

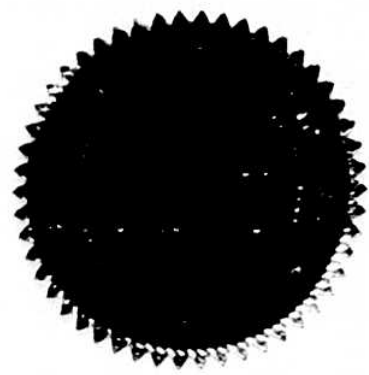
Case no. 81,076

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Joint Petition for)
approval of certain matters)
in connection with the sale)
of assets by Sebring Utilities)
Commission to Florida Power)
Corporation.)

DOCKET NO. 920949-EU

VOLUME III
Pages 255 - 383



PROCEEDINGS:

Hearing

BEFORE:

CHAIRMAN THOMAS M. BEARD
COMMISSIONER BETTY EASLEY

DATE:

Monday, December 7, 1992

TIME:

Commenced at 9:30 a.m.
Recessed at 5:05 p.m.

LOCATION:

101 East Gaines Street
Tallahassee, Florida

REPORTED BY:

MARY ALLEN NEEL
Shorthand Reporter
Notary Public in and for the
State of Florida at Large

ACCURATE STENOGRAPHY REPORTERS, INC.
100 SALEM COURT
TALLAHASSEE, FLORIDA 32301
(904) 878-2221

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P R O C E E D I N G S

MR. FAMA: Florida Power calls Mr. Southwick.

Thereupon,

HENRY I. SOUTHWICK

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

DIRECT EXAMINATION

BY MR. FAMA:

Q Please state your name and business address.

A My name is Henry M. Southwick. My address is Post Office Box 14042, St. Petersburg.

CHAIRMAN BEARD: How about pushing that little button right there? Now we're cooking.

THE WITNESS: My name is Henry Southwick, and my address is Box 14042, St. Petersburg, 33733.

BY MR. FAMA:

Q By whom are you employed, and in what capacity?

A I'm employed by Florida Power Corporation as the Director of Energy Control.

Q Have you prefiled direct testimony in this case?

A Yes, I have.

Q Do you have any changes or corrections to make to that testimony?

A No.

Q If I were to ask the questions contained in that

1 testimony today, would your answers be the same?

2 A Yes.

3 MR. FAMA: I would ask that Mr. Southwick's
4 prefiled direct testimony be inserted into the record
5 as though read.

6 CHAIRMAN BEARD: It will be so inserted.
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**Before the
Florida Public Service Commission**

In re: Joint Petition of Florida)	
Power Corporation and Sebring Utilities)	Docket No. 920949-EU
Commission for Approval of Certain)	
Matters in Connection with Sale of)	Filed: September 25, 1992
Assets by Sebring Utilities Commission)	
to Florida Power Corporation)	

**DIRECT TESTIMONY
OF
HENRY I. SOUTHWICK**

I. INTRODUCTION AND QUALIFICATIONS

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15

Q. Please state your name and business address.

A. My name is Henry I. Southwick. My business address is Post Office Box 14042, St. Petersburg Florida 33733.

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

A. I am employed by Florida Power Corporation (Florida Power) in the capacity of Director of Energy Control.

Q. Please describe your responsibilities in that position.

A. As Director of Energy Control I am responsible for the day-to-day operation of the Florida Power electric system. This includes the scheduling and dispatching of all power resources available to Florida Power to serve customer demand and the operation of the electric transmission system. I am also responsible for

1 interchange operations between Florida Power and other utilities in Florida and
2 the Southeast.

3

4 **Q. Please describe your education and business experience.**

5 A. I have a Bachelor of Science degree in Electrical Engineering from Clemson
6 University and a Masters degree in Engineering Administration from the
7 University of South Florida. I am a registered Professional Engineer in the State
8 of Florida. I have held various positions at Florida Power Corporation in
9 Industrial Development, Division Operations, and Economic Research. In 1983,
10 I was promoted to Manager of System Planning with the responsibility for Florida
11 Power's generation, transmission and distribution planning. In 1990, I was
12 named Director of Engineering and Technical Services for the Fossil Operations
13 area of Florida Power. I became Director of Energy Control in July, 1992.

