ORIGINAL

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 18, 2002

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FLORIDA POWER CORPORATION'S
PREHEARING STATEMENT

Florida Power Corporation ("Florida Power", "FPC", or the "Company"), pursuant to Order No. PSC-01-2114-PCO-EI, hereby submits its Prehearing Statement in this matter, and states as follows:

A. APPEARANCES

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B. WITNESSES AND EXHIBITS

FPC reserves the right to call such other witnesses and to use such other exhibits as may be identified in the course of discovery and preparation for the final hearing in this matter.

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1. WITNESSES.

Direct Testimony.

Witness	Subject Matter
Martha W. Barnwell	Customer Service strategy and expenses
Robert H. Bazemore, Jr.	Administrative and General O&M expenses in the 2002 Test Year; Progress Energy Services
Charles J. Cicchetti	Florida Power's proposed regulatory plan including the Acquisition Adjustment, modification of the regulatory band for Return on Equity, and an earnings sharing mechanism reflecting progressive incentive-based ratemaking
John B. Crisp	Florida Power's Energy & Load Forecast for the 2002 Test Year
H. William Habermeyer, Jr.	Overview of the merger between Florida Power Corporation and Carolina Power & Light; Florida Power's plans and objectives over the coming years; and a broad view of the financial picture and rate proposal in the proceeding
Mark A. Myers	Florida Power's proposed regulatory plan including the Acquisition Adjustment, modified regulatory band for Return on Equity, and an earnings sharing mechanism; continuation of the CR3 adjustment; Florida Power's budget and financial forecast process; preparation of the MFRs; pro forma adjustments to the original MFR filing; changes in Florida Power's forecast as a result of a weakened economy arising out of the events of September 11, 2001; and a subsequent year adjustment recognizing Hines 2
Javier J. Portuondo	Treatment of revenues collected by Florida Power during the interim period (i.e. the pendency of this rate case)

Sarah S. Rogers	Transmission Capital and O&M expenses included in the Test Year; transmission reliability initiatives
Robert A. Sipes	Distribution Capital and O&M expenses included in the 2002 Test Year; distribution reliability initiatives
William C. Slusser, Jr.	Rate Design: Jurisdictional Separation Study; Allocated Class Cost of Service and Rate of Return; and 12 CP and 25% production cost allocation methodology
Jan A. Umbaugh	Financial audit of Florida Power's 2002 financial forecast
James H. Vander Weide	Cost of Equity
Dale D. Williams	Florida Power's fuel forecast prices and inventory target levels
E. Michael Williams	Generation (excluding nuclear) Capital and O&M expenses included in the Test Year; increased availability and reliability of Florida Power's power plants; reduced reliance on DSM
Dale E. Young	Nuclear Capital and O&M expenses included in the Test Year

Rebuttal Testimony.

<u>Witness</u>	<u>Subject Matter</u>
Martha W. Barnwell	Rebuttal of Public Counsel's witness R. Earl Poucher and Staff witnesses James E. Breman and Richard Durbin
Robert H. Bazemore	Rebuttal to testimony of Donna DeRonne and Kimberly Dismukes
Charles J. Cicchetti	Rebuttal to testimony of Public Counsel's witnesses, and Intervenors' witnesses

John B. Crisp	Rebuttal of Public Counsel's witness David E. Dismukes and Intervenor's witness Michael Gorman
Mark A. Myers	Rebuttal to testimony of Public Counsel's witnesses and Intervenors' witnesses.
Sarah S. Rogers	Rebuttal of Public Counsel's witnesses R. Earl Poucher and Donna DeRonne and Intervenor's witness Sheree L. Brown
Robert A. Sipes	Rebuttal of Public Counsel's witness R. Earl Poucher and Donna DeRonne; Staff's witness James E. Breman; and Intervenor's witnesses Sheree L. Brown
William C. Slusser, Jr.	Rebuttal of Intervenors' witnesses Sheree L. Brown and Jeffrey Pollack
James H. Vander Weide	Rebuttal to testimony of Public Counsel's witness James A. Rothschild, Staff witness Andrew Maurey, and Intervenors' witnesses Theodore J. Kury and Michael Gorman
Scott D. Wilson	Rebuttal to testimony of Public Counsel's witness James A. Rothschild, Staff witness Andrew Maurey, and Intervenor witnesses Theodore J. Kury and Michael Gorman

2. EXHIBITS

Exhibit Number	Witness	Description
MWB-1	Martha W. Barnwell	Customer Service strategy and expenses
RHB-1	Robert H. Bazemore, Jr.	SEC order, Nov. 27, 2000 approving service company organization
RHB-2	Robert H. Bazemore, Jr.	Service Company Organizational Chart
RHB-3	Robert H. Bazemore, Jr.	Cost Allocation Manual

RHB-4	Robert H. Bazemore, Jr.	Progress Energy Assessment of Service Company Affiliate Transactions Baryenburch & Co.
RHB-5 (rebuttal)	Robert H. Bazemore, Jr.	Composite Exhibit – correspondence and an analysis relating to Nuclear Electric Insurance Limited ("NEIL").
CJC-1	Charles J. Cicchetti	Curriculum Vitae of Charles J. Cicchetti
CJC-2	Charles J. Cicchetti	Examples of regulatory plans following mergers
CJC-3	Charles J. Cicchetti	Summary of Earnings Sharing Mechanisms in Approved PBR Plans
CJC-4 (revised – filed Nov. 15, 2001)	Charles J. Cicchetti	Merger Benefit Analysis
CJC-5 (revised - filed Nov. 15 2001)	Charles J. Cicchetti	Savings predicted by the merger using the ratio method
CJC-6	Charles J. Cicchetti	Table reflecting regression models success level in projecting synergy savings
CJC-7	Charles J. Cicchetti	Announced mergers
CJC-8	Charles J. Cicchetti	Variables used to evaluate mergers
CJC-9	Charles J. Cicchetti	Day-ahead regression analyses and percent over pre-merger per share values for the one-day models
CJC-10	Charles J. Cicchetti	Four regressions used to evaluate amount paid over pre-merger share values with an explanation of the variables

CJC-11	Charles J. Cicchetti	Four charts showing statistical plots of the actual premium offered or paid for merger targets used to estimate the four regression models along with corresponding predictions from equations 1-4, as shown in CJC-10 for the one-day ahead model
JBC-1	John B. Crisp	Florida Power Corporation's Customer, Energy Sales and Seasonal Demand June 2001 Forecast
JBC-2	John B. Crisp	FPC Short Term Forecast Performance
JBC-3	John B. Crisp	FPC Energy and Customer Forecasting Models
JBC-4	John B. Crisp	FPC Historical Forecast Accuracy
JBC-5	John B. Crisp	Comparison of Lowered Economic Expectations
JBC-6	John B. Crisp	Revised projections based on the events of September 11, 2001.
JBC-7	John B. Crisp	Updated Load Forecast following the events of September 11, 2001
JBC-8 (rebuttal)	John B. Crisp	June 2001 forecast compared to actuals through December 2001
JBC-9 (rebuttal)	John B. Crisp	September 2001 forecast compared to actuals through December 2001
JBC-10 (rebuttal)	John B. Crisp	DED-1 Adjusted for Seasonal Service Rate Customers
HWH-1	H. William Habermeyer, Jr.	Curriculum Vitae of H.

