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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 930885-EU

PREPARED REBUTTAL TESTIMONY
AND EXHIBIT OF

G. EDISON HOLLAND, JR

DECEMBER 20, 1996



DOCUMENT RECEIVED DATE
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1 GULF POWER COMPANY

2 Before the Florida Public Service Commission
3 Rebuttal Testimony of
4 G. Edison Holland, Jr.
5 Docket No. 930885-EU
6 Date of Filing: December 20, 1996

7 Q. What is your name and affiliation?

8 A. I am Ed Holland of Gulf Power Company.

9 Q. Are you the same Ed Holland that prepared direct
10 testimony in this docket?

11 A. Yes, I am.

12
13 Q. What is the purpose of your rebuttal testimony?

14 A. The purpose of my testimony is to respond to the
15 testimony of the Commission Staff Witness, Mr. Todd
16 Bohrmann and the Gulf Coast Electric Cooperative (GCEC)
17 witness, Mr. Stephen Daniel.

18
19 Q. Do you have any exhibits to which you will refer during
20 the course of your rebuttal testimony?

21 A. Yes. I have one composite exhibit which is marked
22 GEH-6.

23 Counsel: We ask that Mr. Holland's
24 exhibit, GEH-6, be marked for
25 identification as Exhibit ____.

1 Q. What are your concerns with the testimony of
2 Mr. Bohrmann?

3 A. Mr. Bohrmann has improperly characterized Gulf Power's
4 policy towards territorial issues. In addition, he has
5 proposed a method for dealing with territorial issues
6 that is inconsistent with the Commission's past
7 practice.

8

9 Q. How has Mr. Bohrmann improperly characterized Gulf
10 Power's attitude towards territorial issues?

11 A. On Page 6 of his direct testimony, he cites statistics
12 about the number of disputes between Gulf Power and
13 GCEC, and then cites statistics about the number of
14 disputes Gulf Power has been involved in compared to the
15 other three large investor-owned utilities in the State.
16 He makes a clear implication that Gulf Power has a
17 predisposition towards disputes. That is plainly not
18 the case.

19 Of the 11 disputes to which Mr. Bohrmann makes
20 reference in his testimony (page 6, line 8), all of
21 those occurred with rural electric cooperatives who have
22 full requirements purchase obligations with Alabama
23 Electric Cooperative (AEC), a foreign corporation not
24 under the jurisdiction of this Commission. As a
25 generation and transmission cooperative serving

1 distribution cooperatives in Alabama and Florida, AEC
2 portrays its wholesale service area as the "51st state",
3 graphically illustrating AEC's territorial mindset.
4 This is shown by a promotional brochure which is my
5 exhibit GEH-6. Interestingly enough, nine of those 11
6 disputes occurred between 1981 and 1988, when the
7 cooperatives, including GCEC, systematically terminated
8 their various wholesale power delivery points from Gulf
9 Power in favor of taking wholesale power from AEC. A
10 more studied and objective consideration reveals that if
11 any utility has had a predisposition for disputes it has
12 been those that have made 30-year full requirements
13 commitments to AEC.

14 Of the 11 disputes with all four of the electric
15 cooperatives in Northwest Florida in the 22 years that
16 the Commission has had jurisdiction over territorial
17 disputes, there were eight in which Gulf Power either
18 prevailed before the Commission or the complaint was
19 voluntarily abandoned by the cooperative. This record,
20 in and of itself, clearly demonstrates the validity and
21 appropriateness of Gulf Power's actions. In spite of
22 this, Mr. Bohrmann has apparently allowed the raw number
23 of disputes to persuade him to succumb to GCEC's desire
24 for "lines on the ground."

25 Gulf Power borders other utilities, such as Florida

1 Public Utilities-Marianna Division, City of Blountstown,
2 and Florida Power Corporation, and has never had a
3 territorial dispute with these other utilities. This is
4 true notwithstanding the fact that there are no
5 established territorial boundaries or "lines on the
6 ground" between Gulf Power and these other neighboring
7 utilities. This is further evidence that the existing
8 mechanisms described by Mr. Weintritt in his direct
9 testimony works well to avoid the further uneconomic
10 duplication of facilities.

