BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Review of Florida Power Corporation's Earnings, Including Effects of Proposed Acquisition of Florida Power Corporation by Carolina Power & Light	DOCKET NO. 000824-EI Submitted for Filing: February 11, 2002

REBUTTAL TESTIMONY OF SCOTT D. WILSON

ON BEHALF OF FLORIDA POWER CORPORATION

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ON BEHALF OF FLORIDA POWER CORPORATION
(CONCERNING CAPITAL STRUCTURE RATIOS AND ADJUSTMENTS)

I. Introduction and Background

Q. Please state your name and business address.

A. My name is Scott D. Wilson. I am the principal of the Wilson Consulting Group (WCG), 1391 Timberlane Road, Suite 202, Tallahassee, Florida 32312. WCG specializes in providing consulting services to public utilities.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of Florida Power Corporation.

Q. Please describe your educational and employment background.

A. In August 1977, I received a Bachelor of Science degree in accounting from Florida State University. For five years I was a member of the State of Florida Public Service Commission Staff, where I became Director of the Audit and Financial Analysis Department. Principal areas of departmental responsibilities included cost of capital, accounting and auditing, income taxes, management auditing and depreciation.

Prior to establishing my own firm, I served clients in the utility industry as a senior manager in Ernst & Whinney's electric utility group; as Director of Financial Consulting for Energy Management Associates; as a Director in the

firm of Scott, Madden & Associates, and as a Staff Auditor with Arthur Andersen & Co.

I also served as the Senior Corporate Financial Analyst for Citibank's Southeastern region. My job responsibilities included managing and directing Citibank's corporate finance analytical activities, in which my Staff and I reviewed and analyzed both non-regulated and regulated businesses for potential corporate finance business opportunities. Such activities included financial restructurings, mergers and acquisitions, and debt financings.

I am a Certified Public Accountant licensed to practice in the State of Florida.

Q. Have you previously filed testimony in this docket?

A. No, I have not.

II. Purpose and Summary of Testimony

Q. What is the purpose of your testimony?

A. The purpose of my rebuttal testimony is to respond to certain intervenor and Florida Public Service Commission (FPSC) Staff witnesses' testimony with respect to the appropriate capital structure for ratemaking purposes for Florida Power Corporation (FPC).

Q. What witnesses' testimony do you address in your rebuttal testimony?

A. I will address the testimony of the following witnesses:

Witness	Representing
James Rothschild	OPC
Michael Gorman	FIPUG
Andrew Maurey	FPSC

Q. What conclusions have you reached as a result of your review of these witnesses' testimony?

A. I disagree with the various adjustments made by witnesses Rothschild, Gorman and Maurey to FPC's proposed ratemaking capital structure, and I recommend that the as-filed capital structure of FPC is appropriate for determining FPC's revenue requirements in this case.

Q. Have you prepared any exhibits in connection with your rebuttal testimony?

A. Yes, I have prepared eight exhibits to my rebuttal testimony.

Q. Please briefly identify these exhibits.

A. The following is a listing and a brief description of each exhibit:

- Exhibit SDW-1 is a representation of FPC's capital structure, and capital structure ratios, prepared along the lines of how rating agencies and investors view FPC's investor capital. That is to say this capital structure includes all sources of investor-funded capital (long and short-term debt, preferred and common equity)

plus it includes off-balance sheet debt equivalents ("OBS"). For definitional purposes, I have labeled this capital structure "Investor Funds Including OBS".

- Exhibit SDW-2 is based upon the capital structure contained in SDW-1, but removes from this capital structure FPC's off-balance sheet debt equivalents. I have labeled this capital structure "Investor Funds Excluding OBS".
- Exhibit SDW-3 begins with the capital structure contained in Exhibit SDW-2, but adjusts this capital structure for the regulatory adjustments from MFR schedule D-1, page 1 of 17, except for FPC's requested Crystal River 3 (CR3) common equity adjustment. This exhibit also excludes non-investor sources of funds such as deferred taxes, ITC and customer deposits. I have labeled this capital structure "Regulatory Adjusted Excluding CR3 and Non-Investor Funds".
- Exhibit SDW-4 is based upon the capital structure in SDW-3, but adjusts this capital structure for the CR3 common equity adjustment. This capital structure continues to exclude non-investor supplied funds. I have labeled this capital structure "Regulatory Adjusted Including CR3 and Excluding Non-Investor Funds".
- Exhibit SDW-5 represents FPC's investor funds capital structure from SDW-1, but is adjusted for the CR3 common equity adjustment. I have labeled this capital structure "Investor Funds Including OBS and CR3 Equity Adjustment".
- Exhibit SDW-6 represents FPC's common equity ratio for 1996-2000 plus test year 2002, with the common equity ratio computed consistent with Exhibit SDW-1 (investor funds including off-balance sheet debt equivalents).

- Exhibit SDW –7 is Staff witness Andrew Maurey's exhibit ALM-7, which comprises a listing of electric utilities with their Standard and Poor's bond ratings and common equity ratios.
- Exhibit SDW-8 is Staff witness Andrew Maurey's exhibit ALM-13, which comprises FPC's monthly common equity ratios (from FPSC earnings surveillance reports), dating back to January 1995.
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Q. How is the remainder of your testimony organized?

A. I will address each of the issues identified above in separate sections, with subsections addressing each of the individual witnesses' testimony related to that issue.

III. Capital Structure – General Rebuttal

Q. Do you have any general comments regarding the Capital Structure issue prior to rebutting specific witnesses?

A. Yes I do. First, it is apparent to me that the status of FPC's current bond rating has not been fully addressed in the testimony filed by intervenors and Staff, and left undisturbed, can leave this Commission with a fundamental misunderstanding regarding FPC's credit quality, and the need for an appropriate capital structure to support its current and targeted bond ratings.

For instance, Mr. Rothschild states, "despite the very high common equity ratio of Florida Power, its bonds are rated BBB+" (Rothschild, page 13, lines 10-

11). Other witnesses also reference FPC's "BBB+" bond rating (Gorman, page 20, line 17; Maurey, page 23, lines 9-11).

Q. Isn't it true that FPC's bonds are indeed rated BBB+?

A. In fact, it is true FPC's secured and unsecured bonds are rated BBB+ by Standard and Poor's (S&P), one of the two primary bond rating agencies that rate FPC's bonds. The other primary bond rating agency, Moody's Investors Service, rates FPC's secured bonds A1 and its unsecured bonds A2.

Q. What are the implications of the different ratings by the two bond ratings firms?

A. "Split" ratings such as these mean a difference of opinion exists as to the relative credit quality of a firm. S&P's BBB+ bond rating is one "notch" below an S&P "A" bond rating. Moody's A1 bond rating is one "notch" below a Moody's Aa (double A) bond rating (the A2 rating is two "notches" below a Moody's Aa). Consequently, S&P views FPC to be just below "A" rated quality, and Moody's just below double "A" quality. Given these respective bond ratings, I believe that it is reasonable to consider FPC an "A" rated credit on average, and furthermore it is reasonable to utilize "A" rated benchmarks when discussing FPC's capital structure. An "A" bond rating is also FPC's target bond rating.

IV. Capital Structure – Specific Rebuttal

Mr. James Rothschild

Q. Please summarize Mr. Rothschild's concerns relative to FPC's requested capital structure.

A. Mr. Rothschild indicates that FPC has requested a capital structure containing 61.14% common equity, on an investor funds basis (Rothschild, pg. 9, lines 19-24). He then compared this 61.14% common equity ratio to a group of comparable electric utilities and the capital structure of Progress Energy (FPC's parent) and concluded that FPC's capital structure is "considerably more burdened" with common equity than either its peer group or Progress Energy (pgs. 9-10, lines 25 and 1-13 respectively). He says that "minimizing the overall cost of capital should be considered a primary goal of capital structure selection, not just the bond rating" (Rothschild, pg 14, lines 17-19). Finally, he concludes that Progress Energy's capital structure should be used in place of FPC's for ratemaking purposes (Rothschild, page 17, lines 1-4).

Q. Do you agree with Mr. Rothschild's recommendations regarding the appropriate capital structure for FPC to use for ratemaking purposes?

