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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In The Matter of	:	DOCKET NO. 891345-EI
	:	
Application of GULF POWER	:	<u>HEARING</u>
COMPANY for an increase in rates	:	<u>SECOND DAY</u>
and charges.	:	<u>ATERNON SESSION</u>

VOLUME - IV

Pages 428 through 641

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Florida Public Service Commission

FPSC Hearing Room 106
Fletcher Building
101 E. Gaines Street
Tallahassee, Florida 32399

Tuesday, June 12, 1990

Met pursuant to adjournment at 9:00 a.m.

BEFORE: COMMISSIONER MICHAEL McK. WILSON, CHAIRMAN
COMMISSIONER GERALD L. GUNTER
COMMISSIONER THOMAS M. BEARD
COMMISSIONER BETTY EASLEY

APPEARANCES:

(As heretofore noted.)

REPORTED BY: JOY KELLY, CSR, RPR
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I N D E X

WITNESSES

Name: Page No.

ARLAN SCARBROUGH

Continued Cross Examination by Ms. Rule 431

Further Cross Examination by Ms. Rule 572

Redirect Examination by Mr. Holland 597

1 Index Continued:

2

EXHIBITS

3

Number:

Identified

Admitted

4

559 (Late-Filed) Scarbrough

448

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560 (Late-Filed) Scarbrough

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1 that, yes, if we're not in for a rate case.

2 Q In light of the fact that it's been so long
3 since your last rate case, would it be unreasonable to
4 amortize this rate case expense over a three-year period?

5 A I don't think it would be unreasonable, no.

6 Q Mr. Scarbrough, I'd like to ask you some
7 questions about production-related A&G expenses.

8 A Okay.

9 Q Do you recall why the Commission disallowed
10 \$1,467,000 in A&G production-related in Gulf's last
11 rate case?

12 MR. HOLLAND: What Issue No.?

13 MS. RULE: That would be Issue No. 69.

14 A What they did, and I'll -- it's about this
15 figure. The biggest bulk of that \$1,469,000 had to do
16 with the A&G expenses for Plant Daniel. The previous
17 rate case, the base year or the calculation of the
18 benchmark, was 1979. And calculating the benchmark
19 from 1979, using 1979 as a base year coming up to 1984,
20 which was a test year in our last case, the
21 Commission's apparent policy was -- and, of course,
22 this was the first time we had had to calculate the
23 benchmark at that particular time -- was that any
24 expenses in connection with a new generating plant, you
25 get to get that in the next rate case after the plant

1 comes into service. And then, from that time forward,
2 you escalate that by inflation only. Anything other
3 than production-related expenses, you escalate from the
4 base year by inflation and customer growth only.

5 What Gulf Power Company did is, since there
6 were obviously in 1979, there were no Daniel A&G
7 expenses, we had zero, of course, in that base year.
8 '81 is when the unit came on line.

9 So rather than us, as we should have, taking
10 all those A&G expenses and taking those in 1984, then
11 taking the other Daniel expenses and escalating them
12 from 1979 by customer growth inflation, we simply took
13 1979, escalated that by customer growth and inflation,
14 and used as a justification the A&G expenses of about
15 \$1,400,000 at Plant Daniel.

16 The Commission looked at that and said, "Hey,
17 you're supposed to get that when that plant comes on,
18 so apparently you're double counting it. You've
19 already counted it once, and now you're trying to count
20 it again, trying to use it as a justification. So
21 you're double counting it."

22 When in fact, we hadn't double counted it
23 because we had not taken it into calculating, the
24 benchmark in accordance with the Commission's intent
25 originally. So basically what happens is the bulk of

1 that \$1,400,000 -- all but maybe \$100,000 of it was
2 there because of an error, a lack of communication
3 between Gulf and the Commission.

4 But it was never the intent, the Commission
5 never found that to either be imprudent or unreasonable
6 or anything like that. They simply said we double
7 counted it, which, in fact, we did not.

8 Q Did Gulf move for reconsideration of that
9 order or appeal it?

10 A To my knowledge, I don't think we did.

11 Q So then you're telling me the adjustment was
12 primary related to the way A&G expenses were presented?

13 A In the calculation of the benchmark, clearly.
14 We obviously presented it different than the Commission
15 intended us, intended to. The Commission assumed that
16 we had done that, said we double counted when we in
17 fact had not double counted. And, of course, obviously
18 the amount that was not approved was about a million --
19 nearly \$1,400,000 in A&G expenses because it was a
20 double count, and there obviously was not a double
21 count.

22 Q So production-related A&G should have been
23 separated out from "other"?

24 A That's exactly right. And that's what we've
25 done in this filing, and we also adjusted the base by

1 that amount that we should have taken care of in the
2 last case.

3 Q And production-related should have been
4 escalated by a CPA factor only, is that correct,
5 according to the Commission last decision?

6 A That's right. It should be escalated from
7 the base year by customer inflation only.

8 Q But others should have been escalated by CPI
9 and customer growth?

10 A That's correct.

11 Q How have you presented the A&G expenses in
12 this filing?

13 A As they relate to -- well, as they relate,
14 period. We have taken the, what we -- we separated
15 them, because we hopefully learned our lesson the last
16 time on how to do the benchmark in that regard.

17 We took the production-related A&G expenses,
18 which were made up of the, obviously, the A&G expenses
19 that we get billed by Mississippi or Plant Daniel and
20 the A&G expenses that we get billed by Georgia Power
21 Company for our ownership in Plant Scherer

22 In addition to that, we took the property
23 insurance that relates to both of these plants, and we
24 also took the pensions and benefits of Gulf Power
25 Company and allocated that for our plants, the same as

1 we did the property insurance. And we added those
2 together and we got production-
3 related expenses. That's how we've handled these in
4 this case. And we also adjusted the base and escalated
5 the base amount as I've described before, just by
6 inflation only.

7 Q After restating the '84 A&G production
8 related and including \$263,000 for Plant Scherer A&G,
9 was the resulting benchmark variance a negative
10 \$799,000?

11 A Just a moment. Let me verify that. (Pause)

12 Yes, it was a negative -- the
13 production-related A&G expenses that I've just
14 described was the negative variance of \$790,000, for
15 1990, as filed in that case.

16 Q Are 1990 budgeted expenses based on 1989
17 expense levels?

18 A Not necessarily so. They can -- the previous
19 year obviously can have some impact on it, but you just
20 can't make that as a generalization, a general
21 statement.

22 Q In this area, are they related -- are they
23 based on 1989 expense levels?

24 A The A&G that's related to Plant Daniel and to
25 Plant Scherer was based upon Mississippi Power

1 Company's estimate of the A&G billings to Gulf for
2 Plant Daniel and Georgia Power Company's billing to
3 Gulf for Plant Scherer. And then the pension and
4 benefits costs and the property insurance were based on
5 Gulf's estimates of those. And so I'm sure to some
6 extent the 1989 expenses were some basis for some of
7 the 1990 expenses, but that would not be the case --
8 well, you would just have to go back and get all the
9 working payments and go through. I just can't make a
10 general statement about that.

11 Q In your testimony you state that A&G billing
12 to Gulf by Mississippi Power are audited by SCSs
13 internal auditors. Does SCS also audit A&G billings
14 from Georgia related to Scherer?

15 A Yes.

16 Q How often are the audits performed?

17 A Annually.

18 Q In the 1989 Audit, it was found that Gulf was
19 overbilled \$13,586 by Georgia Power for Plant Scherer.
20 Was there any 1989 overbilling found for Plant Daniel?

21 A Just a moment. (Pause)

22 Marsha, would you please repeat the question,
23 please?

24 Q We were discussing audits.

25 A Right.

1 Q And the question -- well, the statement was
2 that some overbilling in the amount of \$13,586, I
3 believe it was, was found with regard to Georgia
4 Power's billings for Plant Scherer expenses, and I was
5 -- just --

6 A In what year was that, 1989?

7 Q '89. And I was wondering whether there was
8 any similar overbilling done found for Plant Daniel.

9 A For 1989. There were no overbillings
10 discovered. There were some underbilling discovered
11 for Plant Daniel.

12 Q Mr. Scarbrough, has the Company increased
13 property damage, or injuries and damages accrual, since
14 the last rate case?

15 A No.

16 Q I believe the C Schedules of the MFRs, Page
17 94 --

18 A Marsha, wait just a second.

19 Q Certainly. (Pause)

20 A Go ahead. We overaccrued one year and then
21 adjusted it the next year. So my answer was correct.

22 Q On Page 94 of the MFR C Schedules, there is a
23 note indicating that the desired balance for the
24 property damage reserves should be maintained between 5
25 and \$9 million. In the event that the property damage

1 reserve reaches the upper limits, what would Gulf do?

2 Would it change the accrual?

3 A If it got up to \$10 million, I would assume
4 what we would do is come in and petition, you know, the
5 Commission under their -- that we reduce the accrual or
6 cease the accrual for some period of time, or something
7 of that nature. I can't tell you exactly what would
8 happen, but I don't think -- we certainly would
9 continue making that accrual once it got up an amount
10 in excess of what we think is reasonable.

11 Q When is the last time that Gulf has had
12 significant charges against the property damage
13 reserve?

14 A In 1985 we had charged the property reserve,
15 the last largest amount, \$3,871,239. That's the year
16 we had three reasonably small hurricanes.

17 Q Has Gulf ever carried a negative balance in
18 this account?

19 A After Hurricane Frederick, we had, for a
20 period of time, a negative balance, and that was --
21 Frederick was 1979.

22 Q On Page 90 --

23 A My --

24 Q Is that the only time of which you're aware?

25 A That's correct, but I just might point out

1 is, you know, we didn't get a direct hit by Frederick,
2 either, and what I'm saying is that if Hugo hits
3 Pensacola, this reserve is not adequate, I can tell you
4 that.

5 Q On Page 95 of the MFR B Schedules, there's a
6 note indicating that the desired balance for injuries
7 and damages should be from 2 to \$4 million. How is the
8 desired balance determined?

9 A What we have done is look at our recent
10 experience, the size of the claims, the deductibles in
11 our insurance policies, and assumed that we ought to
12 have enough in there to cover -- because we've got a
13 million dollar deductible -- to cover from two to four
14 cases where we lose and have to pay the million dollars
15 deductible.

16 COMMISSIONER GUNTER: Can I ask a question
17 about that?

18 Where you have a deductible, the first
19 million, what's the upper limit on that? Have you got
20 an upper limit?

21 WITNESS SCARBROUGH: You mean is there a
22 maximum cap on what they would pay?

23 COMMISSIONER GUNTER: Yeah. If you had a
24 judgment against you for 50 million, you'd pay a
25 million and they'd pay 49?

1 WITNESS SCARBROUGH: I'm not too sure exactly
2 what it is. I know that they won't pay punitive
3 damages. As far as what the absolute limit is, I'm not
4 too sure if there is one. Somebody may. Hold it just
5 a minute. Let's see if we've got it here, just a
6 second. (Pause).

7 COMMISSIONER GUNTER: Or put a reasonable
8 figure, say 10 million, and they don't pay the punitive
9 side, but they pay the actual?

10 WITNESS SCARBROUGH: Right. (Pause) We've
11 got it here, Commissioner Gunter, if we can just find
12 it.

13 COMMISSIONER GUNTER: That's all right.
14 Let's don't hold up.

15 WITNESS SCARBROUGH: We'll find it and come
16 back and give it to you later.

17 COMMISSIONER GUNTER: All right.

18 MS. RULE: Do you have another question,
19 Commissioner?

20 COMMISSIONER GUNTER: No.

21 Q (By Ms. Rule) I assume, Mr. Scarbrough, if
22 the upper limit of the injuries and damages reserve was
23 reached, Gulf's action would be the same as you said
24 before with the other reserve, you'd come back and
25 petition for a change?

1 A Yes.

2 Q In your last rate case, \$1.8 million was
3 included in working capital for injuries and damages,
4 and you now show a \$1.3 million projected balance at
5 the end of 1990. Could you tell me how the projected
6 balance was determined?

7 A That is a budgeted item. I can't tell you
8 exactly. Maybe you ought to question Richard McMillan
9 with that particular question.

10 Q Could you tell me what type of claims Gulf
11 has experienced recently which would cause a drop in
12 the balance in this reserve? (Pause)

13 A Okay. Starting in 1995, we had a -- let me
14 see if I can find a big -- there's a whole bunch of
15 claims here, Marsha, let me find it. Okay. On
16 4-15-85, there was a claim of \$49,619 when a Lamar
17 Advertising individual came in contact with a 7.2 kV
18 line.

19 There was also one in April of '85 for
20 \$21,956, had to do with a vehicle driven by a third
21 party ran a stop sign, if I can remember, striking a
22 vehicle. The stop sign was blocked by our line crew.

23 Then in 1985 a Gulf Power vehicle backed over
24 a young girl while she was riding her tricycle. That
25 was \$497,000.

1 In 1987, \$65,800 to a person who slipped and
2 tripped over an unused guidewire.

3 MR. HOLLAND: Mr. Scarbrough, just a minute.

4 Q (By Ms. Rule) It's not necessary to go into
5 all the details. I was looking for the type of claim.
6 Can you categorize them?

7 A Yes, everything is more, you know -- a lot
8 more litigation than there used to be is the only thing
9 I can tell you. We just have more claims and had to
10 pay out more, but I can reconcile it to the penny if
11 you want it.

12 Q Are there any major claims or just a series
13 of ones --

14 A I reckon the biggest one that I see so far
15 was the one that was about a half million dollars. We
16 had a vehicle back over the little girl.

17 Q That's fine, Mr. Scarbrough.

18 I'd like to turn now to pension expense for
19 1990. Did Gulf record pension expense under FASB 87
20 for the years 1987, 1988 and 1989?

21 A You want -- are you asking, "Did we calculate
22 it under FASB 87?"

23 Q Yes, sir?

24 A Yes.

25 Q And subject to check were the pension costs

1 for the years 1987 through 1989, 1.584 million for
2 1987, 1.385 million for 1988, and \$47,000 for 1989?

3 A Yes.

4 Q And in Gulf's budget for 1990 Gulf has
5 included zero pension expense, is that correct?

6 A That's correct, although we now have a
7 estimate that shows that to be \$199,000, but when we
8 did the filing it was zero and that's what we
9 requested.

10 Q When you filed your C schedule, C-66, there
11 was an estimate of pension costs of negative \$11,020
12 for 1990, is that correct?

13 A Let me look at something. (Pause)

14 Yes, 11,020 negative, that's right.

15 Q I'd like you to --

16 A Which I say have been changed. The latest
17 estimate of that is \$199,000.

18 Q Yes, sir. I'd like you to look at Exhibit
19 422, which should be in the exhibit packet in front of
20 you. A June 1, 1990, letter from Hewitt Associates to
21 Mr. Ronnie Labrado. (Pause)

22 A Okay.

23 Q The letter requests that Jackie Collins
24 requested certain information. Who is Jackie Collins?

25 A Jackie Collins works for the Southern Company

1 Services in the Pension Department in Atlanta.

2 Q Do you know why the information was
3 requested?

4 A Because we asked him to get the information.

5 Q Gulf's position on Issue 75 regarding pension
6 expense states, "That as a result of the actuarial
7 report Gulf will actually expense \$156,252 in 1990."
8 To what actuarial report does the position refer?

9 A This one. That is, the expense -- some of it
10 is capitalized and charged to nonutility activities.

11 Q This exhibit does not contain a full
12 actuarial evaluation report, does it?

13 A No. No.

14 Q Could you tell me the percentage that will be
15 capitalized in your revised position?

16 A We can calculate it real quick. 18-3/4%.

17 Q Thank you. And finally, with regard to Issue
18 80, transmission rents, in your testimony you indicate
19 that you disagree with the Commissions action in Gulf's
20 rate case whereby the Commission reduced Gulf's
21 benchmark for transmission rentals because the base
22 year amount had been escalated by customer growth as
23 well as for inflation.

24 Was the 1984 disallowance of \$425,000 based
25 on figures provided by Gulf?

1 A Yes, they were. They were provided
2 inaccurately as far as the benchmark calculation was
3 concerned, and it was the same situation that we
4 discussed earlier about Plant Daniel.

5 We justified that with the transmission line
6 rental expenses for Plant Daniel, and here again the
7 Commission took the position that we had double counted
8 when we, in fact, had not, and we adjusted the base for
9 that, and then have since now escalated that by only
10 inflation.

11 Q Did Gulf move for reconsideration of the 1984
12 order or did Gulf appeal the decision?

13 A Not to my knowledge, Marsha, no. What we
14 were trying to do was just get the base right. I mean,
15 that's all we were trying to do.

16 MS. RULE: No further questions.

17 CHAIRMAN WILSON: Questions, Commissioners?

18 COMMISSIONER GUNTER: Do you want to go
19 first, Commissioner?

20 COMMISSIONER BEARD: Go ahead. I forgot
21 where I was.

22 COMMISSIONER GUNTER: Mr. Scarbrough, can you
23 tell me how many nonutility employees Gulf has today?
24 Or at the time of filing?

25 WITNESS SCARBROUGH: No, sir. I cannot. We

1 can get that for you, but I don't have that figure.

2 COMMISSIONER GUNTER: Would you get me the
3 number of nonutility employees for 1984 and then
4 nonutility employees for 1990?

5 WITNESS SCAPBROUGH: Yes. Let me ask
6 Commissioner Gunter a question about this. Of course,
7 we have many employees who have very small parts of
8 their time charged to nonutility. Do you want this on
9 full time equivalent basis, or do you want -- even if
10 they only get 1% of their time charged to it, would you
11 want how --

12 COMMISSIONER GUNTER: Well, help me for a
13 second. In 1984 you had 1,530 employees, which
14 included utility and nonutility. I need to know how
15 many nonutility people you had. And in 1990 you had
16 1,636. I need to know how many are utility and how
17 many are nonutility. You understand my concern?

18 WITNESS SCARBROUGH: I understand your
19 concern and I'm trying to -- how do I answer that
20 because the number is going to be a great deal, but yet
21 it may be, if we say this is -- unless you get on full
22 time equivalent you wouldn't really have the answer to
23 your question, I reckon is what I am saying. Because
24 so many of those employees, a small portion of their
25 time is charged to nonutility.

1 COMMISSIONER GUNTER: You do it the best way
2 you can.

3 WITNESS SCARBROUGH: All right, sir.

4 COMMISSIONER GUNTER: And we'll -- I'd
5 certainly like to have that information before the
6 conclusion of this proceeding.

7 WITNESS SCARBROUGH: Absolutely. We'll get
8 that for you.

9 COMMISSIONER GUNTER: Because it leads me
10 into another line of questioning once I have those
11 figures.

12 WITNESS SCARBROUGH: I understand.

13 MR. HOLLAND: Can we get a number for those?

14 COMMISSIONER GUNTER: Yeah, what's that
15 number?

16 CHAIRMAN WILSON: The next number would be
17 559.

18 (Late-Filed Exhibit No. 559 identified.)

19 COMMISSIONER GUNTER: I apologize for my
20 scurrying here. I didn't realize Staff was going to be
21 through so quick.

22 COMMISSIONER BEARD. In the meanwhile, while
23 your looking, let me ask a question here, I asked
24 yesterday of Mr. McCrary; appliance sales, those
25 expenses are below the line?

1 WITNESS SCARBROUGH: Yes.

2 COMMISSIONER BEARD: Is appliance sales a
3 profit center?

4 WITNESS SCARBROUGH: Yes.

5 COMMISSIONER BEARD: Does it make a profit?

6 WITNESS SCARBROUGH: Sometimes it does and
7 sometimes it doesn't.

8 COMMISSIONER BEARD: I refer back to the only
9 figures I just happen to have in front of me was in the
10 '82, '83, '84 time frame, and I calculated about
11 \$40,000 just real quick that was, "at dispute," is the
12 nicest way I can say it, in the Federal Grand Jury;
13 that you all accepted the figures, for whatever
14 purpose, and I'm not disputing them, and I'm just
15 curious, at least in those years was it a profit maker?

16 WITNESS SCARBROUGH: I can tell you here,
17 just a minute. We've got it.

18 COMMISSIONER BEARD: Okay. By year would
19 even be nice, if you had that. (Pause)

20 MR. HOLLAND: Commissioner Beard, in the
21 audit for the 1990 rate case, Audit Disclosure No. 56,
22 there is an accounting from '86 to '89.

23 COMMISSIONER BEARD: Where do I find that?

24 MR. HOLLAND: Audit No. 56. It's Exhibit
25 430. (Pause) If you've got Exhibit 299, our

1 response, the corrected numbers are in there.

2 WITNESS SCARBROUGH: Commissioner Beard, if
3 you'll give us some time, we've got this.

4 COMMISSIONER BEARD: Okay. Let's do it this
5 way, if you will: Give me '82 to '89 in gross revenues
6 from appliance sales, and a profit figure, if you will.

7 COMMISSIONER GUNTER: Is that after taxes?

8 COMMISSIONER BEARD: Yeah, profit; bottom
9 line profit. In other words, what's the incentive to
10 be in the business?

11 WITNESS SCARBROUGH: For plant sales?

12 COMMISSIONER BEARD: Yeah.

13 WITNESS SCARBROUGH: Okay.

14 COMMISSIONER BEARD: Now, I don't know that
15 it needs to be a late-filed. It can probably come in
16 sometime during the week, can't it?

17 CHAIRMAN WILSON: Or we can just wait and
18 give it a number when it comes back.

19 COMMISSIONER BEARD: Yeah. Now, where were
20 you talking about, Mr. Holland?

21 MR. HOLLAND: It's Audit Disclosure 56.

22 COMMISSIONER BEARD: I scanned those, and I
23 missed those somehow.

24 MR. HOLLAND: Exhibit 299.

25 COMMISSIONER BEARD: Okay. You may not have

1 to do that. If I'm seeing this subject nonutility
2 activities, comparable figures for appliance service
3 operations are as follows: '86 sales were 771,000, a
4 loss of 91,000; '87, 743,000, loss of 109,000; loss of
5 55; loss of 25.

6 WITNESS SCARBROUGH: What you were reading
7 were appliance service.

8 COMMISSIONER BEARD: That's true. As opposed
9 to sales, you're correct. In either case --

10 WITNESS SCARBROUGH: And I can give you the
11 thing for appliance sales. In 1986 the appliance sales
12 had \$8,229,335 in sales and 307,428 of profit before
13 income tax. In '87, \$8,587,503 in sales.

14 COMMISSIONER EASLEY: Could you please say
15 that number again?

16 COMMISSIONER EASLEY: Slow down. Say that
17 number again.

18 WITNESS SCARBROUGH: Do you have Audit
19 Disclosure No. 56 up there?

20 COMMISSIONER BEARD: I'm looking at it.

21 COMMISSIONER EASLEY: I'm not fishing, just
22 say the number one more time.

23 WITNESS SCARBROUGH: 8,587,503. And the
24 profit for '87 was 16,885.

25 COMMISSIONER BEARD: Million?

1 COMMISSIONER EASLEY: Not hardly.

2 COMMISSIONER BEARD: Instead of writing IT,
3 the disclosure, not the response but the disclosure --

4 COMMISSIONER BEARD: Audit disclosure No. 56,
5 Exhibit No. 299.

6 MR. HOLLAND: No. No, sir. I'm sorry, it's
7 out of the Staff's Audit, which is Exhibit 430.

8 COMMISSIONER BEARD: Sit tight. I'll find
9 430. I've got it. 430.

10 COMMISSIONER BEARD: Now where am I in 430?

11 MR. HOLLAND: 56. (Pause)

12 COMMISSIONER BEARD: Page what?

13 MR. HOLLAND: Page 92.

14 COMMISSIONER BEARD: That's 1989?

15 CHAIRMAN WILSON: What page is it?

16 MR. HOLLAND: '86 through '89.

17 COMMISSIONER BEARD: Okay. Not Page 92, it
18 is Page 95 on mine.

19 COMMISSIONER EASLEY: Typewritten 92, written
20 95.

21 COMMISSIONER BEARD: Okay. So you've got in
22 excess of \$8 million in sales in '86 and '87 (Pause).

23 Let me ask you this: You've got a hell of a
24 swing from '86 to '89. In '86, you're at a \$307,000
25 profit, to a \$245,000 loss, '86 to '89?

1 WITNESS SCARBROUGH: That's correct.

2 COMMISSIONER BEARD: Have you all speculated
3 on what caused that?

4 WITNESS SCARBROUGH: I would assume that
5 revenues are down and costs are up.

6 COMMISSIONER BEARD: Well, -- (Laughter)

7 WITNESS SCARBROUGH: I mean, any more than
8 that, I can't tell you.

9 I will tell you, Commissioner Beard, it puts
10 it in a little better perspective if you -- in the
11 audit disclosure that 307,428 without income tax, if
12 you include the income tax, the figure becomes 156,880.

13 COIMMISSIONER EASLEY: That's for '86?

14 WITNESS SCARBROUGH: Yes, ma'am. And in '87,
15 that 16,885 becomes 9,581 profit. And then it's
16 consistent with '88 and '89. That puts it in a little
17 better light.

18 MR. BURGESS: What was '86?

19 WITNESS SCARBROUGH: 156,880.

20 CHAIRMAN WILSON: That was profit?

21 WITNESS SCARBROUGH: Yes, after tax, bottom
22 line.

23 COMMISSIONER GUNTER: '89 was not a good year
24 for you all.

25 WITNESS SCARBROUGH: In several different

1 respects.

2 COMMISSIONER GUNTER: Well, you didn't lose
3 but about \$850,000, something like that.

4 COMMISSIONER EASLEY: Just for comparison for
5 '89, what would have been the figure prior to the
6 income tax benefit, so I can look at the '86 figure,
7 prior to the tax?

8 WITNESS SCARBROUGH: You mean you want the
9 loss before the tax impact, before we took the --

10 COMMISSIONER EASLEY: Right. (Pause)

11 I want to see what difference a million
12 dollars makes. (Pause)

13 It isn't that major, if you can't --

14 WITNESS SCARBROUGH: We can find it for you.
15 (Pause) We're just about to get it; I'm sorry.

16 COMMISSIONER EASLEY: Okay. I didn't realize
17 I was asking for something that difficult.

18 COMMISSIONER BEARD: Well, let me --

19 WITNESS SCARBROUGH: It's 514,455.

20 COMMISSIONER EASLEY: 514,455 loss. Right?
21 Thank you.

22 COMMISSIONER BEARD: That was in which year?

23 COMMISSIONER EASLEY: '89.

24 So the impact of a million dollars less in
25 sales is about \$345,000, somewhere along in there.

1 COMMISSIONER BEARD: What I guess I'm trying
2 to understand, and it may or may not be relevant, but
3 whenever I begin to look at what may or may not be
4 diversification issues, below-the-line issues, I always
5 get curious. If I take Audit Disclosure No. 56, which
6 is the Company comment, with Audit Disclosure 56 from
7 the Staff audit, and let's just take, for example,
8 1986, I've got a net, what did you tell me, 156 after
9 taxes?