14

15 **Q. Have you previously testified before the Commission?**

16 A. Yes, I have testified in several previous Florida Power rate and fuel cost recovery
17 proceedings.

18

19 **II. PURPOSE AND SUMMARY OF TESTIMONY**

20

21 **Q. What is the purpose of your testimony?**

1 A. The purpose of my testimony is to discuss various aspects of Florida Power 's
2 proposed purchase of Sebring Utilities Commission's (Sebring) electric
3 distribution system (Electric System). My testimony will address three areas: (1)
4 benefits to Sebring's ratepayers; (2) prudence of Florida Power's acquisition of
5 the Electric System under this agreement; and (3) assumption of the Tampa
6 Electric Company (TECO) Power Purchase Agreement.

7 **Q. Are you sponsoring any exhibits in this case?**

8 A. Yes. I am sponsoring the TECO Power Purchase Agreement identified as
9 Exhibit 13 (HIS-1) which is attached to my testimony.

10

11 **Q. What is the general outline of your testimony?**

12 A. The portions of my testimony that appear after sections I and II are as follows:
13 Section III discusses expected benefits to Sebring ratepayers which will result
14 from the proposed transaction. Section IV discusses the prudence of Florida
15 Power's acquisition of the Electric System. Section V discusses the circumstances
16 under which the Power Purchase Agreement between Sebring and TECO arose,
17 and Florida Power's assumption of the TECO Power Purchase Agreement.

18

19 **Q. Please summarize your testimony.**

20 A. Florida Power's proposed purchase of the Sebring electric distribution system will
21 yield beneficial results in the short and long term for both parties. As a result of

1 this transaction, Sebring customers will have the immediate benefit of increased
2 quality of electric service by Florida Power's system; superior customer service
3 programs offering flexibility in payment and billing options; and participation in
4 many energy conservation programs. Sebring customers will also benefit from
5 lower electric rates by Florida Power's acquisition and from lower operating costs
6 with the elimination of Sebring's long-term bond debt. By fully integrating the
7 Sebring electric system into its existing transmission and distribution system,
8 Florida Power will also derive the benefit of a combined system whereby service
9 and territory conflicts will no longer be at issue. It is the position of Florida
10 Power that \$17.8 million is the correct value to be allocated to the tangible assets
11 of this transaction because it represents the net book value of the assets to be
12 purchased and all negotiations between the parties were conducted at arm's
13 length. Finally, Florida Power contends that the purchase of the Rate Base Assets
14 at this price is a proper and prudent investment.

15

16 III. BENEFITS TO SEBRING RATEPAYERS

17

18 **Q. Will there be benefits to Sebring's existing electric ratepayers as a result of**
19 **this transaction?**

20 **A. Yes. There will be a number of benefits to Sebring ratepayers as a result of this**
21 **transaction. The Commission has an established practice of reviewing the impact**

1 of acquisitions and the change of ownership of utility systems and assets in a
2 number of specific areas. Accordingly, I will discuss the benefits to the existing
3 customers of the Sebring system in six areas: (1) increased quality of service
4 including Florida Power's energy conservation programs; (2) lower operating
5 costs; (3) increased ability to attract capital for system improvements; (4) a lower
6 cost of capital; (5) more professional management; and (6) lower rates for
7 customers.

8

9 **Q. In what ways will the Florida Power purchase of the Sebring electric**
10 **distribution system improve the quality of service for Sebring's customers?**

11 **A.** When the array of services provided by Florida Power to its retail electric
12 customers are compared to those provided by Sebring, it is evident that there are
13 numerous areas in which Florida Power customers receive a greater level of
14 service than current Sebring customers. Areas of better customer service afforded
15 Florida Power ratepayers include: (1) customer deposit policies; (2) customer
16 billing; (3) energy conservation programs; (4) other customer service programs;
17 and (5) recourse to the Commission regarding customer complaints.

18

19 **Q. How are Florida Power's customer deposit policies more beneficial than those**
20 **of Sebring?**

1 A. As Florida Power customers, former Sebring customers will be eligible to receive
2 deposit refunds if they meet Florida Power's good credit criteria, a practice not
3 followed by Sebring. Customers who continue to maintain deposits will receive
4 interest at an 8% annual rate from Florida Power, whereas Sebring pays only 5%.

