

Case no. 81,076

DOCKET NO. 920949-EU

STAFF COMPOSITE EXHIBIT 1

DEPOSITIONS AND LATE-FILED EXHIBITS OF
DAGOSTINO, SOUTHWICK, NIXON, CALHOUN,
HOLLOWAY, RUMOLO, WILLIAMS, AND WARREN

DOCUMENT NUMBER-DATE

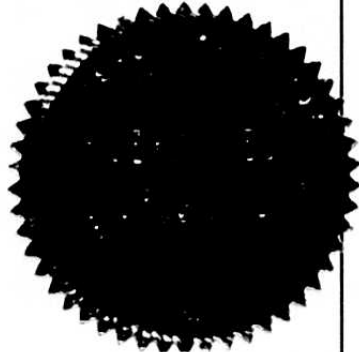
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FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Joint Petition of FLORIDA)
POWER CORPORATION and SEBRING)
UTILITIES COMMISSION for Approval)
of Certain Matters in Connection)
with the Sale of Assets by SEBRING)
UTILITIES COMMISSION to FLORIDA)
POWER CORPORATION.)

DOCKET NO. 920949-EU



DEPOSITION OF: HENRY I. SOUTHWICK
TAKEN AT THE INSTANCE OF: The Commission Staff
DATE: Tuesday, November 10, 1992
TIME: Commenced at 9:30 a.m.
Concluded at 11:20 a.m.
PLACE: 101 East Gaines Street
Tallahassee, Florida
REPORTED BY: JANE FAUROT
Notary Public in and for the
State of Florida at Large

ACCURATE STENOGRAPHY REPORTERS, INC.
100 SALEM COURT
TALLAHASSEE, FLORIDA 32301
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The following deposition of HENRY I. SOUTHWICK was taken on oral examination, pursuant to notice, for purposes of discovery, for use in evidence, and for such other uses and purposes as may be permitted by the Florida Rules of Civil Procedure and other applicable law. Reading and signing of said deposition by the witness is waived. All objections, except as to the form of the question, are reserved until final hearing in this cause; and notice of filing is waived.

* * * * *

MS. BROWN: We are here this morning for the deposition of Henry Southwick in Docket No. 920949-EU, in re, joint petition of Florida Power Corporation and Sebring Utilities Commission for approval of certain matters in connection with the sale of assets by Sebring Utilities Commission to Florida Power Corporation.

Thereupon,

HENRY I. SOUTHWICK

was called as a witness, and having been duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MS. BROWN:

Q Good morning.

1 A Good morning.

2 Q Would you state your name for the record, please,
3 and your business address?

4 A My name is Henry Irvin Southwick. My address is
5 Box 14042, St. Petersburg.

6 Q And you are employed by Florida Power Corporation?

7 A Yes.

8 Q In what capacity?

9 A Director of Energy Control.

10 Q You have submitted testimony in this docket?

11 A Yes, I have.

12 Q Would you just briefly describe that testimony for
13 us?

14 A My testimony was divided into primary subjects
15 discussing the expected benefits to the Sebring ratepayers
16 that would result from the proposed transaction, the
17 prudence of the acquisition of the electric system, and the
18 circumstances under which the power purchase agreement
19 between Sebring and TECO arose and our assumption of that
20 purchased power agreement.

21 Q If you would turn to your testimony, Mr.
22 Southwick. On Page 6, Lines 6 through 15, you have
23 discussed the benefits to Sebring ratepayers of Florida
24 Power Corporation's billing system?

25 A Yes.

1 Q At present Sebring customers receive only one bill
2 for all of their utility services, correct?

3 A I believe so.

4 Q And if the purchase is approved they will receive
5 at least two bills, correct?

6 A Yes.

7 Q One for the water, from Sebring, the City of
8 Sebring, and one from you all for electric service?

9 A Yes.

10 Q Okay. On Page 7 of your testimony you discuss the
11 benefits of Florida Power Corporation's conservation
12 programs to Sebring's customers?

13 A Yes.

14 Q We understand that Florida Power Corporation is
15 currently attempting a survey of sorts to determine how many
16 customers might be interested in those programs, is that
17 correct?

18 A Yes, that is.

19 Q Do you have any results of that survey at the
20 moment?

21 A No, I have not heard the results at all.

22 Q Do you have any idea when you will?

23 MR. FAMA: Martha, let me answer that. We will
24 probably have it in about a week, and I would like to
25 offer it as a late-filed exhibit for Dagostino.

1 MS. BROWN: Okay.

2 MR. FAMA: Not this witness.

3 MS. BROWN: All right. Late-filed exhibit for the
4 hearing or --

5 MR. FAMA: Uh-huh.

6 MS. BROWN: Okay.

7 MR. FAMA: Or to the deposition, it's up to you,
8 whatever your pleasure is. I was thinking that some
9 late-filed exhibits would -- I hate to call them
10 late-filed -- but some exhibits would arise between the
11 time the depositions end and the time we go to hearing.
12 And I was thinking about this one in particular would
13 be one that you would want. And that maybe we could
14 circulate it ahead of time, so you would be ready to
15 question on it, and whatnot, knowing that I would want
16 to introduce it, that sort of thing.

17 MS. BROWN: That is fine. Maybe we ought to
18 mention it at the prehearing conference, though, so we
19 could -- it wouldn't really be a late-filed, then. It
20 would just be a supplemental --

21 MR. FAMA: A supplemental, yes.

22 MS. BROWN: -- exhibit, and everybody would have
23 a chance to be aware that it was coming.

24 MR. FAMA: Okay. I'm just thinking there might be
25 other ones that come up. Since we are on such a fast

1 track, I don't want to cut anything off. If you guys
2 are interested in seeing something, and you think of it
3 after the prehearing conference, we are happy to
4 prepare an exhibit.

5 MS. BROWN: Well, I am just concerned that now
6 that we have the intervenors, I want to make sure that
7 everybody has the chance to see all of this stuff ahead
8 of time.

9 MR. FAMA: Right. And I would take the exhibits
10 and send them to all the intervenors and say that we
11 intend to introduce these. Just like we did in our
12 rate case, I sent Public Counsel the exhibits before I
13 cross examined their witness that I intended to
14 introduce, just to get over the hurdle.

