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TESTIMONY AND EXHIBITS
OF
DR. JOHN K. LANGUM

CAROLINA POWER & LIGHT COMPANY
Before the
SOUTH CAROLINA PUBLIC SERVICE COMMISSION

Docket Nos. 18361 — Application for General Increase
18387 in Rates and Notice of Filing
Change of Rates

CAROLINA POWER & LIGHT COMPANY

TESTIMONY REGARDING FAIR RATE OF RETURN

SOUTH CAROLINA PUBLIC SERVICE COMMISSION

DR. JOHN K. LANGUM
ECONOMIC CONSULTANT
CHICAGO, ILLINOIS

MAY 1, 1976

Q. Will you state your name, please?

A. John K. Langum.

Q. Where do you live?

A. I live at 477 Oakhill Road, Elgin, Illinois.

Q. What is your present occupation?

A. I am an economic consultant, with my offices located at 209 South LaSalle Street in Chicago, Illinois. My work consists of advising and counseling with a wide range of business firms and financial institutions and public bodies on economic matters of concern to them. Much of my work lies in the field of appraising changes in business conditions and their impact on particular firms and industries and in the field of interest rates, the money market, and the capital markets. My clients include some of the largest firms and most prominent trade associations in the fields of investments, banking, industry, transportation, and public utilities.

In addition, I am President of Business Economics, Inc., an enterprise engaged in research and publications in the field of business and economics. Business Economics, Inc., provides a continuing service for financial institutions and business enterprises covering in depth the forces at work in the American economy and their significance for the credit and capital markets.

Q. What is your educational background?

A. In 1933, I received a B.A. degree from Colorado College. In 1936, the University of Minnesota awarded me an M.A. In 1943, the University of Minnesota conferred on me the Ph.D. degree.

Q. What academic positions have you held?

A. From 1935 to 1940, I was on the faculty of the School of Business Administration at the University of Minnesota. In 1940 and 1941, I was lecturer in Economics at the University of California. In 1945 and 1946, I was part-time lecturer in the Department of Economics at the University of Chicago. In the summer of 1947, and again in the summer of 1951, I was visiting Professor of Economics at Northwestern University. From 1951 through 1962, I served as Professor of Business Administration, on a part-time basis, in the School of Business of Indiana University.

Q. What connections have you had with graduate schools sponsored by banking and financial associations?

A. For the last twenty-six years, starting in 1951, I have been a member of the faculty of the Stonier Graduate School of Banking at Rutgers University in New Brunswick, New Jersey, sponsored by the American Bankers Association. Here in June of each year, I give lectures on the business outlook and the credit and capital

markets for the bank officers enrolled in the Graduate School. Each year about 1,200 bank officers, from most of the fifty states and from several foreign countries, attend the Graduate School of Banking.

In 1945, I was one of the founders of the Graduate School of Banking at the University of Wisconsin, located at Madison, Wisconsin. That school, with over one thousand bank officers from about thirty-five states, is sponsored by the Central States Conference of sixteen midwestern state banking associations. For thirty-two consecutive years, since the beginning of the Graduate School, I have given basic lectures on the money markets and the American economy.

Since 1955, I have lectured on appraisal of the economic outlook, analysis of the individual company and industry in relation to changing business conditions, and the structure and workings of the capital markets at the School of Banking of the South in Baton Rouge at Louisiana State University. This graduate school for bank officers is sponsored by fifteen southern state banking associations.

In several years, I have also lectured at the Graduate Southwestern School of Banking held in Dallas, Texas, at Southern Methodist University; at the National Trust School held in Evanston, Illinois, at Northwestern University; at the Pacific Coast School of Banking held in Seattle, Washington,

at the University of Washington; and at the Graduate School of Savings and Loan held in Bloomington, Indiana, at Indiana University.

In many years, starting in 1946, I have lectured at the Life Officers Investment Seminar, sponsored by the American Life Convention, and starting in 1957, at the Financial Analysts Seminar, conducted by the National Federation of Financial Analysts Societies in association with the University of Chicago.

Q. What business experience have you had?

A. From 1941 until 1951, I was employed by the Federal Reserve Bank of Chicago, and from 1944 to 1951, I was Vice President of the Bank. As officer in charge of the Research Department during that period, it was my responsibility to direct an extensive research program in monetary and fiscal problems, in the banking mechanism, in business conditions, in agricultural and business economics, and in business finance. Also, at the bank I was in charge of its bank and public relations activities. In addition, for several years I was associate economist of the Federal Open Market Committee of the Federal Reserve System. This is the body in the Federal Reserve System, made up of the members of the Board of Governors

and Presidents of the Federal Reserve Banks, which determines the monetary and credit policies of the nation's central banking system.

Since 1951, I have been engaged in private business as an economic consultant. Much of my work lies in the field of appraising changes in business conditions and their impact on particular firms and industries and in the field of interest rates, the money market, and the capital markets. My clients include some of the largest firms and most prominent trade associations in the fields of investments, banking, industry, transportation, and public utilities.

Q. Please describe your work in the field of investments.

A. I have been a director of Selected American Shares, Inc. since 1952. I am a director of Selected Special Shares, Inc., and Selected Opportunity Fund, Inc. These Selected Funds are common stock investment funds with offices in Chicago, Illinois. I am Chairman and director of Founders Growth Fund, Inc. and also Founders Special Fund, Inc., common stock investment funds with offices in Denver, Colorado. I have been Chairman or President of Founders Growth Fund, Inc., since February 1, 1969 and I have been Chairman or President of Founders Special Fund, Inc., since December 2, 1971. I am a director of First Federal Savings and Loan Association of Elgin, Illinois.

For several years, until late in 1964 when the company was sold to Transamerica, I was a director of Bankers Mortgage Company of California, a mortgage banking firm with offices in San Francisco, California and in New York City.

For the last twenty-five years, I have met regularly for consultation with the key policy-making officials of many major institutional investors in this country and in Canada. These pension funds, trust funds of commercial banks, mutual funds, and life insurance companies with whom I have worked have total funds under investment administration which comprise a major portion of total institutional investment holdings in the economy.

Q. Have you previously testified in rate cases?

A. Yes. I have testified in a number of cases before public utility commissions and courts in twenty-eight states and the District of Columbia, including Illinois, Indiana, Iowa, Michigan, Ohio, Wisconsin, Massachusetts, Pennsylvania, Kansas, Missouri, Kentucky, Tennessee, West Virginia, Maryland, North Carolina, South Carolina, Louisiana, Alabama, Arkansas, Mississippi, Florida, Montana, Utah, Texas, Arizona, Oregon, Washington, and California. I have testified before the Interstate Commerce Commission, the Federal Maritime Commission, and the Federal Power Commission. In Canada, I

have testified before the Board of Transport Commissioners, the Canadian Transport Commission, the Telecommunications Committee, Canadian Transport Commission, and the National Energy Board.

Much of my work as consultant and as an expert witness on fair rate of return has been on behalf of utility companies. My work as consultant and as expert witness on fair rate of return, has, however, by no means been on behalf of utility companies exclusively.

In 1970, I testified on behalf of the Attorney General of the State of Illinois in the Commonwealth Edison Case before the Illinois Commerce Commission. In 1971, in 1973, and again in 1975 I was an intervenor in the Commonwealth Edison Company cases before the Illinois Commerce Commission. In 1973, I testified before the Illinois Commerce Commission on behalf of the City of Chicago regarding fair return for the Peoples Gas Light and Coke Company.

In 1972 and 1973, I testified regarding fair rate of return for Illinois Bell before the Illinois Commerce Commission on behalf of the Department of General Services of the State of Illinois. In 1974 I testified before the Illinois Commerce Commission on behalf of the States Attorney, Cook County, Illinois regarding fair rate of return, rate base, and fair return for Illinois Bell. Again

in 1975, I testified before the Illinois Commerce Commission on behalf of the Department of General Services of the State of Illinois and the States Attorney, Cook County, Illinois regarding fair rate of return, rate base, and fair return for Illinois Bell.

In 1971, I testified on behalf of the Arizona Consumers Council in the Tucson Gas and Electric Company case before the Arizona Corporation Commission. In 1972, 1974, and again in 1976, I testified regarding fair rate of return for Tucson Gas & Electric Company on behalf of the Arizona Corporation Commission. In 1971, in 1973, and again in 1975 I testified on behalf of the Arizona Corporation Commission in the Arizona Public Service Company cases. In 1972, in 1973, and again in 1975 I testified regarding fair rate of return for Mountain Bell on behalf of the Arizona Corporation Commission.

In 1973 I testified regarding fair rate of return for Sun City Water Company, Mohave Electric Division, Mohave Water Division, Santa Cruz Electric Division, and Santa Cruz Gas Division of Citizens Utilities Company before and on behalf of the Arizona Corporation Commission. In 1975 I testified regarding fair rate of return for Santa Cruz Gas Division of Citizens Utilities Company before and on behalf of the Arizona Corporation Commission. In 1976 I testified regarding fair rate of return for Sun City Water Company, and Sun City Sewer Company before and on behalf of

the Arizona Corporation Commission. In 1974 I testified regarding fair rate of return for Sun City Water Company before the Superior Court in Phoenix and for Mohave Electric Division before the Superior Court in Tucson on behalf of the Arizona Corporation Commission.

In 1973, I testified before and on behalf of the City of Corpus Christi, Texas, regarding fair return for Central Power and Light Company. In 1973, I testified on behalf of the City of Corpus Christi before the Texas Railroad Commission regarding the financial situation of Lo-Vaca Gathering Company and Coastal States Gas Corporation.

In 1973, I testified regarding fair rate of return for Potomac Electric Power Company on behalf of the Peoples Counsel before the Public Service Commission of Maryland.

In 1971, I testified on behalf of the Lake Michigan Federation before the Lake Michigan Enforcement Conference. In February, 1972, I testified on behalf of the Lake Michigan Federation before the Price Commission on guidelines for public utility rate increases.

Q. Are you the author of any articles and books?

A. During the last forty years, I have had many articles published in leading economic and business journals. For ten years, from 1941 until 1951, I edited "Business Conditions,"

a monthly review published by the Federal Reserve Bank of Chicago. For fifteen years, from 1946 through 1960, I wrote the articles on banking, including investment banking and commercial banking, on the Federal Reserve System and other financial subjects for the Encyclopedia Britannica Book of the Year. I write the articles on savings banking and on savings and loan associations for the Encyclopedia Britannica.

Over the years, several interviews with me on the business outlook and on investment policy have been published in Time, in U.S. News and World Report, in Business Week, and in other publications.

Q. Are you a member of and have you participated in professional societies and civic activities?

A. Yes. I am a member of several professional societies and have been active in many of them over several years.

On many occasions I have been on the programs of the Conference of Business Economists, the National Association of Business Economists, the National Industrial Conference Board, the National Tax Association, the American Economic Association, and the Financial Analysts Societies.

I am an active member of the Conference of Business Economists, with membership limited to fifty business economists, including the top economists of the nation's largest business firms and financial institutions. In addition

to our own meetings, we meet regularly with the Board of Governors of the Federal Reserve System and with the Council of Economic Advisors.

In June, 1957, I testified before the Joint Economic Committee of Congress at their invitation on the bearing of the budget outlook and economic situation on growth and inflation in the American economy. In August, 1962, I again testified before the Joint Economic Committee on Corporate Profits, Cash Flow, and Rate of Return.

In 1963, 1964 and 1969, I participated in the symposiums on economic growth and public policy in Washington, D.C., sponsored by the American Bankers Association. In 1962, I participated in the conference on fiscal and monetary policy sponsored by the President's Advisory Committee on Labor-Management Policy. In 1962, I participated in the White House Conference on national economic issues.

Early in the post World War II period, I served on the research staff of the Committee for Economic Development.

For three years, from 1959 through 1961, I served as Vice President of the Chicago Association of Commerce and Industry in charge of the work of the Association in business research and statistics. For six years, I served as a director of the Association.

From 1951 through 1953, I served on the Committee on Economic Policy of the Chamber of Commerce of the United States.

In 1964, in my professional capacity, I prepared a study for the City of Chicago on "Implications of Technological Development for the Economy of Chicago."

For twenty years, I have served as Chairman of the Elgin Plan Commission in the city in which I live. For many years I have been a member of the American Society of Planning Officials. I am a affiliate member of the American Institute of Planners, and a supporting member of the Urban Land Institute.

I have served as First Vice-President and Director of the Lake Michigan Federation, President of the Fox Path Association, and Director of the Illinois Planning and Conservation League. I am a life member of the Sierra Club, The Wilderness Society, and The Nature Conservancy.

In 1958, I was made a fellow of the American Association for the Advancement of Science.

SCOPE OF STUDIES AND TESTIMONY

Q. Dr. Langum, what is the scope of your studies and testimony in these proceedings?

A. Carolina Power & Light Company requested me to make studies for the purpose of forming an opinion as to a fair and reasonable rate of return, applicable to a net original cost rate base, which it should be afforded the opportunity to earn in its retail electric and utility business in South Carolina.

By a fair and reasonable rate of return, I mean a rate of return which will enable Carolina Power & Light Company to meet the standard of commensurate return, to attract new capital on fair and reasonable terms, and to assure confidence in its financial integrity and maintain its credit. Determination of such a fair rate of return involves first, determination of the cost of debt and the cost of preferred stock; second, forming a judgment as to a fair and reasonable earnings rate on the common equity; and finally, the combination of such cost components for these segments of capital in an appropriate capital structure.

It is my understanding that this Commission utilizes a net original cost rate base, includes construction work in progress in the rate base, and includes allowance for funds used during construction in return.

The studies which I have made are contained in the exhibit which I have prepared, entitled, "Carolina Power & Light Company, Studies Regarding Fair Rate of Return."

Q. Dr. Langum, I show you what has been marked Langum Exhibit No. 1 for identification, consisting of a cover page, a table of contents, and 91 pages and ask if the Exhibit was prepared by you or under your supervision and direction?

A. Yes, it was, except the pages which were taken from articles in Moody's Bond Survey and Standard & Poor's The Fixed Income Investor which I selected for inclusion in the Exhibit. The Exhibit contains my studies leading to a judgment as to a fair rate of return.

Q. Are the figures and facts contained in the Exhibit true and correct to the best of your knowledge and belief?

A. Yes, they are.

CAPITALIZATION AND CAPITAL STRUCTURE RATIOS

Q. Now, Dr. Langum, turning to Page 1 of the Exhibit, will you comment on the construction expenditures of Carolina Power & Light Company and how they have been financed?

A. Over the years Carolina Power & Light Company has made substantial construction expenditures to expand and to improve its electric facilities. As shown on Page 1 of the Exhibit, gross

property additions, including nuclear fuel additions, reached a record high of $422.5 million in 1974. In the twelve months ended August 31, 1975, such construction expenditures totalled $384.4 million. By far the predominant source of funds used for construction expenditures has been external financing--sale of common stock, sale of first mortgage bonds and other long-term debt, sale of preferred stock, and net increase in short-term borrowings. As indicated on Page 2, during the last six years, external financing has comprised from 84 percent to 103 percent of total funds used for construction, excluding amounts charged to utility plant representing the allowance for funds used during construction. These are extremely high ratios of external financing to total funds used for construction.

Q. Are construction expenditures by Carolina Power & Light Company expected to remain high during the years ahead?

A. Yes, indeed they are. Meeting growing customer needs under conditions of major inflation, and with adequate concern for environmental considerations, necessitates high and rising construction expenditures. As indicated by the Company total construction expenditures are projected at $271 million for 1976 and subject to continuing review and adjustment, estimated at $826 million for 1976-1978, even after cutbacks in the construction program.

Q. Will these construction expenditures likely necessitate high and rising amounts of external financing?

A. External financing will have to be carried out in substantial amounts because of these large construction expenditures. As can be seen on Page 1 of the Exhibit, internal sources of funds comprise a relatively small portion of total funds used for construction expenditures. In particular, retained earnings from operations, net income less allowance for funds used during construction less dividends for the year, were a negative $39,144,000 during the twelve months ended August 31, 1975.

Q. What has happened to total capitalization of Carolina Power & Light Company as a result of the continued sale of securities in the credit and capital markets?

A. The capitalization and capital structure ratios of Carolina Power & Light Company for 1962-1975, at year-ends, are shown on Page 3 of the Exhibit.

In the twelve-year period total capitalization increased from $334.0 million on December 31, 1972, to $2,213.6 million on December 31, 1975, an increase approaching two billion dollars in total capitalization over the period, a six-fold increase. In the two year period from December 31, 1973 to December 31, 1975, total capitalization will have increased by $550 million.

Q. Still referring to Page 3 of the Exhibit, what comprises the capitalization of Carolina Power & Light Company?

A. In terms of the balance sheet, some of the capital of Carolina Power & Light Company is debt, some is preferred stock and preference stock, and some is common equity.

The Company long-term debt currently includes 22 issues of first mortgage bonds and six-year notes payable to a bank. Notes payable, including both bank loans and commercial paper, have been outstanding in substantial amount, but were of little size at the end of 1975. Details of these issues are shown on Pages 4 and 5 of the Exhibit.

Preferred stock includes eight issues of preferred stock and one issue of preference stock. Details of these issues are shown on Page 13 of the Exhibit.

Common equity consists, of course, of common stock and retained earnings.

Q. Is it your opinion that measurements of capitalization and capital structure ratios should be on the basis of including short-term debt?

A. It is indeed my very strong opinion that capital structure ratios should be computed on the basis of including short-term debt, that is, notes payable, in the capitalization.

Failure to include short-term debt in the capitalization and capital structure ratios for a utility would simply amount to failure to consider adequately the true degree of coverage of interest and

preferred stock dividends and effect of interest charges on earnings for common equity. While certain notes payable are replaced by permanent financing, nevertheless frequently other notes payable before long take their place. The result has been that notes payable have come to constitute a continuing and significant part of the capitalization and financing of the Company.

To assure adequacy of coverage and accuracy of comparison, all my later measurements and consideration of capitalization and capital structure ratios, for Carolina Power & Light Company and comparison companies alike, are in terms of total debt, including bank loans, commercial paper, and any long-term debt due within one year, and the corresponding definition of total capitalization.

Q. What have been the capital structure ratios of Carolina Power & Light Company during recent years?

A. Page 4 of the Exhibit shows the capital structure ratios for 1962-1975, at year-ends, of Carolina Power & Light Company, based on the dollar amounts shown.

On December 31, 1975, debt was 52.19 percent of total capitalization; preferred stock was 15.18 percent of total capitalization; and common equity was 32.63 percent of total capitalization.

During 1975, the capital structure ratios of Carolina Power & Light Company have shown major improvement, with a reduction in the debt ratio and a corresponding increase in the common equity ratio. At the end of 1974, the common equity ratio for Carolina Power & Light Company was at about the lowest level for any company in the electric utility industry.

Page 5 of the Exhibit shows changes in capitalization resulting from estimated financing of Carolina Power & Light Company during 1976.

Under present estimates, some increase in short-term debt will occur. The Company expects to sell Common stock in the amount of $65 million and may need to offer long-term debt.

Capitalization and capital structure ratios in terms of regulatory concepts for use by this Commission are shown on Page 6 of the Exhibit. On this basis, common equity includes accumulated deferred income taxes - accelerated amortization and deferred job development investment tax credit.

Capital structure ratios for December 31, 1975 are debt, 51.99 percent of total capitalization; preferred stock, 15.01 percent of total capitalization; and common equity, 33.40 percent.

Q. What capital structure ratios have you used in your determination of a fair rate of return for Carolina Power & Light Company?

A. The capital structure ratios which I have used in my study of fair rate of return for Carolina Power & Light Company are shown on Page 7 of my Exhibit. In my determination I have used debt, 51.59 percent; preferred stock and preference stock, 15.01 percent; and common equity, 33.40 percent.

I have used these capital structure ratios for several reasons. First, they are realistic based on the present situation of the Company and under current plans for financing and operation of the Company. The capital structure ratios which I have used are, in fact, the actual ratios which prevailed on December 31, 1975. Second, they are appropriate, in my judgment, within a range, for Carolina Power & Light Company in terms of the basic risks and uncertainties of its business.

Capital structure ratios are extremely important in a fair rate of return study for two basic reasons. First, they provide the weights to be applied to the cost rates for debt, preferred stock, and common equity in obtaining components of the overall fair rate of return. Second, the cost rates on the various types of capital will vary to some extent with the capital structure ratios. Cost rates on debt will rise to some extent with higher debt ratios. Beyond this, the indicated rate of return on common equity which is fair and reasonable will likewise vary to a considerable extent with the common

equity ratio. The lower the common equity ratio, the higher will be the required rate of return on common equity. Rate of return on common equity and common equity ratio must be stated together and expressed side by side for meaningful measurement and interpretation of earnings experience on common equity. For these reasons, components of capitalization and the corresponding capital structure ratios must be defined accurately and used with care.

COST OF DEBT

Q. Taking up the cost of debt, what was the imbedded cost of debt to Carolina Power & Light Company on December 31, 1975?

A. As shown on Page 8 of the Exhibit, the imbedded cost of debt on December 31, 1975 was 7.74 percent. This gives effect to total first mortgage bonds and the six-year notes payable to a bank included in long-term debt. Interest requirements and net amortization were $89,424,878, and total long-term debt was $1,155,254,061.

Q. Looking ahead to future debt costs for Carolina Power & Light Company, please explain your studies shown on Pages 9 to 11 of the Exhibit?

A. These pages show the yield levels in the credit and bond markets in which Carolina Power & Light Company has financed during recent years.

First mortgage bonds of Carolina Power & Light Company are now rated Baa by Moody's and A by Standard & Poor's. Notes payable to banks are at the prime rate.

A study of offering yields on all newly issued public utility bonds rated by Moody's during the last several years is shown on Pages 9 and 10 of the Exhibit. On Page 9 I have shown the averages by years from 1960 through 1975 and for January-March 1976, of Moody's averages, computed and published monthly, of yields on newly issued public utility bonds rated Aaa, Aa, A, and Baa and offered publicly. The changing conditions in the bond market are reflected in the annual averages of offering yields on new debt issues. Average offering yields on newly issued public utility bonds were at the unprecedented average level of 9.19 percent on A-rated issues in 1970. The average declined to 7.93 percent in 1971 and to 7.60 percent in 1972. During 1973, however, the average rose to 8.05 percent and went up further to an average of 9.75 percent for 1974. The annual average for 1975 reached a new record at 10.22 percent. Page 11 shows offering yields on newly issued public utility bonds rated Aaa, Aa, A, and Baa by months from May, 1970 through March, 1976. The offering yields on newly issued public utility bonds rated A reached a high monthly average of 9.67 percent on such offerings in June, 1970. Subsequently, the yield dropped to a low monthly average

of 7.36 percent in January, 1972. A renewed rise brought average offering yields on A-rated public utility bond offerings to 8.50 percent in January, 1974. During 1975, interest rates on newly issued public utility bonds showed a further unprecedented rise with the average for A-rated public utility offerings reaching 11.05 percent in August, 1974, as shown in the lower righthand corner on Page 10 of the Exhibit. During 1975, average offering yields on A-rated public utility bonds ranged between 9.42 percent and 10.94 percent. Recent A-rated public utility bond offerings have been at lower levels. The average offering yield for January-March 1976 was 9.13 percent.

Any debt financing, even at this lower interest rate, would, of course, increase the imbedded cost of debt.

Page 11 of the Exhibit shows the highs and lows in the commercial bank prime loan rate from 1960 to date. The prime rate reached a high of 12 percent in 1974. Currently the predominant rate is 6-3/4 percent.

Q. What is the cost of debt to Carolina Power & Light Company?

A. In my judgment the cost of debt to Carolina Power & Light Company is 7.74 percent, as shown on Page 12 of the Exhibit. This judgment is based on the imbedded cost of debt, at December 31, 1975, as shown on Page 8 of the Exhibit.

COST OF PREFERRED STOCK AND PREFERENCE STOCK

Q. What was the imbedded cost of preferred stock and preference stock to Carolina Power & Light Company on December 31, 1975?

A. As shown on Page 13 of the Exhibit the imbedded cost of preferred stock and preference stock to Carolina Power & Light Company was 8.01 percent on December 31, 1975. Dividend requirements were $26,925,795 and amount outstanding was $336,018,400.

Q. Please explain Pages 14 and 15 of the Exhibit?

A. Pages 14 and 15 show average offering yields on major non-convertible preferred stock issues by electric utilities, by years from 1966 through 1975 and for January-March 1976, on Page 14 and by months from January 1975, through March 1976, on Page 15. Data are shown for all issues and for issues rated AA, A, and BBB by Standard & Poor's. The cost of average offering yields on preferred stock issues has generally paralleled that on new bond issues. As shown on Page 14, the average offering yield on all issues was 8.98 percent in 1970, declined to 7.55 percent in 1972 and 7.70 percent in 1973. Again, there was a sharp rise to 10.27 percent during 1974 and to 10.71 percent during 1975. For the period January-March 1976, the average has been 9.08 percent.

As in the case of debt, any preferred stock financing, even at this lower dividend yield, would, of course, increase the imbedded cost of preferred stock.

Q. What is the cost of preferred stock and preference stock to Carolina Power & Light Company?

A. In my judgment, as shown on Page 16 of the Exhibit, the cost of preferred stock and preference stock to Carolina Power & Light Company is 8.01 percent. This is based on the imbedded cost, as of June 30, 1976 estimated.

FAIR RATE OF RETURN ON COMMON EQUITY

Q. Turning now to the matter of fair and reasonable earnings on the common equity of Carolina Power & Light Company, will you explain your approach to this determination?

A. In my determination of fair rate of return, I have assumed no basic change in present institutional arrangements for financing electric utilities. By this I mean that the return after income taxes included in revenues paid to the company by customers supports the capital structure and attraction of new capital.

The criteria for fair rate of return are return commensurate with the earning experience of comparison companies; maintenance of credit and support of financial integrity; and attraction of capital - and on fair and reasonable terms. The studies which I have made in this connection are outlined on Page 17 of the Exhibit.

These criteria have been stated in the leading decisions of the United States Supreme Court.

The United States Supreme Court stated in the Bluefield Case (1923):

> "A utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties. . ."

The United States Supreme Court stated in the Hope Case (1943):

> ". . . By that standard the return to the equity owner should be commensurate with the returns on investments on other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital."

My approach to determination of fair rate of return on common equity is a combination of commensurate return and attraction of capital on fair and reasonable terms and maintenance of credit and support of financial integrity. It thus is based upon all the established tests of fair rate of return.

In terms of commensurate return or comparable earnings, selection of comparison companies has been in terms of basic concept, with consideration given to business

characteristics, investment stature, similar approaches by regulatory commissions, and comparable accounting and rate-making treatment. Reliance has been placed on the earnings experience on common equity of electric utilities in original cost jurisdictions without flow-through.

By original cost jurisdictions, I mean those states which use book figures only in determination of rate base. By without flow-through I mean those companies and states in which the reduction in current income taxes from liberalized depreciation and investment tax credit are offset by a charge for normalization or amortization in the income statement and do not increase reported operating income and net income for common by such reductions in current income taxes. Operating electric utilities in original cost jurisdictions without flow-through are the most comparable business undertakings and the closest alternative investment opportunities to Carolina Power & Light Company in its retail operations in South Carolina.

Measurement of earnings experience on common equity has been in terms of rate of return on common equity and the corresponding common equity ratio. Common equity ratios, of course, have critical importance. The quality of reported earnings is significant too, with particular regard to the role of allowance for funds used during construction.

In terms of attraction of capital on fair and reasonable terms and maintenance of credit and support of financial integrity, emphasis has been placed upon studies of market price of common stock of electric utilities in relation to book value, and upon studies of first mortgage bond offerings and preferred stock offerings of electric utilities with ratings of A and "a" by Moody's and A by Standard & Poor's, a minimum and reasonable goal for ratings on the first mortgage bonds and preferred stock for Carolina Power & Light Company.

In summary, a fair and reasonable allowance on the common equity of Carolina Power & Light Company should be determined in terms of the ratio of net income for common equity to the book value of common equity.

It must meet the standard that the return on the common equity investment should be commensurate with the return on common equity investments in other enterprises having corresponding risks. It must thus measure up to, and meet, the earnings experience on common equity in the closest alternative investment opportunities, taking into account any differences in risk and the common equity ratio. It must provide for maintenance of credit and assure confidence in financial integrity. It must provide for the attraction of capital - and on fair and reasonable terms.

The American Economy and Corporate Profitability

Q. Please discuss the broader matter of earnings experience of companies generally in the American economy, with varying conditions of real growth and inflation?

A. The difficulties which many electric utilities are experiencing are related, of course, to developments in the American economy. The record of changing economic conditions, in the American economy, for 1946 through 1975, is shown on pages 21-22 of the Exhibit in terms of real growth, inflation, and corporate profitability in the American economy.

Referring to page 21 of the Exhibit, the record of real growth and inflation in the American economy is shown for the post World War II period, from 1946 through 1975 in terms of percentage changes year-to-year.

Real growth is shown in terms of gross national product stated in constant dollars. Real growth over the years has been substantial. Recessions occurred in 1949, 1954, 1958, 1961, 1970, and again in 1974 and 1975. Real output in calendar year 1974 was down 1.8 percent from calendar year 1973 and in calendar year 1975 was down 2.0 percent from calendar year 1974.

Similarly, referring to the last column at the right, on page 21 of the Exhibit, total real disposable personal income

declined by 1.7 percent in 1974, the first year-to-year decline in a quarter of a century. In 1975 there was an increase of 1.6 percent. This reflected, in part, the ravages of inflation, as well as the effects of recession.

The record of inflation is shown in the middle columns. Inflation has continued and accelerated. The price indexes for calendar year 1974 ended up at 10 percent and more over 1973 - a two digit degree of inflation. In 1975 the gross national product price index was up 8.8 percent over 1974.

On page 22 of the Exhibit is shown the general record of corporate profitability in the American economy for 1946 through 1975. Rate of return on equity for all manufacturing firms reached a new high in 1974 - 14.92 percent with about a 70 percent equity ratio. Profits of unregulated corporations were generally extremely high in 1974, largely as a result, however, of inventory profits. Operating profits were in a severe squeeze. Reported earnings were down substantially in 1975, largely due to collapse of inventory profits. Operating profits, however, have been surprisingly strong. In 1976 there has been a record resurgence of corporate profits generally, with an increase in aggregate of 25 to 35 percent underway.

With inflation has come the high interest rates and preferred stock dividend yields shown on pages 9-11 and pages 14-15 of the Exhibit. The effects of inflation on operating expenses and on plant costs and on high interest rates and preferred stock dividend yields have been prime causes of the sharp deterioration in the earnings experience of electric utilities. Concurrently, the lower earnings experience on common equity has meant lower coverage ratios on bonds and preferred stock for electric utilities generally. Some electric utilities have been very hard hit and so much so that the electric utility industry is, in effect, in deep depression. This poses a serious problem of analysis, which I shall deal with in my interpretation of the data on earnings experience on common equity. This is the reason for exclusion of certain companies from use as comparison companies in test of commensurate return, in which I use earnings data for 1971, 1972, 1973, 1974, and 1975.

Investment Stature

Q. In connection with your test of commensurate return, Dr. Langum, will you comment on the investment stature of Carolina Power & Light Company?

A. Investment stature is an important criterion of comparability. Seven specific tests of investment stature in terms of ratings and characteristics of securities were used in my studies of this criterion.

Page 20 of the Exhibit shows the results of the application of these seven tests to Carolina Power & Light Company.

The first test is Moody's bond ratings of senior debt. The first mortgage bonds of Carolina Power & Light Company are rated Baa by Moody's Investors Service, Inc., as shown on page 20.

The second test is Standard & Poor's bond quality rating on senior debt. The first mortgage bonds of Carolina Power & Light Company are rated A by Standard & Poor's.

The third test is Moody's rating of preferred stock. The preferred stock of Carolina Power & Light Company is rated "baa" by Moody's.

The fourth test is Standard & Poor's quality rating of preferred stock. The preferred stock of Carolina Power & Light Company is rated A by Standard & Poor's.

Q. Please discuss your fifth, sixth, and seventh tests which have to do, I believe, with common stock?

A. These tests relate to common stock.

The fifth test of investment stature is Moody's basic investment quality ratings as stated in Moody's Handbook of Common Stocks. These quality ratings run from High Grade or High Quality, to on down to Investment Grade, and then to Medium Grade, and to Speculative. The common stock of Carolina Power & Light Company is characterized by Moody's as "Medium Grade."

The sixth test is earnings and dividend rankings for common stocks by Standard & Poor's Corporation. Standard & Poor's rankings of common stocks are designed to indicate, by use of symbols running from A+ to C, the relative stability and growth of earnings and relative stability and growth of dividends. These rankings are published in the Security Owner's Stock Guide. The common stock of Carolina Power & Light Company is ranked A- by Standard & Poor's Corporation, as shown on page 20.

The seventh test of prime investment stature is that of dividend record. Carolina Power & Light Company has paid a dividend on its common stock each year since 1937. The ability of a company to maintain, through good and bad times, an uninterrupted flow of dividend payments to stockholders is a clear indication of underlying strength and stability.

Investment comparisons frequently list common stocks with a sustained dividend record of 25 years or longer. 'Studies of the dividend record have been made on the basis of data from Standard & Poor's Corporation published in the Security Owners's Stock Guide, and from Moody's Investors Service, Inc., published in Moody's Public Utility Manual.

Q. What are the electric utilities listed at the left on pages 21-23 of the Exhibit?

A. The 39 electric utilities listed at the left on pages 21-23 of the Exhibit, by jurisdictions, comprise all major electric utility companies in the United States, both those with publicly-held common stock and the operating subsidiaries of holding companies, in original cost jurisdictions without flow-through. Investment stature of holding companies operating primarily in original cost jurisdictions is also shown.

Q. Dr. Langum, what is the basis for your characterizations of various state jurisdictions as original cost or fair value jurisdictions?

A. I am expressing an economic opinion, of course, and not a legal opinion, for I am not a lawyer. The type of rate base used in a given utility jurisdiction is, however, an essential and commonplace part of financial analysis and investment decision. My judgment as to the regulatory approaches used in these states has three bases: first, the statutes, court decisions, and commission orders in several of these states to which counsel for various companies and public bodies have directed my attention and special studies which I have made on the basis of these decisions and orders; second, the analysis of methods of rate base determination generally

applied given in the pamphlet, Federal and State Commission Jurisdiction and Regulation of Electric, Gas, and Telephone Utilities, 1973, prepared by the Federal Power Commission, in cooperation with the National Association of Regulatory Utility Commissioners; and third, the analysis of regulation by state public utility commissions and representative utility rate case decisions prepared by Moody's Investors Service, Inc., and published in Moody's Public Utility Manual, 1967, pages a140-a141, a145-a151.

Q. Will you now discuss the investment stature of the electric utilities listed at the left on pages 21-23 of the Exhibit?

A. These electric utilities, in original cost jurisdictions without flow-through, have investment stature, as shown on pages 21-23. Their senior debt is typically rated Aa and A by Moody's and AA and A by Standard & Poor's. Their preferred stock is typically rated "aa" and "a" by Moody's and AA and A by Standard & Poor's. Their common stocks have typical investment quality references from Moody's as High Grade or Investment Grade. Their common stocks have typical earnings and dividend rankings by Standard & Poor's or A, with some A+ and some A-. They typically have a long, sustained dividend record, usually of at least 25 years. These companies, on balance, have a degree of investment stature,

closely comparable and even somewhat superior to that of Carolina Power & Light Company. They are very close alternative investment opportunities to Carolina Power & Light Company.

Earnings Experience on Common Equity
As Guide to Commensurate Return

Q. Why is the matter of earnings experience on common equity among close alternative investment opportunities so important for fair rate of return on common equity?

A. Common stock investors are equity investors. They are not buying a bond or preferred stock with fixed interest or dividend and limited type of risk. Common stock investors are buying ownership in the business enterprise, with the risks and opportunities which that necessarily involves. This means that they expect earnings on their investment, and dividends from those earnings, and growth in dividends and earnings.

In short, common stock investors require adequate earnings potential for the future as an inducement to make the investment. It follows that all the ultimate determinants of earning power on common equity are the basic considerations involved in the cost of common stock capital.

Then too, and crucial in importance, we must remember that all of these matters for one company are

necessarily appraised in terms of the corresponding considerations in alternative investment opportunities. Appraisal of equities in the capital markets can only be made on the basis of comparison.

Furthermore, it is the earnings on common equity which provides the support for meeting coverage ratios on bonds and on preferred stock. Adequate earnings experience on the common equity of Carolina Power & Light Company is required to support the attraction of capital, both debt and preferred stock, as well as common stock, which lies ahead.

Q. Dr. Langum, in connection with your test of commensurate return, let us now go into the matter of earnings experience on common equity of the comparison companies. Will you explain your studies in this respect?

A. The earnings experience on common equity during recent years of electric utilities in original cost jurisdictions without flow-through is shown on pages 24-27. These are the electric utilities previously described. I shall make use of the earnings experience of certain of these companies in determination of the fair rate of return on common equity of Carolina Power & Light Company. For each of the companies for each year 1971 through 1975, the rate of return on the book value of common equity is shown, with the corresponding common equity ratio shown just below.

For example, the data in the upper right hand column of page 26 indicate that in 1975 Central Louisiana Electric Company earned a rate of return of 17.57 percent on common equity, with a 33.04 percent common equity ratio.

Quality of Reported Earnings
Allowance for Funds Used During Construction

Q. Please explain pages 28-29 of the Exhibit?

A. Allowance for funds used during construction as percent of net income for common is shown on pages 28-29 for the 39 electric utilities in original cost jurisdictions without flow-through.

Q. Please comment on the record of earnings experience on common equity of the electric utilities during recent years?

A. The record of earnings experience on common equity of the electric utilities during recent years in terms of averages on these broad groups is quite clear. From 1963 through 1966, earnings improved, with higher rate of return on common equity at about the same common equity ratio, and with little role of allowance for funds used during construction. From 1967 through 1970, earnings declined, with lower rate of return on common equity, at lower common equity ratio, and with increased role of allowance for funds used during construction.

From 1971 through 1974, earnings deteriorated sharply, with much lower rate of return on common equity, at even lower common equity ratio, and with poor quality of earnings because of the major role of allowance for funds used during construction. In 1975, the earnings experience remained about the same as in 1974.

Q. What is the significance of this increased role of allowance for funds used during construction?

A. The increased role of allowance for funds used during construction has great significance, in my opinion, at least in three respects. First, the increased role of allowance for funds used during construction has substantially lessened the quality of reported earnings for common equity. The allowance for funds used during construction is entirely proper but is essentially a bookkeeping adjustment. Earnings from allowance for funds used during construction have an important defect, namely, that there are no current cash

revenues corresponding to these earnings. The portion of net income for common derived from return, that is, operating income, is far more meaningful and stable than that portion derived from allowance for funds used during construction.

Second, the increased role of interest charged to construction has vital significance for use of data from comparison companies, particularly for electric utilities, in determination of fair rate of return. We must consider net income for common and rate of return on common equity in the light of treatment of allowance for funds used during construction. We must remember, furthermore, that to some extent the denominator in the computation of the rate of return on common equity, average common equity, is greater than it would have been otherwise because of the cumulative increases in reinvested earnings from interest charged to construction.

Third, the capitalization of the company has to be supported by return and fair rate of return must be related to a corresponding rate base, including at least some construction work in progress. This essential, for construction work in progress can only be financed through capital.

Q. Will you now describe your study of earnings experience on common equity of Carolina Power & Light Company?

A. Page 30 of the Exhibit shows for Carolina Power & Light Company the rate of return on common equity, net income for common divided by average common equity; the common equity ratio, average common equity divided by average total capital; and allowance for funds used during construction as percent of net income for common. In 1975, Carolina Power & Light Company earned 11.94 percent on common equity, with a common equity ratio of 30.14 percent. Allowance for funds used during construction was 79.02 percent of net income for common.

These data, of course, cannot be used in any direct manner as a guide to a fair rate of return on common equity for Carolina Power & Light Company. That would involve clearcut circular reasoning.

Q. Can the data on earnings experience on common equity for the various electric utilities in original cost jurisdictions which you have shown on pages 24-27 in the Exhibit be used as they stand as a guide to fair rate of return for Carolina Power & Light Company?

