BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Review of Florida Power Corporation's earnings, including effects of proposed acquisition of Florida Power Corporation by Carolina Power & Light.	DOCKET NO. 000824-EI FILED: FEBRUARY 18, 2002

STAFF'S PREHEARING STATEMENT

Pursuant to Order No. PSC-01-2114-PCO-EI, issued October 25, 2001, the Staff of the Florida Public Service Commission files its Prehearing Statement.

a. All Known Witnesses

Roberta S. Bass

James E. Breman

Richard Durbin

Andrew L. Maurey

Thomas E. Stambaugh

b. All Known Exhibits

FPC's response to Staff's Interrogatories Nos. 228 and 229.

FPC's response to Staff's Interrogatories Nos. 232 through 237.

FPC's response to Staff's Interrogatory Nos. 242 and 243.

FPC's response to Staff's Eleventh Set of Interrogatories.

FPC's response to Staff's Interrogatories Nos. 256 through 258.

FPC's response to Staff's Interrogatories Nos. 272 through 286.

FPC's response to OPC's Interrogatories Nos. 38 and 133.

FPC's response to OPC's Production of Documents Nos. 51, 63, 93, 122 and 144.

FPC's response to Publix Super Markets' Interrogatories No.1.

c. Staff's Statement of Basic Position

Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions stated herein.

d. Staff's Position on the Issues

TEST PERIOD

ISSUE 1: **Are FPC's forecasts of Customers and KWH by Revenue Class for the 2002 test year reasonable? (Stallcup, Hewitt)**

POSITION: No position at this time.

QUALITY OF SERVICE

ISSUE 2: **Is the number of customer bills which have to be estimated each month appropriate for FPC? (Kummer, Lowery, McNulty)**

POSITION: No position at this time.

ISSUE 3: **Has FPC acquisition by Progress Energy affected system reliability? If so, how? (D. Lee, Matlock)**

POSITION: No position at this time.

ISSUE 4: **Is FPC's customer complaint resolution process adequate? (Lowery)**

POSITION: No position at this time.

ISSUE 5: **Has FPC's acquisition by Progress Energy affected customer service? If so, how? (Lowery, D. Lee, Matlock)**

POSITION: No position at this time.

ISSUE 6: **Should the Commission establish a mechanism that encourages a reduction in the percentage of customers receiving frequent outages? (D. Lee, Matlock)**

POSITION: Yes.

ISSUE 7: **Is the quality of electric service provided by FPC adequate? (D. Lee, Lowery)**

POSITION: No position at this time.

ISSUE 8: **If the quality of electric service provided by FPC is inadequate, should the Commission reduce the rate setting point for FPC by 25 basis points? (D. Lee, Matlock)**

POSITION: No position at this time.

RATE BASE

ISSUE 9: **Is FPC's forecast of inflation rates appropriate? (Stallcup, Hewitt)**

POSITION: No position at this time.

ISSUE 10: **Is FPC's requested level of Construction Work in Progress in the amount of $72,527,000 ($82,875,000 system) for the 2002 projected test year appropriate? (Gardner, Harlow, Colson, Jones)**

POSITION: No position at this time.

ISSUE 11: **Is FPC's requested level of Property Held for Future Use in the amount of $6,426,000 ($8,274,000 system) for the 2002 projected test year appropriate? (Harlow, Colson, Jones)**

POSITION: No position at this time.

ISSUE 12: **What adjustment, if any, should be made to the test year rate base to reflect the Commission's decision in Docket No. 001835-EI concerning nuclear decommissioning and end-of-life nuclear materials and supplies? (Gardner, P. Lee)**

POSITION: No position at this time.

ISSUE 13: **What adjustment, if any, should be made to the test year rate base to reflect the Commission's decision in Docket No. 991931-EG concerning recovery of the last core of nuclear fuel? (P. Lee)**

POSITION: The 13-month average rate base should be decreased $22,000.

ISSUE 14: **What adjustments, if any, should be made to FPC's 2002 projected test year rate base to account for the additional security measures implemented in response to the increased threat of terrorist attacks since September 11, 2001? (McNulty, Mills)**

POSITION: No position at this time.

ISSUE 15: **Should an adjustment be made to remove the closed business office capital costs from the projected 2002 test year? (P. Lee, Gardner)**

POSITION: Yes. The test-year 13-month average plant-in-service and accumulated reserve should be reduced $12,391,298 and $12,300,298, respectively.

ISSUE 16: **Is FPC's level of Account 151, Fuel Stock, in the amount of $78,177,000 ($86,291,000 System) for the 2002 projected test year appropriate? (Bohrmann, Matlock)**

POSITION: Yes.