15 MS. BROWN: Okay.

16 BY MS. BROWN:

17 Q Are you aware, Mr. Southwick, of any quantitative
18 analysis that was done prior to the submission of the joint
19 petition on the potential penetration or acceptance of
20 Florida Power Corporation's conservation programs by
21 Sebring's customers?

22 A No, I'm not.

23 Q In Mr. Nixon's deposition, we spoke briefly about
24 testimony that had been received at the customer hearing
25 with respect to energy conservation programs and the load

1 management program. One of the witnesses who testified
2 there brought up the question of whether these energy
3 conservation programs would really benefit Sebring customers
4 because of the Sebring rider. If revenues decrease for
5 Florida Power Corporation as a result of energy savings, the
6 price of the Sebring rider would increase. Do you agree
7 with that?

8 A You kind of asked two questions, I think, in one
9 there. If you break them apart, I would agree that if sales
10 go down due to whatever reason, that the per unit cost of
11 the rider would go up. That is simple arithmetic. So, yes,
12 clearly, I would agree with that. Will the conservation
13 cause sales to go down compared to no conservation? Yes, I
14 would hope it would. That would be the purposes of it. But
15 the benefits of it in the form of reduced electric bills,
16 particularly in the area of load management where you get a
17 significant reduction in your electric bill, coupled with
18 the fact they are getting a rate reduction to start with
19 when they go with Florida Power, the price elasticity impact
20 is going to have an upward effect. And how those two are
21 going to interplay, I don't know. I personally think it
22 might go up instead of down in total for the benefit of
23 everybody.

24 Q I'm sorry. What would go up?

25 A Sales. But you are going to have one force that

1 is pushing it down for good reasons, and other forces that
2 are pushing it up for good reasons. And how that is going
3 to work out, we don't know. I know we have an RMI forecast
4 that we are using that I think is reasonable. And I think
5 Mr. Nixon testified to the fact you will have these
6 offsetting forces, also.

7 Q You do agree there is a possibility that because
8 of the existence of the Sebring rider that Sebring's
9 ratepayers may not benefit as much as we might all like from
10 your energy conservation programs?

11 A In a micro sense, I would agree with that. On an
12 individual sense, the individual people, because they have a
13 higher rate would have more incentive and see more benefits.

14 Q On Page 11 of your testimony you state that the
15 retirement of the debt will improve the cost of capital for
16 the Sebring area system. If the purchase is approved,
17 wouldn't the cost of maintaining the segment of FPC's system
18 simply be rolled into FPC's system costs and not separately
19 identified?

20 A Would you repeat that, please?

21 Q If the purchase is approved, wouldn't the cost of
22 maintaining this segment of FPC's system simply be rolled
23 into the FPC's system costs and not separately identified?

24 A Yes.

25 Q Would you agree that a default on the bonds by

1 Sebring Utilities Commission would damage the credit rating,
2 not only of the Utilities Commission, but also the City of
3 Sebring?

4 A I'm not a financial expert. I have an opinion,
5 but I'm surely not qualified to speak to that. The opinion
6 is, yes, it would.

7 Q Then would you say the primary benefit of any
8 reduced capital costs really is just a benefit to the City
9 of Sebring?

10 A And its residents.

11 Q Well, you speak a lot about the benefits that
12 Sebring customers will receive if your purchase is approved.
13 There is little said in your testimony about the benefits of
14 Florida Power Corporation's current body of ratepayers.
15 What real benefits will your current body of ratepayers
16 receive from this transaction?

17 A Okay. The first thing, let me say the reason we
18 spent a lot of time talking about receiving benefits is
19 because, based on our review of a lot of previous Commission
20 cases and orders, you all spoke a lot about the benefits to
21 the system being acquired. And we felt that was an area
22 that needed a lot of attention, so we gave it to it. As far
23 as our own benefits to the existing Florida Power customers
24 as opposed to the future Florida Power customers, I believe
25 Mr. Dagostino talked about that. But, yes, we obviously see

1 benefits or we wouldn't want to do this. Taken as a whole,
2 we believe in the long-term this is going to be very good
3 for us. It has got to be thought of as a whole. We feel
4 that the ability to expand our system in a desirable area is
5 a good thing. From a strategic type way of thinking for a
6 utility, these opportunities don't come along very often. I
7 have been there 25 years. This is the second time they have
8 attempted to purchase another system. The first one was
9 very small, so it's clearly not something that happens every
10 day. We think that having a larger base system with more
11 diversity is healthy. We think it makes us stronger. It
12 makes us more resilient, a more robust company, so to speak.
13 This particular system, Sebring, is right in kind of the
14 heart of our Ridge division. It's a hole in our system, we
15 like to call it. We drive through Sebring every day. We
16 have districts on both side of it. We have offices on both
17 sides of it. We spend a lot of our time riding through
18 Sebring. It would give us a lot of efficiencies, we
19 believe, over time, to be able to fill the hole,
20 consolidated resources in that part of the state. We see
21 benefits from that type -- the ability to do that.

22 Q Any specific benefits that you see to Power
23 Corporation's ratepayers? Those certainly are --

24 A Well, all the benefits I just named will be
25 benefits to the ratepayers.

1 Q And also to the shareholders of Power Corp?

2 A Yes, they will. They go hand-in-hand. But over
3 time all of those benefits would be realized, and would pay
4 dividends to the shareholders and ratepayers forever, I
5 believe.

6 Q When you began your answer to that question, you
7 said that you concentrated on the benefits to the system
8 being acquired because your review of the Commission's
9 previous pronouncements led you to believe that this was
10 something you should concentrate on. What particularly are
11 you referring to?

12 A There were several orders that I have read. I
13 could find them and tell you what the numbers are. They
14 dealt with gas company transactions, I believe, that this
15 Commission had made rulings on in acquisition cases.