A. The data on earnings experience on common equity for the comparison companies are important. They represent but a starting point, however, as the basis of determination of fair rate of return on common equity for Carolina Power & Light Company. They must be given further analysis and proper interpretation in the light of additional considerations. For one thing, the common equity ratio has vital significance in appraisal of data concerning rate of return on common equity and adjustments for differences in common equity ratio between Carolina Power & Light Company and the comparison companies. For another thing, only companies that are healthy and successful should be used as comparison companies.

Common Equity Ratio

Q. Will you explain the significance of the common equity ratio in appraisal of data concerning rate of return on common equity?

A. The common equity ratio has vital significance in appraisal of data concerning rate of return on common equity.

For any business enterprise, the earnings rate on common equity has three basic determinants. The first of these is the overall rate of return on total capital. The second is the cost of senior capital. The third is the common equity ratio, that is, the ratio of the common equity to total capital.

Of these three factors, by far the most important is the rate of return on total capital. This is determined, of course, by the relationship between sales and expenses and capital in the business undertaking. Necessarily, the overall earnings experienceof the business enterprise is the most important determinant of earnings experience on common equity. In turn, the influence of the overall rate of return on the rate of return on common equity is influenced and modified by the cost of senior capital and the common equity ratio.

The higher the rate of return on total capital, the higher will be the rate of return on common equity, given the same common equity ratio and the same cost of senior capital. The lower the cost of senior capital, the higher will be the rate of return on common equity, given the same rate of return on total capital and the same common equity ratio. The lower the common equity ratio, the higher will be the rate of return on common equity, given the same rate of return on total capital and the same cost of senior capital, assuming as is usually the case that the cost of senior capital is below the rate of return on total capital.

In these circumstances, the common equity ratio has great significance in appraisal of earnings experience. Both the common equity ratio and corresponding degree of financial risk must

be considered side by side with the percent earned on common equity, that is, the ratio of earnings for common to common equity. The reason for this is that with a given rate of return on total capital, the lower the ratio of common equity to total capital, the higher necessarily should and will be the ratio of earnings to book value of common equity. In turn, the reason for this is that more senior capital, that is more preferred stock and more debt, introduces more leverage for the common stock equity.

Page 31 of the Exhibit presents an example of this relationship. Comparison is made of six companies, each with the same rate of return on total capital, but with different common equity ratios. Suppose that the relationship between sales and expenses and capital in each of these business undertakings is such that on the total capital invested of $1,000, the total income earned is $100.00, and the rate of return on total capital is 10.00 percent.

In Company A, there is no debt and no preferred stock. In these circumstances, all of total capital invested is common equity. The common equity ratio is 100 percent. All of income for capital goes to net income for common. The rate of return on common equity, net income for common divided by common equity, is 10.00 percent, the same as the rate of return on total capital.

In Company B, with $400 borrowed funds, the owner has invested only $600 of his own common equity money. In this case, with total capital of $1,000 invested in the business, the common equity ratio is 60 percent. The senior capital is entirely debt. At a debt cost of 7.5 percent, the interest charges would be 7.5 percent of $400 or $30.00. When this interest on debt is deducted from the $100.00 income for capital, $70.00 would be left for the owner's equity of $600. That would be a rate of return on common equity, $70.00 divided by $600, or 11.67 percent.

In Company C, more is borrowed, say a total of $500. The owner would then have to put up only $500 of his own common equity capital. In this case, the common equity ratio, $500 divided by $1,000, is 50 percent. With the interest rate at 7.5 percent, the interest on debt would be 7.5 percent of $500 or $37.50. When this is deducted from the $100.00 total income, $62.50 would be left for the owner's common equity of $500. The rate of return on common equity, $62.50 divided by $500, would be 12.50 percent.

In Company D, the common equity ratio is 40.0 percent. The rate of return on common equity rises to 13.75 percent.

In Company E, still more is borrowed, say a total of $650. The owner would then have to invest only $350 of his own common equity capital. In this case, the common equity ratio, $350 divided by $1000, is 35.0 percent. If the interest rate is 7.5 percent, the interest on debt would be 7.5 percent of $650 or $48.75. When this is deducted from the $100.00 total income, $51.25 would be left for the owner's common equity of $350. The rate of return on common equity, $51.25 divided by $350, would be 14.64 percent.

In Company F, the interest rate has gone up to 8.0 percent as a result of the higher debt ratio. Interest on debt is now $52.00, and net income for common is $48.00. At the common equity ratio of 35.0 percent, the resultant rate of return on common equity would be 13.71 percent.

Thus, with the same overall rate of return on total capital, 10.00 percent, the rate of return on common equity would go up from 10.00 percent to 14.64 percent, as the common equity ratio went down from 100 percent to 35.0 percent. An increase in the rate of return on common equity to 13.71 percent would come about even with the increase in debt costs which might be expected at a higher debt ratio.

But this, of course, also means more risk for the common shareholder. The existence of more senior capital in the capital structure, and hence more leverage, creates an opportunity for higher earnings on the common equity if there are favourable earnings for the Company overall. But it also accentuates the hazard of lower earnings for common equity with an unfavourable rate of return on total capital, for the interest on debt and dividends on preferred stock must be met before there are any earnings for common equity.

In our example, suppose that the total income in Company F were to drop 20 percent, from $100.00 to $80.00. The rate of return on total capital declines from 10.00 percent to 8.00 percent. But the income for the owner of the business, with a common equity ratio of 35.0 percent and debt cost of 8.0 percent would be cut from $48.00 to $28.00 or by 42 percent. The rate of return on common equity would drop from 13.71 percent to 8.00 percent. And if the situation deteriorated further, when total income gets down to $52.00 or a rate of return on total capital of 5.20 percent, the earnings for the owner would be nil. Beyond that, total income would fall short of meeting the interest due and the owner would lose the business.

Thus, the common equity ratio is of vital significance in appraising the earnings record on common equity of a given business undertaking and likewise in comparing rates of earnings on book value among various enterprises. The rates of return on common equity in two businesses of the same risk and uncertainty can be directly compared only if their common equity ratios are close or are the same. If their capital structures are different, the fact must be considered and proper adjustments made in comparing the two rates of return on common equity. How can differences in common equity ratios be considered in comparing rates of return on common equity among various business enterprises with different common equity ratios? Such differences in common equity ratios may be considered in various ways, depending on the degree of precision desired.

First, a judgment adjustment in general terms may be made. In this connection, sometimes rate of return on total capital is simply compared with rate of return on common equity.

Second, comparison may be made in terms of components for common equity--the product of rate of return on common equity and common equity ratio. This procedure does not give effect to varying cost components for senior capital with varying capital structures and is therefore incomplete. Comparison of components for common equity does, however, reflect the combination of rate

of return on common equity and common equity ratio.

Third, proper adjustments for differences in common equity ratio may be made in precise terms under specified assumptions. Rate of return on common equity at a given common equity ratio may be restated in terms of another common equity ratio. This is precisely analagous to restating a distance measured as 7 yards into the equivalent of 21 feet.

Q. Dr. Langum, you have made the statement that if the capital structure ratios are different among various business undertakings, that fact must be considered and proper adjustments made in comparing the rates of return on common equity. Will you explain how such an adjustment can be made?

A. The method of such an adjustment of rate of return on common equity for a different common equity ratio is shown on page 32 of the Exhibit.

Q. Please explain page 32?

A. On page 32 the method of adjustment for different common equity ratio is shown as applied to the earnings experience in 1973 to Kansas Power & Light Company, one of the electric utilities in original cost jurisdictions without flow-through. Reference to page 25 of the Exhibit indicates that in 1973 Kansas Power & Light

earned 12.50 percent on common equity, with a 45.62 percent common equity ratio. On this basis, the component for common equity in the average overall rate of return for this company in 1973 would be 12.50 percent times .4562 or 5.702 percent. At a 33.4 percent common equity, the figure which I am using for Carolina Power & Light Company, there would be less common equity, and more debt, a change of .1222 percentage points. At an interest rate of 4.90 percent--the actual imbedded interest rate on average total debt for Kansas Power & Light in 1973--this would mean, in terms of the components for overall rate of return, 0.599 percent more interest and less earnings for common equity.

The resultant component for common equity at a 33.40 percent common equity ratio would be 5.103 percent. The resultant rate of return on common equity at a common equity ratio of 33.40 percent would be 15.28 percent.

Kansas Power & Light in 1973 earned 12.50 percent on common equity at a common equity ratio of 45.62 percent. Assuming for Kansas Power & Light the same rate of return on total capital and the same rate of interest on total debt, as it actually experienced, this was the equivalent of 15.28 percent at a common equity ratio of 33.4 percent. Again, this is precisely analogous to restating a distance measured as 7 yards into the equivalent of 21 feet.

A common equity ratio of 33.4 percent is what I am using in my study of fair rate of return for Carolina Power & Light Company in analysis of earnings experience of comparison companies. In the example on page 32, I have adjusted the actual earnings experience of Kansas Power & Light to the equivalent at a 33.40 percent common equity ratio. The indication from the earnings experience on common equity in 1973 for Kansas Power & Light is that Carolina Power & Light Company should be afforded the opportunity to earn about 15.28 percent on common equity at its common equity ratio of 33.40 percent. Earnings rates of the comparison companies must be stated in terms of that common equity ratio for accurate comparison and meaningful application to Carolina Power & Light Company.

Q. Please explain pages 33-34 of the Exhibit?

A. On pages 33-34 of the Exhibit, the rate of return on common equity is shown, as adjusted to the 33.40 percent common equity ratio for Carolina Power & Light Company, for the operating electric utilities in original cost jurisdictions without flow-through. For example, the rate of return on common equity, adjusted to 33.40 percent common equity ratio, for Kansas Power & Light - 15.28 percent in 1973 - is shown at the lower right on page 33 of the Exhibit. All of the data on rate of return on common equity

shown on pages 24 through 27 have been so adjusted to the 33.40 percent common equity ratio for Carolina Power & Light Company?

<u>Earnings Experience on Common Equity</u>
<u>Operating Electric Utilities Used as Comparison Companies</u>
<u>In Test of Commensurate Return</u>

Q. Dr. Langum, to what factors other than differences in common equity ratios have you given consideration in application of the earnings data for electric utilities in original cost jurisdictions without flow-through in forming a judgment as to fair rate of return for Carolina Power & Light Company?

A. Consideration has been given as well to the general economic health, so to speak, of the companies. It is extremely important in using the earnings experience on common equity of other comparable utilities as a guide to fair rate of return for Carolina Power & Light Company that only companies that are healthy and successful be used as comparison companies. Carolina Power & Light Company is entitled, to have its fair rate of return determined so as to be commensurate with the returns of other electric utilities, otherwise comparable, that are healthy and successful. Its fair rate of return should not be determined so as to be commensurate with the returns of other electric utilities that

are sick and unsuccessful,, or at the other extreme, that are earning excessive and unduly high returns.

Q. In this connection, please explain pages 35-39 of the Exhibit?

A. Carolina Power & Light Company should be afforded the opportunity of earnings a rate of return commensurate with that earned by healthy, successful companies rather than financially sick and unsuccessful companies. Accordingly, I have excluded certain companies from use as comparison companies in the test of commensurate rate of return. The companies so excluded from use as comparison companies and the reasons for my judgment are shown on pages 35-39 of the Exhibit.

Exclusion has been for the four years 1971 through 1975 or for a single year alone or groups of years. Companies have been so excluded from use as comparison companies on the basis of definite criteria; if allowance for funds used during construction was 50 percent or more of net income for common, if investment stature is inadequate; if the company encountered serious difficultieis in financing because of inadequate coverage ratios; if rate of return on common equity is significantly below that permited by the company's regulatory authority. At the other extreme, one company, Iowa Southern Utilities Company, has had its rate of return adjusted downward to give effect retroactively to reduction of electric revenues with settlement of rate proceeding. Another company, Southwestern

Electric Power Company, has been excluded because its earnings experience has been such as to raise a question of excessive and unreasonable rate of return.

These data on individual companies, such as shown on pages 35-39 are very important, for they enable me to make sure that I was not relying upon what might be called problem companies which are not earning a fair return and are not being able to finance adequately or properly, as a guide to fair rate of return for Carolina Power & Light Company. Assurance in this respect is crucial for so many electric utility companies have been in such dire circumstances that it can truly be said that the industry has been in deep depression, in serious crisis, or even on the ropes.

Q. In the light of this analysis, please explain pages 40-42 of the Exhibit?

A. The earnings experience on common equity of electric utilities in original cost jurisdictions without flow-through during recent years, that is, 1971, 1972, 1973, 1974, and 1975, is shown on these pages. Rate of return on common equity has been adjusted to the 33.40 percent common equity ratio which I am using in forming my judgment as to fair rate of return for Carolina Power & Light Company.

On each page, earnings experience on common equity is shown with the rate of return crossed out for companies excluded from use as comparison companies in test of commensurate rate of return.

Averages for the companies used as comparison companies in test of commensurate return are shown on page 42 of the Exhibit. Rate of return on common equity adjusted to the 33.40 percent common equity ratio, for the electric utilities in original cost jurisdictions without flow-through used as comparison companies in test of commensurate return averaged 14.44 percent in 1971, 14.79 percent in 1972, 14.39 percent in 1973, 14.63 percent in 1974, and 13.77 percent in 1975. The average for allowance for funds used during construction as percent of net income for common is shown, as is the number of companies used.

Q. What conclusion do you draw from these averages shown on page 42 of the Exhibit?

A. The averages shown on page 42 of the Exhibit point to a judgment as to fair rate of return on common equity from operations for Carolina Power & Light Company of 14.50 percent, at a common equity ratio of 33.40 percent.

Q. Have you compared this fair rate of return on common equity from operations for Carolina Power & Light Company with other data to check on its reasonableness?

A. Yes. I have. The fair rate of return on common equity, excluding allowance for funds used during construction from return, being awarded electric utilities by regulatory commissions in original cost jurisdictions is at least 12.50 percent to 13.00 percent, on average, or somewhat higher. Thus, these judgments including allowance for funds used during construction, support a fair rate of return on common equity of 14.50 percent.

Furthermore, this fair rate of return on common equity from operations is "in line" with historical relationships of earnings experience of electric utilities to that of unregulated companies.

Earnings Experience on Common Equity
Industrial Companies with Quality Ranking of High Grade by Moody's

Q. In this connection, please explain the study of industrial companies you have shown on pages 43-47 of the Exhibit?

A. Another study of earnings experience on common equity is shown on pages 43-47 of the Exhibit. Rate of return on common equity and common equity ratio is shown on pages 43-47 of the Exhibit for the 53 industrial companies with quality ranking of High Grade by Moody's. In terms of the averages, shown on page 47, the 10 oil companies on the list have been shown separately because of current attention to their marked step-up in earnings, in connection with the energy crisis. The other 43 companies

also experience a marked improvement in earning power in 1973 and 1974 as compared with 1972. These companies earned 18.29 percent on common equity in 1973, with a common equity ratio of 79.43 percent. Their rate of return on common equity averaged 16.65 percent in 1974, with a common equity ratio of 78.14 percent. The general tendency for a corporate profit squeexe from 1965 to 1972 had affected these companies. These companies, also, have seen a change to a lower common equity ratio over recent years.

Q. What are the reasons in particular, for studying unregulated companies, such as the industrial companies rated "High Grade" by Moody's?

A. In my opinion, there are three basic reasons for giving consideration as background information to the rate of return earned by comparable unregulated companies, such as the industrial companies rate "High Grade" by Moody's. Throughout, in this consideration, we must give adequate weight to the major differences in degree of risk, all factors considered, between even the most comparable unregulated companies and regulated utilities.

First, public utilities must compete in the capital markets not only against other regulated enterprises but against unregulated businesses as well. Hence, the return to capital in such nonregulated enterprises is particularly significant and relevant.

The realities of competition by business firms in the capital markets and scope and variety of investor choice necessitate consideration of an equally wide range of alternative investment opportunities. Accordingly, a fair rate of return for a given company under consideration must enable that company to compete for debt capital and common stock capital alike for fair and reasonable terms with the full scope of alternative investment opportunities.

A second consideration has to do with the very reasons and inherent occasion for regulation. Regulation is the substitute for competition -- the combination of market forces and market power which would determined services and set rates in other circumstances -- for business undertakings in areas where they cannot be allowed to compete. Operating characteristics necessitate generally that utilities operate under franchises and they they do not engage in specific competition in regard to their services and are therefore regulated to assurate fair and reasonable rates for services of good qulity. It likewise follows that fair regulation will set rates for public utilities which will provide a return related to that being earned by other enterprises

of comparable nature in respects other than that they are regulated in the price they charge.

The third reason is the necessity of getting outside the circle of regulatory experience. An adequate test of comparable earnings must ncessarily involve consideration of nonregulated enterprises in addition to that of other utilities. As an approximation and initial step in a test of comparable earnings in determination of fair rate of return for a given utility enterprise, we must look at the earnings experienceof other public utilities. These are among the closest of other comparable business undertakings. But if we look only at other regulated utilities in a test of comparable earnings, to some extent we go around in a circle. Under such procedure, the return to the subject utility would be guided by other regulatory experience rather than by the fundamental concept of regulation as the substitute for competition. Only by consideration of unregulated companies do we take the ultimate and final steps in a test of comparable earnings.

Q Please explain your study shown on page 48 of the Exhibit?

A On page 48 of the Exhibit, I have shown a study of earnings experience on common equity of the 39 operating electric utilities in original cost jurisdictions without flow-through used as comparison companies in relation to that of the 43 industrial companies, excluding oil companies, with quality ranking of

High Grade by Moody's. Rate of return on common equity, common equity ratio, and the corresponding component for common equity for the 43 industrial companies has been shown in the middle on page 48.

Rate of return on common equity and common equity ratio for the 39 operating electric utilities in original cost jurisdictions without flow-through on average is shown in the upper portion of page 48. These date for individual companies were shown previously on pages 24-27 for 1971-1975. The component for common equity in rate of return on total capital has been computed by multiplying rate of return on common equity by common equity ratio.

The record of earnings experience on common equity of the 39 electric utilities in original cost jurisdictions without flow-through during recent years in terms of averages for this broad group is quite clear. From 1963 through 1966, earnings improved, with higher rate of return on common equity at a somewhat higher common equity ratio, and with little role of allowance for funds used during construction. The component for common equity rose from 4.848 percent in 1963 to 5.332 percent in 1966. From 1967 through 1970, earnings declined, with lower common equity ratio, and with increased role of allowance for funds used during construction. The component for

common equity declined from 5.332 percent in 1966 to 4.588 percent in 1970. In 1971, 1972, 1973, and 1974 earnings deteriorated sharply, with much lower rate of return on common equity, at even lower common equity ratio, and with poor quality of earnings because of the major role of allowance for funds used during construction. The component for common equity declined from 4.588 percent in 1970 to 3.342 percent in 1974.

Earnings experience on common equity for the 39 operating electrics in original cost jurisdictions without flow-through used as comparison companies is next related, on page 48, to earnings experience on common equity of industrial companies with quality ranking of High Grade by Moody's. These are the same 43 industrial companies previously considered on pages 43-47 of the Exhibit, with averages shown on the bottom lines of page 47.

For each group for each year, I have computed the component for common equity. The component for common equity is, of course, the product of rate of return on common equity and the corresponding common equity ratio. Thus the common equity component provides an overall measure of earnings experience on common equity. Then I have shown the component for common equity of the above 39 operating electric

utilities in original cost jurisdictions without flow-through used as comparison companies as percent of the component for common equity of the above 43 High Grade industrial companies.

The data at the lower left on page 48 relate the earnings experience of the 39 operating electric utilities in original cost jurisdictions without flow-through to that of the 43 High Grade industrial companies. The component for common equity of the 38 comparison companies is shown as percent of component for common equity of the 43 High Grade industrials. The components have been in a fairly consistent relationship to each other.

During the years 1967 through 1970, the component for common equity for the electric utilities as percent of the component for common equity for the industrials ranged from 31.51 percent to 33.35 percent. During the years 1971 and 1972, the relationship was 33.55 percent and 35.40 percent. During the years 1973 and 1974, when industrial earnings rose to high levels, largely as a result of inventory profits, and earnings of many electric utilities collapsed, the relationship was 27.64 percent and 25.74 percent.

The indicated fair rate of return on common equity, 14.50 percent, at the 33.40 percent common equity ratio, which I am using for Carolina Power & Light Company, and the resulting

component for common equity of 4.84 percent to the components for common equity for the High Grade industrials. The relationship of the components was 33.31 percent in 1973, and 37.20 percent in 1974, of the corresponding components for common equity in overall rate of return for the High Grade industrials.

It is clear that the electric utility industry has been able to operate successfully at a much lower rate of return on common equity and at a much lower common equity ratio and hence at a much lower component for common equity than the corresponding measurements for the High Grade industrial companies. The component for common equity has averaged about one-third of that for the High Grade industrial companies. This evidences a major excess of earnings power on common equity, and, probable degree of risk for the High Grade industrial companies over that for the operating electric utilities.

Q. What other conclusions do you reach from the study on page 48?

A. Other conclusions follow from the study shown on page 48 of the Exhibit. In forming a judgment as to fair rate of return for a subject company, we should give primary consideration

to earnings experience of comparison companies during very recent years - 1971, 1972, 1973,1974, and 1975. The decline in corporate profitability has been general and substantial, and the higher rates of return and coverage ratios of, say, 1965, 1966, and 1967 should not be utilized in 1976 as a guide to fair rate of return.

At the same time, we must not forget that many individual companies in the electric utility business are in nothing less than deep depression in terms of earnings experience on common equity. We should avoid use of earnings experience of sick, problem, unsuccessful companies as a guide to fair rate of return for a subject company.

Finally, we can confidently utilize appropriate rate of return data for electric utilities during recent years as a guide to fair rate of return, with no fear whatsoever of circular reasoning. Their earnings experience is, in general, very much "in line" with historical relationships with corporate profitability in the unregulated part of the American economy. The sharp drop in the ratio of the component for common equity for electric utilities to that of the High Grade industrial companies which occurred from 1972 to 1973 and 1974, however, must remind us of the low positon of the electric utility industry in current circumstances in the American economy.

It is significant and meaningful, therefore, that the indicated fair rate of return on common equity for Carolina Power & Light Company - 14.50 percent at a 33.40 percent common equity ratio - is very much "in line" with historical relationships with corporate profitability of these closely comparable firms in the regulated part of the American economy.

Indicated Fair Rate of Return on Basis of Test of Commensurate Return

Q. What conclusions do you draw, Dr. Langum, from your studies comprising the test of commensurate return?

A. As shown on page 49 of the Exhibit, on the basis of the test of commensurate return, the indicated fair rate of return on common equity for Carolina Power & Light Company is 14.50 percent for common equity at a common equity ratio of 33.40 percent. This is on a basis including allowance for funds used during construction.

STANDARDS OF MAINTENANCE OF CREDIT AND SUPPORT OF FINANCIAL INTEGRITY AND ATTRACTION OF CAPITAL ON FAIR AND REASONABLE TERMS

Q. Dr. Langum, referring back to page 17 where you show an outline of the basis of your determination of fair rate of return on

book value of common equity, you refer to standards of maintenance of credit and support of financial integrity and attraction of capital on fair and reasonable terms as well as the standard of commensurate return. Will you comment on this basis of determination of fair rate of return on common equity?

A. The standards of attraction of capital on fair and reasonable terms, maintenance of credit, and support of financial integrity have vital bearing on the required earnings rate on common equity. For example, earnings for common should be sufficient, given the general stock market level, to support market price at or above book value and enable sale of common stock on terms which are fair and reasonable to existing common shareholders. Furthermore, it is the earnings on common equity which provide the support for meeting adequate coverage ratios on bonds and on preferred stock. Adequate earnings experience on the common equity of Carolina Power & Light Company is required to support the attraction of capital, which lies ahead, both debt and preferred stock, as well as common stock.

Market Price of Common Stock
In Relation to Book Value and Common Stock Offerings

Q. Will you go on now and explain your studies of required earnings rate on common equity for attraction of capital on fair and reasonable terms, maintenance of credit, and support of financial integrity?

A. With respect to these standards of fair return as applicable to common stock, I have made the studies of market appraisal of common stock shown on pages 50-54 of the Exhibit.

There has been an exceedingly sharp decline in market appraisal of electric utilities during recent years as shown in terms of price-earnings ratios, dividend yields, and market price as percent of book value. In part, the low market appraisal for the electric utilities was due to the dire situation of the industry. In part, however, it was due to the low level of the stock market generally.

Q. What has happened to the market price of Carolina Power & Light Company's common stock in the light of its earnings experience?

A. The market price of common stock of Carolina Power & Light Company has declined-- absolutely and relative to earnings, dividends, and book value.

Q. How does market price now relate to book value?

A. Market price, $20.625, is now, at the close on April 19, 1976, still below book value per share, $22.10 on December 31, 1975.

Q. What is the significance of a situation in which market price is below book value per share?

A. The significance of this relationship is that Carolina Power & Light Company is not able to attract common stock capital on

fair and reasonable terms. In a common stock offer in these circumstances, the new buyer of common stock will acquire a share of common stock at the offering price, necessarily closely related to the market price, for less than the book value per share of the common equity owned by the existing shareholders. Thus, there is dilution of the book value of common stock and failure to support the financial integrity of the Company. This is a most serious situation for the Company, for its shareholders and customers alike, and for this Commission.

Q. Why is this a most serious situation?

A. Carolina Power & Light Company must attract common stock capital, not only to derive capital funds from sale of common stock, but also to support and make possible the attraction of capital funds from sale of first mortgage bonds and preferred stock.

Q. How does Carolina Power & Light Company compare in this respect with other electric utilities?

A. Market price as percent of book value is shown on pages 50 and 51 of the Exhibit for the 89 major electric utilities with publicly-held common stock. Market price, at the close on October 22, 1975, is related to book value, on December 31, 1974.

The median for the 89 electric utilities is 88.34 percent. The ratio for Carolina Power & Light Company, 77.96 percent, is shown in the upper portion on page 51.

Q. Let us go on now, Dr. Langum, to consider the attraction of common stock capital on fair and reasonable terms. Please describe your study of common stock offerings of electric utilities shown on page 52 of the Exhibit?

A. The study of common stock offerings of electric utilities during 1972, 1973, 1974, 1975, and 1976 thus far, shown on page 52 of the Exhibit points up the serious problem confronting most electric utilities of ability to sell common stock on fair and reasonable terms. In 1972, 41 of 45 common stock offerings were with price to public at or above book value. In 1973, 34 of 47 common stock offerings were with price to public at or above book value, In 1974, only 8 of 54 common stock offerings were with price to public at or above book value. In 1975, only 12 of 94 common stock offerings were with price to public at or above book value. In 1976 thus far, only 7 of 25 common stock offerings were with price to public at or above book value.

Q. What has been the record of common stock offerings of Carolina Power & Light Company?

A. The record of common stock offerings and offering price in relation to book value for Carolina Power & Light Company during 1972-1975 is shown on page 53 of the Exhibit.

Price to public per share related to book value per share was 77.68 percent in the offering on October 28, 1975. This ratio was 63.50 percent in the offering on January 16, 1975.

Q. What do you conclude from the studies on common stock offerings of electric utilities?

A. In present circumstances of market appraisal of common stocks of electric utilities, a rate of return on common equity of 14.50 percent at a common equity ratio of 33.40 percent offers reasonable hope but not assurance that a common stock offering by Carolina Power & Light Company can be made on fair and reasonable terms to existing investors. Such an earnings rate is necessary for the support of financial integrity of Carolina Power & Light Company.

Q. Dr. Langum, so far you have been discussing earnings experience on common equity and the difficulties Carolina Power & Light Company finds in attracting common stock capital. Does Carolina Power & Light Company face similar difficulties in attracting debt capital and preferred stock capital?

A. Indeed Carolina Power & Light Company faces equally serious difficulties in attracting debt capital and preferred stock

capital. Long-term interest rates and dividend yields costs are at high levels.

Beyond high interest rates and dividend yields, however, there is the drastic situation of decline in coverage ratios and possible outcome of downgrading in ratings of the first mortgage bonds and the preferred stock of Carolina Power & Light Company. Earnings for common equity must be increased or there will be failure to maintain the credit of the Company.

Q. What bearing does earnings for common equity have on ratings of first mortgage bonds and preferred stock and the maintenance of the credit of the Company?

A. It is the earnings for common equity that provide the coverage or the protection of payment of the interest charges and preferred stock dividends of the Conpany. The present ratings situation on both the first mortgage bonds and of the preferred stock of Carolina Power & Light Company is in serious shape because of the sharp drop in earnings experience on common equity in the face of the sharp rise in imbedded costs of debt and preferred stock.

Coverage of Fixed Charges

Q. Please explain the general system of ratings of debt and preferred stock issues of public utility companies?

A. Moody's Investors Service, Inc. and Standard & Poor's Corporation rate public utility bonds and preferred stock. In terms of their standards and criteria, particularly coverage ratios, Moody's and Standard &Poor's Corporation rate first mortgage bonds and preferred stock of Carolina Power & Light Company, always when they are issued, but also on a basis of continuing surveillance of credit standing.

Explanation and key to Moody's Corporate Bond Ratings is shown on page 54 of the Exhibit. Explanation and key to Standard & Poor's Ratings on Corporate Bonds is shown on page 55 of the Exhibit. In Moody's ratings, gradations of investment quality are indicated by rating symbols, each symbol representing a group in which the quality characteristics are broadly the same, ...from that used to designate least investment risk (i.e., highest investment quality) to that devoting greatest investment risk (i.e., lowest investment quality). The first mortgage bonds of Carolina Power & Light Company are rated Baa by Moody's and A by Standard & Poor's.

On pages 56 and 61 are recent articles by Moody's on interest coverage and ratings. The role of allowance for funds used during construction is given major emphasis. On pages 57-60 is a recent

article by Standard & Poor's Corporation entitled, "Fundamental Approach to Public Utility Bond Ratings." Specific guidelines for pre-tax coverage in relation to ratings are stated in the lower right corner of page 56 and the upper left corner of page 58.

Q. Please explain pages 61-67 of the Exhibit?

A. On page 61 is shown the comments by Moody's when they reduced the ratings on the Company's first mortgage bonds to Baa in March 1975. On pages 62-64 are shown the rating articles by Moody's on the $100 million first mortgage bond issue sold in April 1975. On page 65-67 are shown the rating articles by Standard & Poor's on that bond issue. The comments by Moody's, shown at the left, under Quality and Rating, on page 62, and by Standard & Poor's, shown at the upper left, in italics, on page 66, will be noted.

Q. Please explain pages 68-71 of the Exhibit?

A. The studies shown on pages 68-71 of the Exhibit present in summary form certain results of an exhaustive study which I have made of every electric utility bond offered during 1975 and 1976 thus far. The study covers identification of the debt offering, quality ratings by Moody's and Standard & Poor's, the several fixed charge coverage ratios shown in the prospectuses and by the rating agencies, and the comments and characterizations made by Moody's and Standard & Poor's in their rating articles.

The studies shown on pages 68 and 69 relate to coverage of fixed charges from 42 first mortgage bond offerings in 1975 and 1976 of electric utilities rated A by Moody's and Standard & Poor's. The various groups of companies may be compared in terms of the coverage of fixed charges after income taxes before construction credits for the last twelve months available at date of offering or rating change. The twenty-one companies with ratings maintained at A by Moody's and A by Standard & Poor's, shown on page 68, had such a coverage ratio of 1.98 times. The average coverage ratio was 2.10 times for the twelve issues excluding those where significant rate increases were not reflected. On page 69, the twenty-one companies with A ratings but described as "just barely maintained" or "in lower range" of the category, had such a coverage ratio of 1.69 times. The fourteen issues excluding those where significant rate increases are not fully reflected had an average coverage of 1.75 times. Referring to pages 70-72, the fifty-eight issues with ratings of better than A by Moody's and A by Standard & Poor's had an average coverage ratio of 2.20 times. The thirty-six issues, excluding those where significant rate increases are not fully reflected, had an average coverage ratio of 2.40 times.

Q. Why is the maintenance of at least an A rating on first mortgage bonds so important?

A. First mortgage bonds rated Baa or BBB have a much higher interest cost. Moreover, in the troubled capital markets of the last two years, it has been impossible much of the time to sell long-term Baa- and BBB-rated bonds of electric utilities.

Until very recently, going back to June 1974, it has been virtually impossible to market long-term Baa- and BBB-rated first mortgage bonds of electric utilities, in particular, and other utilities as well. This is shown on pages 73-75 of the Exhibit. The Baa- and BBB-rated bonds which have been sold have been largely of short maturities of five to eight years, as shown on page 73 of the Exhibit. Furthermore, such bonds as have been sold, have been marketed, in general, only at yields at times averaging well above A-rated issues, shown on page 74. The few long-term Baa- and BBB-rated issues which could be sold are shown on page 75 of the Exhibit.

The tests of the market in current circumstances demand that successful financing through first mortgage bonds by utilities be based upon at least an A rating by Moody's and Standard & Poor's. The institutional investors who are the major purchasers of utility bonds are simply not interested in Baa- and BBB-rated bonds of utilities. In turn, Aa- and AA-rated utility bonds have stron g advantages over A-rated bonds. Quality counts heavily in these troubled capital markets.

Q. What is the significance of the danger of being downgraded to Baa and BBB?

A. In today's capital markets, the downgrading to Baa and BBB has significance far beyond higher interest costs on new issues. Downgrading to Baa and BBB raises the ultimate question of sheer ability to finance on any reasonable terms.

Q. Please explain the study shown on page 76 of the Exhibit?

A. Coverage of fixed charges for Carolina Power & Light Company from 1968 through 1975 are shown in the study on page 76 of the Exhibit. Definitions for the three coverage ratios for fixed charges are given, as well as the underlying figures. These coverage ratios have dropped drastically. Times interest earned before taxes declined from 4.46 times in 1969 to 1.96 times in 1974. Times interest earned after taxes declined from 2.86 times in 1969 to 1.94 times in 1974 and 2.13 times in 1975. Times interest earned after taxes before construction credits (with allowance for funds used during construction not included in earnings) declined from 2.65 times in 1969 to 1.23 times in 1974 and 1.46 times in 1975.

Q. Please explain page 77 of the Exhibit?

A. The study on page 77 of the Exhibit shows the coverage of fixed charges for Carolina Power & Light Company which would result

from the fair rate of return of 14.50 percent on common equity at the common equity ratio of 33.40 percent, in combination with the imbedded cost of debt and the debt ratio and the imbedded cost of preferred and the preferred stock ratio. The resultant times interest earned after income taxes would be 2.51 times. Bearing in mind the relatively heavy role of allowance for funds used during construction in net income for common for Carolina Power Light Company, the resultant times interest earned after income taxes before construction credits, that is, excluding allowance for funds used during construction, would significantly lower.

Thus, the fair rate of return on common equity which I have determined would provide a coverage of fixed charges after income taxes before construction credits sufficient to support the A rating by Moody's and Standard & Poor's on the first mortgage bonds of Carolina Power & Light Company. I conclude that this standard supports the fair rate of return on common equity indicated by the test of commensurate return.

Throughout this discussion of coverage of interest, I have stressed the requirements of the rating agencies for the A rating - a minimum standard for being able to sell the issue. The requirement for adequate coverage to permit the rating and the

sale of the issue is higher and more stringent than the indenture requirement which merely permits the company to be able legally to sell the issue. In my judgment indenture coverage requirement is no indication of fair rate of return. Meeting the indenture coverage requirement alone does not permit attraction of capital on fair and reasonable terms. It does not support financial integrity. It does not provide for maintenance of credit.

Furthermore, Carolina Power & Light Company could certainly be entitled to achieve a higher rating than A.

<u>Coverage of Fixed Charges and Preferred Stock Dividends</u>

Q. Taking up preferred stock, please explain Moody's and Standard & Poor's rating services on preferred stock?

A. The preferred stock rating symbols used by Moody's and their definitions, and the factors considered in arriving at such ratings, are shown on pages 78-79. Corresponding facts about quality ratings on preferred stock by Standard & Poor's are shown on page 80.

Q. Please explain pages 81-83 of the Exhibit?

A. These pages show the rating articles by Moody's and by Standard & Poor's regarding the preference stock offering in March 1975 by Carolina Power & Light Company. On page 81 is stated

the reduction by Moody's to "baa" of ratings on the preferred stock of the Company. The preference stock was not rated by Moody's. On pages 82-83 is shown the rating of the preference stock at BBB by Standard & Poor's.

Q. Please explain your studies shown on pages 84-86 of the Exhibit?

A. Coverage of fixed charges and preferred dividends after income taxes before construction credits for preferred stock offerings of electric utilities rated A or better during 1975 and 1976 thus far, is shown on pages 84-86. The average for the 11 of the 22 issues with ratings maintained at "a" by Moody's and A by Standard & Poor's, where significant rate increases are fully reflected in coverage ratios, is 1.72 times, shown on page 85. The average for the 10 of the 15 issues with ratings better than "a" by Moody's and A by Standard & Poor's, where significant rate increases are fully reflected in coverage ratios, is 2.02 times, shown on page 86.

Q. What has happened to coverage of fixed charges and preferred dividends for Carolina Power & Light during recent years?

A. The study on page 87 of the Exhibit shows coverage of fixed charges and preferred dividends for Carolina Power & Light Company from 1968 through 1975. Coverage ratios for fixed

charges and preferred dividends are given, as well as the underlying figures. These ratios have dropped drastically. Times interest and preferred dividends earned after income taxes declined from 2.36 times in 1968 to 1.54 times in 1974 and 1.66 times in 1975. Times interest and preferred dividends earned after taxes before construction credits declined from 2.19 times in 1969 to 0.97 times in 1974 and 1.14 times in 1975.

Q. Please explain the study on page 88 of the Exhibit?

A. The study on page 88 of the Exhibit shows computation of times fixed charges and preferred stock dividends earned after income taxes from fair rate of return on common equity of 14.50 percent and common equity ratio of 33.40 percent, in combination with imbedded cost rates on debt and preferred stock and their capital structure ratios. Times charges and preferred dividends earned after income taxes would be 1.93 times. The corresponding ratio before construction credits, that is, excluding allowance for funds used during construction, would be significantly lower.

Q. What conclusions do you draw from your studies of coverage and ratings of preferred stock?

A. I conclude that the fair rate of return on common equity indicated by the test of commensurate return would serve to support the A rating on preferred stock of Carolina Power & Light Company by Standard & Poor's and the "a" rating by Moody's.

Q. Does this complete your discussion of attraction of capital on fair and reasonable terms and maintenance of credit and support of financial integrity?

A. Yes, it does. I conclude that the indicated rate of return of 14.50 percent on common equity, given the capital structure ratios and the cost of debt and preferred stock, will provide the attraction of capital on fair and reasonable terms and for maintenance of credit and support of financial integrity. It will not be adequate, of course, after further increases in operating expenses which outrun revenues and after further increases in the cost of senior capital.

Q. Dr. Langum, have you formed a judgment as to fair rate of return on common equity for Carolina Power & Light Company?

A. Yes, I have.

Q. Please state that judgment?

A. My judgment, shown on page 89 of the Exhibit, is that the fair rate of return on common equity which Carolina Power & Light Company should be afforded the opportunity of earning is 14.50 percent at the common equity ratio of 33.40 percent. This includes allowance for funds used during construction.

I have formed this judgment on the basis of the standard of commensurate return and the standards of maintenance of credit and support of financial integrity and attraction of capital on fair and reasonable terms. The standard of commensurate return was based upon studies of earnings experience on common equity during 1971, 1972, 1973, 1974, and 1975, of those electric utilities in original cost jurisdictions without flow-through used as comparison companies. I also gave consideration to recent rate orders by regulatory commissions concerning electric utilities and to earnings being "in line" with earnings experience on common equity of High Grade industrial companies. The standards of maintenance of credit and support of financial integrity and attraction of capital on fair and reasonable terms, were based upon studies of common stock offerings of Carolina Power & Light Company during 1972, 1973, 1974, and 1975, and of price to public in common stock offerings of electric utilities in relation to book value during 1972, 1973, 1974, 1975, and 1976 thus far, upon studies of first mortgage bond offerings of electric utilities during 1975 and 1976 thus far, and required fixed charge coverage ratios to support the A ratings on the first mortgage bonds of Carolina Power & Light Company and upon studies of preferred stock offerings of electric utilities during 1975 and 1976 thus far, and required

fixed charge and preferred stock dividend coverage ratios to support the "a" and A rating on the preferred stock of Carolina Power & Light Company.