ISSUE 17: **Should an adjustment be made to decrease Cash in the working capital allowance for FPC? (Iwenjiora)**

POSITION: No position at this time.

ISSUE 18: **Should an adjustment be made to decrease Accounts receivable from Associated Co. in the working capital allowance for FPC? (Iwenjiora)**

POSITION: No position at this time.

ISSUE 19: **What adjustment, if any, should be made to decrease Other Regulatory Assets in nuclear decommissioning-retail account in the working capital allowance for FPC? (Iwenjiora)**

POSITION: No position at this time.

ISSUE 20: **Should adjustments be made to working capital for 2002 related to interest on tax deficiency for FPC? (Iwenjiora)**

POSITION: No position at this time.

ISSUE 21: **Is FPC's requested level of Working Capital in the amount of $72,291,000 ($91,080,000 system) for the 2002 projected test year appropriate? (Iwenjiora)**

POSITION: No position at this time. Further, this issue is a fall-out of adjustments made in other issues.

ISSUE 22: **Is FPC's requested level of Plant in Service in the amount of $6,876,125,000 ($7,465,125,000 system) for the 2002 projected test year appropriate? (Gardner, Harlow, Colson, Jones)**

POSITION: No position at this time. This issue is a fall-out of adjustments made in other issues.

ISSUE 23: **Is FPC's requested level of Accumulated Depreciation in the amount of $3,414,348,000 ($3,722,787,000 system) for the 2002 projected test year appropriate? (Gardner, Jones)**

POSITION: No position at this time. This issue is a fall-out of adjustments made in other issues.

ISSUE 24: **Is FPC's requested rate base of $3,665,497,000 ($3,983,231,000 system) for the 2002 projected test year appropriate? (Revell)**

POSITION: No position at this time.

COST OF CAPITAL

ISSUE 25: **What is the appropriate cost of common equity capital for FPC? (D. Draper, Vendetti)**

POSITION: Based on witness Maurey's testimony, the appropriate cost of common equity capital for FPC should be 11.5% with an adjusted capital structure.

<u>ISSUE 26</u>: **Should the Commission recognize the CR3 equity adjustment specified in the 1997 Stipulation and Order? (Lester, D. Draper)**

<u>**POSITION**</u>: Based on witness Maurey's testimony, the CR3 equity adjustment specified in the 1997 Stipulation and Order should no longer be recognized.

<u>ISSUE 27</u>: **What is the appropriate capital structure for ratemaking purposes for FPC? (D. Draper, Vendetti)**

<u>**POSITION**</u>: No position at this time.

<u>ISSUE 28</u>: **What is the appropriate amount of accumulated deferred taxes to include in the capital structure for FPC? (C. Romig, Vendetti)**

<u>**POSITION**</u>: No position at this time.

<u>ISSUE 29</u>: **What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure for FPC? (C. Romig, Vendetti)**

<u>**POSITION**</u>: No position at this time.

<u>ISSUE 30</u>: **Have rate base and capital structure been reconciled appropriately for FPC? (Vendetti, C. Romig, D. Draper)**

<u>**POSITION**</u>: No position at this time.

<u>ISSUE 31</u>: **Has FPC appropriately reflected Internal Revenue Service Notice 2001-82 in its projected 12/31/02 test year? (C. Romig)**

<u>**POSITION**</u>: No position at this time.

ISSUE 32: **What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure for the test year for FPC? (Vendetti, D. Draper)**

POSITION: No position at this time.

NET OPERATING INCOME

ISSUE 33: **Is FPC's requested level of Total Operating Revenues for the 2002 projected test year appropriate? (Stallcup, Hewitt, Revell, Wheeler)**

POSITION: No position at this time.

ISSUE 34: **Has FPC under-projected its miscellaneous service revenues? (Wheeler, Revell)**

POSITION: No position at this time.

ISSUE 35: **Has FPC under-projected its other operating revenue? (Revell)**

POSITION: No position at this time.

ISSUE 36: **Are adjustments removing conservation revenues of $65,218,846 (system) for 2002 and the related expenses recoverable through the Conservation Cost Recovery Clause appropriate for FPC? (Colson)**

POSITION: No position at this time.

ISSUE 37: **Has FPC made the appropriate adjustments to remove fuel revenues and fuel expenses recoverable in the Fuel Adjustment Clause? (Bohrmann, McNulty)**

POSITION: No position at this time.

<u>ISSUE 38</u>: **Has FPC made the appropriate adjustments to remove the capacity cost revenues and the related expenses recoverable through the Capacity Cost Recovery Clause? (D. Lee, Revell)**

<u>POSITION</u>: No position at this time.