5

6 **Q. What benefits will be available to ratepayers from Florida Power's customer
7 billing system as compared to that of Sebring?**

8 A. Customers will have more options as to where they pay their electric bills or
9 deposits since they will be able to make payments at any Florida Power district
10 office or payment collection site. In addition, as a customer convenience, Florida
11 Power accepts payment for both electric bills and deposits with Mastercard or
12 Visa. Florida Power's On-Line-Cash system insures that bill payments are
13 immediately posted to the customer's accounts. A toll-free telecommunication
14 device for the deaf is available for hearing-impaired customers to contact Florida
15 Power for billing and other customer services.

16

17 Sebring's current billing system is shared between the electric and water
18 operations and does not segregate accounts receivable balances between amounts
19 owed for electric service and amounts owed for water service. Sebring does not
20 differentiate between electric and water customers on such policies as overdue
21 bills, customer deposits, and service cutoff and reconnection. By contrast,

1 Florida Power maintains all necessary customer records in administering customer
2 billing, connection policies, and rules as approved by the Commission.

3

4 **Q. What additional or improved energy conservation programs will be made**
5 **available to Sebring's customers as a result of this transaction?**

6 A. Florida Power offers many energy conservation programs to its residential,
7 commercial and industrial customers which will also become available to Sebring
8 customers. A very popular program is Florida Power's nationally-recognized
9 residential load management program. This is a voluntary program that allows
10 Florida Power to control selected energy-using equipment for short intervals
11 during periods of peak electricity usage. Participating customers receive a credit
12 on their bill depending on the equipment being controlled and the load
13 management schedule selected. In addition, many other programs are offered to
14 customers including the following: Home Energy Check, Home Energy Analysis,
15 Home Energy Fixup, Comfort Cash Loan, Air Conditioning Duct Test & Repair,
16 Insulation Upgrade, HVAC Service (Heating, Ventilation and Air Conditioning),
17 HEATWORKS Heating Storage System, Business Energy Check, Business
18 Energy Analysis, Business Energy Fixup, Interior Lighting Conversion, and
19 Motor Replacement Rebate. These programs are discussed in Mr. Dagostino's
20 testimony.

1 **Q. What additional or improved customer service programs will be made**
2 **available to Sebring's customers as a result of this transaction?**

3 **A.** As a result of this transaction, Sebring customers will now have several Florida
4 Power customer service programs available to them. Such Florida Power
5 programs include the Average Billing Program, Energy Neighbor Fund, Summary
6 Billing, Senior to Senior, Gatekeeper Program, Elderly Customer Awareness,
7 Speakers Bureau, Visually Impaired Program, Third Party Notification,
8 POWERCARE, Neighborhood Radio Watch, and Vial of Life. These programs
9 are also discussed in Mr. Dagostino's testimony.

10

11 **Q. How will the operating costs of the electric distribution system serving**
12 **Sebring change as a result of this transaction?**

13 **A.** Operating costs will be reduced with the integration of Sebring's electric system
14 into Florida Power's operations. Some cost reductions will be implemented
15 immediately and additional cost reductions will be achieved in the future.
16 Functions including management, accounting, purchasing and stores will be
17 integrated with Florida Power's operations and centralized where appropriate.
18 Staff associated with duplicate functions will be redeployed or reduced through
19 attrition. Florida Power will fully integrate the Sebring area electric system into
20 its existing transmission and distribution system (which surrounds Sebring's

1 system) and will operate the resulting combined system according to accepted
2 Florida Power standards in all respects.

3

4 Since Florida Power is a much larger utility than Sebring, materials and supplies
5 are purchased in much larger quantities, thereby potentially lowering prices and
6 the cost of purchasing. Examples of this include transformers, wire, poles,
7 vehicles, meters, computers and office supplies.

8

9 **Q. What will be the effect of this transaction on the ability to attract capital for
10 improvements to the electric system in the Sebring area?**

11 **A.** Sebring's current restrictions on its ability to attract capital for system
12 improvements will be eliminated as a result of the proposed transaction. Florida
13 Power will conduct capital improvement programs for the electric system in the
14 Sebring area at appropriate levels.

15

16 **Q. Will this transaction result in a lower cost of capital for capital improvements
17 to the Sebring electric system?**

18 **A.** For several reasons, it is difficult to directly compare the cost of capital of
19 Sebring, which operates as a municipal utility commission, to that of Florida
20 Power, an investor-owned utility. First, Sebring is financed primarily with tax-
21 exempt revenue bonds, whereas Florida Power is financed primarily with a

1 combination of first mortgage bond debt and equity. Second, as a result of
2 Sebring's deteriorating financial condition, it has a negative net worth and its debt
3 substantially exceeds the value of its assets. Third, it is not possible to clearly
4 identify what portion of the outstanding debt is associated with the electric
5 distribution system rather than the water system or the generation assets
6 previously sold to TECO.