In my judgment, as shown on page 89 of the Exhibit, taking all of the above considerations and studies into account, the fair rate of return on common equity for Carolina Power & Light Company is 14.50 percent at 33.40 percent common equity ratio. This includes allowance for funds used during construction.

FAIR RATE OF RETURN

Q. Dr. Langum, have you formed a judgment as to the fair rate of return on total capital which Carolina Power & Light Company should be afforded the opportunity of earning?

A. Yes, I have.

Q. Please state your judgment as to the fair rate of return on total capital?

A. My judgment as to the fair rate of return on total capital which Carolina Power & Light Company should be afforded the opportunity to earn is shown on page 90 of the Exhibit.

The capital structure ratios are those developed on page 7 of the Exhibit. Cost of debt is shown at 7.74 percent, from page 12, and cost of preferred stock and preference stock is

shown at 8.01 percent, from page 10. For common equity, I have utilized the fair rate of return on common equity, just developed on page 89 of the Exhibit, of 14.50 percent at a common equity ratio of 33.40 percent. I have combined the cost rates for each segment of the capitalization with the capital structure ratios to obtain weighted component of the overall fair rate of return. For debt, the cost of 7.74 percent combined with the capital structure ratio of 51.59 percent gives a weighted component of 3.99 percent. For preferred stock and preference stock, the cost of 8.01 percent and the capital structure ratio of 15.01 percent gives a weighted component of 1.20 percent. For the common equity, the combination of the fair and reasonable earnings rate of 14.50 percent and the 33.40 percent ratio of common equity in the capital structure gives a weighted component of 4.84 percent. Addition of the weighted components results in a total of 10.00 percent.

It is my judgment that the fair rate of return on total capital which Carolina Power & Light Company should be afforded the opportunity of earning is 10 percent. It is my judgment that this is the fair rate of return on total capital for Carolina Power & Light Company, which is necessary to enable the Company to support

its capital structure, to attract needed new capital on fair and reasonable terms, to provide a return on its common equity commensurate with that earned by the most comparable business undertakings and the closest alternative investment opportunities to maintain its credit, and to assure confidence in its financial integrity.

Q. Have you formed a judgment as to the fair rate of return on the net original cost rate base applicable to retail operations in South Carolina which Carolina Power & Light Company should be afforded the opportunity of earning?

A. Yes, I have.

Q. Please state that judgment?

A. In my judgment, the fair rate of return on the net original cost rate base applicable to retail operations in South Carolina which Carolina Power & Light Company should be afforded the opportunity of earning is 10 percent. This judgment, shown on page 91 of the Exhibit, is based on the fair return on total capital related to the net original cost rate base which approximates total invested capital.

South Carolina Public Service Commission
Docket Nos. 18,361 and 18,387
Langum Exhibit No. 1

CAROLINA POWER & LIGHT COMPANY

STUDIES REGARDING FAIR RATE OF RETURN

BEFORE SOUTH CAROLINA PUBLIC SERVICE COMMISSION

DR. JOHN K. LANGUM
ECONOMIC CONSULTANT
CHICAGO, ILLINOIS

MAY 1, 1976

CAROLINA POWER & LIGHT COMPANY

STUDIES REGARDING FAIR RATE OF RETURN

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CAROLINA POWER & LIGHT COMPANY

STATEMENT OF SOURCE AND USE OF FINANCIAL RESOURCES

	Twelve Months Ended					
	December 31,					August 31,
	1970	1971	1972	1973	1974	1975 (Unaudited)
	Thousands of Dollars					
Source of Financial Resources:						
Current resources provided from operations:						
Net income	$ 24,825	$ 37,474	$ 60,529	$ 65,999	$ 72,271	$ 89,165
Items not requiring (providing) current resources:						
Depreciation and amortization	19,965	28,327	37,203	40,430	45,391	51,846
Allowance for funds used during construction	(10,505)	(14,708)	(24,759)	(38,093)	(54,609)	(63,561)
Noncurrent deferred income taxes—net	1,278	3,480	5,972	7,430	11,188	22,094
Investment tax credit adjustments—net	(1,505)	1,277	1,756	2,948	(6,241)	(821)
Total current resources from operations	34,058	55,850	80,701	78,714	68,000	98,723
Other resources provided:						
Additions to plant accounts representing capitalization of net cost of funds used during construction	10,505	14,708	24,759	38,093	54,609	63,561
Proceeds from assignment to lessor of internal combustion turbine generators					44,455	
Proceeds from sale and leaseback of nuclear fuel					47,593	47,593
Miscellaneous—net	1,228	883	663	109	3,995	9,579
Total resources provided from operations and other*	45,791	71,441	106,123	116,916	218,652	219,456
Financing:						
Sale of:						
First mortgage bonds	89,302	134,351	99,317	199,755	150,979	148,291
Six-year note			50,000			
Preferred stock	29,575	34,506	49,364	49,949	64,231	
Preference stock						47,744
Common stock	29,186	33,910	125,039	63,449	3,381	59,309
Increase (decrease) in short-term notes payable less temporary cash investments	2,914	12,483	(70,164)	16,356	103,301	(10,583)
Total resources provided from financings	150,977	215,250	253,556	329,509	321,892	244,761
TOTAL	$196,768	$286,691	$359,679	$446,425	$540,544	$464,217
Use of Financial Resources:						
Gross property additions excluding nuclear fuel*	$167,741	$239,291	$315,382	$359,056	$382,602	$358,868
Nuclear fuel additions*	3,722	20,232	16,918	37,610	39,939	25,495
Dividends for the year	23,712	30,492	36,785	45,708	58,048	64,748
Net increase (decrease) in working capital, excluding short-term notes payable and temporary cash investments	1,593	(3,324)	(12,406)	4,051	59,955	15,106
TOTAL	$196,768	$286,691	$359,679	$446,425	$540,544	$464,217
Increase (Decrease) in Working Capital, Excluding Short-term Notes Payable and Temporary Cash Investments, by Components:						
Materials and supplies (principally fuel)	$ 11,419	$ (9,107)	$ 5,576	$ 105	$ 69,335	$ 8,914
Deferred fossil fuel inventory costs					35,028	342
Accounts receivable	300	5,898	1,163	2,900	19,869	(10,774)
Accounts payable	(4,374)	(2,219)	(8,567)	3,557	(40,310)	17,720
Current portion of deferred income taxes					(13,578)	3,335
Taxes accrued	(3,845)	6,932	(3,222)	3,036	(7,693)	(5,461)
Interest and dividends payable	(5,426)	(5,656)	(5,576)	(5,153)	(6,077)	(6,511)
Other—net	3,519	828	(1,450)	(394)	3,381	7,541
Net increase (decrease) in working capital, excluding short-term notes payable	$ 1,593	$ (3,324)	$(12,406)	$ 4,051	$ 59,955	$ 15,106

*Includes amounts charged to utility plant representing the "allowance for (the cost of) funds used during construction".

See Notes to Financial Statements.

Source: Carolina Power & Light Company, Prospectus, 5,000,000 Shares Common Stock, October 28, 1975, page 35.

CAROLINA POWER & LIGHT COMPANY
EXTERNAL FINANCING IN RELATION TO TOTAL FUNDS USED FOR CONSTRUCTION
1970-1974 AND TWELVE MONTHS ENDED AUGUST 31, 1975

	1970	1971	1972	1973	1974	Twelve Months Ended August 31, 1975
Gross property additions excluding nuclear fuel and excluding amounts charged to utility plant representing the allowance for funds used during construction	$157,236,000	$224,583,000	$293,623,000	$320,963,000	$327,993,000	$292,307,000
Total external financing	150,977,000	215,250,000	253,556,000	329,509,000	321,892,000	244,761,000
Total external financing as percent of total funds used for construction	96.02%	95.84%	86.35%	102.66%	98.14%	83.73%

Source: Carolina Power & Light Company, Prospectus, 5,000,000 Shares Common Stock, October 28, 1975, page 35.

CAROLINA POWER & LIGHT COMPANY
CAPITALIZATION
1962-1975

	December 31, 1962	December 31, 1963	December 31, 1964	December 31, 1965	December 31, 1966	December 31, 1967	December 31, 1968	December 31, 1969
Debt								
Long-term debt								
First mortgage bonds	$169,030,000	$169,030,000	$199,030,000	$199,030,000	$229,030,000	$269,030,000	$309,030,000	$309,030,000
Other long-term debt	3,200,000	2,560,000	1,920,000	1,280,000	-	-	-	-
Total long-term debt	172,230,000	171,590,000	200,950,000	200,310,000	229,030,000	269,030,000	309,030,000	309,030,000
Short-term debt								
Notes payable								
Banks	-	8,500,000	-	14,000,000	14,640,000	11,641,867	15,426,434	37,450,000
Other	-	-	-	-	-	-	-	29,317,098
Total short-term debt	-	8,900,000	-	14,000,000	14,640,000	11,641,867	15,426,434	66,767,098
Total debt	172,230,000	180,090,000	200,950,000	214,310,000	243,670,000	280,671,867	324,456,434	375,797,098
Preferred Stock								
Total preferred stock	34,375,900	34,375,900	34,375,000	34,375,900	34,375,900	59,375,900	59,375,900	59,375,000
Common Equity								
Common stock	84,184,024	84,828,547	94,605,780	120,439,373	131,889,389	133,109,082	134,385,330	164,331,588
Retained earnings	45,826,169	50,965,836	54,615,947	36,085,153	42,813,568	48,654,929	55,547,686	62,502,253
Capital stock expense	(2,611,754)	(2,613,254)	-	-	-	-	-	-
Total common equity	127,398,439	133,181,129	149,221,727	156,524,526	174,702,957	181,764,011	189,933,016	226,803,841
Total Capitalization	$334,004,339	$347,647,029	$384,546,727	$405,210,426	$452,748,857	$521,811,778	$573,765,350	$661,975,939

	December 31, 1971	December 31, 1972	December 31, 1973	December 31, 1974	December 31, 1975
Debt					
Long-term debt					
First mortgage bonds	$ 534,030,000	$ 634,030,000	$ 834,030,000	$ 956,650,000	$1,109,030,000
Other long-term debt	122,633	50,110,242	50,252,925	47,415,273	46,224,061
Total long-term debt	534,152,633	684,140,242	884,282,925	1,034,095,273	1,155,254,061
Short-term debt					
Notes payable					
Banks	34,475,000	5,630,000	11,872,000	50,325,000	78,385
Other	47,688,288	6,369,702	16,483,799	81,332,016	-
Total short-term debt	82,163,288	11,999,702	28,355,799	131,657,016	78,385
Total debt	616,315,921	696,139,944	912,638,724	1,165,752,319	1,155,332,446
Preferred Stock					
Total preferred stock	124,375,900	173,800,900	223,800,900	238,118,400	336,018,400
Common Equity					
Common stock	227,538,989	352,775,861	416,321,036	419,721,904	565,603,691
Retained earnings	68,153,300	90,673,379	110,816,532	128,762,726	156,676,428
Capital stock expense	-	-	-	-	-
Total common equity	295,692,289	443,449,240	527,137,568	548,484,630	722,280,119
Total Capitalization	$1,036,384,110	$1,313,390,084	$1,663,577,198	$2,002,355,349	$2,213,630,963

Source: Carolina Power & Light Company, Annual Report 1975, pages , and corresponding pages in previous annual reports.

CAROLINA POWER & LIGHT COMPANY
CAPITAL STRUCTURE RATIOS
1962-1975

	December 31, 1962	December 31, 1963	December 31, 1964	December 31, 1965	December 31, 1966	December 31, 1967	December 31, 1968	December 31, 1969	December 31, 1970	December 31, 1971	December 31, 1972	December 31, 1973	December 31, 1974	December 31, 1975
Debt	51.57%	51.80%	52.26%	52.89%	53.82%	53.79%	56.55%	56.77%	57.58%	59.47%	53.00%	54.86%	58.22%	52.19%
Preferred Stock	10.29	9.89	8.94	8.48	7.59	11.38	10.35	8.97	10.98	12.00	13.23	13.45	14.39	15.18
Common Equity	38.14	38.31	38.80	38.63	38.59	34.83	33.10	34.26	31.44	28.53	33.77	31.69	27.39	32.63
Total Capitalization	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Note.-Debt includes long-term debt payable within one year and notes payable included in current liabilities in balance sheet of company.

Source: Computed from data on page 3.

CAROLINA POWER & LIGHT COMPANY
CAPITALIZATION AND CAPITAL STRUCTURE RATIOS
DECEMBER 31, 1975 AND DECEMBER 31, 1976 ESTIMATED

	December 31, 1975		December 31, 1976 Estimated	
	Capitalization	Capital Structure Ratios	Capitalization	Capital Structure Ratios
Debt				
Long-term debt	$1,155,254,061		$1,155,469,000	
Short-term debt	78,385		29,700,000	
Total debt	1,155,332,446	52.19%	1,185,169,000	50.63%
Preferred Stock & Preference Stock	336,018,400	15.18	336,018,000	14.36
Common Equity				
Common stock	565,609,691		630,410,000	
Retained earnings	156,676,428		189,201,000	
Total common equity	722,286,119	32.63	819,611,000	35.01
Total Capitalization	$2,213,636,965	100.00%	$2,340,798,000	100.00%

CAROLINA POWER & LIGHT COMPANY
CAPITALIZATION AND CAPITAL STRUCTURE RATIOS
IN TERMS OF REGULATORY CONCEPTS
DECEMBER 31, 1975 AND DECEMBER 31, 1976 ESTIMATED

	December 31, 1975		December 31, 1976 Estimated	
	Capitalization	Capital Structure Ratios	Capitalization	Capital Structure Ratios
Debt				
Long-term debt	$1,155,254,061		$1,155,469,000	
Short-term debt	78,385		29,700,000	
Total debt	1,155,332,446	51.59%	1,185,169,000	49.68%
Preferred Stock & Preference Stock	336,018,400	15.01	336,018,000	14.08
Common Equity				
Common stock	565,609,691		630,410,000	
Retained earnings	156,676,428		189,201,000	
Accumulated Deferred Income Taxes - Accelerated Amortization	6,761,406		6,099,000	
Deferred Job Development Investment Tax Credit	18,787,931		38,981,000	
Total common equity	747,835,456	33.40	864,691,000	36.24
Total Capitalization	$2,239,186,302	100.00%	$2,385,878,000	100.00%

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CAROLINA POWER & LIGHT COMPANY
CAPITAL STRUCTURE RATIOS USED IN STUDY OF FAIR RATE OF RETURN

	Based on December 31, 1975
Total debt	51.59%
Preferred stock and preference stock	15.01
Common equity	33.40
Total Capitalization (page 6)	100.00%

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MOODY'S AVERAGES OF YIELDS
ON NEWLY-ISSUED LONG-TERM PUBLIC UTILITY BONDS RATED Aaa, Aa, A, AND Baa
1960-1976, BY YEARS

AVERAGES OF YIELDS ON NEWLY-ISSUED LONG-TERM PUBLIC UTILITY BONDS

	Aaa	Aa	A	Baa
1960	4.76%	4.76%	4.98%	5.36%
1961	4.57%	4.58%	4.79%	5.08%
1962	4.40%	4.31%	4.43%	4.82%
1963	4.30%	4.36%	4.42%	4.66%
1964	4.49%	4.47%	4.56%	4.80%
1965	4.58%	4.64%	4.72%	4.95%
1966	5.42%	5.60%	5.77%	6.05%
1967	5.79%	6.05%	6.28%	6.33%
1968	6.54%	6.69%	6.95%	7.10%
1969	7.80%	7.92%	8.22%	8.69%
1970	8.61%	8.63%	9.19%	9.68%
1971	7.50%	7.68%	7.93%	8.34%
1972	7.30%	7.45%	7.60%	7.85%
1973	7.81%	7.80%	8.05%	8.25%
1974	9.02%	9.04%	9.75%	9.16%*
1975	9.11%	9.46%	10.22%	11.39%
1976**	8.56%	8.92%	9.13%	9.77%

*January-May, 1974

**January-March 23, 1976

Source: Moody's Investors Service, Inc., Moody's Public Utility Manual, 1975, pages a3-a5; Moody's Bond Survey, December 8, 1975, page 515, December 29, 1975, page 446, January 5, 1976, page 1790, February 9, 1976, page 1664, March 8, 1976, page 1570 and corresponding pages in previous issues.

MOODY'S AVERAGES OF YIELDS
ON NEWLY-ISSUED LONG-TERM PUBLIC UTILITY BONDS RATED Aaa, Aa, A, AND Baa
1970-1976, BY MONTHS

AVERAGES OF YIELDS ON NEWLY-ISSUED LONG-TERM PUBLIC UTILITY BONDS

		Aaa	Aa	A	Baa
1970	May	8.91%	9.06%	9.30%	-
	June	8.96	9.32	9.67	10.47%
	July	8.53	8.94	9.11	9.53
	August	8.70	8.72	9.35	10.08
	September	8.56	8.83	9.32	9.81
	October	8.86	8.90	9.40	9.82
	Average	8.61%	8.63%	9.19%	9.68%
1971	Average	7.50%	7.68%	7.93%	8.34%
1972	January	7.09%	7.11%	7.36%	-
	February	7.26	7.49	7.50	7.76%
	March	-	7.39	7.48	7.89
	April	7.39	7.60	7.80	7.95
	May	7.39	7.42	7.66	-
	June	7.45	7.45	7.54	7.95
	Average	7.30%	7.45%	7.60%	7.85%
1973	Average	7.81%	7.80%	8.05%	8.25%
1974	January	8.06%	8.37%	8.50%	8.95%
	February	8.07	8.13	8.49	8.70
	March	8.33	8.61	8.81	9.07
	April	8.86	9.08	9.40	9.53
	May	8.85	9.20	9.81	9.45
	June	9.30	9.46	9.95	-
	July	9.65	-	11.05	-
	August	9.97	10.75	10.75	-
	September	10.05	10.45	11.02	-
	October	10.06	11.33	10.75	-
	November	-	9.15	9.90	-
	December	9.52	9.64	10.25	-
	Average	9.02%	9.04%	9.75%	9.16%*
1975	January	8.625%	9.00%	9.71%	-
	February	8.73	8.90	9.42	-
	March	9.23	9.52	10.16	-
	April	9.20	9.94	10.94	11.00%
	May	9.00	9.74	10.80	10.79
	June	9.07	9.23	9.87	-
	July	8.80	9.63	10.38	11.57
	August	-	9.60	10.76	-
	September	9.68	9.875	10.83	-
	October	9.40	9.32	10.46	-
	November	9.375	9.75	10.11	11.30
	December	9.35	9.68	10.31	11.78
	Average	9.11%	9.46%	10.22%	11.39%
1976	January	8.60%	8.95%	9.10%	9.90%
	February	8.34	8.65	9.11	9.60
	March 1-23	8.61	8.93	9.20	-
	Average**	8.56%	8.92%	9.13%	9.77%

*January-May 1974 **January-March 23, 1976

COMMERCIAL BANK PRIME LOAN RATE
1960-1976

Period	Low	High
August 23, 1960 - December 6, 1965	4 - 1/2%	
March 25, 1970 - September 21, 1970		8%
March 11, 1971 - May 11, 1971	5 - 1/4	
July 7, 1971 - October 20, 1971		6
January 31, 1972 - March 23, 1972	4 - 1/2	
September 14, 1973 - October 24, 1973		10
March 4, 1974 - March 31, 1974	8	
May 1, 1974 - September 30, 1974		12
October 7, 1974 - April 30, 1975	7 - 1/2	
June 9, 1975 - July 18, 1975	7	
July 18, 1975 - October 27, 1975		8
February 28, 1976 -	6 - 3/4	

Source: Board of Governors of the Federal Reserve System, Federal Reserve Bulletin, February 1976, page A26; Wall Street Journal, issues during March 1974 - March 23, 1976.

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CAROLINA POWER & LIGHT COMPANY
COST OF DEBT

	Based on Imbedded Cost of Debt December 31, 1975
Carolina Power & Light Company	
Cost of Debt	7.74%

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CAROLINA POWER & LIGHT COMPANY
IMBEDDED COST OF PREFERRED STOCK AND PREFERENCE STOCK
DECEMBER 31, 1975

	Amount Outstanding	Dividend Requirements	Cost Rate
Preferred Stock, without par value, cumulative:			
$5 (authorized, 300,000 shares; outstanding, 237,259 shares)	$ 24,375,900	$ 1,186,295	
Serial (authorized, 10,000,000 shares):			
$4.20 Series (outstanding, 100,000 shares)	10,000,000	420,000	
$5.44 Series (outstanding, 250,000 shares)	25,000,000	1,360,000	
$9.10 Series (outstanding, 300,000 shares)	30,000,000	2,730,000	
$7.95 Series (outstanding, 350,000 shares)	35,000,000	2,782,500	
$7.72 Series (outstanding, 500,000 shares)	49,425,000	3,860,000	
$8.48 Series (outstanding, 650,000 shares)	64,317,500	5,512,000	
Preferred Stock A (authorized, 5,000,000 shares):			
$7.45 Series (outstanding, 500,000 shares)	50,000,000	3,725,000	
Total preferred stock	$ 288,118,400	$ 21,575,795	7.49%
Preference Stock:			
$2.675 Preference Stock, Series A, 2,000,000 shares, sold in March 1975	47,900,000	5,350,000	11.17%
Total Preferred Stock and Preference Stock, December 31, 1975	$ 336,018,400	$ 26,925,795	8.01%

Source: Carolina Power & Light Company, Annual Report, 1974; Financial Statements, pages 17, 19; Prospectus, 650,000 Shares, Serial Preferred Stock, $8.48 Series, Cumulative, February 4, 1974, page 7; Prospectus, $2.675 Preference Stock, Series A, 2,000,000 Shares, March 1975; Interim Financial Statements, December 31, 1975.

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OFFERING YIELDS ON MAJOR NONCONVERTIBLE PREFERRED STOCK ISSUES
BY ELECTRIC UTILITIES
1966-1976, BY YEARS

Year	All Issues	Issues Rated AA	Issues Rated A	Issues Rated BBB
1966	5.65%			
1967	5.97			
1968	6.62			
1969	7.57			
1970	8.98			
1971	7.89	7.69%	7.98%	n.a.
1972	7.55	7.37	7.58	n.a.
1973	7.70	7.37	7.66	8.12%
1974	10.27	9.24	10.24	12.39
1975	10.71*	9.70	10.56	11.10
1976**	9.08	8.62	9.38	9.39

**Average January-March 23, 1976

*Includes a few issues rated BB and B.

Source: Standard & Poor's Corporation, The Fixed Income Investor, December 27, 1975, page 96 and corresponding pages in previous issues. Moody's Investors Service, Inc., Moody's Bond Survey, December 29, 1975, page 460, March 22, 1976, page 1527 and corresponding pages in previous issues. Wall Street Journal; New York Times; The Commercial and Financial Chronicle; The Money Manager; Investment Dealers' Digest.

OFFERING YIELDS ON MAJOR NONCONVERTIBLE PREFERRED STOCK ISSUES
BY ELECTRIC UTILITIES
1975-1976, BY MONTHS

	All Issues	Issues Rated AA	Issues Rated A	Issues Rated BBB
1975				
January	11.25%	-	11.34%	11.13%
February	9.89	-	9.89	-
March	10.66	9.32%	10.16	11.08
April	10.19	9.45	10.92	-
May	11.27	10.70	10.66	11.88
June	10.21	9.75	-	10.90
July	10.35*	9.44	10.45	10.52
August	11.375	-	-	11.375
September	11.47	-	10.80	12.37
October	10.99*	9.52	10.58	10.92
November	10.47	-	10.34	10.88
December	10.43*	-	10.41	9.92
Average	10.71%	9.70%	10.56%	11.10%
1976				
January	9.02%	8.57%	9.52%	9.42%
February	9.00	-	-	9.00
March 1-23	9.22	8.68	9.25	9.75
Average**	9.08%	8.62%	9.38%	9.39%

**Average January-March 23, 1976

*Includes a few issues rated BB and B.

Source: Standard & Poor's Corporation, The Fixed Income Investor, December 27, 1975, page 96 and corresponding pages in previous issues. Moody's Investors Service, Inc., Moody's Bond Survey, December 29, 1975, page 460, March 22, 1976, page 1527 and corresponding pages in previous issues. Wall Street Journal; New York Times; The Commercial and Financial Chronicle; The Money Manager; Investment Dealers' Digest.

CAROLINA POWER & LIGHT COMPANY
COST OF PREFERRED STOCK AND PREFERENCE STOCK

	Based on Imbedded Cost of Preferred Stock and Preference Stock September 30, 1975 and Estimated December 31, 1976
Carolina Power & Light Company	
Cost of Preferred Stock and Preference Stock	8.01%

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CAROLINA POWER & LIGHT COMPANY
DETERMINATION OF FAIR RATE OF RETURN ON BOOK VALUE OF COMMON EQUITY

On Basis of

Standard of Commensurate Return

Earnings experience on common equity of electric utilities in original cost jurisdictions, without flow-through, used as comparison companies,
1971, 1972, 1973, 1974

Adjustment for differences in common equity ratio.

Exclusion of certain companies from use as comparison companies.

"In line" with earnings experience on common equity of High Grade industrial companies.

Recent rate orders by regulatory commissions.

Standards of Maintenance of Credit and Support of Financial Integrity and Attraction of Capital on Fair and Reasonable Terms

Market price of common stock in relation to book value and common stock offerings,
1972, 1973, 1974, 1975, 1976

First mortgage bond offerings of electric utilities with fixed charge ratios to support A rating,
1975, 1976

Preferred stock offerings of electric utilities with fixed charge and preferred stock dividend coverage ratios to support "a" and A rating,
1975, 1976

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REAL GROWTH AND INFLATION IN THE AMERICAN ECONOMY
PERCENTAGE CHANGES YEAR-TO-YEAR
1946-1975

	Real Growth	Inflation			
	GNP 1972 Dollars	GNP Deflator	Consumer Price Index	Unit Labor Cost	Total Real Disposable Personal Income
1946		-	8.5%		- 1.2%
1947	- 1.6	12.8	14.4		- 4.0
1948	4.1	6.9	7.8	4.4%	5.4
1949	0.6	- 1.0	- 1.0	- 1.6	0.4
1950	8.7	2.0	1.0	- 1.1	8.1
1951	8.1	6.8	7.9	6.4	2.4
1952	3.8	1.3	2.2	4.1	3.0
1953	3.9	1.5	0.7	2.0	4.6
1954	- 1.3	1.4	0.5	0.6	1.1
1955	6.7	2.2	0.4	- 1.7	6.6
1956	2.1	3.1	1.5	6.1	4.2
1957	1.8	3.4	3.5	3.4	2.1
1958	- 0.2	1.6	2.8	1.1	0.9
1959	6.0	2.2	0.8	1.0	4.5
1960	2.3	1.7	1.6	2.2	2.2
1961	2.5	0.9	1.0	0.3	3.1
1962	5.8	1.8	1.1	- 0.3	4.7
1963	4.0	1.5	1.2	0.3	3.8
1964	5.3	1.6	1.3	1.1	7.0
1965	5.9	2.2	1.7	0.7	6.6
1966	5.9	3.3	2.9	2.9	5.5
1967	2.7	2.9	2.9	3.6	4.1
1968	4.4	4.5	4.2	4.3	4.5
1969	2.6	5.0	5.3	7.0	2.9
1970	- 0.3	5.4	5.9	4.6	4.1
1971	3.0	5.1	4.3	3.4	3.9
1972	5.7	4.1	3.3	1.9	4.5
1973	5.3	5.9	6.6	4.9	6.7
1974	- 1.8	9.7	11.0	12.3	- 1.7
1975	- 2.0	8.8	9.1	7.7	1.6

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	All Manufacturing Corporations		Nonfinancial Corporations - Domestic Operations		
			As Percent of Gross Corporate Product		
	Rate of Return on Equity	Equity Ratio	Operating Profits	Inventory Profits or Losses (-)	Profits Before Taxes
1946			16.95%	5.35%	22.20%
1947			19.37	4.92	24.29
1948			21.60	1.60	23.21
1949			20.10	- 1.42	18.67
1950			22.08	3.29	25.37
1951			21.74	0.68	22.43
1952			19.06	- 0.54	18.57
1953	10.48%	81.39%	17.41	0.51	17.92
1954	9.92	82.06	16.59	0.15	16.75
1955	12.55	82.28	18.63	0.78	19.41
1956	12.28	80.76	16.91	1.16	18.07
1957	10.95	79.96	15.83	0.62	16.45
1958	8.58	80.07	14.19	0.12	14.27
1959	10.42	80.43	16.23	0.18	16.38
1960	9.20	80.09	14.75	- 0.07	14.68
1961	8.82	79.80	14.47	0.03	14.47
1962	9.78	79.67	14.86	- 0.09	14.76
1963	10.25	79.53	15.19	0.16	15.34
1964	11.60	79.57	15.95	0.14	16.13
1965	12.98	78.54	17.01	0.45	17.43
1966	13.43	76.42	16.82	0.44	17.24
1967	11.71	74.35	15.11	0.25	15.37
1968	12.05	72.97	14.68	0.70	15.41
1969	11.47	71.40	12.47	1.01	13.48
1970	9.32	69.62	9.81	0.92	10.73
1971	9.67	69.24	10.50	0.88	11.39
1972	10.61	69.74	11.28	1.14	12.42
1973	12.84	69.58	10.11	2.23*	12.34
1974	14.92	69.96	7.82	5.02*	12.84
1975**	11.10	70.00	9.16	1.84*	11.00

*Includes capital consumption allowances
**1975 I-II-III

Source: Federal Trade Commission, Quarterly Financial Report for Manufacturing, Mining and Trade Corporations, Third Quarter 1975; U.S. Department of Commerce, Bureau of Economic Analysis, United States Department of Commerce News, March 19, 1976.

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INVESTMENT STATURE
CAROLINA POWER & LIGHT COMPANY
MARCH 1976

Moody's Rating on Senior Debt	Standard & Poor's Bond Quality Rating on Senior Debt	Moody's Quality Rating on Preferred Stock	Standard & Poor's Quality Rating on Preferred Stock	Moody's Rating of Basic Investment Quality	Standard & Poor's Earnings and Dividend Ranking	Dividend Paid Each Year Since
Baa	A	"baa"	A	Medium Grade	A-	1937

Source: Moody's Investors Service, Inc., Moody's Bond Record, April 1976; Moody's Handbook of Common Stocks, Winter 1976 Edition; Standard & Poor's Corporation, Bond Guide, April 1976; Security Owner's Stock Guide, April 1976.

INVESTMENT STATURE
ELECTRIC UTILITIES IN ORIGINAL COST JURISDICTIONS WITHOUT FLOW-THROUGH
MARCH 1976

	Bonds		Preferred Stock		Common Stock (Publicly-Held)		
	Moody's Rating	Standard & Poor's Rating	Moody's Rating	Standard & Poor's Rating	Moody's Rating of Basic Investment Quality	Standard & Poor's Earnings and Dividend Rankings	Dividends Paid Each Year Since
Alabama							
Alabama Power Company*	A	A-	"baa"	A-	-	-	-
Arkansas							
Arkansas Power & Light Company*	A	A	"baa"	BBB	-	-	-
Florida							
Florida Power Corporation*	A	A-	"a"	BBB	Medium Grade	B+	1937
Florida Power & Light Company*	A	A	"a"	A	Investment Grade	A	1944
Gulf Power Company*	Aa	AA-	-	A	-	-	-
Tampa Electric Company*	Aa	AA-	-	AA	High Grade	A-	1900
Georgia							
Georgia Power Company*	Baa	BBB	"ba"	BB+	-	-	-
Hawaii							
Hawaiian Electric Company, Inc.*	A	A	"a"	A	Upper Medium Grade	A-	1901
Illinois							
Central Illinois Light Company*	Aa	A	"a"	A	NL	A-	1921
Central Illinois Public Service Company*	Aa	AA	"aa"	AA	Investment Grade	A-	1947
Commonwealth Edison Company*	Aaa	AA	"aa"	AA	High Grade	A	1890
Illinois Power Company*	Aa	AA	-	AA	Investment Grade	A-	1947
Iowa							
Interstate Power Company*	A	A	"a"	A	Investment Grade	A-	1948
Iowa Electric Light and Power Company*	Baa	A-	-	A-	Medium Grade	B+	1950
Iowa-Illinois Gas and Electric Company*	Aa	AA	"aa"	A	High Grade	A-	1942
Iowa Power and Light Company*	Aa	A	"a"	A	NL	A-	1909
Iowa Public Service Company*	A	AA	"a"	A	Investment Grade	A-	1939
Iowa Southern Utilities Company*	Aa	AA	private	private	NL	A-	1946
Kansas							
Kansas Gas and Electric Company*	Aa	AA-	"a"	A	Investment Grade	A-	1922
Kansas Power and Light Company*	Aa	AA	-	A	High Grade	A-	1915

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INVESTMENT STATURE

ELECTRIC UTILITIES IN ORIGINAL COST JURISDICTIONS WITHOUT FLOW-THROUGH

MARCH 1976

	Bonds		Preferred Stock		Common Stock (Publicly-Held)		
	Moody's Rating	Standard & Poor's Rating	Moody's Rating	Standard & Poor's Rating	Moody's Rating of Basic Investment Quality	Standard & Poor's Earnings and Dividend Rankings	Dividends Paid Each Year Since
Kentucky							
Kentucky Utilities Company*	Aa	AA	-	A	Investment Grade	A-	1939
Louisville Gas and Electric Company*	Aaa	AA	-	A	High Grade	A-	1925
Louisiana							
Central Louisiana Electric Company, Inc.*	A	A	-	A	Investment Grade	A	1935
Gulf States Utilities Company*	Aa	AA	-	AA	High Grade	A	1938
Louisiana Power & Light Company*	A	A	"a"	A	-	-	-
New Orleans Public Service Inc.*	A	A	-	A	-	-	-
Southwestern Electric Power Company*	Aa	AA	"aa"	AA	-	-	-
Massachusetts							
Boston Edison Company*	Baa	BBB	-	BBB	Lower Medium Grade	B	1890
New Bedford Gas and Edison Light Company*	Aa	A	-	-	-	-	-
Western Massachusetts Electric Company*	Baa	BBB	-	BBB	-	-	-
Michigan							
Consumers Power Company*	Baa	A-	"ba"	BBB-	Medium Grade	B	1913
Detroit Edison Company*	Baa	BBB	-	BBB	Lower Medium Grade	B+	1909
Minnesota							
Minnesota Power & Light Company*	A	A	-	A	Investment Grade	A-	1945
Mississippi							
Mississippi Power Company*	A	A	"a"	A	-	-	-
Mississippi Power & Light Company*	A	A	"a"	A	-	-	-
Missouri							
Arkansas-Missouri Power Company*	private	private	-	-	-	-	-
Oklahoma							
Oklahoma Gas and Electric Company*	Aa	AA	"aa"	AA	High Grade	A	1908
Public Service Company of Oklahoma*	Aa	AA	"aa"	AA	-	-	-

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INVESTMENT STATURE
ELECTRIC UTILITIES IN ORIGINAL COST JURISDICTIONS WITHOUT FLOW-THROUGH
MARCH 1976

	Bonds		Preferred Stock		Common Stock (Publicly-Held)		
	Moody's Rating	Standard & Poor's Rating	Moody's Rating	Standard & Poor's Rating	Moody's Rating of Basic Investment Quality	Standard & Poor's Earnings and Dividend Rankings	Dividends Paid Each Year Since
South Carolina							
South Carolina Electric and Gas Company*	A	A	-	A	Medium Grade	A-	1946
Holding Companies							
Middle South Utilities, Inc.*	-	-	-	-	Investment Grade	A	1949
New England Gas and Electric Association*	-	-	-	-	Medium Grade	B+	1947
The Southern Company*	-	-	-	-	Medium Grade	A-	1948

*In original cost jurisdictions without flow-through.

Note.-Dash in preferred stock, Moody's and Standard & Poor's ratings, indicates preferred not yet rated by Moody's or holding companies or operating companies without preferred stock. Dash in common stock, Moody's and Standard & Poor's ratings, and in dividends paid, indicates operating subsidiaries without publicly-held common stock.

Source: Moody's Investors Service, Inc., Moody's Public Utility Manual, 1975; Moody's Handbook of Common Stocks, Fall 1975 Edition; Moody's Bond Survey, 1974 to date; Moody's Bond Record and Preferred Stock Ratings, December 1975; Standard & Poor's Corporation, Fixed Income Investor, 1974 to date; Bond Record, December 1975; Stock Guide, December 1975.

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RATE OF RETURN ON COMMON EQUITY AND COMMON EQUITY RATIO
OPERATING ELECTRIC UTILITIES IN ORIGINAL COST JURISDICTIONS WITHOUT FLOW-THROUGH
1971-1975

	1971	1972	1973	1974	1975
Alabama					
Alabama Power Company*	11.37% 33.98	10.12% 33.04	13.89% 31.87	8.61% 31.34	11.49% 31.04
Arkansas					
Arkansas Power & Light Company*	14.25 32.41	15.06 32.68	13.72 33.22	16.09 33.69	
Florida					
Florida Power Corporation*	13.66 35.37	13.78 33.89	12.23 31.74	8.38 29.98	13.42 30.31
Florida Power & Light Company*	14.15 38.69	13.46 38.46	13.26 38.71	11.07 35.51	13.32 33.41
Gulf Power Company*	12.98 33.45	12.67 34.13	11.28 34.21	3.58 33.36	
Tampa Electric Company*	9.39 30.04	14.08 30.22	13.36 30.37	11.09 29.10	13.72 29.59
Georgia					
Georgia Power Company*	8.52 32.56	10.59 32.11	9.86 31.56	8.16 30.63	
Hawaii					
Hawaiian Electric Company*	11.49 29.43	11.73 30.01	11.74 33.16	11.75 32.13	11.49 31.28
Illinois					
Central Illinois Light Company*	13.80 33.67	13.09 33.67	10.26 31.43	9.76 27.47	8.82 25.76
Central Illinois Public Service Company*	14.76 35.35	12.77 33.18	10.88 31.90	11.13 30.76	13.11 30.90
Commonwealth Edison Company*	12.36 31.61	13.14 32.58	12.06 34.06	10.69 33.01	11.07 32.91
Illinois Power Company*	13.31 35.09	12.20 35.80	12.66 35.65	11.26 34.37	13.23 35.95

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RATE OF RETURN ON COMMON EQUITY AND COMMON EQUITY RATIO
OPERATING ELECTRIC UTILITIES IN ORIGINAL COST JURISDICTIONS WITHOUT FLOW-THROUGH
1971-1975

	1971	1972	1973	1974	1975
Iowa					
Interstate Power Company*	11.23%	11.53%	10.89%	11.33%	11.39%
	30.47	30.66	29.62	28.57	29.61
Iowa Electric Light and Power Company*	9.92	12.56	10.06	3.24	
	29.40	28.47	26.97	24.76	
Iowa-Illinois Gas and Electric Company*	9.06	14.30	10.38	10.91	11.93
	30.20	33.10	37.98	36.75	36.34
Iowa Power and Light Company*	11.52	11.38	13.24	12.03	14.33
	31.39	34.21	35.14	34.05	34.25
Iowa Public Service Company*	12.64	9.82	8.99	10.37	12.75
	35.38	33.46	31.63	29.78	31.87
Iowa Southern Utilities Company*	14.38	14.01	13.38	13.51	13.47
	46.47	49.94	47.96	43.56	42.12p
Kansas					
Kansas Gas and Electric Company*	12.95	12.88	9.63	9.40	12.78
	36.97	34.08	31.61	29.62	29.44
Kansas Power & Light Company*	14.72	13.33	12.50	10.19	12.11
	42.71	44.21	45.62	44.62	40.91
Kentucky					
Kentucky Utilities Company*	11.82	11.07	11.28	6.81	12.42
	40.29	35.19	36.81	35.44	34.39
Louisville Gas & Electric Company*	13.36	12.22	11.39	9.28	12.57
	43.63	40.79	38.84	37.34	36.96

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RATE OF RETURN ON COMMON EQUITY AND COMMON EQUITY RATIO
OPERATING ELECTRIC UTILITIES IN ORIGINAL COST JURISDICTIONS WITHOUT FLOW-THROUGH
1971-1975

	1971	1972	1973	1974	1975
Louisiana					
Central Louisiana Electric Company, Inc.*	14.89%	15.48%	15.20%	16.47%	17.57%
	33.57	35.11	35.57	31.59	33.04
Gulf States Utilities Company*	12.11	12.64	12.96	12.32	
	33.85	34.13	33.02	31.90	
Louisiana Power & Light Company*	13.43	14.41	14.65	14.81	
	32.95	33.28	33.47	31.61	
New Orleans Public Service Inc.*	7.24	5.80	10.70	4.08	
	35.27	35.01	35.22	35.00	
Southwestern Electric Power Company*	15.51	17.01	17.29	16.46	13.99
	40.70	40.00	42.05	41.85	40.07
Massachusetts					
Boston Edison Company*	12.00	12.39	8.79	8.20	
	28.83	28.94	30.34	29.20	
New Bedford Gas and Edison Light Company*	9.86	8.59	6.87	5.42	
	41.63	38.19	41.60	42.59	
Western Massachusetts Electric Company*	9.89	9.87	8.96	7.72	
	36.05	34.32	33.59	32.98	
Michigan					
Consumers Power Company*	10.23	9.87	8.73	4.78	9.33%
	35.63	34.24	32.36	29.39	28.27
Detroit Edison Company*	9.53	10.44	9.36	7.50	7.88
	34.50	33.51	33.15	31.85	30.74
Minnesota					
Minnesota Power & Light Company*	14.53	14.43	11.89	9.76	13.03
	31.52	29.47	28.35	28.50	30.49

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RATE OF RETURN ON COMMON EQUITY AND COMMON EQUITY RATIO
OPERATING ELECTRIC UTILITIES IN ORIGINAL COST JURISDICTIONS WITHOUT FLOW-THROUGH
1971-1975

	1971	1972	1973	1974	1975
Mississippi					
Mississippi Power Company*	12.98%	13.48%	11.17%	10.24%	
	34.08	34.67	34.43	32.62	
Mississippi Power & Light Company*	15.47	17.08	13.26	13.58	
	32.41	32.53	31.39	31.41	
Missouri					
Arkansas-Missouri Power Company*	10.80	12.48	7.42	4.39	
	28.18	27.36	32.34	38.67	
Oklahoma					
Oklahoma Gas and Electric Company*	15.80	15.39	14.87	13.45	
	36.02	37.77	39.88	40.45	
Public Service Company of Oklahoma*	14.15	14.95	14.04	13.18	
	40.29	39.46	39.67	38.98	
South Carolina					
South Carolina Electric and Gas Company*	11.05	11.40	10.01	8.56	
	29.92	31.31	31.50	30.10	

P Preliminary

Note.-Common equity ratio is average total common equity as percent of average total capitalization, including debt due within one year.