10 WITNESS SCARBROUGH: Yes, 156,880.

11 COMMISSIONER BEARD: Okay. And I subtract
12 from that the -- I'm assuming the reason you're in
13 appliance services is because you're in appliance
14 sales, that's typically the way it is. I don't know
15 why you would stay in the loss business of appliance
16 services if it weren't for that.

17 But that means you're about \$50,000 in profit
18 that year. Then it goes to hell in a hand basket from
19 there. You're in about a \$100,000 loss combination '87
20 on. And around 1990 you all are thinking about looking
21 at whether you're going to stay in this business or
22 not?

23 WITNESS SCARBROUGH: We're not thinking about
24 it; we're looking at it very, very hard.

25 COMMISSIONER EASLEY: Okay.

1 CHAIRMAN WILSON: Are you not charging enough
2 for your appliances?

3 WITNESS SCARBROUGH: Some people say we're
4 charging too much. I mean, you have to meet the
5 competition.

6 CHAIRMAN WILSON: You bill those out on your
7 -- your people have an option if they purchase to allow
8 it to be billed out on their utility bill?

9 WITNESS SCARBROUGH: Yes.

10 CHAIRMAN WILSON: What kind of finance charge
11 does that carry?

12 WITNESS SCARBROUGH: I think it's 18%, I'm
13 pretty sure, on APR.

14 COMMISSIONER GUNTER: What sort of revenue
15 does the regulated utility receive for that billing
16 service? Billing and collection service, I suppose.
17 (Pause) Have you got a number? (Pause)

18 WITNESS SCARBROUGH: For 1989, it was
19 100,235.

20 COMMISSIONER GUNTER: Is that broken down
21 into --

22 WITNESS SCARBROUGH: Between salaries and
23 expenses.

24 COMMISSIONER GUNTER: -- billing and
25 collection?

1 WITNESS SCARBROUGH: Billing and accounting.

2 COMMISSIONER GUNTER: What?

3 WITNESS SCARBROUGH: Billing and accounting.

4 COMMISSIONER GUNTER: All right. Who is
5 responsible for those who don't pay; is that the
6 Utility? If they don't pay their total bill, if they
7 don't send you the bill in, does that work in --

8 WITNESS SCARBROUGH: You mean if we don't
9 collect?

10 COMMISSIONER GUNTER: Yes.

11 WITNESS SCARBROUGH: No. That's all charged
12 directly to the plant sales.

13 COMMISSIONER GUNTER: In other words, you
14 receive from -- that just covers actual expenses?

15 WITNESS SCARBROUGH: Yes.

16 COMMISSIONER GUNTER: And this will sort of
17 help, because we're going to plow some of this ground,
18 Mr. Scarbrough. Is that direct labor?

19 WITNESS SCARBROUGH: Yes.

20 COMMISSIONER GUNTER: All right. Is that
21 what I would call a fully-loaded hourly rate? Is that
22 salaries?

23 WITNESS SCARBROUGH: Yes. We've got
24 fringes, the whole shooting match.

25 COMMISSIONER GUNTER: Does it have all the

1 allocations?

2 WITNESS SCARBROUGH: To my knowledge. It is
3 intended to have, yes.

4 COMMISSIONER GUNTER: Well, could we have a
5 late-filed exhibit demonstrating the number of hours by
6 classification, their hourly rate, normal hourly cash
7 rate, and then your loading methodology, to make sure
8 there is no cross-subsidization?

9 WITNESS SCARBROUGH: Yes, sir.

10 COMMISSIONER GUNTER: That's the purpose of it.

11 WITNESS SCARBROUGH: I understand.

12 CHAIRMAN WILSON: Do you want to just name
13 and number it when it comes back?

14 COMMISSIONER GUNTER: Yeah. And we'll get
15 the number when that comes back. And I'm sure that,
16 you know, you've got somebody listening that is
17 already working on that.

18 Let me ask you a question about that. On
19 your appliance sales activity, is there any way that I
20 could tell, if I'm just standing on the street corner
21 and one of those white trucks with that little emblem
22 crosses by the way, that I could tell whether that was
23 appliance service or whether it was somebody on the way
24 to look at a transformer?

25 WITNESS SCARBROUGH: By looking at the

1 vehicle?

2 COMMISSIONER GUNTER: Yeah.

3 WITNESS SCARBROUGH: Probably not.

4 COMMISSIONER GUNTER: You're not getting any
5 royalty, or anything, on gross sales for the use of
6 that?

7 WITNESS SCARBROUGH: No.

8 COMMISSIONER GUNTER: So the public
9 perception is out there that that's just Gulf Power
10 Company out there in the appliance business, isn't that
11 right; a regulated company that we're having to
12 subsidize?

13 WITNESS SCARBROUGH: You mean by looking at
14 the vehicle?

15 COMMISSIONER GUNTER: Yeah.

16 WITNESS SCARBROUGH: They wouldn't know what
17 it was doing.

18 COMMISSIONER GUNTER: If a Gulf Power truck
19 pulls up and is off-loading appliances, wouldn't that
20 look a little odd if you were out there and it didn't
21 have a -- and if it wasn't purple other than white, and
22 have "Appliance Division" or something on the side of
23 the truck, other than just a "Gulf Power" truck?

24 WITNESS SCARBROUGH: What are you saying,
25 that people don't know we're in the appliance business?

1 Is that what you're saying?

2 COMMISSIONER GUNTER: No. I'm just saying
3 that it gives the appearance that the Utility, the
4 regulated utility, is in the appliance business.
5 The regulated utility. Get the differentiation, Mr.
6 Scarbrough -- a regulated utility.

7 We had Florida Power and Light was in the
8 orange grove business, I'm sure you remember that, and
9 they had Florida Power and Light vehicles out there
10 tending the orange groves. Somehow they saw the wisdom
11 of them not doing that because of public perception; of
12 just saying, you know, the folks in the orange grove
13 business saying, "How in the hell can I compete when
14 you've got this damned company and the only thing
15 they've got to do is just pick up the phone and call
16 for equipment, and we're paying for it through the
17 Utility rates?" They're still in the orange grove
18 business but there are no Florida Power and Light
19 trucks out there.

20 WITNESS SCARBROUGH: Well, the only thing I
21 can tell you --

22 COMMISSIONER GUNTER: So there's no way you
23 can tell?

24 WITNESS SCARBROUGH: The best of my
25 knowledge, the electric business is not subsidizing

1 merchandise at Gulf Power Company. We make every
2 single effort to properly allocate those costs; every
3 single effort.

4 COMMISSIONER GUNTER: The casual observer
5 from the public can't tell the difference, can they?

6 WITNESS SCARBROUGH: I don't reckon. It's
7 possible that he would; some of them would not know.

8 COMMISSIONER BEARD: Let me ask you, and this
9 is probably not particularly relevant --

10 CHAIRMAN WILSON: Are you leaving that
11 subject?

12 COMMISSIONER BEARD: No. No, one more little
13 piece of it.

14 How do you treat a nonutility activity, such
15 as sales and the appliance service, for tax purposes?
16 In other words, do you do the taxes on the
17 below-the-line part here and the taxes on the
18 above-the-line part here, and then they get married up
19 somewhere with The Southern Company in a consolidated
20 report?

21 WITNESS SCARBROUGH: When you file the tax
22 return, they don't know. We make those allocations by
23 simply taking the net income and applying the tax rate
24 to it. We do that.

25 But on the tax return, there is no, really,

1 differentiation between whether it's regulated,
2 nonregulated or whatever.

3 COMMISSIONER BEARD: Does Southern do a
4 consolidated return?

5 WITNESS SCARBROUGH: Absolutely. In fact,
6 Gulf Power Company, technically, does not file a
7 federal tax return.

8 COMMISSIONER BEARD: Okay. So you send the
9 numbers forward to Southern Company, differentiated,
10 right?

11 WITNESS SCARBROUGH: No. The merchandise in
12 all of our nonutility -- of course, we know what the
13 tax rates are, and all you've got to do is get the net
14 income before tax and apply the tax rate to it. It's a
15 fairly simple calculation.

16 COMMISSIONER EASLEY: That's the problem.
17 You've got --

18 CHAIRMAN WILSON: Do all the operating
19 companies of Southern Company have an appliance
20 subsidiary or affiliate?

21 WITNESS SCARBROUGH: No. Now remember, this
22 is not a subsidiary. This is simply -- a separate
23 department --

24 CHAIRMAN WILSON: Accounting separation.

25 WITNESS SCARBROUGH: As far as accounting,

1 it's a profit center. All of them do. I'm not too
2 sure about Savannah, but let's put it this way,
3 Mississippi does, Alabama does, Florida -- Gulf Power
4 Company does, Georgia doesn't.

5 CHAIRMAN WILSON: Do they all operate under
6 the name of the power company? I mean is Alabama
7 Power's Alabama Power --

8 WITNESS SCARBROUGH: Alabama Power Company
9 operates under Alabama Power Company, very similar to
10 what we do. Mississippi Power Company has got a total
11 -- they in fact do have a subsidiary. It's called
12 Electric City. They are into merchandise business big
13 time. They are not making any money, but they are into
14 it big time. I mean they are competing with Circuit
15 City and big time merchandise business.

16 CHAIRMAN WILSON: But they have a separate
17 name?

18 WITNESS SCARBROUGH: Separate name called
19 Electric City.

20 CHAIRMAN WILSON: Electric City?

21 WITNESS SCARBROUGH: Yes.

22 CHAIRMAN WILSON: Has a ring to it.

23 COMMISSIONER GUNTER: Shocking prices.

24 CHAIRMAN WILSON: What it is is shocking
25 profits.

1 COMMISSIONER EASLEY: Could we strike that?

2 CHAIRMAN WILSON: Is there a reason why Gulf
3 Power either didn't have a separate subsidiary or call
4 your appliance sales a different name than Gulf Power?

5 WITNESS SCARBROUGH: There's no reason for
6 that. In fact, the people who are running the
7 appliance sales business now would like to change the
8 name to something. And, you know, you take, like
9 Montgomery Ward, a lot of the companies have got --
10 Montgomery Ward, if you see one of their trucks, it
11 will have Montgomery Ward a little bit down at the
12 bottom, but it will have Electric -- I think they call
13 theirs Electric Avenue. And our folks in the appliance
14 sales business would really like to change their name
15 from Gulf Power Company to make the differentiation so
16 it is obvious, as Mr. Gunter pointed out, to everybody.
17 But it still probably wouldn't be obvious as long as
18 there was some connection to Gulf Power Company. They
19 would still assume somehow or another as being
20 subsidized, which it is, in fact not.

21 CHAIRMAN WILSON: Do you think there's a
22 value of using the Gulf Power name in marketing
23 appliances?

24 WITNESS SCARBROUGH: I don't think so.

25 CHAIRMAN WILSON: Among customers where you

1 got a customer who buys electricity from Gulf Power
2 Company, and look and they see the Gulf Power Company
3 is selling electric appliances, and they make some sort
4 of connection in their minds that here's the company
5 that sells electricity to me, selling electrical
6 appliances, probably pretty good appliances, they know
7 what they are doing, this is the business they are in,
8 I ought to buy my appliances from them.

9 WITNESS SCARBROUGH: I wouldn't debate that
10 some people probably make that kind of connection.
11 They probably also figure that we're big enough to
12 stand behind, you know, our appliances and that kind of
13 thing. And so I'm sure that some people do that, take
14 that into consideration.

15 CHAIRMAN WILSON: So there would be some
16 value, market value, to using Gulf Power's name in the
17 marketing of appliances?

18 WITNESS SCARBROUGH: Our -- the folks that
19 are professionals in marketing say not, and they --
20 like I say, they would like to get their own name, but
21 you know, I can see where there might be some possible
22 value to it based on the line you're talking about.
23 But, I really don't think -- if there is any, it's very
24 minimal. In fact, there's probably a lot of people
25 won't buy just because it is Gulf Power Company.

1 COMMISSIONER EASLEY: Based on these losses,
2 Mr. Chairman, I'm not sure how much value there is.

3 COMMISSIONER BEARD: Let me back up again.
4 What's a simple calculation for you guys is not for me.
5 When we establish rate base and we establish, at least
6 in theory, what is a fair return on equity, we
7 establish X number of dollars in there for the purposes
8 of paying taxes on that -- on the return on equity that
9 should be generated by the rates that we set, right

10 WITNESS SCARBROUGH: Of the electric
11 business, yes.

12 COMMISSIONER BEARD: For the above-the-line
13 part. Now, we obviously don't do that in appliance
14 sales and appliances services because they're
15 below-the-line.

16 WITNESS SCARBROUGH: We've allocated out the
17 investment and so forth out when we make the filing.

18 COMMISSIONER BEARD: If you make the profit
19 on the above-the-line side, the associated taxes are in
20 there and paid for by the ratepayer, right?

21 WITNESS SCARBROUGH: No, because when we make
22 the -- the filing that we have made in this case, for
23 instance, all of the income taxes that go with the
24 non-utility have been pulled out.

25 COMMISSIONER BEARD: Listen, don't put words

1 in my mouth. I very carefully said "above-the-line."
2 The taxes associated with the above-the-line profit, at
3 least in theory, if we hit rates right and do
4 everything right, the taxes associated with the
5 above-the-line part are in there and are paid for by
6 the ratepayer.

7 WITNESS SCARBROUGH: That's correct.

8 COMMISSIONER BEARD: Okay, and so you take
9 those taxes paid for by the ratepayer and you offset
10 that -- before you send the figures forward to Southern
11 Company, you offset that with any tax loss from
12 below-the-line.

13 WITNESS SCARBROUGH: Yes.

14 COMMISSIONER BEARD: Okay.

15 WITNESS SCARBROUGH: And we do the
16 allocations.

17 COMMISSIONER BEARD: And conversely, if you
18 had a tax loss above-the-line and a tax gain -- a tax
19 obligation below-the-line, the same thing would occur?

20 WITNESS SCARBROUGH: That's correct.

21 Correct.

22 COMMISSIONER GUNTER: So am I correct that in
23 -- from your affiliates, your non-regulated affiliates
24 or divisions, that you had a pre-tax loss last year of
25 \$972,452?

1 COMMISSIONER BEARD: That's in appliance
2 sales and services. There's others too.

3 COMMISSIONER GUNTER: I am not talking -- I
4 said affiliates.

5 WITNESS SCARBROUGH: You're talking about the
6 --

7 COMMISSIONER GUNTER: You had a \$469,252
8 loss.

9 WITNESS SCARBROUGH: Vision Design, right.

10 COMMISSIONER GUNTER: Vision Design. You had
11 a profit from the sod sales, and then you had a loss in
12 1989 of \$514,455 from appliance sales. I added and
13 subtracted and I came up with \$972,452. I'm making the
14 assumption that Vision Design was a pre-tax. I just
15 want to know if I'm reading that right.

16 WITNESS SCARBROUGH: Just a minute. Let me
17 make sure whether these are before or after taxes.
18 (Pause) Okay, the profit for the sod farm in 1989 is
19 after tax.

20 COMMISSIONER GUNTER: That's net of tax?

21 WITNESS SCARBROUGH: That's right.

22 COMMISSIONER BEARD: And Vision Design was
23 net?

24 COMMISSIONER GUNTER: That's what we are
25 getting right now.

1 COMMISSIONER BEARD: Need to go back and add
2 the 25,000 in from appliance services.

3 WITNESS SCARBROUGH: That's also an after tax
4 number.

5 COMMISSIONER BEARD: What about the \$25,000
6 loss on appliance services?

7 WITNESS SCARBROUGH: That's all after tax.
8 All these figures are after tax.

9 COMMISSIONER EASLEY: So it will be a roughly
10 600,000 loss instead.

11 COMMISSIONER GUNTER: That's net of tax?

12 COMMISSIONER EASLEY: Net of tax?

13 COMMISSIONER BEARD: Wait a minute. Wait a
14 minute.

15 COMMISSIONER EASLEY: I'm doing it in my
16 head.

17 COMMISSIONER BEARD: I show about \$729,000
18 loss net of tax.

19 COMMISSIONER EASLEY: I don't do it too well
20 in my head.

21 COMMISSIONER BEARD: If you expend that out

22 --

23 WITNESS SCARBROUGH: 729,007 loss after tax.

24 COMMISSIONER BEARD: What is the tax effect?
25 Can you put that together? I know that's after tax.

1 In other words, what is the tax reduction associated
2 with those losses? Can you give me that figure?

3 COMMISSIONER EASLEY: We've already got it
4 for the appliance sales.

5 COMMISSIONER BEARD: We do?

6 COMMISSIONER EASLEY: Yeah, that was a figure
7 I got a little bit ago. Prior to the tax on 1989 it
8 was a loss of \$514,455.

9 COMMISSIONER BEARD: On to the tax dollars.

10 WITNESS SCARBROUGH: It would be \$1,168,842.

11 COMMISSIONER BEARD: \$1,168,842?

12 WITNESS SCARBROUGH: Before tax.

13 COMMISSIONER BEARD: Then you would subtract
14 the \$700 and --

15 WITNESS SCARBROUGH: 29 from that, in order
16 to get the benefit of the taxes.

17 COMMISSIONER BEARD: In other words the net
18 -- the net that you would be going against your
19 above-the-line profits?

20 WITNESS SCARBROUGH: That's right because you
21 had the big loss, you took that loss, and of course
22 that reduced your total loss. See, our composite tax
23 rate, Federal and State, is 37.63%.

24 COMMISSIONER BEARD: So in theory -- and I
25 realize, you know, you lose X amount each unit and make

1 it up in volume doesn't work out, but you've got about
2 \$500,000, just ballpark figure there that you would
3 have reduced your profit on the above-the-line side
4 after everything is done from tax purposes.

5 WITNESS SCARBROUGH: Right, uh-huh.

6 COMMISSIONER GUNTER: Mr. Scarbrough, was
7 there any -- I'm on Issue 25 now. Was there any
8 portion of Plant Daniel dedicated to UPS sales in 1987
9 or '88?

10 WITNESS SCARBROUGH: Yes.

11 COMMISSIONER GUNTER: Or '89? Was any of
12 that dedicated to the Gulf States Utilities contract?

13 WITNESS SCARBROUGH: Yes. Up until July --
14 through June 30, 1988.

15 COMMISSIONER GUNTER: Were they involved --
16 was the Plant Daniel contract involved in the dispute
17 where Gulf States Utilities quit paying?

18 WITNESS SCARBROUGH: That's correct.

19 COMMISSIONER GUNTER: On Issue 26, Mr.
20 Scarbrough, was any portion of Plant Scherer out on UPS
21 contract in '88, '89, '87, '88, '89?

22 WITNESS SCARBROUGH: Yes.

23 COMMISSIONER GUNTER: Were they also involved
24 in the Gulf States Utilities default?

25 WITNESS SCARBROUGH: Yes.

1 COMMISSIONER GUNTER: I'll use that word. I
2 don't have any bad ramifications about that, but in the
3 default with Gulf States Utility?

4 WITNESS SCARBROUGH: Yes.

5 COMMISSIONER GUNTER: It's my understanding
6 that here in '89 there was \$554 million unpaid by Gulf
7 States Utilities on that contract with Southern
8 Company.

9 WITNESS SCARBROUGH: To the entire Southern
10 Company System?

11 COMMISSIONER GUNTER: Yeah.

12 WITNESS SCARBROUGH: We could verify that
13 figure. I don't have that figure with me.

14 COMMISSIONER GUNTER: I'll tell you where the
15 figure comes from. It's from Standard and Poors Credit
16 Review, dated May 11th, 1990, and it covers everybody
17 in here. Do you know --

18 WITNESS SCARBROUGH: That sounds reasonable.

19 COMMISSIONER GUNTER: Do you know what
20 portion of that \$554 million or what percentage portion
21 of default would apply to Daniel and Scherer? Did they
22 have two percent of the total or five percent or --

23 WITNESS SCARBROUGH: Okay, the total revenues
24 was \$51 million for Gulf Power Company.

25 COMMISSIONER GUNTER: 51?

1 WITNESS SCARBROUGH: That's from '86 through
2 '88.

3 COMMISSIONER GUNTER: None in '89?

4 WITNESS SCARBROUGH: No. Remember, the Gulf
5 States, we suspended all deliveries on June the 30th,
6 1988.

7 COMMISSIONER GUNTER: Okay. Now, is there a
8 carrying cost applied to that as time runs?

9 WITNESS SCARBROUGH: No.

10 COMMISSIONER GUNTER: No. Just a flat
11 figure.

12 WITNESS SCARBROUGH: That's right. No
13 carrying costs, or anything like that.

14 COMMISSIONER GUNTER: Okay. What would be
15 the actions?

16 WITNESS SCARBROUGH: What would be what?

17 COMMISSIONER GUNTER: Assume that you reached
18 a settlement, you all and Gulf States -- Southern
19 Company and Gulf States would reach a settlement, and
20 for sake of our assumption assume that that was -- you
21 got the full amount. That 51 million, because of the
22 type of contracts that were in those revenues to Gulf
23 Power, but would be treated how?

24 WITNESS SCARBROUGH: You mean for ratemaking
25 purposes?

1 COMMISSIONER GUNTER: Yeah. How would you
2 all treat it, you as the chief bookkeeper?

3 WITNESS SCARBROUGH: Are you talking about on
4 the books or for regulatory purposes?

5 COMMISSIONER GUNTER: Regulatory purposes.

6 WITNESS SCARBROUGH: For regulatory purposes,
7 I suppose we would, to the extent that it, you know,
8 caused us to overearn, I think certainly we would agree
9 to refund that. And I assume what would happen is we
10 would come to the Commission and talk to you about
11 that, and, depending what our earnings were that
12 particular time, and for forth. But certainly to the
13 extent it caused us to overearn, we would refund it.

14 COMMISSIONER GUNTER: All right.

15 WITNESS SCARBROUGH: Now, let me go a little
16 further with that, Commissioner Gunter.

17 This suit -- in fact, let me unsay what I
18 just said and start over again, if you will, please.

19 COMMISSIONER GUNTER: thought you might want
20 to.

21 WITNESS SCARBROUGH: Okay. This suit is not
22 only trying to recover for capacity and energy
23 delivered to Gulf States up through June 30th, 1988,
24 but it's also trying to recover the revenues that we
25 did not get out through the end of the period of those

1 contracts.

2 COMMISSIONER GUNTER: You anticipated my next
3 question.

4 WITNESS SCARBROUGH: Do what?

5 COMMISSIONER GUNTER: You anticipated my next
6 question.

7 WITNESS SCARBROUGH: That's right. And so
8 it includes all that bunch of those figures.

9 Now, up through June the 30th, 1988, those
10 were in a separate jurisdiction. We were not
11 recovering any of that from the retail customer, or
12 attempting to recover any from the retail customer. So
13 anything we recovered for up through June 30th, 1988,
14 of course, the Company should keep that, because we
15 never recovered any of that capacity from the retail
16 customer.

17 Anything from July 1st forward that we
18 recovered, then we would, to the extent that caused us
19 to overearn, we would refund it.

20 COMMISSIONER GUNTER; All right. So, in
21 essence, what you're saying, if you make the assumption
22 that we were to allow this capacity in rate base, as
23 the Company has requested, and you were to recover --
24 and there were two pieces -- and you were to recover
25 any of those monies, they would be treated above the

1 line, is that correct, from July 1 on? (Pause)

2 If you're trying to have contract
3 enforcement, it's my understanding the reason the
4 Company is requesting that these come into the rate
5 base is you've got a default on a contract, which you
6 had the UPS sales, asking that the ratepayers support
7 that investment.

8 WITNESS SCARBROUGH: That's correct.

9 COMMISSIONER GUNTER: If you received any
10 payment to get the pot right for enforcement of the
11 contract, would those monies go above the line or below
12 the line? (Pause,

13 WITNESS SCARBROUGH: I reckon what I'm saying
14 is I don't think at this particular time we would know
15 whether they would go, for regulatory purposes, above
16 the line or below, if you're talking about whether we
17 get to keep it or not. I think that what you would
18 have to do is -- it seems to me like the appropriate
19 thing to do, you would see what our earnings were --

20 Let's put it this way, Commissioner Gunter:
21 If we were fixing to come in and file for a rate case
22 because our earnings were down, it doesn't seem to me
23 that it would make any sense to, you know, refund those
24 dollars and turn around and file a rate case.

25 COMMISSIONER GUNTER: That's not my question.

1 My question would be the accounting treatment. I made
2 the assumption -- I'm going to go through the predicate
3 one more time.

4 Assume we allowed the Company to put the 63
5 megawatts of Scherer and the 515 of Daniel into the
6 rate base in this proceeding. Subsequent to this
7 proceeding, through either settlement or awards from
8 the court, you received the monies post-July 1988 for
9 contract enforcement, whether it's one million or a
10 hundred million.

11 WITNESS SCARBROUGH: All right.

12 COMMISSIONER GUNTER: What would be the
13 accounting treatment of those revenues that you
14 received?

15 WITNESS SCARBROUGH: It would go above the
16 line.

17 COMMISSIONER GUNTER: All right. Fine.

18 COMMISSIONER BEARD: No, and I'll
19 distinguish because I think I heard very clearly what
20 you said, it would go above the line, and to the extent
21 those earnings drove you above the range of your
22 earnings point, they would be returned to the
23 ratepayer?

24 WITNESS SCARBROUGH: That's correct.

25 COMMISSIONER BEARD: They would not be

1 returned to the ratepayer in total for risking the
2 investment. (Pause) Your position is those that
3 drove you above the earning point is what would be
4 returned?

5 WITNESS SCARBROUGH: When you say "earning
6 point," I reckon you would have to determine what
7 reasonable earnings were at that particular point in
8 time.

9 COMMISSIONER BEARD: Well, I understand we do
10 that, and let's just hold the hypothetical constant.
11 Let's pick a number, 12% midpoint, 11%, 13%, those are
12 typically the types of ranges we do, so to the extent
13 -- I'll talk slower, I'm sorry -- to the extent that
14 those monies drove your earnings above 13%, they would
15 be refunded to the ratepayer?

