

**DIRECT TESTIMONY OF**  
**NANCY L. HOLLOWAY**

**BEFORE THE**  
**FLORIDA PUBLIC SERVICE COMMISSION**

**REGARDING SEBRING UTILITIES COMMISSION**  
**DOCKET NO. 920949-EU**

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FPSC-RECORDS/REPORTING

**BEFORE THE**  
**FLORIDA PUBLIC SERVICE COMMISSION**  
**DIRECT TESTIMONY OF**  
**NANCY L. HOLLOWAY**

In re: Joint Petition of Florida Power  
Corporation and Sebring Utilities  
Commission for Approval of Certain  
Matters in Connection With Sale of Certain  
Assets by Sebring Utilities Commission  
to Florida Power Corporation

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Docket No. 920949-EU

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Nancy L. Holloway and my business address is 321 Mango Street, Sebring,  
3 Florida 33870.

4 Q. BY WHOM ARE YOU EMPLOYED AND WHAT POSITION DO YOU HOLD?

5 A. I am employed by the Sebring Utilities Commission ("Sebring") as the Director of  
6 Finance and Chief Financial Officer.

7 Q. PLEASE DESCRIBE YOUR EDUCATION, BACKGROUND AND BUSINESS  
8 EXPERIENCE.

9 A. In March, 1970, I received a Bachelor of Arts in Accounting from the University of  
10 South Florida. I have over twenty-one years of experience in public utility accounting  
11 and financial management. From 1970 to 1975, I was employed by the City of Bartow,  
12 Florida. For approximately two years, I served as Chief Accountant, handling all  
13 accounting transactions, and for the remainder of the period, I served as Director of  
14 Finance, handling all financial affairs of the City.

15 From 1975 through 1989, I was employed by the City of Gainesville, Florida Regional  
16 Utilities. For the first three years, I served as Controller, handling all utility accounting,  
17 budgeting and debt management functions, as well as directing all financial systems  
18 development. My initial responsibility was to implement the FERC Uniform System of  
19 Accounts for the utility. In order to fulfill the total requirements of the FERC Uniform  
20 System of Accounts, a valuation study was performed to establish the true net book value  
21 of the utility's assets. In that regard, I was responsible for recording the required  
22 adjustments to the utility's books and the development of the continuing property records  
23 system.

24 Beginning in 1978, I served as the Utility Finance Director. In that capacity, I  
25 functioned as the Chief Financial Officer directing all finance and accounting functions.

1 The utility had an annual operating budget of \$136 million and a five year capital budget  
2 of \$143 million. It had total assets of \$584 million with total long-term debt outstanding  
3 of \$436 million. During this period, I obtained considerable knowledge of tax-exempt  
4 bond financings. I was an integral member of the management team that attained the  
5 rating improvement by Moody's Investors Service to "AA" while achieving the lowest  
6 residential electric rates during the same period.

7 From 1990 to 1991, I was employed by Av-Med Health Plan, the second largest Health  
8 Maintenance Organization as its Accounting Manager, directing all aspects of its  
9 accounting department.

10 I have been employed as the Director of Finance by the Sebring Utilities Commission  
11 (Sebring) since March, 1991. I joined Sebring with the goal of providing rate relief for  
12 the ratepayers of Sebring through either a refinancing plan or the sale of its remaining  
13 assets. I have directed the process of evaluating proposals and negotiating the contracts  
14 for purchase and sale of the electric and water systems to Florida Power Corporation and  
15 the City of Sebring, respectively.

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

17 A. I am testifying of behalf of Sebring in this proceeding. My testimony addresses three  
18 basic areas: the need for expedited review and approval of the proposed sale of Sebring's  
19 utility system to FPC; the background behind the valuation study performed by RMI; and  
20 the depreciated net book value of the tangible assets that Sebring proposes to sell to FPC  
21 (the "Rate Base Assets").