A. No I do not. I will address my concerns with Mr. Rothschild's recommendations sequentially.

Q. Do you agree with Mr. Rothschild's contention that FPC is requesting a 61.14% common equity ratio on an "investor funds" basis?

A. No, absolutely not. My exhibit SDW-1 is a representation of FPC's test year common equity ratio, prepared on an "investor funds" basis. Exhibit SDW-1 shows that FPC's common equity ratio, when off-balance sheet debt equivalents are properly considered, is 50.3%.

Q. How did Mr. Rothschild arrive at an "investor funds" common equity ratio of 61.14%?

A. By essentially taking the "investor's funds" capital structure contained on SDW-1, adding several regulatory adjustments contained on FPC MFR schedule D-1 (including the $109 million CR3 common equity capital structure adjustment FPC proposes), and then ignoring FPC's $440 million (as of 2002) of off-balance sheet debt equivalents. Exhibits SDW-1 through SDW-4, when viewed sequentially, take you through the adjustments that must be made to go from FPC's properly computed 50.3% investor funds common equity ratio to Mr. Rothschild's 61.14% common equity ratio.

Q. Please summarize the adjustment made on Exhibit SDW-2.

A. Exhibit SDW-2 reflects the change to FPC's capital structure and common equity ratio by removing (ignoring) FPC's off-balance sheet debt equivalents. As can be seen from this exhibit, ignoring FPC's off-balance sheet debt equivalents increases FPC's common equity ratio from 50.3% to 56.3%. So merely assuming away FPC's very significant purchase power obligations takes you more than half

the distance between FPC's investor funds common equity ratio of 50.3% and Mr. Rothschild's common equity ratio of 61.14%.

Q. Please summarize the adjustments made on Exhibit SDW-3.

A. Exhibit SDW-3 reflects the change to FPC's investor funds capital structure and common equity ratio by making the first of two sets of regulatory adjustments (the second set of regulatory adjustments will be discussed in connection with SDW-4). Exhibit SDW-3 starts with the ending balances on Exhibit SDW-2 and removes the debt financing amounts associated with the Tiger Bay regulatory asset and the Sebring electric system purchase, removes wholesale jurisdiction equity and debt amounts, removes a relatively small amount of non-utility property (assumed to be equity financed) and makes an adjustment to long-term and short-term debt for the effects of 12 month average balances. The net effect of these regulatory adjustments is to move FPC's common equity ratio from 56.3 % (Exhibit SDW-2) to 57.74% (Exhibit SDW-3). So FPC's common equity ratio climbs again (by 1.44%), primarily due to the elimination of debt associated with asset purchases that are recovered outside of base rates (e.g. the Tiger Bay Regulatory asset recovered through the fuel clause, etc.) and to remove wholesale jurisdictional capital. It should be noted that moving certain assets (and their associated debt capital) out of base rates and capital structure does not mean the debt has somehow "disappeared". Common equity must be provided to help support debt, whether the debt is in or out of base rates.

Q. To summarize so far, is it fair to say that FPC's common equity ratio has risen from 50.3% to 57.74% (7.44%) by ignoring FPC's substantial off-balance sheet debt equivalents and the removal of several regulatory items?

A. Yes, that's correct. By merely ignoring FPC's off-balance sheet debt equivalents (6.0%) and recording several mandated regulatory adjustments (1.44%), FPC's investor funds common equity ratio has increased from 50.3% to 57.74% (7.44%).

Q. Would bond rating agencies and investors recognize the increase in FPC's common equity ratio from 50.3% to 57.74%?

A. Unfortunately, no. The market will view FPC as an electric utility with a 50% common equity ratio. Ignored off-balance sheet debt equivalents and regulatory adjustments don't create equity in the market.

Q. Please explain the adjustments in Exhibit SDW-4.

A. Exhibit SDW-4 reflects the change to FPC's investor funds capital structure and common equity ratio by making the second of two sets of regulatory adjustments. Exhibit SDW-4 starts with the ending balances on Exhibit SDW-3 and makes FPC's requested CR3 equity adjustment. The CR3 adjustment moves FPC's common equity ratio from 57.74% (Exhibit SDW-3) to 61.15% (Mr. Rothschild actually calculates 61.14%), an increase in the common equity ratio of 3.41%. As discussed in the direct testimony of FPC witness Myers, the CR3 adjustment was instituted as part of a settlement of CR3 outage litigation. The CR3 adjustment's

common equity ratio effect is the only portion of the difference between FPC's actual investor funds common equity ratio of 50.3% and Mr. Rothschild's computed common equity ratio of 61.14% that could accurately be described as "requested" by FPC.

Q. Will the market recognize FPC's requested CR3 common equity adjustment as an increase in its actual investor funds common equity?

A. Again, no. This is a regulatory adjustment only.

Q. Previously you indicated that FPC's common equity ratio rose from 50.3% to 56.3% merely by ignoring FPC's significant off-balance sheet debt equivalents (purchased power contracts). Do rating agencies and investors consider off-balance sheet debt equivalents when evaluating a firm's capital structure?

A. Yes, without question. Both Standard and Poors and Moody's have identified and considered off-balance sheet items when assessing the credit risk, and ratings, of firms. This is certainly not a new phenomenon. In its "Ratings Methodology for Global Power Utilities"[1], S&P reaffirmed its criteria for evaluating utility capital structures - "Analyzing debt leverage goes beyond the balance sheet and covers quasi-debt items and elements of hidden financial leverage. Non-capitalized leases, debt guarantees, receivable financing, and **purchased power contracts** (emphasis added) are all considered debt equivalents and are reflected as debt in

[1] Standard and Poor's Infrastructure Finance, Rating Methodology for Global Power Utilities - September 1998

calculating capital structure ratios." In addition, both S&P and Moody's have recently issued surveys to corporate issuers to obtain additional information concerning off balance sheet obligations. This reinforces the importance rating agencies place on evaluating the effect of all obligations, not just those recorded on the balance sheet.

Q. Are Florida Power's purchase power contracts significant?

A. Yes, very much so. Exhibit SDW-1 shows that the debt equivalent value ($440 million) of FPC's purchase power contracts is approximately 11% of FPC's total investor funds capitalization, when such debt equivalency is added to investor capital. On a nominal dollar basis, as of 2002, FPC is obligated to make approximately $6 billion in future payments on its purchased power contracts. The present value of these future payments is approximately $2.4 billion. To put this in perspective, FPC's system per books long-term debt, excluding these purchase power obligations, is approximately $1.6 billion.

Q. Do you have any other concerns relative to Mr. Rothschild's 61.14% common equity ratio?

A. Yes. Not only did he not properly compute a true "investor funds" common equity ratio, but he misapplies the fruits of his labor by comparing the 61.14% common equity ratio to companies whose capital structure is computed on an "investor funds" basis. That is to say that his comparable group of companies **would not** have had regulatory capital structure adjustments of the type I describe

and quantify in Exhibits SDW-3 and SDW-4 (as capital amounts are per financial book amounts, not ratemaking book amounts) and they most certainly would not have common equity ratio calculations that ignore hundreds of millions or billions of dollars in off-balance sheet debt equivalents (see Staff witness Maurey Exhibit ALM-7, adopted in my testimony as Exhibit SDW-7, page 1 of 2, column 6). So the conclusion he reaches that FPC is considerably more burdened with common equity relative to its peer group is seriously flawed.

Q. When an "investor funds" common equity ratio is properly computed for FPC, how does it compare to the common equity ratio of its peer group, and would you conclude that FPC is considerably more burdened with common equity than its peer group?

A. As my exhibit SDW-1 clearly shows, FPC's test year common equity balance, when properly adjusted for off-balance sheet debt equivalents, contains approximately 50% common equity. Mr. Rothschild's unweighted peer group average common equity ratio is approximately 43.58% (Rothschild exhibit JAR 7) for the year 2000 (down from 47.65% in 1998). It should be noted here that Staff witness Maurey's Exhibit ALM-7 (Exhibit SDW-7) suggests FPC's year 2000 common equity ratio was much closer to a peer group average common equity ratio than Mr. Rothschild's exhibit would suggest. In fact the spread between Mr. Maurey's peer group average common equity ratio and FPC's common equity ratio is approximately half the spread indicated by Mr. Rothschild's analysis.

