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

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DIRECT TESTIMONY OF MARK A. MYERS (CONCERNING BUDGETING AND PRO FORMA ADJUSTMENTS)

ON BEHALF OF FLORIDA POWER CORPORATION

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ON BEHALF OF FLORIDA POWER CORPORATION
(CONCERNING BUDGETING AND PROFORMA ADJUSTMENTS)

I. Introduction, Purpose, and Summary

Q. Please state your name and business address.

A. My name is Mark A. Myers. My business address is Florida Power Corporation ("Florida Power" or "the Company"), 100 Central Avenue, St. Petersburg, Florida, 33701.

Q. Are you the same Mark Myers who filed direct testimony in this case concerning adjustments for acquisition costs and Crystal River Unit 3 ("CR 3")?

A. Yes, I am.

Q. What is the purpose of this part of your direct testimony?

A. I am submitting testimony at this time to address several areas: (1) the budget and financial forecast process that we use for financial planning at Florida Power, (2) how we prepared our minimum filing requirements ("MFRs") in this case, (3) certain pro forma adjustments that we made to our filing, (4) changes that must be understood regarding certain items in our MFRs that have been affected by the downturn in the stock market, the worsening economy, and the aftermath of events on September 11, 2001, and (5) why it is important and appropriate to take into account for rate making purposes the known and measurable expenses associated with our recently approved power plant, Hines Unit 2, which will be placed in service after the conclusion of this rate case.

Q. Are you sponsoring any exhibits to this part of your testimony?

A. Yes. Two exhibits were filed with my Direct Testimony dated September 14, 2001:

Exhibit MAM-1 showing a calculation of net merger synergies.

Exhibit MAM-2 reflecting the capital structure of Florida IOUs.

I am filing the following additional exhibits with this installment of my Direct Testimony:

Exhibit MAM-3 lists all the MFRs that I am sponsoring or co-sponsoring in this proceeding.

Exhibit MAM-4 describes changes in actuarial studies forecasting pension plan costs for 2002.

Exhibit MAM-5 describes pro forma adjustments to our MFRs.

Exhibit MAM-6 includes key elements of the capital budget process.

Exhibit MAM-7 describes the expenses related to Hines 2.

Q. Are you sponsoring any MFRs?

A. Yes, I am. Please see Exhibit MAM-3 for a complete listing. The schedules shown in that exhibit are true and correct, subject to their being updated in the course of this proceeding.

Q. Please summarize your testimony.

A. As I describe more fully below, Florida Power's budgeting process is a rigorous, iterative process that builds on historical spending requirements, adjusted to take into account evolving needs and business objectives. All capital, operation and maintenance ("O&M"), and construction expense items are carefully analyzed, peer reviewed, scrutinized for cost control, prioritized, challenged and defended at various management levels within Florida Power and Progress Energy, Inc. ("Progress Energy"), and tested against business objectives.

In the normal course, we complete this process in December prior to the year in which the Company's plan and budget will be implemented. This year, however, the Florida Public Service Commission (the "Commission") directed the Company to file MFRs in September 2001. We were not able to complete our normal budgeting process prior to this deadline, but we substantially followed our process in order to prepare the MFRs. The senior management of Progress Energy, and the Board of Directors of Progress Energy will review and approve the Company's business plan and budget in December 2001.

We reflect in our MFRs a number of pro forma adjustments that are either self-explanatory or addressed elsewhere in the testimony. Two of these adjustments warrant special discussion here: the "last core" nuclear fuel adjustment and the end-of-life nuclear materials and supplies ("M&S") adjustment. As I will explain, both of these adjustments concern expenses that will be booked at the time the Company's nuclear plant will be retired, and both are necessary to avoid unduly burdening ratepayers at that time with expenses that have benefited ratepayers over the life of the plant.

Since the time we prepared forecasts for use in our MFRs, stock market performance, the economy, and national security have deteriorated markedly. This has already affected the value of the investment portfolio for the Company's qualified pension plan, and it is expected to impact sales forecasts and security costs. In addition, subsequent to filing the MFRs, the Commission in reviewing the proposed Florida RTO has determined that associated start-up costs incurred by each Florida Investor Owned Utility should be recovered from its customers. These adjustments will increase revenue requirements by $40 million.

Finally, we are requesting that the Commission take into account the known and measurable costs associated with our Hines Unit 2 combined cycle, natural gas-fired power plant. The Commission recently granted a determination of need for the plant, and it will go into service by November 2003, soon after the conclusion of the rate case. It will be important and appropriate to take these costs into account in setting prospective rates.