11

12 Q. How is Mr. Bohrmann's proposal for territorial
13 boundaries inconsistent with the Commission's past
14 practices in resolving territorial disputes?

15 A. Territorial disputes between electric providers in
16 Florida have previously been resolved in one of two
17 ways. First, the parties have come to agreement as to
18 which entity should serve a customer or group of
19 customers, and have submitted their agreement to the
20 Commission for approval. Secondly, the parties have
21 submitted their dispute to the Commission for decision
22 as to which entity should serve the disputed customer or
23 group of customers. The Commission has never actually
24 drawn arbitrary lines on the ground between two
25 utilities without the agreement of the affected

1 utilities. The Commission has wisely declined to
2 exercise its jurisdiction over territorial matters when
3 there is only an indication of a "potential" dispute.
4 Mere allegations that a controversy is imminent are not
5 sufficient. Instead, the Commission has historically
6 limited itself to "actual and real" controversies. In
7 Order No. 15348, issued November 12, 1985, in Docket
8 No. 850132-EU, the Commission granted Gulf Power
9 Company's Motion to Dismiss Chelco's amended petition
10 with prejudice. That order states:

11 "Chelco also alleges that a territorial dispute
12 between the two utilities now exists, and that a
13 Commission determination of boundary lines is
14 necessary under Subsection 366.04(2)(e), Florida
15 Statutes. According to the amended petition, no
16 controversy over customers or territory has yet
17 occurred, but Chelco believes that such controversy
18 is "imminent." However, Subsection 366.04(2)(e),
19 Florida Statutes, speaks in terms of an existing
20 territorial dispute, and unless and until an actual
21 and real controversy arises, no statutory basis for
22 interceding in a potential dispute exists."

23 Although Section 366.04(2)(e) was amended by the
24 legislature in 1989 to clarify that the Commission could
25 resolve a territorial dispute on its own motion (in

1 addition to acting on the petition of a utility), this
2 amendment did not change the statute to abolish the
3 requirement that an actual and real controversy exist.
4

5 Q. These areas which Mr. Bohrmann has identified as areas
6 of potential dispute are those in which he deems the
7 distribution lines of each utility to be in close
8 proximity. Do you agree with the premise that such
9 areas warrant preemptive action by the Commission?

10 A. Absolutely not. There is apparently an assumption on
11 the part of Mr. Bohrmann that the construction of the
12 lines which are in close proximity occurred as a result
13 of uneconomic duplication of facilities. In the vast
14 majority of instances, this is simply not the case. For
15 example, in many instances the lines came to be within
16 close proximity as the result of the natural growth of
17 both parties' distribution systems. In other instances,
18 one or both parties constructed distribution facilities
19 from one load center to another. As the load grew
20 between these two points of service, it was economical
21 for either party to provide electric service to these
22 customers. Under this scenario, customer choice is the
23 appropriate determining factor. The point is that
24 uneconomic duplication has rarely, if ever, occurred in
25 those areas where the lines are in close proximity and

1 that the service to new customers in those areas will
2 not result in the "further uneconomic duplication of
3 facilities."

4
5 Q. What concerns do you have with Mr. Bohrmann's specific
6 proposal for territorial boundaries?