Q. Is there any other evidence in this case that indicates FPC's common equity ratio is not excessive?

A. Yes. As mentioned above, Staff witness Maurey's Exhibit ALM-7, (Exhibit SDW-7) compiled common equity ratio information for a significant number of electric utilities rated A or BBB by S&P. His data suggests that the S&P peer group average common equity ratio for the year ended December 31, 2000, adjusted for off-balance sheet debt equivalents, was approximately 44.21%. This data also indicated that FPC's off-balance sheet debt equivalent adjusted common equity ratio was 47.55%, representing only 3.34% more common equity than the weighted average of the 38 electric utilities included in Mr. Maurey's S&P sample. This S&P data sample clearly demonstrates that FPC's common equity ratio is far from excessive or burdensome, and is reasonably close to the weighted average, off-balance sheet adjusted common equity ratio of its 38 electric utility peers.

Q. Do you agree with Mr. Rothschild that "minimizing the overall cost of capital should be considered a primary goal of capital structure selection, not just the bond rating"?

A. I certainly agree that minimizing the cost of capital is a primary goal of capital structure selection, but it is not the only goal. Maintaining access to the capital markets is another primary goal that must be considered when establishing and maintaining a capital structure. Mr. Rothschild and I disagree on who determines the overall cost of capital, the market or regulatory bodies. Market forces, not

regulatory bodies, determine a firm's cost of capital. Merely manipulating a capital structure for regulatory purposes does nothing to minimize the real cost of capital. Such manipulation will have the effect of temporarily reducing customer rates, but attempts to suppress market forces will only lead to higher capital costs (and customer rates) in the long run.

Q. Do you believe it is appropriate to utilize Progress Energy's capital structure for the purpose of setting FPC's rates in this proceeding?

A. No, I do not. FPC is a regulated, vertically integrated electric utility. Progress Energy is a holding company with no operations of its own. Progress Energy's capital structure represents an aggregation of a number of different businesses competing across many different industries, facing a broad array of business risks. Imposing Progress Energy's capital structure upon FPC, in either a ratemaking or corporate finance context, makes no sense.

Mr. Michael Gorman

Q. Please summarize Mr. Gorman's concerns relative to FPC's requested capital structure.

A. Mr. Gorman states that the CR3 adjustment is not appropriate, because it increases FPC's common equity balance, which is already excessive (Gorman, pg 20, lines 5-7). He indicates that FPC's proposed capital structure includes a common equity ratio of total utility investor capital of 61.15% (Gorman, pg 20, lines 11-13). He indicates that the median debt ratios for 'A' and 'BBB' ratings

are 45% and 56% respectively (Gorman, pg 20, lines 17-19). He admits that S&P's total debt ratio range is designed to include off-balance sheet debt equivalent obligations, and that FPC's debt ratio included in its capital structure is significantly understated to meet its target 'A' bond rating, or to preserve its BBB+ rating from S&P (Gorman, pg 21, lines 3-7). Finally he indicates that even after removing the CR3 adjustment, FPC's common equity ratio is 57.7% and its debt ratio is 31.4% and consequently the CR3 adjustment is unreasonable and should be rejected (Gorman, pg 21, lines 10-17).

Q. Do you agree with Mr. Gorman's recommendations regarding the appropriate capital structure for FPC to use for ratemaking purposes?

A. No I do not. I will address several of the concerns and observations that Mr. Gorman shares with Mr. Rothschild. I will discuss Mr. Gorman's observations regarding bond ratings and debt ratios, and finally, I will address my concerns with Mr. Gorman's recommendation to remove the CR3 adjustment from FPC's capital structure for ratemaking purposes.

Q. Please describe the concerns Mr. Gorman shares with Mr. Rothschild.

A. Mr. Gorman indicates that FPC's requested capital structure contains a 61.15% common equity ratio on an "investor funds" basis and that FPC's common equity ratio is excessive, even without the CR3 adjustment. As I indicate in my rebuttal of Mr. Rothschild, Mr. Gorman's quantification of a 61.15% common equity ratio for FPC is just wrong. Mr. Gorman falls into the same trap as Mr. Rothschild -

calculating capital structure ratios that purport to be on an "investor funds" basis, but in fact are not, and then concluding that FPC's common equity ratio is excessive. As one can see from reviewing Exhibits SDW-1 through SDW-4, FPC's true "investor funds" common equity ratio for the test year is approximately 50.3%, not 61.15%. Also as can be seen from these exhibits, over half the difference between FPC's true "investor funds" common equity ratio (50.3%) and Mr. Gorman's 61.14% common equity ratio is due to Mr. Gorman ignoring $440 million of FPC off-balance sheet debt equivalents. For further discussion of these issues, please see my rebuttal of Mr. Rothschild.

Q. What does Mr. Gorman conclude relative to FPC's debt ratio and bond ratings, including its targeted 'A' and existing BBB+ bond ratings?

A. Mr. Gorman indicated that median debt ratio for 'A' and 'BBB' ratings are 45% and 56% respectively, and admits that S&P's total debt ratio range is designed to include off-balance sheet debt equivalent obligations. He concludes, however, that the debt ratio FPC included in its capital structure is significantly understated to meet its target 'A' bond rating, or to preserve its BBB+ rating from S&P.

Q. Do you agree with Mr. Gorman's conclusion regarding FPC's debt ratio?

A. No, I do not. Mr. Gorman's conclusion is based upon his erroneous calculation of FPC's "investor funds" common equity ratio, and an even more obvious misstatement of the results of his analysis.

Q. Please explain.

A. As I have mentioned previously, FPC's common equity ratio is 50%, on an "investor funds" basis, which includes the proper adjustment for FPC's off-balance sheet debt equivalents (Exhibit SDW 1). The debt ratio is merely the compliment of the sum of the common and preferred equity ratios, in this case approximately 49% (preferred equity is slightly less than 1% of "investor funds").

Consequently, Mr. Gorman's computation of a 57.7% common equity ratio, on an "investor funds" basis, is wrong. Mr. Gorman compounds that error, however, when he contends that FPC's debt ratio is 31.4%, computed on the same basis as his 57.7% common equity ratio. Mr. Gorman compares his calculated 31.4% debt ratio to median bond rating guideline debt ratios of 45% and 56% for 'A' and 'BBB' rated bonds respectively, and concludes that FPC is "under-weighted with debt". A review of his referenced exhibit MPG-1, schedule 3, indicates that his own "investor funds" computation indicates that FPC has a debt ratio of 41.3%, not 31.4%, (an apparent transposition error) a rather significant difference in the reported results of his analysis.

Q. How does Mr. Gorman's referenced median debt ratio bond rating guidelines compare to FPC's "investor funds" debt ratio?

A. FPC's debt ratio of approximately 49% (Exhibit SDW-1) is almost in the middle of the median debt ratio range for an 'A' and 'BBB' rated electric utility. Clearly, FPC's debt ratio is not under-weighted, but is reasonable and appropriate.

Q. Do you agree with Mr. Gorman's recommendation to eliminate the CR3 common equity adjustment?

A. No, I do not. Exhibit SDW-5 shows a proforma "investor funds" capital structure (including off-balance sheet debt equivalents) that I adjust for FPC's proposed CR3 adjustment. As can be seen in this exhibit, FPC's CR3 adjusted "investor funds" common equity ratio is approximately 53%, which is in the range of common equity ratios established by S&P for 'A' rated electric utilities (S&P's common equity ratio range for 'A' rated electric utilities is 50%-54%). As I mentioned earlier, adding the CR3 regulatory adjustment back to FPC's true investor funds capital structure does not create equity in the eyes of the market. However, this exhibit should provide the FPSC with some comfort that FPC's common equity ratio is not "excessive", even if one considers the CR3 adjustment. In addition, FPC witness Myers, in his direct testimony, provides policy reasons for why this adjustment should continue to be made.