		William Habermeyer, Jr.
MAM-1	Mark A. Myers	Calculation of net synergies arising from the merger
MAM-2	Mark A. Myers	Capital Structure of Florida IOUs on an average FPSC adjusted basis as of June 2001
MAM-3	Mark A. Myers	Listing of MFRs sponsored in whole or in part by Mark A. Myers
MAM-4	Mark A. Myers	Changes in the actuarial studies forecasting pension plan costs for 2002
MAM-5	Mark A. Myers	Pro forma adjustments to our MFRs
MAM-6	Mark A. Myers	Key elements of the capital budget process
MAM-7	Mark A. Myers	Expenses related to Hines 2
MAM-8 (rebuttal)	Mark A. Myers	Calculation of synergy savings after correcting for an error in Ms. Brown's calculations
MAM-9 (rebuttal)	Mark A. Myers	Identification of synergy savings in 2002 based on 1998 baseline, demonstrating that 2000 was an aberrational year.
SSR-1	Sarah S. Rogers	Transmission reliability initiatives and budget
SSR-2 (rebuttal)	Sarah S. Rogers	Analysis of Transmission O&M Expenses Rebuttal of SLB
RAS-1	Robert A. Sipes	Distribution Reliability Initiatives and Budget
RAS-2 (rebuttal)	Robert A. Sipes	A regional comparison of Florida Power's reliability

		performance to other utilities in the Southeast (Figures 1-6) (Confidential)
RAS-3 (rebuttal)	Robert A. Sipes	A 1999 national comparison of Florida Power's reliability performance to other utilities across the country (Figure 1-6) (Confidential)
RAS-4 (rebuttal)	Robert A. Sipes	A 2000 national comparison of Florida Power's reliability performance to other utilities across the country (Figures 1-6) (Confidential)
RAS-5 (rebuttal)	Robert A. Sipes	A 2000 comparison of the FRCC with other NERC reliability regions across the country (Figures 1-6) (Confidential)
RAS-6 (rebuttal)	Robert A. Sipes	Underground Cable Installation timeline
RAS-7 (rebuttal)	Robert A. Sipes	Rebuttal of Ms. Brown's SLB-2 regarding Distribution O&M expenses
WCS-1	William C. Slusser, Jr.	List of MFRs sponsored in whole or in part by William C. Slusser, Jr.
WCS-2	William C. Slusser, Jr.	Florida Power Corporation's Allocated Class Cost of Service Comparison of Production Capacity Cost Allocation Methods for the 2002 Test Year
WCS-3	William C. Slusser, Jr.	Summary of Development of Functional Unit Costs with Proposed Revenue Credits Projected Calendar year 2002 Data: Fully adjusted production capacity allocation

		method: 12 CP & 25% AD (IS & CS treated as firm)
WCS-4	William C. Slusser, Jr.	Test Period: Projected Calendar Year 2002; Summary of Proposed Rates and Class Rates of Return
WCS-5 (rebuttal)	William C. Slusser, Jr.	IC/CS Cost-Effectiveness Results – All existing IS/CS
WCS-6 (rebuttal)	William C. Slusser, Jr.	General Service Customer Billing by Load Factor- Total Demand and Energy Charges @ Present Rates Reflects Billing Adjustments as of 4/1/01
JAU-1	Jan A. Umbaugh	D&T's report on an examination of the financial forecast and the Company's related forecasted financial statements, including footnotes
JAU-2	Jan A. Umbaugh	Summary of D&T's examination procedures
JAU-3	Jan A. Umbaugh	Summary of the Company's compliance with the AICPA Guide for Prospective Financial Information.
Schedule 1	James H. Vander Weide	Schedule 1 – Summary of Discounted Cash Flow Analysis for the Value Line Electric Energy Companies
Schedule 2	James H. Vander Weide	Schedule 2 – Companies not included in Electric Company Discounted Cash Flow Analysis
Schedule 3	James H. Vander Weide	Summary of Discounted Cash Flow Analysis of the Value Line Natural Gas Distribution

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Schedule 4	James H. Vander Weide	Comparison of DCF Expected Return on Equity Investment in Natural Gas Distribution Companies to the Interest Rate on 20-Year Treasury Bonds
Schedule 5	James H. Vander Weide	Comparative Returns on S&P 500 Stock Index and Moody's A-Rated Bonds 1937-2001
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Appendix 1	James H. Vander Weide	Derivation of the Quarterly DCF Model
Appendix 2	James H. Vander Weide	Adjusting for Flotation Costs in Determining a Public Utility's Allowed Rate of Return on Equity
Appendix 3	James H. Vander Weide	Risk Premium Approach
Rebuttal Schedule 1	James H. Vander Weide	Recalculation of Rothschild Schedule JAR-4, Page 1 Electric Companies Discounted Case Flow (DCF) indicated Cost of Equity
Rebuttal Schedule 2	James H. Vander Weide	Recalculation of Rothschild Schedule JAR-4, Page 2, Progress Energy, Discounted Cash Flow (DCF) indicated Cost of Equity
Rebuttal Schedule 3	James H. Vander Weide	Recalculation of Rothschild Schedule JAR-4, Page 3, Gas Companies, Discounted Cash Flow (DCF) indicated Cost of Equity
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		Ratings for Vander Weide and Gorman Proxy Groups
Rebuttal Schedule 5	James H. Vander Weide	Discounted Cash Flow Analysis, Kury Proxy Group, Using Value Line Earnings Growth Forecasts
DDW-1	Dale D. Williams	Coal Price Projections
DDW-2	Dale D. Williams	List of MFRs sponsored in whole or in part by Dale D. Williams
DDW-3	Dale D. Williams	Fuel Inventory Target Levels
DDW-4	Dale D. Williams	Comparison of Fully Adjusted Fuel Inventory Versus FPSC Guidelines and Resultant Impact on Revenue Requirement
EMW-1	E. Michael Williams	Graphs: Power Plant Performance – Equivalent Availability and Starting Reliability
EMW-2	E. Michael Williams	Plant Maintenance Optimization Assessment Guidelines, EPRI, Palo Alto, CA, and CSI Services, Eddystone, PA: 2000.1000321
EMW-3	E. Michael Williams	Graph: O&M Cost Performance of Power Plants
SDW-1 (rebuttal)	Scott D. Wilson	Representation of capital structure and capital structure ratios prepared along the lines of how rating agencies and investors view FPC's investor capital
SDW-2 (rebuttal)	Scott D. Wilson	Investor Funds Excluding OBS

SDW-3 (rebuttal	Scott D. Wilson	Regulatory Adjusted Excluding CR3 and Non-Investor Funds
SDW-4 (rebuttal)	Scott D. Wilson	Regulatory Adjusted Including CR3 and Excluding Non-Investor Funds
SDW-5 (rebuttal)	Scott D. Wilson	Investor Funds Including OBS and CR3 Equity Adjustment
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E-2	William C. Slusser, Jr.	Explanation of Variations From Cost of Service Study Approved in Company's Last Rate Case
E-3a	William C. Slusser, Jr.	Cost of Service Study-Rates of Return by Rate Schedule (Present Rates)
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E-16a	William C. Slusser, Jr.	Revenue from Sale of Electricity by Rate Schedule
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D. FPC'S STATEMENT OF BASIC POSITION

The following table illustrates the basic position of FPC regarding the jurisdictional revenue increase which will be demonstrated by the evidence. (Recoverable fuel and conservation revenues and expenses are excluded.)

Line No.	Description	Source	Amount
1	Jurisdictional Adjusted Rate Base		$3,653,243,000
2	Rate of Return on Rate Base Requested		9.809%
3	Jurisdictional Net Operating Income requested		$358,347,000
4	Jurisdictional Adjusted Net Operating Income		$333,900,000
5	Net Operating Income Deficiency (Excess)		$24,446,000
6	Earned Rate of Return		9.14%
7	Net Operating Income Multiplier		1.6313
8	Total Revenue Deficiency Calculated		$39,879,000

E. FPC'S STATEMENT OF FACTUAL ISSUES AND POSITIONS

1. Factual Issues

Test Period

Issue 1: Are FPC's forecasts of Customers and KWH by Revenue Class for the 2002 test year reasonable? (Staff 2)

<u>FPC:</u> Yes.