22 **Q. HAVE YOU PREPARED OR ARE YOU SPONSORING ANY EXHIBITS IN THIS**  
23 **PROCEEDING?**

24 A. Yes, I am sponsoring the following portions of Exhibit 1:  
25 Pages 207 to 231 Sebring Utilities Commission financial statements -

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September 30, 1991 (Exhibit E of Joint Petition).  
Pages 242 to 253 Form of defeasance escrow deposit agreement (Schedule 2.1-B of Agreement).  
Pages 258 Accounts receivable as of September 30, 1991 (Schedule 3.8 of Agreement).  
Pages 574 to 577 Debt service schedule - Series 1986A and B Bonds (Schedule 3.15(a) of Agreement).  
Page 578 Bond resolutions and agreements (Schedule 3.15(b) of Agreement).  
Pages 579 to 580 All funds and accounts created under the bond resolution (Schedule 3.15(c) of Agreement).  
Page 581 Electric customer deposits (Schedule 3.17 of Agreement)

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**Q. PLEASE EXPLAIN THE NEED FOR EXPEDITED REVIEW AND APPROVAL OF THE PROPOSED SALE OF SEBRING'S UTILITY SYSTEM TO FPC.**  
A. In order to meet covenants set forth in Sebring's bond documents, Sebring will be required to substantially increase its rates effective October, 1992. In lieu of such rate increase and in anticipation of expedited closing of the sale to FPC, Sebring has adopted a 1993 budget which draws down on its reserve fund to service a significant part of its debt. Because Sebring is not generating sufficient revenue from its rates to make principal and interest payments on its outstanding bond obligations, the utility will be in technical default of its bond covenants. Expedited consideration and approval of the Joint Petition will accelerate closing of the sale of Sebring assets. This will minimize the period in which Sebring is in technical default, and substantially lessen the likelihood that the Bond Trustee will actually declare an Event of Default.

1 Q. **WHAT ARE THE CONSEQUENCES IF AN EVENT OF A DEFAULT IS**  
2 **DECLARED?**

3 A. Bond holders and the bond insurance company would be entitled to request an immediate  
4 acceleration of all outstanding bonds; and, furthermore, could exercise their rights and  
5 remedies as creditors under Florida law. This likely would precipitate a flurry of law  
6 suits demanding that a receiver be appointed for Sebring and that rates be increased well  
7 above current levels to secure the default. Such actions would interfere with Sebring's  
8 trade relationships with suppliers and further interrupt the ongoing operations of the  
9 utility. Ultimately, Sebring could be forced to file for bankruptcy under Chapter IX.

10 Q. **ARE THERE OTHER REASONS FOR THE COMMISSION TO EXPEDITE**  
11 **CONSIDERATION OF THIS MATTER?**

12 A. Yes. Sebring currently is accruing additional financial liability of approximately \$14,000  
13 per day in order to resupply its reserve fund, as well as approximately \$3,000 per day  
14 to increase its revenue fund to newly required levels. Expedited consideration and  
15 approval of the relief requested in the Joint Petition will further limit the accrual of  
16 substantial additional financial liability by Sebring.

17 Expedited consideration and approval of the Joint Petition will insure that FPC is able to  
18 take advantage of favorable interest rates in issuing the medium term notes contemplated  
19 in the transaction. The benefits of lower financing cost for the transaction will flow  
20 directly to the ratepayers of Sebring. Finally, regulatory delay in approving the  
21 transaction will deprive ratepayers of the favorable rate relief offered by FPC's rate  
22 structure.

23 Q. **ARE YOU FAMILIAR WITH THE VALUATION STUDY PERFORMED BY RMI?**

24 A. Yes, I was responsible for oversight of the project on behalf of Sebring. I provided  
25 information to RMI, as well as performing quality assurance.

1       **Q.     PLEASE EXPLAIN WHY THE VALUATION STUDY WAS PERFORMED.**

2       A.     As more fully explained in the testimony provided by Sebring witness Joe Calhoun,  
3       Sebring issued RFPs in May, 1991, to sell the remaining assets of the utility system.  
4       The RFP responses received by Sebring indicated that net book value of the tangible  
5       assets was an important consideration to the prospective purchasers.

6             This prompted Sebring to review its books and records to determine whether the true net  
7       book value of the tangible assets of the system was properly reflected in its accounts.  
8       Upon review of the books, I determined that Sebring was not in compliance with the  
9       FERC Uniform System of Accounts, and that Sebring's records did not reflect the true  
10      net book value of the utility's tangible assets.

11            In order to determine the true net book value of the tangible assets and ultimately record  
12      any required adjustments to the books and records of Sebring, a valuation study was  
13      authorized by Sebring to be performed by RMI, its consulting engineer.