Mr. Andrew Maurey

Q. Please summarize Mr. Maurey's concerns relative to FPC's requested capital structure.

A. Mr. Maurey sites several factors that demonstrate FPC's proposed common equity ratio is excessive: (1) FPC's common equity is significantly greater than the average for its peer group and (2) FPC's proposed common equity ratio is well above the 51%, implied, risk adjusted equity ratio target for BBB+ bond ratings. (Maurey, pg 23, lines 6-13).

He indicates that FPC's equity ratio is well above that of its sister electric utility (CPL) of 45.5% and is significantly higher than the 38% common equity ratio of Progress Energy (Maurey, pg 28, lines 1-5). He states that the amount of common equity should be set based upon an optimal capital structure, not at a level to offset the excessive use of debt leverage at other subsidiaries of the parent (Maurey, pg 28, lines 13-17).

Mr. Maurey further justifies his finding that FPC has excess common equity by comparing FPC's requested weighted average cost of capital to Gulf Power Company's requested weighted average cost of capital, finding a significant difference (Maurey, pg 31, lines 7-22), and then directly compares FPC's requested common equity ratio (61.2%) to Gulf Power's requested common equity ratio (47%). Finally, Mr. Maurey recommends that for ratemaking purposes, FPC's common equity ratio be set at 55%. (Maurey, pg 28, lines 8-9).

Q. Do you agree with Mr. Maurey's recommendations regarding the appropriate capital structure for FPC to use for ratemaking purposes?

A. No I do not. First I will address several of the concerns and observations that Mr. Maurey shares with Mr. Rothschild and Mr. Gorman. I will then discuss Mr. Maurey's observations and conclusions regarding bond ratings and equity ratios, Mr. Maurey's comparisons of equity ratios across a peer group and Progress Energy, the issue of whether FPC's requested equity ratio provides a cross-

subsidy to Progress Energy's non-regulated businesses, the appropriateness of Mr. Maurey's comparison of FPC's requested equity ratio to Gulf Power's equity ratio and costs of capital, and finally, I will address Mr. Maurey's recommended 55% common equity ratio.

Q. Please describe the concerns Mr. Maurey shares with Mr. Rothschild and Mr. Gorman.

A. Mr. Maurey indicates that FPC's requested capital structure contains a 61.2% common equity ratio and that FPC's common equity ratio is excessive, even without the CR3 adjustment. As I indicate in my rebuttal of Mr. Rothschild and Mr. Gorman, Mr. Maurey's quantification of a 61.2% "investor funds" common equity ratio for FPC is just wrong. Mr. Maurey falls into the same trap as Mr. Rothschild and Mr. Gorman - calculating capital structure ratios that purport to be on an "investor funds" basis, but in fact are not, and then concluding, via a peer group analysis, that FPC's common equity ratio is excessive. As one can see from reviewing Exhibits SDW-1 through SDW-4, FPC's true "investor funds" common equity ratio for the test year is approximately 50.3%, not 61.2%. Also as can be seen from these exhibits, over half the difference between FPC's true "investor funds" common equity ratio (50.3%) and Mr. Maurey's 61.2% common equity ratio is due to Mr. Maurey ignoring $440 million of FPC off-balance sheet debt equivalents.

Q Do you agree with Mr. Maurey that FPC's common equity ratio is significantly greater than the average of its peer group?

A. No, I do not. Having reviewed his Exhibit ALM-7 (Exhibit SDW-7), which provided the data upon which he drew his conclusion about FPC's significantly greater than peer group average common equity ratio, I am frankly at a loss to understand how he reached the conclusion that FPC's common equity ratio is significantly greater than its peer group average.

Q. Please explain.

A. Mr. Maurey's Exhibit ALM-7 (Exhibit SDW-7) is a peer group listing of electric utilities rated either 'A' or 'BBB' by S&P. He states that FPC's 61.2% requested equity ratio "is above the top of the range and significantly above the average for this group of single A (A) and triple B (BBB) rated electric utilities".

Q. Isn't it true that a 61.2% common equity ratio is above the top of the range and significantly above the average of the A and BBB electric utilities listed in his exhibit?

A. Yes, and it would be quite relevant if FPC were proposing to use a 61.2% common equity ratio, and if such a common equity ratio was computed on an "investor funds" basis. However, FPC's true "investor funds" common equity ratio is 50.3%, not 61.2% as represented by Mr. Maurey. Unfortunately, Mr. Maurey utilizes this regulatory adjusted, off-balance sheet obligation ignored, common equity ratio when comparing FPC's common equity ratio to

straightforward "investor funds" capital structures listed in his Exhibit ALM-7 (Exhibit SDW-7). He has truly compared apples to oranges.

Q. Is there an easy way to demonstrate the problem with his comparison?

A. Yes. All one must do is look for the common equity ratios for FPC on Mr. Maurey's ALM-7 (Exhibit SDW-7, this exhibit is based on calendar year 2000). On this exhibit, FPC's actual equity ratio is 53.54% (unadjusted for OBS) and 47.55% (adjusted for OBS). As can be seen from the "Adjusted Equity" column (column 6), FPC's common equity ratio, on a properly adjusted basis, was approximately 3.3% higher than its peer group weighted average (47.55% versus peer group weighted average of 44.21%). When you compare FPC's common equity ratio on an apples to apples basis (investor funds adjusted for off-balance sheet obligations), it is easy to see that there is nothing significant about the difference between FPC's common equity ratio and its peer group average.

Q. Do you find anything else interesting about Mr. Maurey's peer group common equity ratio comparison?

A. Yes, I did. On an adjusted equity ratio basis, both Florida Power and Light and Tampa Electric Company had higher equity ratios than FPC. In fact, Tampa Electric Company's capital structure common equity ratio was approximately 8.50% higher than FPC's (56.04% versus 47.55%). Florida Power and Light's capital structure common equity ratio was approximately 4.50% higher than FPC's (52.02% versus 47.55%). Finally, Gulf Power Company's capital structure

common equity ratio was 46.17%, or only 1.4% less than FPC's common equity ratio. Again, this demonstrates that not only is FPC's common equity ratio far from excessive or burdensome, but also out of the four investor owned utilities in Florida, its common equity ratio ranks third.

Q. Do you agree with Mr. Maurey's contention that FPC's common equity ratio is well above the 51% implied, risk adjusted target for BBB+ electric utilities?

A. No, I do not. My exhibit SDW-1 reflects FPC's test year 2002 "investor funds" (adjusted for off-balance sheet debt equivalents) common equity ratio. As can be seen from this exhibit, FPC's common equity ratio is approximately 50%. Rather than being well above the target, FPC's equity ratio is actually slightly below the target.

Q. Do you agree with Mr. Maurey that a comparison of FPC's common equity ratio to Carolina Power and Light's (CPL) common equity ratio confirms that FPC's common equity ratio is excessive?

A. No, I do not. As recently as 1998, CPL had a 52% common equity ratio. As part of the acquisition of Florida Progress and FPC and the forming of the new holding company, Progress Energy, CPL engaged in a serious of restructuring transactions with Progress Energy, in which among other things resulted in a non-cash dividend to Progress Energy in the amount of $565 million. These transactions between CPL and Progress Energy drove CPL's equity ratio from approximately

52% to 42%. Subsequent to reaching this low point, CPL's common equity ratio has rebounded from 42% to 46% (year end 2001), and already exceeds the common equity ratio Mr. Maurey references for CPL in his testimony. It is important to note that CPL has indicated that it intends to rebuild its common equity ratio such that it is in the range for an 'A' rated electric utility.

Q. Do you believe that there should be any special significance attached to the fact that FPC has a significantly higher common equity ratio than does its parent, Progress Energy?

A. No, I do not. For the same reasons I put forth in my rebuttal to Mr. Rothschild's suggestion that it is appropriate to use Progress Energy's capital structure for setting FPC's rates, I find a comparison of FPC and Progress Energy's common equity ratio to be without any particular meaning, and certainly not relevant for the purpose of setting FPC's rates.

Q. Do you agree with Mr. Maurey's observation that the amount of common equity in a capital structure should be based upon an optimal capital structure and not at a level to offset the excessive use of debt leverage at other subsidiaries of the parent?

A. Yes, I do. But I disagree with Mr. Maurey's implication that FPC's common equity ratio is excessive and is necessary to offset the excessive use of debt leverage at other subsidiaries of the parent.