16 Q Uh-huh.

17 A Which I could probably find those in a few minutes
18 if you would like for me to.

19 Q Like Chesapeake, perhaps, Peoples Gas? Well --

20 A I would have to look and see.

21 Q Okay. That would be fine. I would like for you
22 to do that if you would.

23 A Okay.

24 Q Perhaps we can do it in a break.

25 MR. FAMA: Yes, we have some of those with us.

1 THE WITNESS: We have them with us.

2 MS. BROWN: Great.

3 BY MS. BROWN:

4 Q Now, the net book value of the tangible assets
5 that Power Corp is going to purchase from Sebring has been
6 determined by Sebring, is that correct?

7 A Yes.

8 Q And this value of 17.8 million represents a
9 recalculated net book value, correct?

10 A Recalculated from numbers that they had earlier
11 than that, yes.

12 Q And this recalculated net book value is probably
13 higher than the net book value as reflected on Sebring's
14 books and records, is that correct?

15 A I think that is the number. That is the only
16 number they have, if I understood your question right.

17 Q Well, as I understand it, RMI reviewed Sebring's
18 system and calculated a net book value of \$17.8 million. Is
19 it your understanding that that number is probably higher
20 than what the net book value was on Sebring's books and
21 records before RMI did its study?

22 A Yes.

23 Q Okay.

24 A But once that study was accepted by Sebring, it's
25 my understanding that that became the one. There is only

1 one number at that point in time. The old number was
2 superseded with the new number, and that is now the number.
3 There is only one number as approved by their auditors.

4 Q And you find that number acceptable, correct?

5 A Yes, we do. We think it's a reasonable number.

6 Q How did you go about determining the
7 reasonableness of this recalculated net book value?

8 A Well, at the beginning of the process we were
9 involved with it quite a bit. In the very important first
10 stage of the inventories, we worked very closely with
11 Sebring in the inventorying. And our people and their
12 people formed teams to go out in the field, and we did
13 extensive detailed physical inventory of the system, looking
14 at all the poles and transformers and everything. We did
15 that for a couple of reasons. One of them was because of
16 expediency that Sebring -- that is a fairly big undertaking,
17 they needed the manpower support. It also gave us the
18 ability at the same time to give an eyeball view of the
19 system, which led us to confidence that the system, in fact,
20 is in good shape, and so forth. So, we were very involved
21 in the development of the inventory, and we are very
22 comfortable with those. Once the inventory was developed,
23 the RMI study took the inventory and came up with an
24 evaluation of it. I'm not an accountant. Our controller
25 advised me that he felt it was a reasonable approach that

1 was used, and a reasonable conclusion that they arrived at,
2 in particular -- what is the word -- a piece of that
3 conclusion is based on the fact that Sebring's independent
4 auditor accepted and endorsed the conclusion as being
5 appropriate for Sebring, which gave it the accounting seal
6 of approval.

7 Q Page 16 of your testimony, Mr. Southwick, Lines 20
8 through 21, in answer to a question regarding the going
9 concern value, you state -- and as I understand it Mr.
10 Warren is the primary witness on going concern value. But
11 what in your mind is the value beyond the physical assets of
12 Sebring that you all are considering purchasing?

13 MR. FAMA: Martha, let me make a suggestion here.
14 We need to be clear on what our role is on the net book
15 value and the going concern versus what Sebring's role
16 is in this case. And we worked up something that is
17 half responsive to your question, and we wrote it down.
18 And we agreed with Sebring to this language to make
19 sure that we were clear on it and everybody was happy
20 with it. And at some point, either in response to this
21 question or another question, we would like to set the
22 record straight on it.

23 MS. BROWN: Go ahead.

24 MR. FAMA: So, you ask about going concern. It
25 kind of covers both going concern and net book value.

1 BY MS. BROWN:

2 Q Okay. Go ahead.

3 A The purchase by Florida Power Corporation of the
4 rate base assets, including any going concern value that the
5 Commission may determine, would be a prudent investment by
6 Florida Power. The amount of 22,663,753, which is comprised
7 of the sum of 17,813,753, the net book value of the rate
8 base assets as of September 30th, 1991, plus an amount that
9 Sebring has determined is a going concern value, would be
10 prudent. While we have not calculated the going concern
11 value, we believe that a purchase by Florida Power of the
12 rate base assets at a price of 22,663,753 would be prudent,
13 considering the net book value of the rate base assets and
14 the benefits to Florida Power and it's customers from the
15 purchase of the Sebring electric system, including the
16 long-term benefits for the reasons outlined in
17 Mr. Dagostino's testimony. The total amount of 22,663,753
18 that I referred to here includes the net book value of
19 17,813,753 that has been established as of September 30th,
20 1991. Any changes to this net book value as of the date of
21 closing will change the total amount accordingly.

22 Q Well, let me read you this sentence from your
23 testimony, "Florida Power believes this," -- I'm sorry, Page
24 16, Line 20. "Florida Power believes that the acquisition
25 of the electric system has going concern value beyond the

1 physical assets."

2 A Yes.

3 Q Can you describe to me what you mean by that?
4 What is specifically the value beyond the physical assets?

5 A Yes. I believe that Mr. Warren, in his testimony,
6 pointed out several of those items and actually placed a
7 value on those items that we agree with. And those are the
8 examples that we are talking about here.

9 Q When you make this statement in your testimony,
10 you are specifically referring to what Mr. Warren mentioned
11 in his testimony regarding going concern value?

12 A Yes.

13 Q Okay. Given that Florida Power Corporation
14 supports Sebring Utility Commission's valuation of its
15 assets, would Florida Power Corporation be willing to write
16 off any acquisition adjustment for going concern value below
17 the line if an acquisition adjustment is not approved?

18 A No.

19 Q No?

20 A No.

21 Q Why not? If it's such a prudent investment, why
22 would you not be willing to do that?

23 A Well, the only way that we can realize the
24 benefits would be for them to be rate based. And these
25 benefits, and the good things I was talking about earlier,

1 about filling the hole in the system, and so forth, those
2 benefits over time will all flow to the ratepayers. And the
3 benefits that Mr. Warren talked about, the specific items
4 that we actually were able to place a value on, those
5 benefits all flow to the ratepayers. They don't flow to the
6 stockholders. And it would be equitable to put this above
7 the line to the ratepayers and make it all balance out.