7

8 **Q. Does the interest rate on Sebring's outstanding bonds represent a fair**
9 **estimate of Sebring's cost of capital?**

10 **A.** No, it does not. When Sebring issued the outstanding debt in 1986, it was
11 already under adverse financial pressure because of its growing debt burden. The
12 1986 financing consisted of a carefully structured debt package consisting of a
13 combination of insured Series A bonds and uninsured Series B bonds. The
14 currently outstanding Series A bonds, with interest rates between 7.00% and
15 7.35%, are rated AAA by virtue of being insured by AMBAC. The Series B
16 bonds were issued at an interest rate of 11.50%, which was high compared to
17 other tax-exempt rates at that time. The high interest rate for the Series B bonds
18 is an indication that Sebring did not have access to capital markets at competitive
19 rates at that time. Most of the Series B bonds were retired with proceeds of the
20 sale of generation and transmission assets to TECO.

1 Sebring's financial condition has continued to deteriorate since the 1986 debt
2 restructuring, as discussed by Sebring witness Mr. Calhoun. Therefore, it is not
3 clear to what degree Sebring currently has access to capital or at what cost it
4 could be obtained.

5

6 **Q. Given the difficulties of quantifying Sebring's cost of capital, what can you**
7 **conclude with respect to how this transaction will affect the cost of capital for**
8 **the Sebring area system?**

9 A. Sebring's current problems can be traced directly to its past inability to control
10 its debt burden. Sebring's high retail electric rates result primarily from the debt
11 service required on its outstanding debt. The proposed transaction will eliminate
12 Sebring's financial crisis by retiring the outstanding debt. Additionally,
13 alleviation of Sebring's financial distress will restore the financial posture of the
14 Sebring area electric system to a stable capital structure and an acceptable cost of
15 capital.

16

17 **Q. Will the proposed transaction result in more professional and experienced**
18 **management?**

19 A. Sebring is presently managed by excellent utility people. However, because of
20 the depth of the financial problems that have plagued Sebring for almost ten
21 years, it has not been possible for Sebring management to be as effective as

1 would otherwise be the case. There are several areas in which Florida Power
2 will provide management stability and thereby afford Sebring the benefit of the
3 managerial skills and resources of a large, financially sound utility. The proposed
4 transaction will end Sebring's financial crisis and as a result, bring to the electric
5 system stable, professional management that is not burdened with an overriding
6 concern with financial survival.

7

8 **Q. Can you cite any examples where Florida Power can bring better**
9 **management focus on problem areas?**

10 **A.** Yes. Numerous problems and deficiencies in Sebring's records and accounting
11 systems and procedures have been identified. Sebring's personnel have verified
12 the existence of these deficiencies and errors. For example, as discussed in the
13 testimony of Sebring witness Ms. Holloway, the basis of accounting at Sebring
14 has not been in compliance with the Uniform System of Accounts. The proposed
15 transaction will replace Sebring's accounting systems with Florida Power's. This
16 procedural change to Florida Power's system will result in accounting and audit
17 functions being timely and efficient and assure successful financial management
18 in the future.

19

20 Another example where management can be strengthened is Florida Power's
21 safety program. By including Sebring's electric system field operations in Florida

1 Power's safety program, Sebring's employees will have Florida Power's high
2 level of expertise and safety training available to them. Customers will also
3 benefit indirectly by sustained and enhanced safety practices for the Sebring area
4 system.

5

6 Florida Power has an extensive training department which includes training
7 programs for all levels of employees to insure that they maintain and develop
8 professional skills and capabilities. Training includes courses for managers;
9 office and technical skills training; computer training, communications and
10 personal development; distribution line training; meter reader training; substation
11 maintenance; and many other courses and subjects.

12

13 In sum, Florida Power has established a record of solid, forward-looking
14 management, thus creating opportunities and benefits which have served its
15 customers well. A direct result of Florida Power's quality of management is its
16 sustained position of having among the lowest retail electric rates in Florida.