16 WITNESS SCARBROUGH: Yes.

17 COMMISSIONER BEARD: Okay. As opposed to all
18 of those monies -- "windfall," if you will, is a term
19 that is sometimes used -- being returned to the
20 ratepayer?

21 WITNESS SCARBROUGH: Well, it would not be a
22 windfall if we got those earnings and we didn't
23 overearn; it would not be a windfall for sure.

24 COMMISSIONER BEARD: Well, let's take it from
25 a different thought process. Perhaps it would be, to

1 the extent that you moved everything into rate base,
2 made it territorial from, say, Daniel, okay, because
3 these power sales just disappeared because they failed
4 to live up to the contract, there has to be some
5 expectation that you may not get that back. I don't
6 know.

7 I'll quit because he told me I'm starting to
8 sound like a tax rule, and I don't want to do that.

9 Anyway, if I could pursue this just a little
10 bit. Is it Gulf Power's position that any portion of
11 those plants that you own, that are not being utilized
12 for unit power sales, should be in the territorial --
13 or in the rate base?

14 WITNESS SCARBROUGH: Absolutely. They are
15 serving the retail customer, and they were built for
16 the retail customer.

17 COMMISSIONER BEARD: Okay. Well, let me ask
18 you this: In 1984 how much did we approve of Plant
19 Daniel in the rate base? I want to make sure I get my
20 figure right. (Pause)

21 WITNESS SCARBROUGH: We can tell you how much
22 capacity, but how much rate base, we could calculate
23 that out.

24 COMMISSIONER BEARD: No. I want it in
25 megawatts. 272? (Pause)

1 WITNESS SCARBROUGH: Okay. Just a minute.

2 (Pause)

3 Okay. In 1984 the average that was included
4 in territorial -- in the retail rate case was 270
5 megawatts of Plant Daniel.

6 COMMISSIONER BEARD: That was approved by
7 this Commission for inclusion in rate base?

8 WITNESS SCARBROUGH: That's right.

9 COMMISSIONER BEARD: Okay. Now, and I'll
10 tell you where I am and you're not -- well, yeah, you
11 are one of the witnesses listed. I'm looking at EBF-1,
12 Schedule 9, Page 6 of 6, Witnesses Parsons and
13 Scarbrough. In 1988 it appears that the only sales
14 associated with that, and by that time also Plant
15 Scherer -- well, let's keep it Daniels to Daniels. In
16 1988 you only used 45 megawatts of the 270 we approved
17 for territorial purposes. And the rest was in unit
18 power sales, right?

19 WITNESS SCARBROUGH: 1988? (Pause)

20 COMMISSIONER BEARD: Yeah.

21 WITNESS SCARBROUGH: What exhibit are you
22 looking at?

23 COMMISSIONER BEARD: I'm in Mr. Parsons'
24 testimony, both you and he are listed as a witness;
25 Schedule 9, Page 6 of 6, EBP-1.

1 WITNESS SCARBROUGH: Just a minute. (Pause)

2 COMMISSIONER BEARD: We'll have to get some
3 apples to apples there because you had a mid-year
4 transition. (Pause)

5 WITNESS SCARBROUGH: Okay.

6 COMMISSIONER BEARD: It appears that, at
7 least from -- I'm trying to read your notes -- as of
8 June 30th, '88, only 45 megawatts was dedicated to
9 territorial service.

10 MR. HOLLAND: Commissioner Beard, you can see
11 that a little clearer if you look at his Schedule 2,
12 EBP-1, it has got the numbers on it, and it's got the
13 UPS average numbers, and net for territorial, year by
14 year, from '84 to '90.

15 COMMISSIONER BEARD: Well, I'll go back real
16 quick and peek at it. I thought I was seeing it pretty
17 clear right there. Schedule 2?

18 MR. HOLLAND: Yes, sir. (Pause)

19 COMMISSIONER BEARD: Okay. Let's take, then,
20 for example, in '84 we authorized 270 megawatts. And
21 if I'm looking the Schedule 2, for example, January to
22 December of '86 there were only 85 megawatts utilized
23 for territorial purposes, right?

24 WITNESS SCARBROUGH: January of '86 there
25 were 85 out of Daniel, that's correct.

1 COMMISSIONER BEARD: That's correct. And I'm
2 trying to understand the Company's position in the
3 context of looking at capacity and reserves, and all
4 these other things, that you would have us approve 270
5 megawatts in '84 when, in reality, going forward
6 apparently you didn't have that need because you could
7 sell unit power sales. There wasn't a need to have
8 them, and if you have unit power sales, where's the
9 protection for the ratepayer in the event that you need
10 it?

11 WITNESS SCARBROUGH: Commissioner Beard, let
12 me explain that to you.

13 COMMISSIONER BEARD: Okay.

14 WITNESS SCARBROUGH: That, if you just look
15 at that by itself, you raise a very good point, because
16 now we've recovered, in the 1984 rate case 270
17 megawatts from the retail customer. We go along in '85
18 and we dropped that to 148 megawatts. We start
19 recovering that from the unit power sales customer.

20 COMMISSIONER BEARD: Right. Now, let's stop
21 there. I would have to assume that unit power sales,
22 the price you're getting for that, is a good price? In
23 other words --

24 WITNESS SCARBROUGH: Oh, yes; yes, clearly.

25 COMMISSIONER BEARD: So there is an

1 opportunity there for you to increase profits, okay?
2 The problem is, when that opportunity goes away, what
3 do you do with it? Whether you need it or not, you put
4 it back on the ratepayer?

5 A Well, can I finish my explanation?

6 COMMISSIONER BEARD: Sure, I'm sorry.

7 WITNESS SCARBROUGH: So what happens, you
8 went from 270 megawatts to 148 megawatts in 1985. And
9 you say, "Well, you were covering that for the unit
10 power sales customer." So you already have it approved
11 for the retail customer.

12 Then in 1986, you sell some more. And you
13 only got 85 megawatts in the retail business
14 territorial and you have 426 megawatts in unit power
15 sales; and you started out in '84 with only 241. And
16 if you take that by itself, it looks like, "Geeminee,
17 the Company is collecting twice for the same capacity."

18 But, however, what's happening in '85, in
19 '86, in '87, in '88, in '89 and in '90, we have other
20 construction facilities expenditures going on that
21 we're not getting any benefit from the retail customer.
22 So what happens is the money that we -- and we file a
23 surveillance report with you every month telling you
24 what's happened So in that --

25 COMMISSIONER BEARD: Just one second. I

1 don't assume a double collection at all. I understand
2 that the unit power sales, the revenues will come back,
3 I understand that.

4 WITNESS SCARBROUGH: No, I'm just simply
5 saying, though, is, what I'm saying is we had less --
6 in 1985, we had less assets serving the retail customer
7 out of Plant Daniel than we were recovering -- than we
8 were recovering from the customer out of Daniel. But
9 we had, offsetting that, were assets that were serving
10 the retail customers we were not receiving a return
11 for.

12 You have to look at those, that's a dynamic
13 situation. You go down the road, theoretically, you
14 could go for 20 years and have that kind of thing and
15 never adjust your rates. As long as the total -- but
16 what we do is we try to look at the bottom line when we
17 file a surveillance report, and that's what you all
18 look at is the bottom line of what our return is. As
19 long as that stays reasonable, it doesn't matter
20 whether it's for Daniel or transmission lines or
21 whatever it is, it's the total amount you're trying to
22 recover on the total assets serving the retail
23 customer, doesn't matter about the components of it.

24 COMMISSIONER BEARD: Let me ask you two more
25 questions. Because I appreciate the answer, but it's

1 not the question.

2 Some of those construction projects you're
3 talking about, would one of those be Scherer, for
4 example, your part of Scherer?

5 WITNESS SCARBROUGH: No. No.

6 COMMISSIONER BEARD: It would not?

7 WITNESS SCARBROUGH: Not, for instance, it
8 hadn't even come in service until '87.

9 COMMISSIONER BEARD: I understand. But what
10 you're saying to me is that you have expenditure for
11 construction projects that you're not recovering.

12 WITNESS SCARBROUGH: Absolutely.

13 COMMISSIONER BEARD: And if you're --

14 WITNESS SCARBROUGH: To offset the ones in
15 the unit power sales.

16 COMMISSIONER BEARD: And is Scherer one of
17 those?

18 WITNESS SCARBROUGH: Starting, starting in
19 '87, it was a small amount of about 20 megawatts is all
20 -- the only amount of Scherer up until June the 30th,
21 19-- -- or to July 1st, 1988, the only amount of Scherer
22 that has ever been included in rate base on the
23 surveillance report or anything else was about 20
24 megawatts.

25 COMMISSIONER BEARD: Do you include, and I

1 don't know how to ask this because I'm afraid I'm
2 getting back into water and sewer. Do you include any
3 AFUDC or any of those things prior to '87 in your
4 calculations?

5 WITNESS SCARBROUGH: No.

6 COMMISSIONER BEARD: Okay.

7 WITNESS SCARBROUGH: There was no
8 construction work in progress in connection with
9 Scherer in the rate base in 1984, none.

10 COMMISSIONER BEARD: I understand that in
11 '84. I'm trying to -- let's forget that for now.

12 Beginning in '87, you began to have a rate
13 base effect in the surveillance report, right?

14 WITNESS SCARBROUGH: On Scherer?

15 COMMISSIONER BEARD: On Scherer.

16 WITNESS SCARBROUGH: To the tune of about 20
17 megawatts --

18 COMMISSIONER BEARD: Right.

19 WITNESS SCARBROUGH: -- out of 212.

20 COMMISSIONER BEARD: In '88 it was bigger,
21 okay, as it comes on line, right?

22 WITNESS SCARBROUGH: Well, what happened in
23 '88, it came on July 1st; another 40 megawatts came
24 serving the retail customer because we suspended the
25 sales to the unit power -- to Gulf States Utilities and

1 started serving the territorial customers with another
2 43 megawatts of Scherer. And then it got in the
3 surveillance report in July of 1988.

4 COMMISSIONER BEARD: And those are megawatts
5 that are going into rate base for the surveillance
6 report purposes. Okay, at that point in time, that had
7 not gone through a certification of need with this
8 Commission in advance, correct? They might have in
9 Georgia.

10 Did we have a need certification hearing on
11 any part of Scherer or any part of Daniel other than
12 the piece we approved in the rate case in '84 for
13 Daniel?

14 WITNESS SCARBROUGH: I would have assumed --
15 you know, you might want to ask Mr. Parsons about this,
16 but I'm sure in our annual planning hearings here, you
17 know, we have had that piece in there. Let's put it
18 this way: I know I have come down here back as early as
19 late '70s and early '80s, and certainly the Commission
20 knew that we were building, that we were buying into
21 Plant Scherer. Clearly knew that.

22 COMMISSIONER BEARD: Well, where I'm really
23 headed, to be honest with you, and Daniel is probably a
24 more concrete example, to the extent that we approved
25 270 megawatts and then you do unit power sales -- and I

1 don't consider that double counting because you're
2 receiving revenues back. The question is, is when, for
3 example, a Gulf States Utility contract goes sour, the
4 ratepayer is the one that's at risk, okay? If they
5 don't need that power -- we've approved it, okay. I
6 can't argue that 270 megawatts was approved, no
7 question about that.

8 And if you can pursue unit power sales, which
9 are more profitable than territorial sales at certain
10 times, okay, that gives you greater opportunity to
11 achieve your earnings ratios because they're more
12 profitable. When those opportunities go away, it
13 reverts back to the territorial sales -- okay, reverts
14 back to rate base. Whether you make the sales or not
15 depends on the demand.

16 So isn't the risk primarily if not totally at
17 the ratepayers' feet?

18 WITNESS SCARBROUGH: Some of the risk is at
19 the ratepayers' feet; that's where it should be.
20 That's the reason we built this plant.

21 COMMISSIONER BEARD: I'm going to say all the
22 risk, with exception of if you're below your earnings
23 ratios.

24 WITNESS SCARBROUGH: That's who we built the
25 plants for is the retail customers. Let me, listen --

1 COMMISSIONER BEARD: Well, you --

2 WITNESS SCARBROUGH: -- in 1985, let's just
3 go back to your Daniel, maybe this explains it a little
4 better.

5 If you go back to your Daniel. in 1985, we
6 started selling -- in the rate case, we were selling
7 241 megawatts out of Daniel in 1984. The very next
8 year, we went up to 363 megawatts.

9 Assuming we had no other facilities to be
10 added and that was the only transaction that occurred,
11 that would -- and assume cost of money stayed the same
12 and all that -- that would have caused our return on
13 the surveillance report to go out the top. And you all
14 would have called us in for a rate reduction or at
15 least a show cause order because our return would have
16 gone up.

17 But the reason it didn't is simply because,
18 granted, we had less Daniel to serve the retail
19 customer, but we had more something else serving the
20 retail customers we weren't collecting for. There were
21 offsetting each other until you got up to the point of
22 1989.

23 It was a dynamic kind of thing. And, really,
24 theoretically, you could go to Daniel and Scherer were
25 retired theoretically and not have to ask for a rate

1 increase as long as everything kept offsetting each
2 other.

3 COMMISSIONER BEARD: The problem I have is,
4 as you move to Daniel and Scherer, at least for
5 surveillance report purposes back into the rate base
6 and significantly increasing numbers, you were here
7 talking to us about Air Products contracts, you were
8 here in ATH with no need for any allocations and
9 cogeneration. Okay?

10 And then, lo and behold, literally a year to
11 two years later, now we want to move more into rate
12 base. And I'm having a hard time marrying those up,
13 quite frankly. Maybe you're not the witness for that
14 part, I don't know. Maybe you are, you were listed.

15 WITNESS SCARBROUGH: I think probably Mr.
16 Parsons or Mr. Howell would probably be the better
17 witness for that.

18 But in that regard, from a financial
19 standpoint, I do think that in -- you know, I really
20 think that the retail customer has a responsibility for
21 paying for Scherer whether we need it or not during
22 this interim period of time. And the reason for that
23 is we built it for Scherer and we built it for the
24 retail ratepayer; it is serving the retail ratepayer;
25 and it is going to continue to serve the retail

1 ratepayer for many years at a much reduced cost than
2 what it would otherwise been had we tried to build that
3 capacity when it came on line.

4 COMMISSIONER BEARD: And then it's also the
5 retail ratepayers' responsibility to cover the
6 differences associated with the Air Products contract
7 because of stranded investment, right?

8 In other words, we want to keep them on line,
9 we don't want them to build cogeneration because there
10 would be stranded investment at the same time, is that
11 right?

12 WITNESS SCARBROUGH: Yes. At the time we
13 made the agreement with Air Products and with Monsanto,
14 the idea, the overall idea of the whole thing was to
15 try to keep the overall cost to the retail customer
16 reduced, the long-term revenue requirements of that
17 customer reduced.

18 COMMISSIONER BEARD: Okay. And
19 simultaneously, you don't need any allocations for
20 cogeneration because that would have the net effect in
21 the same way of stranded investment potentially by
22 having excess capacity that wasn't needed on your power
23 lines, is that correct?

24 WITNESS SCARBROUGH: It possibly could have.
25 But, I mean, it didn't.

1 COMMISSIONER BEARD: I know it didn't because
2 there wasn't any allocated to you. Because apparently
3 the case was made that to do so would be having you
4 purchase capacity that was not needed. That's the only
5 reason I can think of for having zero avoided units at
6 the Panhandle.

7 So I have to assume to some degree it must
8 look similar to Air Products in that you would be
9 ultimately stranding an investment that the ratepayers
10 are going to have to absorb because you have, if
11 nothing else, if you don't add customers or you lose a
12 Monsanto that cogenerates, then you have that.

13 And then, up to that point, I could accept
14 it. But then we come back in and we say, "Oh, by the
15 way, we need to add some more territorial power plant."
16 Okay? In adding more of Daniels and/or Scherer. And
17 I'm having a hard time making the balance.

18 COMMISSIONER GUNTER: Mr. Scarbrough, if I
19 may? Can you tell me what your capital expenditures
20 were in '87, '88 or '89?

21 WITNESS SCARBROUGH: Do we have those?

22 COMMISSIONER GUNTER: Would you accept,
23 subject to check, that as reported in this credit
24 review by Standard and Poors it says your capital
25 expenditures -- and that's on Page 58 of the May 11th,

1 1990, and they mailed these to everybody, you know. I
2 just happened to pick it up, trying to pull a plum out
3 of it -- it said in 1987 that you had 95.5 million
4 capital expenditures?

5 WITNESS SCARBROUGH: That sounds about right.

6 COMMISSIONER GUNTER: And in 1988, you had
7 65.8 million?

8 WITNESS SCARBROUGH: That sounds about right.

9 COMMISSIONER GUNTER: And that in 1989, you
10 had 71.4 million?

11 WITNESS SCARBROUGH: That sounds about right.

12 COMMISSIONER GUNTER: All right. Over and
13 above, could you give us what the revenue was on UPS
14 sales out of Plant Daniel of that 270 megawatts we
15 allowed you to put into rate base? I mean -- yeah,
16 that you ultimately sold? Could we get an annual
17 revenue years --

18 WITNESS SCARBROUGH: How much entire sales
19 from the 270 megawatts?

20 COMMISSIONER GUNTER: Yes.

21 WITNESS SCARBROUGH: Yes.

22 COMMISSIONER GUNTER: We could sort of
23 compare that, you know, and use that like an internally
24 generated capital item to see how close you were of
25 meeting your capital expenditures from that revenue.

1 WITNESS SCARBROUGH: Well --

2 COMMISSIONER GUNTER: Because that was the
3 justification that you have given more than once in the
4 last few minutes about making capture expenditures that
5 you didn't have other revenue sources from. And you
6 start talking 100 megawatts, I just kind of fooled on
7 my calculator here a little bit. And if you sold it
8 over the year, in a year, you have a substantial chunk
9 of money. And I don't know what you get, but I just
10 figured 4.5 cents.

11 WITNESS SCARBROUGH: The only thing I'm
12 saying, Commissioner Gunter, is when you -- the
13 surveillance report includes all the assets that are
14 serving the retail customers. You, of course, well
15 understand --

16 COMMISSIONER GUNTER: I understand.

17 WITNESS SCARBROUGH: -- it includes all the
18 NOI. And as you compare them, you end up with a
19 return. And as long as that return is reasonable, it
20 doesn't really matter what the contents, as long as the
21 NOI is legitimately -- the retail customer and the
22 assets legitimately --

23 COMMISSIONER GUNTER: Mr. Scarbrough, I'm
24 just following the responses to questions from
25 Commissioner Beard. And I'm just trying to match and

1 see whether your capital expenditures, see how they fit
2 with the number of dollars.

3 I understand that you just -- you know, it's
4 a pot of money and it goes over all sources. I
5 understand that. But I'd just like to find out what it
6 is in relation to total capital expenditures because
7 there will come a day that there will be somebody
8 talking about internally generated sources of capital,
9 and what have you, and I'd just like to have that
10 institutional knowledge.

11 WITNESS SCARBROUGH: Okay. Could you
12 describe for me again what you want?

13 COMMISSIONER GUNTER: Just take '87, '88 and
14 '89 and get the UPS sales that were sold out of
15 jurisdictional portion of Daniel, which I believe was
16 270 megawatts. I would just like to see what --

17 WITNESS SCARBROUGH: That would be the
18 capacity sales for the capacity of that, okay.

19 COMMISSIONER GUNTER: Sure.

20 MR. HOLLAND: Commissioner Gunter, all 270
21 was never sold out. I guess you're saying net?

22 COMMISSIONER GUNTER: No, I -- net. Just
23 what was sold out. Because it was sold out one time to
24 about 45 megawatts, which gave you what, 215, 225?

25 WITNESS SCARBROUGH: Now, you want it for the

1 270 megawatts portion?

2 COMMISSIONER GUNTER: The 270-megawatt
3 portion only.

4 WITNESS SCARBROUGH: I understand.

5 COMMISSIONER GUNTER: Because like I
6 confessed, you know, I guess a sort of masochistic
7 tendency I have, I went back and read the entire
8 transcript of the 1984 proceedings in which Mr.
9 Scarbrough testified that no, he didn't want any CWIP
10 for Plant Scherer because it was not planned to be in
11 -- I can almost give you the page number -- that it was
12 not due to be used for the public, you know, for your
13 retail jurisdiction until at least 1993.

14 WITNESS SCARBROUGH: Absent GSU, that would
15 have been true.

16 COMMISSIONER GUNTER: Okay. Now, as I
17 understand, Plant Scherer is -- this portion of Plant
18 Scherer -- is being requested to come into the rate
19 base until when, 1993? And then it would move out of
20 the rate base back on a UPS sale again, is that
21 correct?

22 WITNESS SCARBROUGH: Doesn't all get out
23 until 1995.

24 COMMISSIONER GUNTER: 95?

25 WITNESS SCARBROUGH: Yes.

1 COMMISSIONER GUNTER: In other words, it
2 would come in until --

3 WITNESS SCARBROUGH: Because some of it wraps
4 up in '93, total in '95.

5 COMMISSIONER GUNTER: And then it goes back
6 out?

7 WITNESS SCARBROUGH: In 2010.

8 COMMISSIONER GUNTER: When does it move out
9 of the retail jurisdiction?

10 WITNESS SCARBROUGH: Totally moves out
11 probably June of 1995.

12 COMMISSIONER GUNTER: When does it
13 incrementally move out?

14 WITNESS SCARBROUGH: Probably, subject to
15 check, by July, June or July of 1993.

16 COMMISSIONER GUNTER: What's the Company's
17 plan, if I'm asking the right person, what's the
18 Company's plan to provide that capacity when it begins
19 to move out on UPS?

20 WITNESS SCARBROUGH: When it initially moves
21 out -- and here, again, if you want to get down to real
22 specifics, you need to talk to Mr. Parsons about it.
23 But generally, what will happen is we will get that
24 from, that capacity from the interchange pool. And I
25 think our plans are now is to build a combustion

1 turbine, I think in-service date 1995, to replace that,
2 which is at less cost than the Scherer capacity.

3 COMMISSIONER GUNTER: At less cost than
4 Scherer capacity as long as you're not running it,
5 isn't that correct? Because your fuel costs on --

6 WITNESS SCARBROUGH: I'm talking about the
7 construction cost.

8 COMMISSIONER GUNTER: I don't disagree with
9 you there.

10 WITNESS SCARBROUGH: And that's peaking
11 capacity, so you wouldn't run it that much.

12 COMMISSIONER GUNTER: Well, whenever you're
13 running it, you're pay dearly for it.

14 WITNESS SCARBROUGH: I would assume so, yes.

15 COMMISSIONER GUNTER: Fuel price between 6
16 and 8 cents a kilowatt hour? Have you heard of figures
17 like that for running a peaker?

18 WITNESS SCARBROUGH: I --

19 COMMISSIONER GUNTER: Okay, And you all's
20 current fuel price was something less than 1.9 cents
21 average over last year, isn't that correct?

22 COMMISSIONER GUNTER: Again, we get down to
23 the point of -- well, let's just go ahead just for a
24 moment. There's a couple of things I wanted to
25 explore.

1 Commissioner Beard mentioned cogeneration.
2 Now, you have a -- capacity payment arrangement with
3 the Southern Company, with all members of the Southern
4 Company, do you not?

5 WITNESS SCARBROUGH: Yes.

6 COMMISSIONER GUNTER: Does that capacity for
7 each one of the members, is that calculated with their
8 owned capacity?

9 WITNESS SCARBROUGH: Yes, the fossil --
10 What's involved is fossil capacity. And we get
11 reimbursed at our average embedded cost of all of our
12 fossil capacity.

13 COMMISSIONER GUNTER: Does it include
14 cogeneration That you may or may not have on your
15 system? (Pause)

16 WITNESS SCARBROUGH: I don't think it
17 includes cogeneration Capacity.

18 COMMISSIONER GUNTER: Why would it not?
19 Isn't that part of your capacity planning in the
20 Southern Company is to plan for cogenerators, is to
21 plan for cogenerators for capacity needs?

22 WITNESS SCARBROUGH: Maybe you ought to ask
23 that question of Mr. Parsons. I'm not really sure
24 about the cogeneration Piece of it.

25 COMMISSIONER GUNTER: Okay, fine. I'll

1 carry that over to Mr. Parsons.

2 COMMISSIONER BEARD: Can I ask a question?
3 You said, I understood, that you would incrementally
4 have Scherer leading the territorial sales, moving to
5 UPS, in about possibly '93?

6 WITNESS SCARBROUGH: Yes.

7 COMMISSIONER BEARD: And about that time you
8 would be building a combustion turbine, which is, in
9 effect, a peaking unit?

10 WITNESS SCARBROUGH: That's correct.

11 COMMISSIONER BEARD: Does that translate to
12 Gulf Power's needs all along have really been peaking
13 as opposed to base load, as far as reserve capacity, as
14 opposed to us putting into territorial sales Plant
15 Daniel and Plant Scherer?

16 WITNESS SCARBROUGH: I think you need to ask
17 Mr. Howell or Mr. Parsons about that.

18 COMMISSIONER BEARD: Okay.

19 COMMISSIONER GUNTER: Mr. Scarbrough, it may
20 be a myth, but would you explain Issue No. 29 to me? I
21 don't know how to be subtle about these things. I
22 don't know how to ask you 25 questions to get to what I
23 want to know.

24 WITNESS SCARBROUGH: I understand. Yes,
25 Commissioner Gunter, I can. What 29 has got to do with

1 is some rebuild program. We used to, on rebuild of our
2 large line trucks, we contracted that out. And what
3 would happen is we would send that off to a contractor
4 and they would replace the cabin chassis and relocate
5 the hydraulic equipment, and so forth and so on, to it,
6 rebuild it, and we would get it back. We determined
7 that we could save a lot of money by starting to do it
8 ourselves.

9 COMMISSIONER GUNTER: Oh, my God, that's not
10 the same person that made the decision on the appliance
11 sales, is it?

12 WITNESS SCARBROUGH: I hope not. And we --

13 COMMISSIONER GUNTER: And "Vision Designs,"
14 or whatever?

15 COMMISSIONER BEARD: This is the sod farm.

16 WITNESS SCARBROUGH: In any event, we started
17 doing the rebuild programs ourselves. And what we do
18 is we don't replace the cabin chassis, we go in and
19 rebuild the engine, rebuild the transmission, rebuild
20 the hydraulic equipment, rebuild the brakes and that
21 type of thing.

