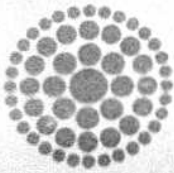


**ORIGINAL  
FILE COPY**



**Florida  
Power**  
CORPORATION

**James A. McGee**  
SENIOR COUNSEL

February 25, 1989

Mr. Steven C. Tribble  
Director of Records and Reporting  
Florida Public Service Commission  
101 East Gaines Street  
Tallahassee, FL 32399-0872

Re: Docket No. 870098-EI

Dear Mr. Tribble:

Enclosed for filing in the subject matter are fifteen (15) copies of the Direct Testimony of Elizabeth A. Czura, Thomas S. LaGuardia, and Kenneth E. McDonald.

Please acknowledge receipt and filing of the above by completing the form provided on the enclosed copy of this letter and returning same to this writer.

Very truly yours,

James A. McGee

- ACK
- AFA 3
- APP
- CAF
- CMU
- CTR orig
- EAG 2
- LEG 1
- LIN 6
- OPC
- RCH
- SEC 1 JAM/jw
- WAS  Enclosures
- OTH  cc: Parties of Record

*Czura - 02111-89*  
*LaGuardia - 02112-89*  
*McDonald - 02113-89*

RECEIVED & FILED

FPSC-BU DEPT. OF RECORDS

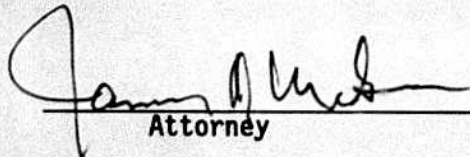
**CERTIFICATE OF SERVICE**  
Docket No. 870098-EI

I HEREBY CERTIFY that a copy of the Direct Testimony of Elizabeth A. Czura, Thomas S. LaGuardia, and Kenneth E. McDonald have been served by delivery or U.S. Mail this 27th day of February, 1989, to the following:

Matthew M. Childs, Esquire  
Steel, Hector & Davis  
301 West College Avenue  
Tallahassee, FL 32301-1406

Gail P. Fels, Esquire  
Assistant City Attorney  
Dade County Attorney's Office  
111 NW First Street, Suite 2810  
Miami, FL 33128-1993

M. Robert Christ, Esquire  
Florida Public Service Commission  
101 East Gaines Street  
Fletcher Building - Room 226  
Tallahassee, FL 32399-0863

  
\_\_\_\_\_  
Attorney

FLORIDA POWER CORPORATION

**ORIGINAL  
FILE COPY**

DOCKET NO. 870098-EI

**PREPARED DIRECT TESTIMONY OF  
KENNETH E. MCDONALD**

1 Q. Please state your name and business address.

2 A. My name is Kenneth E. McDonald. My business address is  
3 P. O. Box 14042, St. Petersburg, Florida 33733.

4 Q. By whom are you employed and in what capacity?

5 A. I am employed by Florida Power Corporation (FPC) as its  
6 Treasurer.

7 Q. What are the duties and responsibilities of your position  
8 with the FPC?

9 A. I am primarily responsible for planning the short and long  
10 term financial needs of the Company, establishing and  
11 administering banking and commercial paper lines of credit,  
12 administering various financing agreements, directing the  
13 preparation of financial information and reports, and  
14 maintaining custody of Company funds. In addition, I am  
15 responsible for directing the functions of the Cash  
16 Management Department and the Remittance Processing



1 Department. The Cash Management Department is responsible  
2 for the day-to-day management of all Company bank accounts  
3 and cash funds, including short-term borrowing and  
4 investments, and the payment of dividends and interest,  
5 and the disbursement of all Company operating payments.  
6 The Remittance Processing Department is responsible for the  
7 accounting and processing of customer payments and the  
8 preparation of the related daily bank deposits.

9 Q. What are your duties and responsibilities with regard to  
10 the nuclear decommissioning fund?

11 A. I am the secretary of FPC's Nuclear Decommissioning Trust  
12 Fund Investment Committee. As the secretary of the  
13 investment committee, I act as administrator conducting the  
14 day-to-day administrative duties of the investment  
15 committee. This includes overseeing the activities of the  
16 trustee, the investment manager, the investment performance  
17 evaluation consultant, and the verification and  
18 reconciliation of the trustee's monthly statements to the  
19 fund manager's monthly statements, and to the Company's  
20 books.