Q. Please explain why you disagree with Mr. Maurey's implication.

A. First, I believe I have previously demonstrated that FPC's test year common equity ratio is not excessive, when proper consideration is given to the existence of material off-balance sheet debt equivalents and a proper peer group common equity ratio comparison is made. Second, I believe that a review of FPC's historical common equity ratios will reveal that Progress Energy is financing FPC in much the same manner, and with very similar common equity ratios, as FPC has historically been financed.

Q. What does a review of FPC's historical common equity ratios reveal?

A. Exhibit SDW-6 reflects FPC's common equity ratio for the years 1996-2000, and for test year 2002. The common equity ratios were computed on an "investor funds" basis, and include an adjustment for off-balance sheet debt equivalents. As can be seen from this exhibit, FPC's common equity ratio was approximately 50% in 1996. In 1997, FPC's common equity ratio declined due to the CR3 write-off and the 100% debt financing of the Tiger Bay contract termination / asset purchase. FPC's common equity ratio rose in 1998 relative to 1997, and by test year 2002, it had essentially returned to its 1996 level.

Q. What do you conclude from this historical review of FPC's common equity ratio?

A. I conclude that Progress Energy is not improperly subsidizing its non-regulated businesses by attempting to maintain an artificially high common equity ratio at FPC. I believe the evidence shows that all Progress Energy is attempting to do is

to restore FPC's common equity ratio to levels that existed in the past. Given Progress Energy's bond rating targets for FPC, I believe that this is a reasonable course to pursue.

Q. Does Mr. Maurey present any evidence that supports your contention that FPC has a history of capitalizing itself with a common equity ratio similar to what is contained in its current filing?

A. Yes. Mr. Maurey's Exhibit ALM-13 (Exhibit SDW-8) represents FPC's common equity ratio, on a regulatory adjusted basis (but excluding off-balance debt equivalents), going back to January 1995.

Q. What does this exhibit reveal?

A. Going back to December 1996 one can observe that FPC's regulatory adjusted common equity ratio was approximately 59%, almost equivalent to the regulatory adjusted 61% common equity ratio witnesses Rothschild, Gorman and Maurey reference in this docket. FPC common equity ratio declined in 1997 and early 1998 due to both the all-debt purchase of Tiger Bay and the write-off associated with the CR3 extended outage. Mr. Maurey even notes (Maurey, pg 40, lines 11-14) that "it should be noted that the dip in equity ratio for the period June 1997 through November 1999 is significantly exaggerated by the manner in which the Company reported the Tiger Bay regulatory asset and the accompanying debt on its ESR".

From early 1998 forward, FPC has rebuilt its capital structure to levels approximating its common equity ratios in 1996. Again, this confirms that Progress Energy is not attempting to subsidize its non-regulated businesses by keeping an artificially high common equity at FPC, but is merely returning to common equity levels FPC had attained, and deemed prudent, six years ago.

Q. Have you computed the effect of adding the CR3 common equity adjustment to FPC's adjusted "investor funds" common equity ratio?

A. Yes I have. While I don't think making such an adjustment to an "investor funds" common equity ratio calculation is appropriate for the purpose of comparing the result to pure "investor funds" common equity ratio computations, I have done so in the interests of demonstrating what FPC's common equity ratio would have been had the CR3 write-off not occurred. As can be seen on exhibit SDW-5, FPC's off-balance sheet debt equivalent adjusted "investor funds" common equity ratio, further adjusted to add back the CR3 write-off, is 52.95%. This common equity ratio is approximately 2.6% higher than FPC's common equity ratio absent the CR3 adjustment. A 52.95% common equity ratio falls within the target range for an 'A' rated electric utility, and consequently would not be unreasonable for FPC, given its S&P and Moody's split rating, which averages out to essentially an 'A' rating, and its targeted bond rating of 'A'.

Q. Do you agree it is reasonable to compare FPC's and Gulf Power's common equity ratios and weighted average costs of capital and conclude that it demonstrates that FPC has excess common equity?

A. No I do not. I will first address the common equity ratios. Mr. Maurey again suggests the proper FPC common equity ratio for comparative purposes is 61.2%. He subsequently compares his calculated 61.2% common equity ratio to Gulf Power's requested common equity ratio of 47%, and concludes this demonstrates that FPC's common equity ratio is excessive.

Q. Why doesn't that indicate to you that FPC's common equity ratio is excessive?

A. Because this comparison suffers from the same problem as Mr. Maurey's peer group analysis, namely he derives a common equity ratio of 61.2% (a computation that ignores FPC's substantial off-balance sheet obligations and includes substantial regulatory adjustments) and compares it to Gulf Power, a company with no off-balance sheet debt equivalents to consider, and evidently fewer regulatory adjustments.

A review of Mr. Maurey's exhibit ALM-7, page 2 of 2 (Exhibit SDW-7), perfectly illustrates the point. A review of the "adjusted" equity ratio column indicates that at year-end 2000, Gulf Power had a 46.17% common equity ratio. This compares to FPC's common equity ratio of 47.55%. When compared on a comparable basis, Gulf Power and FPC's common equity ratios are virtually

identical. This comparison certainly does not support the proposition that FPC's common equity ratio is excessive relative to Gulf Power.

Q. Does a comparison of Gulf Power and FPC's weighted average costs of capital for ratemaking purposes prove that FPC's common equity ratio is excessive?

A. No. Mr. Maurey's exhibit ALM-11 provides this comparison. Such a comparison obviously ignores the fact that FPC requires a greater common equity ratio, all other things equal, than Gulf Power, owing to its substantial off-balance sheet obligations. That fact, in and of itself, should account for most of the weighted average cost of capital difference between Gulf and FPC. But other differences would influence the weighted average cost of capital comparison, such as Gulf Power's slightly lower cost of long-term debt, and its higher proportion of cost free deferred taxes. Simply put, this comparison is not valid, in my opinion.

Q. Do you agree with Mr. Maurey's recommendation that FPC be limited to a 55% common equity ratio in this proceeding?

A. No, I do not. First, I want to reiterate that Mr. Maurey's 55% common equity ratio is not on an "investor funds" basis, as on a fully adjusted "investor funds" basis FPC's common equity ratio is 50%. Having said that, Mr. Maurey's most obvious specific objection to the common equity utilized by FPC for ratemaking purposes seems to be FPC's CR3 adjustment, which totals $109.6 million. Yet

his capital structure recommendation of a 55% common equity ratio removes approximately $198 million from FPC's regulatory common equity balance.

Q. What is your recommendation for the appropriate common equity ratio for FPC in this proceeding?

A. I believe that FPC's common equity ratio, as requested on schedule D-1 of its MFRs, is reasonable and should be allowed for ratemaking purposes. Although I do agree with Mr. Maurey that the determination of an appropriate amount of equity is in fact a subjective process, I do believe that the facts in this case demonstrate that FPC's requested common equity ratio is reasonable and should be allowed for ratemaking purposes.

V. Conclusion

Q. What is your conclusion relative to the appropriate common equity ratio for FPC in this proceeding?

A. I conclude that FPC's as filed capital structure and related common equity ratio, as contained on schedule D-1 of its MFRs, is reasonable and should be used as the basis for setting FPC's rates.