II. Corporate Planning and Budgeting Process

Q. Please provide an overview of Florida Power's corporate planning and budgeting process.

A. Certainly. We plan and budget on an annual basis—planning in 2001, for example, for the business year 2002. We conduct this process throughout the course of the year in several stages. We begin by engaging in a review of strategic and corporate objectives for the coming year. Then we set financial targets, taking into account the resource needs of the Company's various business units and the corporate objectives we have established for the coming year. Next, the business units develop business plans and budgets calculated to achieve these targets. Once these are completed, we integrate them into an overall corporate plan and budget. Finally, this is reviewed, modified as may be appropriate, and approved by senior management and the Board.

The development of the budget and corporate plan is a dynamic process that involves the interplay of strategic planning, ongoing re-examination and adjustment of historical spending levels, ongoing energy and sales forecasting, rigorous review of resource needs and operational constraints, and target setting designed to drive performance and control costs and to ensure that any additional outlays for capital projects or O&M expenditures are necessary and cost-effective.

Q. What are the key changes in the Company's financial plan for 2002, as compared with the prior year?

A. I should begin by pointing out that the year 2000 was an unusual budget year as we focused on completing our merger. The year 2001 was a year of transition, as we took steps to implement the merger. The test year, 2002, will be the first full year that Florida Power is fully integrated into Progress Energy. Going into 2002, we are establishing significant new priorities.

Specifically, we are placing special emphasis on two issues: We are increasing the Company's commitment to reliability in Energy Delivery and Energy Supply, and we are focusing on realizing the significant qualitative and quantitative merger synergies that we are showing in our business plan and budget. The first objective, enhancing reliability in Energy Delivery and Energy Supply, is addressed further in the Direct Testimony of Robert Sipes, Sarah Rogers, and William Habermeyer, filed November 15, 2001 in this proceeding. I address the second objective, merger synergies, in my Direct Testimony filed on September 14, 2001, in this proceeding.

Some changes for 2002 are being thrust upon us by a worsening economy. Since the time we initially developed our business plan and budget, the economy has suffered a downturn in stock market performance and general economic strength. This has affected our budget adversely in three ways.

First, it has had the impact of reducing the value of our portfolio of investments that we rely upon to fund the Company's qualified pension plan, thus reducing the value of the "pension credit" shown in our MFRs. The Company's MFRs show a pension credit of $54.5 million whereas our most current actuarial forecast for 2002 shows a pension credit of $31.4 million. I provide in my Exhibit MAM-4 a comparison of the actuarial studies forecasting pension plan benefits for 2002.

Second, the worsening economic climate is depressing our sales forecasts for 2002, and hence projected revenues. I am attaching Exhibit MAM-5 to my testimony, reflecting our adjustment to the current forecast of revenues. John B. Crisp describes our forecasting procedures in his Direct Testimony filed November 15, 2001.

Third, as a result of the tragic events of September 11, 2001 and ensuing concerns about terrorist attacks upon this nation's infrastructure, the Company is examining its security measures to safeguard its facilities. Please see my Exhibit MAM-5 for our best preliminary estimate of expected security costs. Upon further analysis, we may conclude that these costs will be greater. At this time, we are estimating that the Company will incur additional capital costs totaling $15 million and O&M costs totaling $1.3 million in 2002 to enhance its level of security. These expenditures are both prudent and necessary to respond to the heightened risk we now face to the security of our facilities. Because it is uncertain at this time whether the Commission will permit recovery of such costs through the fuel clause, we are seeking a determination that the costs will be recoverable through the rates set in this proceeding.

Q. As the Company proceeds to implement its business plan and budget for any given year, does the Company update its forecasts and assumptions based on events occurring in the course of the year?

A. Yes, we do. The Company updates key forecasts on a quarterly basis, making adjustments that may be necessary to reflect changing business conditions. We also conduct an ongoing evaluation of the Company's strategic focus to identify whether any change may be warranted and to evaluate our progress in achieving our goals. We perform numerous tests to monitor the Company's financial performance. During the business year, the various business units report variances from budget to enable the Company to monitor budget implementation continuously. Our variance reporting includes actual to budget; current year to prior year; and budget to projected. Also, the various business units report any changes in actual circumstances in relation to planning assumptions, budgeted earnings, and other key drivers of financial performance.

III. <u>Key Elements of the Budget</u>

Q. What is the corporate operating budget and how is it developed?

A. The corporate operating budget includes all the components that comprise our annual profit plan, such as revenues, fuel and non-fuel expenses, taxes, etc. This is to be distinguished from the O&M budget, which addresses the Company's period costs by functional areas, e.g., power production, operations (transmission, distribution, and customer information and services), and administrative and general. The corporate operating budget is developed concurrently with the O&M and construction budgets. The revenues and expenses other than O&M evolve during a six-week process.

