses were a strong supplement to utility earnings growth and that non-utility revenues will represent approximately 15% of the revenues of the combined company.

In CP&L's August 20, 1999 Minutes of Meeting of Board of Directors, it was noted that Mr. Cavanaugh said:

> the proposed acquisition would give us a potential to grow earnings more rapidly, provide substantial generation capacity strategically located on each end of the lucrative Georgia and South Carolina markets, and gives us the size necessary to thrive in a deregulated industry.

In the CP&L Board of Directors Strategic Planning Retreat 1999 Background Materials, page 6, CPL indicated that its acquisition of Florida Progress was the next logical step toward achieving a sustainable competitive advantage. It further noted that plans were in place to reduce every aspect of the cost of operations to be at or below market.

Q: HAS THE COMPANY PROVIDED ANY INFORMATION REGARDING ITS INTENTIONS TO EXPAND ITS COMPETITIVE GENERATION BUSINESS?

A: In a review of the Power Operations, Power Trading and Term Marketing functions, the Company provided several key considerations as the basis for revenue enhancements. These key consideration included increased experience in adjoining market regions, portfolio management practices, use of the automated information management system, and development of an improved risk management program. It was noted that the use of the FPC's portfolio management practices would "identify more uncommitted generation for sale, reduce production cost uncertainty and maximize the use of 'below market' assets. (OPC 010178). Lastly, the Company noted that:

> Combined, CP&L and FPC Trading Centers will generate revenue in

> excess of $250 million in 1999,producing an expected total margin of $60 million. ($40 million benefit to shareholders and $20 million to ratepayers). An increase in performance of at least 5% is anticipated due to the above considerations, thereby resulting in a minimum increase of $2 million in shareholder value and $1 million in retail customer value. (OPC 010178)

The report also noted that the firm transmission path from FPC to CP&L could be used to move power between regions for profit, when it is not being used to deliver power from FPC to CP&L. The benefits of this utilization were estimated at $2 million; however, the Company did note that the ownership of the transmission could require that these benefits go to customers. Attachment 4 of the report discusses the basis for revenue synergy from retaining existing business and penetrating other markets. This attachment indicated that wholesale term business was being "exited" at the fastest contractual rate and that it was assumed that approximately one-half, or 320 MW, would be retained, apparently under market-based, unregulated contracts. Further, the Company assumed an additional 320 MW from additional expansion opportunities in Florida. It was noted that the "Generation Expansion Team has the pro-forma and all financial documents to support the 5.0 million dollar revenue enhancement. (OPC 010181)

Q: WHAT ARE THE IMPLICATIONS OF THE COMPANY'S GOALS TO ENHANCE ITS COMPETITIVE POSITION AND PARTICIPATE MORE ACTIVELY IN THE GENERATION MARKET?

A: While cost savings were a major driving factor for the merger, these cost savings goals are not just to provide benefits to the customers. The cost savings are also intended to place CP&L and FPC in the best competitive position to capture a larger market share when deregulation occurs. In addition, the Companies expect to become a major "player" in the

Table 1 Summary of FPC Executive Compensation and Severance Packages			
Title	1999 Compensation	Severance Package	Multiple of Compensation Paid in Severance
President/CEO	$835,320	$8,099,799	9.7
VP and General Counsel	$366,557	$1,691,176	4.6
VP, Human Resources	$304,721	$1,495,931	4.9

As shown in Table 1, the severance packages provided in the Transition Expenses ranged from approximately 5 times to almost 10 times the executive's annual compensation. In addition to these three positions, FPC also paid an additional $13,760,863 to 11 executives, which is an average of $1.25 million per executive.

These payouts do not appear reasonable for the retail customers to absorb. The Commission should review the reasonableness of these expenses prior to establishing the appropriate regulatory treatment of FPC's Transition Expenses.

Q: HOW DID WITNESS CICCHETTI ALLOCATE THE TRANSITION EXPENSES AND TRANSACTION COSTS TO FPC?

A: Witness Cicchetti allocated the Transition Expenses and Transaction Costs to FPC based on the relationship between the estimated merger savings of $58.7 for FPC and the total estimated merger savings of $175 million.

Q: DID THE TOTAL SAVINGS INCLUDE ANY SAVINGS THAT WOULD ACCRUE TO THE SHAREHOLDERS?

A: Yes. The total merger-related savings included approximately $31.5 million in merger-related generation revenue synergies which would accrue to the shareholders. The allocation of the Transition Expenses and Transaction Costs would thus recognize this level of merger-related synergies attributed to the shareholders. Unfortunately, however, the allocation does not recognize that the generation revenue synergies are supported by the production function and that additional Transition Expenses and Transaction Costs should be allocated to the shareholders to recognize this support. Further, since the production function is supported by the Shared Services, the allocation of Transition Expenses and Transaction Costs should again recognize that the shareholders benefit from the costs which are borne by the FPC and CP&L retail customers.

Q: DO YOU HAVE SUFFICIENT INFORMATION TO ISOLATE THE COSTS THAT SUPPORT THE COMPANY'S EFFORTS TO INCREASE ITS PRESENCE AND PROFITABILITY IN THE WHOLESALE GENERATION MARKET?

A: No. However, the Commission should recognize that this support is provided in making its determination on the appropriate treatment of the Transition Expenses and Transaction Costs.

Q: DID THE TOTAL SAVINGS INCLUDE ANY SAVINGS ATTRIBUTABLE TO THE NON-REGULATED BUSINESSES?

A: Apparently not. In response to several data requests, the Company provided a detailed breakdown of the merger-related synergies. The total synergies shown on OPC 009781 were $147 million. Several other versions of this document were developed, showing different levels of merger-related synergies; however, to date, we have not seen a corresponding breakdown of the $175 million. The breakdown of the merger-related synergies does include revenue synergies related to generation, but does not include any savings attributable to Florida Progress' non-regulated businesses, including Electric Fuels or Progress Telecomm.

expanded competitive wholesale sales.. It is not clear whether the Power Marketing expenses included in the Test Year sales expenses include costs associated with the Company's attempts to expand its competitive wholesale business. In the preliminary issues summary, October 29, 1999 (OPC 010159), it was noted that, at that time, FPC was projecting in excess of $4 million per year in "below the line" profits from off-system trading. On Attachment 5 of the November 30, 1999 synergies report for Power Operations, Power Trading and Term Marketing (OPC 010182), the Company indicated that FPC Trading Center costs were borne by the shareholders and trading margins that involved FPC's regulatory assets go to the customers, while at CP&L, trading margins are retained by the shareholders and retail customers are "made whole". The noted desired outcome was for FPC to get treatment similar to CP&L. The "fallback outcome" was that FPC could recover all of its Power Marketing costs and keep a portion of its trading margin. As noted above, FPC has already accomplished a portion of the fallback outcome through the Commission's Order No. PSC-00-1744-PAA-EI allowing the sharing of increased margins. In this case, FPC is attempting to achieve the remainder of its fallback outcome by recovering all of the Power Marketing costs from the retail customers.

Q: WHAT METHOD OF ALLOCATION ARE YOU PROPOSING FOR THE POWER MARKETING EXPENSES?

A: Although it appears that the Power Marketing expenses may include expenses related to expansion of FPC's non-regulated wholesale sales, I do not have sufficient information to verify this or to provide a breakdown the Power Marketing expenses of $4.897 million into the various services provided by this department; therefore, I am limiting my adjustment to