22 And the accounting requirements that we are
23 under, at the direction of this Commission, sets out a
24 list of retirement units. And those items I just
25 described that we replace when we rebuild this

1 equipment are charged to expense, simply because it's
2 not a retirement unit. And the accountants can argue
3 all day about whether something ought to be maintenance
4 or ought to be capitalized. And we've had, of course,
5 that problem in the state of Florida.

6 I think the Commission probably wanted to
7 make sure that we get us all so. We were very
8 consistant, and they published a Retirement Unit
9 Manual, and the way that we determine it -- I don't
10 care what the accountant says about something being
11 expensed or capitalized -- the way it is now, you go to
12 it and if you replace it and it's in that Retirement
13 Unit Manual, it gets capitalized. If it's not in the
14 Retirement Unit Manual, it gets expensed.

15 And the position of -- one of the intervenors
16 in this particular case is saying that those rebuilds
17 should have been capitalized rather than expensed, and
18 that's the issue.

19 COMMISSIONER BEARD: Who did that manual?

20 WITNESS SCARBROUGH: Who did what?

21 COMMISSIONER BEARD: You said "the manual."

22 WITNESS SCARBROUGH: Unit Manual.

23 COMMISSIONER BEARD: Yeah, who did that?

24 WITNESS SCARBROUGH: The Florida Public

25 Service Commission.

1 COMMISSIONER GUNTER: We did that.

2 COMMISSIONER BEARD: And new cabs and
3 chassis were not put in there?

4 WITNESS SCARBROUGH: No, they are; they are,
5 as a retirement unit, but I'm saying the rebuild
6 program we do does not replace the cab and the chassis.

7 COMMISSIONER BEARD: You buy new ones?

8 WITNESS SCARBROUGH: No We take the old cabs
9 and chassis and gut it. I mean, We rebuild the engine,
10 rebuild the transmission, the brakes, all those types
11 of things, but we don't replace the cab and chassis.
12 And, therefore, it's not a retirement unit, it's an
13 expense item.

14 COMMISSIONER GUNTER: So you're expensing
15 versus capitalizing?

16 WITNESS SCARBROUGH: That's exactly what the
17 issue is?

18 COMMISSIONER GUNTER: I'm just trying to
19 understand that issue.

20 COMMISSIONER WILSON: Let's take a
21 five-minute break.

22 (Brief recess)

23

24 COMMISSIONER GUNTER: Does anybody have any
25 objection with us going with two? All right.

1 COMMISSIONER EASLEY: Go ahead, Staff,
2 object. (Laughter)

3 COMMISSIONER GUNTER: I looked down there.
4 He could have said yes.

5 We said we were deferring that question about
6 capacity from other than installed generation, we were
7 going to defer that to Mr. Parsons, right?

8 WITNESS SCARBROUGH: Yes.

9 COMMISSIONER GUNTER: On Issue 40 on Page 27,
10 is it Gulf's position that these non-utility
11 investments should be over all sources of capital? Am
12 I understanding your position?

13 WITNESS SCARBROUGH: Yes. Well, not over all
14 sources of capital, but over debt, preferred --

15 COMMISSIONER GUNTER: Debt and equity
16 components.

17 WITNESS SCARBROUGH: Yes, sir. It wouldn't
18 include deferred taxes, those types of things, but just
19 those three major -- yes, sir.

20 COMMISSIONER GUNTER: All right. I was
21 trying to make sure I understood the issue.

22 Issue 54. I just want to talk about theory
23 for a second. Do you agree that if there are any
24 out-of-period nonrecurring expenses, they should not be
25 included? (Pause)

1 WITNESS SCARBROUGH: If it was truly
2 nonrecurring, but if it's like a, you know, a turbine
3 boiler inspection on Unit 5 in 1990, then, obviously,
4 that's a nonrecurring item, as far as 1990 is
5 concerned, because it's only in 1990; it won't be there
6 again for four or five years. But it will be replaced
7 with a turbine boiler inspection, say on Unit 6 in
8 1991, but if it's truly nonrecurring, really
9 nonrecurring, it happens that test year; it's not
10 expected to happen again anytime in the near future,
11 then I would say it would be appropriate to adjust it
12 out.

13 COMMISSIONER GUNTER: All right. I want you
14 to go to Issue 75. (Pause) And then Issue 18. You're
15 going to have to look at both of those at the same
16 time.

17 WITNESS SCARBROUGH: What was the first one,
18 Commissioner Gunter?

19 COMMISSIONER GUNTER: 75. (Pause)

20 You have pension costs or pension expense in
21 Issue 75, which is budgeted zero dollars because of the
22 situation that you may be in with your accrual balances
23 on your pension expense.

24 Is Issue 18 -- what is Issue 18?

25 WITNESS SCARBROUGH: Issue 18, Commissioner

1 Gunter, has got to do with -- in 1988 -- we accrued in
2 1988 a \$1,385,000 of pension expense. But we funded
3 \$3,293,584 in 1988. And the difference, the 1,908,441,
4 we took on the 1987 tax return. And since we funded
5 more in 1988 than we had expensed, we had what they
6 call a prepaid expense, we in effect paid ahead, we
7 paid more than we expensed, and we are asking to
8 include that prepaid pension expense in working
9 capital. And, of course, that would be offset by the
10 deferred taxes that were calculated on that.

11 COMMISSIONER GUNTER: All right. I
12 understand. I was just -- in the positions of the
13 parties and the way it was couched, I didn't know what
14 the timing was.

15 Mr. Scarbrough, for purposes -- there is an
16 issue that has to do with the common facilities at
17 Plant Scherer, and the acquisition adjustment and those
18 costs. Along those lines, wouldn't you agree with me
19 that it's incumbent on this Commission to make sure
20 that Gulf has not paid more than a reasonable amount
21 for the generation capacity of Plant Scherer?

22 WITNESS SCARBROUGH: Yes, sir, I would, and
23 in that regard, you know, that is -- on the plant
24 acquisition adjustment, I think what the Commission
25 should do, because the plant acquisition adjustment is

1 an accounting requirement; and what I think the
2 Commission should do on any asset the Commission -- I
3 mean, the Company invests in, is try to determine what
4 the value of the asset is versus what we paid for it,
5 and determine whether it should be recovered based on
6 that analysis rather than relying on some accounting
7 requirement. And I agree with you on that, yes.

8 COMMISSIONER GUNTER: Then on the capacity
9 itself, shouldn't we use every means at our disposal to
10 make sure that the capacity at Plant Scherer was not
11 overpriced over what you could have done had it been
12 least cost? Shouldn't you look at what the plant
13 normally would have cost versus what it did cost? Is
14 that inappropriate for us to look at?

15 WITNESS SCARBROUGH: Now, do you mean that
16 when you calculated how much we paid for the 6.25% of
17 Scherer we paid too much for it, or whether we should
18 have bought that or something else in lieu of that?

19 COMMISSIONER GUNTER: No, as to whether you
20 paid too much for it.

21 WITNESS SCARBROUGH: Had we bought it from
22 Plant Scherer; not versus whether we got it from
23 someplace else, but just in making the calculation of
24 whatever we paid for it, did we -- I think you try to
25 satisfy yourself that we paid the proper amount, and

1 what we paid is the cost of that.

2 COMMISSIONER GUNTER: Okay. Sometimes you
3 pay it at cost and the seller spent more on it than
4 they should have, and you bought it at his cost, you
5 might have been buying it at an inflated price,
6 wouldn't you?

7 WITNESS SCARBROUGH: Well, even if you make
8 that assumption, let's just assume that maybe Georgia
9 spent more dollars on it than they should have, I still
10 think that what the Commission should do is look and
11 see what kind of value did Gulf Power Company get out
12 for the dollars expended.

13 And if you feel like the value of that
14 capacity was equivalent to what we paid for it, are not
15 any less than what we paid for it, then it seemed to me
16 like it would be a prudent purchase. But however, in
17 this particular case, what we did is paid the cost for
18 it. And if somehow or another it's proven that we paid
19 more than the cost -- you know, that's been audited
20 several times, and I feel certain that we haven't, but
21 if somehow or another we determined that, we would
22 obviously ask them to refund it. But if it was
23 determined that maybe they made an expenditure that
24 they shouldn't have, and their cost was higher than
25 maybe it otherwise would have been, it appears to me

1 that what you then do is look at the value of what we
 2 got and try to compare that to what we paid for it.

3 COMMISSIONER GUNTER: Well, I hope you're
 4 prepared to demonstrate to me how you could have
 5 evidence as to what the value is, because we're going
 6 to spend some time exploring that.

7 I provided at the last, at the tax docket, a
 8 copy of a retrospective audit report, and my portion is
 9 not going to be looking at the dollars. I'm just going
 10 to look at the calendar of events and then ask some
 11 questions involving that. Does Mr. Scarbrough have a
 12 copy of it?

13 MR. HOLLAND: I don't think Mr. Scarbrough
 14 does. Mr. Parsons is prepared to address it.

15 COMMISSIONER GUNTER: I've got extra copies.

16 MR. HOLLAND: We don't have extra copies.

17 COMMISSIONER GUNTER: I have got some in case
 18 the public would like to have it.

19 Well, is Parsons going to be the man?

20 MR. HOLLAND: Yes, sir.

21 COMMISSIONER GUNTER: Mr. Scarbrough is not
 22 going anywhere so I'll just defer --

23 MR. HOLLAND: He'll be back.

24 COMMISSIONER GUNTER: If we have to get into
 25 the bucks, to the dollars. Would Mr. Parsons be able

1 to talk about -- to provide to us from the first
2 expenditure report the AFUDC rates that were applied,
3 the cost of renegotiation of contracts, all the way
4 through? Is he going to be able to provide that data?

5 MR. HOLLAND: I don't know that he is
6 prepared to provide it in the detail that you are
7 describing, but if you would like for him to, I'm sure
8 he can --

9 COMMISSIONER GUNTER: He'd just be forewarned
10 that we need to know that, because we're talking about
11 a 12-year construction program of a plant that we have
12 seen. In our experience we've got to be kind of the
13 result of our experience, and we've seen plants built
14 in 60 months versus 12 years, and the carrying cost of
15 money is a significant item that we need to explore
16 through that process.

17 Public Counsel also was given at that time,
18 when you came down and got a copy, he got a copy. And
19 that's going to be the thrust of some conversations
20 there.

21 Mr. Scarbrough --

22 WITNESS SCARBROUGH: Commissioner Gunter, was
23 your question one that your information says there were
24 some deferrals or something like that, delays, and that
25 type of thing?

1 COMMISSIONER GUNTER: Yes.

2 WITNESS SCARBROUGH: I wasn't aware of that.

3 COMMISSIONER GUNTER: I do have some copies
4 that I had. All the Commissioners have been given a
5 copy of it, and I had Staff run some copies since we
6 were going to talk from it. I think the only party
7 that doesn't have a copy is Major Enders, and he was
8 not a party at the tax savings docket when I started
9 raising some of those questions.

10 MR. HOLLAND: Commissioner Gunter, so we can
11 avoid any surprise, the document that you gave us was
12 not in the entire audit that was performed, and we've
13 got some other portions of it that we intend to.

14 COMMISSIONER GUNTER: Okay. Fine. If you
15 all get copies --

16 MR. HOLLAND: We'll get copies made and try
17 to get those passed out.

18 COMMISSIONER GUNTER: Okay. The only piece
19 I'm going to talk about is Exhibit 1-2; I'm just going
20 to ask questions about that three-page chronology. And
21 my question would just come from the chronology. And
22 the reason I wanted to do that, I recognized that I did
23 not have the whole document.

24 MR. HOLLAND: Yes, sir.

25 COMMISSIONER GUNTER: I was just going to ask

1 questions specifically about those time periods that
2 are shown on the chronology. And I wasn't going to get
3 into the rest of it. I understand there is a whole lot
4 -- and when I studied this document there is a whole
5 lot of unanswered questions because this is the only
6 piece I have I gave you. So I said I would limit my
7 inquiry to those three pages.

8 MR. HOLLAND: Okay.

9 COMMISSIONER GUNTER: I don't know if that
10 helps or hurts.

11 MR. HOLLAND: It does.

12 COMMISSIONER GUNTER: Mr. Scarbrough, does
13 the warehouse and inventory any way fall under your
14 jurisdiction?

15 WITNESS SCARBROUGH: No, sir, not the
16 warehouse. We account for the transactions -- my area
17 accounts for the transactions.

18 COMMISSIONER GUNTER: Okay.

19 WITNESS SCARBROUGH: But as far as the
20 operation of the warehouse, that is not under my
21 responsibility.

22 COMMISSIONER GUNTER: Okay. Well, accounting
23 is the thing I'm interested in.

24 WITNESS SCARBROUGH: All right.

25 COMMISSIONER GUNTER: You were here yesterday

1 when Mr. McCrary was being examined and presented
2 testimony on operations of the warehouse, weren't you?

3 WITNESS SCARBROUGH: Uh-huh.

4 COMMISSIONER GUNTER: And at that time, we
5 spoke of two audits that had been conducted, one of
6 them in '82, which was not accepted. Subsequently had
7 an audit in '83 that's been the source of a lot of
8 discussion.

9 WITNESS SCARBROUGH: Yes, sir.

10 COMMISSIONER GUNTER: Did you hear that
11 yesterday?

12 WITNESS SCARBROUGH: Yes, sir.

13 COMMISSIONER GUNTER: To your knowledge has
14 there been subsequent audits?

15 WITNESS SCARBROUGH: Yes.

16 COMMISSIONER GUNTER: Is that a periodic
17 process that --

18 WITNESS SCARBROUGH: The way the audits are
19 done now, throughout our Company for transmission and
20 distribution of materials that are in stores, we have,
21 I reckon, about 10 major warehouses. And we have an
22 inventory control section now in the general office.
23 And they schedule, in cooperation with our audit
24 department, they schedule what we call "cycle accounts"
25 so that they complete an inventory of the entire

1 warehouse, each warehouse, annually.

2 In other words, maybe in mid-January they
3 might be the poles, wire; and in February, they may do
4 insulators, and so forth and so on. And then
5 adjustments are made -- in other words, they count
6 poles today and it's out, they actually make an
7 adjustment now at that particular warehouse. And of
8 course, that, of course, is approved by several
9 different people and so forth and comes up through
10 accounting and entry is made on the books.

11 Then the Auditing Department, if they find
12 something that's out more than what would be
13 reasonable, they'll, you know, contact the Auditing
14 Department and the Auditing Department will get
15 involved in it.

16 Then, on a sometimes spot check, but
17 generally speaking, about every two years, the Audit
18 Department goes out and does an audit. And that
19 doesn't count everything, it just depends. If they go
20 out and check three or four classes and everything is
21 real tight and very, very little out, they may, that
22 would mean that they may not expand the audit any more
23 If a lot of things are out, they expand the audit. But
24 basically, they check it every two years.

25 In the interim period, the Inventory Control

1 Department, which is out of the general office, also
2 does spot audits of the cycle counts. And so, that's
3 basically how we control the warehouse now, the
4 inventory.

5 COMMISSIONER GUNTER: All right. Prior to
6 the 1983 audit that was accepted -- I'm going to call
7 on some of your institutional knowledge now, because
8 you've been there a long time -- how often were audits
9 conducted?

10 WITNESS SCARBROUGH: Every two years.

11 COMMISSIONER GUNTER: Every two years?

12 WITNESS SCARBROUGH: And they were done at
13 that time, back at that period of time, for the most
14 part, we would go in and -- in fact, we were spending
15 so much audit time, that's about all our auditors did
16 is go in and actually count the -- with some help, of
17 course. Because they would get some help with the
18 people in the warehouse that would lift boxes and show
19 them things and all this kind of stuff. But the counts
20 were basically done by the Audit Department. And it
21 would take, just to do the count, would be three or
22 four weeks even with four or five auditors, which is
23 all the auditors we had.

24 COMMISSIONER GUNTER: All right.

25 WITNESS SCARBROUGH: It was done about every

1 two years then. And then we changed it, I reckon
2 beginning in about '85.

3 COMMISSIONER GUNTER: All right. Now, let me
4 ask you a question. It's been so long ago that I
5 worked in a warehouse, that was my first job with Pan
6 American back when they had dinosaurs -- we counted
7 dinosaurs.

8 You have a process that you've got a number
9 of items in a warehouse. And you count your
10 disbursements and you count your receipts, and if
11 you've got -- everything's up to snuff, you've got the
12 resulting number.

13 WITNESS SCARBROUGH: Uh-huh.

14 COMMISSIONER GUNTER: Now if you didn't have
15 the resulting number, what is Gulf Power's process pre
16 the change and post the change? How do you handle
17 that? Do you write them off?

18 WITNESS SCARBROUGH: Yes. In other words,
19 whether there be an overage or a shortage, we adjust
20 that to -- in other words, if we go in and there's
21 supposed to be five poles there and we count six, then
22 we increase stores by the value of one pole to get that
23 other pole on our books.

24 COMMISSIONER GUNTER: Right.

25 WITNESS SCARBROUGH: And we credit Account

1 163. And then that credit -- all of the Account 163,
2 is spread over all of the issues out of that store
3 house, out of that warehouse.

4 COMMISSIONER GUNTER: Okay. Now you also
5 have a component "Salvage," where they go pull an item
6 out, replace it, and they bring that back to somewhere,
7 don't they? You've got salvage items. You've got a
8 pole yard and --

9 WITNESS SCARBROUGH: Okay, I see what you're
10 talking about. Something that would --

11 COMMISSIONER GUNTER: A transformer blew.
12 You bring it back, you turn it back in to some account
13 and it's disposed of through that account, isn't that
14 correct?

15 WITNESS SCARBROUGH: Yeah, if it's no longer
16 of any value, that's correct.

17 COMMISSIONER GUNTER: If it's just junk?

18 WITNESS SCARBROUGH: That's correct.

19 COMMISSIONER GUNTER: You write it off as a
20 salvage. There's a salvage -- I don't know what you
21 all's title is but there is a salvage account, is there
22 not?

23 WITNESS SCARBROUGH: That's exactly. That
24 all goes through, in other words, that goes through the
25 depreciation reserve. There's three pieces of

1 depreciation reserve; there's depreciation accrual,
2 then there's a cost of removal that works against that,
3 and a salvage would increase the depreciation. So
4 those three pieces make up the depreciation reserve.

5 COMMISSIONER GUNTER: Okay. Because there's
6 been a lot of publicity and, you know, there's been a
7 lot of statements made by people, and what have you.
8 How do you run your -- do you have any BPA accounts,
9 blanket purchase accounts?

10 WITNESS SCARBROUGH: Yes, in the Purchasing
11 Department, yes.

12 COMMISSIONER GUNTER: How about explaining
13 for me how your blanket purchase agreements would work?

14 WITNESS SCARBROUGH: Well, the way a blanket
15 purchase order, rather than issuing a blanket -- I mean
16 a purchase order for each transaction or for each
17 order, you select a vendor by bid and so forth and
18 you'll issue a blanket purchase order, let's say for a
19 year. And it will have sometimes a cap of dollars on it
20 and this type of thing.

21 And then, rather than issuing a separate
22 purchase order each time, you simply issue an order and
23 reference to that blanket purchase order number to that
24 particular vendor. And that's generally good for a
25 year's period of time.

1 COMMISSIONER GUNTER: Okay.

2 WITNESS SCARBROUGH: And then as, of course,
3 when the information comes in, of course, you'd prepare
4 a receiving report for it and then of course it goes on
5 the books.

6 COMMISSIONER GUNTER: Is there a reconciliation
7 between work orders and blanket purchase accounts, is that
8 done?

9 WITNESS SCARBROUGH: Not between a work order
10 and a, and a blanket purchase order. But what we do
11 now -- and we always attempted to do this, but it's
12 more mechanized now and we do a much better job now and
13 have for the last five or six years -- each time a work
14 order comes back in to plant accounting, of course,
15 it's, the work order, first of all, they have a work
16 order. Somebody draws up the drawings of what they're
17 going to do out there to determine how much items they
18 need out of the warehouse. They go requisition those
19 items out of the warehouse.

20 The requisition is processed back through
21 accounting. Then the engineer who drew up the drawings
22 himself and is in charge of the job, when that job is
23 complete, he signs off that work order. In effect,
24 saying, "What's on this work order, so many poles, so
25 many insulators, so many cross arms, that's there."

1 And the Line Service Supervisor also signs off on it.

2 Now, he may not go out to the job, but he
3 looks at that drawing that the line crew used to run
4 that job and he sees, you know, what transmission
5 distribution items are on there and he signs off on it.

6 Then when it comes into the plant accounting
7 area, before they close that order to plant, that's the
8 last thing they do, they check that work order to make
9 sure that everything is on that work order. They check
10 that against the items they issued from stores.

11 Now, that doesn't mean you don't ever have an
12 error in the warehouse. If everything works like it's
13 designed to, you wouldn't ever have an error.

14 COMMISSIONER GUNTER: I understand.

15 WITNESS SCARBROUGH: But you have like, you
16 know, probably the transactions in a year, out of these
17 warehouses, there's probably over 200,000 transactions.
18 And the individual items may be probably in excess of
19 2000. So as many, that many transactions in and out,
20 in and out, you're going to have some outages in a
21 period of time.

22 COMMISSIONER GUNTER: I understand.

23 WITNESS SCARBROUGH: As long as you have got
24 humans doing it.

25 COMMISSIONER GUNTER: I understand. Let me

1 just talk about BPAs for a minute. Do all BPA contracts,
2 does it say that all BPA materials come to the warehouse?

3 WITNESS SCARBROUGH: There are some items
4 that -- for Gulf Power Company, not all blanket
5 purchase order items would actually run through stores,
6 no.

7 COMMISSIONER GUNTER: I guess that's the
8 reason I asked the question. In the time period folks
9 were talking about, in the early '80s, would it have
10 been possible for somebody to have drawn on a blanket
11 purchase agreement and the Company never known about
12 it?

13 WITNESS SCARBROUGH: When you say the -- I
14 don't think it would have been possible for anybody to
15 have done that without an employee of the Company
16 knowing about it.

17 COMMISSIONER GUNTER: I'm not talking about
18 the Company, Mr. Scarbrough, I'm talking about people.
19 Would it be possible for an employee to have drawn from
20 a blanket purchase order, or a blanket purchase order,
21 and to have diverted those materials somewhere else
22 without them ever going into stores, employees?
23 Wouldn't that situation have presented itself?

24 WITNESS SCARBROUGH: Yes.

25 COMMISSIONER GUNTER: Okay.

1 WITNESS SCARBROUGH: Yes.

2 COMMISSIONER GUNTEP: Now, can you help me,
3 and I need to understand the one controllable piece.
4 Does the Company have the records that could give me
5 the results of the inventory beginning in 1980, and
6 give me the ending balances?

7 WITNESS SCARBROUGH: Can I get some help?

8 COMMISSIONER GUNTER: Yeah.

9 WITNESS SCARBROUGH: I don't know how long
10 back we've got these records, that's what I want to
11 check.

12 COMMISSIONER GUNTER: Okay. Well, I don't
13 want to put any undue hardship on anybody, I'm just
14 trying to understand a lot of allegations people have
15 made and I'm trying to find a way to get there. (Pause)

16 WITNESS SCARBROUGH: We have it, we do have it
17 back to 1980, yes.

18 COMMISSIONER GUNTER: All right. And the
19 things I'd like to have, Mr. Scarbrough, I'd like to
20 have the results of the inventory. Like what you
21 expected to be there, what was there, what you wrote
22 off, and what wasn't there. And then what was charged
23 to the depreciation reserve for each audit through the
24 last --

25 WITNESS SCARBROUGH: When you say "charged to

1 depreciation reserves," now that would be charged to a
2 clearing account.

3 COMMISSIONER GUNTER: Well, whatever that
4 clearing account is for salvage.

5 WITNESS SCARBROUGH: I understand, okay.

6 COMMISSIONER GUNTER: Whatever that clearing
7 account, the dollar value. And let me ask you this, do
8 you show -- how do you show that dollar value in that
9 clearing account?

10 WITNESS SCARBROUGH: We actually, it's just a
11 figure that -- if you were \$10,000 short, you would
12 actually credit the stores account to get that off the
13 books and you would debit Account 163 and so that
14 10,000 would show up --

15 COMMISSIONER GUNTER: Is that two trends --
16 now I'm trying to separate the two. If I expect that I
17 had \$100,000 worth of nuts, bolts and washers out there
18 and I had only \$90,000 worth of nuts, bolts and
19 washers, that would be one treatment for that \$10,000.

20 WITNESS SCARBROUGH: Right.

21 COMMISSIONER GUNTER: But if I received a
22 bunch of nuts, bolts and washers that had been dinged
23 up, and bent, and deformed, and what have you, and they
24 came back and they would represent my salvage and that
25 would be a salvage, that's a different component.

1 WITNESS SCARBROUGH: Yeah, they would
2 actually --

3 COMMISSIONER GUNTER: And I would sell them
4 for the pounds.

5 WITNESS SCARBROUGH: In fact, they would go
6 into a disposal bin to be sold as scrap.

7 COMMISSIONER GUNTER: Okay. Now, that's two
8 separate accounts?

9 WITNESS SCARBROUGH: Yes, that's two separate
10 accounts.

11 COMMISSIONER GUNTER: All right, I want to
12 know both of those accounts. And one thing you could
13 do is that salvage account, you could give me that
14 salvage account, that second one for every year from
15 1980, because that doesn't occur just with the audit.
16 The thing that occurs with the audit is where there's
17 any overages or underages and that was treated. Am I
18 being clear?

19 WITNESS SCARBROUGH: Do you want to know how
20 much money we received for the -- as we sold salvage
21 items?

22 COMMISSIONER GUNTER: Yeah. And what the
23 dollar volume was that was involved in that salvage
24 account. And that -- you had those every year. That's
25 not dependent on an audit.

1 WITNESS SCARBROUGH: That happens daily.

2 COMMISSIONER GUNTER: I understand, but
3 certainly you have a year-end total every year on that
4 account.

5 WITNESS SCARBROUGH: Yes.

6 COMMISSIONER GUNTER: So that would be the
7 only one that would be every year, and the other ones
8 could be any overages or underages on the year you had
9 the audit?

10 WITNESS SCARBROUGH: Well, that's true,
11 except -- that's true up to probably '83-84, but now
12 you'll have adjustments every month.