Diligent coordination with various corporate departments is necessary to ensure an end-product that is cohesive and accurate.

Q. Would you explain the development of the significant components of your 2002 corporate operating budget?

A. Yes. The projection of budget revenues is derived using the Company's corporate financial model (the "Model"). The Model is a group of computer programs that simulate the operating and financial environments of the Company. The Model is updated on a timely basis to include the most current rate data as well as the approved corporate customer, sales, and demand forecast. The Model then calculates base revenues. Other revenue components, such as fuel, energy conservation, unbilled revenues, and franchise fees, are then computed to develop the total operating revenue projection. The fuel cost projection requires multiple inputs before a projection can be developed. First, a forecast of fuel prices by fuel type is prepared by the fuels department and is reviewed by senior management. The budgeted fuel cost forecast is incorporated as an input to the Company's production simulation model, known as PROSYM, along with numerous other factors associated with the load and operating characteristics of our generation system. PROSYM simulates the most economical dispatch from the Company's generating system to calculate fuel consumption and replacement fuel costs. This data is transferred as inputs to the Model. This is the same process used to generate the Company's annual fuel adjustment filing.

The O&M budget development is exclusive of fuel costs recoverable through the fuel adjustment clause. Managers develop a detailed operating plan for the budget year. From this operating plan, a preliminary budget is developed on a project/FERC/resource basis. This budget represents the base line for which the manager is held accountable during the upcoming year. The budget reflects the manager's goals and objectives to be justified to successive levels of management. The individual budgets are consolidated at various levels within each business unit to create a preliminary corporate budget. At the conclusion of the preliminary review and analysis, each department's detailed budget is input into the corporate budget system. Each department inputs its direct expenditures, and then a series of burdens and allocations are run. These include benefit and tax burdens on payroll, inventory burdening, and sales and use tax burdening on materials and allocation of Service Company costs to business units. Other adjustments are made to budget for certain corporate level expenses and accruals such as the nuclear outage, pension costs, and nuclear joint-owner credits.

Q. **Please provide a brief overview of the Company's construction program from a planning perspective.**

A. The capital budget process begins with the development of initial targets that are based primarily on the prior year budget estimates. The business units then conduct a thorough analysis of their capital requirements and prepare a preliminary capital budget by prioritization category and then by project. See Exhibit MAM-6, which outlines the prioritization categories, the metrics used to evaluate competing projects in each category, and gives examples of types ofprojects that would be assigned to each category. This information is then provided to the Treasury Department and is incorporated into Florida Power's financial forecast. The aggregated prioritized category and project listing is then presented to senior management for their review in conjunction with the results of the financial forecast. Senior management will make changes to the capital forecast as required to meet operational and financial objectives.

The foundation of the construction program and, in turn, the Construction Budget, is the need for the physical facilities required to provide electrical energy to our customers. Examples of the types of facilities are generating units, transmission lines and substations, and distribution substations and structures. The need for these facilities is generally based on customer growth projections, age and technological obsolescence of existing plant, availability of alternative energy sources such as purchased power and qualified facilities, demand side management programs, and system reliability and qualitative considerations. A number of detailed studies are performed in which various alternatives are evaluated based on reliability, costs, and fuel type. The end result of these studies is a specific plan for construction of generating facilities of specific size, at specified points in time, including related transmission and distribution facilities. The essential construction requirements data included in this plan are then transmitted to the various construction management groups who develop the detailed Construction Budgets.

Q. What are the review and approval procedures for the O&M and Construction Budgets?

A. The O&M and Construction Budgets receive several levels of review and approval that begin at the individual manager level. The first review is conducted by the manager in each area. Each individual budget is then rolled up to the next level of management for review until ultimately they are reviewed by the senior management within each business unit. The senior management in each business unit evaluates the budgets in conjunction with the operational goals and objectives that have been established for that business unit and the spending limits that have been established. The business unit level budgets are submitted to Financial Analysis & Planning for consolidation into the corporate forecast. The business unit submissions are reviewed for consistency with targets and alignment with the corporate financial goals and objectives.

Each business unit submits a 2-Year Business Plan to senior management. These plans contain the data necessary for effective budgeting of the business units. Each plan's budget is based on the major projects that are to be undertaken and various operating and financial metrics to measure performance.