Q. Does this conclude you testimony?

A. Yes it does.

Florida Power Corporation

Cost of Capital - 13 Month Average
Projected Test Year Ended 12/31/02
Docket No. 000824-EI

Investor Funds (Including OBS)

	Investor Funds Per Books Including OBS	Ratio
Common Equity	$2,075,128	50.30%
Preferred Stock	33,497	0.81%
Long-Term Debt		
Fixed Rate	1,452,748	35.21%
Variable Rate	119,634	2.90%
Off-Balance Sheet	440,000	10.66%
Short-Term Debt	4,638	0.11%
Customer Deposits		
Active	0	0.00%
Inactive	0	0.00%
Investment Tax Credits		
Post '70's - Equity	0	0.00%
Post '70's - Debt	0	0.00%
Deferred Income Taxes	0	0.00%
FAS 109 Liability - Net	0	0.00%
Total Capital Structure	$4,125,645	100.00%

Note: Source Data is Florida Power Schedule D-1, page 1 of 17
adjusted for off-balance sheet debt equivalents. Off-balance sheet debt equivalents provided by Progress Energy Treasury Department

Florida Power Corporation

Cost of Capital - 13 Month Average
Projected Test Year Ended 12/31/02
Docket No. 000824-EI

Investor Funds (Excluding OBS)

	Investor Funds Per Books Excluding OBS	Ratio
Common Equity	$2,075,128	56.30%
Preferred Stock	33,497	0.91%
Long-Term Debt		
Fixed Rate	1,452,748	39.42%
Variable Rate	119,634	3.25%
Off-Balance Sheet	0	0.00%
Short-Term Debt	4,638	0.13%
Customer Deposits		
Active	0	0.00%
Inactive	0	0.00%
Investment Tax Credits		
Post '70's - Equity	0	0.00%
Post '70's - Debt	0	0.00%
Deferred Income Taxes	0	0.00%
FAS 109 Liability - Net	0	0.00%
Total Capital Structure	$3,685,645	100.00%

Note: Source Data is Florida Power Schedule D-1, page 1 of 17
excluding off-balance sheet debt equivalents

Florida Power Corporation

Cost of Capital - 13 Month Average
Projected Test Year Ended 12/31/02
Docket No. 000824-EI

Regulatory Adjusted (Excluding CR3 & Non-Investor Funds)

	(000's) Investor Funds Per Books (exc OBS	Regulatory Adjustments Exc CR3 & Non-Investor	Regulatory Adjusted Exc CR3 & Non-Investor	Ratio
Common Equity	$2,075,128	($218,511)	$1,856,617	57.74%
Preferred Stock	33,497	(3,252)	30,245	0.94%
Long-Term Debt				
Fixed Rate	1,452,748	(242,472)	1,210,276	37.64%
Variable Rate	119,634	(3,825)	115,809	3.60%
Off-Balance Sheet	0	0	0	0.00%
Short-Term Debt	4,638	(2,370)	2,268	0.07%
Customer Deposits				
Active	0	0	0	0.00%
Inactive	0	0	0	0.00%
Investment Tax Credits				
Post '70's - Equity	0	0	0	0.00%
Post '70's - Debt	0	0	0	0.00%
Deferred Income Taxes	0	0	0	0.00%
FAS 109 Liability - Net	0	0	0	0.00%
Total Capital Structure	$3,685,645	($470,430)	$3,215,215	100.00%

Note: Per Books Investor Funds Data from SDW-2, Regulatory adjustments from D-1.

Florida Power Corporation

Cost of Capital - 13 Month Average
Projected Test Year Ended 12/31/02
Docket No. 000824-EI

Regulatory Adjusted (Including CR3 and Excluding Non-Investor Funds)

	Regulatory Adjusted Exc CR3 & Non-Investor	CR3 Regulatory Adjustment	Regulatory Adj Capital Inc CR3 Exc Non-Investor	Ratio
Common Equity	$1,856,617	109,589	$1,966,206	61.15%
Preferred Stock	30,245	0	30,245	0.94%
Long-Term Debt				
Fixed Rate	1,210,276	0	1,210,276	37.64%
Variable Rate	115,809	(109,589)	6,220	0.19%
Off-Balance Sheet	0	0	0	0.00%
Short-Term Debt	2,268	0	2,268	0.07%
Customer Deposits				
Active	0	0	0	0.00%
Inactive	0	0	0	0.00%
Investment Tax Credits				
Post '70's - Equity	0	0	0	0.00%
Post '70's - Debt	0	0	0	0.00%
Deferred Income Taxes	0	0	0	0.00%
FAS 109 Liability - Net	0	0	0	0.00%
Total Capital Structure	$3,215,215	$0	$3,215,215	100.00%

Note: Regulatory Adjusted Capital Exc CR3 from SDW-3, CR3 adjustment from D-1.

Florida Power Corporation

Cost of Capital - 13 Month Average
Projected Test Year Ended 12/31/02
Docket No. 000824-EI

Investor Funds (Including OBS and CR3 Equity Adjustment)

	Investor Funds Adjusted for OBS From SDW-1	CR3 Adj	Investor Funds Adjusted for OBS & CR3	Ratio
Common Equity	$2,075,128	$109,589	$2,184,717	52.95%
Preferred Stock	33,497		33,497	0.81%
Long-Term Debt				
Fixed Rate	1,452,748		1,452,748	35.21%
Variable Rate	119,634	(109,589)	10,045	0.24%
Off-Balance Sheet	440,000		440,000	10.66%
Short-Term Debt	4,638		4,638	0.11%
Customer Deposits				
Active	0		0	0.00%
Inactive	0		0	0.00%
Investment Tax Credits				
Post '70's - Equity	0		0	0.00%
Post '70's - Debt	0		0	0.00%
Deferred Income Taxes	0		0	0.00%
FAS 109 Liability - Net	0		0	0.00%
Total Capital Structure	$4,125,645	$0	$4,125,645	100.00%

Note: This capital structure reflects the Investor Funds including off-balance sheet debt equivalents from SDW-1 and the CR3 common equity adjustment from D-1.

Florida Power Corporation

Common Equity Ratios
Docket No. 000824-EI

	1996	1997	1998	1999	2000	2002
Common Equity Ratio	50.48%	43.39%	46.80%	47.65%	47.55%	50.30%

Note: (1) Computed on an Investor Funds basis, including full effect of Off-Balance Sheet Obligations
(2) 1996-2000 common equity ratio data from FPC operating reports, year-end data
(3) 2002 common equity ratio is a 13 month average (test year)

ELECTRIC UTILITY INDEX (Operating Companies)
For 12 months ended Dec. 31, 2000
($millions)