21

22 Q. Would you briefly describe your educational background and  
23 professional experience?

24 A. I have a Bachelor of Arts Degree with a major in accounting  
25 from the University of South Florida, and a Master of

1 Business Administration Degree from the Florida Institute  
2 of Technology. I am a Certified Public Accountant in the  
3 state of Florida. I have been the Treasurer of FPC since  
4 August, 1985. Previously, I was the Director of Investor  
5 Relations for Florida Progress Corporation for three  
6 years. Prior to that, I held various financial and  
7 accounting positions with FPC over an eleven year period.  
8 Before joining FPC, I was with Arthur Young and Company,  
9 Certified Public Accountants for two years.

10 Q. What is the purpose of your testimony ?

11 A. The purpose of my testimony is to describe the Company's  
12 present nuclear decommissioning trust fund management  
13 organizational structure, and the investment and funding  
14 concepts relating to the nuclear decommissioning fund.

15 Q. What type of fund has FPC established to provide for the  
16 future costs of nuclear decommissioning?

17 A. FPC has a segregated fund that uses an external funding  
18 method. External funding is a method by which funds  
19 collected are placed in a trust, outside the direct control  
20 of the Company, to be used for the contemplated  
21 decommissioning of a nuclear plant. This means that the  
22 monies collected from the ratepayers for decommissioning of  
23 the nuclear plant are set aside in a separate fund as they  
24 are collected by FPC.

1 Q. What is the present management organizational structure  
2 that oversees the nuclear decommissioning fund?

3 A. FPC has established a Nuclear Decommissioning Trust Fund  
4 Investment Committee made up of four members from the  
5 Company, and one member from Florida Progress Corporation,  
6 the parent company. This committee is the governing board  
7 with overall management responsibility for the trust. The  
8 investment committee appointed Southeast Bank, N.A.  
9 (Southeast) to act as trustee for the fund. As trustee,  
10 Southeast keeps detailed accounts of all investment  
11 receipts, disbursements, and other transactions; provides  
12 monthly reports setting forth all investment receipts,  
13 disbursements and other transactions during the month which  
14 contain exact descriptions of all securities purchased or  
15 sold, and the cost or net proceeds of sale and showing all  
16 cash, securities, and other investments held at the end of  
17 such month, and the cost and fair value of each item  
18 thereof. Southeast also performs the custodial function of  
19 safekeeping all securities in the trust, including the  
20 registration of the securities, the collection of the  
21 interest and dividends, the deposit or reinvestment of  
22 funds, proper settlement of purchases and sales of  
23 securities and, in general, performs all other fiduciary  
24 responsibilities normally associated with being a trustee.



1           The investment committee has appointed Progress Investment  
2           Management, Inc. as investment manager for the fund. The  
3           investment manager makes the day-to-day investment  
4           decisions regarding the fund, subject to investment  
5           guidelines established by the investment committee.

6           In addition, the investment committee has retained Callan  
7           Associates Inc., (Callan) an independent investment  
8           consultant, to provide on-going quarterly evaluations of  
9           the investment manager's performance.

10    Q.       What considerations led to the establishment of a  
11           segregated decommissioning fund using the external funding  
12           method?

13    A.       Financial assurance was regarded as the most important  
14           consideration in determining to establish a segregated fund  
15           using the external method. This funding method provides  
16           the greatest assurance that monies collected from the  
17           ratepayers over the life of the nuclear plant will be  
18           available in the required amount at the time of  
19           decommissioning. The funds and the earnings they accrue  
20           are held in strict trust and are available for disbursement  
21           only for decommissioning purposes.

22           Additional considerations for establishing a segregated  
23           fund and using the external method were the guidelines

1 established by the Federal Energy Regulatory Commission  
2 (FERC), and the requirements of the Nuclear Regulatory  
3 Commission (NRC).

4 On December 19, 1986, FERC released guidelines for nuclear  
5 plant decommissioning funds in its Docket No. EP82-616-029.  
6 Among other things, these guidelines directed the use of an  
7 independent trustee and the limitation of investments to  
8 those allowed by Internal Revenue Service regulations. In  
9 addition, the guidelines stated that "utilities should try  
10 to minimize its taxes by taking advantage of the Tax Reform  
11 Act of 1984."