Witnesses: (Crisp, Slusser)

Quality of Service

Issue 2: Is the number of customer bills which have to be estimated each month appropriate for FPC? (Staff 3)

FPC: Yes.

Witnesses: (Sipes)

Issue 3: Has FPC's acquisition by Progress Energy Affected System Reliability? If so, how? (Staff 5)

FPC: Yes, it has affected system reliability positively. Florida Power's new management is committed to achieving top-quartile reliability performance, and the Company is able to take advantage of merger synergies in working toward this goal. (Staff 6)

Witnesses: (Habermyer, Myers, E. Michael Williams, Sipes, Rogers, Williams)

Issue 4: Is FPC's customer complaint resolution process adequate? (Staff 6)

Yes. In fact, under Rule 25-22.-32(5)(a) FAC which requires a company to respond to a complaint filed by the Commission's Division of Consumer Affairs within fifteen (15) working days, Staff witness Durbin could find only three complaints since July 1, 1999 where FPC responded in an untimely manner. In addition, in each such instance Florida Power's records reflect a timely response and note that one of these complaints concerned a electric customer that was not a customer of Florida Power.

Witnesses: (Barnwell)

Issue 5: Has FPC's acquisition by Progress Energy affected customer service? If so, how? (PSM 3, Staff 7)

FPC: Yes, it has affected customer service favorably. Florida Power is implementing new customer service initiatives, drawing upon best practices identified through the merger and taking advantage of economies of scale and other merger synergies in implementing these initiatives.

Witnesses: (Myers, Barnwell)

Issue 6: Should the Commission establish a mechanism that encourages a reduction in the percentage of customers receiving frequent outages? (Staff 8)

FPC: No. The Commission should address this issue (if at all) through rulemaking. FPC's reliability has steadily improved over the last five years, and the Company has made a commitment to achieve top-quartile reliability performance.

Witnesses: (Sipes)

Issue 7: Is the quality of electric service provided by FPC adequate? (Staff 4)

FPC: Yes. The quality of FPC's electric service has steadily improved over the last five years, and Florida Power's post-merger reliability goals will ensure improved electric service for FPC's customers.

Witnesses: (Habermeyer, Myers, Sipes, Rogers, E. Michael Williams, Young)

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) (OPC 4A)

FPC: The quality of service provided by FPC is more than adequate, and no penalty is warranted. The Commission has imposed such a penalty only on one electric utility based on fundamentally different concerns.

Witnesses: (Myers, Sipes)

Rate Base

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

FPC: Yes. However, a general corporate wide inflation rate is provided to managers as a budget guideline in the development of only those limited items for which a rate of increase specific to that item is unavailable. As a result, the inflation rate of 2.56% for 2002 listed in MFR Schedule F-17 is not directly used in developing the test year.

Witnesses: (Crisp, Myers)

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) (Staff 11)

FPC: No. The appropriate level of Construction Work in Progress should be

\$72,482,000 (\$82,875,000 system) for the 2002 projected test year.

Witness: (Myers, Slusser, E. Michael Williams, Young, Sipes, Rogers)

Issue 11: Is FPC's requested level of Property Held for Future Use in the amount of $6,426,000 ($8,275,000 system) for the 2002 projected test year appropriate? (Harlow, Colson, Jones) (Staff 13)

FPC: Yes.

Witnesses: (Myers)

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) (Staff 15)

FPC: Based on Commission Order No. PSC-02-0055-PAA-EI, the jurisdictional amount of end-of-life rate base should be $472,000 which results in an increase of $11,000 compared to the Company's original filing.

Witnesses: (Myers, Young, Slusser)

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) (Staff 16)

FPC: Based on Commission Order No. PSC-02-0055-PAA-EI, the jurisdictional amount of last core nuclear fuel rate base should be $360,000 which results in an increase of $22,000 as compared to the Company's original filing.

Witnesses: (Myers, Young, Slusser)

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) (Staff 17)

FPC: Florida Power's requested rate base increase of $14,600,000 (System) for additional security measures implemented in response to the increased threat of terrorist attacks since September 11, 2001 is still appropriate.

Witnesses: (Myers)

Issue 15: Should an adjustment be made to remove the closed business office capital costs from the projected 2002 test year? (New)

FPC: No. The Company has not finalized the disposition of these assets. In fact some are being converted for other operational purposes. Accordingly, it is appropriate to carry the plant and accumulated depreciation in rate base.

Witnesses: (Myers)

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) (PSM 40, Staff 26)

FPC: Yes. Florida Power's system inventory target levels are reasonable as they are consistent with the inventory targets specified by Commission Order No. 12645.

Witnesses: (Dale D. Williams)

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

FPC: No. The Company's cash balance is appropriate. Although through day-to-day cash management Florida Power strives to manage its cash balance at or below zero, it will from time to time have positive cash balances.

Witnesses: (Myers)

Issue 18: Should an adjustment be made to decrease Accounts Receivable from Associated Co. in the working capital allowance for FPC? (Iwenjiora) (New Staff)

FPC: No. The level of accounts receivable from associated companies is appropriate.

Witnesses: (Myers)

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) (New Staff)

FPC: No adjustment should be made to Other Regulatory Assets in nuclear decommissioning and decontamination. This asset, along with the liability in Accumulated Miscellaneous Operating Provision and Miscellaneous Current and Deferred Liabilities net to zero. Therefore, this has no impact on the 2002 test year.

Witnesses: (Myers)

Issue 20: Should adjustments be made to working capital for 2002 related to interest on tax deficiency for FPC? (Iwenjiora, C. Romig, Vendetti) (Staff 28)

FPC: No. Florida Power's customers are direct beneficiaries of our tax administration policies. The Commission has previously recognized that customers are the primary beneficiaries tax planning and established a precedent for allowing such costs in rates. See Order No. PSC-92-1197-FOF-EI, Docket No. 910890-EI, in which the Commission approved inclusion of the deferred debt and the accrued tax liability related to the interest expense on tax deficiencies in working capital.

Witnesses: (Myers)

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)(FIPUG 7, OPC 20, Staff 18)

FPC: No. After corrections, FPC determined that Working Capital in the amount of $58,178,000 ($75,038,000 system) for the 2002 projected test year is appropriate.

Witnesses: (Myers)

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) (OPC 16 & 21, Staff 10)

FPC: No. After corrections, FPC determined that $6,880,300,000 ($7,475,655,000 system) for the level of Plant in Service is appropriate.

Witnesses: (Myers)

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) (Staff 29)

FPC: No. After corrections, FPC determined that Accumulated Depreciation and Amortization in the amount of $3,411,752,000 ($3,719,601,000 system) is appropriate.

Witnesses: (Myers)

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) (Staff 30)

FPC: No. FPC has determined that $3,653,243,000 ($3,975,552,000 system) is appropriate.

Witnesses: (Habermeyer, Myers, Cicchetti, Vander Weide, Crisp, E. Michael Williams, Dale D. Williams, Young, Sipes, Rogers, Barnwell, Umbaugh)

Cost of Capital

Issue 25: What is the appropriate cost of common equity capital for FPC? (D. Draper, Vendetti) (FIPUG 5, OPC 11, PSM 1, Staff 31)

FPC: Florida Power's requested return on common equity of 13.2% is appropriate as evidenced by the testimony of Dr. James H. Vander Weide, which supports a range of 12.2% to 14.2% as a reasonable return for the Company.

Witnesses: (Vander Weide)

Issue 26: Should the Commission recognize the CR3 equity adjustment specified in the 1997 Stipulation and Order? (Lester, D. Draper) (FPC 3)

FPC: Yes. In that Order the Commission recognized that FPC should not be penalized on an ongoing basis as a result of its agreement to absorb certain costs associated with the extended outage of CR 3. FPC suffered lower earnings per share in 1997 and a reduction in retained earnings. Absent an adjustment to FPC's common equity in future years, FPC would inappropriately suffer a loss of earnings in the future.