7 A. As stated in my direct testimony, Gulf Power has serious
8 concerns with any territorial arrangement, such as
9 specific geographical delineations, which preclude a
10 customer from receiving reliable, economical power from
11 a utility that could provide that service without the
12 further uneconomic duplication of electric facilities.
13 Not only does Mr. Bohrmann propose specific geographical
14 delineations, i.e. "lines on the ground", he
15 specifically calls for them in areas where Gulf Power's
16 and GCEC's "distribution lines are in close proximity of
17 each other, commingled or both" (page 9, lines 1-2). He
18 cites one example in which the lines of the two
19 utilities are less than 100 feet apart (page 7, line 4).
20 As I stated earlier, a basic flaw in Mr. Bohrmann's
21 premise is that when facilities are in such close
22 proximity, it is nearly impossible for uneconomic
23 duplication to occur in the future. When distribution
24 facilities are already within 100 feet of each other, a
25 customer located anywhere between the two could be

1 served by either utility without any significant
2 incremental duplication of the other's facilities, much
3 less any uneconomic duplication.
4

5 Q. Mr. Bohrmann also assumes that the drawing of lines will
6 result in the forced transfer of customers. What is
7 Gulf Power's position in this regard?

8 A. This Commission has historically rendered a finding of
9 uneconomic duplication on the basis of a difference in
10 the incremental capital investment of each utility to
11 serve a new customer. In the case of existing
12 customers, there is no incremental capital investment
13 associated with continuing to serve them. In fact, a
14 capital expenditure will likely be incurred to remove
15 facilities if customers are transferred from one utility
16 to another as seems to be Mr. Bohrmann's intent. It
17 does not make economic sense to have Gulf Power spend
18 additional capital funds to remove facilities so that
19 customers who were once served by us can now have the
20 displeasure of paying higher rates for less reliable
21 electric service. I suspect the customers affected in
22 this manner will not feel that their best interests are
23 being served in any form or fashion.

24 If the Commission wishes to see some transfer of
25 customers in cases where boundary lines are prescribed

1 over Gulf Power's objections, then the customers who end
2 up on the "other" side of the line should be given a
3 one-time choice of remaining with their historical
4 utility or transferring over to the new utility. In
5 areas where facilities are in close proximity or
6 commingled, true economics and customer interest might
7 best be served by polling all customers in the
8 particular area to determine if there is a clear
9 preference by a preponderance of customers in that
10 general area for one utility or the other and allowing a
11 one-time transfer of all customers in that area.

12 Although Mr. Bohrmann implies that the Commission
13 has historically given little weight to customer
14 preference (page 8, lines 18-20), the Commission has
15 always yielded to customer preference when there were no
16 other controlling factors. Even Mr. Bohrmann himself
17 alludes to this past practice (page 8, lines 15-17).
18 Moreover, the Supreme Court gave great weight to
19 customer preference in the dispute over the prison which
20 gave rise to this proceeding. It is difficult to see
21 how the Court could sanction the forced transfer of
22 customers against their wishes in situations where the
23 differential in cost to serve is far less than that
24 found in the case of service to the prison. In fact, as
25 I stated earlier, the forced transfer could result in

1 increased capital costs to serve both existing and new
2 customers in these areas.

3

4 Q. How does Mr. Bohrmann respond to the several proposals
5 for resolution of disputes made by you and the other
6 Gulf Power witnesses?

7 A. He does not. With all of the apparent pitfalls
8 associated with the drawing of lines, serious
9 consideration should be given to Gulf Power's proposals.
10 This is especially the case given current trends in the
11 electric utility industry toward customer choice and the
12 Commission's recent support for Alternative Dispute
13 Resolution (See, Final Report of the Alternative
14 Dispute Resolution Task Force, November 25, 1996.) The
15 Commission recently received the final report from the
16 task force that it charged with studying the
17 implementation of alternative dispute resolution ("ADR")
18 procedures and policy at the Commission. The task force
19 recommended that the Commission encourage ADR whenever
20 possible and that it adopt policies and procedures to
21 further that objective [page 1 of the Final Report of
22 the Alternative Dispute Resolution Task Force]. Most of
23 the alternatives put forth by Gulf Power incorporate
24 some type of ADR concept. Gulf Power would certainly be
25 amenable to exploring the application of the Task

1 Force's ADR proposal to territorial disputes. As the
2 Final Report indicates, ADR can take many forms, up to
3 and including binding arbitration. Application of ADR
4 is certainly preferable from the customer's standpoint
5 to the drawing of arbitrary lines on the ground.
6 Moreover, if one of the Commission's goals in this
7 proceeding is administrative efficiency, application of
8 ADR to disputes would certainly achieve this goal. If
9 only one dispute has been before the Commission in the
10 last 11 years, it is unlikely that any would ever make
11 it to the Commission with the use of the ADR process.