8 Q All right. If that is correct, why wouldn't it be
9 appropriate to do that in the context of a rate case, rather
10 than at this time in this proceeding?

11 A Well, there are several reasons why we need the
12 approval now so we can proceed with the closure of the deal.
13 The magnitude of it is such that for us to proceed and take
14 the risk that it may not pass at the future hearing times,
15 we feel is unacceptable.

16 Q I'm sorry. Would you go back and repeat that,
17 "Take the risk that it may not --"

18 A Be approved. In other words, to go ahead and
19 close the deal now, which will be an irreversible
20 commitment, the money will flow, and then wait until, say,
21 our next rate case, whenever that is, some future date, and
22 then if you all decided it was not a prudent thing that we
23 did, and forced us to write it off, we feel that it's too
24 great a risk to take. We don't think that will happen, but
25 even so, we think it's too great a risk to take. To make

1 the financial commitment to borrow the money to buy the
2 system, to pay off the bonds, we need to know where we
3 stand. We recognize, as well, as you all that this is not
4 ordinary business as usual. It's once in 25 years, or at
5 least in the last 25 years.

6 Q Well, I agree with you, it's not ordinary from the
7 Commission's perspective either, is it?

8 A No, it's not.

9 Q Now, I think you have made yourself clear on that
10 point. Let me just ask once more. You are asking the
11 Commission in this proceeding to approve the prudence of the
12 purchase of the SUC system, including the TECO purchased
13 power contract, and that decision by the Commission would be
14 binding on the Commission in all future proceedings,
15 correct? Is that what you are asking?

16 A Yes.

17 Q Now, I understand that it's Power Corporation's
18 intent to pass a portion of the demand costs of the
19 purchased power contract through the capacity cost recovery
20 factor, correct?

21 A Yes.

22 Q And the fuel will go through fuel?

23 A Yes.

24 Q And is it your testimony on Page 22 that this --
25 let's see, Lines 8 through 13. On Line 8 you state, "In the

1 future, when new base rates are established for Florida
2 Power, it is expected that any production components in
3 Florida Power's base rates attributable to the power
4 purchase agreement will be removed from base rates and the
5 demand charges for the power purchase agreement with TECO
6 will be fully recovered through the capacity cost recovery
7 proceeding."

8 This reduction in the cost arising from the TECO
9 contract is temporary. Is that what you are saying? And
10 that the full cost will be paid by all ratepayers subsequent
11 to Power Corp's next rate case?

12 A The reduction in the cost, and the way this is set
13 up, is designed to make the ratepayer whole before the next
14 rate case. If we didn't have the reduction, then Florida
15 Power would actually be overcollecting, if we put the entire
16 demand payment into the capacity cost recovery. By making
17 the reduction, we have made the ratepayer whole. After the
18 next rate case, the way I understand the next rate case is
19 going to work for everybody, it will all get rearranged, and
20 the ratepayer will still be made whole but in a different
21 forum. And all the capacity payments for all power
22 purchases, QFs and so forth, will all be pulled out of the
23 base and placed over in this other area. And it will just
24 be treated in the same way.

25 Q Okay. What cost impact will recovery of the

1 demand charges from the TECO power contract have on Power
2 Corp's current ratepayers?

3 A The demand components?

4 Q Yes.

5 A We have shown you all, previously, an exhibit that
6 showed the calculation for 1993, which has since been
7 changed based on Mr. Nixon's, I believe, deposition. We may
8 need to go off the record.

9 MS. BROWN: Okay.

10 (Off the record briefly).

11 BY MS. BROWN:

12 Q Mr. Southwick, you just handed us copies of
13 deposition exhibits from Mr. Nixon's testimony, which do
14 demonstrate that Florida Power Corporation's ratepayers will
15 pay a little bit more if the TECO costs are included than
16 they would if they were not, is that correct?

17 A Only when you look at the capacity components. In
18 total you have to include the fuel component. When you look
19 at the fuel and the capacity, you will see that they
20 actually will pay less, because the savings in the fuel is
21 greater than the increase in the capacity.

22 Q I'm not certain, you will have to help me with
23 this. Do these exhibits demonstrate the fuel part of that?

24 A No, they do not. That is only the capacity side.
25 We haven't gotten to the fuel yet.

1 Q Well, then, I think perhaps we need something
2 more?

3 A Yes.

4 Q You have -- what do you have there?

5 (Witness hands document to Ms. Brown.)

6 MS. BROWN: This is a summary of 1993 fuel costs,
7 with and without the TECO contract. Why don't we just
8 make this Exhibit 1 to Mr. Southwick's deposition.

9 (Deposition Exhibit 1 marked for identification.)

10 THE WITNESS: This exhibit is based on the same
11 case that the earlier exhibits from Mr. Nixon were
12 based on. This is the fuel side of the same scenario.
13 That is the capacity side, too, and you can see that
14 fuel savings for the retail class in that particular
15 case is a little over \$2 million, compared to the
16 increase in capacity charges, I don't even remember the
17 last number, it's on that exhibit of Mr. Nixon's.

18 MS. BROWN: Why don't we go off the record just a
19 minute.

20 (Off the record briefly).

21 BY MS. BROWN:

22 Q Mr. Southwick, we started talking about that
23 exhibit a little bit. I want to go back now and just go
24 through the TECO contract generally. And then we will go
25 back to that exhibit at the end and try to work through that

1 some.

2 Would you just briefly summarize the terms and
3 conditions of the TECO contract that Florida Power
4 Corporation would assume if the sale is approved?

5 A The contract is a full requirements contract.
6 That means that TECO will sell to Sebring all of their net
7 energy for load for the 20-year life of the contract, which
8 approximately two years is already over, so it's 18 years to
9 go. It's a FERC-approved tariff, full requirements, as I
10 said. The rates are based on Tampa's average embedded
11 capacity cost. The fuel would be Tampa's average fuel cost.
12 And it would change periodically when they had a hearing at
13 FERC. There was a five-year frozen period where TECO agreed
14 to freeze the rate for five years. After that, it would be
15 as any other wholesale tariff; it could be changed with FERC
16 approval. That is basically it.