13 COMMISSIONER GUNTER: Well, fine, however.
14 However you all are doing it. I just need to see that.

15 WITNESS SCARBROUGH: I understand.

16 COMMISSIONER BEARD: Let me ask a question
17 here because salvage typically is shown, let's say in
18 scrap it's in pounds. And if you're looking at the
19 salvage, I mean, if I have 1,000 pounds of scrap ACSR,
20 and the price on that will vary, wouldn't you need to
21 get apples to apples to look at whatever unit of
22 measurement it is that you do that salvage in and then
23 the dollars associated with it so that you can look at
24 what you expect -- when you say what you expected it to
25 be there, okay, the value of new ACSR on the reel

1 versus scrap on the ground, the dollar value would be
2 significantly different.

3 WITNESS SCARBROUGH: Yes, sure.

4 COMMISSIONER BEARD: So you may need some
5 unit of volume for measurement, as opposed to --

6 CHAIRMAN WILSON: The thing about it is scrap
7 wire, you don't sell it -- the unit of issue is by the
8 foot. When you sell it by scrap, it's not by the foot,
9 it's by the pound. So once it comes back into scrap,
10 you sell it by the pound.

11 COMMISSIONER BEARD: That's right. There's
12 usually some rough measurement, though, that you can
13 get on poundage, and that may be getting into --

14 COMMISSIONER EASLEY: Are you asking --
15 because all of a sudden I'm hearing ten years worth of
16 monthly entries that you're now asking him to break
17 down. I am hearing some --

18 COMMISSIONER BEARD: I think he was asking
19 for annual, and --

20 COMMISSIONER EASLEY: Mr. Scarbrough
21 specifically mentioned it was getting to monthly when
22 you're talking salvage and --

23 COMMISSIONER BEARD: He said fine, and the
24 point being that you should have a year-end figure,
25 wouldn't you?

1 WITNESS SCARBROUGH: We do. I was just
2 saying, Commissioner Gunter mentioned the fact that you
3 may only have an inventory adjustment annually. I'm
4 saying that we have them every month is what I'm
5 saying, because these are cycle accounts.

6 COMMISSIONER GUNTER: You're only talking
7 about one line item and one of the things where he
8 talked about cycle accounts, Commissioner Easley, is
9 that their inventory, they went away from inventory on
10 a biannual basis and went to certain segments of
11 inventory on a monthly basis by individual warehouses,
12 they go around and look at poles and that kind of
13 stuff. And without having that, I don't know how we'd
14 be able to see what those pieces are.

15 COMMISSIONER EASLEY: I don't have any
16 problem with that --

17 COMMISSIONER GUNTER: On salvage I just asked
18 for an annual figure.

19 COMMISSIONER EASLEY: I could suddenly see us
20 getting into a volume of paper, and I wasn't sure I was
21 hearing it the same way you all were saying it.

22 COMMISSIONER GUNTER: Well, the one thing, to
23 just be candid with you, in reading -- Lord, I don't
24 even know whether it showed up in a deposition or
25 Baker-Childers Report, or some where there was an

1 allegation on the part of a warehouse supervisor of --
2 in the '83 Audit, bringing in unusable materials and
3 counting them so the audit would work out right. Until
4 you went down and you looked and found out the line
5 item of every item that was salvaged, which would be an
6 enormous task and one I'm not asking anybody to
7 undertake, you would never be able to make a
8 determination of whether, in fact, that's correct.

9 WITNESS SCARBROUGH: What --

10 COMMISSIONER GUNTER: What I'm asking for is
11 a sanity test.

12 WITNESS SCARBROUGH: What that person said is
13 -- he wasn't saying we brought it back into salvage.

14 COMMISSIONER BEARD: Brought it back into the
15 inventory.

16 WITNESS SCARBROUGH: They were saying we
17 brought it back into inventory and it was obsolete, and
18 that's absolutely -- obviously cannot be true because
19 you cannot get rid of \$2 million worth of obsolete
20 material. Eventually it would have to go somewhere,
21 and it would have to still be in a warehouse; it would
22 have to be written off as a shortage, and we've had no
23 shortages, so -- or we're not in any magnitude in any
24 event. So that's obviously, by the definition cannot
25 be true.

1 COMMISSIONER GUNTER: You haven't heard me
2 explore that.

3 WITNESS SCARBROUGH: Okay.

4 COMMISSIONER GUNTER: You know me long enough
5 to know if I really wanted to explore that, I'd explore
6 that.

7 WITNESS SCARBROUGH: I understand that.

8 COMMISSIONER GUNTER: Mr. Scarbrough, we have
9 a -- and you've been very active in this case. I don't
10 find -- I find a witness who is responsible for
11 discussion of the new building down -- downtown.

12 WITNESS SCARBROUGH: Yes, sir.

13 COMMISSIONER GUNTER: Are you responsible for
14 all the rest of the buildings? Can you give me some
15 information on all the rest of the buildings that you
16 all have?

17 WITNESS SCARBROUGH: Probably Ernie Connors
18 is the best person to talk about the building, the
19 cost, the maintenance costs and the construction costs
20 and those kind of things, and the need for it and the
21 parking and the land and all that kind of stuff. I
22 would think Ernie Connors is the best person we have to
23 discuss the land.

24 COMMISSIONER GUNTER: And utilization and
25 that kind of thing.

1 WITNESS SCARBROUGH: Yes, yes.

2 COMMISSIONER GUNTER: Because he's been
3 identified -- in reading his testimony, he's primarily
4 limited to Bonifay and the downtown building and one
5 other one, and I didn't want to let you go if you were
6 one that could address that at all.

7 WITNESS SCARBROUGH: No, you know, if you
8 wanted to get down to how much a building costs, you
9 know, I might be the one, but as far as justifying that
10 building, the utilization of it, the maintenance costs,
11 you know, why was it built, that kind of thing,
12 contracts, he would be the one.

13 COMMISSIONER GUNTER: Well, would it be
14 appropriate to ask you for some information that maybe
15 he could have by the time he got on the stand?

16 WITNESS SCARBROUGH: I think that's a good
17 idea.

18 COMMISSIONER GUNTER: Mr. Scarbrough,
19 notwithstanding Response to Staff's Fourteenth Set of
20 Interrogatories, No. 220 and 221, I would like to have
21 -- and you notice I said, "notwithstanding 220 and
22 221," because in the Response to Staff's
23 Interrogatories, we included such things as substations
24 that are not occupied and, you know, on and on and on.
25 I'm interested in the buildings that people occupy.

1 Now, do you have a copy -- can your Counsel
2 or somebody show you a copy of that? Could you --

3 CHAIRMAN WILSON: We'll get one just a
4 second.

5 COMMISSIONER GUNTER: Well, I think it would
6 help to get the information that we need on this -- can
7 you turn to Page 2 and we can just work off that Page
8 2?

9 WITNESS SCARBROUGH: Okay.

10 COMMISSIONER GUNTER: And that's Gulf Power
11 Company's Staff's Fourteenth Set of Interrogatories,
12 Item 220, 6-6-90?

13 WITNESS SCARBROUGH: Yes.

14 COMMISSIONER GUNTER: Information, talking to
15 Mr. Conner, I would like the first column, but only
16 those buildings that are occupied. If you look on
17 there and the next one under "department" it's got
18 "substation," and as you look across, there aren't any
19 employees in there, just looking for occupied
20 buildings.

21 WITNESS SCARBROUGH: I understand. Yes, sir.

22 COMMISSIONER GUNTER: Now, could you add one
23 more column?

24 WITNESS SCARBROUGH: Sure.

25 COMMISSIONER GUNTER: You've got in here the

1 square footage. If you look over in Column C-1 and
2 C-2.

3 WITNESS SCARBROUGH: Yes.

4 COMMISSIONER GUNTER: You've got total
5 utility square footage and total non-utility square
6 footage. In Column D, you've got the number of
7 employees. If we could make that "D-1," would be
8 utility employees, "D-2," non-utility employees. And
9 if you do that for 1984 and do that for 1990, it would
10 help me a great deal because if we don't and we get in
11 here and we get squabbling over this thing, I've got
12 all sorts of pencil scratch on where I've done the math
13 on it already, and this would be one of those
14 subject-to-check kind of things, and I'd just as soon
15 we were working from a clean copy

16 CHAIRMAN WILSON: We've already got a request
17 to get total employees --

18 COMMISSIONER GUNTER: I understand. I made
19 that request of you. I thought this would be the
20 simplest way.

21 WITNESS SCARBROUGH: Sort of tie this in with
22 that?

23 COMMISSIONER GUNTER: Yeah, Because that's
24 what I was looking for because I've already done all my
25 pencil scratching on this one.

1 WITNESS SCARBROUGH: You're saying just
2 replace -- take what you had asked for and make two
3 columns out of D-1 and D-2?

4 COMMISSIONER GUNTER: That would help -- that
5 would satisfy me, and then Mr. Conner would have that
6 available when he comes in the stand and give everybody
7 a copy of it, we'd have something to work from.

8 MR. HOLLAND: Commissioner, we've already got
9 -- I think it's Late-Filed 559. You want to just work
10 off that and do it in this format? Would that be
11 appropriate?

12 COMMISSIONER GUNTER: That would be fine.
13 Because that gives me the same thing I'm after, Mr.
14 Holland, and it gives you the occupied buildings. If
15 you look at that one, the thing that I have concern
16 about is that there a lot of -- and I understand in
17 direct response to the question that you all were asked
18 by Staff, but you have so many of the facilities that
19 are substations or non-manned substations, those little
20 old buildings there, 400 square feet, 420, on down like
21 that, that that's useless for this kind of analysis.

22 CHAIRMAN WILSON: Does that then become a
23 part of 559, or are you redoing this with the
24 information that was in 559?

25 COMMISSIONER GUNTER: Make it part of 559.

1 MR. HOLLAND: Make it a part of 559, so we
2 don't have to have two, and we need a number for the
3 one you asked for just prior regarding the audit.

4 COMMISSIONER GUNTER: And that would be 560.

5 CHAIRMAN WILSON: What is that called?

6 COMMISSIONER GUNTER: Inventory Analysis,
7 1980 to Present.

8 (Late-Filed Exhibit No. 560 identified.)

9 COMMISSIONER GUNTER: Mr. Scarbrough, I don't
10 think I have but one additional area.

11 WITNESS SCARBROUGH: Commissioner, before we
12 get off of this, I'm sitting here rethinking in my mind
13 how we're going to do this, and I really -- I don't
14 think we can do this by building and it gets back to
15 this thing of nonutility. We have so many employees
16 where there's just a portion of their time charged to
17 nonutility. If you had ten employees where only 10% of
18 their time is charged to nonutility, that's one
19 equivalent employee, but they could be in ten different
20 buildings. So to do it by building and nonutility is
21 near about going to be about impossible.

22 COMMISSIONER GUNTER: Well, somehow or other
23 in the response to this interrogatory you were able to
24 pull out the number of square feet that were used and I
25 got the total number of employees, but --

1 WITNESS SCARBROUGH: Yes, sir. But, for
2 instance, if you come down there and look at appliance
3 administration, and appliance sales and service -- of
4 course that's not a good example, because maybe all
5 those would be appliance sales, but let's just assume
6 that those -- of those five employees, that, you know,
7 only 10% of their time would be charged to that.

8 COMMISSIONER GUNTER: Well, if you've got five
9 employees and it's 10% of their time, that would be
10 what, .5 --

11 WITNESS SCARBROUGH: I you did it -- you could
12 do it by decimal places and do what you're asking for.

13 COMMISSIONER GUNTER: Well, I'm just
14 interested -- you all just do the best job you can.

15 WITNESS SCARBROUGH: All right, sir, I
16 understand that. We'll do that.

17 COMMISSIONER GUNTER: Because I need to know
18 --

19 WITNESS SCARBROUGH: The only thing I'm
20 saying, you may find something that says 4.2 employees,
21 and obviously you can't have a .2 employee in a
22 building.

23 COMMISSIONER GUNTER: For the purposes of
24 mine, if you have to cut this this fine, that's fine.
25 Now, let me ask you a question --

1 COMMISSIONER BEARD: We have to let you round
2 up four-tenths of a body.

3 COMMISSIONER EASLEY: I may get back to
4 dealing in FTEs before it's all over with.

5 CHAIRMAN WILSON: What's an arm and a leg?

6 COMMISSIONER EASLEY: Not much anymore.

7 COMMISSIONER GUNTER: Let me -- let me discuss
8 with you for a moment, if I can, the allocations of
9 Southern Company, or Southern Company Services, or what
10 have you, to its individual member companies. Are
11 there capital expenditures that are allocated by either
12 Southern Company or Southern Company Services to its
13 member companies, like their buildings, those kind of
14 things? Is there a direct allocation for that?

15 WITNESS SCARBROUGH: Before I give you the
16 wrong answer to that, let me talk just a second.

17 COMMISSIONER GUNTER: All right. (Pause)

18 WITNESS SCARBROUGH: We do not have any of
19 those buildings, or any of their capital expenditures
20 on our books. Of course, we get charged for all the
21 costs that --

22 COMMISSIONER GUNTER: I'm not talking about
23 do you have any on your books, but I'm addressing how
24 do they recover the costs for capital expenditures?

25 WITNESS SCARBROUGH: Oh, oh, I see. They

1 bill us the depreciation on that.

2 COMMISSIONER GUNTER: Okay. So they bill
3 you, sort of allocate it around all the parties?.

4 WITNESS SCARBROUGH: That's correct.

5 COMMISSIONER GUNTER: For instance, you're
6 about 7% of the total, so you'd get 7% of the total.

7 WITNESS SCARBROUGH: Well, yeah. They've
8 probably got maybe 20 or 25 different methods of
9 allocating it, depending on what it is, but overall
10 that's about right.

11 COMMISSIONER GUNTER: Okay. If we were to
12 look at the allocations from Southern Company Services,
13 if we were to go through and pour and dig and do all of
14 those kind of things, would we find where there has
15 been an allocation associated with the design of a
16 Southern Company Services building in Birmingham,
17 Alabama, that was never constructed?

18 WITNESS SCARBROUGH: Yes. Yes.

19 COMMISSIONER GUNTER: And that allocation
20 would have been made for those charges that were
21 capitalized even though the building was not built?

22 WITNESS SCARBROUGH: That's correct.

23 COMMISSIONER GUNTER: Would there be a reason
24 why that building was not constructed? Because, as I
25 understand, there were several, many millions of

1 dollars spent.

2 Let me ask you a question: What percentage
3 of the overall, just ballpark, does Georgia have?

4 WITNESS SCARBROUGH: Roughly, 50%.

5 COMMISSIONER GUNTER: Roughly, 50%. So then
6 it would not be unsafe to say that the capitalized
7 portion of the building that was never completed would
8 have been somewhere in the neighborhood of \$7 million,
9 that Southern Company Services building in Birmingham,
10 is that right?

11 WITNESS SCARBROUGH: How are you getting that
12 figure, now?

13 COMMISSIONER GUNTER: I just asked you is
14 that true? Hell, I could have said 50 million.

15 WITNESS SCARBROUGH: I don't know the answer
16 to it.

17 COMMISSIONER GUNTER: Okay. But would it be
18 appropriate for the capitalized price, with no more
19 evidence than we have in the record, in this record, to
20 allow -- you know, I have been through the cancellation
21 process. I went through the cancellation process in
22 Caryville back in -- I guess the first time I saw that
23 was in 1980, 1979, I understand that process, but it
24 was after a great deal of evidence as to why it was
25 cancelled, why those dollars -- why it would be a

1 better deal. In this process there are costs that have
2 been incurred by the Southern Company and allocated to
3 the various members for a building that was never
4 completed.

5 WITNESS SCARBROUGH: That's correct.

6 COMMISSIONER GUNTER: All right. Would you
7 give us a late-filed?

8 CHAIRMAN WILSON: 561.

9 COMMISSIONER GUNTER: That will be 561.

10 CHAIRMAN WILSON: 561.

11 COMMISSIONER GUNTER: 561.

12 (Late-filed Exhibit No. 561 identified.)

13 COMMISSIONER GUNTER: And the information I'd
14 like to see on there was the cost incurred by Southern
15 Company Services for cancellation of the building in
16 Birmingham.

17 WITNESS SCARBROUGH: You want the total cost?

18 COMMISSIONER GUNTER: Total cost. And then
19 that portion which has been allocated to Gulf Power.
20 Okay?

21 WITNESS SCARBROUGH: We know how much has
22 been allocated to Gulf Power Company.

23 COMMISSIONER GUNTER: Oh, you do? Have you
24 got the total cost?

25 WITNESS SCARBROUGH: Not the total, we just

1 know how much is --

2 COMMISSIONER GUNTER: I'd like to find out
3 what the total cost is and then how much was --

4 WITNESS SCARBROUGH: How much of that was
5 allocated to us.

6 COMMISSIONER GUNTER: How much of that was
7 allocated to Gulf Power.

8 WITNESS SCARBROUGH: We have the amount that
9 was allocated but we don't have the total cost.

10 COMMISSIONER GUNTER: Okay. Let me ask you
11 this: Are there any other projects of a like nature,
12 by either the Southern Company or by Southern Company
13 Services, that fall in the same category as this
14 building cancellation?

15 WITNESS SCARBROUGH: I'm not too sure, but
16 we'll check that out. There is a possibility. I
17 don't know the answer to that. But if you want us to
18 check that out and include it on this late-filed.

19 COMMISSIONER GUNTER: If you would, I'd like
20 to get a response, one way or the other. Not a "don't
21 answer," but if you don't know of any I'd like to have
22 that -- if there are not any, I'd like to have that
23 negative response.

24 WITNESS SCARBROUGH: For what period of time
25 are you looking at?

1 COMMISSIONER GUNTER: 1987 forward.

2 CHAIRMAN WILSON: What are you looking for?

3 COMMISSIONER GUNTER: If there are, to be
4 included in this same exhibit, if there are any other
5 projects of a like nature, by either Southern Company
6 or Southern Company Services, which monies have been
7 expended on but the project has not been followed
8 through with, whose costs are being allocated to Gulf
9 Power.

10 COMMISSIONER EASLEY: And do you want the
11 information to the distribution of those costs if they
12 find such a project?

13 COMMISSIONER GUNTER: Yes, certainly.

14 CHAIRMAN WILSON: You're familiar with -- how
15 do they decide how much of that cost is allocated to
16 Gulf Power? Or do you know?

17 WITNESS SCARBROUGH: Commissioner Wilson, I
18 can't -- there is a listing, and I can go down through
19 each one of the allocation methods -- it just depends
20 on what kind of cost it is. It could be done on the
21 peak period. The ratio would be based on the total
22 number of employees; based on our total amount of
23 equity in relationship to the total equity of the
24 Southern Company. There are numerous methods that have
25 been approved by the SEC for allocating costs. So I

1 don't know exactly which one was used to allocate that,
2 but we can determine that and give it to you.

3 CHAIRMAN WILSON: I'm sure you looked at it.

4 WITNESS SCARBROUGH: Do what, sir?

5 CHAIRMAN WILSON: I'm sure you looked at it
6 at some point. I mean, I can't imagine Southern
7 Company giving you a bill and saying, "This is your
8 share," without you verifying it.

9 WITNESS SCARBROUGH: Oh, no; no, absolutely
10 not. But what I'm saying is that I don't remember
11 exactly what the --

12 CHAIRMAN WILSON: You don't remember the
13 methodology?

14 WITNESS SCARBROUGH: What the particular
15 method was about. And I think this is filed, maybe
16 annually, with the Florida Public Service Commission
17 showing all those allocations.

18 CHAIRMAN WILSON: Okay. Before you go on.

19 Mr. Pruitt, you indicated to me we had
20 several late-filed exhibits that we did not give
21 numbers to.

22 COMMISSIONER EASLEY: Correct.

23 MR. PRUITT: Mr. Chairman, if I understood
24 you correctly a moment ago, on the occupied buildings,
25 the utility versus nonutility usage was combined with

1 No. 559? I thought I heard that.

2 CHAIRMAN WILSON: That's correct.

3 MR. PRUITT: And then you had assigned 560 --

4 CHAIRMAN WILSON: To an inventory analysis.

5 And then 561 is Southern Company total cost, building.

6 COMMISSIONER EASLEY: There were several that

7 we said we weren't going to give numbers until they

8 came in because there was --

9 CHAIRMAN WILSON: I know. I'm convinced that
10 was a mistake.

11 COMMISSIONER EASLEY: Okay.

12 MR. PRUITT: I've got two more. One was

13 Commissioner Gunter wanted information on capacity

14 payments relating to Plant Daniel, and so forth,

15 CHAIRMAN WILSON: We'll give that 562.

16 MR. PRUITT: 562?

17 CHAIRMAN WILSON: Yes, sir.

18 (Late-Filed Exhibit No. 562 identified.).

19 MR. PRUITT: And then there was another one

20 that Commissioner Gunter asked for that was the

21 allocation of expenses from a appliance sales. They

22 came just ahead of the capacity one. That would make

23 it 562.

24 CHAIRMAN WILSON: Well, I've already written

25 this down. Make that 563, late-filed

1 (Late-Filed Exhibit No. 563 identified.)

2 MR. PRUITT: I'm showing that I've got two
3 marked 561 and that don't work out. The capacity
4 payments for Plant Daniel is 561, and then --

5 CHAIRMAN WILSON: No, the capacity payments
6 for Plant Daniel would be 562, and then the expenses
7 from appliance sales is 563. Are there any others?

8 MR. HOLLAND: That's all I've got.

9 MR. PRUITT: So that would be 560, 561, 562,
10 and 563.

11 CHAIRMAN WILSON: Right.

12 MR. PRUITT: We'll be using 564 next.

13 COMMISSIONER GUNTER: I only have one more
14 item, Mr. Scarbrough. Could you -- I didn't quite get
15 an understanding from yesterday and today of what the
16 Performance Pay Plan is.

17 WITNESS SCARBROUGH: All right, sir. If I
18 can explain --

19 COMMISSIONER GUNTER: Do we have a -- is
20 there a plan that you can read? Is there forms that
21 you fill out? Is that one of those things like you
22 used to, I used to do on performance evaluations back
23 in a previous life? A guy would call you in and he
24 would say, "What are you going to do for me the next
25 six months, or what are you going to do for me the next

1 year?" And he would say, "Yeah, that's what I'm going
2 to do for you." And then you would go back and
3 evaluate, "Did you do that?"

4 WITNESS SCARBROUGH: It's got some of that
5 flavor to it. But it's made up, the performance pay
6 plan is now the plan that was initiated in 1989. Last
7 year, which was the first year, it was just for what we
8 call our exempt employees, which would be those that
9 are exempt from the wage and hour law.

10 Beginning in 1990 and this filing, the
11 performance pay plan is available to all employees of
12 Gulf Power Company except for the covered or the union
13 employees. And there are basically three components --
14 really, four components but two of them are subparts of
15 one.

16 The first one is the corporate component.
17 And it's made up of a financial objective and a
18 competitive objective. The financial objective being
19 return on equity. The competitive objective being the
20 average retail cost per kilowatt hour.

21 Then there is an organizational piece of
22 that. And that is where you have goals for each of the
23 organizations.

24 And then the third part is an individual
25 component.

1 The weighting on those last year was 2% for
2 the financial objective, 2% for the competitive
3 component or the competitive objective, 3% for the
4 organizational, and 1% for the individual. This year,
5 1990, it's 2.5% for the financial objective of return
6 on equity; 2.5% for the competitive, which is the
7 average cost per cents per retail kilowatt hour sold;
8 4% for the organizational objective; and 1% for the
9 individual.

10 And what those percentages are is just a
11 total weighting, that's the maximum amount that you
12 could fund into that, the maximum amount that you could
13 get into the pot would be 10% if you've got a 5. And
14 you rate all these -- the ratings on all this is 1, 2,
15 3, 4, or 5. And if you had a 5 on all those
16 objectives, you could get into the pot 10% of the mid
17 point values of all the exempt and nonexempt employees.

18 And then at the end of the year, you go back
19 and measure those objectives and wait it out and then
20 you then can allocate that to each employee based on
21 their performance between 0% and 20%.

22 COMMISSIONER GUNTER: All right. Let me ask
23 you a question, sort of philosophical thing. Isn't it
24 the responsibility of the Utility to deliver electricity
25 to its customers at the lowest possible price?

1 WITNESS SCARBROUGH: Yes.

2 COMMISSIONER GUNTER: Or the lowest
3 reasonable price? Not "possible," reasonable price.

4 WITNESS SCARBROUGH: (Nods head up and down.)

5 COMMISSIONER GUNTER: And again, the purpose
6 of regulation is to --

7 WITNESS SCARBROUGH: And to do it in a
8 reliable and reasonable, adequate fashion.

9 COMMISSIONER GUNTER: And that's sort of the
10 charter that you all operate under, isn't that correct?

11 WITNESS SCARBROUGH: That's correct.

12 COMMISSIONER GUNTER: And we, as regulators,
13 are supposed to act as a surrogate for competition?

14 WITNESS SCARBROUGH: That's correct.

15 COMMISSIONER GUNTER: To make sure that folks
16 don't run willy-nilly. And if we're doing our job
17 responsibly, that won't happen, and that the utilities
18 would have an opportunity -- should be provided the
19 opportunity to earn a fair and equitable rate of return
20 on their investment.

21 WITNESS SCARBROUGH: That's correct.

22 COMMISSIONER GUNTER: I find some difficulty
23 in saying, not with the program, but that the
24 ratepayers would be asked to provide incentives to
25 employees to do what they're charged to do. I would

1 have less problem if, for instance, there were a
2 process such as a number of businesses do -- a number
3 of businesses -- is that it comes all or a part out of
4 your after-tax earnings to employees to provide those
5 incentives. Because the incentives appear to be geared
6 to Company performance, which is directly translatable
7 to the bottom line.

8 WITNESS SCARBROUGH: And the individual
9 performance, also.

10 COMMISSIONER GUNTER: Well, I understand.
11 Well, the individual is supposed to do good. And if
12 you, as an executive of Gulf Power, if you have people
13 that aren't doing good, you ought to send them down the
14 road.

15 WITNESS SCARBROUGH: Well -- and you're
16 right. But let me explain this. I was trying to
17 explain to you what the performance pay plan was and
18 hopefully I did.

19 COMMISSIONER GUNTER: Yes.

20 WITNESS SCARBROUGH: However, that is not on
21 top of normal salary. That is replacing a piece of the
22 existing salary. In effect, what we have done --

23 COMMISSIONER GUNTER: In other words, if they
24 don't meet them, you're going to take money away from
25 them, is that right?