12
13 Q. Moving now to the direct testimony of Mr. Stephen Page
14 Daniel, does he advocate a reasonable solution to this
15 matter?

16 A. No. Mr. Daniel's only solution to this matter is the
17 setting of fixed geographical territorial boundaries.
18 He has failed to point out any other solution such as
19 those presented in the testimony of Gulf Power's
20 witnesses. The solution offered by Mr. Daniel does not
21 prevent the further uneconomic duplication of electric
22 facilities, nor does it permit natural, economic growth
23 of electric facilities for either of the involved
24 utilities. The solutions proposed by Gulf Power permit
25 the aforementioned goals and promote the Commission's

1 policy favoring alternative dispute resolution. Like
2 the proposed policies and procedures of the Commission's
3 task force, the solutions offered by Gulf Power require
4 the parties (here Gulf Power and GCEC) to meet and to
5 discuss the potential dispute in an effort to find a
6 resolution of the matter short of actual litigation.
7 Such a meeting would take place early in the case of a
8 dispute, before facilities have been constructed. This
9 would have a two-fold benefit in that the utilities
10 would be able to resolve potential disputes without
11 Commission involvement of time and resources and would
12 prevent the further uneconomic duplication of
13 facilities.

14
15 Q. Do you agree with Mr. Daniel's apparent general concern
16 for reducing a utility's cost to serve customers?

17 A. Yes. Throughout his testimony Mr. Daniel implies an
18 apparent concern for controlling cost. Gulf Power
19 certainly has such a concern. However, Mr. Daniel also
20 claims throughout his testimony that the lack of
21 exclusive territorial service rights increases costs,
22 yet he provides no hard data to support that assertion.

23 If GCEC is concerned that Gulf Power's serving of
24 electric customers near GCEC's lines adversely affects
25 their cost structure, there is a solution that would

1 provide all of their customers in the area addressed by
2 this docket with lower electricity costs. That would be
3 for GCEC to pursue with Gulf Power the possibility of
4 assigning all service rights in this area to Gulf Power
5 with GCEC selling its distribution facilities in the
6 area to Gulf Power. In fact, in the only previous
7 circumstance where the Commission directed two utilities
8 to resolve a territorial dispute cited by Staff Witness
9 Bohrmann, the essence of the Commission approved
10 resolution involved the transfer of electric facilities
11 from Okefenokee REMC to Jacksonville Electric Authority.
12

13 Q. Has GCEC ever approached Gulf Power about this
14 possibility?

15 A. No. Although many of GCEC's customers have approached
16 Gulf Power about this over the years, GCEC's official
17 representatives have not done so.
18

19 Q. Does Gulf Power have any data to indicate the amount
20 that GCEC's current customers could save by effecting
21 such a transaction?

22 A. No, we do not. We feel that it would be premature to
23 perform such an analysis prior to GCEC showing a true
24 concern for area integrity, economic considerations, and
25 customer satisfaction by asking us to consider such a

1 proposal.

2

3 Q. Would Gulf Power be willing to consider such a proposal?

4 A. Yes, we would. In doing so we would desire this
5 Commission's oversight of such a transaction and the
6 support of a majority of GCEC's customers who would be
7 affected by such a transaction.