Source: Computed from data in 1974 annual reports to stockholders; uniform statistical reports; and Moody's Investors Service, Inc., Moody's Public Utility Manual, 1975 and Moody's Public Utility News Report, 1975 and corresponding sources in earlier years.

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ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION IN RELATION TO NET INCOME FOR COMMON OPERATING ELECTRIC UTILITIES IN ORIGINAL COST JURISDICTIONS WITHOUT FLOW-THROUGH
1971-1975

	1971	1972	1973	1974	1975
Alabama					
Alabama Power Company*	26.70%	36.79%	36.67%	82.31%	69.62%
Arkansas					
Arkansas Power & Light Company*	28.33	42.73	51.23	50.25	
Florida					
Florida Power Corporation*	24.46	37.25	70.19	122.05	57.05%
Florida Power & Light Company*	23.33	34.52	25.45	42.54	38.74
Gulf Power Company*	11.37	28.81	35.55	16.75	
Tampa Electric Company*	12.48	17.59	20.41	37.78	25.08
Georgia					
Georgia Power Company*	46.82	49.18	64.72	92.70	
Hawaii					
Hawaiian Electric Company, Inc.*	9.51	15.62	18.04	24.26	8.85
Illinois					
Central Illinois Light Company*	27.59	22.58	19.16	42.49	62.93
Central Illinois Public Service Company*	22.55	25.85	9.38	20.25	30.91
Commonwealth Edison Company*	39.07	34.44	27.00	26.45	29.32
Illinois Power Company*	11.77	20.69	17.99	21.27	15.07
Iowa					
Interstate Power Company*	1.65	2.78	2.01	7.18	21.38
Iowa Electric Light and Power Company*	41.10	58.78	138.12	222.48	
Iowa-Illinois Gas and Electric Company*	52.29	29.68	10.88	22.83	26.85
Iowa Power and Light Company	1.78	2.08	5.99	22.49	20.17
Iowa Public Service Company*	24.78	23.45	8.16	20.72	28.54
Iowa Southern Utilities Company*	1.02	2.74	11.14	24.28	32.74
Kansas					
Kansas Gas and Electric Company*	25.43	42.33	29.66	14.29	34.22
Kansas Power and Light Company*	9.59	0.81	0.99	5.50	12.36
Kentucky					
Kentucky Utilities Company*	19.68	21.73	33.57	15.13	12.49
Louisville Gas and Electric Company*	0.00	0.00	0.00	0.00	0.00

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ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION IN RELATION TO NET INCOME FOR COMMON OPERATING ELECTRIC UTILITIES IN ORIGINAL COST JURISDICTIONS WITHOUT FLOW-THROUGH
1971-1975

	1971	1972	1973	1974	1975
Louisiana					
Central Louisiana Electric Company, Inc.*	12.41%	5.64%	15.46%	28.93%	15.64%
Gulf States Utilities Company*	19.75	21.53	23.17	26.70	
Louisiana Power & Light Company*	16.90	20.26	23.10	32.02	
New Orleans Public Service Inc.*	2.66	2.83	1.92	6.11	
Southwestern Electric Power Company*	8.06	3.53	7.72	8.43	14.65
Massachusetts					
Boston Edison Company*	62.66	73.12	35.76	57.71	
New Bedford Gas and Edison Light Company*	8.95	7.58	5.60	13.91	
Western Massachusetts Electric Company*	35.62	46.88	42.06	56.91	
Michigan					
Consumers Power Company*	33.80	38.03	36.78	61.98	35.14
Detroit Edison Company*	43.86	51.39	47.82	57.35	60.37
Minnesota					
Minnesota Power & Light Company*	20.97	42.23	31.26	5.84	10.33
Mississippi					
Mississippi Power Company*	13.47	27.59	24.63	20.46	
Mississippi Power & Light Company*	23.40	12.36	36.38	49.16	
Missouri					
Arkansas-Missouri Power Company*	2.62	11.24	9.60	13.21	
Oklahoma					
Oklahoma Gas and Electric Company*	7.91	8.76	7.19	15.10	
Public Service Company of Oklahoma*	2.13	5.92	17.94	10.92	
South Carolina					
South Carolina Electric & Gas Company*	33.25	29.53	30.89	21.87	
Average - above 39 companies in original cost jurisdictions without flow-through*	20.76%	24.59%	26.50%	36.43%	

Source: Computed from data in 1974 annual reports to stockholders; uniform statistical reports; Moody's Investors Service, Inc., Moody's Public Utility Manual, 1975 and Moody's Public Utility News Report, 1975 and corresponding sources in earlier years.

CAROLINA POWER & LIGHT COMPANY
RATE OF RETURN ON COMMON EQUITY AND COMMON EQUITY RATIO
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION AS PERCENT OF NET INCOME FOR COMMON
1968-1975

	1968	1969	1970	1971	1972	1973	1974	1975
Net income for common	$ 23,046,540	$ 24,417,813	$ 20,126,327	$ 29,103,019	$ 50,917,573	$ 52,981,914	$ 51,598,075	$ 75,870,000
Average common equity	185,848,514	210,448,508	245,559,000	280,003,000	373,730,500	489,453,278	539,881,093	635,375,315
Rate of return on common equity	12.40%	11.60%	8.20%	10.39%	13.62%	10.82%	9.56%	11.94%
Average common equity	$185,848,514	$210,448,508	$245,559,000	$280,003,000	$ 373,730,500	$ 489,453,278	$ 539,881,093	$ 635,375,315
Average total capital	547,788,564	619,950,724	742,255,506	929,459,367	1,178,280,554	1,491,136,282	1,834,295,312	2,107,986,137
Common equity ratio	33.93%	33.95%	33.08%	30.13%	31.72%	32.82%	29.43%	30.14%
Allowance for funds used during construction	$ 2,927,162	$ 4,397,118	$ 10,504,936	$ 14,707,389	$ 24,758,784	$ 38,092,921	$ 54,608,879	$ 59,957,000
Net income for common	23,046,540	24,417,823	20,126,327	29,103,019	50,917,573	52,981,914	51,598,075	75,870,000
Allowance for funds used during construction as percent of net income for common	12.70%	18.01%	52.19%	50.54%	48.63%	71.90%	105.84%	79.02%

Source: Carolina Power & Light Company, 1974 Annual Report, Interim Financial Statements, December 31, 1975.

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RELATIONSHIP BETWEEN RATE OF RETURN ON COMMON EQUITY AND COMMON EQUITY RATIO

	Company A	Company B	Company C	Company D	Company E	Company F
	100% common equity ratio no debt	50% common equity ratio and 7.5% debt cost	40% common equity ratio and 7.5% debt cost	35.0% common equity ratio and 7.5% debt cost	30% common equity ratio and 7.5% debt cost	30.0% common equity ratio and 8.0% debt cost
Income for capital	$100.00	$100.00	$100.00	$100.00	$100.00	$100.00
Total capital	$1000	$1000	$1000	$1000	$1000	$1000
Rate of return on total capital	$100.00/$1000 = 10.00%	$100.00/$1000 = 10.00%	$100.00/$1000 = 10.00%	$100.00/$1000 = 10.00%	$100.00/$1000 = 10.00%	$100.00/$1000 = 10.00%
Debt	$ 0	$ 500	$ 600	$ 650	$ 300	$ 300
Common equity	$1000	$ 500	$ 400	$ 350	$ 700	$ 700
Total capital	$1000	$1000	$1000	$1000	$1000	$1000
Common equity ratio	$1000/$1000 = 100.0%	$500/$1000 = 50.0%	$400/$1000 = 40.0%	$350/$1000 = 35.0%	$300/$1000 = 30.0%	$300/$1000 = 30.0%
Imbedded cost of debt		7.5%	7.5%	7.5%	7.5%	8.0%
Interest on debt		7.5% x $500 = $37.50	7.5% x $600 = $45.00	7.5% x $650 = $48.75	7.5% x $700 = $52.50	8.0% x $700 = $56.00
Net income for common	$100.00	$100.00 - $37.50 = $62.50	$100.00 - $45.00 = $55.00	$100.00 - $48.75 = $51.25	$100.00 - $52.50 = $47.50	$100.00 - $56.00 = $44.00
Rate of return on common equity	$100.00/$1000 = 10.00%	$62.50/$500 = 12.50%	$55.00/$400 = 13.75%	$51.25/$350 = 14.64%	$47.50/$300 = 15.83%	$44.00/$300 = 14.67%

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METHOD OF ADJUSTMENT
FOR DIFFERENT COMMON EQUITY RATIO

Earnings experience

Kansas Power & Light Company
1973

Rate of return on common equity	12.50%
Common equity ratio (45.62%)	x .4562
Component for common equity in overall rate of return	5.702

At 33.40% common equity ratio

Less common equity, more debt	.4562
	- .3340
	.1222
More interest (4.90% rate in 1973) less earnings for common equity	.1222 x 4.90% = .599
Resultant component for common equity	5.702 - .599 = 5.103

Resultant rate of return on common equity at 33.40% common equity ratio = 5.103/.334 = 15.28%

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RATE OF RETURN ON COMMON EQUITY
ADJUSTED TO 33.40 PERCENT COMMON EQUITY RATIO
OPERATING ELECTRIC UTILITIES IN ORIGINAL COST JURISDICTIONS WITHOUT FLOW-THROUGH

	1971	1972	1973	1974	1975
Alabama					
Alabama Power Company*	11.47%	10.08%	13.56%	8.51%	11.24%
Arkansas					
Arkansas Power & Light Company*	13.99	14.87	13.68	16.16	
Florida					
Florida Power Corporation*	14.14	13.90	11.95	8.33	12.84
Florida Power & Light Company*	15.40	14.52	14.29	11.29	13.32
Gulf Power Company*	12.99	12.81	11.39	3.59	
Tampa Electric Company*	9.01	13.32	12.67	10.54	12.96
Georgia					
Georgia Power Company*	8.46	10.43	9.71	8.12	
Hawaii					
Hawaiian Electric Company*	10.84	11.18	11.70	11.56	11.22
Illinois					
Central Illinois Light Company*	13.86	13.15	10.02	9.30	8.37
Central Illinois Public Service Company*	15.31	12.73	10.67	10.77	12.65
Commonwealth Edison Company*	11.99	12.95	12.56	10.63	11.00
Illinois Power Company*	13.73	12.68	13.13	11.40	13.76
Iowa					
Interstate Power Company*	10.69	11.00	10.22	10.50	10.76
Iowa Electric Light and Power Company*	9.39	11.60	9.60	4.56	
Iowa-Illinois Gas and Electric Company*	8.75	14.23	10.96	11.33	12.45
Iowa Power and Light Company*	11.13	11.54	13.68	12.14	14.55
Iowa Public Service Company*	13.09	9.83	8.83	9.86	12.44
Iowa Southern Utilities Company*	18.20	18.72	17.02	16.04	15.27
Kansas					
Kansas Gas and Electric Company*	13.70	13.01	9.45	9.09	12.06
Kansas Power and Light Company*	17.44	16.06	15.28	11.77	13.49
Kentucky					
Kentucky Utilities Company*	13.09	11.35	11.77	6.83	12.58
Louisville Gas and Electric Company*	15.94	13.76	12.34	9.62	13.22

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RATE OF RETURN ON COMMON EQUITY
ADJUSTED TO 33.40 PERCENT COMMON EQUITY RATIO
OPERATING ELECTRIC UTILITIES IN ORIGINAL COST JURISDICTIONS WITHOUT FLOW-THROUGH

	1971	1972	1973	1974	1975
Louisiana					
Central Louisiana Electric Company, Inc.*	14.94%	15.96%	15.78%	15.94%	17.46%
Gulf States Utilities Company*	12.19	12.80	12.88	12.05	
Louisiana Power & Light Company*	13.33	14.38	14.67	14.37	
New Orleans Public Service, Inc.*	7.43	5.87	11.04	4.00	
Southwestern Electric Power Company*	17.64	19.19	20.16	19.12	15.57
Massachusetts					
Boston Edison Company*	11.20	11.55	8.62	8.24	
New Bedford Gas and Edison Light Company*	10.94	9.07	6.91	4.72	
Western Massachusetts Electric Company*	10.16	9.97	8.97	7.72	
Michigan					
Consumers Power Company*	10.55	9.97	8.65	5.00	8.99
Detroit Edison Company*	9.65	10.45	9.34	7.51	7.85
Minnesota					
Minnesota Power & Light Company*	13.99	13.31	11.03	9.27	11.88
Mississippi					
Mississippi Power Company*	13.13	13.75	11.31	10.13	
Mississippi Power & Light Company*	15.18	16.74	12.82	13.16	
Missouri					
Arkansas-Missouri Power Company*	10.04	11.31	7.39	4.08	
Oklahoma					
Oklahoma Gas and Electric Company*	16.66	16.70	16.73	14.90	
Public Service Company of Oklahoma*	16.17	16.89	15.67	14.40	
South Carolina					
South Carolina Electric and Gas Company*	10.55	11.10	9.82	8.40	

Alabama

Alabama Power Company

Excluded in 1971, 1972, 1973, 1974, and 1975.

Difficulties in financing because of inadequate coverage ratios.

Rate of return earned was substantially less than that allowed by Alabama Public Service Commission.

Arkansas

Arkansas Power & Light Company

Excluded in 1972, 1973, and 1974.

In 1973 and 1974, allowance for funds used during construction was more than half of net income for common.

Difficulties in financing because of inadequate coverage ratios.

Inadequate investment stature.

Florida

Florida Power Corporation

Excluded in 1972, 1973, 1974, and 1975.

In 1973 allowance for funds used during construction was 70.19 percent of net income for common and in 1974 was 122.05 percent.

Inadequate investment stature.

Florida Power & Light Company

Excluded in 1974.

Rate of return earned in 1974 was significantly less than that allowed by Florida Public Service Commission.

Gulf Power Company

Excluded in 1973 and 1974.

Rate of return earned in 1973 and 1974 was substantially less than that allowed by Florida Public Service Commission.

Tampa Electric Company

Excluded in 1971 and 1974.

Net income for common in 1972 was 69.7 percent greater than in 1971, as a result of rate increase effective January 1, 1972. Rate of return earned in 1971 and in 1974 was substantially less than that allowed by Florida Public Service Commission.

Georgia

Georgia Power Company

Excluded in 1971, 1972, 1973, and 1974.

In 1971, 1972, and 1973, allowance for funds used during construction was about half of net income for common and in 1974 was 92.70 percent of net income for common.

During 1973 Georgia Power was forced to cancel proposed public sales of first mortgage bonds and preferred stock by reason of inability to meet earnings coverage requirements contained in its charter and bond indenture. (Moody's Investors Service, Inc., Moody's Bond Survey, January 14, 1974, pages 1434-1436; Standard & Poor's Corporation, The Fixed Income Investor, January 12, 1974, pages 974-975).

Inadequate investment stature. Ratings suspended for several months.

Inability to finance because of inadequate coverage ratios.

Hawaii

Hawaiian Electric Company, Inc.

Excluded in 1974 and 1975.

Rate of return earned in 1974 and in 1975 was substantially less than that allowed by Hawaii Public Utilities Commission.

Illinois

Central Illinois Light Company
Central Illinois Public Service Company
Commonwealth Edison Company
Illinois Power Company

Excluded in 1971, 1972, 1973, 1974, and 1975.

Illinois was fair value jurisdiction until changed to original cost jurisdiction during 1973.

Rate of return earned in 1974 and in 1975 (except Illinois Power Company) was substantially less than that allowed by Illinois Commerce Commission.

Iowa

Interstate Power Company

Excluded in 1971, 1972, 1973, 1974, and 1975.

Earnings on common equity in 1971, 1972, and 1973 reflect major operating loss in bus operations.

Rate of return earned in 1974 and in 1975 was significantly below that allowed by Iowa State Commerce Commission.

Iowa Electric Light and Power Company

Excluded in 1971, 1972, 1973, and 1974.

In 1973 allowance for funds used during construction was 138.12 percent of net income for common. In 1974 allowance for funds used during construction was 222.48 percent of net income for common. In 1971 and 1972 allowance for funds used during construction was about half of net income for common.

Rate proceeding before the Iowa State Commerce Commission, initiated in 1971, was brought to conclusion by orders dated October 15, 1973 and February 15, 1974, resulting in substantial increase in net income for common over 1971 level.

Inadequate investment stature.

Iowa-Illinois Gas and Electric Company

Excluded in 1971, 1973, and 1974.

Net income for common in 1972 was 73.2 percent greater than in 1971, as a result of rate increases. Rate of return earned in 1971, 1973, and 1974 was significantly less than that allowed by Iowa and Illinois Commerce Commission.

Iowa Power & Light Company

Excluded in 1971 and 1972.

Rate of return earned in 1971 and 1972 was significantly below that allowed by Iowa State Commerce Commission.

Iowa Public Service Company

Excluded in 1972, 1973, and 1974.

Earnings per average share declined from $2.13 in 1971 to $1.88 in 1972 and to $1.75 in 1973, a drop over the two years of 17.8 percent. Rate of return earned in 1972, 1973, and 1974, was substantially less than that allowed by Iowa Commerce Commission.

Iowa Southern Utilities Company

Rate of return has been adjusted downward in 1971, 1972, 1973, and 1974 to give effect to reduction in electric revenues for 1975, under settlement of rate proceeding.

"The Iowa State Commerce Commission's investigation of the reasonableness of Iowa Southern's service rates, instigated in the spring of 1972, culminated in the commission staff filing a formal rate proceeding on June 15, 1973." (1973 Annual Report, page 3).

"The Iowa State Commerce Commission approved in December a settlement of the rate proceeding involving the company which it launched in 1972. The settlement provided for a $500,000 annual reduction in electric revenues starting Jan. 1, 1975. The commission staff originally recommended a reduction of $2,400,000 annually." (1974 Annual Report, page 1.

Kansas

Kansas Gas and Electric Company

Excluded in 1972, 1973, 1974, and 1975.

Rate of return earned in 1972, 1973, 1974, and 1975 was substantially less than that allowed by The State Corporation Commission of the State of Kansas.

Kansas Power and Light Company

Excluded in 1974.

Rate of return earned in 1974 was substantially less than that allowed by The State Corporation Commission of the State of Kansas.

Kentucky

Kentucky Utilities Company

Excluded in 1972, 1973, and 1974.

Rate of return earned in 1972, 1973, and 1974 was significantly less than that allowed by Public Service Commission of Kentucky.

Louisville Gas and Electric Company

Excluded in 1974.

Rate of return in 1974 was significantly less than that allowed by Public Service Commission of Kentucky.

Louisiana

Gulf States Utilities Company

Excluded in 1974.

Rate of return earned in 1974 was substantially less than that allowed by Louisiana Public Service Commission.

New Orleans Public Service Inc.

Excluded in 1971, 1972, 1973, and 1974.

Net income for common in 1973 was 86.2 percent greater than in 1972, as result of electric and gas rate increase placed in effect January 25, 1973. Net operating loss from transit operations amounted to more than half of net income for common in 1973.

Rate of return earned in 1971, 1972, 1973, and 1974 was significantly less than that allowed by the City of New Orleans.

Southwestern Electric Power Company

Excluded in 1971, 1972, 1973, 1974, and 1975.

Earnings experience is derived in significant part from Texas, with fair value rate base and limited degree of regulation.

Massachusetts

Boston Edison Company

Excluded in 1971, 1972, 1973, and 1974.

Inadequate investment stature.

Difficulties in financing because of inadequate coverage ratios.

New Bedford Gas and Edison Light Company

Excluded in 1971, 1972, 1973, and 1974.

Inadequate investment stature.

Western Massachusetts Electric Company

Excluded in 1971, 1972, 1973, and 1974.

In 1970, 1971, 1972, 1973, and 1974 allowance for funds used during construction was about half of net income for common.

Inadequate investment stature.

Michigan

Consumers Power Company

Excluded in 1971, 1972, 1973, and 1974.

In 1974 allowance for funds used during construction was 61.98 percent of net income for common.

Inadequate investment stature.

Difficulties in financing because of inadequate coverage ratios.

Detroit Edison Company

Excluded in 1971, 1972, 1973, and 1974.

In 1971, 1972, 1973, and 1974 allowance for funds used during construction was about half of net income for common.

Inadequate investment stature.

Minnesota

Minnesota Power & Light Company

Excluded in 1972, 1973, 1974, and 1975.

Earned far below accepted rate of return on common equity.

Mississippi

Mississippi Power Company

Excluded in 1973 and 1974.

Rate of return earned in 1973 and 1974 was substantially less than that allowed by the Supreme Court of Mississippi.

Mississippi Power & Light Company

Excluded in 1973 and 1974.

Rate of return earned in 1973 and 1974 was substantially less than that allowed by Supreme Court of Mississippi.

Missouri

Arkansas-Missouri Power Company

Excluded in 1971, 1972, 1973, and 1974.

In 1974 the Company filed for major increase in electric and gas rates and received interim increases.

Earned far below rate of return on common equity found fair and reasonable for electric utilities by Public Service Commission of State of Missouri..

Inadequate investment stature.

South Carolina

South Carolina Electric & Gas Company

Excluded in 1971, 1972, 1973, and 1974.

Difficulties in financing because of inadequate coverage ratios.

Inadequate investment stature.

Rate of return earned was significantly less than that allowed by South Carolina Public Service Commission.

RATE OF RETURN ON COMMON EQUITY
ADJUSTED TO 33.40 PERCENT COMMON EQUITY RATIO
OPERATING ELECTRIC UTILITIES IN ORIGINAL COST JURISDICTIONS WITHOUT FLOW-THROUGH

	1971	1972	1973	1974	1975
Alabama					
Alabama Power Company*	~~11.47%~~	~~10.08%~~	~~13.56%~~	~~8.51%~~	~~11.24%~~
Arkansas					
Arkansas Power & Light Company*	13.99	~~14.87~~	~~13.68~~	~~16.16~~	
Florida					
Florida Power Corporation*	14.14	~~13.90~~	~~11.95~~	~~8.33~~	~~12.84~~
Florida Power & Light Company*	15.40	14.52	14.29	~~11.29~~	13.32
Gulf Power Company*	12.99	12.81	~~11.39~~	~~3.59~~	
Tampa Electric Company*	~~9.01~~	13.32	12.67	~~10.54~~	12.96
Georgia					
Georgia Power Company*	~~8.46~~	~~10.43~~	~~9.71~~	~~8.12~~	
Hawaii					
Hawaiian Electric Company*	10.84	11.18	11.70	~~11.56~~	~~11.22~~
Illinois					
Central Illinois Light Company*	~~13.86~~	~~13.15~~	~~10.02~~	~~9.30~~	~~8.37~~
Central Illinois Public Service Company*	~~15.31~~	~~12.73~~	~~10.69~~	~~10.77~~	~~12.65~~
Commonwealth Edison Company*	~~11.99~~	~~12.95~~	~~12.56~~	~~10.63~~	~~11.00~~
Illinois Power Company*	~~13.73~~	~~12.68~~	~~13.13~~	~~11.40~~	13.76
Iowa					
Interstate Power Company*	10.69	~~11.00~~	~~10.22~~	~~10.50~~	~~10.76~~
Iowa Electric Light and Power Company*	~~9.39~~	~~11.60~~	~~9.60~~	~~4.56~~	
Iowa-Illinois Gas and Electric Company*	~~8.75~~	14.23	~~10.96~~	~~11.33~~	12.45
Iowa Power and Light Company*	~~11.13~~	~~11.54~~	13.68	12.14	14.55
Iowa Public Service Company*	13.09	~~9.83~~	~~8.83~~	~~9.86~~	12.44
Iowa Southern Utilities Company*	18.20	18.72	17.02	16.04	15.27
Kansas					
Kansas Gas and Electric Company*	13.70	~~13.01~~	~~9.49~~	~~9.09~~	~~12.06~~
Kansas Power and Light Company*	17.44	16.06	15.28	~~11.77~~	13.49
Kentucky					
Kentucky Utilities Company*	13.09	~~11.35~~	~~11.77~~	~~6.83~~	12.58
Louisville Gas and Electric Company*	15.94	13.76	12.34	~~9.62~~	13.22

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RATE OF RETURN ON COMMON EQUITY
ADJUSTED TO 33.40 PERCENT COMMON EQUITY RATIO
OPERATING ELECTRIC UTILITIES IN ORIGINAL COST JURISDICTIONS WITHOUT FLOW-THROUGH

	1971	1972	1973	1974	1975
Louisiana					
Central Louisiana Electric Company, Inc.*	14.94%	15.96%	15.78%	15.94%	17.46%
Gulf States Utilities Company*	12.19	12.80	12.88	~~12.05~~	
Louisiana Power & Light Company*	13.33	14.38	14.67	14.37	
New Orleans Public Service, Inc.*	~~7.43~~	~~5.87~~	~~11.04~~	~~4.00~~	
Southwestern Electric Power Company*	~~17.64~~	~~19.19~~	~~20.16~~	~~19.12~~	~~15.57~~
Massachusetts					
Boston Edison Company*	~~11.20~~	~~11.59~~	~~8.62~~	~~8.24~~	
New Bedford Gas and Edison Light Company*	~~10.94~~	~~9.07~~	~~6.91~~	~~4.72~~	
Western Massachusetts Electric Company*	~~10.16~~	~~9.97~~	~~8.97~~	~~7.72~~	
Michigan					
Consumers Power Company*	~~10.35~~	~~9.97~~	~~8.65~~	~~5.00~~	~~8.99~~
Detroit Edison Company*	~~9.69~~	~~10.45~~	~~9.34~~	~~7.51~~	~~7.85~~
Minnesota					
Minnesota Power & Light Company*	13.99	~~13.31~~	~~11.03~~	~~9.27~~	~~11.88~~
Mississippi					
Mississippi Power Company*	13.13	13.75	~~11.31~~	~~10.13~~	
Mississippi Power & Light Company*	15.18	16.74	~~12.82~~	~~13.16~~	
Missouri					
Arkansas-Missouri Power Company*	~~10.04~~	~~11.31~~	~~7.39~~	~~4.08~~	
Oklahoma					
Oklahoma Gas and Electric Company*	16.66	16.70	16.73	14.90	
Public Service Company of Oklahoma*	16.17	16.89	15.67	14.40	
South Carolina					
South Carolina Electric and Gas Company*	~~10.55~~	~~11.10~~	~~9.82~~	~~8.40~~	

RATE OF RETURN ON COMMON EQUITY
ADJUSTED TO 33.40 PERCENT COMMON EQUITY RATIO
OPERATING ELECTRIC UTILITIES IN ORIGINAL COST JURISDICTIONS WITHOUT FLOW-THROUGH
USED AS COMPARISON COMPANIES IN TEST OF COMMENSURATE RETURN
1971-1975

	1971	1972	1973	1974	1975
Operating Electric Utilities in Original Cost Jurisdictions Without Flow-Through Used as Comparison Companies In Test of Commensurate Return					
Rate of return on common equity adjusted to 33.40 percent common equity ratio	14.44%	14.79%	14.39%	14.63%	13.77%
Allowance for funds used during construction as percent of net income for common	15.50%	15.46%	14.07%	22.29%	20.70%
Number of companies used	19	15	12	6	11

RATE OF RETURN ON COMMON EQUITY AND COMMON EQUITY RATIO
INDUSTRIAL COMPANIES WITH QUALITY RANKING OF HIGH GRADE BY MOODY'S
1963-1974

	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
American Home Products Corporation	27.63%	27.49%	26.82%	25.55%	25.35%	25.06%	26.39%	26.75%	26.65%	27.09%	26.63%	29.55%
	93.84	95.52	88.84	89.94	90.49	90.62	91.31	92.30	93.22	93.89	94.51	95.19
Beatrice Foods Company	11.31	13.16	15.65	16.76	17.54	16.38	15.38	15.73	15.92	16.07	15.09	16.09
	90.79	88.31	87.91	80.09	83.57	83.40	76.45	71.20	71.99	74.45	76.05	76.03
Borden, Inc.	10.92	11.50	11.00	10.79	9.45	8.21	4.85	8.33	5.69	9.13	9.67	10.59
	77.41	78.47	81.88	78.73	74.53	72.09	73.30	74.74	72.92	71.93	73.07	72.21
Bristol - Myers Company	22.95	23.94	24.85	26.25	21.16	19.88	20.80	20.15	18.23	17.78	19.58	20.51
	90.80	93.32	97.29	95.16	75.93	72.38	74.12	69.81	65.99	69.90	75.17	73.98
Campbell Soup Company	13.04	13.26	13.37	13.11	11.48	12.89	11.17	13.07	13.23	11.20	14.07	14.13
	100.00	100.00	99.28	98.41	96.38	95.72	96.77	94.83	91.59	89.70	94.15	97.29
Carnation Company	10.98	12.04	13.82	14.13	14.48	14.60	14.66	15.14	15.16	15.14	15.27	16.74
	81.88	81.23	79.29	69.77	70.62	72.69	75.40	74.76	74.50	74.93	75.46	72.43
Caterpillar Tractor	18.89	26.05	27.15	21.69	14.12	15.20	16.48	15.30	12.78	13.84	19.85	16.43
	73.81	76.93	80.23	81.54	73.99	66.62	65.42	65.45	66.28	71.75	74.74	67.17
Coca - Cola Company	17.80	20.03	21.40	23.06	23.66	23.36	23.16	23.74	24.14	24.22	24.27	19.92
	96.29	92.73	94.14	95.01	95.56	95.03	94.06	94.45	95.33	95.76	96.80	95.63
Continental Oil Company	10.77	11.17	10.10	10.93	11.84	10.66	10.69	10.53	7.12	10.64	14.02	16.93
	71.47	69.96	69.19	70.10	71.33	71.13	67.05	64.02	63.98	64.63	64.85	63.39
Du Pont (E.I.) De Nemours Company	18.48	20.42	21.02	18.81	14.30	16.18	14.59	12.75	12.42	13.75	18.03	11.16
	87.25	88.04	88.08	87.63	87.09	86.84	86.77	86.52	86.16	86.05	86.98	73.84
Dun & Bradstreet	19.18	17.37	20.56	22.10	22.53	20.64	21.29	21.63	22.90	21.59	21.53	20.68
	100.00	100.00	100.00	100.00	99.58	99.26	99.29	99.16	99.11	94.86	95.26	97.64
Eastman Kodak Company	17.40	21.25	25.65	28.88	22.80	21.67	20.81	19.02	18.08	21.14	22.26	19.24
	99.73	100.00	100.00	100.00	99.47	97.28	95.67	95.89	96.18	96.41	96.83	97.18

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RATE OF RETURN ON COMMON EQUITY AND COMMON EQUITY RATIO
INDUSTRIAL COMPANIES WITH QUALITY RANKING OF HIGH GRADE BY MOODY'S
1963-1974

	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Exxon Corporation	13.11%	12.80%	11.49%	12.02%	12.61%	13.28%	10.51%	12.45%	12.97%	12.24%	18.80%	21.33%
	82.13	82.15	82.30	81.51	78.53	75.10	73.44	72.49	72.33	73.34	74.91	74.92
Falconbridge Nickel Mines, Ltd.	9.88	14.26	16.00	15.41	13.45	17.81	19.60	16.18	6.12	(16.57)	20.71	7.33
	96.66	98.09	99.11	99.21	94.35	89.07	92.69	93.61	61.15	42.82	42.15	44.99
Firestone Tire & Rubber Company	9.59	11.23	11.47	12.47	11.60	13.19	11.25	8.54	10.51	11.17	12.64	10.96
	83.16	79.86	79.20	77.62	74.92	69.58	65.51	65.16	64.79	64.40	64.75	63.95
Ford Motor Company	13.69	13.08	16.54	13.39	1.79	13.14	10.75	9.65	11.92	15.12	14.65	5.71
	89.82	89.69	87.72	85.70	77.52	72.21	79.21	84.25	81.05	79.68	78.29	72.36
General Electric Company	15.41	12.81	17.84	16.07	16.35	15.18	11.44	13.19	17.62	18.01	18.12	17.19
	88.36	89.51	79.68	75.97	70.65	69.15	69.57	68.13	66.71	67.54	67.83	66.63
General Foods Corporation	17.70	16.99	17.13	16.73	16.59	19.90	13.85	15.52	8.35	13.66	14.04	14.04
	91.50	90.50	89.48	88.15	82.15	77.61	74.03	69.67	67.73	65.22	67.84	67.34
General Motors Corporation	24.11	24.55	28.17	22.11	18.86	18.94	17.75	6.19	19.35	19.85	20.37	7.63
	91.79	92.98	93.57	93.68	93.45	93.82	94.24	94.29	93.14	91.65	91.72	91.72
Gillette Company	35.36	30.36	32.24	34.45	33.32	30.65	28.03	25.32	21.83	23.55	23.73	21.23
	100.00	100.00	91.07	89.96	78.16	70.71	71.80	72.17	70.55	67.09	64.23	60.66
Gulf Oil Canada, Ltd.	6.79	7.04	6.91	7.25	6.93	7.49	7.00	5.87	7.13	8.91	13.09	19.26
	81.83	81.67	82.82	85.08	87.03	85.88	82.37	78.30	77.04	78.39	79.64	82.30
Gulf Oil Corporation	11.21	11.29	11.53	12.77	13.61	13.67	12.48	10.66	10.39	3.60	14.57	17.90
	87.08	87.86	86.92	83.67	81.18	77.33	73.84	71.99	69.92	69.22	71.56	75.01
Hanna Mining Corporation	10.29	10.82	11.66	11.98	12.48	12.48	12.40	12.56	13.63	7.43	7.47	7.35
	100.00	100.00	84.95	76.21	78.85	81.10	83.98	86.89	88.41	89.81	82.50	86.35
Imperial Oil Ltd.	9.77	10.47	11.00	11.35	11.24	11.27	10.22	11.03	13.54	14.00	18.45	21.39
	90.91	91.72	92.67	93.41	91.46	86.07	82.13	81.40	82.23	82.64	83.80	83.01

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RATE OF RETURN ON COMMON EQUITY AND COMMON EQUITY RATIO
INDUSTRIAL COMPANIES WITH QUALITY RANKING OF HIGH GRADE BY MOODY'S
1963-1974

	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
International Business Machines Corp.	19.54% 77.76	20.56% 81.34	19.74% 85.62	17.83% 86.61	18.21% 85.01	20.75% 85.90	18.97% 88.83	16.13% 85.40	[illegible] 87.71	[illegible] [illegible]	19.24% 90.20	19.12% 92.93
International Nickel Co. of Canada, Ltd.	16.79 100.00	19.85 100.00	19.37 100.00	14.96 100.00	16.94 100.00	16.12 90.91	12.50 83.46	20.87 80.70	8.96 70.97	10.28 [illegible]	19.63 70.30	23.22 70.74
Johns - Manville Corporation	9.47 99.36	10.60 99.47	10.80 99.57	11.50 99.81	9.47 100.00	11.13 100.00	10.99 100.00	8.38 100.00	9.65 96.97	10.55 88.61	11.34 80.28	13.47 75.50
Johnson & Johnson	10.50 100.00	11.95 100.00	13.71 98.69	14.57 97.64	14.91 98.05	15.71 98.44	16.10 98.65	16.85 96.27	17.61 97.34	17.81 97.22	15.53 96.31	17.31 96.01
Kellogg Company	23.79 92.53	24.69 92.14	23.94 92.37	23.36 91.13	22.44 92.12	21.34 92.97	20.86 92.86	20.91 91.66	21.52 91.95	21.79 92.33	21.43 91.53	21.55 90.03
Kraftco Corporation	10.92 81.16	12.20 83.41	12.65 85.41	12.68 85.95	12.53 85.84	12.08 85.64	11.74 85.19	12.29 85.39	12.69 83.40	11.77 80.65	13.12 78.21	11.12 69.54
Lilly (Eli) & Company	13.51 97.77	15.97 97.03	19.52 96.89	19.86 96.80	20.56 95.42	23.00 95.26	22.82 96.29	22.17 90.24	20.39 84.01	21.99 86.51	23.07 90.54	22.65 87.29
Mc Intyre Mines Ltd.	5.24 99.98	5.68 100.00	7.08 99.88	7.87 99.70	6.08 99.74	5.46 99.89	5.85 88.41	4.23 74.47	(12.40) 65.26	(26.30) 63.65	19.40 63.40	7.38 67.20
Merck & Company, Inc.	17.80 95.33	20.86 95.94	25.53 96.48	29.17 96.08	28.97 95.15	25.76 94.77	25.38 94.90	25.46 93.62	25.85 89.05	26.05 83.49	27.58 88.19	27.89 89.72
Minnesota Mining and Manufacturing Co.	21.04 97.03	20.60 97.22	21.13 95.39	22.21 94.01	20.73 95.06	20.04 95.44	19.50 94.22	18.21 91.40	18.55 87.73	19.21 86.13	20.66 85.47	18.81 79.99
Mobil Oil Company	8.88 89.51	9.08 87.72	9.40 88.04	9.97 88.29	10.26 87.94	10.84 85.59	10.34 84.10	10.91 82.35	11.54 80.21	11.51 80.73	15.64 77.78	12.91 74.83
Nabisco, Inc.	17.14 84.41	17.34 85.21	17.16 85.98	17.29 90.70	16.99 84.00	15.88 78.64	11.42 74.20	14.96 72.55	16.15 69.22	16.49 65.51	11.79 60.79	11.79* 60.79

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RATE OF RETURN ON COMMON EQUITY AND COMMON EQUITY RATIO
INDUSTRIAL COMPANIES WITH QUALITY RANKING OF HIGH GRADE BY MOODY'S
1963-1974

	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Phillips Petroleum Company	8.85% 83.77	9.27% 82.92	10.07% 80.50	11.01% 67.95	11.47% 62.63	8.04% 67.12	7.85% 66.75	6.60% 65.92	7.65% 66.78	8.32% 67.33	12.15% 68.51	[illegible] 72.73
Prentice-Hall, Inc.	20.78 79.72	23.37 87.81	31.06 100.00	33.35 100.00	31.09 100.00	30.00 100.00	29.11 100.00	25.36 100.00	23.75 100.00	18.69 100.00	23.27 100.00	21.72 100.00
Procter & Gamble Company	15.31 86.06	15.63 86.95	14.74 87.47	16.03 87.83	17.81 88.50	19.11 88.41	16.51 88.32	17.40 88.69	17.78 89.40	18.63 87.91	18.13 86.08	17.15 86.23
Quaker Oats Company	12.27 77.50	11.52 80.53	11.09 80.94	11.31 79.19	11.99 79.24	12.13 80.33	13.17 81.73	13.99 72.31	11.03 64.47	[illegible] 60.97	14.95 59.42	12.37 55.12
Reynolds (R.J.) Industries, Inc.	21.07 54.10	19.24 69.74	20.14 70.60	20.07 66.73	20.62 66.48	19.06 70.47	12.79 68.51	18.43 64.49	18.85 66.06	17.82 67.50	18.13 67.58	19.25 68.56
Richardson - Merrell, Inc.	14.75 100.00	14.15 100.00	14.84 100.00	15.89 94.23	15.09 88.10	13.87 84.25	14.69 82.05	15.30 78.79	13.30 75.74	14.99 76.50	15.16 80.08	14.55 83.85
Sears, Roebuck and Co.	13.32 69.99	14.51 66.36	14.14 62.63	13.51 60.45	13.18 59.92	13.96 59.93	13.44 60.30	13.10 60.40	14.24 60.64	14.32 60.33	14.23 59.50	9.99 57.22
SmithKline Corporation	33.06 100.00	33.12 100.00	32.66 100.00	29.80 100.00	28.05 100.00	25.94 98.08	23.62 95.64	23.71 93.76	22.72 89.21	21.90 84.55	21.70 78.82	21.75 70.71
Squibb Corporation					12.75 81.39	10.74 79.74	12.82 75.20	13.79 68.77	15.46 66.19	15.97 67.70	16.25 67.70	15.25 67.71
Standard Oil Company of California	9.28 93.87	9.07 93.71	9.18 92.54	10.47 91.31	10.57 88.46	11.04 86.06	10.51 85.80	10.02 85.02	10.69 81.59	10.79 79.80	15.30 81.95	15.83 67.53
Standard Oil Company (Indiana)	7.36 86.60	7.61 86.94	8.21 87.10	9.36 85.26	9.80 83.62	10.27 80.60	10.12 75.86	9.46 74.37	9.83 75.54	10.20 76.75	12.90 76.21	20.98 75.16
Tampax, Inc.	39.87 100.00	38.56 95.22	40.76 95.49	39.40 95.65	39.23 95.95	37.76 99.08	36.78 95.99	39.51 95.83	40.81 95.90	35.84 96.39	35.72 96.76	33.18 95.80
Texaco, Incorporated	16.14 89.11	15.69 88.08	16.10 87.53	16.58 85.38	16.03 81.33	16.12 79.16	13.45 79.73	13.50 80.75	13.88 80.20	12.77 77.97	17.04 77.75	18.67 78.00

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RATE OF RETURN ON COMMON EQUITY AND COMMON EQUITY RATIO
INDUSTRIAL COMPANIES WITH QUALITY RANKING OF HIGH GRADE BY MOODY'S
1963-1974

	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Union Carbide Corporation	14.60% 70.27	18.73% 70.45	17.45% 69.26	16.30% 69.87	10.43% 64.79	9.33% 61.30	10.74% 61.38	8.81% 60.09	8.63% 59.86	10.36% 61.72	[illegible] 62.72	23.00% 64.76
Upjohn Company	15.74 99.33	16.82 99.20	19.34 99.00	17.40 98.80	13.64 98.46	13.89 95.16	14.43 94.77	13.55 90.70	13.37 [illegible]	15.22 77.15	20.25 80.84	18.05 76.37
Walker (Hiram) - Gooderham & Worts, Ltd.	12.00 98.82	12.47 97.89	12.81 96.53	13.24 95.50	13.30 95.58	13.64 94.54	13.72 90.94	12.84 86.07	11.99 79.43	12.53 76.42	[illegible] 80.99	13.07 77.63
Wrigley (Wm.) Jr. Company	12.89 100.00	13.49 100.00	14.69 100.00	15.76 100.00	15.50 100.00	15.24 100.00	14.68 100.00	13.64 98.02	14.63 92.17	14.64 90.31	14.97 94.56	13.02 95.06
Average - above 10 oil companies	10.22% 85.63	10.35% 85.27	10.40% 84.96	11.17% 83.20	11.44% 81.35	11.27% 79.40	10.32% 77.11	10.10% 75.66	10.48% 74.93	10.35% 75.08	15.20% 75.71	19.42% 76.79
Average - above 43 companies excluding oil companies	17.05% 90.34	17.92% 90.98	19.21% 90.47	18.98% 89.27	17.48% 87.12	17.61% 85.68	16.68% 84.92	16.54% 83.17	16.08% 79.41	15.48% 79.27	18.25% 79.43	16.65% 76.14
Average - above 53 companies	15.73% 89.43	16.46% 89.88	17.51% 89.41	17.48% 88.10	16.34% 86.03	16.41% 84.50	15.48% 83.44	15.33% 81.75	15.02% 78.58	14.52% 78.40	17.71% 78.73	16.99% 77.59

#1973 data

Source: Computed on basis of data in annual reports and statistical summaries of companies; Moody's Investors Service, Inc., Moody's Industrial Manual, 1974 and previous editions.