17 Q And it is designed only to serve the Sebring load,
18 is that correct?

19 A It's a filed tariff at FERC. It's my
20 understanding that the tariff was based on their knowledge
21 of the Sebring load. But I don't know, to answer your
22 question, if it could be used by TECO with somebody else or
23 not. I don't know. You are talking about --

24 Q Well, how --

25 A -- the TECO/Sebring rates? Maybe I'm confused.

1 Q The contract itself, how --

2 A Well, the contract is between Sebring and Tampa.
3 That applies only to Sebring or whoever buys Sebring.

4 Q Power Corp proposes to assume that contract,
5 correct?

6 A Yes.

7 Q And how is Power Corp then going to use the
8 capacity that it purchases from TECO under that contract?

9 A If the contract stays unchanged, we would take
10 power from Tampa that would equal the Sebring area's load.

11 Q Okay.

12 A And that power would come into our system and be
13 used by our customers.

14 Q Okay. But it would be tied to the Sebring load?

15 A Yes, that is the way the contract is set up, and
16 that is the way it will have to stay. And, again, unless we
17 change it, which we may or may not, but right now we are
18 assuming the contract stands as it is.

19 Q Well, we will get back to potential changes in a
20 minute. Let me ask you a couple of other questions about
21 it. Now, correct me if I'm wrong. This is a very general
22 question I'm going to ask you now. Is the underlying
23 premise behind the structure of Power Corp's purchase of the
24 Sebring system that Sebring customers will pay for the
25 financing of the transaction and that Florida Power

1 Corporation's current ratepayers will be held harmless?

2 A In a very general sense. No, the words,
3 "financing of the transaction," I don't --

4 Q Well --

5 A I don't think that fits.

6 Q Okay. Let's rephrase it. Is it the premise
7 behind this transaction that Sebring customers will pay for
8 the costs associated with the transaction rather than Power
9 Corp's current ratepayers?

10 A I still don't like the way that that's -- that is
11 not the way I would describe it.

12 Q Well, you do not intend, do you, to impose the
13 cost of this transaction upon your current ratepayers?

14 A No.

15 Q Okay. You intend to keep them whole the way they
16 are now, correct? And any specific costs that are
17 associated with the transaction will be imposed upon the
18 customers who are creating those costs, the Sebring
19 customers?

20 A I still don't think that is the right way to think
21 of it. That is not the way I think of it.

22 Q Well, how do you think of it?

23 A Sebring is, we keep coming back to the words like
24 "unusual," "different," in that they have a quantity of debt
25 that they owe that's larger than the real value of their

1 system. What we propose to pay them and assume and absorb
2 into Florida Power, both short and long-term, is the real
3 value of the system, not this component of debt they have
4 above that value. Let's say that they didn't have this debt
5 out there. Let's say they had virtually no debt at all, but
6 they still wanted to sell their system to us. We would then
7 look at the system. It would be a little different approach
8 maybe, but the result would be we would come up with a fair
9 value of the system, which in this case is looking like it's
10 the 17.8 as of closing, plus the identified going concern
11 value, the Tampa contract, what other things we would
12 assume. We would pay that for the system, rate base the
13 items, expense the items. It would go into our general body
14 of rates and the Sebring customers would pay exactly the
15 same as all the other customers, and there would be no
16 difference. So, that piece of the deal is still true. We
17 want to pull that piece out and say, "What is the real value
18 of Sebring?" And that piece we'll pay, and we will rate
19 base it, and we will roll it into our system. And as you
20 said earlier, we will mesh the cost. We will probably never
21 know five years from now exactly what Sebring cost compared
22 to Avon Park. It will all be tied together. So, that piece
23 is the one piece of it as I see it. The uniqueness in
24 Sebring comes along in that that doesn't give them enough
25 money to do what they have to do. So, after we do all of

1 that, they came up short. And as they said in their RFP,
2 and they have said repeatedly, "We need to go ahead and pay
3 off all this other debt that we owe." So, to handle that,
4 that is the piece we say is unique to Sebring, and the
5 Sebring customers should have to pay for, that piece above
6 the real value. And that is the piece that we are going to
7 put into this special area to be refunded by the rider. And
8 that will be the amount of that debt, however it works out
9 to be, plus our cost of financing that debt and the interest
10 on it. All the costs associated with that piece is the
11 unique piece that the Sebring people will pay that the other
12 people won't pay. And that is the way I think of it.

13 Q How unique is it, really, Mr. Southwick, for a
14 small electric utility to have some excess costs of debt or
15 other costs that they can't -- that become burdensome to
16 them? Can't you envision that this situation might arise
17 again, and that it is really not quite as unique as you
18 propose it to be?

19 A I think clearly it could arise again. But I don't
20 think it has arisen anywhere else so far that I am aware of.
21 So, I do think it is unique, yes. And, yes, it could happen
22 again.

23 Q Okay. We will go back to that a little bit more
24 later.

25 As I understand it, and as I think you mentioned a

1 little bit earlier, Power Corp and Tampa Electric Company
2 are presently discussing the possibility of a renegotiation
3 of this power sales agreement, is that correct?

4 A You said presently discussing the possibility?

5 Q Uh-huh.

6 A That's true, yes.

7 Q In fact, are you renegotiating the terms of this
8 power sales agreement presently?

9 A We are talking about it, yes.

10 That may not be clear. We haven't committed to
11 change it, nor have they. We have committed to sit down and
12 explore ways that we might could change it that we would
13 agree would be beneficial, so we are doing that. If we
14 can't find such a way, then it will stay as it is.

15 Q I assume from your answer that you haven't reached
16 any agreement on any ways to improve it or change it at the
17 moment?

18 A Not yet.

19 Q If TECO has already separated the plant associated
20 with the sale from its jurisdictional rate base, what
21 incentive does TECO have to change the terms and prices of
22 the contract in a manner that would be more favorable to
23 Power Corp?