(1)	(2)	(3)	(3)	(3)	(3)	(4)	(5)	(6)
Company Name	Bond Rating	Short-term debt	Long-term debt	Preferred stock	Common stock	OBS debt	Equity Ratio	Adjusted Equity Ratio
Appalachian Power Co.	A-	$191.5	$1,605.8	$28.6	$1,096.2	$3.1	37.51%	37.47%
Central Power & Light Co.	A-	$269.7	$1,603.1	$5.9	$1,366.1	$7.5	42.10%	42.00%
Columbus Southern Power Co.	A-	$88.7	$899.6	$15.0	$713.4	$7.5	41.56%	41.38%
Indiana Michigan Power Co.	A-	$354.4	$1,388.9	$73.7	$793.1	$818.6	30.39%	23.13%
Kentucky Power Co.	A-	$47.6	$330.9	$0.0	$266.7	$0.2	41.34%	41.32%
Ohio Power Co.	A-	$32.7	$1,195.5	$25.5	$1,181.8	$407.8	48.52%	41.56%
Public Service Co. of Oklahoma	A-	$81.1	$545.8	$5.3	$474.9	$0.0	42.90%	42.90%
Southwestern Electric Power Co.	A-	$16.8	$755.9	$4.7	$674.6	$0.0	46.46%	46.46%
West Texas Utilities Co.	A-	$58.6	$255.8	$2.5	$262.0	$0.0	45.26%	45.26%
Cleco Corporate & Power LLC	BBB+	$41.4	$360.3	$0.0	$407.1	$523.5	50.33%	30.56%
Dayton Power & Light Co.	BBB+	$0.0	$666.5	$22.9	$1,012.9	$0.0	59.50%	59.50%
Duquesne Light Co.	BBB+	$0.8	$1,080.0	$222.1	$539.6	$23.9	29.29%	28.91%
Detroit Edison Co.	BBB+	$286.0	$3,503.0	$0.0	$3,723.0	$57.0	49.56%	49.19%
Florida Power & Light Co.	A	$560.0	$2,642.0	$226.0	$5,032.0	$1,213.3	59.48%	52.02%
Idaho Power Co.	A+	$59.7	$839.1	$105.1	$765.3	$22.4	43.26%	42.72%
Boston Edison Co.	A	$132.9	$627.8	$43.0	$834.8	$555.6	50.95%	38.05%
Arizona Public Service Co.	BBB+	$82.1	$2,057.2	$0.0	$2,119.8	$456.4	49.77%	44.95%
Alabama Power Co.	A	$281.3	$3,773.4	$317.5	$3,195.8	$100.0	42.23%	41.68%
Georgia Power Co.	A	$703.8	$3,832.9	$14.6	$4,249.5	$470.9	48.29%	45.83%
Gulf Power Co.	A	$43.0	$450.9	$4.2	$427.3	$0.0	46.17%	46.17%
Mississippi Power Co.	A	$56.0	$405.5	$31.8	$404.9	$0.5	45.08%	45.05%
Savannah Electric & Power Co.	A	$45.4	$187.6	$0.0	$174.9	$3.5	42.88%	42.51%
Tampa Electric Co.	A	$231.2	$844.5	$0.0	$1,447.1	$59.5	57.36%	56.04%
Florida Power Corporation	BBB+	$192.5	$1,479.1	$33.5	$1,965.0	$462.4	53.54%	47.55%
Carolina Power & Light	BBB+	$0.0	$3,619.9	$59.3	$2,852.0	$276.8	43.67%	41.89%
Monongahela Power Co.	A+	$37.0	$706.7	$74.0	$707.9	$43.9	46.40%	45.10%
Potomac Edison Co.	A+	$42.7	$410.0	$0.0	$412.8	$0.0	47.69%	47.69%
West Penn Power Co.	A+	$0.0	$738.5	$0.0	$422.1	$31.9	36.37%	35.40%
Northern States Power Co.	A-	$359.2	$1,352.8	$0.0	$1,632.3	$0.0	48.81%	48.81%
Northern States Power Wisconsin	A	$15.9	$313.0	$0.0	$390.3	$0.0	54.27%	54.27%
Public Service Co. of Colorado	A-	$155.2	$1,946.8	$0.0	$1,923.2	$371.8	47.78%	43.74%
Southwestern Public Service Co.	A-	$674.6	$326.5	$0.0	$751.6	$30.2	42.88%	42.16%
PSI Energy Inc.	A-	$334.8	$1,112.6	$42.3	$1,133.7	$140.0	43.21%	41.03%
Union Light Heat & Power Co.	A-	$29.4	$74.5	$0.0	$147.2	$29.6	58.62%	52.44%
Cincinnati Gas & Electric Co.	A-	$427.5	$1,206.3	$20.5	$1,695.8	$194.1	50.62%	47.85%
Consumers Energy Co.	BBB-	$403.0	$2,736.0	$44.0	$2,026.0	$836.0	38.89%	33.52%
Virginia Electric & Power Co.	A	$714.0	$3,937.0	$509.0	$3,849.0	$965.3	42.72%	38.59%
Northern Indiana Public Service Co.	BBB	$407.1	$920.7	$130.2	$1,058.4	$35.6	42.06%	41.47%
TXU Electric Co.	BBB+	$302.0	$6,088.0	$21.0	$6,879.0	$311.0	51.76%	50.58%
						Simple Average	46.14%	43.51%
						Weighted Average	46.96%	44.21%

(1) C.A. Turner Utility Reports, 2001 Financial Statistics of Public Utilities
(2) Standard & Poor's Ratings Direct (online: www.ratingsdirect.com)
(3) Company SEC 10K Filings for Year Ended Dec. 31, 2000
(4) Standard & Poor's Balance Sheet Statistics for Electric Utilities
(5) E/R = CE / CE+PS+LTD+STD
(6) Adjusted E/R = CE / CE+PS+LTD+STD+OBS

Exhibit SDW 7

Utilities

Quartiles - Equity Ratio		Quartiles - Adjusted Equity Ratio	
Top:		**Top:**	
Dayton Power & Light Co.	59.50%	Dayton Power & Light Co.	59.50%
Florida Power & Light Co.	59.48%	Tampa Electric Co.	56.04%
Union Light Heat & Power Co.	58.62%	Northern States Power Wisconsin	54.27%
Tampa Electric Co.	57.36%	Union Light Heat & Power Co.	52.44%
Northern States Power Wisconsin	54.27%	Florida Power & Light Co.	52.02%
Florida Power Corporation	53.54%	TXU Electric Co.	50.58%
TXU Electric Co.	51.76%	Detroit Edison Co.	49.19%
Boston Edison Co.	50.95%	Northern States Power Co.	48.81%
Cincinnati Gas & Electric Co.	50.62%	Cincinnati Gas & Electric Co.	47.85%
Cleco Corporate & Power LLC	50.33%	Potomac Edison Co.	47.69%
Middle-top:		**Middle-top:**	
Arizona Public Service Co.	49.77%	**Florida Power Corporation**	47.55%
Detroit Edison Co.	49.56%	Southwestern Electric Power Co.	46.46%
Northern States Power Co.	48.81%	Gulf Power Co.	46.17%
Ohio Power Co.	48.52%	Georgia Power Co.	45.83%
Georgia Power Co.	48.29%	West Texas Utilities Co.	45.26%
Public Service Co. of Colorado	47.78%	Monongahela Power Co.	45.10%
Potomac Edison Co.	47.69%	Mississippi Power Co.	45.05%
Southwestern Electric Power Co.	46.46%	Arizona Public Service Co.	44.95%
Monongahela Power Co.	46.40%	Public Service Co. of Colorado	43.74%
Gulf Power Co.	46.17%	Public Service Co. of Oklahoma	42.90%
Middle-bottom:		**Middle-bottom:**	
West Texas Utilities Co.	45.26%	Idaho Power Co.	42.72%
Mississippi Power Co.	45.08%	Savannah Electric & Power Co.	42.51%
Carolina Power & Light	43.67%	Southwestern Public Service Co.	42.16%
Idaho Power Co.	43.26%	Central Power & Light Co.	42.00%
PSI Energy Inc.	43.21%	Carolina Power & Light	41.89%
Public Service Co. of Oklahoma	42.90%	Alabama Power Co.	41.68%
Southwestern Public Service Co.	42.88%	Ohio Power Co.	41.56%
Savannah Electric & Power Co.	42.88%	Northern Indiana Public Service Co.	41.47%
Virginia Electric & Power Co.	42.72%	Columbus Southern Power Co.	41.38%
Alabama Power Co.	42.23%	Kentucky Power Co.	41.32%
Bottom:		**Bottom:**	
Central Power & Light Co.	42.10%	PSI Energy Inc.	41.03%
Northern Indiana Public Service Co.	42.06%	Virginia Electric & Power Co.	38.59%
Columbus Southern Power Co.	41.56%	Boston Edison Co.	38.05%
Kentucky Power Co.	41.34%	Appalachian Power Co.	37.47%
Consumers Energy Co.	38.89%	West Penn Power Co.	35.40%
Appalachian Power Co.	37.51%	Consumers Energy Co.	33.52%
West Penn Power Co.	36.37%	Cleco Corporate & Power LLC	30.56%
Indiana Michigan Power Co.	30.39%	Duquesne Light Co.	28 91%
Duquesne Light Co.	29.29%	Indiana Michigan Power Co.	23.13%

(In Millions)