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EARNINGS EXPERIENCE ON COMMON EQUITY OF
OPERATING ELECTRICS IN ORIGINAL COST JURISDICTIONS WITHOUT FLOW-THROUGH USED IN SELECTION OF COMPARISON COMPANIES
IN RELATION TO EARNINGS EXPERIENCE ON COMMON EQUITY OF
INDUSTRIAL COMPANIES WITH QUALITY RANKING OF HIGH GRADE BY MOODY'S
1963-1974

	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
	39 Companies in Original Cost Jurisdictions Without Flow-Through Used in Selection of Comparison Companies											
ate of return on common equity	12.42%	12.95%	13.29%	13.57%	13.33%	12.86%	13.02%	13.00%	12.34%	12.60%	11.62%	9.99%
ommon equity ratio	39.03	39.65	39.92	39.29	38.01	36.97	36.07	35.29	34.72	34.44	34.56	33.52
omponent for common equity (rate of return on common equity x common equity ratio)	4.848	5.135	5.305	5.332	5.067	4.754	4.696	4.588	4.284	4.339	4.016	3.349
	43 Industrial Companies with Quality Ranking of High Grade by Moody's Excluding Oil Companies											
ate of return on common equity	17.05%	17.92%	19.21%	18.98%	17.48%	17.61%	16.68%	16.54%	16.08%	15.48%	18.29%	16.65%
ommon equity ratio	90.34	90.98	90.47	89.27	87.12	85.68	84.92	83.17	79.41	79.17	79.43	78.14
omponent for common equity	15.403	16.304	17.379	16.943	15.229	15.088	14.165	13.756	12.769	12.256	14.528	13.010
	Component for Common Equity of Above Electric Utilities Used in Selection of Comparison Companies as Percent of Component for Common Equity of above 43 High Grade Industrials.											
	31.47%	31.50%	30.53%	31.47%	33.27%	31.51%	33.15%	33.35%	33.55%	35.40%	27.64%	25.74%

CAROLINA POWER & LIGHT COMPANY
TEST OF COMMENSURATE RETURN

Indicated Fair Rate of Return on Common Equity on Basis of Test of Commensurate Return	14.50% at 33.40% Common Equity Ratio Includes Allowance for Funds Used During Construction

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ELECTRIC UTILITIES IN ORIGINAL COST AND FAIR VALUE JURISDICTIONS
WITH PUBLICLY-HELD COMMON STOCK
MARKET PRICE AS PERCENT OF BOOK VALUE*
1975

		Market Price as Percent of Book Value*
130.00% and over	Southwestern Public Service	153.99%
	Oklahoma Gas and Electric	142.95
	Public Service Indiana	142.70
	El Paso Electric	141.10
	Central and South West	135.80
	Central Louisiana Electric	134.59
	Texas Utilities	130.57
120.00 - 129.99%	Illinois Power	128.58
	Tampa Electric	124.91
110.00 - 119.99%	Northern States Power	118.99
	Montana Power	113.33
	Wisconsin Electric Power	112.46
100.00 - 109.99%	Indianapolis Power & Light	109.49
	Cleveland Electric Illuminating	106.70
	Central Illinois Public Service	105.88
	Ohio Edison	105.59
	Commonwealth Edison	105.38
	Idaho Power	102.29
	Pacific Power & Light	102.00
	Toledo Edison	101.82
	American Electric Power	101.16
	Florida Power & Light	100.59
	Southern Indiana Gas and Electric	100.45
	Interstate Power	100.17
90.00 - 99.99%	Gulf States Utilities	99.39
	Hawaiian Electric	99.37
	Louisville Gas and Electric	99.13
	South Carolina Electric and Gas	98.99
	Wisconsin Public Service	98.38
	Cincinnati Gas & Electric	97.55
	Tucson Gas & Electric	97.21
	Washington Water Power	96.82
	Northern Indiana Public Service	96.71
	Dayton Power and Light	95.72
	Atlantic City Electric	95.58
	Iowa Southern Utilities	93.25
	Iowa-Illinois Gas and Electric	92.89
	Allegheny Power System	91.76
	Iowa Power and Light	90.93
	Union Electric	90.14
80.00 - 89.99%	Minnesota Power & Light	89.98
	Public Service New Mexico	89.90
	Duquesne Light	89.19
	Columbus and Southern Ohio Electric	88.39
	Public Service Colorado	88.34
	Duke Power	88.10
	Wisconsin Power and Light	87.37
	Southern	86.75
	Florida Power	86.12
	Kansas Power & Light	86.10
	Long Island Lighting	85.89
	Otter Tail Power	85.43
	Central Illinois Light	85.18
	Middle South Utilities	85.01
	Houston Lighting & Power	83.95
	Iowa Public Service	83.54
	Pennsylvania Power & Light	83.48
	Utah Power & Light	83.18
	Kansas Gas and Electric	81.15
	Baltimore Gas and Electric	80.85
	Community Public Service	80.47
	Kentucky Utilities	80.19

ELECTRIC UTILITIES IN ORIGINAL COST AND FAIR VALUE JURISDICTIONS
WITH PUBLICLY-HELD COMMON STOCK
MARKET PRICE AS PERCENT OF BOOK VALUE*
1975

		Market Price as Percent of Book Value*
70.00 - 79.99%	New England Electric	79.84%
	Kansas City Power and Light	79.33
	Carolina Power & Light	77.96
	United Illuminating	76.57
	Pacific Gas and Electric	76.30
	Northeast Utilities	75.76
	Delmarva Power & Light	75.60
	New England Gas and Electric	75.05
	Virginia Electric and Power	74.83
	Arizona Public Service	73.27
	Niagara Mohawk Power	72.95
	Iowa Electric Light and Power	72.37
	Madison Gas and Electric	71.86
	Philadelphia Electric	71.82
	Potomac Electric Power	71.59
	New York State Electric and Gas	71.57
	Central Hudson Gas and Electric	71.16
	Public Service Electric and Gas	70.90
	General Public Utilities	70.30
	Boston Edison	70.23
	Rochester Gas and Electric	70.08
60.00 - 69.99%	Detroit Edison	67.05
	Southern California Edison	66.27
	San Diego Gas and Electric	65.48
	Consumers Power	63.01
50.00 - 59.99%	Savannah Electric & Power	52.08
40.00 - 49.99%	Consolidated Edison	40.62
	Median	88.34%

*Market price at the close on October 22, 1975 related to book value per share on December 31, 1974.

Source: Moody's Investors Service, Inc., Moody's Public Utility News Reports, 1975 (book value); The Wall Street Journal, October 23, 1975 (market price).

PRICE TO PUBLIC AS PERCENT OF BOOK VALUE
IN COMMON STOCK OFFERINGS
ELECTRIC UTILITIES
1972-1976

Average Price to Public as Percent of Book Value per Share
(Figures within Parentheses are Number of Offerings)

	1972		1973		1974		1975		1976	
All Offerings	128.40%	(45)	120.64%	(47)	76.49%	(54)	83.30%	(94)	94.40%	(25)
All Offerings with Price to Public below Book Value	90.74	(4)	85.32	(13)	70.78	(46)	78.27	(82)	88.54	(18)
All Offerings with Price to Public at or above Book Value	132.07	(41)	132.14	(34)	109.36	(8)	117.62	(12)	109.49	(7)

Source: Computed from Prospectus for each offer.

COMMON STOCK OFFERINGS
AND MARKET PRICE IN RELATION TO BOOK VALUE
CAROLINA POWER & LIGHT COMPANY
1972-1975

	1972		1973	1974	1975	
Date of prospectus	January 19, 1972	November 1, 1972	November 8, 1973	No common stock offerings	January 16, 1975	October 28, 1975
Number of shares	2,000,000	2,500,000	3,000,000		4,000,000	5,000,000
Total price to public	$ 54,750,000	$ 71,875,000	$ 63,750,000		$ 59,000,000	$ 89,375,000
Price to public per share	$ 27.375	$ 28.75	$ 21.25		$ 14.75	$ 17.875
Book value per share	$ 19.20 (11/30/71)	$ 20.77 (7/31/72)	$ 23.22 (8/31/73)		$ 23.23	$ 23.01 (8/31/75)
Ratio of price to public per share to book value per share	142.58%	138.42%	91.52%		63.50%	77.68%

*Last reported market price and ratio of last reported market price to book value per share.

Source: Carolina Power & Light Company, Prospectus, 3,000,000 Shares Common Stock, November 8. 1973, pages 1, 23, 27 and corresponding pages in previous prospectuses; Prospectus, 4,000,000 Shares Common Stock, January 16, 1975, pages 1, 7, 29; Prospectus, 5,000,000 Shares Common Stock, October 28, 1975, pages 1, 7.

EXPLANATION AND KEY TO MOODY'S CORPORATE BOND RATINGS

MOODY'S BOND RECORD

Explanation and Key to Corporate Bond Ratings, Including Convertible Issues, and Industrial Revenue Bonds
(For Rating Key and Explanation of Moody's Municipal Bond ratings, see Table of Contents)

Foreword: Moody's Bond Record covers over 10,000 issues and situations of which approximately 4,600 comprising the first section, are treated in detail affording the user at a glance the essential facts relating to market position and statistical background.

Title of Bond: Name of corporation, together with coupon and date or dates of maturity are given. (Where title is printed in bold face type such company has convertible debt securities outstanding. Listed issues are preceded by identifying symbol. In the case of domestic municipals, ratings are applicable to all general obligation bonds of the unit named unless otherwise specified.

Interest Dates: Interest dates and date of the month of maturity given. *Underlined letter denotes the final month of maturity.*

Registered Bonds: Bonds issued only in fully registered form are indicated with the letter (r).

Defaults: In cases of interest or principal default, the date together with appropriate symbol is usually shown in interest column.

Call Price: The call price as of the date of this publication is given in all cases possible, and will be adjusted to the correct call price when such change becomes effective. Symbol (^) after call price indicates price is subject to change.

Moody's Rating: Moody's Rating is given to all issues in this publication where sufficient data are available. A discussion and explanation of Moody's ratings will be found on page 2.

Quotations: Quotations shown are as follows:
Listed Issues: Quotations for listed issues represent actual sale prices as near as possible to the end of the month preceding date of publication. Where no recent transaction is reported, the latest bid and asked prices are given.
Unlisted Corporate Issues: Quotations shown represents the approximate spread between bid *and* asked prices for latest available date preceding date of publication. Where *bid prices only* are available, the average of such bids is given. Where *asked prices only* are available, the average of them is given.
Serial Issues: Where each maturity is not quoted separately, the quotation shown is usually for the average maturity.
Canadian Issues: Issues payable only in Canadian funds and so quoted are indicated with an asterisk (*) in the "Current Price" column.
Quotations are obtained from sources which we believe reliable but they are not guaranteed. In the case of unlisted issues, quotations do not purport to be a record of firm bids or offers nor do they necessarily represent actual transactions.

1974 Price Range: The high and low sale for all *listed* issues is given as near as possible to the end of the month. The range for unlisted issues represents high and low bid prices, based on reliable quotation records.

1946-73 Price Range: The high and low sale price for all *listed* issues have been taken from records for that period. In the case of unlisted bonds the high and low bid prices are used. For bonds issued since 1946, the range covers only the period since issuance.

Yield to Maturity: The yield to maturity is shown on all bonds paying regular interest. Where sale price is not available, the yield is computed on the bid price for valuation purposes.

General Information and Remarks: In many issues, notably foreign governmental bonds, latest developments are noted in lieu of statistical data furnished on corporate items.

MOODY'S BOND RATINGS

Purpose: The system of rating securities was originated by John Moody in 1909.
The purpose of Moody's Ratings is to provide the American investor with a simple system of gradation by which the relative investment qualities of bonds may be noted.

Rating Symbols: Gradations of investment quality are indicated by rating symbols, each symbol representing a group in which the quality characteristics are broadly the same. There are nine symbols as shown below, from that used to designate least investment risk (i.e., highest investment quality) to that denoting greatest investment risk (i.e., lowest investment quality):

Aaa Aa A Baa Ba B Caa Ca C

For explanation of municipal rating symbols, in particular the A-1 and Baa-1 groups see page 67.

Absence of Rating: Occasionally no rating is assigned or a rating is withdrawn or cancelled. This may occur if new circumstances arise, the effects of which are not satisfactorily analyzable, if there is no longer available reasonably up to date data to permit a judgment to be formed, if a bond is called for redemption, or for other reasons.
Where no rating has been assigned or where a rating has been cancelled that fact alone must not in any way be taken as a reflection on the quality of a bond.
Where no rating has been assigned to a bond the reason could be one of the following:

1. The bond belongs to a group of securities which are not rated as a matter of policy, viz., real estate bonds, obligations of investment trusts and banks, and currently, bonds payable in currencies other than United States dollars.

2. Where ratings have been requested for privately placed bond issues such ratings will not be published. No ratings are assigned or may be maintained where public interest in any issue is minimal, or in any situation where it would be difficult to maintain constant scrutiny of the issue because of lack of essential data, or because of reduced size and limited after-marketability.

3. Bonds are not rated in the absence of data deemed to be essential for a sound judgment on the investment quality of the issues.

Changes in Rating: The quality of most bonds is not fixed and steady over a period of time, but tends to undergo change. For this reason changes in ratings occur so as to reflect these variations in the intrinsic position of individual bonds.
A change in rating may thus occur at any time in the case of an individual issue. Such rating change should serve notice that Moody's observe some alteration in the investment risks of the bond or that the previous rating did not fully reflect the quality of the bond as now seen. While because of their very nature, changes are to be expected more frequently among bonds of lower ratings than among bonds of higher ratings, nevertheless the user of bond ratings should keep close and constant check on all ratings—both high and low ratings—thereby to be able to note promptly any signs of change in investment status which may occur.

KEY TO MOODY'S CORPORATE RATINGS

Aaa

Bonds which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa

Bonds which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long term risks appear somewhat larger than in Aaa securities.

A

Bonds which are rated A possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate but elements may be present which suggest a susceptibility to impairment sometime in the future.

Baa

Bonds which are rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Ba

Bonds which are rated Ba are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B

Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa

Bonds which are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

Ca

Bonds which are rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.

C

Bonds which are rated C are the lowest rated class of bonds and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

Moody's Investors Service, Inc., <u>Moody's Bond Record</u>, October 1974, pages 1 and 2.

EXPLANATION AND KEY TO STANDARD & POOR'S CORPORATE BOND RATINGS

STANDARD & POOR'S BOND RATINGS

CORPORATE BONDS

BANK QUALITY BONDS—*Under present commercial bank regulations bonds rated in the top four categories (AAA, AA, A, BBB or their equivalent) generally are regarded as eligible for bank investment.*

AAA Bonds rated AAA are highest grade obligations. They possess the ultimate degree of protection as to principal and interest. Marketwise they move with interest rates, and hence provide the maximum safety on all counts.

AA Bonds rated AA also qualify as high grade obligations, and in the majority of instances differ from AAA issues only in small degree. Here, too, prices move with the long term money market.

A Bonds rated A are regarded as upper medium grade. They have considerable investment strength but are not entirely free from adverse effects of changes in economic and trade conditions. Interest and principal are regarded as safe. They predominantly reflect money rates in their market behavior, but to some extent, also economic conditions.

BBB The BBB, or medium grade category is borderline between definitely sound obligations and those where the speculative element begins to predominate. These bonds have adequate asset coverage and normally are protected by satisfactory earnings. Their susceptibility to changing conditions, particularly to depressions, necessitates constant watching. Marketwise, the bonds are more responsive to business and trade conditions than to interest rates. This group is the lowest which qualifies for commercial bank investment.

BB Bonds given a BB rating are regarded as lower medium grade. They have only minor investment characteristics. In the case of utilities, interest is earned consistently but by narrow margins. In the case of other types of obligors, charges are earned on average by a fair margin, but in poor periods deficit operations are possible.

B Bonds rated as low as B are speculative. Payment of interest cannot be assured under difficult economic conditions.

CCC-CC Bonds rated CCC and CC are outright speculations, with the lower rating denoting the more speculative. Interest is paid, but continuation is questionable in periods of poor trade conditions. In the case of CC ratings the bonds may be on an income basis and the payment may be small.

C The rating of C is reserved for income bonds on which no interest is being paid.

DDD-D All bonds rated DDD, DD and D are in default, with the rating indicating the relative salvage value.

NR—Not Rated.

Canadian corporate bonds are rated on the same basis as American corporate issues. The ratings measure the intrinsic value of the bonds, but they do not take into account exchange and other uncertainties.

MUNICIPAL BONDS

Standard & Poor's Municipal Bond Ratings cover obligations of all states or sub-divisions. In addition to general obligations, ratings are assigned to bonds payable in whole or in part from special revenues.

AAA-Prime—These are obligations of the highest quality. They have the lowest probability of default. In a period of economic stress the issuers will suffer the smallest declines in income and will be least susceptible to autonomous decline. Debt burden is not inordinately high. Revenue structure appears adequate to meet future expenditure needs. Quality of management would not appear to endanger repayment of principal and interest.

AA-High Grade—The investment characteristics of bonds in this group are only slightly less marked than those of the prime quality issues. Bonds rated AA have the second lowest probability of default.

A-Good Grade—Principal and interest on bonds in this category are regarded as safe. This rating describes the third lowest probability of default. It differs from the two higher ratings because there is some weakness, either in the local economic base, in debt burden, in the balance between revenues and expenditures or in quality of management. Under certain adverse circumstances, any one such weakness might impair the ability of the issuer to meet debt obligations at some future date.

BBB-Medium Grade—This is the lowest investment grade security rating. Under certain adverse conditions, several of the above factors could contribute to a higher default probability. The difference between A and BBB ratings is that the latter shows more than one fundamental weakness, whereas the former shows only one deficiency among the factors considered.

BB-Lower Medium Grade—Bonds in this group have some investment characteristics, but they no longer predominate. For the most part this rating indicates a speculative, non-investment grade obligation.

B-Low Grade—Investment characteristics are virtually non-existent and default could be imminent.

D-Defaults—Interest and/or principal in arrears.

INVESTMENT SECURITIES REGULATIONS

Effective Sept. 12, 1953, the Comptroller of the Currency issued the following regulations applying to the purchase for its own account of investment securities by a national bank or a State member bank of the Federal Reserve System.

Definitions.

The term "investment security" means a marketable obligation in the form of a bond, note or debenture which is commonly regarded as an investment security. It does not include investments which are predominantly speculative in nature.

The term "public security" includes obligations of the United States and general obligations of any State of the United States or of any political subdivision thereof.

The term "political subdivision of any State" includes a county, city, town or other municipal corporation, a public authority, and generally any publicly

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Standard & Poor's Corporation, Bond Guide, October 1974, page 6.

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When Is Interest Coverage a Special Concern?

Lower or declining coverage of interest charges is, naturally, always a matter of concern to Moody's. And, it is of very special concern when it could precipitate desperate and possibly imprudent measures. This could happen when bond indenture restrictions come into play.

Indenture disciplines, including coverage tests, were designed to protect the bondholder under adverse conditions. We must assume that the bond investor put his money on the line assuming that this indenture coverage restriction was a secure last line of defense. Circumvention of bond indenture original covenants is a matter of great concern. When a company cannot sell bonds because it is not generating enough earnings to cover its interest requirements by two times, it must get rate relief or sell stock, regardless of the difficulties involved.

Is it not contrary to the spirit of the bond contract to resort heavily to alternative forms of debt financing? Such might include leases involving generating equipment; high levels of more-or-less permanent layers of shorter term credit; and shifts to debenture financing where constraints may be more moderate. We cannot overlook such steps, which are for the most part symptomatic of deep and unresolved problems. The incurrence of fixed obligations of this type, regardless of whether or not they are subordinated to the mortgage bonds, does not improve the quality of senior debt.

Pollution control financing, no matter how noble its purpose or how economic its use, could become an increasing threat to the quality of other debt under certain circumstances. If payments made to satisfy terms of the instrument are not reflected in indenture tests pertaining to coverage, for example, how much closer is the company to that two-times coverage limitation? Or how much has it gone below it? Can pollution control financing be considered aside from the normal level of debt? We do not think so.

We believe it is worth mentioning that most indentures are silent with regard to the inclusion of allowance for funds used during construction in earnings as defined therein. However, this once insignificant accounting item has become substantial in size, and in most instances is included as an earnings credit for indenture coverage purposes. There are many who question the quality of such earnings credits, and their acceptance has allowed some companies to finance via bonds where otherwise they would not have been permitted to do so. The difference naturally varies from company to company, but, for the industry in general, these credits now account for over 10% of interest coverage. This, in our opinion, makes so-called circumventive financing all the more questionable.

It concerns us greatly that behind the satisfaction of the mortgage incurrence test of two-times pretax earnings coverage of interest charges there lies a large accounting credit, and that, outside of the control of that test, there may be large amounts of other forms of debt. Any such situation would be a sure sign of weakness and would reflect upon a company's financial integrity.

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Moody's Investors Service, Inc., Moody's Bond Survey, January 5, 1976, pages 1781-1782.

result of a 20% salary increase to the teachers. This raise parallels the recent rise of the state minimum teacher's salary, maintaining Mesquite ISD's pay scale at $800 above the state minimum. The adoption of this increased salary expense was made possible by the new state funding allocation which increased state aid to the district. Increased debt service costs of $468,000 in this year's budget are also important.

Tax collections on the current levy have averaged 96.28% for the last five years. The district tax rate has increased from 12.9 mills in 1970 to 14.4 mills currently, and officials expect it to remain at this level for at least three more years. Bonded debt is retired slowly, with 12.6% retired within five years, and 29.5% within ten.

Socioeconomic data for the City of Mesquite compares favorably with Texas:

	City of Mesquite	State of Texas
Per Capita Effective Buying Income	$ 4,362	$ 4,182
Average Household EBI	15,291	10,825
Median Household EBI	14,849	12,844
% of Households earning less than $3,000	3.8	13.6
% of Households earning $15,000 or more	49.0	31.8
Retail Sales per Capita	$ 3,365	$ 2,764

(Source: Sales Management Magazine, 1975 edition)

According to the 1970 Census, the median home value for the city ($15,000) is higher than that of the state ($12,000).

Mesquite ISD has exhibited good growth characteristics and has managed its finances well. However, debt is heavy and the retirement schedule is slow. We are continuing our "A" Good Grade rating on Mesquite ISD.

FUNDAMENTAL APPROACH TO PUBLIC UTILITY BOND RATINGS

Our Public Utility Section has prepared the following detailed review setting out our approach and the major analytical considerations involved in rating utility bonds. Hopefully, this survey will enlighten our readers as to our methods and analysis in this widely followed area and thereby allow them to follow our individual issue rating reviews in better perspective.

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In evaluating utility credit risks, our starting point is an analysis of the varying operating and financial risks that may be facing the electric, gas and telephone *industries* in the years ahead under differing economic scenarios. For the electric utility industry, this involves the development of sales and financial statement forecasts for a five-year period using best-guess estimates and realistic economic assumptions, and the derivation of a comprehensive set of operating and financial parameters which are used to make comparisons. Working with this model, we investigate industry tolerances to worst-case conditions, such as the potential impacts of on-going double-digit inflation, of lack of access to the capital markets, of recession-induced kwh sales declines and fast-paced load growth, and of seriously adverse developments in such areas as fuel supply, environmental requirements and nuclear power. We feel this type of analysis (done more loosely for the gas and telephone industries) provides us with a firm backdrop for evaluating long-term general industry risk and draws attention to subindustry sectors with particular vulnerabilities.

In this context, we are able meaningfully to compare the relative operating and financial positions of individual utilities. The next step in the risk-determination *process* involves *comparisons of individual* utilities, the relative operating advantages and disadvantages of each, particular sources of instability or uncertainty, and debt safety parameters that should prevail in future years, given a realistic appraisal of economic and regulatory climates. While the emphasis of our analytical work is on projecting the future, when the debt is to be outstanding, strong consideration must still be given the track record of the past several years, in that it reflects management's relative success in meeting goals and dealing with problem areas. Furthermore, integral inputs into our analysis are most current capital structure positions, stated capitalization goals and their reasonableness, and, in the regulatory area, the constraints of state laws, PSC policies and precedents and indicated future directions.

At Standard & Poor's we have come to the conclusion that one of the strongest forms of protection of interest payments and timely repayment of principal is a reliable stream of healthy earnings, backed up by cash flows that are satisfactory on their own and not disproportionate to capital and debt service requirements. We look for depreciation rates to be at realistic levels, based on engineering *and* economic gauges. Although we have little interest in becoming embroiled in the theoretical argument of whether or not present customers should pay for needs of future customers, we recognize that the practical effect of inflationary conditions is that the rate-making procedures of flow-through accounting and accrual of AFDC (allowance for funds used during construction) exacerbate already serious cash flow problems for growing, capital-intensive companies, resulting in deterioration in debt safety parameters and credit ratings.

Coverage As An Analytical Tool

The primary earnings adequacy tests remain those centering on fixed charge coverage, notwithstanding the fact that differences in coverage levels have narrowed significantly in the past decade, as actual coverages have deteriorated. Nevertheless, these tests, if evaluated in the proper framework, still provide the most direct indication of a company's ability to carry its present debt load as well as to take on additional debt. S&P presently uses five coverage tests of *total* fixed charges, the most important of which for rating purposes are the pretax and pretax excluding AFDC for the more capital-intensive electric and gas utilities. After-tax coverage still merits serious attention relative to long-term historical statistics when differences in tax rates were much less meaningful and, to some extent, for telephone utilities, as measures of relative aftertax earnings power and capital accumulation potential of less capital-intensive companies that face potentially larger exposures to economic dislocations and long-term competitive threats. Our computations are all on *total* fixed charges, inasmuch as all charges have to be met to prevent default, and we give very little attention to pro forma coverage, preferring instead projected coverage based on a full set of economic and rate case assumptions.

Looking at pretax coverage alone, and discussing rating guidelines in the broadest of terms, we find it extremely difficult to maintain a "AA" long-term credit rating on most electric utilities if coverage is substandard and does not show reasonably firm prospects for improvement to the *minimum* 3.0 3.5 times level. For varying

Standard & Poor's Corporation, The Fixed Income Investor, January 3, 1976, page 987.

reasons, we usually look for higher coverage ratios on telephone and gas utilities. Correspondingly, for a medium-quality "A" credit rating, on an electric utility, we would have to be aware of seriously compelling reasons to maintain the rating within that category if coverage could not be expected to improve to *at least* the 2.50-2.75 times level in a reasonable time frame. If pretax coverage is only 2.0 times or less on both an actual and a projected basis, we have found that we must *seriously* question whether the lower medium grade "BBB" investment category is appropriate for that issuer's debt issues, or whether debt safety cushions are so inadequate that only a relatively speculative grade "BB" rating can be assigned to long-term issue.

It should also be recognized that the above-mentioned minimum coverage levels make allowances for an electric utility industry experiencing an unfavorable cycle of serious earnings erosion and financial stress. Thus, the long-term character of our bond rating system would require that we look for higher minimum coverage levels should it become evident that the industry or individual companies are entering favorable phases, but of limited duration. In addition, a company's attainment of *strong* coverage levels for a higher rating category is only one precondition for *considering* a rating upgrading on its debt issues.

While such coverage guidelines are a potentially important analytical tool, they could lead to seriously misleading conclusions if used in a vacuum and without a comprehensive appraisal of fundamental operating and financial risks, of sources of volatility and stability, of asset and cash flow protection, and of regulatory and management prerogatives. Although we find it exceedingly difficult to shade the above minimum coverage guidelines lower, even when most other indicators point in favorable directions, we quite often determine that we must require moderately to significantly higher coverage levels in individual cases where particular problems, disadvantages or uncertainties exist.

Furthermore, there are many instances where differing types of coverage ratios are more suitable in measuring long-term earnings and cash flow protection, and at least as many cases where fixed charge coverage tests must be given only modest weight in the credit evaluation process. The former case is typified by natural gas utilities with serious supply problems, where increased attention must be given debt service coverages. A prime example of the latter situation is a fast-growing electric utility which expects to triple or quadruple its capitalization in the next five years. The projected corresponding growth of the debt burden and the earnings requirements makes risk appraisal all the more dependent on visibility of regulatory climate, financial flexibility, and ability to carry risk in plant under construction.

Finally, as a tool measuring earnings protection, fixed charge coverage analysis must be supplemented by cash flow analysis and safety margin analysis so as adequately to take into consideration vulnerability to sales declines and cost escalations and potential volatility factors.

PRIMARY ANALYTICAL CONSIDERATIONS

Just as the credit rating process cannot evaluate future earnings protection in a vacuum, it assuredly cannot limit its analytical scope to earnings protection alone. The more important analytical considerations entering into utility ratings are the following:

1. Company size and type of operations. The potential benefits and visibility of a large-sized company can no more be ignored than the possible exposures of small utilities serving limited areas. The case is far from clear-cut, however, as evidenced by Con Edison's 1974 problems and the excellent records chalked up by many moderate sized utilities. Above, we mentioned that we look for higher coverages on most gas and telephone utilities. For combination utilities or diversified companies, we try, to the extent possible, to investigate the creditworthiness of each business, and then look for the advantages or disadvantages of the combined company as an issuer. While companies under the Bell System umbrella clearly benefit in many ways from their association with the parent, 1974 demonstrated that in a financial pinch individual debt-issuing subsidiaries can also be disadvantaged by the problems affecting the parent holding company.

A) The mix of a company's revenues, earnings, and asset-earning investments and related growth factors provide basis measurements by which one can gauge relative exposure to *normal* operating, economic and financial risks. Industrial sales versus residential and commercial, higher priority gas sales *versus* lower priority usage, toll versus local phone revenues, wholesale relative to retail business, jurisdictional earnings, and investment and earnings breakdowns by regulatory jurisdictions are most fundamental.

B) The service area a utility is responsible for provides the underlying financial support for utility operations. Recognizing that customer or demand growth is now more often a burden than a positive attribute, we evaluate the varying types of growth and their implications. Intrinsically important are customers' ability and willingness to pay, degree of economic diversity of the area, and the implications of geographical location, such as rural and urban character, environmental considerations, climate and fuel source proximity on utility operating cost and efficiency levels. Not to be excluded are political and socio-economic attitudes towards growth and private industry.

C) The quality of service provided and the adequacy of customer and public relations are keys to ascertaining how well a utility is meeting its franchise obligations. Inadequacies in these areas (most pertinent for telephone companies) potentially threaten achievable earnings levels from both an economic and a regulatory standpoint. Reliability of fuel and power supply, exposure to environmental problems, operating efficiencies, level of plant modernization, gas system safety and the adequacy of maintenance practices are checked for potential problems and shortcomings.

For the electric and gas utilities, fuel supply position may still be regarded as favorable or unfavorable in terms of cost and availability. However, the long-term trend to nationwide energy policy-setting and end-use allocations and the now very hazy outlook regarding *most* fuels make it difficult to satisfactorily evaluate risk in this area.

D) The overriding *intra-industry* economic risks are, as we see them, i) deteriorating wellhead gas supply and an uncertain supplementary supply outlook for the gas utilities; ii) the long-term threat of competition in the more profitable areas of the telephone industry; and iii) the risk of not being able to earn a return or recoup the full investment in a major unused, unfinished, or unusable plant.

2. Evaluation of the company's five-year construction program. The larger the size of the program relative to capitalization, the more important are favorable operating and financial parameters and good visibility. Our greatest concerns are whether the basis of the program rests on high or low estimates of demand growth, whether there is sufficient flexibility to adjust the program upwards or downwards in future years without endangering the service obligation, and whether reasonable cost escalation factors are employed. Breakdown of the program into return-justifiable projects and non-revenue producing outlays is revealing, while adjustments are made for possibly omitted projects or contingent expenditures. The track record of adequacy, quality and shortfalls of past planning is scrutinized for indications of potential future problems.

3. Regulatory climate, including prescribed rate-making and accounting treatment. The ability of a utility satisfactorily to fund its construction program and to meet current and future service requirements is intimately dependent on the earnings and cash flow levels allowed, (although not guaranteed) by the jurisdictional regulatory

Standard & Poor's Corporation, The Fixed Income Investor, January 3, 1976, page 988.

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body. In addition to being familiar with the basic legislative statutes and mandated court interpretations which spell out the ground rules under which a regulatory agency must operate, we follow most of the important general rate case decisions for guidance as to commission policies and precedents. In recent years a wealth of information has become available in this area, although, unfortunately there is a sparsity of up-to-date court rulings regarding the reasonableness of commission decisions under current inflationary conditions. Combining management assessments of their companies' rate increase needs and strategies, as well as information and philosophy gleaned from past commission actions, we develop a considered judgement as to future rate case outcomes and timing. This evaluation is fundamental to our own projections of future debt safety margins.

As must be expected, evaluation of regulatory climate is often the most difficult aspect of the bond rating process, particularly so since important changes in commission membership occur with regularity, and fundamental changes in the governing legislative statutes are being made with increasing frequency. Accordingly, we try to become acquainted with political and consumer attitudes toward utilities, private enterprise and government in the jurisdictional area to which a utility belongs. Also, we try to assess the degree of competence, sophistication and general adequacy of the commission staff. In addition to being the workhorse of regulation, the staff is also able to provide independent judgement that often reflects a long-term understanding of particular utility problems and helps assure continuity of policy.

We do our best not to prejudge the outcome of rate cases, recognizing that such quasi-judicial proceedings involve a dynamic educational process for all parties. In numerous instances we are in contact with commission members and their staffs to obtain additional insight into the philosophies and implications of regulatory actions, and we welcome commissions' inquiries as to our rating philosophy as well as its application to particular companies. We respectfully emphasize to commissions, utilities and investors that our only concern is for our ratings to be as accurate an appraisal of risk as is humanly possible. We do not testify in rate cases, however, inasmuch as we believe that *any* participation in a case could seriously impair our objectivity in rating decisions. In evaluating rate cases within a particular jurisdiction, we look positively on consistent, well-reasoned policy decisions that address themselves to utility problems. Standard & Poor's usually refrains from taking positions on various controversial regulatory issues, but does recognize that both commissions and utility companies will have to consider innovative regulatory and financing approaches if respectable earnings and cash flow protection are to be maintained. By necessity, we are concerned with:

i) findings on rates of return and rate base, adjusted to time frames and equity base in the capitalization;
ii) extent of regulatory lag, which might constrain companies from earning the return allowed,
iii) accounting and rate-making procedures prescribed, which significantly influence the "quality" of earnings and resultant cash flow protection,
iv) the availability, or lack thereof, of interim and/or emergency rate relief, and preconditions for approval,
v) attitudes evidenced towards company arguments based on interest coverage requirements and the need to maintain credit standing,
vi) the presence or absence of short-term utility protection against volatile fuel and purchased power fluctuations,
vii) any particular utility regulatory problems with respect to the adequacy of communications, cooperativeness and credibility.