Meetings are scheduled with corporate senior management for review and approval of each business unit's business plan. Senior management reviews each business plan and considers the funding levels based on overall corporate objectives.

If the consolidated corporate O&M and Construction Budgets reflect proposed spending levels above the approved corporate guidelines, senior management will meet to consider the merits of funding certain activities or programs based on overall corporate, rather than departmental, considerations. The conclusion may be a deferral or scope reduction in some activities or programs. Once the proposed consolidated O&M and Construction Budgets conform to the corporate guidelines, the individual budgets are revised, resubmitted, and re-examined by each departmental executive to assure consistency with the respective spending level contained in the consolidated O&M Budget. The final O&M Budget as compiled by the budgets department and endorsed by senior management is presented to the Board of Directors for approval.

Q. How does the Company monitor and control the O&M and Construction Budgets after they have been put into effect?

A. The primary means used to monitor and control the O&M and Construction Budgets is through the monthly Cost Management Reports ("CMR"). Corporate variance explanations are developed from the cost management variance reports issued monthly to each department manager. These CMR variance reports are reported up through the management structure to the business unit manager. For corporate reporting purposes each major department will prepare reports explaining year-to-date total cost variances. These variance explanation reports are submitted to the budgets department for use in the quarterly review process and also to their respective senior manager for management control. Financial Forecasts are regularly presented to the Board of Directors.

IV. Preparation of the MFRs

Q. Did you follow the budget process you describe in preparing the Company's MFRs for purposes of this rate case?

A. We substantially followed this process in preparing the MFRs. Because the Company did not elect to initiate the rate case at this time, however, and because the Commission directed that we file MFRs in September 2001, we were not able to complete the review and approval process, which will take place in December 2001. If significant changes occur, we will notify the Commission once the final budget is approved.

V. Reasonableness of Costs

Q. Are the Company's projected O&M costs reasonable?

A. Yes, they are. Using the Florida Public Service Commission's O&M benchmark established in our last rate case (adjusted for customer growth and inflation), the Company's total projected O&M costs ($473 million) are significantly below the benchmark amount ($621 million). This is true even if we do not take into account merger synergies totaling $58.7 million for 2002. As I have described in more detail in my Direct Testimony of September 14, 2001, we are projecting very substantial cost reductions made possible by the merger. These are real and permanent, arising in substantial part from the elimination of 675 positions. Finally, we are in a position to continue and improve upon our historical levels of customer service and reliability. In fact, our budget for 2002 reflects an outlay of substantial new dollars to improve the reliability of our Energy Delivery system to meet our customers' needs and expectations as we move into the new millennium.

VI. Proforma Adjustments

Q. Have you made pro forma adjustments in the Company's MFRs that you believe would be helpful to explain to the Commission?

A. Yes, in two areas, involving (1) the "last core" of nuclear fuel and (2) end-of-life nuclear materials and supplies.

Q. Taking these one at a time, what is the definition of "last core" of nuclear fuel, and what is its impact on net operating income ("NOI") and rate base?

A. Florida Power defines "last core" as "the surplus fuel necessary to operate the Crystal River Nuclear Plant at its maximum efficiency that ultimately remains unburned between refueling outages." The cost of last core of nuclear fuel is estimated to be $18 million, the determination of which will be addressed in the Direct Testimony of Dale Young. This amount will be prorated over the remaining plant life of 15 years resulting in a decrease in NOI and rate base of $1.2 million pre-tax annually.

Q. How are these costs currently being recovered?

A. The inventory cost associated with the last core of nuclear fuel is part of rate base on which the company is earning a return.

Q. Is this issue being addressed in another docket before the Commission?

A. Yes, this issue is being addressed in Docket No. 991931-EG. It is the Company's position in that docket that customers in the year of shut down (when the fuel expense would be recognized) should not bear the entire cost of last core of nuclear fuel because it has been providing fuel savings (in the form of lower cost fuel) to customers throughout the unit's life span. The Company has proposed recovery of these costs through the fuel adjustment clause ratably over the remaining life of the plant. The funds collected from customers would be recorded in a regulatory liability that serves to reduce rate base and in turn the net book value of the nuclear fuel inventory.

The treatment we are proposing for last core of nuclear fuel is no different from the Commission's treatment of base coal and tank bottoms. In both cases the Commission has allowed the recovery of the cost of unburned fuel through the fuel adjustment clause or ratably over a period of time. One could try to make the argument that during the life span of a fuel batch the last core is burned and that only the very last batch, prior to shut down, remains unburned. This argument ignores the fact that what is burned is immediately replaced with new fuel during refueling and that the only thing different is an incremental change in the value recorded for last core. This is no different from tank bottoms. With tank bottoms you expense the value of the tank bottom when the tank is first filled. Over time, as new fuel is added to the tank those same barrels previously expensed can and do mix with the new fuel, ultimately getting burned to some degree. Again the only change is the overall average cost of the tank bottom, not the volume.