Witnesses: (Myers)

Issue 27: What is the appropriate capital structure for ratemaking purposes for FPC? (D. Draper, Vendetti) (FIPUG 6, PSM 3, Staff 32)

FPC: The appropriate capital structure for rate-making purposes is Florida Power's stand-alone capital structure as reflected in the table shown in response to Issue 32 below.

Witnesses: (Myers, Wilson)

Issue 28: What is the appropriate amount of accumulated deferred taxes to include in the capital structure for FPC? (C. Romig, Vendetti) (Staff 33)

FPC: The appropriate amount of FPSC adjusted retail accumulated deferred taxes to including the capital structure is $319,931,000 given agreed upon adjustments to rate base. The 13-month average balance was determined from activities shown in the budgeted income statement.

Witnesses: (Myers)

Issue 29: 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, Staff 34)

FPC: The appropriate amount and cost rate of the unamortized investment tax credits ("ITCs") on an FPSC adjusted retail basis to include in the capital structure are Post '70 Equity of $27,956,000 and 13.07% and Post '70 Debt of $17,033,000 and 7.13%., respectively and after agreed upon adjustments to rate base. The Company's 13 month average balance properly recognizes the amortization of the ITCs.

Witnesses: (Myers)

Issue 30: Have rate base and capital structure been reconciled appropriately for FPC? (Vendetti, C. Romig, D. Draper) (Staff 35)

FPC: Yes.

Witnesses: (Myers, Wilson)

Issue 31: Has FPC appropriately reflected Internal Revenue Service Notice 2001-82 in its projected 12/31/02 test year? (C. Romig) (Staff 83A)

FPC: IRS Notice 2001-82 is not applicable in this case. FPC does not have transfers of interties from nonqualifying facilities.

Witnesses: (Myers)

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) (FIPUG 8, FPC 2, OPC 10 & 12, PSM 2, Staff 36)

FPC: A summary of the components, amounts and cost rates associated with the Company's capital structure after agreed upon adjustments to rate base for the 2002 test period is as follows:

($ in 000's)	FPSC Adj'd Retail	Ratio	Cost Rate	Weighted Cost
Common Equity	$1,959,424	53.62%	13.20%	7 08%
Preferred Stock	30,141	0.83%	4.51%	0.04%
Long-Term Debt				
Fixed Rate Debt	1,206,101	33.02%	7.14%	2.36%
Variable Rate Debt (3)	6,199	0.17%	4.92%	0.01%
Short Term Debt (3)	2,260	0.06%	4.92%	0.00%
Customer Deposits (4)				
Active	112,388	3.07%	6.13%	0.19%
Inactive	387	0.01%	0.00%	0.00%
Investment Tax Credit				
Post '70 - Equity	27,956	0.77%	13.07%	0.10%
Post '70 - Debt	17,033	0.47%	7.13%	0.03%
Deferred Income Taxes	319,931	8.76%	0.00%	0.00%
FAS 109 Liability - Net	(28,576)	-0 78%	0.00%	0.00%
Total Capital Structure	$3,653,243	100.00%		9.81%

(3) 12 Month Weighted Average used as a proxy for daily weighted average used for historical reporting.
(4) 13 Month Average

Witnesses: (Myers)

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) (Staff 37)

FPC: Yes, the total fully adjusted operating revenues for the 2002 projected test year of $1,420,651,000 ($1,533,620,000 System) is appropriate.

Witnesses: (Myers)

Issue 34: Has FPC under-projected its miscellaneous service revenues? (OPC B)

FPC: No. Florida Power has used generally accepted accounting principles in its budgeting of miscellaneous service revenues.

Witnesses: (Myers, Barnwell)

Issue 35: Has FPC under-projected its other operating revenue? (OPC C)

FPC: No. Florida Power has used generally accepted accounting principles in its budgeting of other operating revenues.

Witness: (Myers, Barnwell, E. Michael Williams, Young, Sipes, Rogers)

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) (Staff 45)

FPC: No. The Company disagrees with the Staff's amount of conservation revenue of $65,218,846. The amount to be removed from operating revenues is $69,571,000 as reflected on C-3a, page 1 of 5.

Witnesses: (Myers)

Issue 37: Has FPC made the appropriate adjustments to remove fuel revenues and fuel expenses recoverable in the Fuel Adjustment Clause? (Bohrmann, McNulty) (FIPUG 9, Staff 43)

FPC: Yes.

Witnesses: (Myers)

Issue 38: 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) (Staff 44)

FPC: Yes.

Witnesses: (Myers)

Issue 39: How are the benchmarking calculations affected by merger-related savings and costs? (PSM 22)

FPC: The PSC benchmarks provide a meaningful indication of costs that reasonably might be incurred to operate a utility like FPC. It is not appropriate to capture for ratepayers merger-related savings without recognizing merger-related costs incurred to bring about those savings. The PSC benchmark helps make clear that the merger has in fact brought about extraordinary savings.

Witnesses: (Myers, Cicchetti)

Issue 40: 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? (PSM 23)

FPC: Yes. The PSC benchmarks provide a meaningful indication of costs that reasonably might be incurred to operate a utility like FPC. It is not appropriate to capture for ratepayers merger-related savings without recognizing merger-related costs incurred to bring about those savings. The PSC benchmark helps make clear that the merger has in fact brought about extraordinary savings.

Witnesses: (Myers, Bazemore, Young, E. Michael Williams, Sipes, Rogers)

Issue 41: If the O&M benchmark is to be applied, should it be to the Company as a whole, or on individual functional units? (Revell) (OPC 33, Staff 71)

FPC: Traditionally the O&M benchmark is evaluated on a functional basis, but a total Company comparison may also be instructive.

Witnesses: (Myers, Bazemore, Young, E. Michael Williams, Sipes, Rogers)

Issue 42: 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, Monic) (OPC 37, PSM 27, Staff 76)

FPC: Yes.

Witnesses: (Myers, Barnwell, Slusser)

Issue 43: 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, Monic) (OPC 38, Staff 77)

FPC: Yes.

Witnesses: (Myers, Barnwell, Slusser)

Issue 44: 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? (Monic, Revell) (OPC 39, PSM 26, Staff 78)

FPC: No. After corrections, FPC has determined that the appropriate amount of Sales Expense is $3,662,000 ($6,406,000 system).

Witnesses: (Myers, Barnwell, E. Michael Williams, Slusser)

Issue 45: 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? (Monic, Revell) (OPC 40, PSM 29, Staff 79)

FPC: No. FPC has determined that the appropriate level of Administrative and General Expense is $ 122,600,000 ($130,076,000 system).

Witnesses: (Myers, Bazemore, Slusser)

Issue 46: Should the projected 2002 executive benefits expense of $81,250 for change of control cash payment be removed from O&M expenses? (OPC F)

FPC: Yes.

Witnesses: (Myers, Bazemore)

Issue 47: Is FPC's proposed level of power marketing services expenses overstated? (OPC)

FPC: Total power marketing expenses are correctly stated. However, FPC has acknowledged an error in failing to assign and allocate a portion of the total amount to the wholesale jurisdiction. The correct allocation of power marketing expenses to the retail jurisdiction is $2,154,000, which has been included in response to Issue 44.

Witnesses: (Myers, Slusser)

Issue 48: Are any revisions necessary to the projected 2002 nuclear property and liability insurance expense? (OPC H)

FPC: No.