8

9 Q. Does this conclude your pre-filed rebuttal testimony?

10 A. Yes, it does.

11

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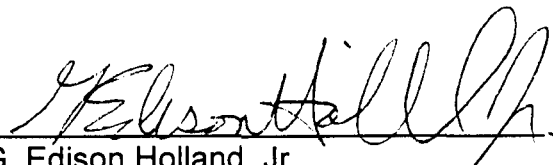
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AFFIDAVIT

STATE OF FLORIDA)
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COUNTY OF ESCAMBIA)

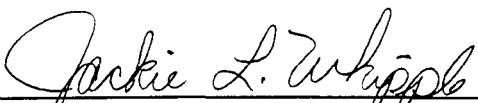
Docket No. 930885-EU

Before me the undersigned authority, personally appeared G. Edison Holland, Jr. who being first duly sworn, deposes, and says that he is the Vice President -- Power Generation/Transmission and Corporate Counsel for Gulf Power Company, a Maine corporation, that the foregoing is true and correct to the best of his knowledge, information, and belief. He is personally known to me.

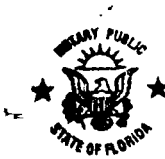


G. Edison Holland, Jr.
Vice President -- Power Generation/
Transmission and Corporate Counsel

Sworn to and subscribed before me this 18th day of December,
1996.



Notary Public, State of Florida at Large

 JACKIE L WHIPPLE
My Commission CC310237
Expires Aug. 23, 1997
Bonded by HAI
800-422-1555



**WELCOME
TO THE
51st STATE**

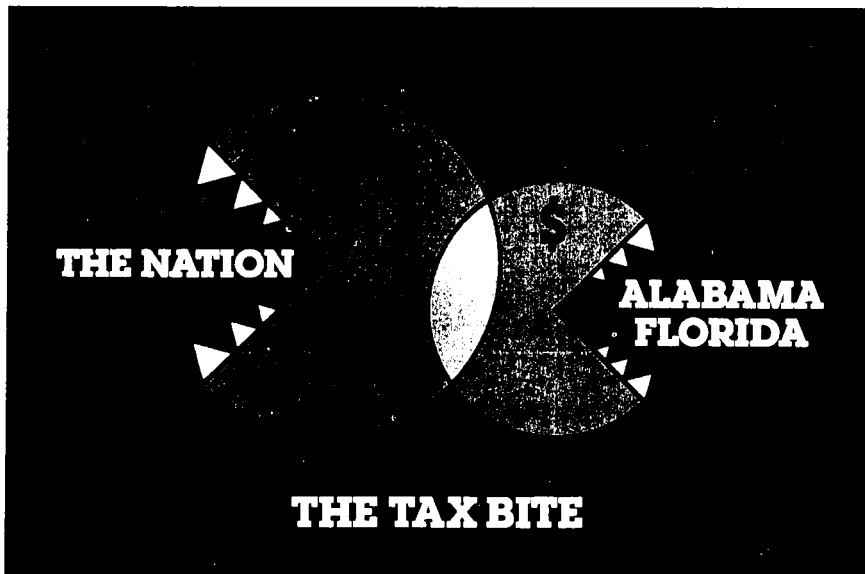
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Advantageous wages and "right to work" laws make labor an important consideration.

When it comes time to hire your labor force, you'll be very pleased you chose the 51st state