17

18 **Q. Will there be a reduction in rates for Sebring's existing electric customers as
19 a result of this transaction?**

20 **A. Yes. Sebring's customers currently pay the highest electric rates in the state and
21 among the highest in the nation. Under the proposed transaction, Sebring's**

1 customers will pay Florida Power's standard rates plus the SR-1 Rate Rider as
2 discussed by Florida Power witness Mr. Nixon, and will still receive a substantial
3 rate reduction. In addition, many residential customers will be eligible for
4 Florida Power's Load Management Program which will further reduce rates up
5 to \$17.00 per month depending on energy use. As an example, a residential
6 customer using 1,000 kWh per month, will receive an immediate reduction of
7 approximately \$17.00 (or 15%, without consideration of any going concern
8 value), plus additional reductions if the customer participates in Florida Power's
9 Load Management Program (for a total reduction of up to approximately 28%).
10 For commercial customers, Florida Power offers a wide variety of commercial
11 rates with the potential for rate savings which are not available from Sebring.
12 The effect of this transaction for Sebring customers is discussed more fully in the
13 testimony of Florida Power witness Mr. Nixon. Furthermore, in the absence of
14 this transaction, Sebring's rates would need to be increased substantially over
15 present levels as discussed in the testimony of Sebring witness Mr. Calhoun.

16

17 **IV. PRUDENCY OF FLORIDA POWER'S ACQUISITION OF THE**
18 **SEBRING ELECTRIC SYSTEM UNDER THIS AGREEMENT**

19

20 **Q. What is the basis for Florida Power's allocation of the Purchase Price to the**
21 **tangible assets associated with this transaction?**

1 A. The value for the tangible assets set forth in the Agreement for Purchase and Sale
2 of the Electric System is based on the actual net book value of these assets as of
3 the date of closing. As discussed by Sebring witness Ms. Holloway, the
4 September 30, 1991 audited financial statements includes a supplemental schedule
5 of the assets identified for sale. According to this schedule, as of September 30,
6 1991 the net book value of these assets was \$17,813,753. This net book value
7 will be updated to reflect the actual net book value of these assets as of the date
8 of closing based on a post-closing audit.

9

10 Q. Are you the witness in this proceeding who is sponsoring the calculations in
11 support of the \$17.8 million net book value for Sebring's tangible assets?

12 A. No. Sebring witnesses Mr. Rumolo and Ms. Holloway are sponsoring testimony
13 in support of the net book value of \$17.8 million. The purpose of my testimony
14 is to explain why the purchase of the tangible assets at this price is a proper and
15 prudent investment for Florida Power.

16

17 Q. Will Florida Power seek to include its purchase of the Electric System in its
18 rate base in Florida Power's next rate case?

19 A. Yes. Florida Power intended to include a rate base amount for the Sebring
20 purchase in its most recent rate case, but the timing of the transaction did not
21 allow this to occur. Based on the Commission's approval of the Rate Base Assets

1 of the Electric System in this proceeding, Florida Power will seek rate base
2 treatment of the Rate Base Assets in the next rate case.

3

4 **Q. How will the Sebring debt associated with the SR-1 Rate Rider discussed in**
5 **Florida Power witness Mr. Nixon's testimony be repaid?**

6 A. Florida Power's offer includes the payment of an amount above the value of the
7 Rate Base Assets which will enable Sebring to retire all of its bond indebtedness,
8 pay its other debts and close-out expenses. This payment will be recovered by
9 Florida Power through a rider applicable only to ratepayers who would have
10 remained Sebring customers in the absence of this transaction. As discussed in
11 the testimony of Florida Power witness Mr. Nixon, all costs associated with
12 financing and recovering the amount associated with the SR-1 Rate Rider will be
13 recovered exclusively through the SR-1 Rate Rider.

14

15 **Q. Has Florida Power offered to pay any additional amount related to a "going**
16 **concern" value for the Sebring electric system?**

17 A. Florida Power's allocation of the Purchase Price to tangible assets of the Sebring
18 electric system represents only the net book value of these assets. Sebring
19 witness Mr. Warren is sponsoring testimony in this proceeding in support of a
20 going concern value in addition to the net book value of tangible assets. Florida
21 Power believes that the acquisition of the Electric System has going concern value

1 beyond the physical assets. However, in order to allow this value to be realized,
2 the Commission must allow Florida Power to place the associated dollars in its
3 rate base. Therefore, Florida Power would pay such an amount related to going
4 concern value only on the condition that the Commission approves such amount
5 as a prudent investment for inclusion in rate base in Florida Power's next rate
6 case.