4. *Financing Requirements, Capitalization and Asset Protection.* Having translated the parameters of regulatory climate in terms of probable future earnings and cash flow potential, we proceed to evaluate their adequacy relative to the construction program, debt service requirements, company financing plans and management's capital structure objectives. Most important to us are the percentage of cash requirements that may be financed from internal sources, and the implications of the program for continuing earnings protection (as measured by debt to capitalization, and debt to net plant asset ratios). The latter is regarded as less important on its own than it is in relation to its effect on probable and potential earnings protection under the constraints of regulatory policy. Thus, certain compensating factors, such as excellent visibility regarding a high return on equity, might allow some utilities to live with a higher debt ratio than otherwise would be the case. The credit standings of such utilities would, however, tend to be more vulnerable to unexpected short-term adversities unless they were able to maintain favorable financing flexibility.

5. *Financing Flexibility.* The industry's experiences in 1974 clearly demonstrated what many observers had always suspected, that the capital markets are not necessarily open for most of the people most of the time, and that the public utility industries, with their huge capital demands, can be seriously impacted when the doors are closed for some of the people some of the time. Particularly in an uncertain inflationary environment, it is becoming increasingly important that utilities have good financing flexibility if they are to retain medium and higher-grade credit ratings on their debt issues and merit favorable consideration with regard to commercial paper ratings. Our analysis in this area involves an evaluation of

i) present and potential bank credit available and back-up on commercial paper issues;
ii) Flexibility to issue funded and unsecured debt and preferred stock under the various restrictive covenants. Companies are at a particular disadvantage if they continually bump against restrictions which are regarded as reasonable in their own right.
iii) vulnerability to short-term operating and economic risks;
iv) swings in short-term debt usage and future policy in this regard. Higher average use of short-term debt between permanent financings is recognized as little more than maintenance of permanent debt in the capital structure;
v) an ability to finance through preferred stock, preference stock, or common equity, the latter at reasonable market value to book value ratios.
vi) relative use of off-balance sheet financing and flexibility to lease or sell the more liquid company assets in emergencies.
vii) flexibility to reduce the construction and maintenance program without seriously endangering service or to have other parties contribute to future capital requirements.
viii) two-year forward analysis of projected "largely undeferrable" external capital requirements as related to capitalization size and contingently available capital sources.
ix) policies and practice as to sale of long-term securities, including the degree of conservatism evidenced in preparing for upcoming refundings.
x) worst-case contingency plans, including consideration of how management views its prerogatives and priorities under such conditions.

6. *Evaluation of management:* This is without a doubt the most difficult area in which to make an objective analysis that has validity as a measurement of future debt safety. Yet, recognizing the importance of this variable, we do make judgments and evaluations based upon

i) the long-term track record: how successful management has been in meeting shareholder objectives, and whether such successes or failures can be attributed to management or to other considerations;

ii) evidence of sophisticated and well-reasoned planning for the future and the flexibility that management builds into major policy decisions;

iii) demonstration of conservatism in both operations and planning, and aggressiveness and leadership in tackling or taking positions in industry problem areas;

iv) management's views towards balancing of public and private priorities, and its awareness of the importance of the debtor-creditor relationship and responsibilities towards meeting contractual obligations on time.

v) a demonstrated record of credibility and successful relations with the financial community, the public, the media, and of course, the regulatory agencies, upon all of whom the company must rely.

At Standard & Poor's, we fully recognize that the success or failure of our rating decisions can hinge on the correct evaluation of management. Yet our evaluation must also be self-limiting, since very poor management usually is replaced. Also, we recognize that many managements have and are continuing to learn from past industry mistakes, particularly in the financial area.

7. Issuing Documents. These documents, and, particularly, the trust indenture (which spells out the contract between issuer and bondholder), are the bedrock of the public capital markets, and are examined as to both the covenants agreed to and the remedies specified for lack of compliance. The standard provisions are, of course, looked for, and differentiations made, where more or less protection is afforded the bondholder, or where unduly restrictive provisions hamper operations and flexibility. Liberalizations in the indenture are questioned with particular seriousness as to justification and reasonableness and whether they may lead to increased credit risk. Attempts by companies to circumvent restrictive covenants which are not unreasonable in their own right, most often do entail higher risks for bondholders.

The total sum of our analysis, updated for each utility regularly, serves as the basis on which we compare and evaluate relative and absolute credit risks for over 250 utility issuers. One aspect we are particularly conscious of, is maintaining the most proper alignment of credit ratings for utility issuers within each regulatory jurisdiction. Actually, the rating decision-making process is quite a dynamic one, continuously requestioning and redetermining the very basic issues involved in credit risk and its evaluation—not only for utilities, but for all issuers. Ultimately, our efforts are guided by a desire to be as fair as possible to the issuer, while providing the most objective and accurate appraisal of risk as is possible to the investor.

SEASONAL LULL CONTINUED

Light profit-taking and year-end portfolio positioning was in evidence last week, not surprising after the strong December rally in which yields declined half as much as during the whole second half. The advance in yields last week was minor compared with the decrease in the previous two weeks or so. There were no new offerings.

The January calendar will be decidedly lighter than the recent monthly average and well below half of last January, a principal explanation being comparatively good corporate liquidity. A slower rate of inflation should encourage buyer interest, which would be enhanced were equities to continue to recover and become less competitive on a yield basis. The Fed's more accommodative policy since mid-fall is another inducement, together with the realization that it acted to help preclude record rates in 1975 in the face of some $80 billion of federal debt financing. Thus, the market should be relatively steady in the near-term, and resumption of selective purchases is warranted.

Corporate Analyses and Briefs

NEW ENGLAND TELEPHONE & TELEGRAPH COMPANY

Maintain "AA–" Rating

We recently completed a full rating review of the New England Telephone & Telegraph Company, appraising the fundamental situation in light of the October 27, 1975, Massachusetts rate decision and other changes in the outlook. The company had last been reviewed on May 24, 1975 (see page 639 of the F.I.I.), when, in connection with the sale of $175 million of debentures, we changed the denotation on existing and new debenture issues to "AA–," from "AA" previously.

Fixed charge coverages are in the process of bottoming out, aided by the infusion of $173 million of common equity last April, rate relief now being collected, and a reduction in construction expenditure requirements. Furthermore, moderate improvement in debt protection parameters is a reasonable near-term expectation and we note that the company is diligently pursuing rate relief to ameliorate a serious regulatory lag problem and is maintaining a tight rein on both capital spending and operating expenses. *Considering the potential for improvement in both internal cash generation and for future earnings to more closely approach the returns allowed, we are presently maintaining the "AA–" rating on all outstanding Debentures of New England Telephone & Telegraph Company.*

INDIANAPOLIS WATER COMPANY

Selling First Mortgage Bonds

In mid January, Indianapolis Water will offer $18,000,000 First Mortgage Bonds due 1986 through an underwriting syndicate led by Goldman, Sachs & Co. The issue will be protected against lower-interest-cost refunding for five years. Proceeds from the sale will be used to retire at maturity $16,725,000 principal amount of the company's First Mortgage Bonds, 2¾% due 1976, with the balance of the net proceeds to be added to the company's general funds. In

Standard & Poor's Corporation, The Fixed Income Investor, January 3, 1976, page 990.

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Public Utilities

Comment

Electric Utility Bond Ratings

Moody's reduced the bond ratings of 28 electric utility companies in 1974 and seven thus far in 1975. Only two companies had bond ratings raised during this time. Investors should not conclude that this unusually large number of downgradings indicates that we lack confidence in the long-term financial viability of the electric utility industry. To the contrary, and recognizing that there may be further rating reductions, it could well be that the worst may soon be over for most of the companies in this industry. Readers of BOND SURVEY should be aware that each downward rating adjustment reflected a specific and identifiable problem related to the company in question.

While each company is different in its stronger and weaker elements, there has been a common problem among those whose debt has been downgraded. In a broad sense, many of the things that could have gone wrong for the industry did just that in 1974. Skyrocketing oil prices, runaway inflation, disasterous bond and stock markets, near-zero sales growth due largely to conservation, unpredictable faults in nuclear power units and slow regulatory responses in a political year had a thumping adverse effect. Companies that went into 1974 in a strained financial position were further weakened. And, their problems have been complicated where internal cash generation has been minimal in relation to capital needs. This has really been the basic problem of the industry. Relatively low cash flow, a function, ultimately, of inadequate rate structures, necessitates too much reliance on capital markets, particularly for debt capital. If this condition exists when interest coverage is already under pressure, we feel obligated to take a more conservative stance with regard to rating, pending satisfactory resolution of intermediate-term problems.

On the other hand, even where there is a current low level of interest coverage, we are inclined to a more positive approach if the company's financing requirements are of a reasonable size, all else being equal. This is particularly true if the company recently received reasonable rate relief. We will also take a pending rate increase application into consideration, assuming that the decision will be made reasonably soon and that the regulators have a record indicating they will be alert and responsive to the company's needs.

So, as we have for many years stated, Moody's concern is not always the absolute level of debt-protection measurements at a given time, but rather the probable trend of those measurements. While there are, certainly, other factors that influence debt quality, capital requirements and regulation have been predominant in recent years and will remain so. Construction budgets have been trimmed considerably by many companies, and there are encouraging signs from some regulatory commissions. The horrendous problems of 1974 are not likely to disappear, but their magnitude should moderate. The electric utility industry still has a way to go before it regains part of what it has lost in financial posture, but for now there are some indications emerging that suggest at least a degree of stabilization on the horizon.

Ratings Reduced

Carolina Power & Light Company

Despite $61.5 million of rate relief that was in effect for part of 1974, coverage of fixed charges and preferred dividends has declined to unsatisfactory levels. Meanwhile, the company's construction program, even after substantial cutbacks, is calling for spending of $1.1 billion over the 1975-1977 period. This is a heavy program relative to internal cash generation and outside financings are expected to continue to pressure the overall financial posture of the company. In view of the above, Moody's has reduced the ratings on the company's first mortgage bonds to Baa.

Iowa Electric Light & Power Company

Rate relief placed in effect in 1974 has proved insufficient to halt dilution in interest coverage ratios. Meanwhile, additional accumulation of debt without injections of equity capital has resulted in a relatively high debt ratio. In view of this, Moody's is lowering the ratings on the company's first mortgage bonds to Baa from A and on its pollution control revenue bonds to Ba from Baa.

New Issues

Central Illinois Light Company
First Mtge. 9¼s, 3/1/2005

Rating	Amount (Mill.)	Call Price	Offering Price	Yields — Current	Yields — Maturity
Aa	$25.0	(1)110.00	100.75	9.18%	9.18%

(1)Nonrefundable prior to 3/1/85, with debt at an interest cost of less than 9.29% annually; otherwise callable as a whole or in part at any time on 30 days' notice at 110.00 through 2/29/76; at 109.66 through 2/28/77, premium decreasing (either 34/100 or 35/100) annually thereafter (106.56 on 3/1/85) to 100 on 3/1/2004. Special redemption at 100.75 for the first nine years, lower thereafter.

Details: Offered on February 25 at 100.75 to yield 9.18%. Winning bid, 99.677; cover per bond, $10.26; cost to company 9.28%. Other details in BOND SURVEY, February 17, 1975, page 1619.

Opinion: These high-grade bonds are satisfactorily priced against the secondary market.

Citizens Utilities Company
First Mtge. & Coll. Tr. 8.30s, 3/1/85

Rating	Amount (Mill.)	Call Price	Offering Price	Yields — Current	Yields — Maturity
Aa	$17.5	(1)100	100	8.30%	8.30%

(1)Redeemable only beginning 3/1/82 and at 100 to maturity. Special redemption at 100.

Details: Offered on February 27 at 100 to yield 8.30%. Price to company, 99.25; cost to company 8.41%. Other details in BOND SURVEY, February 10, 1975, page 1651.

Opinion: These bonds offer no special concession; see opinion under 8⅞s, below.

Citizens Utilities Company
First Mtge. & Coll. Tr. 8⅞s, 3/1/2005

Rating	Amount (Mill.)	Call Price	Offering Price	Yields — Current	Yields — Maturity
Aa	$20.0	(1)108.63	99.75	8.90%	8.90%

(1)Nonrefundable prior to 3/1/80, with debt at an interest cost of less than 8.981% annually; otherwise callable as a whole or in part, at any time on 30 days' notice, at 108.63 through 2/29/76; at 108.33 through 2/28/77; premium decreasing (either 29/100 or 30/100) annually thereafter (107.14 on 3/1/80) to 100 on 3/1/2001. Special redemption (and for the optional sinking fund) at 100.

Details: Offered on February 27 at 99.75 to yield 8.90%. Price to company, 98.875; cost to company 8.98%. Other details in BOND SURVEY, February 10, 1975, page 1651.

Opinion: An in-line yield with no special appeal. Proceeds from disposition of certain property can be used to redeem these bonds at 100.

Moody's Investors Service Inc., Moody's Bond Survey, March 3, 1975, page 1557.

Public Utilities

New Offerings

Portland General Electric Company
First Mtge. 10s, 4/1/82

Rating	Amount (Mill.)	Call Price	Offering Price	Yield Current	Yield Maturity
Baa	$40.0	[1]110.00	100	10.00%	10.00%

[1]Nonrefundable prior to 4/1/80, with debt at an interest cost of less than 10.00% annually; otherwise callable as a whole or in part, at any time on 30 days' notice, at 110.00 through 3/31/76; at 108.00 through 3/31/77; premium decreasing 200/1000 annually, thereafter to 100 on 4/1/80. No sinking fund.

Details: Offered on April 3 at 100 to yield 10.0%. Price to company 98.70; cost to company 10.27%. Other details in BOND SURVEY, March 24, 1975, page 1468.

Opinion: The offering yield appears suitable in the present market considering quality and maturity of the bonds.

Gulf States Utilities Company
First Mtge. 10s, 4/1/2005

Rating	Amount (Mill.)	Call Price	Offering Price	Yield Current	Yield Maturity
Aa	$40.0	[1]110.0	100	10.00%	10.00%

[1]Nonrefundable prior to 4/1/80, with debt at an interest cost of less than 10.00% annually; otherwise callable as a whole or in part at any time on 30 days' notice at 110.00 through 3/31/76; at 109.66 through 3/31/77, premium decreasing (either 34/100 or 35/100) annually thereafter (106.25 on 4/1/80) to 100 on 4/1/2004. Special redemption (and for the optional sinking fund) at 100.

Details: Offered on April 3, at 100 to yield 10.00%. Winning bid, 99.28; cover per bond, $1.66; cost to company 10.08%. Other details in BOND SURVEY, March 17, 1975, page 1502.

Opinion: In the current market, these high-grade bonds provide a satisfactory return for longer-term investors.

Proposed New Issues

Carolina Power & Light Company . . .

. . . has filed an S-7 registration statement covering $100 million of first mortgage bonds due April 15, 2005, to be sold on or about April 23 in a negotiated offering by a syndicate headed by Merrill Lynch, Pierce, Fenner & Smith; Kidder Peabody & Co.; and Salomon Brothers.

Quality & Rating: Medium grade; provisional Baa. Although projected construction outlays have been trimmed, future financing requirements remain heavy. In view of this, continued pressure on debt protection measurements would appear likely in the absence of further and substantial rate relief.

Form of Bond: New bonds will be registered bonds. Interest will be payable semi-annually April 15 and October 15.

Purpose: Proceeds from sale of bonds will be used for general corporate purposes including reduction of construction loans, which were about $111,745,000 on February 28, 1975, and which are expected to be about $75 million at time of sale of the new bonds.

Construction & Financing: Construction projects are budgeted at about $1,142.7 million during the years 1975, 1976 and 1977, a reduction of about $768 million from original plans. About $343 million is allocated to 1975, a reduction of about $194 million from the prior estimate.

The reduced program of expenditures is the result of revised energy forecasts and the lack of capital on reasonable terms. These reductions eliminated five generating units that would have provided 4,890,000 kw. of capacity and stretched out the in-service dates by about two years for units which will have 1,620,000 kw. of capacity.

In addition to sales of bonds and preferred stock during 1974, the company raised $92 million from the sale and leaseback of nuclear fuel and eleven turbine generating units. Prior to the proposed offering, 1975 financing included $22.4 million of bonds at a private sale and public sales of common stock for $56 million and preference stock for $48 million. Later in 1975, an additional sale of securities is planned to raise another $50 million.

To issue additional preferred stock, gross income after depreciation and taxes shall be equal to 1.5 times the sum of annual interest charges and pro forma preferred dividend requirements. Such ratio at February 28, 1975, was 1.48 and at March 20, 1975, it was 1.51. As of February 28, 1975, about $440 million of bonds could be issued on the basis of property additions, but only $291 million on the basis of earnings, which reflect $22 million of deferred fuel costs and about $55.3 million of revenues collected subject to possible refund.

Interest Protection: Annual interest requirements on $1,159,231,000 of long-term debt to be outstanding on completion of current financing are estimated at $88,779,000 with the new bonds at an assumed rate of 10% and long-term notes at 9½%. Earnings balances consist of operating income to which have been added all Federal (and State) taxes (charged and deferred) relating to income, allowance for construction funds, and the net of other income and deductions. No adjustment was made for rentals, which, the company states, are not material in amount.

	1975	1974	1973	1972	1971	1970
Times earned	[1]1.81	1.68	1.50	1.37	0.89	0.61
[2]Actual coverage	[1]1.95	1.92	2.34	2.90	2.50	2.25

[1]Twelve months ended February 28. [2]As outlined in the prospectus; for the ratios, earnings consist of net income plus income taxes and fixed charges; fixed charges consist of interest charges plus an imputed interest factor portion of rentals. [3]Company estimates pro forma at 1.74 times, assuming an interest rate of 10% on the new bonds.

Call Feature: Nonrefundable at lower interest cost prior to April 15, 1985; otherwise callable at prices to be supplied by amendment.

Security: New bonds and all those outstanding or to be issued will be secured by a first mortgage lien on all properties now owned or hereafter acquired, subject to minor exceptions. Additional bonds may be generally issued on the basis of: (a) 70% of net property additions; (b) retirement of bonds or prior lien bonds; (c) deposit of cash. With certain exceptions in the case of (b), earnings, before income taxes, must equal two times pro forma interest charges, or equal 10% of all bonds and prior liens to be outstanding.

Improvement Fund: As to each outstanding series of bonds, payment is required of ½ of 1% of the greatest amount of bonds outstanding prior to payment date, payable in cash, bonds or property additions at 70% (100% in the case of 1997 and subsequent series bonds). Requirements may be anticipated. Requirement on bonds issued prior to the 1997 series is 1%. The mortgage may be amended, without consent of the 1997 and subsequent bondholders, to eliminate the improvement fund requirements. The indenture also makes provision for a maintenance and replacement fund.

Business: Electric service is provided in portions of North Carolina and South Carolina. At February 28, 1975, electric

service was being furnished to 643,520 general business customers and to 54 resale customers. During the 12 months ended February 28, 1975, 34.7% of operating revenues, excluding non-territorial sales, was derived from residential sales; 29.9% from industrial sales; 19.6% from commercial sales; and 15.8% from other sources. Approximately 84% was derived in North Carolina, and 16% in South Carolina.

Generating facilities have a summer capability of 4,058,000 kw., of which 665,000 kw. is nuclear, 2,665,000 kw. uses only coal as a fuel, and the remaining 728,000 kw. can use coal, oil, or gas interchangeably. Two 821,000-kw. nuclear units, under construction at a combined cost of about $708 million, are expected to be completed in 1975 and 1976. In 1978, the company expects to complete a 720,000-kw. fossil-fueled plant. As to the projected 3,600,000-kw. nuclear plant to go onstream in the 1980s at an estimated cost of more than $2.1 billion, the NRC has asked for additional information on the financial qualifications of the company as well as a need for the plant. Currently the company estimates that 73.3% of 1975 power will be generated using coal as a fuel, 22.5% will be nuclear, 2.6% hydro, and 1.6% Number 2 fuel oil.

The company is regulated by the PUCs of North and South Carolina, the NRC, the FPC, and environmental agencies. During 1971 and 1972, rate increases were granted for a total of $60.9 million. Higher rates collected on an interim basis were made permanent during January 1975, adding about $61.5 million to revenues annually.

Operating income for twelve months ended February 28, 1975, was equal to 4.07% of period-end net plant, work in progress, and net nuclear fuel.

Capitalization: As of February 28, 1975, and pro forma assuming repayment of short-term debt from the March sale of preference stock and the proposed issue of bonds, but without adjustment for capitalizing any portion of actual rentals paid:

	Actual (000)	%	Pro Forma (000)	%
Short-term debt ..	$111,745	5.2		
Bonds	1,009,030	47.2	$1,109,030	51.0
[1]*Other long-term*.	50,201	2.4	50,201	2.3
Total debt	$1,170,976	54.8	$1,159,231	53.3
Preferred stock ..	288,118	13.5	288,118	13.3
Preference stock .			47,900	2.2
[2]Common & surplus	621,475	29.0	621,475	28.6
Def. tax. & inv. cr.	57,298	2.7	57,298	2.6
Total capital ..	$2,137,867	100.0	$2,174,022	100.0

[1]Includes $50,000,000 bank loan due 7/31/78. [2]Outstanding at 27,502,262 shares of no-par-value common stock.

Lone Star Gas Company . . .

. . . has filed an S-7 registration statement covering $60 million sinking fund debentures due April 15, 2000, to be sold in a negotiated offering April 21 through a syndicate headed by Salomon Brothers, and Goldman Sachs & Co. (see page 1416 for proposed preferred stock offering).

Quality & Rating: Upper medium grade; provisional A. Non-utility earnings have expanded sharply over the past few years and now account for a substantial portion of consolidated income. Meanwhile, the over-all financial position of the company has been reasonably stable and debt protection measurements are at satisfactory levels.

Form: Debentures will be delivered in fully registered form, in denominations of $1,000 and mutiples thereof. Interest will be payable semi-annually on April 15 and October 15 in each year. Application will be made for a NYSE listing.

Purpose: Proceeds from the sale of debentures and $40 million of preferred stock (400,000 shares) will be used to repay bank loans maturing in 1975 and 1976 and to reduce commercial paper debt. When proceeds are received, it is estimated that commercial paper outstanding will amount to $36,000,000, bank loans $25,000,000, and current maturities of long-term debt $40,423,474.

Interest Protection: Assuming the same interest rate of 9¾% as used in the prospectus for the new debentures, and using 7½% for loans due in 1979, total annual interest requirements on $445,757,000 of long-term debt to be outstanding on completion of current financing (see Capitalization) are estimated at $32,088,000. Pre-income-tax gross earning balances include allowance for construction funds with no adjustment for any rentals which, for example, amounted to $2,482,792 in 1974. Discount on reacquired debt was excluded from earnings.

	1974	1973	1972	1971	1970
Times earned	3.55	2.12	1.87	1.57	1.96
[1]Actual coverage	[2]3.09	2.66	3.64	4.11	6.52

[1]As outlined in the prospectus; earnings balances are the same as stated above and include rentals as defined under fixed charges; fixed charges include interest, amortization of debt discount and expense, and the portion of rentals representative of the interest factor. [2]Pro forma would be 3.07 with new bonds at 9¾%.

Call Feature: Nonrefundable at a lower interest cost prior to April 15, 1980; otherwise callable at prices to be supplied by amendment.

Sinking Fund: Sufficient to retire $2,250,000 principal amount annually commencing April 15, 1980, calculated to retire 75% of the debentures prior to maturity. Company may make payments in advance but not in an amount exceeding the annual requirement. Such advances may be used as credits in subsequent years. Unused advances may not accumulate. Payments may be made in cash or new debentures.

Security: The debentures will be unsecured obligations of the company protected by a negative pledge clause, dividend, and other restrictions. On a pro forma basis, total long term debt will be equal to 55.8% of net plant, work-in-progress, and investment as of December 31, 1974.

The indenture contains provisions restricting company or subsidiaries from increasing funded indebtedness, and the company from certain transactions in subsidiary stock, funded debt, or property.

Business: Lone Star Gas Company is an integrated natural gas transmission and distribution company. It owns and operates transmission and gathering lines, storage reservoirs, distribution systems, and related facilities. Natural gas is served to about 1,090,000 customers in portions of Texas and Oklahoma.

Through wholly owned subsidiaries, the company is engaged in: (1) exploring, developing, and marketing oil and natural gas; (2) transmission of natural gas; (3) manufacture and marketing of fertilizer, and plastic pipe; (4) providing oil and gas field services; (5) providing heating and cooling service to large complexes as universities and medical centers.

Utility gas provided 66.9% of consolidated operating revenue for 1974, petroleum exploration and production 19.3% chemicals and chemical products 12.4%, other sales 1.4%.

Through a subsidiary, company-owned production was 99,057 mmcf., or about 19.6% of the 505,542 mmcf. sold in 1974. Purchases from other producers amounted to 442,378

Atlantic City Electric Company
First Mtge. 9¼s, 5/1/83

Rating	Amount (Mill.)	Call Price	Offering Price	Yield Current	Yield Maturity
Aa	$35.0	(1)109.25	100	9.25%	9.25%

(1)Nonrefundable prior to 5/1/80, with debt at an interest-cost of less than 9.399% annually; otherwise callable as a whole or in part, at any time on 30 days' notice, at 109.25 through 4/30/76; at 107.71 through 4/20/77; premium decreasing (either 154/1,000 or 155/1,000) annually thereafter (101.55 on 5/1/82) to 100 on 5/1/81. No sinking fund. Special redemption at 100. Note: This issue was postponed from previously scheduled date of March 18.

Details: Offered on April 22 at 100 to yield 9.25%. Price to company, 99.175; cost to company 9.40%. Other details in BOND SURVEY, March 31, 1975, page 1558.

Opinion: The bonds are reasonably priced for hold-to-maturity income investment.

Carolina Power & Light Company
First Mtge. 11s, 4/15/84

Rating	Amount (Mill.)	Call Price	Offering Price	Yield Current	Yield Maturity
Baa	$100.0	(1)110.75	99.75	11.03%	11.04%

(1)Nonrefundable prior to 4/15/82, with debt at an interest cost of less than 11.2424% annually; otherwise callable in whole or in part, at any time on 30 days' notice, at 110.75 through 4/14/76; at 109.22 through 4/14/77; premium decreasing (either 153/1000 or 154/1000) annually thereafter to 100 from 4/15/82 to maturity. Special redemption at 100.

Details: Offered on April 24 at 99.75 to yield 11.04%. Price to company, 98.65; cost to company 11.24%. Other details in BOND SURVEY, April 7, 1975, page 1411.

Opinion: The yield provided on these bonds is realistic under present conditions.

Cleveland Electric Illuminating Company
First Mtge. 8.85s, 5/1/83

Rating	Amount (Mill.)	Call Price	Offering Price	Yield Current	Yield Maturity
Aa	$50.0	(1)100	100	8.85%	8.85%

(1)Redeemable only beginning 5/1/80 at 100 to maturity. No sinking fund.

Details: Offered on April 24 at 100 to yield 8.85%. Price to company, 99.25; cost to company 8.98%. Other details in BOND SURVEY, March 24, 1975, page 1469.

Opinion: This shorter dated issue is appropriately priced.

Cleveland Electric Illuminating Company
First Mtge. 9.85s, 5/1/2010

Rating	Amount (Mill.)	Call Price	Offering Price	Yield Current	Yield Maturity
Aa	$100.0	(1)109.85	100	9.85%	9.85%

(1)Nonrefundable prior to 5/1/85, with debt at an interest cost of less than 9.91% annually; otherwise callable as a whole or in part, at any time on 30 days' notice, at 109.85 through 4/30/76; at 109.52 through 4/30/77; premium decreasing (either 33/100 or 31/100) annually thereafter (106.46 on 5/1/85) to 100 from 5/1/2004 to maturity. No sinking fund.

Details: Offered on April 24 at 100 to yield 9.85%. Price to Company, 99.125; cost to company 9.94%. Other details in BOND SURVEY, March 24, 1975, page 1469.

Opinion: This issue provides an in-line yield in the present market for long-term bonds.

Lone Star Gas Company
S.F. Debenture 10⅝s, 4/15/2000

Rating	Amount (Mill.)	Call Price	Offering Price	Yield Current	Yield Maturity
A	$60.0	(1)110.625	100	10.625%	10.625%

(1)Nonrefundable prior to 4/15/80, with debt at an interest cost of less than 10.625% annually; otherwise callable as a whole or in part, at any time on 30 days' notice, at 110.625 through 4/14/76; at 110.182 through 4/14/77; premium decreasing (either 44/100 or 45/100) annually thereafter (105.421 on 4/15/80) to 100 on 4/15/99. At 100 for the sinking fund beginning April 15, 1985 and annually thereafter.

Details: Offered on April 23 at 100 to yield 10.625%. Price to company, 99.125; cost to company 10.73%. Other details in BOND SURVEY, April 7, 1975, page 1412.

Opinion: Pricing does not offer any concession in the current market for A-rated gas utility companies; however, it provides an adequate return for investors seeking longer term investment.

Philadelphia Electric Company
First & Refunding Mtge. 11⅝s, 4/15/2000

Rating	Amount (Mill.)	Call Price	Offering Price	Yield Current	Yield Maturity
A·	$65.0	(1)112.70	101	11.51%	11.50%

(1)Nonrefundable prior to 4/15/85, with debt at an interest cost of less than 11.70% annually; otherwise callable as a whole or in part at any time on 30 days' notice at 112.70 through 4/14/76; at 112.10 through 4/14/77, premium decreasing (either 52/100 or 53/100) annually thereafter (110.00 on 4/15/81) to 100 on 4/15/99. No sinking fund.

Details: Offered on April 23 at 101 to yield 11.50%. Winning bid, 99.35; cover per bond, $11.55; cost to company, 11.71%. Other details in BOND SURVEY, April 7, 1975, page 1414.

Opinion: This issue provides a suitable yield in the current market.

Transok Pipe Line Company
First Mtge. Pipe Line 9s, 11/1/80

Rating	Amount (Mill.)	Call Price	Offering Price	Yield Current	Yield Maturity
A	$12.0	(1)109.00	100	9.00%	9.00%

(1)Nonrefundable prior to 5/1/80, with debt at an interest cost of less than 9.23% annually; otherwise callable as a whole or in part at any time on 30 days' notice at 109.00 through 4/30/76; at 107.25 through 4/30/77, premium decreasing 150/1000 annually thereafter to 100 on 11/1/79. No sinking fund.

Details: Offered on April 22 at 100 to yield 9.00%. Winning bid, 99.056; cover per bond, 27c; cost to company 9.22%. Other details in BOND SURVEY, April 7, 1975, page 1413.

Opinion: The issue, nonrefundable prior to maturity and with no sinking fund applicable, affords a satisfactory return for investors interested in shorter term bonds.

Proposed New Issues

Chesapeake & Potomac Telephone Co. of West Virginia . . .

. . . has filed an S-9 registration statement covering $50 million of debentures due May 15, 2015, to be sold at competitive bidding on May 13.

Quality & Rating: Prime quality; provisional rating Aaa.

Form of Debentures: The new debentures will be issued only as registered debentures, in denominations and multiples of $1,000. Interest will be payable semi-annually on May 15 and November 15 to holders registered on April 30 or October 31 prior to date of payment. Application will be made to list the debentures on the NYSE.

: Moody's Investors Service, Inc., Moody's Bond Survey, April 28, 1975, page 1340.

price range, and many older homes along the riverfront are valued in excess of $60,000.

City financial operations since inception have been good. During 1974, on total revenues of $2,397,066, the city showed a current year surplus of $111,603. At the close of the fiscal year, cash and investments totaled $963,322, while current liabilities amounted to only $225,354. Property taxes were the largest single revenue source, accounting for approximately one third of total revenues; state revenue sharing was another 19% of revenues; and revenues from a charge assessed against vacant lotholders for mowing and maintenance contributed another 10%. On the expense side, more than 20% of all moneys were expended on capital items and improvements, primarily for street and city hall projects. Debt service on the city's short term notes was only 7.6% of expenditures.

Although much of Cape Coral remains undeveloped and GAC Corporation still has a substantial impact on the city, accounting for 12% of property tax receipts directly and about 8% indirectly through payments provided by GAC lessees, the city has operated in a more than satisfactory fashion to this point. Development has been extensive in one part of the city, and with regard to homes in the $40,000 class has been of better than average character. *While proposed water and sewer rates are high, and thus difficult to increase further, the bonds should be at least 50% self-supporting initially and become more so as growth continues. Even so, the tax rate will remain moderate. We are therefore assigning our "BBB" medium grade rating to the general obligation bonds of Cape Coral, Florida.*

HAS A NEW LEVEL BEEN REACHED?

Following several weeks of steady price erosion, prices in the corporate bond sector turned moderately higher last week. Short covering by traders and the successful sale of several attractively priced new issues aided the advance. The week's major offerings included a dual offering of $75,000,000 Notes and Debentures by Warner Lambert Co., priced to yield 8.30% in ten years and 8.93% in twenty five years, respectively. Both issues of this AAA company were well received, as were the $75,000,000 of Asian Development Bank five-year notes, which were priced to yield 8.75%.

After increasing at a record pace, yields appear to have reached a level where purchasers are willing to commit some long-term funds to the market. Underwriters, some of whom have sustained large losses on both new issue and secondary issues, are taking a somewhat more cautious approach, and a new working level has been attained. However, the market is still extremely concerned about the level of corporate and government financing and fear of a resurgence of inflation once the economic recovery gets underway. Therefore, investors are advised to maintain a cautious approach toward new commitments.

Corporate Analyses and Briefs

CAROLINA POWER & LIGHT COMPANY

Offering First Mortgage Bonds

On April 23 an underwriting syndicate headed by Merrill Lynch, Pierce, Fenner & Smith, Kidder, Peabody & Co. and Salomon Brothers will offer $100,000,000 Carolina Power & Light Company First Mortgage Bonds, due April 15, 2005. The offering will afford protection against lower-interest-cost refunding until 1985. Proceeds from the offering will be used for general corporate purposes including the reduction of short-term borrowings incurred primarily for the construction of new facilities. Such short-term borrowings totaled approximately $111,743,000 at February 28, 1975, and are expected to approximate $75,000,000 immediately prior to the delivery of the new bonds.

Construction expenditures are expected to approximate $342,600,000 in 1975 and $800,100,000 in the period 1976-77. In March and June 1974, the company's construction program was reduced, including reductions of approximately $86,000,000 for 1974 and approximately $181,000,000 for 1975. On December 5, 1974, the company's construction program was further reduced so that the aggregate reduction is approximately $788,000,000 for the years 1975-77. These reductions were caused by revised energy forecasts and the lack of capital on reasonable terms. These reductions include the elimination of five proposed new generating units which would have provided an additional 4,890,000 kw of generating capacity; the deferral of each of the first 3 of the 4 proposed 900,000 kw nuclear fueled units of the Shearon Harris Nuclear Power Plant by approximately 1½ years and the fourth unit by two years and the two year deferral of the 720,000 kw coal fired Roxboro Unit No. 4.

In January 1975 the company issued $22,350,000 of first mortgage bonds privately and sold publicly 4,000,000 shares of common stock for $56,000,000, and in March 1975 the company sold publicly 2,000,000 shares of preference stock for $47,900,000. The company presently estimates that it will need additionally approximately $50,000,000 of the funds required for the 1975 construction program from long-term sources and will issue securities later in 1975, the type, amount and timing of which will depend upon market conditions and the needs of the company. *For further information concerning the operations of Carolina Power & Light Company, including recent rate increase applications, please consult the Fixed Income Investor dated March 8, 1975.*

	— Year ended December 31 —				
	1975*	1974	1973	1972	1971
Oper. Revenues (Mil. $)	511.75	460.98	341.21	307.18	255.64
Oper. Income (Mil. $)	82.80	77.38	73.49	70.77	50.32
Fixed Charge Coverage					
Aft. Inc. Taxes	1.96	1.94	2.16	2.45	2.19
Bef. Constr. Cr.	1.25	1.23	1.49	1.56	1.32
Bef. Inc. Taxes	2.00	1.96	2.36	3.08	2.64

*12-months ended February 28.

ASSET PROTECTION: Pro forma long-term debt of $1,156,420,654 is all first mortgage debt except for $40,200,978 of notes payable.

Standard & Poor's Corporation, The Fixed Income Investor, April 12, 1975, page 743.

Mortgage debt is secured by a first lien on all of the present properties of the company, subject to certain exceptions. This issue will also be entitled to Improvement and Maintenance and Replacement Funds. In addition, if, during any 12-month period, property is disposed of by order of or to any governmental authority, resulting in the receipt of $10,000,000 or more as proceeds therefor, the company must apply such proceeds to the retirement of bonds. Pro forma mortgage debt will equal 54.6% and total debt 56.9% of net plant. Total debt will equal 54.7% of capitalization. *Based on the stabilization of fixed charge and pending rate relief, we have maintained our "A" rating on the First Mortgage bonds of Carolina Power & Light.*

PHILADELPHIA ELECTRIC COMPANY

Offering $65 Million Bonds

On April 23, 1975, Philadelphia Electric Company plans to offer at competitive bidding $65,000,000 of First & Refunding Mortgage Bonds, due April 15, 2000. Also, on or about April 22, 1975, the company plans to sell 4,000,000 shares of common stock (approximately $48,000,000) through underwriters headed by Drexel Burnham & Co. and The First Boston Corporation. The sales of the new bonds and additional common stock are separate transactions, and neither is contingent upon the other. The new bonds will be protected against lower-interest-cost refunding prior to April 15, 1980. The net proceeds from both sales will be applied to the partial payment of short-term debt incurred for interim financing of the company's construction program. Such short-term debt was $101 million on March 21, 1975.

Capital requirements for 1975 are estimated at $502 million, of which $410 million is for construction expenditures and $92 million for bond maturities and sinking funds. Of these requirements, about $145 million is expected to be supplied from internal sources and the remainder from the sale of debt and equity securities and the use of short-term debt. Total capital requirements for the years 1975-78 are estimated at about $2.3 billion, consisting of about $2.1 billion for construction and $231 million for sinking fund payments and bond maturities. The company estimates that approximately $850 million, or 36% of these capital requirements, will be obtained from internal sources and that approximately $1.5 billion, or 64%, will be obtained through the sale of debt and equity securities, subject, however, to certain earnings test restrictions in the company's mortgage bond indenture and other considerations.

Philadelphia Electric provides electric, gas and steam service in southeastern Pennsylvania, and subsidiaries provide electric service in two counties in northeastern Maryland. The total area served by the company and subsidiaries covers 2,475 square miles. Approximately 95% of this area is in the suburbs around Philadelphia and 5% within the city limits. The population of the area is about 3,900,000, including 1,950,000 in the City of Philadelphia. Electric service provided 89.2% of operating income for the year 1974, and gas and steam provided the balance.

During 1974, due to the national energy crisis, the company experienced some curtailments in its contracted fuel deliveries from suppliers and substantial increases in the prices of all fossil fuels. The company is continuing to supply its customers' full electric requirements at present but is unable to predict what impact fuel shortages and price increases may have on its future operations. Subject to the availability of the various types of fuels and to other contingencies beyond the company's control, the company's electric output for 1975 is expected to be obtained from the following sources: 21% from oil-fired generation, 19% from service area coal-fired generation, 15% from mine-mouth generation, 18% from nuclear capacity, 4% from hydro capacity, 1% from internal combustion and 22% from the Pennsylvania-New Jersey-Maryland Interconnection (PJM). The company is unable to predict the effect that fuel problems of other members of the PJM may have on the availability of purchased electric energy from that source. Provided that present FEA allocation policies are not materially changed, the company expects that its oil deliveries through the remainder of 1975 will meet its projected requirements.

The company had a coal inventory on hand at the end of January 1975 of approximately 618,000 tons, which represents approximately a 98-day supply for the Philadelphia service area units currently burning coal. In addition to shortages of new gas supplies, the company is experiencing curtailment of deliveries under existing contracts from its pipeline suppliers. The current levels of pipeline curtailments, combined with reduced deliveries of propane, resulted in the curtailment of firm contract gas to four major industrial customers beginning early in January 1975. Deliveries to interruptible gas customers were discontinued on September 3, 1974. A PUC order presently in effect provides that no public utility under its jurisdiction may accept any additional gas sales commitments unless it can be shown that its gas supplies are sufficient to meet the future requirements of its existing customers. Based on present and anticipated levels of curtailed deliveries from suppliers, the company can make no commitments of additional gas to any existing customers nor accept any new customers. The company does not expect supplies to improve appreciably in the immediate future, nor is there any assurance that deliveries to it may not be further curtailed.