Witnesses: (Bazemore)

Issue 49: Should an adjustment be made to remove the closed business office expenses from the projected 2002 test year? (OPC A)

FPC: Only partly. An adjustment reducing depreciation expense by $ 419,000 is appropriate. No other adjustment is appropriate.

Witnesses: (Myers)

Issue 50: Is the accelerated amortization of Tiger Bay appropriate in the test year? (Gardner, P. Lee) (FIPUG 21 & 22, OPC 50, PSM 38)

FPC: Yes. Commission Order No. PSC-7—652-S-EQ recognizes that "FPC [has] the discretionary ability to contribute dollar amounts from its earning to accelerate the amortization of the Tiger Bay Regulatory Asset," which we anticipate to be $9 million. The Tiger Bay regulatory asset is now expected to be fully amortized in 2003.

Witnesses: (Myers)

Issue 51: 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) (FIPUG 10, PSM 33, Staff 40, OPC I)

FPC: Based on the Commission Order No. PSC-02-0055-PAA-EI, the jurisdictional amount of last core nuclear fuel O&M amortization should be $1,100,000 which results in a decrease of $72,000 in O&M and $44,000 increase in net operating income as compared to the Company's original filing.

Witnesses: (Myers, Young)

Issue 52: 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) (FIPUG 11 & 12, PSM 39, Staff 41, OPC K)

FPC: Based on the Commission Order No. PSC-02-0055-PAA-EI, the jurisdictional amount of end-of-life nuclear materials and supplies O&M amortization should be $1,500,000 which results in a decrease of $100,000 in O&M and $61,000 increase in net operating income as compared to the Company's original filing.

Witnesses: (Myers, Young)

Issue 53: 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) (Staff 42)

FPC: An adjustment should be made to Florida Power's requested retail operating expense (after tax) increase of $1,579,000 ($1,781,000 System) for additional security measures implemented in response to the increased threat of terrorist attacks since September 11, 2001 to reflect the separation factor impact of other agreed upon corrections..

Witnesses: (Myers, Slusser, E. Michael Williams, Young, Sipes, Rogers)

Issue 54: Are transmission improvements appropriately capitalized or expensed? (Revell, Gardner, P. Lee, Harlow, Colson) (PSM 32)

FPC: Capital improvements are appropriately capitalized and O&M costs appropriately expensed.

Witnesses: (Myers, Rogers)

Issue 55: 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) (Staff 46)

FPC: Yes.

Witnesses: (Myers, Sipes)

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) (Staff 47)

FPC: Yes.

Witnesses: (Myers, Sipes)

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) (Staff 48)

FPC: Yes.

Witnesses: (Myers, Sipes)

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) (Staff 49)

FPC: Yes.

Witnesses: (Myers, Sipes)

Issue 59: What is the appropriate amount of advertising expense to be allowed in operating expense for the 2002 test year for FPC? (Monic, Revell)(PSM 28, Staff 50)

FPC: The appropriate amounts of advertising expense to be allowed in operating expense for the 2002 test year is $5,156,000.

Witnesses: (Bazemore, Myers)

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? (Monic, Revell) (Staff 51, OPC J)

FPC: No.

Witnesses: (Myers)

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? (Monic, Revell) (Staff 52)

FPC: No. Industry Association Dues should be $1,870,000 ($1,976,000 system) for the 2002 projected test year.

Witnesses: (Myers)

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? (Monic, Revell) (Staff 53)

FPC: This issue should be stricken, as it relates to the Company's 1992 Rate Case and is not applicable in 2002.

Witnesses: (Myers)

Issue 63: What amount has FPC budgeted to fund the EI Utility Waste Management Group and is this amount appropriate? (Monic, Revell) (Staff 54)

FPC: This issue should be stricken, as it relates to the Company's 1992 Rate Case and is not applicable in 2002.

Witnesses: (Myers)

Issue 64: Is FPC's assumed growth in salaries and wages appropriate? If not, what adjustment is necessary? (Monic, Revell)(PSM 14, Staff 55)

FPC: Yes. The growth in FPC's test year salaries and wages is based on the levels necessary to attract and retain qualified employees in competition with other employers in local, regional, and national labor markets.

Witnesses: (Myers, Bazemore)

Issue 65: Should an adjustment be made to the level of Salaries and Employee Benefits for the 2002 projected test year? (Monic, Revell) (PSM 15, 16 & 18, Staff 56)

FPC: No. Florida Power's test year salaries and employee benefits are based on the levels necessary to attract and retain qualified employees in competition with other employers in local, regional, and national labor markets.

Witnesses: (Myers, Bazemore)

Issue 66: Is FPC's calculation of the payroll for the 2002 projected test year appropriate? (Monic, Revell) (Staff 57)

FPC: Yes. Florida Power's calculation of payroll for the 2002 projected test year is appropriate.

Witnesses: (Myers, E. Michael Williams, Bazemore, Sipes, Rogers, Barnwell)

Issue 67: Is FPC's budgeted level of employees in the 2002 projected test year appropriate? (Monic, Revell) (OPC 25, Staff 58)

FPC: Yes. FPC's merger-related employee reductions occurred during 2001 and those employees are not included in the 2002 level of employees. FPC's budgeted level of employees for the 2002 test year is appropriate for rate making purposes.

Witnesses: (Myers, Bazemore, Sipes, Rogers, Barnwell, E. Michael Williams, Young)

Issue 68: Are benefits loading costs appropriate and how do such costs compare to benchmarks? (PSM 18)

FPC: Yes. The Company's benefits loading costs are appropriate and when the Company's total costs are compared to the Commission benchmark it demonstrates that the 2002 test year operating and maintenance costs are below the benchmark.

Witnesses: (Myers, Bazemore, E. Michael Williams, Young, Sipes, Rogers)

Issue 69: Should FPC's 2002 post-retirement benefits be adjusted to recognize the most recent actuarial estimates? (OPC D)

FPC: Estimates for both Pension and Other Post Employment Benefits expense should be updated to reflect the most current actuarial estimate for the 2002 test year.

Witnesses: (Myers)

Issue 70: Is FPC's requested level of Other Post Employment Benefits Expense for the 2002 projected test year appropriate? (Monic, Kyle) (PSM 19, OPC 26, Staff 59)

FPC: Yes. But the actuarial estimates for Other Post Employment Benefits expense should be updated to the most current estimate of $18.5 million, ($19.6 million system) for the 2002 Test Year.

Witnesses: (Bazemore, Myers)

Issue 71: Is the projected 2002 increase in FAS 112 Miscellaneous Employee Benefits costs reasonable? (OPC E)

FPC: Yes. FAS 112 Miscellaneous Employee Benefits of $1.6 million ($1.7 million system) are reasonable and primarily represent a shift of an expense that was previously included as part of Pension and Other Post Employment Benefits expense.

Witnesses: (Myers, Bazemore)

Issue 72: Is FPC's 2002 test year requested accrual for medical/life reserve-active employees and retirees appropriate? (Revell, Monic, Costner) (Staff 64)

FPC: Yes, but the requested accrual for retirees under Other Post Employment Benefits should be updated to the most current estimate for the 2002 Test Year. Medical/Life expense for active employees and retirees of $38.2 million ($40.4 million system).

Witnesses: (Myers, Bazemore)

Issue 73: Is FPC's requested level of Pension Expense for the 2002 projected test year appropriate? (Monic, Kyle) (FIPUG 18, OPC 27, Staff 60)

FPC: Yes. Florida Power's requested level of Qualified Pension Expense for the 2002 projected test year of $21,345,000 ($22,600,000 system), as stated in Mr. Bazemore's testimony is appropriate. No adjustments were made to Non-qualified Pension Expense of $2,975,000 ($3,150,000 system).