Q. Why should the Commission approve an adjustment in this proceeding if the matter is being addressed in another docket?

A. Although Florida Power continues to believe that the correct ratemaking treatment for this issue is to permit recovery from all customers benefiting from the existence of this fuel over the remaining life of the plant through the fuel adjustment clause, the Commission staff has expressed a divided view on how these cost should be recovered. Therefore, to avoid regulatory lag, the Company is proposing to include this adjustment in base rates to mitigate intergenerational inequity to the best of our ability but would agree to remove the adjustment should the Commission decide in favor of Florida Power when this issue is addressed in Docket 991931-EG.

Q. Turning to the next adjustment you mentioned, please describe the pro forma adjustment to recover end-of-life nuclear M&S and its impact on NOI and rate base.

A. End-of-life nuclear M&S represents inventory necessary to operate the Company's nuclear unit plant safely and reliably up until the plant is retired from service, but it has no salvage value or use at any other facility of Progress Energy once the unit is shut down. Florida Power is proposing an adjustment that recovers this investment in inventory ratably over the remaining life of the nuclear plant. The estimated value of that inventory is $25 million and, given the remaining 15-year life of CR 3, the adjustment would result in a $1.667 million decrease in pre-tax NOI and in rate base on an annual basis. Dale Young will address how this value was determined in his Direct Testimony.

Q. Why is this adjustment necessary?

A. The adjustment is necessary to mitigate the intergenerational inequity that is inherent in this type of cost. This is a cost that is necessary for the reliable and safe operation of the plant and thus benefits all customers throughout the life of the plant. But it has no salvage value or continuing value to any other Progress Energy power plant once the plant is retired from service. Therefore, absent the adjustment, only those customers at the end-of-life of the nuclear plant would bear the full cost of this inventory when it is written off.

VII. Florida RTO Costs

Q. How should the Company recover its start-up costs of the Florida RTO?

A. Subsequent to filing the MFRs, the Commission in reviewing the proposed Florida RTO has determined that associated start-up costs incurred by each Florida Investor Owned Utility should be recovered from its customers. Since the Commision did not specify the method of recovery, (i.e. pass through clause or base rates), the Company is seeking to recover its out-of-pocket-costs incurred through October 2001 in this base rate proceeding. My Exhibit MAM-5 details the expenses related to the start-up costs.

VIII. Hines 2

Q. Finally, do you anticipate that the Company will incur any known or measurable costs that are reasonably imminent but not reflected in the Company's MFRs?

A. Yes. As the Commission is aware, the Company recently obtained a determination of need to construct a new combined cycle, natural gas-fired power plant at the Hines Energy Complex, called Hines Unit 2. This unit will go into service by November 2003, shortly after the conclusion of this rate case.

Therefore, the expenses are known and measurable, will be reasonably and prudently incurred by the Company, and should be recognized in setting prospective rates. My Exhibit MAM-7 details the expenses related to Hines 2 that should be taken into account at this time for purposes of setting Florida Power's rates. These expenses should be anticipated as a "subsequent year adjustment" because they will arise subsequent to the conclusion of the test year, but they may be reflected in the rates set by the Commission in this proceeding to be effective with the first billing cycle following the in-service date for Hines 2.

IX. <u>Conclusion</u>

Q. Does this conclude this part of your testimony?

A. Yes, it does.

Florida Power
A Progress Energy Company

MINIMUM FILING REQUIREMENTS SCHEDULES
Sponsored, All or in Part, by Mark A. Myers

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MINIMUM FILING REQUIREMENTS SCHEDULES
Sponsored, All or in Part, by Mark A. Myers

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C-36	Current Depreciation Rates
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MINIMUM FILING REQUIREMENTS SCHEDULES
Sponsored, All or in Part, by Mark A. Myers

Schedule	*Title*
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Docket No. 000824-EI
Exhibit MAM-4
Witness: Mark A. Myers

Florida Power Corporation
Comparison of Actuarial Studies Forecasting Pension Plan Cost (Benefit)
For 2002
($ in thousands)