<u>ISSUE 39</u>: **How are the bench marking calculations affected by merger-related savings and costs? (Revell, Slemkewicz)**

<u>POSITION</u>: No position at this time.

<u>ISSUE 40</u>: **Is it appropriate to use bench marking to justify test year expenses, given the significant changes in the company created by reorganizations and the merger? (Revell, Slemkewicz)**

<u>POSITION</u>: No position at this time.

<u>ISSUE 41</u>: **If the O&M benchmark is to be applied, should it be to the Company as a whole, or on individual functional units? (Revell)**

<u>POSITION</u>: No position at this time.

<u>ISSUE 42</u>: **Is FPC's requested level of Customer Accounts Expense in the amount of $65,694,000 ($66,000,000 system) for the 2002 projected test year appropriate? (Revell, Moniz)**

<u>POSITION</u>: No position at this time.

<u>ISSUE 43</u>: **Is FPC's requested level of Customer Service Expense in the amount of $5,041,000 ($5,041,000 system) for the 2002 projected test year appropriate? (Revell, Moniz)**

<u>POSITION</u>: No position at this time.

<u>ISSUE 44</u>: **Is FPC's requested level of Sales Expense in the amount of $6,406,000 ($6,406,000 system) for the 2002 projected test year appropriate? (Moniz, Revell)**

<u>**POSITION**</u>: No position at this time.

<u>ISSUE 45</u>: **Is FPC's requested level of Administrative and General Expense in the amount of $96,013,000 ($101,965,000 system) for the 2002 projected test year appropriate? (Moniz, Revell)**

<u>**POSITION**</u>: No position at this time.

<u>ISSUE 46</u>: **Should the projected 2002 executive benefits expense of $81,250 for change of control cash payment be removed from O&M expenses? (Revell)**

<u>**POSITION**</u>: Yes.

<u>ISSUE 47</u>: **Is FPC's proposed level of power marketing services expenses overstated? (Harlow, Bohrmann)**

<u>**POSITION**</u>: No position at this time.

<u>ISSUE 48</u>: **Are any revisions necessary to the projected 2002 nuclear property and liability insurance expense? (Revell)**

<u>**POSITION**</u>: No position at this time.

<u>ISSUE 49</u>: **Should an adjustment be made to remove the closed business office expenses from the projected 2002 test year? (P. Lee, Gardner)**

<u>**POSITION**</u>: Yes. The test year depreciation expense should be reduced $418,505.

<u>ISSUE 50</u>: **Is the accelerated amortization of Tiger Bay appropriate in the test year? (Gardner, P. Lee)**

<u>POSITION</u>: No position at this time.

<u>ISSUE 51</u>: **What adjustment, if any, should be made to the test year net operating income to reflect the Commission's decision in Docket No. 991931-EG concerning recovery of the last core of nuclear fuel? (P. Lee)**

<u>POSITION</u>: The test year O&M expenses should be reduced $72,000.

<u>ISSUE 52</u>: **What adjustment, if any, should be made to the test year net operating income to reflect the Commission's decision in Docket No. 001835-EI concerning nuclear decommissioning and end-of-life nuclear materials and supplies? (P. Lee)**

<u>POSITION</u>: No position at this time.

<u>ISSUE 53</u>: **What adjustments, if any, should be made to FPC's 2002 projected test year operating expenses to account for the additional security measures implemented in response to the increased threat of terrorist attacks since September 11, 2001? (McNulty, Mills)**

<u>POSITION</u>: No position at this time.

<u>ISSUE 54</u>: **Are transmission improvements appropriately capitalized or expensed? (Revell, Gardner, P. Lee, Harlow, Colson)**

<u>POSITION</u>: No position at this time.

<u>ISSUE 55</u>: **Is FPC's level of Total Distribution Operation expense, Accounts 580-589, in the amount of $67,556,000 ($67,727,000 System) for the 2002 projected test year appropriate? (Matlock, Costner)**

POSITION: No position at this time.

ISSUE 56: **Is FPC's level of Total Distribution Maintenance expense, Accounts 590-599, in the amount of $29,349,000 ($29,443,000 System) for the 2002 projected test year appropriate? (Matlock, D. Lee, Costner)**

POSITION: No position at this time.

ISSUE 57: **Is FPC's level of Account 593, Maintenance of Overhead Lines, which includes tree trimming expenses, in the amount of $11,014,000 ($11,047,000 System) for the 2002 projected test year appropriate? (Matlock, D. Lee, Costner)**

POSITION: No position at this time.