Witnesses: (Myers, Bazemore)

Issue 74: What is the appropriate amount of outside services expense to be allowed in operating expense for FPC? (Revell, Monic, Costner) (OPC 28, PSM 30, Staff 62)

FPC: All outside services expenses included in the Company's 2002 test year are appropriate.

Witnesses: (Myers, Bazemore)

Issue 75: Should any franchise litigation related costs, which may be deemed prudent, be recoverable from FPC customers? (PSM 42)

FPC: Yes. All franchise litigation related costs should be recoverable from Florida Power's customers. Florida Power's budgeted litigation expenses reflect a fair and accurate estimate of ongoing prudent litigation expenses that are reasonably borne by all customers who do benefit from such expenditures. No special treatment of these franchise litigation related costs is warranted.

Witnesses: (Myers)

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? (PSM 43)

FPC: Yes. But see FPC's response to Issue 77 below.

Witnesses: (Myers)

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? (PSM 44)

FPC: Public relations costs associated with franchise agreements are not being borne by retail or wholesale customers. In fact, these costs are being recorded below the line.

Witnesses: (Myers)

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) (PSM 31, Staff 65)

FPC: Yes. The accrual is based on the level approved by the Commission in Order PSC-94-0852-FOF-EI. The purpose of this Commission ordered reserve is to provide insurance to deal with catastrophic losses for which insurers will not provide coverage. Historic losses demonstrate the need for the current level of the accrual and may justify an even greater accrual.

Witnesses: (Myers, Sipes)

Issue 79: Is interest on tax deficiencies of $1,450,000 ($1,574,000 System) for the 2002 projected test year appropriate for FPC? (C. Romig, Vendetti) (Staff 66)

FPC: Yes. FPC's customers are direct beneficiaries of the Company's tax administration policies. The Commission has previously recognized this in permitting such costs to be included in rates. See Order No. PSC-92-1197-FOF-EI.

Witnesses: (Myers)

Issue 80: 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) (OPC 29, Staff 67)

FPC: Yes.

Witnesses: (Myers, Barnwell)

Issue 81: Is FPC's requested Rate Case Expense in the amount of $1,644,000 appropriate? (Monic, Revell) (OPC 30, Staff 68)

FPC: Yes.

Witness: (Myers)

Issue 82: What is the appropriate Amortization period for FPC's Rate Case Expense? (Monic, Revell) (OPC 31, PSM 25, Staff 69)

FPC: Two years. The Florida Public Service Commission authorized a two-year amortization in the two rate cases prior to the 1992 case, and a two-year period is eminently reasonable in this case. Certainly, if the Commission does not see fit to approve our request for a step increase effective November 2003 to recover the revenue requirements of Hines 2, we will be back before the Commission in another rate proceeding within two years.

Witnesses: (Myers)

Issue 83: What are the appropriate Consumer Price Index factors to use in determining test year expenses for FPC? (Stallcup, Hewitt) (Staff 72)

FPC: The appropriate CPI factors are shown on MFR Schedule C-56.

Witnesses: (Crisp, Myers)

Issue 84: 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) (OPC 34, Staff 73)

FPC: No. After adjustments, FPC has determined that Nuclear O&M in the amount of $83,310,000 ($88,006,000 system) is appropriate.

Witnesses: (Myers, Young)

Issue 85: 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) (OPC 35, Issue 74)

FPC: Yes.

Witnesses: (Myers, E. Michael Williams)

Issue 86: 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) (Staff 81)

FPC: The depreciation adjustment to Fossil Dismantlement expense should be $1,680,000 ($1,313,000 system).

Witnesses: (Myers, E. Michael Williams)

Issue 87: What adjustments, if any, should be made to the projected test year expenses to recognize implementation of FAS 143? (Gardner) (Staff 82)

FPC: None.

Witnesses: (Myers)

Issue 88: 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) (Staff 83)

FPC: None. The impacts of ACSE Statement of Position (SOP) "Accounting for Certain Costs and Activities Related to Property, Plant and Equipment" are not incorporated into the 2002 test period. It is too early to quantify the impact of this SOP. In general, the utility industry is not responding to this SOP.

Witnesses: (Myers)

Issue 89: 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) (OPC 41, Staff 80)

FPC: No. The amount of $322,999,000 ($346,621,000 system) is appropriate for Depreciation and Amortization Expense for the 2002 projected test year.

Witnesses: (Myers)

Issue 90: 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) (OPC 43, Staff 85)

FPC: No. FPC has determined that the appropriate amount for Income Tax Expense in the 2002 projected test year is $141,218,000 ($149,205,000 system).

Witnesses: (Myers)

Issue 91: Are consolidating tax adjustments appropriate, and if so, what are the appropriate amounts for the 2002 projected test year for FPC? (C. Romig, Vendetti) (OPC 44, Staff 86)

FPC: No. The Commission has a long-standing policy of not considering CTAs in the cost of service of Florida utilities. A basic premise of regulation is that utility operations should not subsidize other operations nor should they be subsidized by other operations. This is true whether the operations are those of an affiliate joining in the filing of a consolidated federal tax return or the utility.

Witnesses: (Myers)

Issue 92: 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) (OPC 42) (Staff 84)

FPC: No. FPC has determined that the appropriate level of Taxes Other Than Income Taxes for the 2002 projected test year is $93,097,000 ($98,795,000 system).

Witnesses: (Myers)

Issue 93: Is FPC's requested level of Operation and Maintenance Expense in the amount of $1,075,251,000 ($2,776,499,000) system) for the 2002 projected test year appropriate? (Revell) (FIPUG 1 & 2, OPC 24, Staff 39)

FPC: No. FPC has determined that the appropriate level of Operation and Maintenance Expense for the 2002 projected test year is $1,086,751,000 ($1,177,576,000 system).

Witnesses: (Myers, Bazemore, Young, E. Michael Williams, Dale D. Williams, Young, Rogers, Barnwell, Sipes)

Issue 94: Is FPC's requested Net Operating Income of $359,551,000 ($437,087,000 system) for the 2002 projected test year appropriate? (Revell) (OPC 45, Staff 87)

FPC: No. FPC has determined that, after corrections, the appropriate level of Net Operating Income for the 2002 projected test year should be $333,900,000 ($356,044,000 system).

Witnesses: (Myers, Bazemore, Young, E. Michael Williams, Dale D. Williams, Young, Rogers, Barnwell, Sipes)

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) (OPC 46, Staff 89)

FPC: The appropriate revenue expansion factor is 61.299% and net operating income multiplier is 1.6313 as reflected in MFR C-58.

Witnesses: (Myers)

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) (FIPUG 23 & 24, FPC 6, OPC 51, Staff 88)

FPC: It is premature to quantify the amount of refund, if any, but it is Florida Power's position that the Commission's order contemplated the following calculation:

Original Interim Refund Cap	$114
Less: CR3 Equity Adjustment	(16)
Adjusted Cap Per Order	$ 98
Less: Accelerated Amort. of Tiger Bay	(34)
Less: Approved Acquisition Adjustment	(TBD)
Final Interim Refund Cap	$TBD

TBD = To Be Determined

The final Interim refund cap being an annualized figure would be divided by 12 months and multiplied by the number of months between March 15, 2001 and the setting of new base rates. This would set the cap for the entire interim period from which excess earnings, if any, could be refunded.

Witnesses: (Myers, Portuondo)

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) (FIPUG 39, OPC 47, PSM 6, Staff 94)

FPC: Yes. Florida Power has consistently applied the methodology approved by the FPSC in our last retail rate case and consistent with that used in the Company's last wholesale rate case.

Witnesses: (Slusser)

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) (Staff 95)

FPC: Yes. FPC's estimated revenues from sales of electricity by rate class at present rates is appropriate based on the original filing but does not reflect the updated sales forecast resulting from the events of September 11, 2001. The Company has agreed with Staff to update the sales of electric by rate class once revenue requirements have been approved.