24 A Only if it were at least equal or more favorable
25 to TECO, also.

1 Q If you all were to negotiate a change to the
2 contract, would the use characteristics change?

3 A Possibly.

4 Q Would they perhaps increase?

5 A It could go either way.

6 Q Why would it go either way?

7 A Well, for example, and it's only an example,
8 because we don't have an agreement for anything. But it's
9 desirable to Florida Power to have the maximum flexibility
10 in any contract, what we call dispatchability. We would
11 like for it to be dispatchable, and that would give us the
12 ability to truly optimize our fuel costs. And sometimes we
13 will take a lot, and sometimes we may not take as much. It
14 depends on what the alternatives are.

15 Q Okay. If the use characteristics were to change
16 so that the purchases that Power Corp made under the terms
17 of the contract were more than what Sebring originally
18 required, how would Florida Power Corp plan to justify these
19 additional power purchases?

20 A Our plan is that, as we have asked in the
21 petition, that this term is part of the overall package,
22 that we are asking for approval of the Tampa contract. And
23 since we only have the existing contract, we, obviously, are
24 asking for approval as it stands. Let's assume that by the
25 end of the hearing that that is still where we are at, and

1 we have no other contract, we will ask for approval of this
2 existing contract. If after that date, we, in fact, do
3 change it, our thinking is that when we come into our first
4 capacity cost recovery hearing, when we actually ask for
5 recovery of the costs, that we will have to demonstrate to
6 your satisfaction that the changes we made were prudent. We
7 do not want to have to go back and revisit the original
8 contract and the prudence of assuming that contract. That
9 is part of the Sebring package that we are proposing here.
10 When that is established, we want that to stand and not have
11 to go back to square zero and justify the contract as a
12 stand-alone. It's part of the package. But once that
13 existing contract is approved, any changes that we make, we
14 understand that we will have to show the changes and why
15 they were given.

16 Q Okay. Let me make sure I understand exactly the
17 process that you want the Commission to follow here. You
18 want the Commission to review the prudence, review and
19 approve the prudence of Power Corp's assumption of the TECO
20 contracts in this proceeding. And then in subsequent fuel
21 proceedings, you will propose recovery of the costs of the
22 contract for that period, correct? And you understand that
23 the Commission has continuing review over that piece in the
24 fuel proceedings, correct?

25 A Yes.

1 Q And you are not asking the Commission to, for all
2 times, approve recovery of any particular costs associated
3 with this contract on down the line in other fuel
4 proceedings, is that right? I mean, it is possible, is it
5 not, or wouldn't it be under the way the Commission
6 operates, for the Commission to refuse to approve a
7 particular cost associated with this contract if there was
8 something else that happened; if the contract weren't
9 managed properly or -- and you are not asking for approval
10 for all times for all capacities?

11 A No, that is correct. We are not.

12 Q Okay. All right.

13 A We recognize that we are still liable. We still
14 have able be to show that we acted properly. We
15 administered the contract correctly. We didn't do anything
16 stupid, things of that nature. The burden is always on us,
17 and this would be no different. We just don't want to go
18 back and, say, three years from now, we don't like -- you
19 shouldn't have done this, that is a bad thing, and throw it
20 out, and all of a sudden we are stuck. That is what we
21 don't want.

22 MR. FAMA: Martha, can I add in the legal sort of
23 twist on this, that we think that in this case -- of
24 course, if we enter into a new contract, and we can get
25 it in front of the Commission in time, then these

1 problems go away; you will look at that contract and
2 not the old one. But if we stick with the contract we
3 have, and you approve it, the prudence of it, in our
4 minds, you have approved a need for that power; you
5 have approved that cost. And then if we change it, and
6 we come into a capacity cost recovery proceeding, we
7 will have the burden, not of demonstrating the need all
8 over again, but we will have the burden of
9 demonstrating that the cost in the renegotiated
10 contract is equal to or less than the cost in the
11 original contract. Okay? And we would like your order
12 in this case to say that that's what our burden will be
13 in the future if we renegotiate and come in, because we
14 are proceeding on a renegotiation track right now. But
15 we can live with the contract the way it is, but, I
16 think, there is a fairly decent chance we will come in
17 with a new one.

18 THE WITNESS: And it's not inconceivable we could
19 go with the existing contract and two years from now
20 wind up changing it.

21 BY MS. BROWN:

22 Q So, this is somewhat similar to a petition for
23 approval of a cogeneration contract, a negotiated
24 cogeneration?

25 A Yes, we think it is.

1 Q Okay. That is the position that you are taking?

2 A Yes.

3 Q If you are asking to recover the difference in
4 costs between the power sales agreement and the retail cost
5 of production, does this mean that there is an incremental
6 cost to assuming the power sales agreement?

7 A There is an incremental capacity cost, yes, which
8 is what the earlier exhibits demonstrate.

9 Q And those exhibits demonstrate, then, that Power
10 Corp's current ratepayers will pay additional costs
11 associated with the TECO contract?

12 A Only on the capacity side, they also demonstrate
13 that on the fuel side there is a savings which is larger
14 than the increase on the capacity side.

15 Q Right. If Power Corp were not to assume this
16 power sales agreement, would it have enough capacity on its
17 system to serve the additional Sebring load?

18 A That is a difficult question to address right now,
19 but I will do the best I can. Number one, it's not an
20 option, because we are required as part of the overall
21 package to assume the contract. Number two, I guess we
22 could say right now we are between forecasts in our company,
23 as I think you all know. Our official forecast right now,
24 if I were to pull it out and lay it on the table, it would
25 demonstrate that, yes, we do need this capacity. Because

1 right now we are showing a short and long-term match between
2 load and capacity, and this is an additional block of load
3 that wasn't there before. So, it would have to be matched
4 by an additional block of capacity. But right now, for
5 whatever reason, the economy and everything else, I guess
6 our sales are down, and we are going through a period of low
7 sales. And if we were to add Sebring to our system
8 tomorrow, I don't think we need to add generation to match
9 it. How long could we go without having to catch back up, I
10 don't know. Eventually, obviously, if you add another block
11 of load growth into our forecast, we are going to have to
12 have another block of capacity to offset it. And we see
13 this playing that role. It's a good purchase. We think it
14 fits very nicely. So, I think the answer is: Would we need
15 it right now, no; would we need it eventually, yes.