ISSUE 58: **Is FPC's level of Account 583, Overhead Line Expenses, in the amount of $19,535,000 ($19,593,000 System) for the 2002 projected test year appropriate? (Matlock, D. Lee, Costner)**

POSITION: No position at this time.

ISSUE 59: **What is the appropriate amount of advertising expense to be allowed in operating expense for the 2002 test year for FPC? (Moniz, Revell)**

POSITION: No position at this time.

ISSUE 60: **Are lobbying expenses included in any of the test years? If so, should any of those lobbying expenses be reclassified below the line for FPC? (Moniz, Revell)**

POSITION: No position at this time.

ISSUE 61: **Are FPC's budgeted Industry Association Dues in the amount of $1,894,000 ($2,002,000 system) for the 2002 projected test year appropriate? (Moniz, Revell)**

POSITION: No position at this time.

ISSUE 62: **Should an adjustment be made to the 2002 projected test year to disallow membership dues in the Chambers of Commerce and the Committee of 100? (Moniz, Revell)**

POSITION: This issue may be stricken from the case.

ISSUE 63: **What amount has FPC budgeted to fund the EI Utility Waste Management Group and is this amount appropriate? (Moniz, Revell)**

POSITION: This issue may be stricken from the case.

ISSUE 64: **Is FPC's assumed growth in salaries and wages appropriate? If not, what adjustment is necessary? (Moniz, Revell)**

POSITION: No position at this time.

ISSUE 65: **Should an adjustment be made to the level of Salaries and Employee Benefits for the 2002 projected test year? (Moniz, Revell)**

POSITION: No position at this time.

ISSUE 66: **Is FPC's calculation of the payroll for the 2002 projected test year appropriate? (Moniz, Revell)**

POSITION: No position at this time.

ISSUE 67: **Is FPC's budgeted level of employees in the 2002 projected test year appropriate? (Moniz, Revell)**

<u>POSITION</u>: No position at this time.

<u>ISSUE 68</u>: **Are benefits loading costs appropriate and how do such costs compare to benchmarks? (Moniz, Kyle)**

<u>POSITION</u>: No position at this time.

<u>ISSUE 69</u>: **Should FPC's 2002 post-retirement benefits be adjusted to recognize the most recent actuarial estimates? (Moniz, Kyle)**

<u>POSITION</u>: No position at this time.

<u>ISSUE 70</u>: **Is FPC's requested level of Other Post Employment Benefits Expense for the 2002 projected test year appropriate? (Moniz, Kyle)**

<u>POSITION</u>: No position at this time.

<u>ISSUE 71</u>: **Is the projected 2002 increase in FAS 112 Miscellaneous Employee Benefits costs reasonable? (Moniz, Kyle)**

<u>POSITION</u>: No position at this time.

<u>ISSUE 72</u>: **Is FPC's 2002 test year requested accrual for medical/life reserve-active employees and retirees appropriate? (Revell, Moniz, Costner)**

<u>POSITION</u>: No position at this time.

<u>ISSUE 73</u>: **Is FPC's requested level of Pension Expense for the 2002 projected test year appropriate? (Moniz, Kyle)**

<u>POSITION</u>: No position at this time.

ISSUE 74: **What is the appropriate amount of outside services expense to be allowed in operating expense for FPC? (Revell, Moniz, Costner)**

POSITION: No position at this time.

ISSUE 75: **Should any franchise litigation related costs, which may be deemed prudent, be recoverable from FPC customers? (Revell, Moniz)**

POSITION: No position at this time.

ISSUE 76: **Are public relations costs incurred by FPC and associated with FPC's litigation to prevent cities from exercising purchase options under existing franchise agreements prudent expenditures? (Revell)**

POSITION: No position at this time.

ISSUE 77: **Should any franchise fee public relations costs, which may be deemed prudent, be borne by all retail and wholesale customers of FPC or only those in the franchise areas? (Revell, Moniz)**

POSITION: No position at this time.

ISSUE 78: **Is FPC's 2002 projected test year accrual of $5,818,000 ($6,000,000 System) for storm damage appropriate? (D. Lee, Revell)**

POSITION: No position at this time.

ISSUE 79: **Is interest on tax deficiencies of $891,000 ($967,000 system) for the 2002 projected test year appropriate for FPC? (C. Romig, Vendetti)**

POSITION: No position at this time.

<u>ISSUE 80</u>: **Is FPC's requested level of Bad Debt Expense in the amount of 4,165,000 ($4,165,000 system) for the 2002 projected test year appropriate? (L. Romig, Revell)**

<u>POSITION</u>: No. Bad Debt should be reduced $119,372 ($119,372 System) based on a four year average of net write-offs as a percent of Total Sales to Ultimate Consumers.