12 The NRC, acting under its statutory mandate to protect the  
13 radiological health and safety of the public in carrying  
14 out its licensing responsibilities for nuclear power  
15 plants, has determined that public health and safety can  
16 best be protected by requiring electric utility licensees  
17 to provide "financial assurance" that at the time of  
18 termination of operation, adequate funds for  
19 decommissioning will be available. On June 27, 1988 the  
20 NRC issued its final rules (10 CFR Part 50) eliminating the  
21 internal method of funding and requiring that, if periodic  
22 deposits are to be made, financial assurance be provided by  
23 an "external sinking fund." A fund established and  
24 maintained by setting funds aside periodically in an



1 account segregated from a utility's assets and outside its  
2 "administrative control" is consistent with the NRC's  
3 financial assurance standards.

4 Q. What are the fees associated with FPC's nuclear  
5 decommissioning trust fund?

6 A. FPC pays the following annual fees: Trustee fees of 2/100  
7 of 1% of the market value of the trust fund, Investment  
8 Manager fees of 29/100 of 1% of the market value of the  
9 trust fund, and Investment Performance Evaluation  
10 Consulting fees of \$5,750 for quarterly performance  
11 evaluations. In 1988, FPC's trustee fees totaled \$4,115,  
12 and its investment manager fees totaled \$78,480.

13 Callan reviewed the trustee and investment manager fees for  
14 FPC and concluded that they were reasonable. Callan  
15 reported that within the last year, two surveys had been  
16 conducted on the topic of investment manager fees. The  
17 March 7, 1988 issue of Pensions and Investment Age reported  
18 the results of a survey of banks, insurance companies, and  
19 independent investment advisors which showed the median  
20 annual fee for a fixed income manager with a fund about the  
21 size of FPC's nuclear decommissioning trust fund was 34/100  
22 of 1% of the market value of the fund. Callan further  
23 reported that it had conducted a similar survey in  
24 November, 1988 which showed the median fixed income manager

1 annual fee for a fund the size of FPC's nuclear  
2 decommissioning trust fund was 41/100 of 1% of the market  
3 value of the trust fund. Callan also reported that the  
4 average annual fee for trustee bank services was between  
5 10/100 and 15/100 of 1% of the market value of the trust  
6 fund.

7 Q. What investment strategy does FPC consider to be  
8 appropriate for its nuclear decommissioning trust fund?

9 A. FPC believes that nuclear decommissioning trust fund  
10 investment strategy should be conservative, with an  
11 emphasis on the return of principle over the return on  
12 principle. Based on this criteria, the current strategy  
13 established by the Company's investment committee is to  
14 comply with the investment guidelines of a qualified trust  
15 fund under section 468A of the Internal Revenue Code.

16 Q. What earnings rate does FPC expect on the decommissioning  
17 trust fund under its investment strategy?

18 A. The decommissioning trust fund should be expected to  
19 maintain the purchasing power of the contributed funds.  
20 Therefore, the after-tax rate of return should be equal to  
21 or greater than the rate of inflation.

22 Q. How often does FPC make contributions to the  
23 decommissioning trust fund?

1 A. Since revenues for decommissioning purposes are received  
2 from customers on a monthly basis, the logical timing for  
3 contributions to the decommissioning trust fund is also  
4 monthly. Contributions made more often than once a month  
5 would be too difficult to account for properly, and  
6 contributions made less frequently would not provide the  
7 new funds with the full benefits of investment management.

8 Q. What was the reason FPC qualified the decommissioning fund  
9 under Section 468A of the Internal Revenue Code for the tax  
10 years 1984 through 1987?

11 A. By qualifying the fund under Section 468A, the Company was  
12 able to claim a \$10.2 million income tax refund for the  
13 benefit of the fund.

14 Q. Does FPC consider it appropriate to continue qualifying the  
15 decommissioning trust fund under Section 468A  
16 prospectively?

17 A. Yes. The prospective advantages of a qualified plan  
18 include the protection of principle due to low risk  
19 investment restrictions under Section 468A and the  
20 safeguarding of intergenerational equity by avoiding the  
21 potential of either current or future customers paying a  
22 disproportionate share of total decommissioning costs,  
23 depending on whether the tax rate is higher or lower at the  
24 time of decommissioning. In addition, the current



1           deduction allowed for contributions to a qualified fund  
2           enables the Company to be certain that the deduction will  
3           actually result in a tax benefit. This would not be the  
4           case with a non-qualified fund if, at the time of  
5           decommissioning, the Company's earnings were insufficient  
6           to fully utilize the deduction for decommissioning costs.

7    Q.       Does that conclude your testimony?

8    A.       Yes.