16 Q Well, that would be the same with any other load
17 growth, correct? I mean, if you can -- I think we need to
18 look at it?

19 A Load growth above the norm, yes.

20 Q Now, the present agreement between TECO and
21 Sebring involves wheeling charges that Sebring pays to Power
22 Corp, is that correct?

23 A I'm not sure technically who pays who.
24 Ultimately, the Sebring payers pay it and Power Corp
25 collects it. But I'm not sure that they don't pay it to

1 TECO. I'm not sure exactly how that works.

2 Q What sort of revenues that Power Corp receives
3 from the wheeling charges are there -- I mean, how much are
4 they, do you know?

5 A That is included in the exhibits that we handed
6 out earlier here this morning, the one from Mr. Nixon that
7 has those figures on it.

8 Q For 1993?

9 A For 1993. I don't have it in my head, but it's on
10 that exhibit. And the calculations on that exhibit, when we
11 went back and modified the earlier sheets that only had a
12 production capacity change, we went back and included a
13 transmission capacity change. In the process of doing that,
14 we recognized the ending of the wheeling revenues and that
15 is adjusted into those numbers, which should take care of
16 that issue.

17 Q Where do those wheeling revenues go now that Power
18 Corp receives? How are they treated?

19 A They go back as a credit to the general body of
20 ratepayers.

21 Q Were they included in the last rate case?

22 A Yes, I'm advised.

23 Q With Power Corp's assumption of the agreement with
24 TECO, Sebring won't be required to pay wheeling charges any
25 more, correct?

1 A Well, there would be no Sebring.

2 Q Right. So, doesn't this mean that Sebring's
3 customers are, would realize a benefit from the assumption
4 of the TECO/Sebring agreement because they would no longer
5 have to pay the costs of wheeling?

6 A I think you could look at it that way, yes.

7 Q Let's go back to the negotiations that are going
8 on with TECO at present. Describe for me again the kinds of
9 changes that you are looking at to make the contract more
10 appropriate for the changed situation?

11 A Okay. Again, let me say, I hate to talk too much
12 about what we are talking about with Tampa, because that is
13 an ongoing discussion. But I can give you examples of the
14 kinds of things that we have talked about. They may or may
15 not turn out to be good; we don't know yet.

16 Q Uh-huh.

17 A But, number one, the existing contract is
18 described as a full requirements contract. Tampa will not
19 be providing Florida Power's full requirements. It will
20 only be a partial piece of Florida Power's requirements.
21 That is probably a technicality, I'm advised. Our initial
22 reaction is we can't do that. It's not going to be a full
23 requirements, but we have been advised, well, that is okay.
24 It will still work, although it's a little sloppy. We may
25 want to clean that up. If we get a chance, we will. That

1 may be a technicality. We would like to see if we can make
2 it work, and into the metering of the demands in Sebring,
3 which will have to continue if we keep that contract in
4 place exactly as it is. We could do that. It has been done
5 ever since time began, but we would rather not do that. We
6 would like to end that, the metering of the Sebring load
7 area. It's just one more thing we have to do. If we can
8 avoid it, we could save costs, and that would make it better
9 for us. So, that's something else we would like to see
10 done. There are several ways we can go about doing that.
11 If we can make one of them work, that would be good. On the
12 economic side, we have looked at taking more power. If we
13 can make that work to our advantage and to Tampa's advantage
14 to sell more power, we are exploring that alternative. We
15 have explored changing the load shape, because under the
16 contract its dictated to be the same as Sebring's actual
17 load, and maybe there is advantages in making more power or
18 less power. I mean, it can go either way, depending on how
19 these variables play together. So, those are the kind of
20 things we are looking at.

21 Q Anything else?

22 A Nothing comes to mind. It's a related issue; it's
23 not part of the contract, but we have discussed with them
24 our purchase of the transmission system that Tampa bought
25 from Sebring. It's not a part of the contract. That was a

1 transaction that they did at a later date. But Tampa owns
2 the 69 KV system within Sebring. And we have discussed the
3 possibility of buying that 69 system from Tampa, which is
4 not actually part of the contract, but it's a related type
5 venture. Our reason to want to do that is it would give us
6 a lot of operating flexibility, and we believe service
7 reliability would ensue. We will have to see.

8 Q Okay. Now, back to your exhibit summary of 1992
9 fuel costs with and without the TECO contract.

10 A Uh-huh.

11 Q What don't you describe this for us a little bit,
12 what each of these lines mean and what you have attempted to
13 show here?

14 A Okay. The top line is Florida Power's 1993 load,
15 as our official company forecast, with the Sebring load
16 that's forecasted by RMI added to the Florida Power load.

17 Q And served by your own generation?

18 A And served by our own generation and other
19 available power sources that we have. And when you do that
20 the total generation cost, as you see there, is 617 million.

21 Q And that is a projected number, right?

22 A That is a projected number, 1993, based on our
23 official, what we call our official, which we published with
24 you all, the sales forecast and our official fuel forecast,
25 what the fuel costs are going to be.

1 Q Okay. And then the next --

2 A The next line is the exact same load model, with
3 the same Florida Power resources available to serve it plus
4 the addition of the Tampa/Sebring contract as it now exists,
5 modeled just like it exists now.

6 Q Okay.

7 A So, the Tampa contract served the equivalent of
8 the Sebring load addition, demand and energy.

9 Q Okay. And it's \$2 million less because of the
10 fuel savings, is that correct?

11 A Well, the fuel and purchased power that was
12 displaced by the TECO purchase resulted in the \$2 million
13 sales.

14 Q Okay. Mr. Southwick, Staff has a request for a
15 fairly extensive late-filed exhibit to go with this Exhibit
16 1.

17 MR. FAMA: Martha, can I suggest we go over it off
18 the record, and then when we agree to what it is, read
19 it in?

20 MS. BROWN: Sure.

21 (Off the record briefly.)