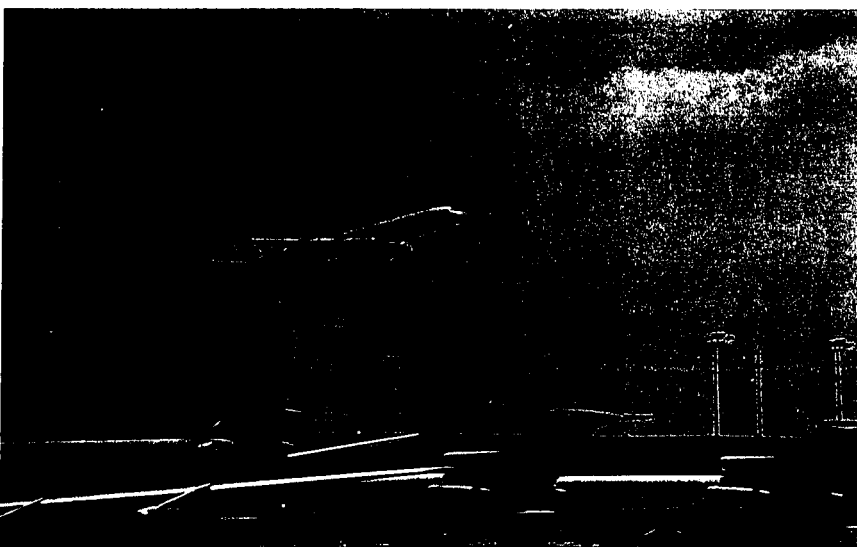
In labor, Alabama and Florida share several attractive benefits. Here, you'll find an abundance of highly productive, loyal, and trainable labor. The average annual wages are about \$2,000 per year below the national average. And, both states have "right to work" laws, thus helping to achieve a harmonious working environment.



Alabama and Florida have some of the most advantageous personal and corporate tax rates in the United States.

The tax bite is so mild it won't raise a welt

Taxes in Alabama and Florida are among the lowest in the nation. For example, Florida's per capita state taxes are the 12th lowest in the nation, and there is no personal income tax. On the corporate side, Florida has one of the lowest income taxes in the country, providing exemptions on new manufacturing machinery and equipment as well as inventories and goods in-process or in-transit. For those interested in import/export activities, there is a Foreign Trade Zone. In Alabama — where the personal property taxes are the lowest in the nation — there are exemptions on a variety of ad valorem taxes granted new and/or expanding industries. This includes exemptions on goods in-process and in-transit.



Nine major jet airports serve the area, with no community more than two hours away.

It's easy to get products and people to key places fast and economically

Few regions in the nation offer the transportation alternatives you'll discover in Alabama and Florida. Nine major airports with more than 140 daily flights serve the area. No community is more than two hours away from one of these modern jet ports. Nine major railroads also serve the area, including most of the large industrial parks. There are also 12 ports and docks, including deep-water facilities. In addition, there are eight navigable waterways and 600 miles of interstate highways.



Auburn University,
one of the more than
90 higher education
institutions serving
the area.

Higher education is one of our higher priorities

There are more than 90 universities, colleges, junior colleges, and vocational/technical institutions serving residents of the 51st state. These include such respected institutions as the University of Alabama, Auburn University, Tuskegee Institute, University of South Alabama, Florida State University, University of West Florida, and Florida A&M. Most of the institutions have cooperative educational programs, giving students the opportunity to work in industry as they earn their degree. In addition to providing a highly skilled work force, these institutions have a variety of educational services and facilities available to business and industry.