Witnesses: (Crisp, Slusser)

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) (Staff 96)

FPC: Yes. FPC's development of its estimates by rate class of the 12 monthly coincident peak hour demands and the class non-coincident peak hour demands is appropriate.

Witnesses: (Slusser)

Issue 100: What is the appropriate cost of service methodology to be used in designing FPC's rates? (Wheeler) (FIPUG 31, OPC 48, Staff 97)

FPC: The appropriate cost of service methodology is the one used by FPC in its Cost of Service Study that employs 12 CP & 25% Weighted Average Demand methodology for production capacity costs.

Witnesses: (Slusser)

Issue 101: How should any change in revenue requirements be allocated among the customer classes? (Wheeler) (OPC 49, Staff 98)

FPC: To the extent practical, each rate class's revenues should be established such that each class is at rate of return parity based on the cost of service method relied upon.

Witnesses: (Slusser)

Issue 102: What are the appropriate demand charges? (Wheeler, E. Draper) (Staff 99)

FPC: FPC's proposed demand charges are appropriate.

Witnessess: (Slusser)

Issue 103: What are the appropriate energy charges? (Wheeler, E. Draper) (Staff 100)

FPC: Energy charges shall be established to recover the balance of revenue required in each rate schedule after consideration of revenue from customer charges and demand charges where applicable.

Witnesses: (Slusser)

Issue 104: What are the appropriate customer charges? (Hudson) (Staff 101)

FPC: FPC's proposed customer charges are appropriate.

Witnesses: (Slusser)

Issue 105: What are the appropriate service charges? (Hudson) (Staff 102)

FPC: FPC's proposed service charges are appropriate.

Witnesses: (Slusser)

Issue 106: What are the appropriate Lighting Service (LS-1) rate schedule charges? (Springer) (Staff 103)

FPC: FPC's proposed fixture, maintenance, and pole charges are appropriate.

Witnesses: (Myers, Slusser)

Issue 107: How should FPC's time-of-use rates be designed? (E. Draper) (Staff 104)

FPC: The rates should reflect the same rate design methodology as employed in establishing the Company's present time-of-use rates.

Witnesses: (Slusser)

Issue 108: Should FPC be required to provide real-time pricing to customers? If so, by when should it be required to make such offering available? (Wheeler) (FIPUG 38)

FPC: No. The Commission should not require Florida Power to provide real-time pricing to customers.

Witnesses: (Slusser)

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) (Staff 105)

FPC: The payments under the current rates are reasonable: $258 for single-phase service and $393 for three-phase service. The amount of the lump sum payment is cost based and reflects the additional cost of time-of-use metering.

Witnesses: (Slusser)

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) (Staff 106)

FPC: Yes. Florida Power's proposed inverted rate design should be approved for the RS, RSS, RSL-1, and RSL-2 rate schedule.

Witnesses: (Slusser)

Issue 111: What is the appropriate method for designing the interruptible and curtailable rate schedules? (Wheeler) (FIPUG 33, 34 & 36, Staff 107)

FPC: The appropriate method for designing FPC's interruptible and curtailable rates is as proposed. The development of costs for these classes of customers is based on their usage characteristics as if their requirements are firm. The value for their load being interruptible or curtailable is recognized separately by payment of credits as a demand side management (DSM) program. In this regard, the costing and rate treatment afforded curtailable and interruptible general service is the same treatment afforded residential and general service customers receiving non-firm service under the Company's load management rate schedules.

Witnesses: (Slusser)

Issue 112: What are the appropriate billing demand credits for the curtailable and interruptible rate schedules? (Colson, Harlow) (Staff 108)

FPC: The appropriate billing demand credits for the curtailable and interruptible rate schedules are \$ 2.12 per kW of load factor adjusted demand and \$2.82 per kW of load factor adjusted demand, respectively.

Witnesses: (Slusser)

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) (FIPUG 40)

FPC: No.

Witnesses: (Slusser)

Issue 114: What are the appropriate delivery voltage credits? (Springer) (Staff 110)

FPC: The appropriate delivery voltage credits are \$0.38 per kW of billing demand for distribution primary delivery voltage and \$0.89 per kW of billing demand for transmission delivery voltage.

Witnesses: (Slusser)

Issue 115: If the Commission decides to recognize migrations between rate classes, how should the revenue shortfall, if any, be recovered? (Wheeler) (Staff 111)

FPC: The shortfall can be made up by adjusting the Energy Charges of the combined General Service Non-demand and General Service Demand rate classes by a unit amount that in total will recover the shortfall.

Witnesses: (Slusser)

Issue 116: Is the method used by FPC to calculate the increase in unbilled revenues by rate class appropriate? (Wheeler) (Staff 112)

FPC: Yes. Florida Power's method to calculate the increase in unbilled revenues by rate classes, which relies on historical relationships of unbilled to billed MWHs is appropriate.

Witnesses: (Slusser)

Issue 117: 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) (Staff 113)

FPC: The appropriate monthly fixed charge carrying rate is 1.46% of installed cost.

Witnesses: (Slusser)

Issue 118: 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) (Staff 114)

FPC: The appropriate monthly fixed charge carrying rate is 1.67% across installed cost.

Witnesses: (Slusser)

Issue 119: 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) (Staff 115)

FPC: The Company's proposed charges for rate schedule SS-1 are appropriate.

Issue 120: 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)(FIPUG 35, Staff 118)

FPC: Yes. Florida Power's proposal to add a 500 kW minimum billing demand provision is appropriate. This synchronizes the minimum billing demand with the minimum kW required to qualify for this rate schedule, thereby eliminating the potential for customer manipulation to qualify for this rate schedule.

Witness: (Slusser)

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 to be approved? (Wheeler)

FPC: Yes.

Witnesses: (Slusser)

Issue 120B: Is FPC's proposal to close the IS-1, IST-1, CS-1, and CST-1 rate schedule 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, FIPUG 33 & 36)

FPC: Yes.

Witness: (Slusser)

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) (Staff 119)

FPC: Yes. FPC's proposal to reduce the notice requirement from 60 months to 36 months for customers who wish to transfer to firm full requirements service is appropriate. This change is consistent with advances in technology that has reduced the time to install new generation down to 3 years.

Witnesses: (Slusser)

Grid Florida Issues

Issue 122: Does the Commission have jurisdiction to recover Grid Florida costs from retail ratepayers? (Helton) (Staff 123A)

FPC: Yes. The Commission has already determined correctly that it has such jurisdiction in Order No. PSC-01-2489-FOF-EI.

Witness: (Rogers)

Issue 123: What are the amounts and components of rate base associated with transmission assets of 69kV and above? (Noriega, Gardner) (Staff 126)

FPC: The amounts and components of rate base associated with transmission assets of 69kV and above adjusted for agreed upon corrections, are as follows (Fully adjusted retail):

Gross Electric Plant In Service	$688,882,000
Total Depreciation Reserve	(315,216,000)

Total Rate Base Adjustments	33,939,000
Total Rate Base	$407,605,000

Witnesses: (Rogers, Slusser)

Issue 124: What are the amounts and components of capital structure associated with transmission assets of 69kV and above? (Noriega) (Staff 127)

FPC: The amounts and components of capital structure associated with transmission assets of 69kV and above would be the same as filed with agree upon adjustments discussed in previous rate base issues.