1 WITNESS SCARBROUGH: No. What we're going to
2 do, rather than having the normal salary and merit and
3 cost of living increases every year, it's sort of like
4 having an annuity, you earn it, you get it this year,
5 you get it next year. You have -- we're going to do
6 away with a piece of the old salary program and make
7 you earn it every year.

8 And so the total salary, the design of this
9 thing is that the total salary will eventually, and
10 there is a transition period in here, but the total
11 salary will eventually get to the place to where there
12 will be -- should be no difference in the total salary
13 of those -- the total salary package. One employee may
14 get more than another employee doing the same job
15 because one of them may have done it at a 5 level, one
16 did it at a 1 level. But if he gets a 5 --

17 COMMISSIONER GUNTER: Well, a proper merit
18 system --

19 WITNESS SCARBROUGH: -- he earns it this year
20 but he won't earn it next year.

21 COMMISSIONER GUNTER: Yes.

22 WITNESS SCARBROUGH: So you can't look at the
23 performance pay plan as incremental in addition to the
24 normal pay plan. It's really taking the pay plan and
25 taking a piece of it out and it's a performance-based

1 component of a new pay plan.

2 CHAIRMAN WILSON: Can I ask you a question
3 there?

4 COMMISSIONER GUNTER: A proper construction
5 of a merit plan accomplishes the same thing.

6 WITNESS SCARBROUGH: Do what?

7 COMMISSIONER GUNTER: The proper
8 implementation of a merit pay plan does exactly what
9 you're talking about.

10 WITNESS SCARBROUGH: That's what we've done
11 for years, and we're just changing the way we're doing
12 it. But primarily -- let me tell you why we went to
13 this.

14 The primary purpose for going forward with
15 this is because there was such a -- when you would take
16 the employee that performed way up here and way down
17 here under the merit plan, there would be some
18 difference in their merit increase and some difference
19 in their salary but it would be compressed so low
20 together. And what we're trying to do now is make sure
21 we reward those top performers who can get up to 20% of
22 his salary. And the guy that does nothing gets zero.
23 Rather than basically giving everybody the same salary
24 increase every year. And that's the purpose of doing
25 it.

1 COMMISSIONER GUNTER: Let me ask you a
2 question, Mr. Scarbrough. Do you ever go down to
3 personnel records and go through performance
4 evaluations?

5 WITNESS SCARBROUGH: Oh, yes, sir. Well, I
6 go through my own.

7 COMMISSIONER GUNTER: You don't go down and
8 look at employees that may work for you --

9 WITNESS SCARBROUGH: Well, I'm saying I look
10 at my own employees.

11 COMMISSIONER GUNTER: Okay. And your
12 performance evaluations that are done by your
13 subordinate managers --

14 WITNESS SCARBROUGH: Yes, sir.

15 COMMISSIONER GUNTER: -- for all their
16 people? Do you find there is a tremendous spread
17 between performance evaluations?

18 WITNESS SCARBROUGH: You mean between
19 employees in one department --

20 COMMISSIONER GUNTER: Yes.

21 WITNESS SCARBROUGH: -- or between different
22 supervisors?

23 COMMISSIONER GUNTER: Both.

24 WITNESS SCARBROUGH: You get it more probably
25 between different supervisors. You'll have maybe one

1 supervisor a higher rater than another one is for the
2 same type of performance. You get that a lot.

3 COMMISSIONER GUNTER: I understand. You're
4 going to have the same problem with this plan that
5 you've got with the merit plan, but that's beside the
6 point. That's not my plan.

7 WITNESS SCARBROUGH: Let's put it this way,
8 the plan is not a panacea, for sure. We just think
9 it's a better plan than what we've got. And because
10 it's a performance-based plan, and a person doesn't
11 rock along saying, "Well, I'm going to get 3% this
12 year, or 4% this year." And 3%, 4, it builds up.

13 He's basically motivated to try to earn that
14 piece of his salary every year. He may get it this
15 year but he may not get it next year. If he backs off
16 and is allowed to slide, he's not going to get it next
17 year.

18 COMMISSIONER GUNTER: Okay. So as I
19 understand your plan, you're still, the objective of
20 the Company is to maintain its growth and salaries
21 within the CPI and customer growth, is that my
22 understanding?

23 WITNESS SCARBROUGH: Well, I can't really say
24 it's within CPI and customer growth. Our pay plan
25 philosophy is to pay our employees at the 75th

1 percentile. And that's what this plan is designed --
2 it's been there before and under the old plan and the
3 new plan it's still there except a piece of that total
4 salary, a piece of it is going to have to be this
5 performance-based piece of it.

6 COMMISSIONER GUNTER: Okay.

7 WITNESS SCARBROUGH: The total salary would
8 still put us in the 75th percentile is the goal.

9 COMMISSIONER GUNTER: And you would be in a
10 situation that should you exceed, by whatever pay plan
11 you put in, should you exceed the CPI and customer
12 growth, multiplier of that over time, that's at your
13 jeopardy?

14 WITNESS SCARBROUGH: We realize that before
15 we could do that, we would have to justify to you --

16 COMMISSIONER GUNTER: That's what I'm talking
17 about?

18 WITNESS SCARBROUGH: -- that it was a proper
19 and reasonable expense, yes, sir.

20 CHAIRMAN WILSON: What is the competitive
21 piece of that that you were talking about? The average
22 retail cost per kWh?

23 WITNESS SCARBROUGH: What the goal is?

24 CHAIRMAN WILSON: Yeah. Does volume of kWh
25 sales enter into this at all?

1 WITNESS SCARBROUGH: Yes. It's a very simple
2 calculation, although we have added another factor to
3 it this year which makes it a little more binding on us
4 in that we simply take the total kilowatt hour sales
5 and the total revenue and divide one by the other. And
6 we assume that in that cost per kilowatt hour, in the
7 cost side of that, is you earn a certain return.
8 Whether you did or not, the assumption is made you
9 perform with that end. Okay? And that's something we
10 did this year. Because theoretically, if you didn't
11 have that in there, a person may get a high reward
12 simply because he had low costs and he wasn't earning a
13 reasonable return. So we put a --

14 CHAIRMAN WILSON: Hold on just a second, I'll
15 come back to th's question. Let's take a five-minute
16 break.

17 (Brief recess.)

18 - - - - -

19 CHAIRMAN WILSON: We were talking about the
20 competitive piece of the pay package.

21 WITNESS SCARBROUGH: Yes, sir.

22 CHAIRMAN WILSON: I think I had asked you
23 whether increased kWh sales played a part in that?

24 WITNESS SCARBROUGH: Increased kilowatt-hour
25 sales or decreased kilowatt-hour sales would play a

1 part in it, but this is a cost goal.

2 The idea is to get your cost down as low as
3 you can. There are two components of this goal, of the
4 competitive goal. A fuel component and a nonfuel
5 component. And it is a cost-based goal.

6 The purpose of it is to try to get the cost
7 for average kilowatt-hour sold down, but the way you
8 calculate it is you take the total revenues divided by
9 the total retail kilowatt-hour sales and you get a
10 figure. And so naturally your kilowatt-hour sales
11 impact the calculation of the goal. It's a cost-based
12 goal. It has nothing to do with a goal to sell
13 kilowatt-hour sales or anything like that.

14 CHAIRMAN WILSON: So it wouldn't distinguish
15 between kilowatt-hour sales that make a contribution to
16 a load factor or not, would it; or would it?

17 WITNESS SCARBROUGH: No, this is simply
18 strictly a very straightforward calculation. In fact,
19 as I said, this year we have changed the calculation of
20 the nonfuel piece of it in that you take your total
21 kilowatt-hour sales, retail kilowatt-hour sales, then
22 you take your total revenue that you have received from
23 those kilowatt-hour sales and you, in effect, gross it
24 up or impute it up to what that would have been were
25 you earning a 13% return on equity, and you divide the

1 kilowatt-hour sales into that and that gives you a
2 figure for the nonfuel, and depending on -- you have
3 goals set; it's a cost goal to try to get the cost
4 down.

5 CHAIRMAN WILSON: Who sets that goal?

6 WITNESS SCARBROUGH: The Company sets the
7 goal.

8 CHAIRMAN WILSON: Gulf Power Company or
9 Southern Company?

10 WITNESS SCARBROUGH: In fact, if you look at
11 my Exhibit 16, my direct testimony, Schedule 11 Page 1
12 of 2.

13 CHAIRMAN WILSON: Exhibit what?

14 WITNESS SCARBROUGH: My exhibit is No. 16.

15 CHAIRMAN WILSON: Okay.

16 WITNESS SCARBROUGH: And it's Schedule 11, my
17 direct testimony, Page 1 of 2.

18 CHAIRMAN WILSON: All right.

19 WITNESS SCARBROUGH: And you will see where
20 in 1988 that Gulf Power Company's average cents for
21 retail kilowatt-hour sold, of the 26 southeastern
22 electric companies, was 23 of 26. There are only three
23 companies that had lower rates in 1988 than Gulf Power
24 Company did.

25 And then if you'll turn to Page 2 of 2,

1 you'll see that even with the full rate relief that
2 we're asking for in this case we would still be only up
3 to the 21st out of 26; we'd still be in the very bottom
4 quartile. And the goal that we're talking about is
5 this figure broken down between fuel and nonfuel,
6 grossed up to a 13% return on equity. It's a cost
7 goal.

8 CHAIRMAN WILSON: And the company, Gulf Power
9 Company -- who is it the Board of Directors,
10 Compensation Committee, or who sets that as a goal?

11 WITNESS SCARBROUGH: We set it internally;
12 Gulf Power sets that goal.

13 CHAIRMAN WILSON: Is there also a Southern
14 Company goal with respect to this?

15 WITNESS SCARBROUGH: There is no Southern
16 Company goal that would affect this.

17 CHAIRMAN WILSON: Southern Company doesn't
18 have this kind of a goal for Gulf Power?

19 WITNESS SCARBROUGH: No.

20 CHAIRMAN WILSON: Does it have that kind of
21 goal for itself? Do you know if officers of Gulf -- of
22 Southern Company have a pay plan that's dependent on
23 the cost per kWh of retain sales?

24 WITNESS SCARBROUGH: The way the performance
25 pay plan worked for Southern Company Services

1 employees, it's a composite of all the companies. In
2 other words, since they obviously don't have a product,
3 they don't have any kilowatt hours to sell, it's a
4 composite of all the companies.

5 So they --

6 CHAIRMAN WILSON: Would the presence of a
7 cogenerator on your system tend to drive your average
8 costs retail kWh up or down?

9 WITNESS SCARBROUGH: If you had a
10 cogenerator, which would mean that it reduced our
11 sales. And as you reduce your sales, you would also
12 reduce your kilowatt hours. Theoretically, it wouldn't
13 make any difference.

14 But it could make some difference in that, by
15 lower kilowatt hour sales, you would have less, less
16 revenue to spread your fixed costs over. So it could
17 have a little bit of impact. It could have a little
18 bit of impact, but very little. Because if you didn't
19 make those sales, you wouldn't have the kilowatt hour
20 sales but you also wouldn't have the revenue.

21 COMMISSIONER EASLEY: Would you put avoided
22 costs into that little formula?

23 WITNESS SCARBROUGH: Do what?

24 COMMISSIONER EASLEY: Would you put avoided
25 costs, avoided cost payments or capacity payments, into

1 that little formula?

2 CHAIRMAN WILSON: When you calculate the
3 amount of money, you use total kWh sales divided by
4 total revenue?

5 WITNESS SCARBROUGH: Well, see --

6 CHAIRMAN WILSON: Nonfuel revenue? Total
7 revenue?

8 WITNESS SCARBROUGH: It's total revenue.
9 It's broken down by a fuel and nonfuel component. In
10 other words, for instance, the goal for 1990 for a 3
11 level is that the fuel cost per retail kilowatt hour,
12 if it's between 2.20 cents per kilowatt hour and 2.24
13 cents per kilowatt hour, that would be a 3, which would
14 be an average rating between a 1 and a 3. And the
15 nonfuel is 3.56 to 3.60.

16 And your question, Ms. Easley, about the
17 cogenerator, would depend upon -- you could have a
18 cogenerator that was providing his own capacity, his
19 own service, we would not be receiving anything from
20 that. You see what I mean? In other words, we may not
21 have any avoided costs to pay if we weren't receiving
22 any kilowatt hours --

23 COMMISSIONER EASLEY: I understand. I just
24 was wondering where that would fit if that occurred
25 into this --

1 WITNESS SCARBROUGH: Yes, that would be a
2 cost. Everything that ends up being a cost for us
3 would be calculated into the cost, yes, ma'am.

4 COMMISSIONER EASLEY: So that would just run
5 that up a little bit higher, too.

6 COMMISSIONER BEARD: Let me explore that a
7 second. You lose a Monsanto. You have reduced
8 revenues. Okay. You have reduced kWh sales, generally
9 probably would balance each other out. However, you
10 also have in that, I think competitive factor, you have
11 a return on equity. So you have embedded costs against
12 reduced revenues, which maybe infinitesimally decreases
13 your return on equity as a factor of that as well?

14 WITNESS SCARBROUGH: Here, again, this is the
15 13%, a very straightforward calculation.

16 COMMISSIONER BEARD: You just plug that one,
17 don't you?

18 WITNESS SCARBROUGH: Do what?

19 COMMISSIONER BEARD: You just plug that one
20 in, don't you?

21 WITNESS SCARBROUGH: That's right.

22 COMMISSIONER BEARD: Okay.

23 WITNESS SCARBROUGH: In other words, you know
24 what kind of return that you got and you just add
25 enough revenue to get you up to 13.

1 COMMISSIONER BEARD: You're right.

2 WITNESS SCARBROUGH: You add that into the
3 revenue. You didn't really receive those revenues but
4 you take that and divide the kilowatt hours sales into
5 it for the goal purposes. And the reason for doing
6 that, of course, is because somebody could get a 5
7 because they were dragging the bottom.

8 COMMISSIONER BEARD: I understand that. I
9 was thinking about calculating the ROE there, but you
10 just plugged that number.

11 WITNESS SCARBROUGH: Yes.

12 COMMISSIONER BEARD: Okay. Now, you said
13 there were two pieces, one of them was this competitive
14 one and the other one was the actual return on equity?

15 WITNESS SCARBROUGH: That's correct.

16 COMMISSIONER BEARD: Let me ask you this. I
17 can understand the ratepayers gaining benefit on the
18 competitive one. But to the extent the return on
19 equity increases, my gut perception is that the only
20 one that benefits from that is the stockholder.

21 WITNESS SCARBROUGH: That's, first of all,
22 one thing I want to make sure you understand is the
23 financial objectives of the return on equity goal has
24 nothing to do with the payout. It has to do with the
25 funding of this pot of money. Because once you fund

1 this pot of money, then, as I said, you can allocate
2 that to your employees anywhere from 0% --

3 COMMISSIONER BEARD: Well, wait now. Wait
4 now. If the funding is based on a return on equity and
5 I have less funds with which to allocate, then the
6 payout is affected. The more funds you allocate, the
7 bigger the payout.

8 WITNESS SCARBROUGH: Well, I understand. I
9 was just making sure you understand.

10 COMMISSIONER BEARD: I understand.

11 WITNESS SCARBROUGH: Anyway, getting around
12 to answering your question. But I just want you to
13 understand that the return on equity is a funding
14 which, you're right, that would exactly have to do with
15 the cost because you spread that among all the
16 employees. But it doesn't mean that every employee has
17 a return on equity goal is what I'm trying to say, that
18 they get paid off of. Most of the vast majority would
19 not.

20 COMMISSIONER BEARD: But the ratepayers, as
21 long as you are earning in excess of the bottom of your
22 range and not coming in for a rate case, the ratepayers
23 could really care less what your stockholders get,
24 could they?

25 WITNESS SCARBROUGH: I would think that

1 that's probably the case. It's a mistaken lack of
2 concern, because the very fact that if our return on
3 equity stays down -- you're right, most customers could
4 care less about our return on equity. But if our
5 return on equity gets down low like it is now, then --

6 COMMISSIONER BEARD: I prefaced it by saying
7 as long as it didn't drop below the bottom of your
8 range, which should keep your bond ratings intact.
9 Even if the ratepayers should care and should -- I'm
10 saying if the return on equity drops below your range,
11 your established, approved range, okay? The ratepayer
12 is going to care because you're going to come in for a
13 rate case, right?

14 WITNESS SCARBROUGH: Like we have now.

15 COMMISSIONER BEARD: Right. Okay. Now, as
16 long as your return on equity remains above the bottom
17 of your range, you're not apt to come in for a rate
18 case, okay? And therefore, the ratepayer could care
19 less that your stockholders are earning more return on
20 equity because your employees did good.

21 WITNESS SCARBROUGH: That's probably true.
22 But this goal, but this goal is to try to get us up to
23 where we are earning within the range. It's not
24 earning beyond the range.

25 COMMISSIONER BEARD: Well, it just depends on

1 the point in time. If you're earning at 13.0 and your
2 range is 12.0 to 14.0, are you telling me you would not
3 have this plan?

4 WITNESS SCARBROUGH: No, we've got the plan,
5 regardless of what we're earning.

6 COMMISSIONER BEARD: So your employees would
7 still want to try to increase your return on equity so
8 they would have more funds to be allocated amongst the
9 employees.

10 WITNESS SCARBROUGH: Well, there's a limit on
11 that. I mean, --

12 COMMISSIONER BEARD: Like the top of
13 the range.

14 WITNESS SCARBROUGH: -- once you get to a 5
15 level, it doesn't matter if you earn, if a 12 is at a 5
16 earnings level and you earn 14, you don't get any more.
17 Once you get to 5, that's it.

18 COMMISSIONER BEARD: If you had a range of 12
19 to 14 and a mid-point of 13, you wouldn't establish the
20 achievement of 13.99 as the top of the 5 level?

21 WITNESS SCARBROUGH: What I'm saying is if I
22 set 13.99 as the top of it, and if you earn 13.99, you
23 get a 5? Okay, which creates more money. If I earn
24 15.99, they don't get any more.

25 COMMISSIONER BEARD: I understand that.

1 That's what I'm saying. I have designed a few of these
2 plans. You would want to set the 5 at the max or just
3 a hair below the max of your earnings range. Because
4 to go beyond that, one, drives you into a rate case
5 from the other end. And the employee doesn't stand to
6 benefit. If I was trying to maximize my incentive,
7 that's the top I would place my max. Beyond that, you
8 know, even potential problems in theory, I don't look
9 at it that way, but I'm saying.

10 WITNESS SCARBROUGH: There's no question, no
11 question, that if you were to set your levels, your
12 goals, the 5 would be toward the top of the range. No
13 question about that. I agree with that.

14 WITNESS SCARBROUGH: Probably a nit in
15 reality, but my point is that why would you have the
16 ratepayers pay for that component of this performance
17 pay plan associated with return on equity? And again,
18 I preface my remarks by assuming that the bottom of
19 your, your 1, 2, 3, 4, 5 should be somewhere about the
20 bottom of your range. Because once you drop below the
21 bottom of the range, you're not going to worry about
22 your employees' performance, you're going to come in
23 for a rate case.

24 WITNESS SCARBROUGH: That's correct.

25 COMMISSIONER BEARD: So why would you have

1 that portion of this performance pay plan associated
2 with return on equity? Why would you have the
3 ratepayers pick that one up?

4 WITNESS SCARBROUGH: Well, because, to the
5 extent that we earn in the top of the range allowed,
6 it's going to increase the financial viability of our
7 company, which is going to benefit the ratepayers. I
8 mean, it's going to, it's going to increase our chances
9 of retaining our ratings by the rating agencies. It's
10 certainly going to improve our coverages, gives us more
11 flexibility if we finance. It does a lot of different
12 things when you -- the higher you earn, the better off
13 you are from a financial integrity standpoint. There's
14 no question about that.

15 COMMISSIONER BEARD: I don't have any more.

16 CHAIRMAN WILSON: Are there any Gulf Power
17 corporate goals -- and I don't know whether they have,
18 they impinge on your compensation plan or not -- but
19 that recognize improvements in load factor?

20 WITNESS SCARBROUGH: There probably -- and I
21 don't know this for a fact. Because I know in my own
22 area -- of course, I'm in the finance and accounting
23 area with my folks, but there may very likely be some
24 individual goals that have that and probably some
25 organizational goals.

1 CHAIRMAN WILSON: Who would be the witness
2 for me to talk with about that?

3 WITNESS SCARBROUGH: I would think that if
4 anybody would have a load factor goal as part of their
5 organization or part of their individual, it would
6 probably be in the area of the marketing area, probably
7 Paul Bowers.

8 CHAIRMAN WILSON: And what about something
9 like reliability? Service reliability? Do you measure
10 that?

11 WITNESS SCARBROUGH: Oh, yes.

12 CHAIRMAN WILSON: I mean, does the Company
13 measure that as a corporate goal?

14 WITNESS SCARBROUGH: Yes, absolutely. I
15 would think service reliability would be something that
16 would probably be in, probably maybe, I know the person
17 that's responsible for it, it's in his title,
18 Vice-President of Customer Service. And the
19 reliability of the generating plants would be the
20 responsibility of Earl Parsons. And certainly that is
21 part of his goals.

22 And the reliability of service to all the
23 customers would be in John Hodges' area, because his
24 title is Vice-President of Customer Services. So I'm
25 sure that they have goals.

1 CHAIRMAN WILSON: Okay, do you have anything,
2 any more questions?

3 COMMISSIONER GUNTER: I just have a couple.
4 Mr. Scarbrough, is there a, along the same lines that
5 you and the Chairman and Commissioner Beard have been
6 talking about, is there a goal by the parent, The
7 Southern Company, for kilowatt hours sales and
8 subsequent revenue on the part of each one of its
9 subsidiaries?

10 WITNESS SCARBROUGH: Not to my knowledge.

11 COMMISSIONER GUNTER: In other words, the
12 only thing they tell you is just meet your rate of
13 return, they don't care how?

14 WITNESS SCARBROUGH: That's basically what it
15 really boils down to.

16 COMMISSIONER GUNTER: Okay. So there's not a
17 stated goal, you're not responsible for increasing your
18 kilowatt hours and increasing revenue and all that kind
19 of stuff?

20 WITNESS SCARBROUGH: No.

21 COMMISSIONER GUNTER: Okay.

22 WITNESS SCARBROUGH: The stockholder wants
23 the return and that's --

24 COMMISSIONER GUNTER: Okay, so you don't
25 really care how it is?

1 WITNESS SCARBROUGH: That's correct.

2 COMMISSIONER GUNTER: So, you probably need
3 to help me. You're listed as the, as one of the
4 witnesses to talk about rate base items. Is that
5 right? You and Mr. McMillan.

6 WITNESS SCARBROUGH: Yes, sir.

7 COMMISSIONER GUNTER: You're listed down for
8 Items 1, 2, 3, 4, 6. Most of those are ratebase kind
9 of composites.

10 WITNESS SCARBROUGH: Right.

11 COMMISSIONER GUNTER: Are you the individual
12 that I'd talk about about plant held for future use?

13 WITNESS SCARBROUGH: You mean about the
14 theory behind plant held for future use, or specific
15 what's inplant held for future use?

16 COMMISSIONER GUNTER: Maybe questions about a
17 specific.

18 WITNESS SCARBROUGH: Probably, on a specific,
19 it would depend on what you were talking about. I
20 would think that if I knew --

21 COMMISSIONER GUNTER: Okay, let me, I'll try
22 you --

23 WITNESS SCARBROUGH: If you can tell me what
24 it is, maybe I can tell you what, who the witness would
25 be.

1 COMMISSIONER GUNTER: That's what I'm going
2 to do, I'm going to try you.

3 WITNESS SCARBROUGH: All right.

4 COMMISSIONER GUNTER: On plant held for
5 future use, if you look at the Daniels site, which is a
6 site of some 2700 odd acres. Originally, as I
7 understand it, permitted for four plants. There are
8 two plants there now which had you have 50% ownership
9 of Daniel 1 and Daniel 2. The remainder of that land
10 at the site is plant held for future use, isn't that
11 correct?

12 WITNESS SCARBROUGH: Some portion of it is
13 plant held for future use, yes, sir.

14 COMMISSIONER GUNTER: Would you agree, subject
15 to check, that there have been over 1,400 acres of that
16 site that's been declared as wetlands?

17 WITNESS SCARBROUGH: Subject to check, yes,
18 sir.

19 COMMISSIONER GUNTER: Could you give me some
20 sort of a statistical probability of ever building
21 anything on land that has been declared as wetlands in
22 this United States today?

23 WITNESS SCARBROUGH: I couldn't, but I would
24 say that either Mr. Colin Lee or Mr. Earl Parsons could
25 respond to that question.

1 COMMISSIONER GUNTER: All right. Because I'm
2 questioning, you know, you buy a piece of land, all of
3 a sudden somebody comes along and it's classified as
4 wetlands, the only thing you do then is it holds earth
5 together, because you ain't going to do anything else
6 with it. And I'm wondering about the -- I'm going to
7 give folks an opportunity to convince us -- me -- why
8 that should remain as plant held for future use for
9 something that you're not ever going to be able to use.
10 The probability of being able to use it is between slim
11 and none, I would think. And Mr. Parsons --

12 WITNESS SCARBROUGH: Or Mr. Colin Lee.

13 COMMISSIONER GUNTER: I'll give Mr. Parsons --
14 does he come up first?

15 WITNESS SCARBROUGH: I think so.

16 COMMISSIONER GUNTER: Or does Mr. Lee come up
17 first? I'll give Mr. Parsons that opportunity. I
18 promise that's no more.

19 CHAIRMAN WILSON: Any questions?

20 MS. RULE: Commissioner, I have some questions
21 that you all discussed that we had listed for rebuttal
22 I would like to cover now. You look so enthused.
23 Would you like me to save it?

24 CHAIRMAN WILSON: No, go ahead.

25 MS. RULE: And a couple of follow-up

1 questions.

2 FURTHER CROSS EXAMINATION

3 BY MS. RULE:

4 Q Mr. Scarbrough, could you tell me what
5 motivation Gulf would have to continue pursuing the
6 default sought against Gulf States Utilities if the
7 Commission places the Plant Daniel 92 megawatts in rate
8 base at this time and then any damages recovered would
9 be subject to refund to ratepayers?