<u>ISSUE 81</u>: **Is FPC's requested Rate Case Expense in the amount of $1,644,000 appropriate? (Moniz, Revell)**

<u>POSITION</u>: No position at this time.

<u>ISSUE 82</u>: **What is the appropriate Amortization period for FPC's Rate Case Expense? (Moniz, Revell)**

<u>POSITION</u>: The appropriate amortization period for rate case expense should be four years.

<u>ISSUE 83</u>: **What are the appropriate Consumer Price Index factors to use in determining test year expenses for FPC? (Vendetti, Stallcup, Hewitt)**

<u>POSITION</u>: No position at this time.

<u>ISSUE 84</u>: **Is FPC's requested level of Nuclear O&M in the amount of $83,410,000 ($88,135,000 system) for the 2002 projected test year appropriate? (Harlow, Colson, Costner)**

<u>POSITION</u>: No position at this time.

<u>ISSUE 85</u>: **Is FPC's requested level of Total Fossil O&M in the amount of $87,878,000 ($94,026,000 system) for the 2002 projected test year appropriate? (Harlow, Colson, Costner)**

<u>POSITION</u>: No position at this time.

<u>ISSUE 86</u>: **What adjustment to Fossil Fuel Dismantlement Expense should be made to reflect the annual fossil dismantlement accrual approved in Docket No. 010031-EI for FPC? (P. Lee)**

<u>POSITION</u>: No position at this time.

<u>ISSUE 87</u>: **What adjustments, if any, should be made to the projected test year expenses to recognize implementation of FAS 143? (Gardner)**

<u>POSITION</u>: None. FPC will implement FAS 143, regarding the accounting of asset retirement obligations for financial reporting purposes, effective January 1, 2003. However, FPC has not yet completed an assessment and quantification of the impacts of implementing the new standard. For regulatory accounting purposes, FPC will continue to recover retirement obligations through the net salvage component in the design of depreciation rates and the accruals for fossil dismantlement. Once the assessment of FAS 143 is complete, FPC will submit, for Commission review, the calculations and supporting documentation for any regulatory assets or liabilities necessitated from the implementation of the new standard.

<u>ISSUE 88</u>: **What adjustments, if any, should be made to the projected test year expenses to recognize implementation of the ACSE Statement of Position regarding accounting for certain costs and activities related to property, plant, and equipment? (Gardner)**

<u>POSITION</u>: None. Because the proposed accounting standard is not yet finalized, it is unclear what impact it will have on FPC. Additionally, significant changes may be made to the proposed statement before a final version of the proposal is developed. For regulatory accounting purposes, FPC will continue to follow the Commission's rules and accounting procedures for activities related to property, plant, and equipment. Upon final issuance of the Statement of Position and FPC's assessment of the impacts of the new standard, FPC will submit, for Commission review, all calculations and supporting documentation for any regulatory assets or liabilities created as a result of the new accounting standard.

<u>ISSUE 89</u>: **Is FPC's requested Depreciation and Amortization Expense of $323,658,000 ($376,304,000 system) for the 2002 projected test year appropriate? (Gardner, Jones)**

<u>POSITION</u>: No position at this time. This issue is a fall-out of adjustments made in other issues.

<u>ISSUE 90</u>: **Are FPC's requested Income Tax expenses in the amount of $157,332,000 ($173,886,000 system) for the 2002 projected test year appropriate? (C. Romig, Vendetti)**

<u>POSITION</u>: No position at this time.

<u>ISSUE 91</u>: **Are consolidating tax adjustments appropriate, and if so, what are the appropriate amounts for the 2002 projected test year for FPC? (C. Romig, Vendetti)**

<u>POSITION</u>: No position at this time.

<u>ISSUE 92</u>: **Is FPC's requested level of Taxes Other Than Income Taxes in the amount of $92,870,000 ($100,486,000 system) for the 2002 projected test year appropriate? (C. Romig, Vendetti)**

<u>POSITION</u>: No position at this time.

<u>ISSUE 93</u>: **Is FPC's requested level of Operation and Maintenance Expense in the amount of $503,133,000 ($549,799,000 system) for the 2002 projected test year appropriate? (Revell)**

POSITION: No position at this time.

ISSUE 94: **Is FPC's requested Net Operating Income of $359,551,000 ($384,778,000 system) for the 2002 projected test year appropriate? (Revell)**

POSITION: No position at this time.

REVENUE REQUIREMENTS

ISSUE 95: **What is the appropriate revenue expansion factor and the appropriate net operating income multiplier, including the appropriate elements and rates for FPC? (Revell)**

POSITION: No position at this time.