7

8 **Q. Was the process by which Florida Power was selected for negotiation an**
9 **arm's length, formal process?**

10 **A.** The proposed transaction is the result of a formal request for proposal (RFP)
11 process during which Sebring sought proposals to purchase its electric and water
12 system assets. This process is discussed further in the testimony of Sebring
13 witness Mr. Calhoun and Florida Power witness Mr. Dagostino. Throughout this
14 process, Florida Power and Sebring negotiated on an arm's length basis with the
15 objective of successfully consummating the purchase and sale of the Electric
16 System.

17

18 **Q. How was the allocation of the purchase price for the tangible assets of the**
19 **Electric System established to be net book value?**

20 **A.** First and foremost, in order to make this transaction a reality and achieve the
21 inherent benefits, it was necessary to arrive at a price considered to be fair and

1 equitable by both buyer and seller. Florida Power's proposal stated that the
2 allocation of the Purchase Price to the tangible assets of the Electric System
3 would be equal to their net book value. Florida Power was confident that the
4 transaction could be successfully negotiated on this basis, and this proved to be
5 the case. Florida Power's position is that \$17.8 million is the correct allocation
6 of the Purchase Price to the tangible assets because it represents the net book
7 value of these assets, and is a prudent acquisition at that value. Again, it was
8 determined by arm's length negotiations between the parties.

9
10 The parties recognize that the transaction is dependent upon the Commission's
11 approval of Sebring's depreciated net book value in anticipation of including these
12 assets in Florida Power's rate base in Florida Power's next rate proceeding.
13 Florida Power's opinion is that the allocation of the Purchase Price to tangible
14 assets based on net book value provides the greatest assurance of timely
15 regulatory approval based on past practices and statements of the Commission.

16
17 **Q. Why is Florida Power requesting Commission approval of the Rate Base**
18 **Assets of the System?**

19 **A.** Florida Power intends to include all of the Rate Base Assets in Florida Power's
20 rate base in its next retail rate proceeding. Florida Power's objective is to
21 address in the present proceeding any issues or concerns which the Commission

1 may have regarding the acquisition of these assets. The request for Commission
2 approval of the Rate Base Assets, including the depreciated net book value of the
3 tangible assets and any going concern value determined by the Commission, is the
4 means by which Florida Power intends to accomplish this objective.

5

6 **Q. Will the assets included in the purchase be used and useful in the provision**
7 **of electric service to customers?**

8 **A. Yes.** As part of its pre-acquisition review, Florida Power conducted a physical
9 inventory of the System as well as a detailed review of the books and records
10 associated with these assets. As a result, Florida Power is confident that the
11 facilities to be acquired are in acceptable condition and are necessary for the
12 continued provision of electric service to Sebring's customers.

13

14 **V. ASSUMPTION OF THE TECO POWER PURCHASE AGREEMENT**

15

16 **Q. How and when did Sebring enter into the Power Purchase Agreement with**
17 **TECO?**

18 **A. During the RFP process, TECO offered to purchase Sebring's generation assets,**
19 which resulted in the sale of these assets to TECO in 1991. As a part of this
20 transaction, Sebring continued to operate the generation units under an operating

1 agreement with TECO and Sebring signed a full requirements Power Purchase
2 Agreement with TECO.

3

4 **Q. Will Florida Power assume Sebring's Power Purchase Agreement with TECO**
5 **as part of this transaction?**

6 A. Yes. One of the conditions of Sebring's Power Purchase Agreement with TECO
7 is that any buyer of Sebring's electric distribution system is obligated to assume
8 the agreement. The agreement is a valid contract which has been approved by
9 FERC and provides for the legal assumption of the agreement by successors and
10 assigns of Sebring. Florida Power intends to assume the TECO Power Purchase
11 Agreement in conjunction with its purchase of the Electric System.