22 BY MS. BROWN:

23 Q Mr. Southwick, we would like to have a late-filed
24 deposition exhibit, I guess we would make that Exhibit 2,
25 that supports your Exhibit 1. And we want included in that

1 exhibit a load forecast using both scenarios as demonstrated
2 in Exhibit 1, with the TECO contract and without the TECO
3 contract. We want you to identify the generation by plant
4 for both of those scenarios, with and without Sebring, the
5 fuel forecast used for both scenarios, and how the usage
6 assumed for Sebring compares to the requirements of the
7 Sebring contract, that is the purchases compared to the
8 sales. And as I understand the discussion that you just had
9 with Mr. Ballinger, you are going to give that to us as it
10 relates to this Exhibit 1, and then give us another exhibit
11 that takes those forecasts and projections out five years.
12 Is that understood?

13 A Yes.

14 Q Okay. And we will call that backup to Exhibit 1.
15 (Late-Filed Deposition Exhibit No. 2 identified.)

16 BY MS. BROWN:

17 Q On Page 11 of your testimony you state that the
18 proposed Sebring transaction will eliminate Sebring's
19 financial crisis by retiring the outstanding debt. How will
20 this benefit Sebring's customers if they will still be
21 paying the debt through the Sebring rider?

22 A Sebring customers are going to receive a
23 significant rate reduction as a result of this transaction
24 from where they are today. And it will be an even more
25 significant rate reduction than what their rate will have to

1 be if they don't succeed with the settlement. I believe
2 Ms. Holloway or one of the Sebring witnesses has testified
3 to those numbers.

4 Q Sebring's customers will still be paying, if not
5 the highest states in the state, among the highest rates in
6 the state, won't they?

7 A Yes, I believe they will be among the highest.

8 Q Now, back to load management just for a minute. I
9 think on Page 14 of your testimony you talk about the \$17
10 per month that Sebring customers could save from load
11 management. Isn't this overstating the benefit to Sebring
12 customers quite a bit? Correct me if I'm wrong, but my
13 understanding is that the \$17 a month is the maximum benefit
14 that the perfect load management customer could receive, is
15 that correct?

16 A Yes, and that is why I wrote the words, "will
17 receive rates up to \$17 a month, depending on energy use."

18 Q I think we talked about studies you have done. Do
19 you have any projections of how many perfect load management
20 customers there are in Sebring, or how much Sebring
21 customers really will benefit from this load management
22 program?

23 MR. FAMA: Can we have a second, Martha?

24 MS. BROWN: Sure.

25 (Off the record briefly.)

1 MS. BROWN: Okay.

2 THE WITNESS: I do not have a direct answer to the
3 question. I do have some statistics that may help you
4 understand the situation a little bit, or it may not.
5 I don't know, but let's try. Number one, the average
6 Sebring customer uses 667 kilowatt hours a month.
7 Within our Ridge Division, what we call our Ridge
8 Division, which starts in Haines City and goes south
9 through Lake Placid, which includes the Sebring area,
10 our average residential consumption is 882 kilowatt
11 hours a month, significantly higher. The saturation of
12 load management in our Lake Placid district, which is
13 immediately south of Sebring, and our Avon Park, which
14 is immediately north, both of those in Highlands
15 County. All three of those are in Highlands County.
16 The average saturation in those two districts is 40
17 percent. The average credit that they are receiving in
18 Lake Placid is \$9.27 a month. And in Avon Park it is
19 \$8.80 a month. Now, that's further, in my mind,
20 complicated by the fact that that's the average that we
21 are paying, the \$9.27. That doesn't mean that all of
22 those customers signed up for the maximum amount. You
23 have three levels you can choose from. So, to get the
24 maximum, you have to sign up for the maximum amount and
25 then consume -- 1100 a month?

1 MR. FAMA: A little over 1,000.

2 THE WITNESS: A little over 1,000 a month to get
3 up to the \$17. So, this is just the way it fell out.
4 That may help give you some insight.

5 BY MS. BROWN:

6 Q Okay. Just a few little cleanup questions here,
7 and then I think we are almost done. Page 18, Line 13, you
8 say that Florida Power's opinion is that the allocation of
9 the purchase price to tangible assets based on net book
10 value provides the greatest assurance of timely regulatory
11 approval, based on past practices and statements of the
12 Commission. What are you referring to there?

13 A That is an opinion based on what I've heard and
14 understand to be true, and having read several of these
15 former orders and spent a little time looking at that, and
16 trying to understand what we thought would be acceptable to
17 the Commission, and that was our conclusion.

18 MS. BROWN: Okay. So, we have really already
19 talked about this a little bit.

20 That is all I have. Thanks.

21 Anybody else?

22 All right. We have to set a date for the
23 late-filed exhibits. How long do you all need for
24 that?

25 (Off the record briefly).

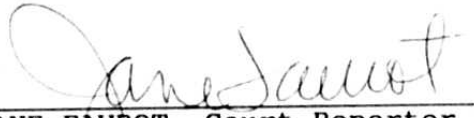
1 MS. BROWN: We have established November 30th as
2 the date for the late-filed. Okay. Thanks very much.

3 (The deposition concluded at 11:20 a.m.)
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1 CERTIFICATE OF REPORTER

2 STATE OF FLORIDA)

3 COUNTY OF LEON)

4 I, JANE FAUROT, Court Reporter, Notary Public in
5 and for the State of Florida at Large:6 DO HEREBY CERTIFY that the foregoing proceedings
7 was taken before me at the time and place therein
8 designated; that before testimony was taken the
9 witness/witnesses were duly sworn; that my shorthand notes
10 were thereafter reduced to typewriting; and the foregoing
11 pages numbered 1 through 44 are a true and correct record of
12 the proceedings.13 I FURTHER CERTIFY that I am not a relative,
14 employee, attorney or counsel of any of the parties, nor
15 relative or employee of such attorney or counsel, or
16 financially interested in the foregoing action.17 WITNESS MY HAND AND SEAL this 16th day of
18 November, 1992, in the City of Tallahassee, County of Leon,
19 State of Florida.20
21 
22 JANE FAUROT, Court Reporter
23 Notary Public in and for the
24 State of Florida at Large

25 My Commission Expires: July 16, 1993