The company is regulated by the Pennsylvania PUC and the FPC. On January 31, 1974, the company filed with the PUC for a $136 million increase in electric rates for all classes of customers to become effective in three parts. The PUC permitted the first part, which increased annual revenues by approximately $24 million, to go into effect on April 1, 1974, subject to possible refund with interest. The remainder of the requested $136 million rate increase was suspended for the maximum statutory period, until December 31, 1974. On January 1, 1975, the $112 million suspended rate increase became effective by operation of law, subject to possible refund with interest upon issuance of the final order. On March 25, 1975, the PUC announced its final decision approving a rate increase of $105 million. The company estimates that excess revenue collected from January 1, 1975, through March 31, 1975, will amount to $5.8 million, which will be refunded to customers with interest.

	Year Ended December 31				
	1974	1973	1972	1971	1970
Oper. Revenues (Mil. $)	1,011.73	766.66	683.04	605.13	504.37
Avail. Income (Mil. $)	249.56	213.18	185.76	160.77	126.37
Fixed Charge Coverage:					
Aft. Income Taxes	2.07	2.36	2.39	2.39	2.18
Bef. Constr. Cr.	1.48	1.71	1.84	1.92	1.86
Bef. Income Taxes	2.42	2.82	2.91	2.90	2.55

ASSET PROTECTION: These new bonds will be secured equally and ratably with $1,473,500,000 other first mortgage bonds now outstanding by a direct first mortgage lien on substantially all of the company's property. There is also $315,212,000 other long-term debt outstanding. Following this dual financing, mortgage debt will equal 45.2% of net utility plant, while total long-term debt will represent 54.4%. The long-term debt to capitalization ratio will be 53.5%. *The company's fixed charge coverage has declined to a substandard level for the presently assigned rating category. However, recently granted rate relief should lead to some improvement in financial parameters in the future. Accordingly, we are presently maintaining our "A" rating on Philadelphia Electric's First and Refunding Mortgage Bonds and have rated this issue "A."*

Standard & Poor's Corporation, The Fixed Income Investor, April 12, 1975, page 744.

RECENT CORPORATE OFFERINGS

Sale Date	Qual. Rating	Amount Mil. $	Issue	Orig. Price	Yield %	Call Prot.	C/N	Comment on Pricing	Reviewed On Page
4/15	AAA	200.0	South Central Bell Telephone Co. Debentures, 4/1/2010	100	9.2	NC-80; 100	N	Adequate	779
4/15	AAA	100.0	South Central Bell Telephone Co. Notes, 4/1/1983	100	8.2	NC-80; 107.67	N	No Concession	779
4/15	BBB	100.0	Williams Companies Notes, 4/1/1983	100	10.25	NC-81; 100	N	Satisfactory	762
4/15	AA	12.5	Chesapeake & Ohio Railway Equip. Trust 8-3/4, 3/1/1976–90	7.25–9.10		NC	C	Adequate	
4/15	AA	8.0	Southern Indiana Gas & Electric Co. First Mortgage, 4/1/1985	100	9.0	NC-82; 100	N	Adequate	762
4/15	BBB	50.0	The Kroger Co. Notes 9-7/8, 4/15/1983	99.625	9.944	NC-81; 100	N	No Concession	750
4/16	AA	50.0	North Illinois Gas Co. First Mtge., 4/1/1983	100	8.5	NR-81; 100	C	Adequate	761
4/17	BBB	50.0	United Telecommunications Inc. Debentures, 4/15/2000	100	11.0	NR-85; 105.50	N	Attractive	781
4/17	AAA	60.0	Societe Nationale des Chemins de fer Francais Guaranteed Notes, 4/15/1980	100	9.125	NC	N	Satisfactory	738
4/17	A	100.0	United Aircraft Corp. S.F. Debentures 9-7/8, 4/15/2000	99.3	9.95	NR-85; 104.588	N	Satisfactory	831
4/17	A	100.0	United Aircraft Corp. Notes 9, 4/15/1985	99.35	9.1	NC-83; 100	N	Satisfactory	831
4/17	AA	50.0	Oklahoma Gas & Electric Co. Pfd. Stock ($100 par)	100	9.45	NR-80;	N	Rich	763
4/17	A	50.0	Harsco Corp. S.F. Debentures 9-7/8, 4/1/2000	99.75	9.90	NR-85; 104.812	N	Satisfactory	783
4/22	AA	15.0	Norfolk & Western Railway Co. Equip. Trust 9, 5/1/1976–90	7.50–9.25		NC	C	Adequate	
4/22	BBB	40.0	Appalachian Power Co. First Mtge. 11-1/8, 4/1/1983	100.65	11.0	NR-80; 101.97	C	No Concession	746
4/22	AA	12.0	Transok Pipe Line Co. First Mtge. Pipe Line, 11/1/1980	100	9.0	NR-80;	C	Satisfactory	748
4/22	A	35.0	Atlantic City Electric Co. First Mtge., 5/1/1983	100	9.25	NR-80; 101.55	N	No Concession	841
4/23	AA	100.0	Ingersoll Rand Inc. Notes 8-3/4, 5/1/1985	99.7	8.8	NC-82;	N	Adequate	734
4/23	B	75.0	Occidental Petroleum Corp. Cum. Pfd. Stk. & War. to Pur. Com. ($1 par)	25.0	10.0	NC-80;	N	——	764
4/23	A	65.0	Philadelphia Electric Co. First & Ref. Mtge. 11-5/8, 4/15/2000	101	11.5	NR-80;	C	Good	744
4/24	AA	100.0	Cleveland Electric Illuminating Co. First Mtge., 5/1/2010	100	9.85	NR-80;	N	Satisfactory	779
4/24	AA	50.0	Cleveland Electric Illuminating Co. First Mtge., 5/1/1983	100	8.85	NC-80;	N	Rich	779
4/24	A	100.0	Carolina Power & Light Co. First Mtge., 4/15/1984	99.75	11.04	NR-85;	N	Adequate	743
4/24	B	30.0	Houston Oil & Minerals Corp. Conv. Sub. Debentures 3/15/1995	100	6.25	None	N	Adequate	811
4/24	A	15.0	General Telephone Co. of the Midwest Cum. Pfd. Stock (no par)	100	10.50	NR-85;	N	Attractive	747
4/25	A	60.0	Lone Star Gas Co. S.F. Debentures, 4/15/2000	100	10.625	NR-80;	N	Satisfactory	746
4/25	A	40.0	Lone Star Gas Co. Cum. Pfd. Stk. (no par)	100	10.32	NR-80;	N	Adequate	747
4/25	A	40.0	Southeast Banking Corp. Notes, 4/15/1983	100	10.0	NC-82;	N	Attractive	769

general rate relief. These interim increases are needed to meet the interest coverage requirements of the company's debenture indenture.

During 1974 and the later part of 1973, San Diego G&E experienced lower fuel oil requirements than anticipated as a result of increased availability of lower cost hydroelectric power from the Pacific Northwest, customer energy curtailment and warm weather. Therefore, some of the undelivered fuel oil already contracted for was in excess in current needs and storage capacity. This oil was sold at a profit, thus avoiding the need to take the oil under take-or-pay contracts and reject less expensive natural gas and surplus hydroelectric power. No such sales have occurred during 1975, and none are currently expected.

	Year ended December 31				
	1974	1973	1972	1971	1970
Oper. Revenues (Mil. $)	219.76	227.76	197.07	175.18	153.46
Oper. Income (Mil. $)	56.44	45.05	39.23	33.80	31.47
Fixed Charge Coverage					
Aft. Inc. Taxes	2.33	2.16	2.24	2.51	2.60
Bef. Constr. Cr.	2.18	2.00	2.13	2.38	2.53
Bef. Inc. Taxes	2.39	2.15	2.27	2.86	3.16

ASSET PROTECTION: Pro forma long-term debt (51.4% of capitalization) will consist of $407,319,000 first mortgage bonds, $27,587,000 sinking fund debentures and $3,686,000 other long-term debt. Mortgage debt constitutes a valid first lien upon all property and franchises owned by the company, subject to permitted exceptions. These $40,000,000 bonds will also be entitled to a maintenance fund. Pro forma mortgage debt will equal 51.3% and total debt 55.2% of net plant. *Based on the leveling off of fixed charge coverage at a satisfactory level, we are maintaining our "A" rating on the first mortgage bonds of San Diego Gas & Electric Company.*

SYBRON CORPORATION
Ten-Year Notes Offered

In early May, Sybron Corporation plans to offer $35,000,000 in Notes due April 1, 1985. The notes are protected against lower-interest-cost refunding prior to April 1, 1985. The company intends to use approximately $15,000,000 of the net proceeds from the sale of the notes to repay the outstanding indebtedness under the revolving credit agreement. The remainder of the net proceeds will be used for general corporate purposes, including working capital requirements.

Sybron manufactures and sells, on a worldwide basis, a diversified line of equipment and supplies which fall into four principal product areas: health products for dentists, physicians, hospitals, and laboratories; instrumentation systems and equipment; process and water/waste equipment; and speciality chemicals. The company is organized

Standard & Poor's Corporation, The Fixed Income Investor, April 26, 1975, page 715.

COVERAGE OF FIXED CHARGES
FIRST MORTGAGE BOND OFFERINGS OF ELECTRIC UTILITIES
BY RATING CATEGORY
1975-1976

Date of Offering of Rating Change	Company	Moody's Rating	Standard & Poor's Rating	Coverage of Fixed Charges After Income Taxes Before Construction Credits — Last twelve months available at date of offering or rating change
1975	Ratings Maintained at A by Moody's and A by Standard & Poor's			
1/14	Delmarva Power & Light Company	A (11/18/74, 205)	A (11/16/74, 262-264)	1.89x*
2/11	Washington Water Power Company	A (1/27/75, 1696)	A (2/ 1/75, 925)	1.92
3/18	Narragansett Electric Company	A (2/24/75, 1589)	A (3/ 8/75, 842-843)	2.13
3/26	Metropolitan Edison Company	A (3/10/75, 1531)	A (3/15/75, 822-823)	1.86*
6/19	Monongohela Power Company	A (6/ 9/75, 1155)	A (6/ 7/75, 598-599)	2.21
7/ 2	Delmarva Power & Light Company	A (6/16/75, 1126)	A (6/21/75, 558-559)	1.89*
7/10	South Carolina Electric & Gas Company	A (6/30/75, 1074)	A (6/28/75, 540)	1.81
8/19	Dayton Power & Light Company	A (8/11/75, 932)	A (8/ 9/75, 437)	2.09
8/20	Minnesota Power & Light Company	A (7/14/75, 1017-1018)	A (7/19/75, 491)	2.08
9/25	Metropolitan Edison Company	A (9/ 8/75, 844)	A (9/13/75, 356)	2.25
9/23	Massachusetts Electric Company	A (9/ 8/75, 843)	A (9/13/75, 357)	2.78
9/24	Potomac Edison Company	A (9/ 8/75, 845)	A (9/13/75, 358-359)	1.89*
10/ 8	Toledo Edison Company	A (9/29/75, 782)	A+(10/ 4/75, 307-308)	1.47*
10/15	Pennsylvania Power Company	A (9/29/75, 781)	A (10/ 4/75, 308)	1.85
11/ 6	Florida Power & Light Company	A (8/25/75, 895; 729)	A (8/ 9/75, 436; 256)	1.62*
11/19	Utah Power & Light Company	A (11/10/75, 628)	A (11/ 8/75, 217-218)	2.22
1976				
2/ 4	South Carolina Electric & Gas Company	A (1/19/76, 1727-1728)	A (1/31/76, 928)	1.87x*
2/17	Mississippi Power Company	A (2/ 9/76, 1662)	A (2/ 7/76, 914)	1.84
2/18	Utah Power & Light Company	A (2/ 2/76, 1685-1686)	A (1/31/76, 927-928)	2.24*
3/ 2	Virginia Electric & Power Company	A (2/16/76, 1641-1642)	A (2/21/76, 887)	1.62*
3/11	Metropolitan Edison Company	A (2/23/76, 1618)	A (3/ 6/76, 860-861)	2.02
	Average - above 21 issues			1.98x
	Average - above 12 issues excluding those where significant rate increases are not fully reflected			2.10x

*Significant rate increases are not fully reflected

Source: Moody's Investors Service, Inc., Moody's Bond Survey and Standard & Poor's Corporation, The Fixed Income Investor, in issues at pages noted.

COVERAGE OF FIXED CHARGES
FIRST MORTGAGE BOND OFFERINGS OF ELECTRIC UTILITIES
BY RATING CATEGORY
1975-1976

Ratings of A by Moody's or A by Standard & Poor's
just "barely maintained" or in "lower range" of category

1975				
1/22	Mississippi Power Company	A (1/13/75, 1748)	A (1/11/75, 975)	1.92x
2/ 4	Connecticut Light & Power Company	A (1/20/75, 1719)	A (1/25/75, 939-940)	2.00
2/11	Duke Power Company	A (1/27/75, 1696)	A (2/ 1/75, 925-926)	1.35*
3/19	Union Electric Company	A (3/ 3/75, 1563)	A-(3/15/75, 824-825)	1.68*
4/23	Philadelphia Electric Company	A (4/ 7/75, 1414)	A (4/12/75, 744)	1.48*
5/14	Florida Power & Light Company	A (4/28/75, 1342)	A (4/26/75, 712-713)	1.70*
6/12	Long Island Lighting Company	A (5/26/75, 1218)	A-(5/31/75, 622-623)	1.66
7/16	Arkansas Power & Light Company	A (7/ 7/75, 1042)	A (6/21/75, 562-563)	1.61*
8/ 6	Philadelphia Electric Company	A (8/11/75, 931)	A (7/26/75, 471)	1.47*
9/23	Alabama Power Company	A (9/ 8/75, 840)	A-(9/13/75, 357-358)	1.36
9/10	Louisiana Power & Light Company	A (9/ 1/75, 875)	A (8/30/75, 390-391)	1.85
9/11	Connecticut Light & Power Company	A (9/ 1/75, 871)	A (8/30/75, 394-395)	2.09
8/26	Mississippi Power & Light Company	A (8/18/75, 910)	A (8/16/75, 420-421)	1.93
9/18	Long Island Lighting Company	A (9/ 1/75, 873)	A-(9/ 6/75, 373-374)	1.85
10/29	Tucson Gas & Electric Company	A (10/13/75, 731)	A-(10/18/75, 274-275)	1.72*
11/ 5	Central Hudson Gas & Electric Corporation	A (10/20/75, 706)	A-(11/ 1/75, 242-243)	1.99
11/12	Arkansas Power & Light Company	A	A-(11/ 1/75, 238)	1.49
11/13	Virginia Electric & Power Company	A (10/27/75, 683)	A (11/ 1/75, 244-245)	1.73
12/17	Alabama Power Company	A (12/ 8/75, 508-510)	A-(12/13/75, 120-121)	1.44x
1976				
2/25	Philadelphia Electric Company	A (2/ 9/76, 1663-1665)	A-(2/14/76, 900-901)	1.53x
3/24	Alabama Power Company	A (3/ 8/76, 1564-1566)	A-(3/13/76, 836)	1.40

Average - above 21 issues 1.69x

Average - above 14 issues excluding those where significant rate increases are not fully reflected 1.75x

*Significant rate increases are not fully reflected.

Source: Moody's Investors Service, Inc., Moody's Bond Survey and Standard & Poor's Corporation, The Fixed Income Investor, in issues at pages noted.

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COVERAGE OF FIXED CHARGES
FIRST MORTGAGE BOND OFFERINGS OF ELECTRIC UTILITIES
BY RATING CATEGORY
1975-1976

Date of Offering of Rating Change	Company	Moody's Rating	Standard & Poor's Rating	Coverage of Fixed Charges After Income Taxes Before Construction Credits Last twelve months available at date of offering or rate change
1975	Ratings Better than A by Moody's and A by Standard & Poor's			
1/14	Oklahoma Gas & Electric Company	Aa (12/23/74, 77-78)	AA (12/21/74, 195-196)	2.57x
2/ 6	Kansas Power & Light Company	Aa (1/20/75, 1720-1721)	AA (1/25/75, 938-939)	3.11
2/18	Commonwealth Edison Company	Aaa(2/10/75, 1652)	AA (2/15/75, 894-895)	2.02*
2/19	Southwestern Public Service Company	Aa (2/10/75, 1677)	AA (2/ 8/75, 908-909)	3.01
2/24	Houston Lighting & Power Company	Aa (2/10/75, 1656-1657)	AA (2/15/75, 890-891)	2.27
2/25	Louisville Gas & Electric Company	Aaa(2/10/75, 1675)	AA (2/15/75, 895-896)	2.20
2/25	Central Illinois Light Company	Aa (2/17/75, 1619)	A (2/15/75, 891)	1.55*
2/26	Dallas Power & Light Company	Aaa(2/10/75, 1654)	AAA(2/22/75, 875-876)	2.71
2/27	New York State Electric & Gas Corporation	Aa (2/17/75, 1622-1623)	A (2/15/75, 896-897)	2.06*
2/27	Citizens Utilities Company	Aa (2/10/75, 1651)	AA+(2/ 8/75, 911)	4.02
3/ 6	Southern California Edison Company	Aa (2/17/75, 1623-1624)	AA (3/ 1/75, 862-863)	2.79
3/12	Public Service Company of New Mexico	Aa (3/ 3/75, 1562)	AA (3/ 8/75, 843-844)	2.07*
3/12	Duquesne Light Company	Aa (3/ 3/75, 1560)	AA (3/ 8/75, 840-841)	1.86*
3/20	New England Power Company	Aa (3/ 3/75, 1559)	A (3/15/75, 823-824)	1.35*
3/25	Texas Power & Light Company	Aaa(3/10/75, 1532)	AAA(3/22/75, 800-801)	2.69
4/ 9	Central Illinois Public Service Company	Aa (3/24/75, 1470-1471)	AA (3/29/75, 780-781)	1.93*
4/15	Southern Indiana Gas & Electric Company	Aa (3/31/75, 1438)	AA (4/ 5/75, 762-763)	2.95
4/22	Atlantic City Electric Company	Aa (3/ 3/75, 1558)	A (3/ 8/75, 841-842)	1.86*
4/24	Cleveland Electric Illuminating Company	Aa (3/24/75, 1469-1470)	AA (3/29/75, 779-780)	2.00
4/29	Gulf States Utilities Company	Aa (3/17/75, 1502)	AA (3/22/75, 799-800)	1.93
5/ 6	Cincinnati Gas & Electric Company	Aa (5/14/75, 1385)	AA (4/19/75, 730-731)	2.05
5/ 6	Iowa Public Service Company	A (5/14/75, 1382)	AA (4/19/75, 729-730)	2.02
5/20	Pennsylvania Power & Light Company	Aa (3/17/75, 1503)	A+ (3/22/75, 797)	2.02
5/21	Northern States Power Company	Aa (5/ 5/75, 1313)	AA (5/17/75, 657)	1.83*
6/10	Texas Electric Service Company	AAA(5/26/75, 1222)	AAA(5/24/75, 639-640)	3.06
6/12	Public Service Company of Oklahoma	Aa (5/26/75, 1221)	AA (6/ 7/75, 599-600)	2.67
6/25	Iowa-Illinois Gas & Electric Company	Aa (6/16/75, 1129-1130)	AA (6/21/75, 621)	2.14*
6/26	Kansas Gas & Electric Company	Aa (6/ 9/75, 1153)	AA-(6/21/75, 561)	1.79*
7/ 8	Montana Power Company	Aa (6/23/75, 1106)	AA (6/28.75, 540-542)	2.35
7/17	Iowa Southern Utilities Company	Aa (6/30/75, 1073-1074)	AA (6/21/75, 561-562)	2.24
7/23	Northern Indiana Public Service Company	Aa (7/ 7/75, 1046)	AA (7/12/75, 501-502)	1.74*
7/29	Baltimore Gas & Electric Company	Aa (7/14/75, 1018-1019)	AA-(7/19/75, 486-487)	1.82

COVERAGE OF FIXED CHARGES
FIRST MORTGAGE BOND OFFERINGS OF ELECTRIC UTILITIES
BY RATING CATEGORY
1975-1976

Date of Offering of Rating Change	Company	Moody's Rating	Standard & Poor's Rating	Coverage of Fixed Charges After Income Taxes Before Construction Credits — Last twelve months available at date of offering or rate change
1975 (continued)	Ratings Better than A by Moody's and A by Standard & Poor's			
8/ 4	Commonwealth Edison Company	Aaa(7/28/75, 964)	AA (7/26/75, 470-471)	1.98x*
8/ 7	Public Service Company of Indiana	Aa (8/ 4/75, 950-951)	AA (8/ 2/75, 455)	2.18*
8/ 8	Indianapolis Power & Light Company	Aa (9/ 1/75, 872-873)	AA-(8/30/75, 395)	1.77*
8/12	Southwestern Electric Power Company	Aa (7/28/75, 978-979)	AA (7/19/75, 487-488)	3.31
8/13	Wisconsin Electric Power Company	Aa (8/ 4/75, 951-952)	AA (8/ 9/75, 434-435)	2.54
9/11	Indianapolis Power & Light Company	Aa (9/ 1/75, 872-873)	AA-(8/30/75, 395)	1.77*
9/30	Commonwealth Edison Company	Aaa(7/28/75, 964)	AA (7/26/75, 470-471)	1.98
10/ 1	Pacific Gas & Electric Company	Aa (9/22/75, 800-801)	AA-(9/27/75, 322-323)	1.90
10/22	Public Service Company of Colorado	Aa (10/ 6/75, 751-752)	AA (10/11/75, 290-291)	2.20
11/13	Madison Gas & Electric Company	Aa (10/27/75, 682)	A (11/ 1/75, 243-244)	1.76
11/17	Commonwealth Edison Company	Aaa(11/10/75, 627)	AA (11/15/75, 199)	2.04*
11/18	Pennsylvania Power & Light Company	Aa (11/ 3/75, 658)	A+ (11/ 8/75, 216-217)	1.82
11/18	El Paso Electric Company	A (11/10/75, 626)	AA-(11/15/75, 199-200)	1.84
12/ 4	New Bedford Gas & Edison Light Company	Aa (11/17/75, 601-602)	A (11/22/75, 177)	1.50*
12/ 3.	Iowa Public Service Company	A (11/17/75, 599-600)	AA (11/22/75, 176-177)	2.23
12/10	Montana Power Company	Aa (11/24/75, 564-565)	AA (12/ 6/75, 138-139)	2.13
1976				
1/ 7	New York State Electric & Gas Corporation	Aa (12/22/75, 967-968)	A (12/20/75, 108-109)	2.02x*
1/13	Oklahoma Gas & Electric Company	Aa (12/15/75, 485)	AA (12/27/75, 94-95)	2.21*
1/20	Texas Power & Light Company	Aaa (1/12/76, 1753-1754)	AAA (1/17/76, 960-961)	2.14
1/28	Gulf States Utilities Company	Aa (1/12/76, 1750-1751)	AA (1/17/76, 961-963, 965)	1.77*
2/25	Iowa Power & Light Company	Aa (2/16/76, 1638-1639)	A (2/14/76, 901-902)	2.50
3/2	Texas Electric Service Company	Aaa(2/16/76, 1639-1640)	AAA (2/21/76, 885-887)	2.48
3/3	Southwestern Public Service Company	Aa (2/23/76, 1620-1621)	AA (2/28/76, 873)	2.54
3/4.	Public Service Electric & Gas Company	Aa (2/23/76, 1619-1620)	AA (2/28/76, 872-873)	1.84*
3/17	Southern California Edison Company	Aa (3/ 1/76, 1592-1593)	AA (3/13/76, 830-831)	2.27
3/24	Iowa-Illinois Gas & Electric Company	Aa (3/ 8/76, 1566-1567)	AA (3/13/76, 833)	2.22

COVERAGE OF FIXED CHARGES
FIRST MORTGAGE BOND OFFERINGS OF ELECTRIC UTILITIES
BY RATING CATEGORY
1975-1976

Date of Offering of Rating Change	Company	Moody's Rating	Standard & Poor's Rating	Coverage of Fixed Charges After Income Taxes Before Construction Credits Last twelve months available at date of offering or rate change
	Ratings Better than A by Moody's and A by Standard & Poor's			
	Average - above 58 issues			2.20x
	Average - above 36 issues excluding those where significant rate increases are not fully reflected			2.40x

*Significant rate increases are not fully reflected.

Source: Moody's Investors Service, Inc., Moody's Bond Survey and Standard & Poor's Corporation, The Fixed Income Investor, in issues at pages noted.

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OFFERING YIELDS ON NEWLY-ISSUED ELECTRIC UTILITY BONDS RATED Baa
DEBT WITH A MATURITY OF TEN YEARS OR LESS
JUNE 1974 - FEBRUARY 1976

Offering Date	Amount in Millions	Company	Maturity	Offering Yield
1974				
August 15	$ 60.0	Boston Edison Company	8/15/79	12.13%
September 11	100.0	Duke Power Company	9/ 1/79	13.00
October 1	50.0	Detroit Edison Company	10/ 1/79	12.50
October 17	25.0	Public Service Co. of New Hampshire	10/15/81	12.75
October 29	30.0	Ohio Power Company	11/ 1/81	12.00
October 30	25.0	Jersey Central Power & Light Company	11/ 1/79	11.90
November 7	30.0	Puget Sound Power & Light Company	11/ 1/83	10.72
November 19	125.0	Florida Power & Light Company	11/15/81	10.70
November 20	40.0	Portland General Electric Company	11/ 1/80	10.50
			Average for 1974 - 9 issues	11.80%
1975				
January 7	$100.0	Philadelphia Electric Company	7/15/81	12.50%
January 9	50.0	Detroit Edison Company	1/15/82	12.75
January 9	10.0	Orange & Rockland Utilities, Inc.	1/15/82	12.75
January 9	10.0	Western Mass. Electric Company	1/ 1/82	12.80
February 19	100.0	Arizona Public Service Company	2/15/82	9.60
March 5	35.0	Jersey Central Power & Light Company	3/ 1/83	10.00
April 3	40.0	Portland General Electric Company	4/ 1/82	10.00
April 22	40.0	Appalachian Power Company	4/ 1/83	11.00
April 24	100.0	Carolina Power & Light Company	4/15/84	11.04
May 6	40.0	San Diego Gas & Electric Company	5/ 1/82	10.70
May 19	50.0	Appalachian Power Company	5/ 1/82	11.00
June 5	75.0	Arizona Public Service Company	6/ 1/80	9.80
June 12	80.0	Long Island Lighting Company	6/ 1/83	9.25
June 12	27.0	Portland General Electric Company	6/ 1/85	9.875
June 18	50.0	Columbus & Southern Ohio Electric Company	6/ 1/82	9.30
July 1	75.0	Consumers Power Company	7/ 1/80	9.75
July 9	35.0	Jersey Central Power & Light Company	7/ 1/85	10.25
August 7	75.0	Ohio Electric Company	8/ 1/83	10.75
August 14	45.0	Pennsylvania Electric Company	8/ 1/84	10.75
August 21	30.0	Puget Sound Power & Light Company	8/15/85	10.45
September 18	60.0	Indiana & Michigan Electric Company	9/1/83	11.00
October 2	20.0	Brockton Edison Company	6/1/85	11.73
October 16	15.0	Public Service Company of New Hampshire	10/15/85	10.75
October 29	25.0	Ohio Power Company	11/ 1/83	10.20
December 2	60.0	Appalachian Power Company	12/ 1/84	10.50
December 11	75.0	Indiana and Michigan Power Company	12/ 1/84	10.70
			Average for 1975 - 26 issues	10.74%

OFFERING YIELDS ON NEWLY-ISSUED ELECTRIC UTILITY BONDS RATED A
DEBT WITH A MATURITY OF TEN YEARS OR LESS
JUNE 1974 - FEBRUARY 1976

	Offering Date	Amount in Millions	Company	Maturity	Offering Yield
1974					
	June 18	$ 70.0	Indiana & Michigan Electric Company	6/ 1/1982	9.28%
	July 16	35.0	South Carolina Electric & Gas Company	7/ 1/79	10.50
	July 24	25.0	Narragansett Electric Company	8/ 1/80	10.36
	August 7	30.0	Rochester Gas & Electric Corporation	8/ 1/83	10.75
	August 20	50.0	Potomac Electric Power Company	8/15/81	10.75
	August 21	50.0	Consumers Power Company	9/ 1/82	11.15
	October 8	50.0	Niagara Mohawk Power Corporation	10/ 1/81	12.60
	October 17	50.0	Philadelphia Electric Company	10/15/80	11.00
	October 23	70.0	Pacific Power & Light Company	10/ 1/83	9.92
	October 30	50.0	Louisiana Power & Light Company	11/ 1/81	9.30
	November 13	60.0	Arkansas Power & Light Company	11/ 1/81	9.00
	November 20	25.0	Kansas City Power & Light Company	11/15/81	8.875
	December 5	20.0	Nevada Power Company	12/ 1/84	10.875
	December 10	50.0	San Diego Gas & Electric Company	12/15/79	9.30
	December 12	10.0	Pennsylvania Power Company	12/ 1/81	9.43
			Average for 1974 - 15 issues		10.21%
1975					
	January 14	$ 30.0	Delmarva Power & Light Company	1/ 1/83	9.25%
	January 22	30.0	Columbus & Southern Ohio Electric Company	1/ 1/83	11.00
	January 22	14.0	Mississippi Power Company	1/15/82	9.35
	January 23	20.0	Hartford Electric Light Company	1/ 1/82	10.75
	February 4	85.0	Connecticut Light & Power Company	2/ 1/82	8.95
	March 18	15.0	Narragansett Electric Company	3/ 1/82	9.25
	March 26	50.0	Metropolitan Edison Company	4/ 1/83	9.50
	May 14	100.0	Florida Power & Light Company	5/ 1/84	8.96
	June 12	80.0	Long Island Lighting Company	6/ 1/83	9.25
	June 18	50.0	Columbus & Southern Ohio Electric Company	6/ 1/82	9.27
	July 7	25.0	South Carolina Electric & Gas Company	7/ 1/84	9.375
	August 14	45.0	Pennsylvania Electric Company	9/ 1/84	10.75
	August 20	20.0	Central Maine Power Company	8/15/84	10.65
	August 26	50.0	Niagara Mohawk Power Corporation	9/ 1/85	10.625
	September 10	50.0	Louisiana Power & Light Company	9/ 1/83	9.875
	September 11	50.0	Connecticut Light & Power Company	9/ 1/81	10.88
	September 18	90.0	Long Island Lighting Company	9/ 1/84	9.875
	September 23	40.0	Massachusetts Electric Company	10/ 1/82	9.65
	September 25	45.0	Metropolitan Edison Company	10/ 1/85	9.65
	October 15	25.0	Pennsylvania Power Company	10/ 1/85	9.50
	November 13	60.0	Columbus & Southern Ohio Electric Company	11/ 1/84	9.54
			Average for 1975 - 21 issues		9.80%

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OFFERING YIELDS ON NEWLY-ISSUED ELECTRIC UTILITY BONDS RATED Baa
DEBT WITH A MATURITY OF MORE THAN TEN YEARS
JUNE 1974 - FEBRUARY 1976

	Offering Date	Amount in Millions	Company	Maturity	Offering Yield
1974					
1975					
	May 1	$ 60.0	Pacific Power & Light Company	5/ 1/1990	10.79%
	July 1	75.0	Consumers Power Company	7/ 1/2000	11.50
	July 23	100.0	Georgia Power Company	8/ 1/2000	11.625
	August 21	30.0	Puget Sound Power & Light Company	8/ 1/2005	10.45
	November 20	75.0	Arizona Public Service Company	12/ 1/2000	10.70
	November 24	100.0	Georgia Power Company	12/ 1/2005	11.75
	December 10	50.0	Detroit Edison Company	12/15/2000	11.875
	December 11	50.0	Portland General Electric Company	12/ 1/2005	11.685
				Average for 1975 - 8 issues	11.30%
1976					
	January 21	$ 75.0	Pacific Power & Light Company	1/ 1/2006	9.90%
	February 18	60.0	Jersey Central Power & Light Company	2/ 1/2006	9.60
				Average for January-February 1976	9.75%

Source: Moody's Investors Service, Inc., Moody's Bond Survey, March 1, 1976, page 1586 and corresponding pages in previous issues.

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CAROLINA POWER & LIGHT COMPANY
COVERAGE OF FIXED CHARGES
1968-1975

		1968	1969	1970	1971	1972	1973	1974	1975
Income available for fixed charges before taxes	A	$ 62,532,000	$ 64,731,000	$ 57,071,000	$ 83,401,000	$128,620,000	$133,444,000	$149,686,000	$217,013,000
Less: Income taxes	B	22,513,000	18,920,000	8,289,000	14,328,000	26,378,000	10,791,000	879,000	25,436,000
Income available for fixed charges after taxes	C	40,019,000	45,811,000	48,782,000	69,073,000	102,242,000	122,653,000	148,807,000	191,577,000
Allowance for funds used during construction	D	2,927,000	4,397,000	10,505,000	14,708,000	24,759,000	38,093,000	54,609,000	59,957,000
Income available for fixed charges after taxes before construction credits	E	37,092,000	41,414,000	38,277,000	54,365,000	77,483,000	84,560,000	94,198,000	131,620,000
Total interest charges	F	14,006,000	18,427,000	23,957,000	31,599,000	41,713,000	56,654,000	76,536,000	89,955,000
Times interest earned before taxes (A ÷ F)		4.46x	3.51x	2.38x	2.64x	3.08x	2.36x	1.96x	2.41x
Times interest earned after taxes (C ÷ F)		2.86x	2.49x	2.04x	2.19x	2.45x	2.16x	1.94x	2.13x
Times interest earned after taxes before construction credits (E ÷ F)		2.65x	2.25x	1.60x	1.72x	1.86x	1.49x	1.23x	1.46x

Source: Computed from data in Carolina Power & Light Company, Annual Report 1974, page 26; Standard & Poor's Corporation, The Fixed Income Investor, April 12, 1975, page 743; Interim Financial Statements, September 30, 1975; December 31, 1975.

CAROLINA POWER & LIGHT COMPANY
COMPUTATION OF TIMES INTEREST EARNED AFTER INCOME TAXES
FROM COST RATES FOR CAPITAL AND CAPITAL STRUCTURE RATIOS

	Cost Rate	Capital Structure Ratio	Component
Common equity	14.50%	33.40%	4.84%
Preferred stock	8.01	15.01	1.20
Common equity and preferred stock			6.04
Debt	7.74	51.59	3.99
Total capital			10.00%
Fair rate of return on total capital			10%

Times interest earned after income taxes

$$= \frac{\text{Component for common equity and preferred stock plus component for debt}}{\text{Component for debt}}$$

$$= \frac{\text{Rate of return on total capital}}{\text{Component for debt}}$$

$$= \frac{10.00\%}{3.99\%} = 2.51x$$

Federal Agencies

Financing Pace Remains Heavy

While there has been a slowing in new corporate and tax-exempt offerings, and the Treasury has not had to burden the market frequently, Federal agencies have been consistently heavy borrowers. In fact, the volume of agency financing has been on the increase in recent months. In the first four months of the year, agency market borrowing was running at a $2.6 billion monthly rate. But since May the monthly volume has risen to $3.6 billion.

The main causes of the profusion of financing are the money needs of the housing industry and the agricultural community. Attractive market interest rates are causing net outflows *from* the savings institutions, which are the prime support of the mortgage market. In August, for example, the net outflow from savings and loan associations was estimated to be $1.2 billion. To provide advances to S&L's, the FHLB's have borrowed heavily, and FNMA frequently has been in the market to raise funds for its mortgage-supporting operations. The situation has led the FHLB's and FNMA to abandon their regular pattern of quarterly financing. Instead, these agencies have recently been tapping the market on nearly a monthly basis. The FHLB's have been the most active, issuing $6.5 billion of debt in the last five months, of which $5.65 billion was new money. FNMA has borrowed $3.7 billion over the same period, raising $1.75 billion in new funds.

The housing industry is, of course, a politically-sensitive area and any sign of mortgage money drying up produces outcries from officials. Housing starts were down in August and new permits also declined amid reports that mortgages were becoming difficult to obtain. This suggests that Federal agency support may have to increase further. Thus, the Federal Home Loan Bank Board has announced a plan whereby member S&L's can borrow $2.5 billion for future mortgage commitments, and GNMA will reinstate the "tandem plan" wherein it will be enabled to buy $3 billion of privately-owned FHA-insured mortgages. This activity strongly indicates that borrowing by the agencies to help the housing industry will remain heavy.

Borrowing by the FICB's, Banks for Cooperatives, and Federal Land Banks to aid agriculture is also growing. Since the Government is actively trying to boost crop production, it is likely that the agencies will be called upon to increase their financial support.

This month, in addition to the usual FICB and Co-op offerings, the Land Banks have maturities to refinance, and further borrowing by the FHLB's and FNMA would not be surprising. Also, the Student Loan Marketing Association (Sally Mae) announced plans to make their first appearance in the market. On Tuesday, they expect to offer $100 million of six-month notes. (For a discussion of this agency, see Bond Survey, August 6, 1973, page 672).

Federal Agency Financing*

	Billions		
	Gross New Issues	Monthly Average	Net New Money
September, 1973	$3.91		$2.37
September 1972	1.85		.63
Jan.-Sept., 1973	28.78	$3.20	14.39
Jan.-Sept., 1972	16.64	1.85	5.17

*Includes most Federal Agency and Federally-sponsored publicly-offered new issues.

Moody's To Assign Ratings To Preferred Stocks

Moody's Rating Policy Review Board has decided to extend its rating services to include quality designations on preferred stocks as of October 1, 1973. The decision to rate preferred stocks, which Moody's had done prior to 1935, was prompted by evidence of investor interest. Moody's believes that its rating of preferred stocks is especially appropriate in view of the ever-increasing amount of these securities outstanding, and the fact that continuing inflation and its ramifications have resulted generally in the dilution of some of the protection afforded them as well as other fixed-income securities.

Because of the fundamental differences between preferred stocks and bonds, a variation of our familiar bond rating symbols will be used in the quality ranking of preferred stocks. The new symbols, presented below, are designed to avoid comparison with bond quality in absolute terms. It should always be borne in mind that the preferred stock occupies a junior position to the bond.

Preferred stock rating symbols and their definitions are as follows:

"aaa"

An issue which is rated "aaa" is considered to be a top-quality preferred stock. This rating indicates good asset protection and the least risk of dividend impairment within the universe of preferred stocks.

"aa"

An issue which is rated "aa" is considered a high-grade preferred stock. This rating indicates that there is reasonable assurance that earnings and asset protection will remain relatively well maintained in the foreseeable future.

"a"

An issue which is rated "a" is considered to be an upper-medium grade preferred stock. While risks are judged to be somewhat greater than in the "aaa" and "aa" classifications, earnings and asset protection are, nevertheless, expected to be maintained at adequate levels.

"baa"

An issue which is rated "baa" is considered to be lower-medium grade, neither highly protected nor poorly secured. Earnings and asset protection appear adequate for the present but may be questionable over any great length of time.

"ba"

An issue which is rated "ba" is considered to have speculative elements and its future cannot be considered well assured. Earnings and asset protection may be very moderate and not well safeguarded during adverse periods. Uncertainty of position characterizes preferred stocks in this class.

"b"

An issue which is rated "b" generally lacks the characteristics of a desirable investment. Assurance of dividend payments and maintenance of other terms of the issue over any long period of time may be small.

Moody's Investors Service, Inc., Moody's Bond Survey, October 1, 1973, page 518.

"caa"

An issue which is rated "caa" is likely to be in arrears on dividend payments. This rating designation does not purport to indicate the future status of payments.

All factors which have, and can be expected to have, a meaningful influence on the degree of support afforded the preferred stock will be considered. Among these factors are the nature of the issuer's business; competition; quality and trend of earnings; interest and preferred dividend coverage; capitalization structure; off-balance sheet financing; cash flow; financing needs and purposes; management and its financial policies; regulation; accounting practices; ranking of the issue within the preferred stock structure; and legal provisions relating to the issuance of additional debt and preferred stock.

Issuers may submit to Moody's an application for ratings on all of their outstanding preferred stock issues at any time, whether or not they have immediate financing plans.

Newly-rated issues of preferred stock will be reviewed in Moody's BOND SURVEY and listed in the appropriate Moody's Manuals.