14      **Q.     DID THE VALUATION STUDY PERFORMED BY RMI ESTABLISH A TRUE  
15      NET BOOK VALUE FOR THE TANGIBLE ASSETS TO BE ACQUIRED BY  
16      FPC?**

17      A.     The RMI Study establishes a portion of the true net book value for the property, plant  
18      and equipment assets. However, the RMI Study does not address an adjustment to  
19      Property, Plant and Equipment for Contribution-In-Aid-Of-Construction (CIAC). In  
20      addition, the Study does not recognize Current Assets and Accrued Unbilled Revenue,  
21      both of which are components of the tangible assets to be acquired by FPC.

22      **Q.     HOW DID YOU RELY ON THE VALUATION STUDY PERFORMED BY RMI?**

23      A.     The RMI valuation study was used to adjust the accounting records of Sebring to reflect  
24      the true net book value of the tangible assets, by increasing Property, Plant and  
25      Equipment and decreasing the Retained Deficit. Sebring then recorded the proper CIAC

1 adjustment and reflected the appropriate values for Current Assets and Accrued Unbilled  
2 Revenues.

3 Q. DID YOU PREPARE FINANCIAL STATEMENTS FOR SEBRING BASED ON  
4 THE DETERMINATIONS MADE IN THE RMI STUDY?

5 A. Yes, I prepared the Financial Statements as of September 30, 1991.

6 Q. WAS THAT STATEMENT AUDITED?

7 A. Yes. The audit was performed by Wicks, Brown, Williams & Co., Certified Public  
8 Accountants. A copy of the Audited Financial Statement appears in Exhibit 1 at pages  
9 207 to 231.

10 Q. WHAT IS THE NET BOOK VALUE OF THE TANGIBLE ASSETS BEING  
11 ACQUIRED BY FPC?

12 A. The Net Book Value of the tangible assets being acquired by FPC as of September 30,  
13 1991, is \$17,813,753, as reflected in the "Supplementary Schedule for Electric Systems  
14 Assets Identified for Sale" (Exhibit 1, page 230).

15 Q. WHAT ASSETS ARE INCLUDED IN THE \$17,813,753?

16 A. The tangible assets being acquired by FPC are comprised of the following categories:

17	a) Property, Plant and Equipment	\$15,429,039
18	(This component is addressed	
19	in testimony presented by Sebring's witness	
20	David J. Rumolo.)	
21	b) CIAC Adjustment	\$ (304,092)
22	c) Current Assets	\$ 1,901,045
23	d) Accrued Unbilled Revenue	\$ 787,761

24 Q. WHAT ASSETS ARE INCLUDED IN THE PROPERTY, PLANT AND  
25 EQUIPMENT CATEGORY?



1 A. The Property, Plant and Equipment category includes the tangible assets contained in the  
2 Valuation Study prepared by RMI, which determined the net book value of the  
3 distribution system, transmission system, two distribution substations, general plant, and  
4 construction work in progress.

5 **Q. WHAT ASSETS ARE INCLUDED IN THE CURRENT ASSETS CATEGORY?**

6 A. The Current Assets are comprised of the following:

7	a) Customer Accounts Receivable,	\$ 1,146,994
8	Net of Allowance for Doubtful	
9	Accounts of \$43,433	
10	b) Accounts Receivable - Other,	\$ 202,937
11	Net of Allowance for Doubtful	
12	Accounts of \$18,262	
13	c) Materials Inventory	\$ 459,476
14	d) Prepaid Expense	\$ 91,638

15 **Q. PLEASE EXPLAIN WHAT IS CONTAINED IN THE CUSTOMER ACCOUNTS**  
16 **RECEIVABLE CATEGORY.**

17 A. Customer Accounts Receivable includes amounts due from customers for utility services  
18 billed by Sebring. Any overpayments made by customers are reflected as reductions  
19 (credit balances) to the Customer Accounts Receivable. The amount of Customer  
20 Accounts Receivable reflected is net of the Allowance For Doubtful Accounts in the  
21 amount of \$43,433. This allowance is based on actual accounts written-off during the  
22 quarter following the end of the fiscal year that had been billed and were outstanding as  
23 of fiscal year end.