ISSUE 96: **In determining whether any portion of the revenue held subject to refund by Order No. PSC-01-2313-P.O.-EI should be refunded, how should the refund be calculated, and what is the amount of the refund, if any for FPC? (Revell)**

POSITION: No position at this time.

COST OF SERVICE AND RATE DESIGN

ISSUE 97: **Is FPC's proposed separation of costs and revenues between the wholesale and retail jurisdictions appropriate? (Wheeler)**

POSITION: The appropriate separation of costs and revenues between the wholesale and retail jurisdictions is contained in the Jurisdictional Separation Study, filed in MFR Schedule E-1, adjusted to correct the jurisdictional allocation of $4,897,000 in power marketing expenses as discussed in the rebuttal testimony of William C. Slusser, Jr., pp.17-18.

ISSUE 98: **Are FPC's estimated revenues from sales of electricity by rate class at present rates for the projected 2002 test year appropriate? (E. Draper)**

POSITION: Yes. FPC has accurately applied the appropriate tariffs to the billing determinants projected for the 2002 test year.

ISSUE 99: **Is the method used by FPC to develop its estimates by rate class of the 12 monthly coincident peak hour demands and the class non-coincident peak hour demands appropriate? (Wheeler)**

POSITION: Yes. The estimates of the 12 CP and NCP demands by rate class were arrived at by applying load factors derived from FPC's most recent load research results to the projected MWH sales by rate class for the test year.

ISSUE 100: **What is the appropriate cost of service methodology to be used in designing FPC's rates? (Wheeler)**

POSITION: No position at this time.

ISSUE 101: **How should any change in revenue requirements be allocated among the customer classes? (Wheeler)**

POSITION: No position at this time.

ISSUE 102: **What are the appropriate demand charges? (Wheeler, E. Draper)**

POSITION: The demand charges should be based on the Commission-approved cost of service methodology, and should reflect the demand-related production, transmission and distribution costs allocated to each class. The time-of-use demand charges are addressed in the issue addressing the appropriate time-of-use rate design.

ISSUE 103: **What are the appropriate energy charges? (Wheeler, E. Draper)**

POSITION: No position at this time.

ISSUE 104: **What are the appropriate customer charges? (Hudson)**

POSITION: The customer charges should be set as close as reasonably practicable to the customer unit costs developed in the Commission-approved cost of service methodology.

ISSUE 105: **What are the appropriate service charges? (Hudson)**

POSITION: The service charges should be set as close as reasonably practicable to the costs of the services developed in MFR Schedule E-10.

ISSUE 106: **What are the appropriate Lighting Service (LS-1) rate schedule charges? (Springer)**

POSITION: The Lighting Service energy charges should be set to recover the total non-fuel energy and demand-related costs allocated to the class in the Commission-approved cost of service study. Customer-related costs should be recovered through the customer charge. The maintenance charges should be set to recover the total maintenance and associated A&G costs allocated to the class in the cost of service study. The fixture and pole charges should be set to recover the remaining revenue requirement for the Lighting Service class.

ISSUE 107: **How should FPC's time-of-use rates be designed? (E. Draper)**

POSITION: The off-peak and on-peak energy charges for all TOU rates should be developed based on the methodology shown in response to Staff POD No. 49 and Staff

Interrogatory No. 262. That methodology sets the off-peak energy charge equal to the system energy unit cost and the portion of production capacity costs that is allocated on an energy basis. The on-peak energy charge is then determined by a break-even calculation to achieve the standard rate non-fuel energy revenue, using the class's proportion of on-peak and off-peak energy use.

For demand classes (GSDT), the maximum demand charge and the on-peak demand charge should be designed as described in response to Staff Interrogatories Nos. 260 and 261. The maximum demand charge should be set to recover the cost of distribution secondary facilities. These costs are related to the maximum demand a customer places on the system, whether that demand occurs on-peak or off-peak. The GSDT On-Peak Demand charge should then be designed so that the sum of the maximum demand charge and the On-Peak Demand Charge is equal to the Demand Charge of the GSD-1 rate.

ISSUE 108: **Should FPC be required to provide realtime pricing to customers? If so, by when should it be required to make such offering available? (Wheeler)**

POSITION: No position at this time.

ISSUE 109: **What are the appropriate contributions-in-aid-of-construction for time-of-use customers opting to make a lump sum payment for a time-of-use meter in lieu of the higher time-of-use customer charge? (Hudson)**

POSITION: No position at this time.