	Common Equity	Preferred Stock	Long-Term Debt (Fixed)	Long-Term Debt (Variable)	Short-Term Debt	CR3 Adj.	Adjusted Equity Ratio	Actual Equity Ratio
Jan-1995	1,399.4	128.3	1,017.5	165.1	53.1	0.0	50.6%	50.6%
Feb-1995	1,411.5	128.1	1,015.2	165.2	45.2	0.0	51.0%	51.0%
Mar-1995	1,420.8	127.8	1,012.6	163.9	41.6	0.0	51.4%	51.4%
Apr-1995	1,435.7	127.7	1,010.9	163.8	34.3	0.0	51.8%	51.8%
May-1995	1,448.3	127.4	1,007.2	163.5	29.2	0.0	52.2%	52.2%
Jun-1995	1,455.0	127.4	1,005.4	163.1	28.1	0.0	52.4%	52.4%
Jul-1995	1,463.5	127.2	1,002.3	162.3	25.0	0.0	52.6%	52.6%
Aug-1995	1,473.2	127.0	999.6	158.3	20.4	0.0	53.0%	53.0%
Sep-1995	1,486.2	127.4	1,002.8	152.9	25.2	0.0	53.2%	53.2%
Oct-1995	1,493.6	127.1	1,000.3	144.8	25.6	0.0	53.5%	53.5%
Nov-1995	1,501.2	126.5	997.2	138.6	25.6	0.0	53.8%	53.8%
Dec-1995	1,504.8	125.8	992.7	131.7	23.7	0.0	54.2%	54.2%
Jan-1996	1,513.0	125.5	991.4	125.6	17.6	0.0	54.6%	54.6%
Feb-1996	1,515.6	124.9	986.7	116.9	18.0	0.0	54.9%	54.9%
Mar-1996	1,525.0	125.0	987.8	107.7	18.9	0.0	55.2%	55.2%
Apr-1996	1,531.3	124.6	985.5	97.1	21.6	0.0	55.5%	55.5%
May-1996	1,534.1	123.9	981.7	85.9	24.1	0.0	55.8%	55.8%
Jun-1996	1,564.0	120.0	996.4	81.4	0.8	0.0	56.6%	56.6%
Jul-1996	1,568.8	113.9	993.0	77.7	0.0	0.0	57.0%	57.0%
Aug-1996	1,582.6	108.4	992.5	77.1	0.0	0.0	57.3%	57.3%
Sep-1996	1,589.1	102.6	988.8	75.2	0.0	0.0	57.7%	57.7%
Oct-1996	1,592.9	96.5	981.9	72.2	0.0	0.0	58.1%	58.1%
Nov-1996	1,599.6	88.9	977.6	69.7	0.0	0.0	58.5%	58.5%
Dec-1996	1,608.6	81.9	977.7	71.7	4.3	0.0	58.6%	58.6%
Jan-1997	1,611.2	74.5	970.9	77.2	10.8	0.0	58.7%	58.7%
Feb-1997	1,612.8	67.1	963.8	85.1	11.3	0.0	58.9%	58.9%
Mar-1997	1,604.5	59.8	957.5	95.6	17.6	0.0	58.7%	58.7%
Apr-1997	1,604.9	52.5	950.8	106.4	18.7	0.0	58.7%	58.7%
May-1997	1,604.7	45.2	943.4	117.3	19.4	0.0	58.8%	58.8%
Jun-1997	1,615.0	38.2	942.5	118.6	23.8	109.6	59.0%	55.0%
Jul-1997	1,617.4	36.4	966.7	118.1	29.3	109.6	58.4%	54.5%
Aug-1997	1,625.2	34.8	993.8	118.2	28.8	109.6	58.0%	54.1%
Sep-1997	1,628.1	33.1	1,023.4	120.9	27.6	109.6	57.5%	53.6%
Oct-1997	1,624.6	31.4	1,054.6	126.5	27.3	109.6	56.7%	52.9%
Nov-1997	1,633.5	29.6	1,080.4	130.0	27.2	109.6	56.3%	52.5%
Dec-1997	1,631.6	29.8	1,116.1	129.2	33.6	109.6	55.5%	51.8%
Jan-1998	1,634.9	29.7	1,140.5	121.3	50.9	109.6	54.9%	51.2%
Feb-1998	1,633.9	29.6	1,178.3	113.8	58.9	109.6	54.2%	50.6%
Mar-1998	1,637.6	29.7	1,211.1	106.9	67.1	109.6	53.7%	50.1%
Apr-1998	1,636.1	29.6	1,237.7	99.7	79.0	109.6	53.1%	49.5%
May-1998	1,636.6	29.5	1,264.9	92.5	91.1	109.6	52.5%	49.0%

(In Millions)

	Common Equity	Preferred Stock	Long-Term Debt (Fixed)	Long-Term Debt (Variable)	Short-Term Debt	CR3 Adj.	Adjusted Equity Ratio	Actual Equity Ratio
Jun-1998	1,626.9	29.3	1,286.5	85.7	98.8	109.6	52.0%	48.5%
Jul-1998	1,625.2	29.2	1,311.4	83.0	105.3	109.6	51.5%	48.1%
Aug-1998	1,623.2	29.1	1,303.8	77.5	111.3	109.6	51.6%	48.1%
Sep-1998	1,621.0	29.0	1,299.8	72.3	115.0	109.6	51.7%	48.2%
Oct-1998	1,619.4	28.9	1,294.1	65.5	117.4	109.6	51.8%	48.3%
Nov-1998	1,622.0	28.9	1,285.4	59.6	117.3	109.6	52.1%	48.6%
Dec-1998	1,620.4	29.0	1,283.3	56.9	116.2	109.6	52.2%	48.6%
Jan-1999	1,637.4	28.8	1,268.8	56.3	99.7	109.6	53.0%	49.4%
Feb-1999	1,640.2	28.8	1,258.7	56.2	90.9	109.6	53.3%	49.8%
Mar-1999	1,651.4	28.9	1,247.8	56.0	82.2	109.6	53.9%	50.3%
Apr-1999	1,669.7	29.1	1,250.2	55.8	65.7	109.6	54.4%	50.8%
May-1999	1,672.9	29.0	1,240.5	55.5	57.0	109.6	54.8%	51.2%
Jun-1999	1,685.4	29.2	1,239.9	55.2	45.3	109.6	55.2%	51.6%
Jul-1999	1,695.8	29.2	1,233.7	55.2	49.3	109.6	55.4%	51.8%
Aug-1999	1,715.2	29.4	1,233.7	54.6	32.3	109.6	56.0%	52.4%
Sep-1999	1,725.9	29.5	1,230.3	55.1	32.5	109.6	56.2%	52.6%
Oct-1999	1,736.3	29.5	1,224.6	57.2	32.5	109.6	56.4%	52.8%
Nov-1999	1,752.0	29.6	1,222.8	56.7	32.7	109.6	56.6%	53.1%
Dec-1999	1,761.7	29.8	914.2	58.3	16.4	109.6	63.4%	59.4%
Jan-2000	1,775.1	29.9	913.0	58.6	25.5	109.6	63.3%	59.4%
Feb-2000	1,782.7	30.1	914.1	59.5	34.2	109.6	63.2%	59.3%
Mar-2000	1,775.6	30.0	940.2	59.9	41.4	109.6	62.4%	58.5%
Apr-2000	1,787.7	30.1	939.7	60.7	48.8	109.6	62.4%	58.5%
May-2000	1,817.3	30.5	947.8	61.6	55.4	109.6	62.4%	58.6%
Jun-2000	1,819.1	30.4	942.5	62.2	59.6	109.6	62.4%	58.7%
Jul-2000	1,831.1	30.3	927.2	61.9	67.7	109.6	62.7%	59.0%
Aug-2000	1,834.1	30.2	916.5	63.9	76.8	109.6	62.8%	59.0%
Sep-2000	1,835.1	30.1	909.2	67.3	86.9	109.6	62.7%	58.9%
Oct-2000	1,840.4	30.1	903.9	71.7	97.9	109.6	62.5%	58.8%
Nov-2000	1,829.5	30.1	897.5	81.1	105.9	109.6	62.1%	58.4%
Dec-2000	1,841.3	30.3	899.0	82.3	108.6	109.6	62.2%	58.5%
Jan-2001	1,851.3	30.1	892.8	74.1	107.6	109.6	62.6%	58.9%
Feb-2001	1,844.8	30.1	892.6	81.1	107.4	109.6	62.4%	58.7%
Mar-2001	1,845.3	30.0	896.5	81.1	107.7	109.6	62.3%	58.6%
Apr-2001	1,854.8	30.1	902.5	81.2	102.6	109.6	62.4%	58.7%
May-2001	1,856.3	30.0	906.0	81.1	102.9	109.6	62.4%	58.7%
Jun-2001	1,877.4	30.1	911.3	81.2	106.2	109.6	62.5%	58.8%
Jul-2001	1,884.7	30.1	930.3	80.6	94.6	109.6	62.4%	58.8%
Aug-2001	1,890.8	30.1	955.8	72.5	82.1	109.6	62.4%	58.8%
Sep-2001	1,899.3	30.2	984.5	65.1	62.8	109.6	62.4%	58.8%
Oct-2001	1,903.3	30.2	1,007.1	55.3	46.4	109.6	62.6%	59.0%