12

13 **Q. Will Florida Power assume the TECO Power Purchase Agreement in its**
14 **present form or seek to modify the terms of this agreement with TECO?**

15 A. Florida Power could assume the Power Purchase Agreement in its present form
16 and continue to purchase power from TECO under the existing terms of this
17 agreement. However, some changes to the agreement may be mutually
18 advantageous to Florida Power and TECO. While the agreement as presently
19 written is an all-requirements contract, another form of agreement may be more
20 appropriate after the purchase of the Electric System has been completed and

1 Florida Power is purchasing power from TECO. Florida Power has already
2 initiated discussions with TECO to explore modifications to the agreement.

3

4 **Q. Given that the Power Purchase Agreement may be modified by Florida Power
5 and TECO and replaced by an agreement with different terms, how should
6 this possibility affect the Commission's review of the existing contract?**

7 **A.** The Commission should conduct its review on the basis of the existing Power
8 Purchase Agreement between TECO and Sebring as if this agreement will be
9 assumed unchanged by Florida Power. The agreement may in fact be assumed
10 on this basis, and any changes made to the agreement will be on comparable or
11 more favorable terms.

12

13 **Q. How does Florida Power plan to recover the fuel cost associated with the
14 TECO Power Purchase Agreement?**

15 **A.** Florida Power intends to recover the jurisdictional portion of fuel costs associated
16 with the Power Purchase Agreement through its retail Fuel Cost Recovery Clause.
17 These fuel costs will be included in Florida Power's retail fuel adjustment filing
18 coincident with the closing of the transaction.

19

20 **Q. How does Florida Power plan to recover the demand cost associated with the
21 TECO Power Purchase Agreement?**

1 A. As discussed in paragraph 23 of the Joint Petition, Florida Power is requesting
2 that the Commission approve Florida Power's right to recover in the Capacity
3 Cost Recovery proceedings, coincident with the closing of the transaction, the
4 retail portion of the difference between the demand charges provided in the Power
5 Purchase Agreement and the production component of Florida Power's retail cost
6 of service as determined by the Commission in Florida Power's 1992 base rate
7 case and included in Florida Power's base rates, until such time as the
8 Commission establishes new base rates for Florida Power. In the future when
9 new base rates are established for Florida Power it is expected that any
10 production component in Florida Power's base rates attributable to the Power
11 Purchase Agreement will be removed from base rates and the demand charges for
12 the Power Purchase Agreement with TECO will be fully recovered through the
13 Capacity Cost Recovery proceeding.

14

15 **Q. Why is Florida Power requesting the Commission's approval of Florida**
16 **Power's right to recover costs associated with the Power Purchase**
17 **Agreement?**

18 A. Florida Power's objective is to address in the present proceeding any issues or
19 concerns which the Commission may have regarding these proposed actions.
20 Furthermore, Florida Power seeks to avoid any over-recovery or duplicate
21 recovery of costs associated with the Power Purchase Agreement which may

1 occur if cost recovery through base rates and the Capacity Cost Recovery clause
2 are not properly coordinated. The request for Commission approval of recovery
3 of demand costs as described above is the means by which Florida Power intends
4 to accomplish these objectives.

5

6 **Q. How does Florida Power plan to recover any non-fuel energy costs associated**
7 **with the TECO Power Purchase Agreement?**

8 A. Florida Power intends to recover the jurisdictional portion of any non-fuel energy
9 cost associated with the Power Purchase Agreement through its retail Fuel Cost
10 Recovery Clause. These non-fuel energy costs will be included in Florida
11 Power's retail fuel adjustment filing coincident with the closing of the transaction.

12

13 **Q. Does this conclude your testimony?**

14 A. Yes, it does.

1 BY MR. FAMA:

2 Q Is there also attached to your testimony one
3 exhibit marked HIS-1?

4 A Yes.

5 Q Do you have any changes or corrections to this
6 exhibit?

7 A No, sir.

8 Q Is the information contained in the exhibit true
9 and correct to the best of your knowledge?

10 A Yes, it is.

11 MR. FAMA: I would ask that this exhibit be given
12 the next consecutive exhibit number.

13 CHAIRMAN BEARD: Thirteen.

14 (Exhibit 13 marked for identification.)

15 BY MR. FAMA:

16 Q Mr. Southwick, were you deposed earlier in this
17 case?

18 A Yes.

19 Q And is your deposition transcript part of the
20 Staff's composite exhibit which has been identified in this
21 case as Exhibit 2?