ISSUE 110: **Should FPC's proposed inverted rate design for the RS, RAL-1, RAL-2, and RSS-1 rate schedules be approved? (E. Draper)**

POSITION: No position at this time.

ISSUE 111: **What is the appropriate method for designing the interruptible and curtailable rate schedules? (Wheeler)**

POSITION: No position at this time.

ISSUE 112: **What are the appropriate billing demand credits for the curtail able and interruptible rate schedules? (Colson, Harlow)**

POSITION: No position at this time.

ISSUE 113: **Should the optional buy through provision be revised to allow nonfirm customers to acquire alternative sources of power using brokers other than FPC? (Wheeler, Helton)**

POSITION: No position at this time.

ISSUE 114: **What are the appropriate delivery voltage credits? (Springer)**

POSITION: The delivery voltage credits should be determined using the methodology contained in MFR Schedule E-17 Supplement, Schedule B, based on the Commission-approved cost of service study.

ISSUE 115: **If the Commission decides to recognize migrations between rate classes, how should the revenue shortfall, if any, be recovered? (Wheeler)**

POSITION: No position at this time.

ISSUE 116: **Is the method used by FPC to calculate the increase in unbilled revenues by rate class appropriate? (Wheeler)**

POSITION: No position at this time.

<u>ISSUE 117</u>: **What is the appropriate monthly fixed charge carrying rate to be applied to the installed cost of LS-1 additional lighting fixtures for which there is no tariffed monthly charge? (E. Draper)**

<u>POSITION</u>: The monthly fixed charge carrying rate should be calculated based on the methodology shown in Section E of the MFRs, Schedule E-17 Supplement, Schedule C, Page 1 and should be set at 1.40% of the installed costs. 1.40% represents a cost-based rate developed from the cost of service study.

<u>ISSUE 118</u>: **What is the appropriate monthly fixed charge carrying rate to be applied to the installed cost of additional customer-requested distribution equipment (including pole offering under rate schedule LS-1) for which there are no tariffed charges? (E. Draper)**

<u>POSITION</u>: The monthly fixed charge carrying rate should be calculated based on the methodology shown in Section E of the MFRs, Schedule E-17 Supplement, Schedule C, Page 1. The rate to be applied to the installed cost of additional customer-requested distribution equipment should be 1.54% and the rate to be applied to pole offerings should be 1.67%.

<u>ISSUE 119</u>: **What is the appropriate level and design of the charges under the Firm Standby Service (SS-1), Interruptible Standby Service (SS-2), and Curtail able Standby Service (SS-3) rate schedules? (E. Draper)**

<u>POSITION</u>: The SS-1, SS-2, and SS-3 charges should be based on the Commission-approved cost of service study and the rate design specified in Order No. 17159, Docket No. 850673-EU, Generic Investigation of Standby Rates for Electric Utilities.

<u>ISSUE 120</u>: **Is FPC's proposal to add a 500 kw minimum billing demand provision to its IS-2, IST-2, CS-2 and CST-2 rate schedules appropriate? (Wheeler)**

POSITION: No position at this time.

ISSUE 120A: **Should FPC's proposal to require IS-2, IST-2, CS-2, and CST-2 customers to have a minimum billing demand of 500 kw in order to take service under the rates be approved? (Wheeler)**

POSITION: No position at this time.

ISSUE 120B: **Is FPC's proposal to close the IS-1, IST-1, CS-1, and CST-1 rate schedules and to transfer all customers currently taking service under these rate schedules to the applicable IS-2, IST-2, CS-2, or CST-2 rate schedules appropriate? (Wheeler, E. Draper)**

POSITION: No position at this time.

ISSUE 121: **FPC proposes to reduce the notice requirement from 60 months to 36 months for standby customers under rate schedules SS-1, SS-2 and SS-3 who wish to transfer to firm full requirements service. Is this appropriate? (Wheeler)**

POSITION: Yes.

GRIDFLORIDA ISSUES

ISSUE 122: **Does the Commission have jurisdiction to recover GridFlorida costs from retail ratepayers? (Helton)**

POSITION: The issue should be reworded to read: Does the Commission have jurisdiction to authorize the recovery of GridFlorida costs from retail ratepayers? Staff's position is: Yes.

ISSUE 123: **What are the amounts and components of rate base associated with transmission assets of 69kV and above? (Noriega, Gardner)**

POSITION: No position at this time.

ISSUE 124: What are the amounts and components of capital structure associated with transmission assets of 69kV and above? (Noriega)

POSITION: No position at this time.

ISSUE 125: What are the amounts of revenues and expenses associated with transmission assets of 69kV and above? (Noriega, Gardner)

POSITION: No position at this time.