Public Utilities

Yields Down Sharply

Yield levels moved down sharply last week, as it became more apparent that the Federal Reserve was not inclined to resist lower interest rates. The price improvement was, of course, reflected in the new-issue market. For example, A-rated General Telephone Company of the Southwest was re-offered at 7.84%, compared with a return of 8.35% on the comparably rated Hawaiian Electric bonds marketed just last week. We think that the upward price thrust may be extended, though at a more moderate pace, pending a buildup in new-issue supply.

In this week's only scheduled utility sale, Southwestern Bell Telephone plans a $300 million offering. In the most recent Bell System offering, New Jersey Bell sold $150 million of debentures to yield 7.85%. After an initial poor reception, these bonds are now trading at a premium, to yield about 7.73%. Thus far, $636 million of utility bonds have been registered for sale during October. This amount could be supplemented by additional registrations during the next several weeks.

New Issues

Northern States Power Company (Wisc.) First Mtge. 7¾s, 10/1/2003

Rating	Amount (Mill.)	Call Price	Recent Price	Yield Current	Yield Maturity
Aa	$30.0	ⓘ108.00	100¼-100¾	7.70%	7.69%

ⓘNon-refundable prior to 10/1/78, with debt at an interest cost of less than 7.72% annually; otherwise callable as a whole or in part, at any time on 30 days' notice, at 108.00 through 9/30/74; at 107.73 through 9/30/75, premium decreasing (either 27/100ths or 28/100ths) annually thereafter (106.63 on 10/1/78) to 100 on 10/1/2002. At 100.25 for the annual sinking fund beginning 6/1/75 and lower thereafter.

Details: Offered on September 26 at 100.25 to yield 7.73% Winning bid, 99.549; cover per bond, $1.10; cost to company, 7.79%. Other details on page 561.

Opinion: These high grade bonds represent a satisfactory income investment.

Union Light, Heat and Power Company First Mtge. 8s, 10/1/2003

Rating	Amount (Mill.)	Call Price	Offering Price	Yield Current	Yield Maturity
Aa	$10.0	ⓘ110.00	102	7.84%	7.83%

ⓘNon-refundable prior to 10/1/78, with debt at an interest cost of less than 7.92% annually; otherwise callable as a whole or in part, at any time on 30 days' notice, at 110.00 through 9/30/74; at 109.64 through 9/30/75, premium decreasing (either 34/100ths or 35/100ths) annually thereafter (108.28 on 10/1/78) to 100 on 10/1/2002. Special redemption (including the optional sinking fund beginning in 1975) at 102.08 through 9/30/74, at 102.06 through 9/30/75, lower thereafter.

Details: Offered on Sepetmber 25 at 102 to yield 7.83%. Winning bid, 100.876; cover per bond, $1.70; cost to company 7.92%. Other details on page 563.

Opinion: This issue is reasonably priced, but after-marketability will be limited.

General Telephone Company of the Southwest First Mtge. 7¾s, 10/1/2003

Rating	Amount (Mill.)	Call Price	Offering Price	Yield Current	Yield Maturity
A	$30.0	ⓘ106.75	99	7.83%	7.84%

ⓘNon-refundable prior to 10/1/78, with debt at an interest cost of less than 7.91% annually; otherwise callable as a whole or in part, at any time on 30 days' notice, at 106.75 through 9/30/74; at 106.52 through 9/30/75, premium decreasing (either 23/100ths or 24/100ths) annually, thereafter (105.59 on 10/1/75) to 100 on 10/1/2002. No sinking fund.

Details: Offered on September 27 at 99 to yield 7.84%. Winning bid, 98.144; cover per bond, $5.06; cost to company, 7.91%. Other details on page 562.

Opinion: These bonds are appropriately priced for income.

Proposed New Issue

Consolidated Edison Company of New York, Inc. . . .

. . . has filed an S-7 registration statement covering $150 million of first and refunding mortgage bonds, Series NN, due October 15, 2003, to be sold in a negotiated offering on or about October 10, by a syndicate headed by Merrill Lynch, First Boston, and Kidder Peabody.

Quality & Rating: Upper medium grade; provisional A. These bonds rank low in the A-rating category. Continuation of the present quality rating will depend on the company's ability to maintain its coverage of intererst charges at least at current levels. While recent rate action should enable the company to stay free of financing constraints imposed by the earnings test provision contained in its bond indenture over the period immediately ahead, but additional relief will be required in time. The company's ability to raise the substantial funds needed to finance its ongoing expansion will depend in large part upon the timing and amount of subsequent rate action.

Permanent electric, gas, and steam rate increases, totaling approximately $190.5 million, have now been approved. This total superseded $110 million of temporary increases which were put into effect on January 10, 1973. In addition, the company filed in September and August, 1973 for additional increases in gas and steam rates of approximately $27.6 million and $17.8 million, respectively.

storage facilities. Service is provided in the central and northern portions of the Lower Peninsula and the central and eastern sections of the Upper Peninsula. Major cities served include Grand Rapids, Muskegon, Ann Arbor and the Detroit metropolitan area (this last accounts for 68% of operating revenues). The company also owns a number of storage fields which permit summer storage for delivery in winter months, as a result, greater amounts of gas are available for firm customers. Additional revenues are also provided by storing gas for other companies. During the twelve months ended March 31, 1973, operating revenues were derived as follows: space heating, 62%; firm industrial, 17%; interruptible industrial, 15%; commercial, 2%; and residential, 1.5%.

Natural gas is purchased principally from the Michigan Wisconsin Pipeline Company, also wholly owned by American Natural Gas. Michigan Wisconsin supplies approximately 84% of the company's requirements, with Panhandle Eastern Pipeline supplying 10% and Great Lakes Transmission Services (50% owned by American Natural) providing 4%.

Contracts with Michigan Wisconsin Pipeline extend to August 31, 1992. The company is entitled to purchase 1,337,555 mcf per day in certain winter months and lesser amounts in other months of the year. The firm annual entitlement is 393.1 billion cubic feet. Additional gas has been contracted with Michigan Wisconsin to increase the supply to 1,374,251 Mcf and 406.5 billion cubic feet, respectively, beginning September 1, 1973.

Capital outlays in 1973 were estimated at approximately $91,000,000. Of this total, $25,500,000 is for transmission facilities, $12,000,000 for storage field expansion and development, $11,000,000 for natural gas production facilities; and the remaining $42,500,000 for main and service renewals, extensions, and routine construction.

Michigan Consolidated is regulated by the Michigan Public Service Commission. In addition to an increase in rates on November 1, 1972, to offset cost increases from interstate suppliers, the Commission authorized a general rate increase of $7,000,000 annually, effective January 1, 1973.

Operating revenues for the twelve months ended September 30, 1973, were $401,168,980, an increase of 9.2% from the $367,378,248 for the comparable period in 1972. Net income for the same period was $26,940,083, compared with $23,673,474 a year earlier.

PREFERRED STOCK RATINGS

Quality ratings on preferred stocks are expressed by the same symbols as those used in rating bonds. They are independent of Standard & Poor's bond ratings in the sense that they are not necessarily graduated downward from the ranking accorded the issuing company's debt. In a majority of cases, however, the rating assigned a preferred stock will be equal to or lower than that accorded an issuer's lowest ranking debt obligation.

Preferred stock ratings represent a considered judgment of the relative security of dividends and the thus implied prospective yield stability of the stock. The ratings are as follows:

AAA	*Prime*	*BB*	*Lower Grade*
AA	*High Grade*	*B*	*Speculative*
A	*Sound*	*C*	*Sub-Marginal*
BBB	*Medium Grade*		

Factors considered in arriving at a preferred stock rating are essentially the same as those reviewed in the case of a corporate bond. The most important of these are: (1) Provisions of Articles of Incorporation, (2) Asset Protection, (3) Financial Resources, (4) Future Earnings Protection, and (5) Management.

As in bond analysis, one of the important statistical measures used to determine the security of preferred dividend payments is the calculation of the number of times earnings cover fixed charges and preferred dividend requirements. In the past, due to the fact that preferred dividend payments were non-deductible for tax purposes and that the effective income tax rates of most issuers (mainly public utility companies) fell within a narrow range, Standard & Poor's calculated the coverage ratio solely on an after-tax basis, both including and excluding the allowance for funds used during construction.

In recent years, however, this tax situation has changed dramatically and the effective income tax rates of utility companies now vary widely. In that the payment of income taxes does in fact provide some additional protective cushion for the preferred stockholder, the adoption of a ratio measuring coverage of fixed charges and preferred dividends on a pre-tax basis is considered appropriate.

The ratio now used by Standard & Poor's for this purpose is quite similar to that recently adopted by the SEC. The mechanics of the calculation are described below. The numerator consists of earnings available for fixed charges and preferred dividends and the denominator is comprised of fixed charges and preferred dividends. Earnings available for fixed charges and preferred dividends is defined as net income before income taxes, deferred income taxes, investment tax credits, and fixed charges. Fixed charges consist of all interest charges and amortization of premium, discount, and expense on debt. Preferred dividends represent preferred dividends multiplied by the ratio of pre-tax income to net income.

LEASED HOUSING CORPORATIONS

Criteria for Rating

The Housing and Urban Development Act of 1965 authorized a new approach for meeting the housing needs of low income families. It is incorporated in Section 23 of the United States Housing Act of 1937, as amended, and is known as Section 23 Leased Housing. It was the intent of Congress that the program work as a supplement to the low rent housing program administered by the Housing Assistance Administration, with the program operating through the local housing authority similarly to the public housing program.

Under the provisions of Section 23 the Department of Housing and Urban Development (HUD) enters into contracts with local housing authorities authorizing the authorities to lease from private owners dwellings already in existence or to be constructed and sublease individual dwelling units to low income families at low monthly rentals.

At the request of the local housing authority, the supervising regional office of HUD will make a survey of the local rental housing market and, if found appropriate, it will authorize the local housing authority to lease a specific number of housing units at specified rentals. HUD then enters into an annual contributions contract with the local authority under which it contracts to make individual annual contributions for each unit to be leased.

Under the Housing Act of 1937, as amended, such annual contributions payments are guaranteed over a fixed number of years by the United States Authority, an agency and instrumentality of the United States, whose functions, powers and duties are vested in and exercised by the Secretary of Housing and Urban Development. Said Act further provides that "The faith of the United States is solemnly pledged to the payment of all annual contributions contracted for ... and

Standard & Poor's Corporation, <u>The Fixed Income Investor</u>, January 5, 1974, page 983.

Details: Offered on February 27 at 100 to yield 10%. Price to company 98.00; cost to company 10.201%. Other details in BOND SURVEY, February 17, page 1624.

Opinion: This upper-medium-grade issue is attractive for corporate investors although, due to the small size of the issue, after-marketability may be limited.

Ratings Reduced

Carolina Power & Light Company

The ratings on Carolina Power & Light Co.'s publicly held preferred stock issues have been reduced to "baa" from "a". For further comment, see below and page 1557.

New Issues

Carolina Power & Light Company . . .

. . . has filed an S-7 registration statement covering 2 million shares (without par value) of cumulative preference stock series A to be sold in a negotiated offering through Merrill Lynch, Pierce, Fenner & Smith, Inc. on March 13.

Quality & Rating: No rating application received.

Purpose: Proceeds from the new preference stock will be used for general corporate purposes including the reduction of short-term borrowings incurred primarily for construction. Short-term borrowings totaled $131.7 million at December 31, 1974 and are expected to be at $128 million immediately prior to the delivery of the new preferred stock. Capital expenditures for the 1975 through 1977 period are currently estimated at required $1,142.7 million including $342.6 million in 1975. After the sale of the new preference stock, the company estimates that it will need $150 million of funds from long-term sources. The company is presently unable to issue additional preferred stock under the earnings test in its charter.

Authorization: The company is authorized to issue 2 million shares of serial preferred stock. It will have 2 million shares outstanding upon issuance of the new stock. It is also authorized to issue 300,000 shares of the preferred stock (237,259 shares outstanding), 5,000,000 shares of preferred stock A (500,000 shares outstanding), and 10 million shares of serial preferred stock (2,150,000 shares outstanding). The authorized amount of preference stock may be increased upon the consent of the holders of a majority of the total number of outstanding preference shares.

Earnings Test: None.

Debt Restrictions: None.

Fixed Charges and Preferred Dividends Protection:

	1974	1973	1972	1971	1970
[1]Actual coverage	[2]1.52	1.85	2.23	1.83	1.82

[1]As outlined in the prospectus; earnings represent net income plus income taxes and fixed charges; fixed charges represent interest charges plus one-third of annual rentals; and preferred dividends represent preferred dividend requirements multiplied by the ratio that income before income taxes bears to net income. [2]Pro forma coverage, adjusted to give effect to the issuance of the new preferred stock at an assumed dividend rate of $2.50, the January 1975 sale of 4 million shares of common, the planned sale of $100 million first mortgage bonds at an assumed rate of 9½% in the second quarter of 1975, and the application of the proceeds therefrom, is estimated by the company 1.28.

Dividends: Holders of the preference stock are entitled to receive cumulative dividends payable quarterly on July 1, October 1, January 1, and April 1.

The company's charter and the mortgage indenture contain provisions limiting payments of cash dividends on common stock under certain circumstances. At December 31, 1974, $21,035,987 was so restricted under the charter provisions, which restriction was removed in January 1975 upon the sale of the common stock.

The charter also contains provisions limiting the amount of dividends which can be made on its junior stock unless certain ratios of common stock and surplus to total capitalization are maintained.

Tax Status: This is a "new money" preference entitling corporate holders to the 85% dividends-received credit.

Call Feature: Not refundable prior to April 1, 1980 at a lower interest or preferred dividend cost; otherwise callable at prices to be supplied by amendment.

Business: The company provides electric service in an area of approximately 30,000 square miles in North and South Carolina having an estimated population in excess of 2,800,000. Electricity is furnished at retail in 200 communities, and wholesale service is supplied to 24 municipalities. During the 12 months ended December 31, 1974, operating revenues amounted to $561 million. Revenues as of that date were derived 34% from residential, 29% from industrial, 19% from commercial, and 18% from other sources. Approximately 84% of revenues were derived from North Carolina and 16% from South Carolina.

Of the total installed generating capability of 5,926 mw., 55.4% is coal fueled, 11.8% nuclear, 9.5% coal/residual oil, 19.7% No. 2 oil, and 3.6% uses water power. For 1975, the company anticipates that its generation will be produced as follows: 73.3% from coal, 22.5% from nuclear, 2.6% from water, and 1.6% from No. 2 fuel oil.

In January 1975, the company was granted $61.5 million in retail rate relief. Also in January the company was allowed to put into effect a $20.3 million wholesale rate increase subject to refund and a fossil fuel adjustment clause applicable to all wholesale sales amounting to approximately $20 million.

Capitalization: As of December 31, 1974; pro forma reflects the proposed sale of preference stock and the sale in January 1975 of 4 million shares of common stock and $22,350,000 of first mortgage; 11⅛% Series due 1994, and subsequent short-term borrowings.

	Actual (000)	%	Pro Forma (000)	%
Short-term debt	$131,657	6.4	$78,000	3.7
Mortgage bonds	986,680	47.9	1,009,030	47.3
Other long-term debt	50,234	2.4	50,234	2.3
Total debt	$1,168,571	56.7	$1,137,264	53.3
Preferred stock ..	288,118	14.0	288,118	13.5
Preference stock .	—	—	50,000	2.3
[1]Common & surplus	548,465	26.6	604,465	28.3
Def. tax. & inv. cr.	54,296	2.7	54,296	2.6
Total capital ..	$2,059,450	100.0	$2,134,143	100.0

[1]23,438,844 no-par-value shares outstanding; 27,438,844 shs. pro forma.

Niagara Mohawk Power Corporation . . .

. . . has filed a registration statement covering 400,000 shares of $100-par-value cumulative preferred stock to be sold in a negotiated offering on or about March 11. The syndicate will be led by Salomon Brothers and Merrill Lynch, Pierce, Fenner & Smith Inc. Application will be made to list the new preferred on the NYSE.

Quality & Rating: Medium grade; provisional "baa". Higher tariffs granted last week should aid in keeping

	Year Ending December 31				
	1974	1973	1972	1971	1970
Oper. Revenue (Mil. $)	810.41	671.56	629.55	571.38	522.70
Avail. Income (Mil. $)	136.33	133.14	121.08	99.93	91.16
Coverage of Fxd. Chgs. & Pfd. Divds.:					
After Inc. Taxes	1.77	1.68	2.02	1.97	1.93
Before Constr. Cr.	1.47	1.43	1.79	1.84	1.74
Before Inc. Taxes	1.76	1.65	2.17	2.06	2.01

Following this financing, pro forma capitalization will be mortgage bonds, 50.7%; pollution control notes, 2.1%; preferred stock, 13.7%; common equity, 33.5%.

Long-term debt plus preferred stock will equal 65.9% of net plant. Coverage of fixed charges and preferred dividends remains adequate for maintenance of a "BBB" rating. Therefore, we have rated this issue of Niagara Mohawk's preferred stock "BBB."

CAROLINA POWER & LIGHT COMPANY

Offering Cumulative Preference Stock

On March 13 an underwriting syndicate headed by Merrill Lynch, Pierce, Fenner & Smith is scheduled to offer 2,000,000 shares Carolina Power & Light Company Preference Stock, Series A, Cumulative (without par value). The shares will be protected against lower-interest-cost refunding until April 1, 1980. Thereafter they may be redeemed at the option of the company at various prices. Proceeds from this "new money" offering will be used for general corporate purposes including the reduction of short-term borrowings incurred primarily for the construction of new facilities. These short-term borrowings totaled approximately $131,657,000 at December 31, 1974, and are expected to approximate $128,000,000 at the time of the sale of these shares.

Construction expenditures are presently estimated at $342,600,000 for 1975 and $1,142,700,000 for the years 1975 through 1977. During 1974 the company reduced its planned 1975-1977 expenditures by a total of approximately $758,000,000. These reductions included the elimination of five proposed new generating units which would have provided an additional 4,890,000 kw of generating capacity. Also included was the deferral of each of the first three of the four proposed 900,000 kw nuclear fueled, units of the Shearon Harris Nuclear Power Plant by approximately one and one-half years and the fourth unit by two years and the two year deferral of the 720,000 kw coal fired Roxboro No. 4 Unit. The company now estimates that one of the Harris Plant units will be completed each year from 1981 to 1984. The entire project is now estimated to cost approximately $2,100,000,000, of which $543,741,000 is included in the 1975-1977 construction program.

In addition the funds received from the sale of the new preference stock and the sale in January 1975 of common stock and first mortgage bonds, the company estimates that it will need approximately $150,000,000 of the funds required for the 1975 construction program from long-term sources. The company presently plans to raise in the second quarter of 1975 approximately $100,000,000 through the public sale of first mortgage bonds. Additional securities will be issued later in 1975, the type and amount of which will be determined at that time.

The company is presently unable to issue additional preferred stock under the earnings test in its charter. The issuance of preference stock, however, is not subject to an earnings test. In the event the company fails to receive adequate and timely rate relief, it may continue to be unable to meet the earnings test required to issue additional preferred stock.

In October 1973, the company filed with the North Carolina Utilities Commission (NCUC) and the South Carolina Public Service Commission (SCPSC) applications for authority to increase its permanent retail rates to provide an approximate 21% increase in revenues from retail sales. On January 6, 1975, the NCUC, by order, granted the company the requested annual rate increase equal to approximately $51,900,000 based on 1974 level of kwh sales. On January 15, 1975, the SCPSC issued an order granting the company an approximate 18.2% annual increase equal to approximately $9,600,000, based on the 1974 level of kwh sales. The order required the refund of approximately $840,000 billed in 1974 in excess of the approved rates.

The NCUC has issued an order limiting the application of the company's fossil fuel adjustment clause for residential customers to 75% of the fossil fuel costs incurred for a period not to exceed 60 days applicable to bills rendered on and after February 1, 1975. Hearings have been scheduled with respect to the application of the fossil fuel adjustment clause. In March 1974, the North Carolina General Assembly passed a bill authorizing the NCUC to permit utilities in rate cases to utilize a forward test period. The company presently plans to file for an additional retail rate increase in 1975.

	Year ended December 31				
	1974	1973	1972	1971	1970
Oper. Revenues (Mil. $)	460.98	341.21	307.14	255.64	204.85
Oper. Income (Mil. $)	77.35	73.69	70.77	50.32	35.60
Fxd. Chge. Cov. of Int. & Pfd. Divd.					
Aft. Inc. Taxes	1.53	1.75	1.93	1.73	1.70
Bef. Constr. Cr.	0.97	1.21	1.51	1.36	1.34
Bef. Inc. Taxes	1.54	1.92	2.38	2.00	1.90

ASSET PROTECTION: Carolina Power & Light will have a pro forma capitalization of 52.9% long-term debt, 14.4% preferred stock, 2.5% preference stock and 30.2% common equity. Long-term debt plus preferred and preference stock will equal 70.3% of net plant. These preference shares are subordinated in dividend rights to the preferred stock but senior to the company's common shares. *While coverages continued to decline in 1974, the company at that time had not received the full benefits from its recent rate increase. Coverages in 1975 should begin to exhibit a modest uptrend. Based on this improvement, we have rated this issue of preference shares "BBB."*

CROWN ZELLERBACH CORPORATION

Offering Sinking Fund Debentures

On March 18 an underwriting syndicate headed by Lehman Brothers Incorporated plans to offer $75,000,000 Crown Zellerbach Corporation Sinking Fund Debentures due March 15, 2005. These debentures will afford protection against lower-interest-cost refunding until 1985. A sinking fund commencing in 1984 will retire $2,250,000 of the debentures annually. The offering will be unsecured but protected by a negative pledge clause. Proceeds from the offering will be added to the company's general funds and used for working capital and other corporate purposes, including improvement of existing facilities, purchases of additional equipment and acquisition of additional timberlands. Capital expenditures for 1975 are estimated at $125,000,000. After tax and pre-tax coverages for the year ended December 31, 1974, were 5.80 times and 8.27 times, respectively. *Based on the improvement in the level of fixed charge coverage over the past several years, the substantial cash flow and the company's significant position within the forest products industry, we have rated this issue of sinking fund debentures "A." For further information concerning the operations of the company, please consult the issue of the Fixed Income Investor dated December 7, 1974.*

RECENT CORPORATE OFFERINGS

Sale Date	Qual. Rating	Amount Mil. $	Issue	Orig. Price	Yield %	Call Prot.	C/N	Comment on Pricing	Reviewed On Page
3/4	AAA	15.0	Union Pacific Railroad Co. Equip. Trust 8, 11/1/1975-89	6.35-8.25		NC	C	Satisfactory	
3/5	AAA	300.0	Procter & Gamble Co. Debentures 8-1/4, 3/1/2005	99.125	8.33	NR-85; 104.43	N	Satisfactory	867
3/5	BBB	35.0	Jersey Central Power & Light Co. First Mtge. 10-1/4, 3/1/1983	101.35	10.0	NR-80; 103.32	C	Attractive	876
3/6	AAA	75.0	Caisse Nationale des Telecommunications Guaranteed External Notes 9-1/8s, 3/15/1980	99.5	9.25	NC	N	Attractive	854
3/6	A	35.0	Brockway Glass Co., Inc. Notes, 3/1/1985	100	8.75	NC-82;100	N	Adequate	866
3/6	AA	150.0	Southern California Edison Co. First & Ref. Mtge. 8-7/8s, 2000	99.25	8.95	NR-80;	C	Adequate	866
3/6	AA	15.0	Norfolk & Western Railway Equip. Trust. 8, 1/1/1976-90	6.50-8.30		NC	C	Satisfactory	
3/6	A	50.0	Otis Elevator Co. Debentures 9, 3/1/2000	99.50	9.05	NR-85;104.25	N	No Concession	879
3/11	AAA	100.0	New York Telephone Co. Notes 8, 3/15/1983	100.70	7.88	NC-80; 100	C	Rich	864
3/11	AAA	100.0	New York Telephone Co. Debentures 8-7/8, 3/15/2015	99.25	8.94	NC-80; 106.96	C	Rich	864
3/11	A	75.0	International Harvester Credit Corp. Notes, 3/1/1982	100	9.15	NC-81; 100	N	Adequate	865
3/11	BBB+	50.0	Niagara Mohawk Power Corp. First Mtge., 3/1/2005	100	10.20	NR-85; 106.53	N	Adequate	844
3/11	BBB	40.0	Niagara Mohawk Power Corp. Cum. Pfd. Stock ($100 par)	100	10.60	NR-85;	N	Attractive	845
3/11	AAA	15.0	Atchison, Topeka & Santa Fe Railway Co. Equip. Trust 8, 12/15/1975-89	6.25-8.20		NC	C	Satisfactory	
3/12	AA	25.0	Public Service Co. of New Mexico First Mtge., 3/15/2005	100	9.125	NR-80;	N	No Concession	843
3/12	A	10.0	Public Service Co. of New Mexico Com. Pfd. Stock ($100 par)	100	10.12	NR-80;	N	Adequate	844
3/12	AA	50.0	Duquesne Light Co. First Mtge. 9-1/2, 3/1/2005	100.291	9.47	NR-80;	C	Rich	840
3/13	A	75.0	Allied Chemical Corp. Debentures 9, 4/1/2000	99.25	9.07	NR-85;	N	Satisfactory	850
3/13	A	7.50	Allied Chemical Corp. Notes 8-3/8, 4/1/1983	99.75	8.42	NR-85;	N	Adequate	850
3/13	AAA	50.0	Eurofima Notes, 3/15/1982	100	9.0	NC-81; 100	N	Attractive	
3/13	AA	125.0	Upjohn Co. Notes, 3/15/1985	100	8.125	NC-82;	N	No Concession	847
3/13	BBB	50.0	Carolina Power & Light Co. Cum. Pref. Stock (no par), $2.675	25	10.7	NR-80;	N	No Concession	846
3/13	A	125.0	Florida Power & Light Co. First Mtge. 10-1/8, 3/1/2005	101.663		NR-80;	C	No Concession	832
3/13	N.R.	12.5	Heston Corp. Cum. Conv. Pfd. Stock ($2 par), $1.60	25	6.40		N		
3/13	AAA	50.0	The Japan Development Bank Gtd. Notes 8-1/2s, 3/15/1980	99.25	8.69	NC	N	Adequate	845

plying the new cost of energy adjustment clause for meter readings on and after March 1.

Under a contract with the Nebraska Public Power District (NPPD), Iowa Power and Light is entitled to one-half of the output until 2004 of Cooper Nuclear Station at Brownville, Nebraska. A full-power 40-year license to operate the station has been issued to NPPD by the Nuclear Regulatory Commission and the facility is currently operating at 764,000 kw, or 98.2% of its expected capacity. The net electric generating capability of Iowa Power & Light, net of the availability of power from the Cooper Station, is 731,000 kw under winter conditions and 754,000 kw under summer conditions.

	Year ended December 31				
	1974	1973	1972	1971	1970
Oper. Revenues (Mil. $)	128.03	111.63	100.97	93.36	82.66
Oper. Income (Mil. $)	19.36	17.02	15.30	14.28	13.31
Fxd Chgs. Cov. of Int. & Pfd Divs.					
Aft. Income Taxes	2.04	2.34	2.19	2.00	1.90
Bef. Constr. Cr.	1.81	2.25	2.16	1.98	1.84
Bef. Income Taxes	2.36	3.35	3.25	3.01	2.67

ASSET PROTECTION: Iowa Power & Light will have a pro forma capitalization of 41.3% mortgage debt, 3.0% debentures, 4.3% guarantees of pollution control revenue bonds, 14.2% preferred stock and 37.2% common equity. Long-term debt plus preferred stock will equal 51.4% of net plant. *While maintaining above-average fixed charge coverage over the past several years, the company was not protected against fluctuations in the price of purchased power. The Cooper Nuclear Station of which the company is entitled to purchase one-half of the power generated, was put into service in 1974 and has achieved excellent operating results to date. In addition, as of March 1 the company is protected against fluctuations in the price of purchased power through the energy adjustment clause, which has been instituted under bond, subject to refund. Based on the above we have rated this issue of preferred stock "A" and have raised the outstanding ratings on all Iowa Power & Light preferred stock issues from "BBB" to "A."*

EMERSON ELECTRIC CO.

Offering $50 Million Notes

In mid to late March Emerson Electric Co. plans to sell $50,000,000 notes due April 1, 1985. Goldman, Sachs & Co. will be lead underwriters. The notes will be subject to redemption at any time on or after April 1, 1982, at the option of the company. There will be no sinking fund.

COVERAGE OF FIXED CHARGES AND PREFERRED DIVIDENDS
PREFERRED STOCK OFFERINGS BY ELECTRIC UTILITIES
BY RATING CATEGORY
1975-1976

Date of Offering of Rating Change	Company	Moody's Rating	Standard & Poor's Rating	Coverage of Fixed Charges and Preferred Dividends After Income Taxes Before Construction Credits — Last twelve months available at date of offering or rate change
1975	Ratings Maintained at "a" by Moody's and A by Standard & Poor's			
1/ 9	Public Service Electric & Gas Company	"a" (12/23/74, 84-85)	A (12/28/74, 182-183)	1.40x*
1/21	Ohio Edison Company	"a" (1/13/75, 1754-1755)	A (1/11/75, 976-977)	1.51
1/22	Pennsylvania Power Company	"a" (1/13/75, 1753-1754)	A (1/11/75, 977)	1.35*
2/19	Kansas City Gas & Electric Company	"a" (2/ 3/75, 1678)	A (2/ 8/75, 911-912)	1.49*
2/27	Toledo Edison Company	"a" (2/17/75, 1624-1625)	A (2/22/75, 877)	1.15*
3/12	Public Service Company of New Mexico	"a" (3/ 3/75, 1568)	A (3/ 8/75, 843-844)	1.72
3/20	Iowa Power & Light Company	"a" (3/10/75, 1534-1535)	A (3/15/75, 826-827)	1.81
4/10	Potomac Electric Power Company	"a" (3/24/75, 1473)	A (3/29/75, 782)	1.74
5/ 8	Iowa Public Service Company	"a" (4/14/75, 1387-1388)	A (4/19/75, 729-730)	1.59
5/13	Utah Power & Light Company	"a" (4/28/75, 1346-1347)	A (5/ 3/75, 694-695)	1.60
9/ 3	New England Power Company	"a" (8/18/75, 912-913)	A (8/23/75, 406-407, 411)	1.35*
9/11	Connecticut Light & Power Company	"a" (9/ 1/75, 877-878)	A (8/30/75, 395)	1.60
9/23	Kentucky Utilities Company	"a" (9/ 8/75, 847-848)	A (9/13/75, 359-360)	1.51*
10/ 1	Central Illinois Light Company	"a" (9/15/75, 825-826)	A (9/20/75, 339-340)	1.25*
10/ 8	Rochester Gas & Electric Corporation	"a" (9/22/75, 803-804)	A (9/27/75, 324-325)	1.98
10/20	Interstate Power Company	"a" (10/ 6/75, 755-756)	A (10/ 4/75, 310)	1.69
11/25	Gulf Power Company	"a" (11/17/75, 603-604)	A+(11/15/75, 201-202)	1.88
11/15	El Paso Electric Company	NR	A (11/15/75, 200)	1.75
12/16	Public Service Electric & Gas Company	"a" (12/ 1/75, 538-539)	A (12/ 6/75, 139-140)	1.47*
1976				
3/ 9	Duquesne Light Company	"a" (3/ 1/76, 1607-1608)	A (3/ 6/76, 862-863)	1.54x*
3/23	Iowa-Illinois Gas & Electric Company	"a" (3/ 8/76, 1582)	A+ (3/13/76, 834)	1.79*
3/31	Pacific Gas & Electric Company	"a" (3/22/76, 1525-1526)	A (3/20/76, 815-816)	1.47*

COVERAGE OF FIXED CHARGES AND PREFERRED DIVIDENDS
PREFERRED STOCK OFFERINGS BY ELECTRIC UTILITIES
BY RATING CATEGORY
1975-1976

Date of Offering of Rating Change	Company	Moody's Rating	Standard & Poor's Rating	Coverage of Fixed Charges and Preferred Dividends After Income Taxes Before Construction Credits — Last twelve months available at date of offering or rate change
	Ratings Maintained at "a" by Moody's and A by Standard & Poor's			
	Average - above 22 issues			1.57x
	Average - above 11 issues excluding those where significant rate increases are not fully reflected			1.72x

*Significant rate increases are not fully reflected in coverage ratios.

Source: Moody's Investors Service, Inc., Moody's Bond Survey and Standard & Poor's Corporation, The Fixed Income Investor, in issues at pages noted.

COVERAGE OF FIXED CHARGES AND PREFERRED DIVIDENDS
PREFERRED STOCK OFFERINGS OF ELECTRIC UTILITIES
BY RATING CATEGORY
1975-1976

Date of Offering of Rating Change	Company	Moody's Rating	Standard & Poor's Rating	Coverage of Fixed Charges and Preferred Dividends After Income Taxes Before Construction Credits — Last twelve months available at date of offering or rate change
1975	Ratings Better than "a" by Moody's and A by Standard & Poor's			
3/25	Texas Power & Light Company	"aa"(3/10/75, 1537)	AA (3/22/75, 801)	2.13x
4/17	Oklahoma Gas & Electric Company	"aa"(3/31/75, 1441)	AA (4/ 5/75, 763-764)	2.24
5/22	Indianapolis Power & Light Company	"aa"(5/12/75, 1283)	A+ (5/17/75, 659)	1.51*
6/ 5	Kansas City Power & Light Company	"a" (5/19/75, 1254-1255)	AA (5/31/75, 625)	1.72
6/10	Texas Electric Service Company	"aa"(5/26/75, 1223-1224)	AA (5/24/75, 640)	2.25
6/11	Southern California Edison Company	"aa"(5/26/75, 1225)	AA (5/31/75, 624)	2.02
7/ 9	Public Service Company of Indiana	"aa"(6/30/75, 1076-1077)	AA (6/28/75, 539-540)	2.23
10/24	Houston Lighting & Power Company	"aa"(9/22/75, 802-803)	AA-(9/27/75, 325-326)	1.72
11/ 6	Pacific Gas & Electric Company	"aa"(10/27/75, 686-687)	A (11/ 1/75, 247)	1.52*
1976				
1/ 8	Cincinnati Gas & Electric Company	"aa"(12/12/75, 498-499)	A (12/27/75, 95-97)	1.52x*
1/20	Texas Power & Light Company	"aa"(1/12/76, 1770)	AA (1/17/76, 960-961)	1.91*
2/ 4	Kansas Power & Light Company	"aa"(1/19/76, 1738-1739)	A+ (1/24/76, 943)	2.28*
3/ 3	Southwestern Public Service Company	"aa"(2/23/76, 1629)	AA (2/28/76, 873-874)	2.10
3/18	Illinois Power Company	"aa"(3/ 8/76, 1582)	AA (3/ 6/76, 858-860)	2.00
3/25	Houston Lighting & Power Company	"aa"(3/ 8/76, 1581)	AA-(3/13/76, 834-836)	1.75
	Average - above 15 issues			1.93x
	Average - above 10 issues excluding those where significant rate increases are not fully reflected			2.02x

*Significant rate increases are not fully reflected in coverage ratios.

Source: Moody's Investors Service, Inc., Moody's Bond Survey and Standard & Poor's Corporation, The Fixed Income Investor, in issues at pages noted.

CAROLINA POWER & LIGHT COMPANY
COVERAGE OF FIXED CHARGES AND PREFERRED DIVIDENDS
1968-1975

		1968	1969	1970	1971	1972	1973	1974	1975
Income available for fixed charges before taxes	A	$ 62,532,000	$ 64,731,000	$ 57,071,000	$ 83,401,000	$128,620,000	$133,444,000	$149,686,000	$217,013,000
Less: Income taxes	B	22,513,000	18,920,000	8,280,000	14,328,000	26,378,000	10,791,000	879,000	25,436,000
Income available for fixed charges after taxes	C	40,019,000	45,811,000	48,782,000	69,073,000	102,242,000	122,653,000	148,807,000	191,577,000
Allowance for funds used during construction	D	2,927,000	4,397,000	10,505,000	14,708,000	24,759,000	38,093,000	54,609,000	59,957,000
Income available for fixed charges after taxes before construction credits	E	37,092,000	41,414,000	38,277,000	54,365,000	77,483,000	84,560,000	94,198,000	131,620,000
Total interest charges	F	14,006,000	18,427,000	23,957,000	31,599,000	41,713,000	56,654,000	76,536,000	89,955,000
Preferred dividends	G	2,966,000	2,966,000	4,699,000	8,371,000	9,612,000	13,017,000	20,672,000	25,752,000
Total interest charges and preferred dividends	H	16,972,000	21,393,000	28,656,000	39,970,000	51,325,000	69,671,000	97,208,000	115,707,000
Total interest charges and preferred dividends on pre-tax basis	I	19,552,420	23,439,540	30,206,670	43,150,980	55,554,280	73,836,440	97,414,720	122,145,000
Times interest and preferred dividends earned before taxes (A ÷ I)		3.20x	2.76x	1.89x	1.93x	2.32x	1.81x	1.54x	1.78x
Times interest and preferred dividends earned after taxes (C ÷ H)		2.36x	2.14x	1.70x	1.73x	1.98x	1.75x	1.54x	1.66x
Times interest and preferred dividends earned after taxes before construction credits (E ÷ H)		2.19x	1.94x	1.34x	1.36x	1.51x	1.21x	0.97x	1.14x

Source: Computed from data in Carolina Power & Light Company, Annual Report 1973, page 22; Standard & Poor's Corporation, The Fixed Income Investor, February 16, 1974, page 904; Interim Financial Statements, December 31, 1975.

CAROLINA POWER & LIGHT COMPANY
COMPUTATION OF TIMES FIXED CHARGES AND PREFERRED STOCK DIVIDENDS EARNED AFTER INCOME TAXES
FROM COST RATES FOR CAPITAL AND CAPITAL STRUCTURE RATIOS

	Cost Rate	Capital Structure Ratio	Component
Common equity	14.50%	33.40%	4.84%
Preferred stock	8.01	15.01	1.20
Debt	7.74	51.59	3.99
Preferred stock and debt			5.19
Total capital			10.00%
Fair rate of return on total capital			10%

Times fixed charges and preferred dividends earned after income taxes

$$= \frac{\text{Component for common equity plus component for debt and preferred stock}}{\text{Component for debt and preferred stock}}$$

$$= \frac{\text{Rate of return on total capital}}{\text{Component for debt and preferred stock}}$$

$$= \frac{10.00\%}{5.19\%} = 1.93x$$

CAROLINA POWER & LIGHT COMPANY
FAIR RATE OF RETURN ON COMMON EQUITY

On Basis of

Standard of Commensurate Return

Earnings experience on common equity of electric utilities in original cost jurisdictions, used as comparison companies
1971, 1972, 1973, 1974, 1975

Recent rate orders by regulatory commissions

"In line" with earnings experience on common equity of high grade industrial companies

Standards of Maintenance of Credit and Support of Financial Integrity and Attraction of Capital on Fair and Reasonable Terms

Market price of common stock in relation to book value and common stock offerings,
1972, 1973, 1974, 1975, 1976

First mortgage bond offerings of electric utilities with fixed charge ratios to support A rating,
1975, 1976

Preferred stock offerings of electric utilities with fixed charge and preferred stock dividend coverage ratios to support "a" and A rating,
1975, 1976

Carolina Power & Light Company

Fair Rate of Return on Common Equity — 14.50% at 33.40% Common Equity Ratio

Includes Allowance for Funds Used During Construction

CAROLINA POWER & LIGHT COMPANY
FAIR RATE OF RETURN ON TOTAL CAPITAL
USING IMBEDDED COST OF LONG-TERM DEBT AND PREFERRED STOCK
ON DECEMBER 31, 1975

	Cost Rate	Capital Structure Ratio (Page 7)	Weighted Component
Total Debt (page 12)	7.74%	51.59%	3.99%
Preferred Stock and Preference Stock (page 16)	8.01	15.01	1.20
Common Equity (page 89)	14.50*	33.40	4.84
Total Capitalization		100.00%	10.03%

Carolina Power & Light Company Fair Rate of Return on Total Capital	10%

*Includes allowance for funds used during construction

CAROLINA POWER & LIGHT COMPANY
FAIR RATE OF RETURN ON NET ORIGINAL COST RATE BASE

Carolina Power & Light Company

Fair Rate of Return on Total Capital (page 90)	10%

Carolina Power & Light Company

Fair Rate of Return on Net Original Cost Rate Base	10%*

*Includes allowance for funds used during construction