Witnesses: (Myers, Rogers, Slusser)

Issue 125: What are the amounts of revenues and expenses associated with transmission assets of 69kV and above? (Noriega, Gardner) (Staff 128)

FPC: The amounts and components of rate base associated with transmission assets of 69kV and above, adjusted for agreed upon corrections, are as follows:

(Fully adjusted retail):	
Total O&M Expense	$ 33,230,000
Total Depreciation & Amort. Expense	22,296,000
Total Other Tax & Misc. Expense	8,630,000
Misc. Allowable Expenses	93,000
Total Revenue Credits	(1,810,000)
Total Income Taxes	17,592
Return on Rate Base	39,982
Total Electric Cost of Service	$119,827,000

Witnesses: (Myers, Rogers, Slusser)

Issue 126: How should costs incurred prior to May 31, 2001, associated with FPC's participation in GridFlorida be recovered? (Noriega, D. Lee, Revell) (Staff 130A)

FPC: Costs incurred prior to May 31, 2001 should be recovered through base rates.

Witnesses: (Myers)

Issue 127: How should costs incurred after May 31, 2001, associated with FPC's participation in GridFlorida be recovered? (Noriega, D. Lee, Revell) (Staff 130B)

FPC: Costs incurred after May 31, 2001, should be recovered through the Capacity Cost Recovery Clause or a cost recovery clause specific to recovery of GridFlorida transmission costs.

Witnesses: (Myers)

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) (Staff 131)

FPC: The appropriate adjustment for transmission costs in base rates should be the amount equal to the transmission revenues determined in this proceeding.

Witnesses: (Myers)

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) (FIPUG 19 & 20, OPC 17, FPC 5)

FPC: These costs are known and measurable at this time. Accordingly, the Commission should order that revenue requirements be increased to cover such costs when they are incurred.

Witnesses: (Myers, E. Michael Williams)

Issue 130: Should FPC's proposed earnings sharing plan be approved? (FIPUG 26)

FPC: Yes. It will provide FPC with an effective incentive to achieve hard-to-reach efficiencies that will benefit customers and shareholders alike.

Witnesses: (Myers, Cicchetti)

Issue 131: Should any changes be made to the methodology for allocating costs to FPC from Progress Energy Service Corporation? (OPC 132A)

FPC: No. The current methodology has been approved by the SEC, and it would be premature and inappropriate to impose a different methodology at this time.

Witnesses: (Bazemore)

Issue 132: Should adjustments be made for rate base, capital structure, and net operating income effects of transactions with affiliated companies for FPC? (Monic, Revell, D. Draper) (FIPUG 27, 28, 29, 30 OPC 13, 14, 15 PSM 35 & 36, Staff 132-134 combined)

FPC: No.

Witnesses: (Bazemore, Myers)

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) (FPC 4, OPC 4-6, PSM 4 & 5, Staff 135)

FPC: The Commission should approve the incentive plan proposed by Dr. Cicchetti and Mark Myers. This plan will promote cost savings and reliability.

Witnesses: (Myers, Cicchetti)

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) (OPC 136)

FPC: No. That section applies to the inclusion of goodwill in rate base. Goodwill is the difference between the price paid and the book value of the company acquired, amounting to $3.4 billion in this instance. FPC is not seeking to recover goodwill, or to include it rate base.

Witnesses: (Myers, Cicchetti)

Issue 135: What is the impact of the acquisition of FPC by Carolina Power and Light (Progress Energy) upon retail rates? (Slemkewicz) (FIPUG 13, FPC 1, OPC 7, PSM 7-13, Staff 138)

FPC: Based on the regulatory plan proposed by FPC, the acquisition of FPC by Carolina Power & Light will result in a $ 5 million rate credit for the next 15 years and the opportunity for even greater customer benefits during that time and thereafter.

Witnesses: (Myers, Cicchetti)

Issue 136: What is FPC's acquisition premium and should any of this amount be borne by ratepayers? (Slemkewicz) (FIPUG 14 & 15, OPC 3, Staff 139)

FPC: The acquisition premium is $285,681 million and should be netted against the merger synergy savings that the premium was expended to achieve. This results in a net benefit to the customers.

Witnesses: (Myers, Cicchetti)

Issue 137: What are the transition costs associated with the merger, and should those amounts be borne by ratepayers? (OPC 139A)

FPC: The transition costs identified by FPC should be, netted against the merger synergy savings experienced as a result of the merger. This results in a net benefit to the ratepayers.

Witnesses: (Myers, Cicchetti)

Issue 138: Are the CP&L cost allocations to FPC for CP&L-provided services appropriate? (Monic, Revell) (PSM 34, Staff 140)

FPC: Yes. The cost allocations are appropriate, and the cost allocation methodologies employed by CP&L are regulated and approved by the Securities and Exchange Commission.

Witnesses: (Bazemore)

Issue 139: Should the Commission approve FPC's [proposed treatment of] the costs and benefits of the merger? (FPC 1)

FPC: Yes. The Company has demonstrated that customers can anticipate extraordinary benefits from the merger and that the cost to achieve those benefits must be recognized.

Witnesses: (Myers, Cicchetti).

E. LEGAL ISSUES

See Issues 122 and 134.

F. POLICY ISSUES

Staff has sought to interject a policy issue into this proceeding (Issue 6) concerning the imposition of a reliability penalty tied to the number of interruptions experienced by a customer in a year. This issue is not appropriate for this proceeding and should be considered by the Commission (if at all) in the context of a rulemaking proceeding so that the Commission can ensure uniform treatment of all IOUs and their customers.

Witnesses: (Sipes)

G. STIPULATED ISSUES

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) (Staff 141)

FPC: Yes

Witness: Slusser

H. PENDING MATTERS

Motion	Filing Date
Florida Power Corporation's Motion for Temporary Protective Order	February 8, 2002

I. PENDING REQUESTS FOR CONFIDENTIAL TREATMENT

Request or Notice of Intent to Seek Confidential Classification	Filing date
Florida Power Corporation's Request for Confidential Classification of certain documents produced in response to OPC's 1st, 3rd and 6th Requests for Production	January 9, 2002
Florida Power's Notice of intent to Request Confidential	January 31, 2002

Classification for portions of the testimony of witnesses Donna DeRonne, David E. Dismukes, Kimberly Dismukes and R. Earl Poucher	
Florida Power Corporation's Second Request for Confidential Classification	February 1, 2002
Florida Power Corporation's Fifth Notice of Intent to Request Confidential Classification for portions of the testimony of James A. Rothschild	February 6, 2002
Florida Power's Notice of Intent to Request Confidential Classification of certain portions of the Rebuttal testimony of Robert A. Sipes, Mark A. Myers and Charles J. Cicchetti	February 11, 2002
Florida Power Corporation's Third Request for Confidential Classification of portions of the depositions of Mark A. Myers and Robert Bazemore	February 12, 2002

In addition, pursuant to the Order Establishing Procedure, Order No. PSC PSC-01-2114-PCO-EI, any party intending to utilize confidential information obtained from Florida Power during the course of discovery in the proceeding must notify Florida Power of its intention no later than 7 days prior to the beginning of the hearing. If such designations are made by any party to this proceeding, Florida Power will be requesting confidential treatment of such materials.

J. REQUIREMENTS OF THE PREHEARING ORDER THAT CANNOT BE MET

Because discovery is continuing in this matter, FPC must reserve the right to use witnesses and exhibits other than or different from those identified hereinabove, in order to respond to ongoing developments. In addition, Florida Power is preparing revised MFRs and a Revised Cost of Service Study to reflect adjustments that are required as a result of errors identified by the Company, issues and developments identified during the course of this proceeding, or resolved by the Commission through Orders in other dockets during the course of this proceeding.

K. OBJECTIONS TO WITNESSES' QUALIFICATIONS

Florida Power may object to the qualifications of the following witnesses to offer the testimony in whole or in part presently filed:

1. Citizens witness Kimberly H. Dismukes

2. Citizens witness R. Earl Poucher

Respectfully submitted,

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of foregoing has been furnished via hand delivery (where indicated by *) and via U.S. Mail to the following this 18th day of February, 2002.

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