24 **Q. PLEASE EXPLAIN WHAT IS CONTAINED IN THE "ACCOUNTS**  
25 **RECEIVABLE, OTHER" ACCOUNT.**

1 A. Accounts Receivable - Other includes amounts due to Sebring from various entities and  
2 individuals as open accounts, other than from customers for utility services. The total  
3 amount, which was achieved by reviewing every open invoice, is \$202,937. This amount  
4 is net of the Allowance For Doubtful Accounts in the amount of \$18,262. This  
5 allowance is based on an account by account review to determine probability of  
6 collection. All accounts that were determined to have a substantial doubt of collection  
7 were credited to the allowance account.

8 **Q. PLEASE EXPLAIN WHAT IS CONTAINED IN THE MATERIALS INVENTORY**  
9 **ACCOUNT.**

10 A. The Materials Inventory includes the cost of materials purchased for use in the utility  
11 business for construction, operation and maintenance purposes. The inventory is  
12 separated into sub categories for materials and supplies primarily used by the Electric  
13 Line Department and the Electric Metering and Control Department.

14 **Q. WHAT IS THE BASIS FOR RECORDING THE VALUE OF THE MATERIALS**  
15 **INVENTORY?**

16 A. The Materials Inventory is stated at the lower of cost or market. Cost is determined  
17 based on an average cost method. Reusable materials that have been removed from  
18 service are included in the inventory at the carrying value of similar new materials.

19 **Q. PLEASE EXPLAIN WHAT IS CONTAINED IN THE PREPAID EXPENSE**  
20 **ACCOUNT.**

21 A. Prepaid Expense includes amounts representing prepayments of insurance, rents, taxes,  
22 interest and miscellaneous items.

23 **Q. HOW WAS THE AMOUNT OF PREPAID EXPENSE TO BE ACQUIRED BY FPC**  
24 **DETERMINED?**

25 A. The amount of Prepaid Expense to be acquired by FPC was determined by review of

1 each prepaid item prior to assignment

2 **Q. PLEASE EXPLAIN WHAT IS INCLUDED IN ACCRUED UNBILLED REVENUE.**

3 A Accrued Unbilled Revenue reflects the estimated amount accrued for services rendered,  
4 but not billed, at the end of any accounting period

5 **Q. HOW WAS THE AMOUNT OF ACCRUED UNBILLED REVENUE TO BE  
6 ACQUIRED BY PPC DETERMINED?**

7 A The Accrued Unbilled Revenue is based on the estimated usage between the last meter  
8 reading dates and the end of the fiscal year. The calculation uses actual billing registers  
9 to determine the amount of revenue to use in the computation

10 **Q. IN PREPARING THE FINANCIAL STATEMENT AS OF SEPTEMBER 30, 1991,  
11 DID YOU ADDRESS CONTRIBUTION IN AID OF CONSTRUCTION (CIAC)?**

12 A Yes, CIAC is the cost or other value of electric plant contributed to the utility.  
13 Contributions received toward the construction of electric plant shall be credited to  
14 accounts charged with the cost of such construction. Plant constructed from contributions  
15 received shall be reflected as a reduction to gross plant constructed when assembling cost  
16 data in work orders for posting to plant ledger accounts.

17 **Q. PLEASE EXPLAIN THE CIAC ADJUSTMENT INCLUDED IN THE FINANCIAL  
18 STATEMENTS AS OF SEPTEMBER 30, 1991.**

19 A. As a part of process to adjust Sebring's books and accounts to properly reflect the true  
20 net book value of the tangible assets, it was determined that Sebring had not properly  
21 recorded CIAC in prior periods. Electric CIAC was recorded as a capital contribution  
22 instead of correctly recording it as a decrease in the cost of property, plant and  
23 equipment.

24 **Q. WHAT WAS THE VALUE OF THE CIAC ADJUSTMENT?**

25 A. The adjustment to gross property, plant and equipment was a reduction of \$339,173.

1           Accumulated depreciation required a corresponding reduction of \$35,081, for a total  
2           reduction in the net book value of property, plant and equipment of \$304,092.

3           **Q.    DOES THIS CONCLUDE YOUR TESTIMONY?**

4           A.    Yes, it does.

5           EAT 13/48