10 MR. HOLLAND: Excuse me. Did you say Plant
11 Daniel?

12 MS. RULE: I said that. That's not what I
13 meant.

14 MR. HOLLAND: Okay. And 63 or 64 megawatts,
15 63 megawatts.

16 A Now, Mr. Holland may object to this if I get
17 out of line because of the suit with Gulf States, but
18 Gulf States signed an agreement with the Southern
19 Company and with Gulf Power Company, with a signature
20 on that also that if we met certain provisions of that
21 contract, they would make certain payments, and they
22 failed to do that and they haven't fulfilled their
23 responsibility under that contract. And we have an
24 obligation to try to ensure that they do fulfill their
25 obligation under that contract. And that's the reason

1 we've gone after them, and you can rest assured,
2 regardless of what the Commission does as far as Plant
3 Scherer is concerned, that that's not going to impact
4 one way or the other how hard we pursue this with Gulf
5 States Utilities.

6 Q How would Gulf allocate any damages received?

7 A Allocate --

8 Q Suppose, then, the Commission does put
9 Scherer's megawatts in rate base and you prevail in
10 your suit, how are you going to allocate damages that
11 you receive from Gulf States Utilities?

12 A To the extent that those damages were for a
13 period after June 30th, 1988, as Mr. Gunter and I
14 talked about, those revenues will be recorded above the
15 line. To the extent that causes us to overearn, we
16 would refund those dollars to the retail customer.

17 Q I believe Commissioner Gunter asked you about
18 unit power sales at Plant Scherer, and you mentioned
19 some construction expenditures. Can you tell me what
20 construction expenditures will be made during the
21 period of time 1992 through 1996 to offset Gulf's
22 increasing sale of Scherer's capacity as unit power
23 sales?

24 A From 1992 to 1996 at Plant Scherer?

25 Q Wait, what is your question, as regarding

1 construction?

2 A I reckon I'm asking you to restate the
3 question. I'm sorry. I was trying to repeat the
4 question, but ask it again, please.

5 Q I believe you discussed unit power sales at
6 Plant Scherer and, as I recall, you mentioned some
7 offsetting construction expenditures, is that correct?

8 A Oh, I see what you're saying. You're talking
9 about what we -- what I said was that as the Scherer
10 capacity went on line it was sold in unit power sales,
11 it would not be available to serve the retail customer.
12 And a question was asked to me is how would we get back
13 capacity that was necessary to serve the retail
14 customer, and I said that the plan was that we would
15 construct and add into service a combustion turbine, I
16 think scheduled to come into service in 1995.

17 Q And I believe you mentioned that that would
18 offset the sale, is that correct; your expenditures
19 would be offsetting the sale of unit power?

20 A I don't remember saying that. If I did, I
21 shouldn't have.

22 CHAIRMAN WILSON: I don't recall. How long
23 was that contract with Gulf States? When was that
24 supposed to go through?

25 WITNESS SCARBROUGH: It was supposed to go

1 through and terminate -- originally?

2 CHAIRMAN WILSON: Uh-huh.

3 WITNESS SCARBROUGH: I think originally --
4 hold it just a second. Let me check here and see.

5 CHAIRMAN WILSON: I would love to have
6 somebody sitting beside me who could just get anything
7 I wanted.

8 WITNESS SCARBROUGH: The only thing about it,
9 they never have it. That's the only problem.

10 CHAIRMAN WILSON: But, you see, it looks good.
11 It looks good.

12 WITNESS SCARBROUGH: But the original contract
13 -- and I don't have it right here -- but was expected
14 to expire, with Gulf States, in 1992.

15 CHAIRMAN WILSON: Okay.

16 Q (By Ms. Rule) Mr. Scarbrough, I would like to
17 refer you to Exhibit 416, which I believe you would
18 have in front of you in the exhibit packet.

19 A Could you tell us what that is, please?

20 Q That would be Gulf's response to Items 189
21 through 208 of Staff's Twelfth Set of Interrogatories.

22 A Okay.

23 Q I'd like to refer you to Item 189, which is on
24 Page 2 of the exhibit. (Pause)

25 A Okay.

1 Q This interrogatory refers to appliance sales
2 and service operation.

3 A Yes, ma'am.

4 Q There is an allocation amount listed, and a
5 basis for allocation column. Could you tell me how
6 often the allocation basis is updated?

7 A Generally speaking, it's updated when it
8 changes. In other words --

9 Q Is there a regular review conducted to see if
10 it's changed?

11 A Yes. Yes, and then on a -- just generally
12 speaking, it's done on an annual basis.

13 Q Looking down under the "Item" column, there
14 are two items, employee wages and fringe benefits, I'd
15 like you to look at.

16 A Okay.

17 Q Near the bottom of the page. Can you tell me
18 why the amount for fringe benefits exceeds the amounts
19 for wages?

20 A The reason is, is that these are simply the
21 amount of wages that are allocated. There's probably a
22 million and a half dollars of wages that are charged
23 direct. This only reflects the wages that are
24 allocated. And the fringe benefits is all the fringe
25 benefits on all the wages assigned to appliance sales

1 and service. I had that same question when I looked at
2 it. That's the reason I know the answer.

3 Q And that would then explain the notation on
4 the right-hand side of the page, "Benefit percentages
5 are applied to all payroll dollars"?

6 A Yes.

7 Q That means to all payroll dollars in the
8 division?

9 A Or for appliance sales and service, yes.

10 Q I'd like you to turn to Item 190, which deals
11 with appliance bill stuffers included in the same
12 envelope as the electric bill.

13 A Yes.

14 Q Could you tell me what items Gulf will include
15 in a bill for the Appliance Division? What is a bill
16 stuffer?

17 A Okay. A bill stuffer is basically an
18 advertisement for a washer or dryer, or whater.

19 Q Does the Appliance Division reimburse Gulf for
20 the service of including the bill stuffer?

21 A Yes. They reimburse us -- when I say
22 "reimburse," we make accounting entries, not any cash
23 changes hands. In other words, the Electric Department
24 gets credited for all the costs connected with that
25 bill stuffer, with the exception of postage.

1 Q Why is postage excepted?

2 A Because it's not an incremental cost. In
3 other words, if they have a bill stuffer that ends up
4 increasing the postage, to the extent that that postage
5 is more than would otherwise have been necessary to
6 mail out the bill alone, then they have to pay for
7 that. But if, when they add that to the bill and it
8 doesn't increase the postage that you would have to pay
9 in any event to mail the bill, then we do not allocate
10 that to them.

11 Q Then what kinds of costs would be included
12 other than, let's say, the printing of the bill
13 stuffer?

14 A The printing, the insert -- the people that
15 handle it, the inserting it, then all those types of
16 things that go into -- the same costs that would be
17 involved in getting the bill in the envelope.

18 COMMISSIONER EASLEY: Does the Electrical
19 Division actually print the stuffer, regardless of what
20 it is, or does the Appliance Division do that?

21 WITNESS SCARBROUGH: The Appliance Division
22 has it done, and to the extent that sometimes it may be
23 printed in-house and sometimes it may be printed out,
24 but to the extent those printing costs are either
25 allocated to them or they pay for it if it's on the

1 outside.

2 Q (By Ms. Rule) Does Gulf also bill and collect
3 for appliances purchased through the Appliance Division
4 on a credit basis?

5 A You mean do we actually send the bill out
6 saying that it's past due?

7 Q No. For example, if a ratepayer walks into
8 your Appliance Division and purchases an appliance on
9 credit, how is that person billed?

10 A He's billed, generally speaking, when he gets
11 his electric service bill, but there are provisions
12 that he -- for instance, somebody could come in and buy
13 an electric appliance and not be a customer. Of
14 course, he would get billed separately and he would not
15 get, of course, an electric service bill. He would
16 just get a merchandise bill.

17 Q Who sends out the merchandise bill to a
18 nonratepayer?

19 A First of all, there would be very, very few
20 of those that you would ever have, but the person that
21 does that is the people that prepare -- the same people
22 that do that would also prepare the bill for the
23 ratepayer.

24 Q And who would that be?

25 A The customer Accounting area.

1 Q In Gulf's employees, right?

2 A Either be Gulf's employees or Southern
3 Company Service employees. We have a centralized, a
4 customer accounting billing system. In other words,
5 all the bills come out of Atlanta.

6 Q So then the Appliance Division uses Gulf's
7 services for not only advertising its appliances but
8 billing and collecting for the sales, too, is that
9 correct?

10 A When you say billing and collecting, I'm
11 trying to say what --

12 Q Well, if your ratepayer gets a utility bill
13 and includes a charge for appliances purchased on a
14 credit basis --

15 A Yes.

16 Q -- then Gulf's employees or Southern Company
17 Services, have done the work of billing that ratepayer
18 and collecting the money, too, is that correct?

19 A Technically it's included on the same bill as
20 the electric service. It's just still one bill. It's
21 the same people that does it, yes.

22 Q How does the Appliance Division reimburse
23 Gulf for that service?

24 A Just a minute.

25 COMMISSIONER EASLEY: You're talking about

1 where the person purchasing the appliance is not a
2 customer?

3 MS. RULE: Is a customer. Yes. He said
4 there weren't very many nonratepayers who purchased
5 appliances on credit.

6 COMMISSIONER EASLEY: Okay. I thought we had
7 already been through that. That's what I was confused
8 about.

9 A We charged them three cents an item for
10 service accounts that are charged, and five cents an
11 item for nonservice accounts that are charged.

12 CHAIRMAN WILSON: Do you share postage?

13 WITNESS SCARBROUGH: Only for the nonservice
14 accounts.

15 CHAIRMAN WILSON: You don't allocate a
16 portion of the postage to the appliance sales?

17 WITNESS SCARBROUGH: No, because there are no
18 incremental costs. If there are incremental costs we
19 do.

20 CHAIRMAN WILSON: Let me ask you is this: If
21 Sears came to you and said "I want you to send out all
22 my bills because all my customers are your customers
23 too. They all live in that area." Are you going to do
24 it for five cents? Are you going to charge them any
25 postage or not? You probably would charge them a

1 little bit for that postage.

2 WITNESS SCARBROUGH: First of all, I don't
3 think we'd do it, but if we did do it, we certainly
4 would charge them some postage. You're right.

5 CHAIRMAN WILSON: Whether it increased the
6 incremental cost or not?

7 WITNESS SCARBROUGH: That's correct.

8 Q (By Ms. Rule) How much would it cost the
9 Appliance Division if it were to pay for its own
10 postage mail services, billing collection and
11 stationery, as opposed to the current arrangement.

12 A They pay for all that. Remember, I just got
13 through telling you, they pay for everything except
14 postage.

15 Q Yes, sir. But if they were to go out and
16 incur those charges themselves, how much would it cost?

17 A I have no earthly idea.

18 Q Because you told me they are paying the
19 incremental cost, not the true cost, is that correct?

20 A No. They are paying the allocated cost. The
21 allocated cost of the service that is done for them,
22 everything except postage. But now what it would cost
23 them if they went outside and got their own accounting
24 system or went to another vendor, I don't know what
25 that would cost them but we allocate them a full cost.

1 CHAIRMAN WILSON: You could figure out what
2 the postage would be if you knew the average length of
3 time over which customers purchased appliances, and you
4 knew how many had purchased appliances, you could
5 figure out what the postage would otherwise be. Is
6 that what you're asking for?

7 WITNESS SCARBROUGH: No. If you had to
8 calculate the postage, you could do that. Which I
9 think she's asking me is how much would they have to
10 pay if we didn't provide this service, and they went
11 and got another vendor to do it, or had their own
12 equipment and that type of thing, and I just don't
13 know, Marsha. But they are getting allocated a full
14 allocated cost of the service that we're providing to
15 them.

16 Q (By Ms. Rule) Gulf indicated in its response
17 to item 191 in this exhibit that electricity is
18 allocated to the appliance operation, and is not tariff
19 based.

20 A That's correct.

21 Q Is that true for the appliance sales and
22 service buildings located in Pensacola, Mary Esther and
23 Panama City, which are devoted 100% to appliances?

24 A Yes.

25 Q Why do you allocate electricity to those

1 buildings, as opposed to just tariff billing?

2 A We just don't have a tariff. In other words,
3 we don't try to determine -- assume they were a
4 commercial account and take the tariff and allocate
5 that to them. We have a method for allocating the
6 cost, and we use that same thing whether -- in other
7 words, it's done on a square foot basis and each of
8 these places is metered, so we know how much
9 electricity goes in, and the answer to your question of
10 why we don't use a tariff, I don't really know the
11 answer to that. We just don't do it that way.

12 Q How are electric usage and other expenses
13 related to those buildings recorded?

14 A How to what?

15 Q How is the electric usage recorded? When you
16 say you meter it, you know how much goes in.

17 A Right, we know the consumption. Let me look
18 at this.

19 CHAIRMAN WILSON: Does that interrogatory
20 that you're talking about also deal with -- what's the
21 name of the video production company?

22 MS. RULE: Vision?

23 CHAIRMAN WILSON: No, no, the video
24 production division that they have?

25 MS. RULE: That particular number doesn't.

1 CHAIRMAN WILSON: Who design? Vision Design.
2 Does it indicate in that interrogatory they are treated
3 the same way or not?

4 MS. RULE: No, sir. The interrogatory just
5 asks whether Company-used electricity, or is
6 Company-used electricity allocated to the appliance
7 operation, or is a tariff-based amount charged. It
8 doesn't -- it only refers to the Appliance Division.
9 And the response is, "Electricity is allocated to the
10 appliance operation based on square footage and is not
11 tariff-based."

12 CHAIRMAN WILSON: I want to see if that other
13 one is. See if the Video Design --

14 Mr. Scarbrough's the -- what's the video
15 subsidiary?

16 MR SCARBROUGH: Vision Design.

17 CHAIRMAN WILSON: Vision Design. Is it
18 treated the same way?

19 WITNESS SCARBROUGH: Yes.

20 COMMISSIONER BEARD: You all have meters on
21 all your own buildings, right?

22 WITNESS SCARBROUGH: Yes.

23 COMMISSIONER BEARD: But on a building that's
24 separate and used for one purpose, in this case
25 Appliance Division, you allocate it versus rather than

1 just simply reading that meter, which you have to do
2 anyway?

3 WITNESS SCARBROUGH: No, we have to read the
4 meter in order to determine the amount of dollars to
5 charge it. But what she's saying is we don't go to the
6 tariff and pull it out, and assuming that's a
7 commercial customer and use the tariff amount. We
8 actually allocate it based on the average cost of
9 generation.

10 Q (By Ms. Rule) Well, that's not what the
11 interrogatory response says. It says it's allocated
12 based on square footage.

13 COMMISSIONER BEARD: Time out a second.

14 WITNESS SCARBROUGH: Well, it's allocated
15 based on square footage, but you first have to get a
16 rate to get the building and then you allocate it based
17 on square footage.

18 COMMISSIONER BEARD: If I were to come to
19 your corporate headquarters, then, I wouldn't see a
20 demand meter outside that building?

21 WITNESS SCARBROUGH: You would see a meter.
22 I don't know if it's a demand meter or not.

23 COMMISSIONER BEARD: Well, if I went to JC
24 Penny's and they had a building the same size as yours,
25 would I see a demand meter on their building?

1 WITNESS SCARBROUGH: Oh, yes.

2 COMMISSIONER BEARD: But not on your
3 building?

4 WITNESS SCARBROUGH: Well, there's really no
5 need to have that unless you want to allocate cost,
6 because it's going to cost us, I mean, we don't get
7 free electricity. We pay all the cost of generating
8 the electricity we sell and what's left the Company
9 uses. It just falls out as a cost.

10 COMMISSIONER BEARD: It doesn't fall out also
11 in load factor? I mean if you don't -- same reason you
12 measure demand on JC Penney's.

13 WITNESS SCARBROUGH: That's right. But I
14 mean -- whatever Gulf's cost are, whatever electricity
15 we're using in our own building is Company-used energy,
16 and the cost of that is the cost that we don't recover.
17 You have fuel cost and all this kind of stuff that we
18 don't recover for that. And so, in effect, it costs us
19 the fuel and everything in the fact that it's just
20 something we don't bill anybody else, and the result,
21 we end up paying it, of course.

22 COMMISSIONER BEARD: I don't understand that.
23 I guess I was really kind of thinking along energy
24 conservation lines.

25 CHAIRMAN WILSON: You recovered that money,

1 it's part of your revenue requirements, in calculating
2 your revenue requirements, isn't it?

3 WITNESS SCARBROUGH: Yes.

4 CHAIRMAN WILSON: I mean, your rates are set
5 to cover all your costs, which also include the cost of
6 that electricity to yourself?

7 WITNESS SCARBROUGH: That's right.

8 CHAIRMAN WILSON: I'm sorry for the
9 interruption.

10 Q (By Ms. Rule) Mr. Scarbrough, are there any
11 buildings devoted 100% to Vision Design?

12 A Not --

13 COMMISSIONER EASLEY: Above what?

14 Q Devoted 100% to Vision Design?

15 A Not Company-owned buildings. There is one
16 building that's devoted to Vision Design but it is a
17 leased building.

18 Q How is the electric usage to that building
19 handled? The same way as you handle --

20 A The same way as we just described.

21 Q Could you provide me with a late-filed
22 exhibit for the Pensacola, Mary Esther and Panama City
23 appliance buildings, in the building that you mentioned
24 is devoted 100% to Vision Design, and I would like you
25 to provide metered consumption. I'd also like the

1 dollar amount allocated, and for comparison purposes
2 the amount that would have been billed under a tariff,
3 and I believe that would be Exhibit 564, Late-filed.

4 CHAIRMAN WILSON: The amount that would have
5 been billed under the appropriate tariff --

6 MS. RULE: Yes, sir

7 CHAIRMAN WILSON: -- were this an independent
8 customer?

9 MS. RULE: Yes, sir.

10 COMMISSIONER EASLEY: Well, let me ask --
11 (Late-Filed Exhibit No. 564 identified.)

12 WITNESS SCARBROUGH: Marsha, can I ask,
13 excuse me. Can I ask you what period of time you want
14 this for? Say 1989, would that be adequate?

15 MS. RULE: '89 and what you would project for
16 '90.

17 WITNESS SCARBROUGH: Okay.

18 COMMISSIONER EASLEY: Mr. Scarbrough, will
19 the information as just asked for provide a way for us
20 to do the math and see how you arrived at the allocated
21 cost? If I just divide it by the usage, will that be
22 the figure you would have used or would you have done
23 some kind of formula adjustment?

24 CHAIRMAN WILSON: Let me see if I understand
25 what you said about the square footage.

1 If you've got, for instance, the Video Design
2 piece, if they are in a free-standing building, they
3 get all of them.

4 WITNESS SCARBROUGH: And if they're in a
5 leased building, they get --

6 CHAIRMAN WILSON: Where you have got mixed
7 use in the building, you allocate the usage of the
8 power based on the square footage of each group has in
9 that building?

10 WITNESS SCARBROUGH: That's correct. You
11 take the average cost of generation and get that for
12 the total building, then you allocate that to the
13 nonutility based on their percentage of the square
14 footage in that building.

15 COMMISSIONER BEARD: Now, I understood
16 something differently.

17 You're now saying that a free-standing
18 building, for example, the appliance sales building,
19 okay, you read their meter, and based on the average
20 cost of generation against that kWh, they pay that
21 amount.

22 WITNESS SCARBROUGH: That's correct.

23 WITNESS SCARBROUGH: That's correct.

24 COMMISSIONER BEARD: They're not after a
25 footage allocation?

1 WITNESS SCARBROUGH: No, they just pay the
2 total kilowatt hours times the cost of kilowatt hour
3 generated.

4 COMMISSIONER BEARD: Okay. I misunderstood
5 that earlier.

6 WITNESS SCARBROUGH: I'm sorry.

7 COMMISSIONER BEARD: A no demand factor.

8 MS. RULE: No further questions.

9 COMMISSIONER BEARD: I need to ask counsel a
10 question real quick. You all's Company comment, Audit
11 Disclosure No. 7, which is "Plant Held for Future Use
12 Caryville," who is the appropriate person to respond to
13 that? I didn't want to let Mr. Scarbrough go because I
14 talked about budgeting, but then he also talked about
15 siting.

16 MR. HOLLAND: I think Mr. Parsons, let me
17 find it. Audit No. 7? Audit Disclosure No. 7?

18 MR. PALECKI: Is that Account 106,
19 Unclassified Construction?

20 COMMISSIONER BEARD: This says, "Audit
21 Disclosure No. 7. Subject: Plant Held for Future Use,
22 Caryville Company Comment." That's what I'm looking
23 at.

24 MR. HOLLAND: Are you looking at the current
25 audit or the audit for the '88 case?

1 COMMISSIONER BEARD: I got this out of what
2 you laid on my desk this morning up here. This must be
3 the '88 because it says, "Gulf has budgeted 50,000 for
4 the test year '89."

5 COMMISSIONER EASLEY: What is it?

6 COMMISSIONER BEARD: "A total of 1000 acres
7 is budgeted to be purchased through '93." Must be '89.
8 (Pause) This must be last year's audit.

9 MR. HOLLAND: I think it is.

10 CHAIRMAN WILSON: It is, because it's in that
11 group of where we have a letter dated May 22nd, 1989.

12 COMMISSIONER BEARD: The stuff you laid on my
13 (indicating) up here I found this morning.

14 CHAIRMAN WILSON: This is the one that says
15 Hearing Exhibit No. 36 and 298?

16 MR. STONE: And this has --

17 COMMISSIONER GUNTER: And you gave us that
18 this morning. You know, we gave you one back?

19 COMMISSIONER BEARD: You did it after 6:00,
20 let me put it that way, because I cleaned my place off.
21 (Pause)

22 MR. STONE: We'll try again. That's last
23 year's audit response.

24 COMMISSIONER BEARD: Let me talk. I
25 understand that this is last year's.

1 MR. HOLLAND: It's in the record, I don't
2 have a problem with it.

3 COMMISSIONER BEARD: I understand. I just
4 want to know who is the person that I would talk to
5 about it. That's all.

6 MR. HOLLAND: Let me look.

7 MR. PALECKI: According to the disclosure
8 that we received in accordance with the Prehearing
9 Order, it would be Mr. Scarbrough, that's plant held
10 for future use, Caryville? That is now --

11 MR. HOLLAND: That was this audit.

12 MR. PALECKI: That is now Item 20 on this
13 audit and Mr. Scarbrough is indicated as the Gulf
14 witness for that issue.

15 WITNESS SCARBROUGH: For the audit issue?

16 MR. PALECKI: That's for this year's audit
17 but it's the same issue.

18 MR. HOLLAND: Wait a minute. It's not the
19 same issue in terms of the disclosure. The disclosure
20 is different between 7 -- they both relate to plant
21 held for future use at Caryville, Daniel and Caryville,
22 but one is an accounting question that I think Mr.
23 Scarbrough probably is the appropriate one to ask. But
24 as far as Audit 7, Disclosure 7 in the '88 audit, it's
25 probably Mr. Parsons.

1 COMMISSIONER BEARD: I'll wait on Mr.
2 Parsons, and if I don't get it all there, then I can
3 always see Mr. Scarbrough when he comes back.

4 MR. HOLLAND: Yeah.

5 WITNESS SCARBROUGH: Okay, Ed, Audit
6 Disclosure No. 20 is not whether or not you have a --
7 it does not justify plant held for future use.

8 MR. HOLLAND: I agree.

9 WITNESS SCARBROUGH: That's how it's
10 accounted, that's an accounting issue.

11 MR. HOLLAND: The Commissioner's --

12 CHAIRMAN WILSON: Hold on. One at a time.

13 COURT REPORTER: The witness said, 'That's an
14 accounting issue ...'

15 CHAIRMAN WILSON: Wait a minute. Hold on a
16 second. Mr. Scarbrough, were you finished with what
17 your comment was or can you repeat it for the court
18 reporter?

19 WITNESS SCARBROUGH: Yes, sir.

20 CHAIRMAN WILSON: Yes, sir, what?

21 WITNESS SCARBROUGH: I just said, "It's an
22 accounting issue," and I think she has that.

23 CHAIRMAN WILSON: All right.

24 MR. HOLLAND: I think the Commissioner's
25 question was about Audit Disclosure No. 7 in the '88

1 audit, which I don't believe is an accounting question.
2 And I think we should defer that to Mr. Parsons.

3 CHAIRMAN WILSON: All right. If Mr. Parsons
4 cannot answer it, Mr. Scarbrough will be back and we
5 can take it up with him at that point. But for now,
6 we'll wait for Mr. Parsons.

7 COMMISSIONER BEARD: Right.

8 WITNESS SCARBROUGH: That's also an
9 accounting issue, Mr. Holland.

10 COMMISSIONER BEARD: Are you going to be
11 around for the next two weeks?

12 CHAIRMAN WILSON: Mr. Holland, you need to
13 spend some more time with Mr. Scarbrough before you
14 bring him over here for a hearing.

15 MR. HOLLAND: If Mr. Scarbrough wants to
16 answer it now, that's fine with me.

17 WITNESS SCARBROUGH: Well, the only thing I'm
18 saying is --

19 COMMISSIONER BEARD: Mr. Scarbrough, let me
20 ask you a question. How many acres in the Caryville
21 site are wetlands? Is that an accounting issue?

22 WITNESS SCARBROUGH: No.

23 COMMISSIONER BEARD: Okay. We'll wait.

24 WITNESS SCARBROUGH: But Audit Issue No. 597 --

25 COMMISSIONER EASLEY: Mr. Scarbrough, you

1 haven't been asked a question. I suggest you hold off.

2 CHAIRMAN WILSON: There's no pending
3 question.

4 CHAIRMAN WILSON: Mr. LaFace is really
5 impressed with this. He's not down here very often,
6 but I can see that our procedure is something that's
7 impressed him.

8 MR. LaFACE: I was just going to ask him
9 whatever question he wanted to answer. (Laughter)

10 CHAIRMAN WILSON: Well, we do that sometimes.
11 And the appropriate question is, "Is there anything
12 that you would like to say?"

13 COMMISSIONER BEARD: This is one of the first
14 times that I'll see the attorney take the Vice
15 President of the Company out to the whipping post in
16 the parking lot. (Laughter)

17 MR. HOLLAND: I understood your question was
18 about the 1500 acres, is that correct?

19 COMMISSIONER BEARD: It may ultimately come
20 back to budget but it's got to start with Parsons, I
21 think.

22 CHAIRMAN WILSON: Any further questions?

23 COMMISSIONER BEARD: No?

24 CHAIRMAN WILSON: Any questions, Commissioners?

25 All right, redirect. Do you have a lot of redirect?

1 MR. HOLLAND: He may not answer the questions
2 the way I want him to, after all that. (Laughter)

3 COMMISSIONER EASLEY: Who gets to he
4 rehabilitate after redirect?

5 MR. HOLLAND: I don't know. We may let Mr.
6 Burgess do that.

7 COMMISSIONER GUNTER: Did you say no
8 questions? No questions? Was that what you said?

9 REDIRECT EXAMINATION

10 BY MR. HOLLAND:

11 Q We have some questions that we call Roger
12 Vincent questions that we don't know what the witness
13 is going to answer. I don't have very many of those,
14 though.