	2002 as projected In September 2001	2002 as projected In July 2000	Increase (Decrease)
Qualified Pension Plan			
Service Cost	$20,987	$16,879	
Interest Cost	35,579	39,576	
Expected Return on Assets	(77,411)	(91,825)	
Net Amortizations	(10,564)	(19,090)	
Net Pension Cost (Benefit)	($31,409) **	($54,460) **	($23,051) *
Market Value of Assets (beginning of 2002)	$906,870	$1,170,810	($263,940)
Major Assumptions			
Salary Increases			
Non-union	4.00%	4.50%	(.50%)
Union	3.50%	3.50%	-
Rate of Return on Assets	9.25%	9.00%	0.25%
Discount Rate	7.50%	7.50%	-

* Explanation -

Decline in market value of pension assets	($35,000)
Other increase in pension credit due primarily to converting to cash balance plan	12,000
Net decrease in pension credit forecast for 2002	($23,000)

** 2002 Projected New Pension (Benefit) components were ratioed based on the overall percentage of the Florida Progress Net Pension (Benefit) attributed to Florida Power.

Florida Power
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ADJUSTMENTS TO FILING
(In Thousands)

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
Line		System	Adjustments					Adjusted
No.	(Description)	As Filed	Sales Forecast	Pension	Security	RTO Costs	Subtotal	System
1	Operating Revenues:							
2	Sales of Electric Energy	$ 3,128,494	(14,553)				(14,553)	$ 3,113,941
3	Other Operating Revenues	90,194	126				126	90,320
4	Total Operating Revenues	3,218,688	(14,427)	-	-	-	(14,427)	3,204,261
5								
6	Operating Expenses:							
7	Fuel and Net Interchange	1,423,259					-	1,423,259
8	Other Operation and Maintenance Expense	543,538		23,050	1,300	2,373	26,723	570,261
9	Depreciation and Amortization	376,304			1,400		1,400	377,704
10	Taxes Other than Income	239,753			200		200	239,953
11	Current/Deferred Income Taxes - Federal and State	201,397	(5,565)	(8,892)	(1,119)	(915)	(16,491)	184,906
12	Charge Equivalent to Investment Tax Credit	(7,752)					-	(7,752)
13	(Gain)/Loss on Disposition of Utility Property	-					-	-
14	(Gain)/Loss on Reacquired Bonds	-					-	-
15	Regulatory Practices Reconciliation	-					-	-
16	Total Operating Expenses	2,776,499	(5,565)	14,159	1,781	1,458	11,832	2,788,331
17	Net Operating Income	$ 442,189	(8,862)	(14,159)	(1,781)	(1,458)	(26,259)	$ 415,930
18								
19	Elec Plant in Service	$ 7,474,680			11,300		11,300	$ 7,485,980
20	Acc Provision for Depreciation and Amortization	4,042,632			700		700	4,043,332
21	Net Plant in Service	3,432,048	-	-	10,600	-	10,600	3,442,648
22	Construction Work in Progress	149,472					-	149,472
23	Elec Plant Held for Future Use	8,274					-	8,274
24	Nuclear Fuel (Net)	53,667					-	53,667
25	Net Utility Plant	3,643,462	-	-	10,600	-	10,600	3,654,062
26	Working Capital Allowance	104,685	(688)	(11,550)	4,000	(1,876)	(10,114)	94,571
27	Unamortized Gain on Sale of Property	-					-	-
28	Regulatory Practices Reconciliation	-					-	-
29	Rate Base Total	$ 3,748,147	(688)	(11,550)	14,600	(1,876)	486	$ 3,748,633

Florida Power

A Progress Energy Company

ADJUSTMENTS TO FILING

(In Thousands)