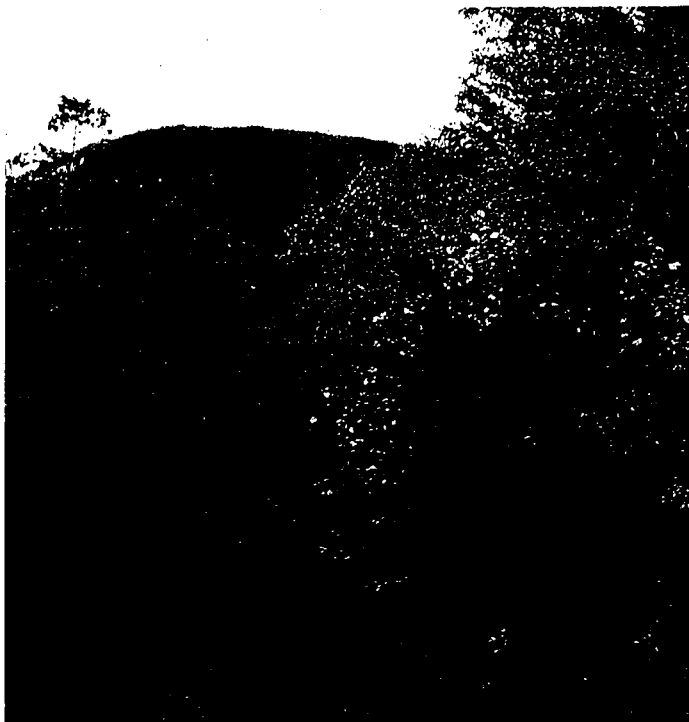
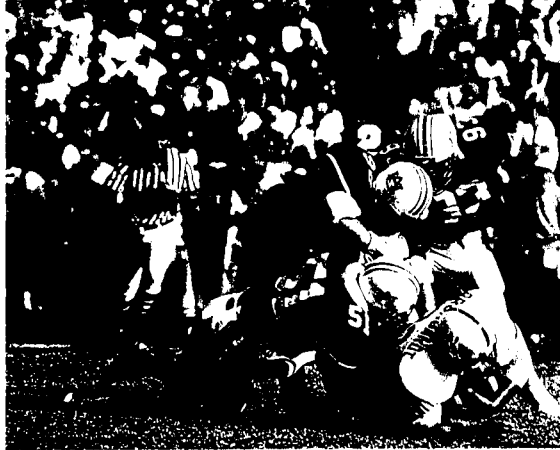
Water, electric power, and natural gas are just three of the plentiful resources.

There's also an abundance of electric power, water, natural gas, and other resources

Whereas many areas of the nation are experiencing energy shortages, the 51st state has an abundance. In Alabama, there is enough coal mined in the state to provide electric power for many years. Natural gas is also available in increasingly significant quantities from the fields of Alabama and the Florida Panhandle. The territory is also blessed with the rivers, lakes, and deep acquifers necessary to assure the availability of industrial and residential water for years to come. These resources — when combined with the region's renowned forests and important crude oil fields — add up to one conclusion: There is plenty of natural resources available at advantageous rates.

Here, there's no such thing as all work and no play

It would be difficult for you to locate in a region with a more pleasing lifestyle than you'll find in the 51st state. Here there is so much to choose from: The mountains of northern Alabama, the beaches of Florida; big city festivities in such nearby favorites as Atlanta, Birmingham, Mobile, Montgomery, Pensacola, and Tallahassee; college football and basketball at such top-ranked institutions as Alabama, Auburn, and FSU; duck, quail, and dove hunting so close by that your barrel will be warm when you get back home; bass, speckled trout, snapper, and sport fish. If you enjoy elbow room, a great climate, and an attractive cost of living, you're going to love the 51st state.



Whether it's the beaches of Florida, the mountains of Alabama, or a big Saturday at the stadium, the 51st state has plenty to offer to those who enjoy leisure activities.



Both Alabama and Florida have state-supported training and financing programs that will make it easier and less costly for you to get off to the right start.

Two more benefits that come with locating here: Assistance in training and financing

Two more benefits you'll enjoy when you select the 51st state are state-assisted training and financing. Both Alabama and Florida have industrial training programs to aid new or expanding firms. In Alabama, mobile training units are available to be moved to your site where customized training in skilled areas will be conducted at state expense. And when it comes time to finance your new or expanding operation, you'll find municipalities in both states eager to assist in providing tax-free revenue bonds. These tax-free funds may be used in financing land, buildings, and equipment as well as the development and financing costs of the project.



Alabama Electric Cooperative's Economic Development team stands ready to blaze the trail for you.

Let Alabama Electric Cooperative blaze the trail

Now that you are familiar with most of the 51st state's benefits, here's how you go about exploring the new frontier. Contact Alabama Electric Cooperative's Economic Development Department early in your site selection process, provide us with your parameters (in confidence, of course), and let us blaze the trail. Our scouts may be contacted at:



Alabama Electric Cooperative, Inc.
Economic Development Department
PO Box 550
Andalusia, Alabama 36420
(205) 222-2571