15 Mr. Scarbrough, with reference to some
16 questions that were asked very early on by the Staff
17 counsel about the acquisition adjustment and our
18 contractual relationship with respect to that, had
19 Georgia, prior to Gulf's entering into negotiations
20 with respect to a purchase of a portion of Scherer 3,
21 had Georgia entered into an agreement with Oglethorpe
22 Power Corporation and MEAG regarding the purchase of
23 common facilities?

24 A Yes.

25 Q When we began negotiations throughout the

1 negotiating process and finally when we entered into a
2 contract to buy a 25% interest in Scherer 3, was it
3 always part of the bargain that we would assume
4 Georgia's obligation to purchase those or our
5 proportionate share of the common facilities?

6 A From Oglethorpe and Dalton, yes.

7 Q And was that to be pursuant to the contract
8 that Georgia had entered into with OPC and MEAG?

9 A Yes. OPC and Dalton.

10 Q And Dalton, I'm sorry.

11 COMMISSIONER GUNTER: While you're looking, I
12 apologize.

13 MR. HOLLAND: You promised --

14 COMMISSIONER GUNTER: I lied. (Laughter)

15 CHAIRMAN WILSON: It's called a pie crust
16 promise. Easily made, easily broken.

17 COMMISSIONER GUNTER: Mr. Scarbrough, are you
18 a witness that's charged with the depreciation
19 question?

20 WITNESS SCARBROUGH: I reckon --

21 CHAIRMAN WILSON: The answer is no. (Laughter)

22 COMMISSIONER GUNTER: Is that Mr. Parsons
23 also?

24 WITNESS SCARBROUGH: No, no. (Laughter)

25 COMMISSIONER GUNTER: Well I was wondering.

1 Leroy keeps getting them. Throw the ball to Leroy.

2 (Laughter)

3 WITNESS SCARBROUGH: The depreciation
4 question would be either myself or Mr. McMillan. I
5 believe that's who is charged with that.

6 COMMISSIONER GUNTER: Well, I think there's
7 some, as I went through the issues that you were
8 responsible for, some of them had to do with the
9 amounts of depreciation. Am I wrong about that?

10 WITNESS SCARBROUGH: Commissioner Gunter, I'm
11 sorry, I was looking for something. If you will ask it
12 over, I'll appreciate it, please, sir.

13 COMMISSIONER GUNTER: Well, Mr. Scarbrough,
14 is the purpose of depreciation to allow capital
15 recovery for the investment that's been made?

16 WITNESS SCARBROUGH: Over the useful life of
17 that asset, yes, sir.

18 COMMISSIONER GUNTER: All right. What
19 happens to depreciation? What happens to the process
20 of depreciation or where is the system not working
21 when, if you look at an original cost of capital plant
22 that would have cost -- and I'm talking about a total
23 of seven plants now, I'm just, I'll go down each one if
24 you want to do that -- a total of seven plants. The
25 initial cost was \$148 million. You've got accumulated

1 depreciation of \$129 - \$130 million, and yet your net
2 investment 12-31-1989 is \$181 million, which is more
3 than the original value of the plant. And some of the
4 plant's going back to 1945. What has fallen down?

5 WITNESS SCARBROUGH: I don't think anything
6 has. Because, as you construct a plant originally and
7 as you add additional expenditures to that plant and
8 capitalize them and you depreciate, you depreciate the
9 value over the remaining life, you keep adjusting the
10 depreciation rate over the remaining life of that plant
11 through the new expenditures.

12 COMMISSIONER GUNTER: All right. Let me ask
13 you a question then. I was hoping you were going to
14 give me that answer.

15 WITNESS SCARBROUGH: All right, sir.

16 COMMISSIONER GUNTER: At what point in time
17 do you consider that the useful life -- and, you know,
18 there's a number of ways to look at useful life. As to
19 the amount of time, you know, if they're a baseload
20 unit and yours have not been baseloaded, you know,
21 they're just not being used much.

22 For instance, we can talk about Crist 1 and
23 2. At one time, you all had a thought process to
24 dispose of municipal waste and use the steam generators
25 from those. So they're not being utilized, being fully

1 utilized, are they?

2 WITNESS SCARBROUGH: Let's put it this way,
3 they don't run like baseload units, they only run when
4 they're necessary to provide generation for the system.

5 COMMISSIONER GUNTER: I understand. I
6 understand. What would be the expected life? Who
7 would I talk to about what the reasonably -- reasonable
8 expected life would be of generation plant?

9 WITNESS SCARBROUGH: I would think that
10 probably the best person would be Kollen Lee.

11 COMMISSIONER GUNTER: All right. So we have
12 plants that are 45 years old that are worth 50% today
13 of what they were when they were built. And at the
14 depreciation remaining -- under the remaining life
15 concept, they should be about zero. So where -- isn't
16 there a life that you expect? You know, we all talk
17 about depreciable life of an asset. What's the
18 depreciable life of an expected plant that you build
19 today?

20 WITNESS SCARBROUGH: Well, I would think
21 today it would probably be somewhere between 40 and 50
22 years. But you keep, you can, it's like an automobile.
23 You keep spending enough money on it, you can make it
24 last in perpetuity until it just rusts out to nothing.
25 You can keep fixing that and it will never wear out.

1 And that's exactly what happens to a plant,
2 you keep doing work to it, until you'll always have it
3 forever, really, I reckon. Unless the foundation
4 collapses under it or something.

5 CHAIRMAN WILSON: Is that kind of like the
6 old farmer who said, "This axe has been in the family
7 for 100 years and it's only had five new handles and
8 six new heads"?

9 WITNESS SCARBROUGH: That's exactly right,
10 exactly right.

11 COMMISSIONER GUNTER: So, in other words,
12 there's no concern on the part of Gulf for the net
13 investment at a 12/31/89? I guess one of the things
14 that did concern me when I saw this report -- and by
15 the way, that's a late-filed Exhibit No. 52, and I
16 think the tax docket that you provided to us?

17 WITNESS SCARBROUGH: Yes, sir.

18 COMMISSIONER GUNTER: There's no concern
19 about the possible stranded investment on any of the
20 plant. For instance, you know I can look at Smith 1
21 and 2 plants which are relatively new plants when you
22 look at all you all's generation. Original cost 38.7
23 million. The net investment as of 12/31/89, 45.7
24 million. More on the books today than they were
25 originally constructed for. And you're talking about

1 plants in excess, both of those plants, in excess of 30
2 years old.

3 WITNESS SCARBROUGH: Yes, sir. The only
4 answer I can give to you that, Commissioner Gunter, is
5 the estimated remaining life of those that are included
6 in the depreciation study, it's based on estimates of
7 engineers that we get. And if they are right, we've
8 got depreciation rights -- depreciation rates proper.
9 If their estimate of how long they're going to last is
10 incorrect, then we don't. But we keep updating that
11 depreciation study I think about every four years.

12 COMMISSIONER GUNTER: Okay.

13 WITNESS SCARBROUGH: And you take another
14 look at it at that particular time. And if they decide
15 that -- maybe the last time they said it was going to
16 last 25 years, and the next time they decide it's only
17 going to last 14, you would adjust that depreciation
18 rate at that particular time.

19 COMMISSIONER GUNTER: In other words, you all
20 are conscious and aware, for instance, the common
21 facilities at the Crist Plant that cost \$26 million to
22 build, the net investment of 12-31-89 is \$107 million,
23 very nearly four times what it cost you to build the
24 plant.

25 WITNESS SCARBROUGH: Yes.

1 COMMISSIONER GUNTER: Those common
2 facilities. With some of them having plants 45 years
3 old. And that's something that you all are very
4 comfortable with?

5 WITNESS SCARBROUGH: When you say "you all,"
6 I'm comfortable with it as long as the engineer tells
7 me that the remaining life that he estimates is
8 correct. And I'll assume he's comfortable with it or
9 he wouldn't have told us that's how long the remaining
10 life was.

11 COMMISSIONER GUNTER: That's fine with me.

12 I just -- I was rather dismayed at that
13 prospect, but I won't pursue it any further with the
14 time and the hour.

15 COMMISSIONER BEARD: You got off light.
16 Commissioner Gunter was fixing to head into the "Iowa
17 curves."

18 COMMISSIONER GUNTER: Yes, we were going to
19 talk about that. We are going to create a new curve
20 called the "Florida curve."

21 COMMISSIONER BEARD: You had to be here last
22 Friday to understand that.

23 CHAIRMAN WILSON: Mr. Holland?

24 Q (By Mr. Holland) Mr. Scarbrough, with
25 reference to that exhibit -- and if Mr. Lee is the one

1 to talk about this, you know, please defer it.

2 (Laughter)

3 CHAIRMAN WILSON: Leading the witness in
4 redirect.

5 Q (By Mr. Holland) The increased costs, as I
6 read this exhibit, are primarily associated with plant
7 additions that have occurred since original
8 construction?

9 A Yes.

10 Q And can you give some examples of what
11 additions might have occurred to create this phenomenon
12 of the current net investment being higher than the
13 original cost?

14 A I've just -- a few of them here that's --
15 Unit 3 replace and modernize the turbine and boiler
16 systems, \$2.8 million; Crist Unit 4, install hot
17 precipitators, \$2.5 million; replace super heater
18 tubes, super heater tubes in the igniters, \$1 million;
19 Crist Unit 5, install hot precipitators, \$2.5 million;
20 Crist Plant Unit 6, install hot precipitators, 2.5
21 million.

22 CHAIRMAN WILSON: Mr. Scarbrough, would you
23 slow down, please? I was looking over there at the
24 court reporter.

25 WITNESS SCARBROUGH: I'm sorry.

1 Crist Plant Unit 6, install hot
2 precipitators, \$10.7 million; construct water cooling
3 tower, \$4.6 million, and as you notice, most of these
4 items are because of environmental requirements.

5 Crist Plant Unit 7, replace condenser tubes,
6 \$1.8 million; install hot precipitators, \$10.7 million;
7 replace boiler feed pumps, \$1.7 million; construct
8 water cooling tower, \$5 million.

9 And then the Crist Plant common facilities,
10 which is one of the things that Mr. -- that
11 Commissioner Gunter referred to, construct coal
12 stacker, \$4 million; construct oil storage facility,
13 \$1.2 million; construct office facility, \$4 million;
14 install fire protection system, \$1.6 million; install
15 emissions -- install emissions monitoring system, 1.2
16 million.

17 CHAIRMAN WILSON: Could you read a little
18 faster?

19 COMMISSIONER BEARD: Could you give Counsel a
20 late-filed exhibit on that?

21 COMMISSIONER GUNTER: Mr. Scarbrough, I have
22 read that.

23 WITNESS SCARBROUGH: Let me read this one
24 more.

25 CHAIRMAN WILSON: This is the good part now,

1 right?

2 WITNESS SCARBROUGH: Right. Install ash
3 disposal system, \$25.3 million. That's just some
4 examples of stuff that have been added since the plant
5 went in service.

6 COMMISSIONER GUNTER: Mr. Scarbrough, this is
7 just an editorial comment. One of the things that I
8 wanted to see this for is that you all are going to hit
9 big time by Congress pretty quick. And there may be a
10 decision point that you all would make at some of your
11 less efficient plants, it might just pay to put a
12 bulldozer out there and push it out of the way and put
13 a new, efficient plant in. It really might, rather --
14 because I think in some plants you'd have a tough time
15 convincing anybody that going in hanging a chemical
16 plant on a 45-year-old plant would probably not be in
17 the best interest to anybody, because I wouldn't think
18 you would figure you're going to run it 80 or 90 years.
19 When you do that, when those decisions come up, the
20 reason I asked the question the way I did is when you
21 start looking at net investment -- I understand the
22 game, you know, you got to keep your rate base up to
23 keep your earnings up. Hell, that's not a secret. I'd
24 have admired you a whole lot more if you had told me
25 that on the front end.

1 WITNESS SCARBROUGH: Wait, I don't --

2 COMMISSIONER GUNTER: But with no rate base,
3 your earnings are down.

4 WITNESS SCARBROUGH: We never add anything to
5 rate base for any reason other than we absolutely
6 needed to.

7 COMMISSIONER GUNTER: I'm not saying
8 "adding," Mr. Scarbrough. You can watch as the
9 financial situation of the country changes, and you
10 watch companies' depreciation studies change. I've
11 been here long enough that I watch that. Let's be
12 honest with one another, because there's an
13 opportunity, cost of money, and a cash flow, and one of
14 the things that you look at big time is your cash flow
15 analysis. I'd be surprised if -- I'd be disappointed
16 if you didn't. Cash flow is an important thing with
17 any ongoing business.

18 WITNESS SCARBROUGH: It's very important, no
19 question about that.

20 COMMISSIONER GUNTER: But the problem is
21 there's realistic problems, is that in future days when
22 you have to make those kind of decisions that you all
23 are going to make because you're on the list of -- what
24 is it, 111 plants, you all are big time on that.
25 You're going to have to make some decisions that are

1 going to affect -- and I'm going to have a great deal
2 of sympathy for you. You know my activity in that
3 area.

4 WITNESS SCARBROUGH: I understand.

5 COMMISSIONER GUNTER: I'm going to have a
6 great deal of sympathy when you're trying to make that
7 decision about how much of that you're going to be able
8 to write off at one time. That's the sole purpose of
9 it. Just saying we're looking down the road, when
10 you're looking down the road, do you have enough in
11 your depreciation? Mine is not a negative comment.
12 Mine was wondering, do you have enough in your capital
13 recovery?

14 WITNESS SCARBROUGH: I understand. That's a
15 good point, very good point. No question about that.

16 COMMISSIONER GUNTER: Whatever.

17 Q (By Mr. Holland) Mr. Scarbrough, again, if
18 you're not the right person, but -- are you aware of
19 whether the Company is, in fact, looking at the impact
20 of the Acid Rain Bill and other legislation that is out
21 there, what impact that would have on our decisions
22 with respect to our plants?

23 A I know that we are looking at it, yes.

24 Q Some questions that again were asked by Staff
25 Counsel with respect to the treatment of

1 production-related A&G at Plant Daniel, and the Plant
2 Daniel transmission rentals in 1984, and you were asked
3 if we had filed a Motion for Reconsideration or
4 appealed those decisions. Are there many factors which
5 go into a decision as to whether to move for
6 reconsideration or appeal?

7 A Yes.

8 Q Because we did not do so in 1984, in your
9 opinion should that have any impact on whether an
10 erroneous decision should be now corrected?

11 A No, that's the reason we've attempted to
12 correct the base units for calculating the benchmark,
13 which has got nothing to do, of course, with the total
14 expenditures or anything like that. It is just a
15 matter of calculating the amount that you have to have
16 special, additional justification for.

17 Q Mr. Scarbrough, with respect to the appliance
18 sales and service, we spent some time discussing the
19 amount of the losses that have been incurred over the
20 years. Who incurs those losses?

21 A All the non-utility losses are incurred by
22 the stockholders.

23 Q In your opinion is it appropriate that the
24 person who incurs the losses should also get the tax
25 benefit associated with those losses?

1 A Absolutely.

2 CHAIRMAN WILSON: It was mentioned earlier
3 that there was a Company study being conducted about
4 whether to stay in the appliance sales and service
5 business. When is a decision on that going to be made?

6 WITNESS SCARBROUGH: I don't know when the
7 decision will be, but the time -- basically, we gave
8 them a year.

9 CHAIRMAN WILSON: A year from when?

10 WITNESS SCARBROUGH: A year from January 1st,
11 in other words through 1990, to come back and make a
12 report to us as to whether or not they think this state
13 can get the appliance sales business on a possible leg
14 and beginning to earn something with it, make a
15 recommendation to us.

16 Q (By Mr. Holland) Mr. Scarbrough, some
17 questions were asked of you relative to Plant Scherer
18 Unit 3 and Gulf's decision to invest in that plant, and
19 specifically with respect to CWIP and AFUDC on the
20 plant and inclusion of CWIP in rate base or AFUDC. And
21 if I recall your statement, it was that there has been
22 no CWIP or AFUDC included in the surveillance reports,
23 nor was any included in base rates in 1984, is that
24 correct?

25 A That's correct.

1 Q Was there a concern in the early '80s of Gulf
2 Power Company in its decision as to whether to get into
3 Scherer Unit 3, and at that time Unit 4, as to whether
4 Gulf would be allowed to include CWIP in rate base for
5 Plant Scherer?

6 A Yes, there was. We were very concerned about
7 that. Here again, that decision was made to get into
8 Plant Scherer in order to provide capacity for our
9 retail customers. And realizing that the initial sale
10 of that may very likely not be made to the retail
11 customer, we were very concerned about that and how we
12 were going to really get through the financing of that,
13 and how that would be treated once it came into service
14 and so forth, a lot of concerns. And we came to the
15 Commission, I think it was in 1981, I believe, and just
16 discussed that concern with them about -- and even
17 discussed the possibility of including some
18 construction work in progress on Plant Scherer. Of
19 course, at that particular time we were looking at
20 buying 25% of units in both 3 and 4. And we had a
21 discussion with the Commission about the possibility of
22 including some of that in construction work in progress
23 and recovering cash return on it, if it was necessary
24 in order to protect our financial integrity during the
25 construction period.

1 Q Was there also a concern with respect to the
2 fact that Plant Scherer was located in Georgia and that
3 no certificate of need or plant siting would have to
4 take place with respect to that unit prior to Gulf's
5 coming to the Commission and requesting that it be
6 included in rate base?

7 A Yes, I did not, you know, have any discussion
8 about that myself, but that was discussed, yes.

9 Q Mr. Scarbrough, when did Plant Daniel come on
10 line?

11 A I don't remember the exact date, but sometime
12 in 1981.

13 Q When did Gulf commit to have an ownership
14 interest in Plant Daniel's Units 1 and 2?

15 A Probably sometime -- that contract was
16 probably signed somewhere around '75 or '76.

17 Q And the same with respect to Plant Scherer
18 when did we commit to that and when did Plant Scherer
19 Unit 3 come on line?

20 A We actually made -- well, actually we made a
21 sort of tentative commitment to 3 and 4 back in the
22 very early '80s, and then when we decided we were just
23 going to get into Unit 3, we asked that we be allowed
24 to get off the hook, and we were allowed to get off the
25 hook for our ownership in 4, potential ownership in 4.

1 And we bought into -- or made the decision to buy into
2 25% of Unit 3, I think, in like March or April of 1984.

3 Q When did it come on line?

4 A January 1st, 1987.

5 Q Mr. Scarbrough, does Gulf Power Company have
6 a statutory obligation to serve its customers?

7 A Yes.

8 Q At the time that Gulf Power Company made the
9 decision to get into Daniel and Scherer, did it have a
10 statutory obligation to serve Air Products and
11 Monsanto?

12 A Yes.

13 Q Did we, at the time that we either committed
14 to get in or at the time those units came on line, have
15 an indication from Monsanto and Air Products that they
16 intended or had a desire at least to look at the
17 possibility to cogenerate?

18 A I'm not too sure about coming on line. As
19 far as Daniel is concerned, I know we didn't know about
20 that.

21 Q Well, forget about coming line; at the time
22 we committed.

23 A At the time we committed we absolutely did
24 not know about that.

25 Q At the time that Air Products and Monsanto

1 expressed an interest in the possibility of installing
2 cogeneration, were we obligated on plants Daniel and
3 Plant Scherer?

4 A Absolutely.

5 Q With that capacity?

6 A Absolutely.

7 Q Are those contracts timed to keep that demand
8 on our system until such time as it might be to the
9 benefit of Gulf's customers that they go away and, in
10 fact, serve themselves?

11 A Yes, particularly on the Air Products
12 contract.

13 Q Commissioner Gunter asked you a question with
14 respect to Issue 40 and the debt and equity components
15 being allocated to -- as far as the nonutility
16 investment.

17 Why in your opinion is it appropriate that
18 the nonutility component, capital associated with that,
19 be allocated on a pro rata basis between debt and
20 equity?

21 A Simply because that's where the costs are.
22 The -- we -- those funds are comingled and you cannot
23 trace those funds. And I reckon from a theoretical
24 standpoint you could say that nonutility activities may
25 have a high risk, but in this particular case as far as

1 Gulf is concerned, that theoretically it's true, but
2 from a practical standpoint it's not true. Our
3 nonutility assets are less than 1% of our total
4 electric assets, and the cost of any financing, be it
5 debt, preferred or common, is not impacted in any way
6 by our nonutility facilities.

7 I think Dr. Moore has some testimony to that
8 regard and makes that statement and, you know, I have
9 been in many -- personally in many information meetings
10 and rating agency meetings in connection with
11 financings at Gulf Power Company over the last 12
12 years, and never ever have I heard an analyst or a
13 buy-side analyst or a rating agency person even mention
14 the possibility, or even ask the question whether or
15 not that was going to be used for any nonutility
16 activities.

17 And so simply, primarily because the
18 nonutility assets are negligible to our total assets
19 and it in no way impacts the cost of those securities,
20 cost of the financings, and you cannot trace those --
21 in any event you cannot trace those dollars. They are
22 comingled at the time you make the investment.

23 CHAIRMAN WILSON: You can't trace dollars but
24 I think you acknowledge that you can trace risk. Say
25 that a certain operation is riskier than another.

1 WITNESS SCARBROUGH: Yes, sir. And I
2 acknowledge from a theoretical standpoint that's true.
3 But as far as Gulf Power is concerned, a practical
4 standpoint, it absolutely has no impact on the cost of
5 our financing because it's such a negligible portion of
6 it. If you issue, you know, \$25 million worth of first
7 mortgage bonds and less than 1% of it is going to
8 nonutility activities, that's not going to impact the
9 price of that \$25 million of first mortgage bonds. But
10 I'll agree with you from a theory standpoint you can
11 trace the risk.

12 Q (By Mr. Holland) Mr. Scarbrough, with
13 respect to the prepaid pension expense and working
14 capital, you discussed the accounting treatment of
15 that. Why did Gulf Power Company do that, in 1988 I
16 believe?

17 A Well, to begin with, it's just Company
18 practice; I reckon even the practice of individuals,
19 that you always take a tax deduction as quick as you
20 can take it. In other words, if you can get a tax
21 deduction this year versus next year, you always take
22 it as early as you can. And I reckon that was one of
23 the primary considerations.

24 And then as a secondary consideration is that
25 the dollars were taxable in 1987 at a higher rate.

1 That was the last rate year that we had a tax deduction
2 in 1987 from 46 to 40% -- I mean to 34% but the
3 effective rate in '87 was 40%. And we wanted to take
4 that tax deduction then to get a higher deduction for
5 it. And also we wanted to -- we knew that there were
6 changes in the regulations that was going to prohibit
7 us from funding in the future the accruals that we were
8 making on pensions, and by making that prefunding, it
9 allowed us, as the future -- as we were able to expense
10 on our FASB 87, but not able to fund, it gave us some
11 funding to apply for those accruals. And that's
12 exactly what we do now.

13 As we fund -- I mean as we accrue pension
14 expense, we -- rather than having to charge that to a
15 liability that has to be shown up on the books, we
16 simply credit that prepaid pension account. And so
17 those are the variety of reasons why we made that
18 decision.

19 Q Mr. Scarbrough, this is a Roger Vinson
20 question; I'm not sure I know the answer to it, but I'm
21 going to ask it anyway.

22 CHAIRMAN WILSON: That's Judge Vinson.

23 MR. HOLLAND: Judge Vinson, yes, excuse me.

24 (Laughter)

25 Q (By Mr. Holland) You were asked some

1 questions about blanket purchase orders by Commissioner
2 Gunter, and he asked you if an individual could not go
3 out and buy something on that blanket purchase order
4 and the Company would not know.

5 A When you say the -- I reckon we were having a
6 problem, when he asked that, of who the company is.
7 Are you talking about Doug McCrary or --

8 Q Would someone other than the individual who
9 made the purchase --

10 A Well, sure, it would have to be approved,
11 sure.

12 Q Okay. And in order for the person to do that
13 and use that to their benefit, would there have to be
14 collusion between the person in the company who gets
15 the purchase order and the person who bought the
16 product?

17 A There could be collusion two different ways:
18 be collusion between the employee and the vendor, or it
19 could be collusion between two employees.

20 Q I thought I knew the answer.

21 COMMISSIONER GUNTER: I did too. I thought
22 you were going to mess me up.

23 MR. HOLLAND: No. Maybe I misunderstood his
24 answer.

25 Q You were asked some questions about the PPP

1 program with respect to the goals, and you were asked
2 some questions about the return on equity goal and the
3 cents per kilowatt-hour piece.

4 With respect to the customer, is it in the
5 customer's best interest -- do you think the customer
6 would like or expect us to try to keep our costs as low
7 as reasonably possible?

8 A Absolutely. I think that is the thing that
9 the customer is concerned about. I think he's
10 concerned about two things: Having adequate and
11 reliable electric service, and that he wants it at the
12 lowest cost possible.

13 Q Do you think that the customer would like or
14 benefit from the fact that we were earning a sufficient
15 return on equity; that we did not have to return for
16 rate relief and seek an increase in our rates?

17 A Absolutely.

18 Q Would it then, or is it your opinion that the
19 customer would benefit from Gulf earning a reasonable
20 return on its investment?

21 A There is no question about it because if we
22 don't earn a reasonable return on it, it's going to
23 increase the customer's cost over the long run,
24 clearly.

25 MR. HOLLAND: That's all I have.

1 CHAIRMAN WILSON: No more questions.

2 We have exhibits that have been not
3 stipulated to?

4 MR. HOLLAND: I don't think so, with respect
5 to Mr. Scarbrough. Except for the late-fileds.

6 CHAIRMAN WILSON: I guess they were all
7 late-fileds. We'll just wait until we see them then.

8 Okay. Thank you, Mr. Scarbrough. You're
9 temporarily excused. And we'll join together again in
10 the morning at 9:00. Thank you.

11 (Hearing adjourned at 6:25 p.m., to reconvene
12 at 9:00 a.m., Wednesday, June 13, 1990, at the same
13 location.))

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