ISSUE 126: How should costs incurred prior to May 31, 2001, associated with FPC's participation in GridFlorida be recovered? (Noriega, D. Lee, Revell)

POSITION: FPC should be allowed to book its portion of the GridFlorida costs incurred prior to May 31, 2001 (i.e., start-up costs) as a one-time adjustment to fuel and purchased power costs. These costs should then be recovered through the fuel adjustment costs recovery clause.

ISSUE 127: How should costs incurred after May 31, 2001, associated with FPC's participation in GridFlorida be recovered? (Noriega, D. Lee, Revell)

POSITION: The appropriate recovery methodology of the costs associated with FPC's participation in GridFlorida and that are incurred after May 31, 2001 should be determined in a generic docket. This docket should specifically address the Independent System Operator (ISO) proposal to be submitted by the GridFlorida Companies, and the methodology should be based on utility-specific estimates of costs and benefits.

ISSUE 128: **In the event the Commission determines that GridFlorida transmission charges should be recovered through a cost recovery clause, what is the appropriate adjustment for transmission costs in base rates to insure that there is no double recovery? (Revell, D. Lee, McNulty)**

POSITION: No position at this time.

OTHER ISSUES

ISSUE 129: **How, if at all, should the Commission treat the costs associated with the projected 11/30/03 completion of the Hines 2 power plant? (Harlow, Colson, Revell, P. Lee)**

POSITION: No position at this time.

ISSUE 130: **Should FPC's proposed earnings sharing plan be approved? (Mailhot)**

POSITION: No position at this time.

ISSUE 131: **Should any changes be made to the methodology for allocating costs to FPC from Progress Energy Service Corporation? (Moniz, Revell)**

POSITION: No position at this time.

ISSUE 132: **Should adjustments be made for rate base, capital structure, and net operating income effects of transactions with affiliated companies for FPC? (Moniz, Revell, D. Draper)**

POSITION: No position at this time.

ISSUE 133: **Is an incentive plan appropriate for FPC and would it promote cost savings and adequate reliability? With**

respect to cost saving measures, how would ratepayers share in any savings? Would FPC's proposed incentive plan adversely affect quality of service? (Mailhot)

POSITION: No position at this time.

ISSUE 134: **Does FPC's proposed regulatory treatment of the stock premium paid by Carolina Power & Light to the shareholders of Florida Progress Corporation violate the provisions of section 366.06(1), Florida Statutes? (Helton)**

POSITION: No position at this time.

ISSUE 135: **What is the impact of the acquisition of FPC by Carolina Power and Light (Progress Energy) upon retail rates? (Slemkewicz)**

POSITION: No position at this time.

ISSUE 136: **What is FPC's acquisition premium and should any of this amount be borne by ratepayers? (Slemkewicz)**

POSITION: No position at this time.

ISSUE 137: **What are the transition costs associated with the merger, and should those amounts be borne by ratepayers? (Slemkewicz)**

POSITION: No position at this time.

ISSUE 138: **Are the CP&L cost allocations to FPC for CP&L-provided services appropriate? (Moniz, Revell)**

POSITION: No position at this time.

ISSUE 139: **Should the Commission approve FPC's proposal to recover the costs and benefits of the merger? (Slemkewicz)**

POSITION: No position at this time.

PROPOSED PREHEARING STIPULATED ISSUES

ISSUE 140: **Should FPC be required to file, within 60 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case? (Revell)**

POSITION: Yes.

e. Pending Motions

1. Motion for Temporary Protective Order filed by FIPUG on February 8, 2002.

2. Motion for Temporary Protective Order filed by FPC on February 8, 2002.

f. Pending Confidentiality Claims or Requests

1. Second Request for Confidential Classification filed by FPC on February 1, 2002.

2. Request for Confidential Classification of Certain Portions of the Testimony of Sheree L. Brown filed by FPC on February 8, 2002.

3. Request for Confidential Classification filed by FIPUG on February 8, 2002.

4. Third Request for Confidential Classification filed by FPC on February 12, 2002.

g. Compliance with Order No. PSC-01-2114-PCO-EI

Staff has complied with all requirements of the Order Establishing Procedure entered in this docket.

Respectfully submitted this 18th day of February, 2002.

2/18/02
DATED

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Review of Florida Power Corporation's earnings, including effects of proposed acquisition of Florida Power Corporation by Carolina Power & Light.	DOCKET NO. 000824-EI DATED: February 18, 2002

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that one true and correct copy of STAFF'S PREHEARING STATEMENT has been furnished by U. S. Mail this 18th day of February, 2002, to the following:

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