Line No.	(A) (Description)	(B) Retail As Filed	(C) Adjustments: Sales Forecast	(D) Adjustments: Pension	(E) Adjustments: Security	(F) Adjustments: RTO Costs	(G) Adjustments: Subtotal	(H) Adjusted Retail
1	Operating Revenues:							
2	Sales of Electric Energy	$ 1,363,973	(14,293)				(14,293)	$ 1,349,680
3	Other Operating Revenues	70,829	142				142	70,971
4	Total Operating Revenues	1,434,802	(14,151)	-	-	-	(14,151)	1,420,651
5								
6	Operating Expenses:							
7	Fuel and Net Interchange	4,412					-	4,412
8	Other Operation and Maintenance Expense	498,721		21,771	1,200	1,723	24,694	523,415
9	Depreciation and Amortization	323,658			1,200		1,200	324,858
10	Taxes Other than Income	92,870			184		184	93,054
11	Current/Deferred Income Taxes - Federal and State	164,472	(5,459)	(8,398)	(997)	(665)	(15,518)	148,953
12	Charge Equivalent to Investment Tax Credit	(7,140)					-	(7,140)
13	(Gain)/Loss on Disposition of Utility Property	(1,742)					-	(1,742)
14	(Gain)/Loss on Reacquired Bonds	-					-	-
15	Regulatory Practices Reconciliation	-					-	-
16	Total Operating Expenses	1,075,251	(5,459)	13,373	1,587	1,058	10,560	1,085,811
17	Net Operating Income	359,551	(8,692)	(13,373)	(1,587)	(1,058)	(24,711)	334,840
18	Less Return on Non-Common Equity Costs	100,075	(17)	(290)	322	(47)	(32)	100,044
19	NOI Available for Common Equity	$ 259,475	(8,675)	(13,083)	(1,910)	(1,011)	(24,679)	$ 234,796
20								
21	Elec Plant in Service	$ 6,876,125			9,500		9,500	$ 6,885,625
22	Acc Provision for Depreciation and Amortization	3,414,348			600		600	3,414,948
23	Net Plant in Service	3,461,777	-	-	8,900	-	8,900	3,470,677
24	Construction Work in Progress	72,527					-	72,527
25	Elec Plant Held for Future Use	6,426					-	6,426
26	Nuclear Fuel (Net)	47,554					-	47,554
27	Net Utility Plant	3,588,284	-	-	8,900	-	8,900	3,597,184
28	Working Capital Allowance	77,213	(630)	(10,618)	2,900	(1,717)	(10,065)	67,148
29	Unamortized Gain on Sale of Property	-					-	-
30	Regulatory Practices Reconciliation	-					-	-
31	Rate Base Total	$ 3,665,497	(630)	(10,618)	11,800	(1,717)	(1,165)	$ 3,664,332
32								
33	Common Equity	1,966,206	1,966,206	1,966,206	1,966,206	1,966,206	1,966,206	1,966,206
34	Achieved Return on Common Equity	13.20%						11.94%
35	Total Revenue Deficiency (Excess) Calculated	$ (4)	14,079	20,116	4,478	1,452	40,124	$ 40,121

Florida Power

A Progress Energy Company

Annual Revenue Requirements
For the Test Year 2002
(In Thousands)

Line No.	(A) (Description)	(B) Retail As Filed	(C) Adjustments: Sales Forecast	(D) Adjustments: Pension	(E) Adjustments: Security	(F) Adjustments: RTO Costs	(G) Adjustments: Subtotal	(H) Adjusted Retail
1								
2	Adjusted Rate Base	$ 3,665,497	(630)	(10,618)	11,800	(1,717)	(1,165)	$ 3,664,332
3								
4	Rate of Return on Rate Base Requested	9.809%	9.809%	9.809%	9.809%	9.809%	9.809%	9.809%
5								
6	Net Operating Income Requested	359,549	(62)	(1,042)	1,157	(168)	(114)	359,434
7								
8	Adjusted Net Operating Income	359,551	(8,692)	(13,373)	(1,587)	(1,058)	(24,711)	334,840
9								
10	Net Operating Income Deficiency (Excess)	(2)	8,630	12,331	2,745	890	24,596	24,594
11								
12	Earned Rate of Return	9.81%						9.14%
13								
14	Net Operating Income Multiplier	1.6313	1.6313	1.6313	1.6313	1.6313	1.6313	1.6313
15								
16	Total Revenue Deficiency (Excess) Calculated	$ (4)	14,079	20,116	4,478	1,452	40,124	$ 40,121

The following table takes a sampling of project categories provided by the field and relates the category to metrics that must be submitted to support project prioritization. If your prioritization categories do appear in the list below, please review the prioritization category guidelines on the next page and then update the below table to reflect all of the prioritization categories that your business unit intends to use.

Prioritization Group (Available in Oracle Project System)	Prioritization Methodology	Required Metrics	Prioritization Category Examples
Economic Benefit – New Assets	Projects that are selected/ranked based on economic performance. Selection of projects with highest benefit cost ratio should result in portfolio optimization for mutually independent projects.	1. Net Present Value, 2. Discounted Payback Year, 3. Benefit Cost Ratio	• Capacity Improvement • Asset Life Extension • Purchase of net new assets (excluding replacements).
Regulatory	Projects required to comply with regulations.	1. Cite Regulation, 2. Amount of Fine	• Environmental Compliance • NERC Compliance
Regulatory Tariff	Projects related to specific customer requests which are generally optional, but will be billed under a regulated tariff. Capital amounts budgeted should be net of expected customer contributions.	1. Tariff Description	• Customer requested facilities
Safety	Projects required to prevent physical injury or harm.	2. Safety Risk 3. Severity (free form text)	• OSHA Compliance • Safety Risk Prevention
Economic Benefit – Existing Assets	Reliability projects which are ranked based on economics relative to projected marginal forward energy costs.	1. Net Present Value, 2. Discounted Payback Year, 3. Benefit Cost Ratio	•
Reliability (T&D only)	Projects which achieve specific operational goals.	1. Metric Description, 2. Observed Metric, 3. Expected Metric (without capital), 4. Target Metric (Assuming capital is spent)	• Reduce/maintain minutes out metrics
Replace, Refurbish	Replace/Refurbish existing assets which were initially prioritized in another category. This category cannot be used to purchase net new assets.	1. Product/Service Being Provided (free form text), 2. Asset Description (free form text), 3. Quantity	• Replace existing assets • Routine maintenance per plan • Normal facilities capital maintenance
Revenue growth (T&D only)	Projects based on forward quantity estimates and specific unit costs (i.e. number of new customers)	1. Metric Description, 2. Projected Quantity	• Hooking up new customers
Strategic	Projects that provide strategic benefits which are not directly quantifiable.	1. Describe Strategic Benefit Being Sought.	• Strategic

Note: Business units define the prioritization categories, but each must fall into one of the prioritization groups listed above.
Business units will be asked to rank their prioritization categories by priority order, and to rank projects in those categories in priority order as well.

Clarification of prioritization categories

Prioritization categories should be reflective of how a business unit sets its priorities. These categories answer the question why is the capital being requested, and relate to a specific set of driving metrics that can be used to rank competing projects within each category.

Projects in each prioritization category will need to be supported by the metrics described above. In addition to this, each prioritization category will be tagged with the following attributes:

- Franchise requirement
- Is it a maintenance (existing assets) or a growth expenditure (new assets)?

Some of the categories used in the initial response indicated what was being purchased – as in the case of "labor" or "ECIP". If a decision on these projects will ultimately be made based on economics, these should all be shown under a category such as economic benefit.

We were not sure how to categorize some of the prioritization categories in terms of the metrics which would be used to rank them. The table below gives examples of these prioritization categories.

Prioritization Category	Comment
Facilities	Replace/Refurbish, Economic Benefit (if new facilities), Strategic.
Interchange	Economic Benefit or replacement.
Vehicles/fleet	Economic Benefit or replacement.

FLORIDA POWER CORPORATION
ANNUALIZED REVENUE REQUIREMENTS ANALYSIS
HINES POWER BLOCK 2

(Dollars In Thousands)

Line No.		System	Separation Factor	Retail Jurisdictional
1	Estimated In-Service Date **11/30/03**			
2				
3	Annualized Rate Base			
4	Electric Plant in Service	$243,000	95.957%	$233,176
5	Accumulated Reserve for Depreciation	(6,683)	95.957%	(6,412)
6	Fuel Inventory	1,800	90.596%	1,631
7				
8	Total Annualized Rate Base	238,118		228,394
9				
10	Annualized NOI			
11	O&M	$2,000	95.957%	$1,919
12	Property Taxes	3,900	92.110%	3,592
13	Depreciation	13,365	95.957%	12,825
14	Income Taxes -			
15	Direct Current & Deferred	(7,431)		(7,073)
16	Imputed Interest	(2,382)		(2,284)
17	Total Annualized NOI	($9,452)		($8,979)
18				
19				
20	Calculation of Revenue Requirement			
21	Fully Adjusted Cost of Capital (MFR D-1)	9.81%		9.81%
22	NOI Requirement (Line 8 * Line 21)	$23,357		$22,403
23	NOI Deficiency (Line 22 less Line 17)	$32,808		$31,382
24	Net Operating Income Multiplier (MFR C-58)	1.6313		1.6313
25				
26	Revenue Requirement (Line 23 * Line 24)	**$53,520**	95.65%	**$51,194**
27				
28				
29				
30	Calculation of Taxes on Imputed Interest			
31	Weighted Cost of Debt Capital (MFR D-1):			
32	Long Term Debt Fixed Rate	2.36%		2.36%
33	Long Term Debt Variable Rate	0.01%		0.01%
34	Short Term Debt	0.00%		0.00%
35	Customer Deposits	0.19%		0.19%
36	JDIC - Debt	0.03%		0.03%
37		2.59%		2.59%
38				
39	Imputed Interest (Line 8 * Line 37)	$6,174		$5,922
40	Income Taxes on Imputed Interest at 38.575%	($2,382)		($2,284)