22 A Yes, it is.

23 Q Did you have a chance to provide any corrections
24 to your deposition?

25 A Yes, I did.

1 Q So your deposition as it stands corrected is true
2 and correct to the best of your knowledge?

3 A Yes, it is.

4 Q Okay. Did you provide any deposition exhibits?

5 A Yes, I did.

6 Q And those are I think Exhibits 1 and 2?

7 A Yes.

8 Q Were these also made a part of Staff's composite
9 exhibit?

10 A Yes.

11 Q Are they true and correct to the best of your
12 knowledge?

13 A Yes, they are.

14 MR. FAMA: Thank you.

15 Mr. Chairman, in the interest of time, we decided
16 to forgo Mr. Southwick's summary, so I'll tender the
17 witness for cross examination.

18 CROSS EXAMINATION

19 BY MR. POLLARD:

20 Q I have a couple of questions, Mr. Southwick. In
21 your direct testimony, page 16, line 21, and continuing to
22 page 17, lines 1 through 3, you state that there is a going
23 concern value beyond the physical assets. However, in order
24 to allow this value to be realized, the Public Service
25 Commission must allow Florida Power to place the associated

1 dollars in the rate base. Why is this?

2 A If we weren't allowed to place the dollars into
3 the rate base, we wouldn't be able to justify making the
4 investment which would then allow these benefits to take
5 place.

6 Q So what you're telling me is that even though
7 there is a recognized value, Florida Power is not willing to
8 pay for it unless they can recover it from the Sebring
9 ratepayers?

10 A The value from these going concern items will
11 flow to the ratepayers. It will not flow to the Florida
12 Power stockholders. Therefore, it would be inequitable to
13 pay it without putting it into the rate base.

14 Q I understand. And the increase of going concern
15 will reflect favorably on Sebring ratepayers. That's the
16 point.

17 Okay. Is it not true that Florida Power's
18 assumption of Sebring's power purchase with TECO as a part
19 of this deal is a definite benefit to Florida Power
20 Corporation, since it will serve the power needs of Sebring
21 customers without depleting Florida Power Corporation's
22 reserves and resources?

23 A We think it's a favorable contract to assume,
24 yes, sir.

25 Q If this is so, should it not also be considered

1 under going concern value?

2 A The way that the costs will flow, the benefits of
3 those costs will automatically flow directly through to the
4 ratepayers.

5 MR. POLLARD: Thank you.

6 CROSS EXAMINATION

7 BY MS. BROWN:

8 Q Mr. Southwick, is it correct that Florida Power
9 Corporation has not presented its own witness supporting the
10 \$17.8 million net book value for Sebring's tangible assets?

11 A That's true.

12 Q It is Sebring that has provided the witness to
13 support that amount, is that correct, through their witness?

14 A Yes. The net book value is the value of the
15 Sebring system as determined by Sebring and their auditors.
16 It's not a Florida Power function.

17 Q RMI was employed by Sebring to perform the
18 valuation study; correct?

19 A Yes.

20 Q So the net book value, just to be sure that I
21 have this straight, of the tangible assets that Florida
22 Power Corporation is going to purchase from Sebring has been
23 determined by Sebring; is this correct?

24 A That's correct.

25 Q And that valuation represents a recalculated net

1 book value based on the RMI valuation; correct?

2 A Yes.

3 Q Would you agree, considering the testimony you've
4 heard earlier, that this recalculated net book value based
5 on the RMI valuation is probably higher than the net book
6 value as truly reflected on the books and records of Sebring
7 before the valuation was made?

8 A I believe that's true.

9 Q And I gather from your testimony that you find
10 that this calculated net book value is acceptable?

11 A Yes, we believe it is.

12 Q But other than providing some assistance in the
13 physical inventory of Sebring's assets, Florida Power
14 Corporation was not involved in the determination of the
15 value of those assets; correct?

16 A That's correct.

17 Q And you have not made any independent
18 verification of the actual calculation of that \$17.8
19 million; correct?

20 A That's correct.

21 Q Rather, you have relied upon Sebring's, RMI's,
22 and Sebring's Witness Williams' assertion that that is an
23 accurate figure; correct?

24 A To the extent that you might be oversimplifying,
25 as you said, we were very involved in the development of the

1 inventory, and we're quite comfortable with that. We know
2 the techniques that were used and applied in arriving at the
3 numbers. We're familiar with what RMI did, and we think
4 they're reasonable techniques. And the application of that
5 technique further verified by their auditors as to the
6 accuracy of the arithmetic we feel would yield a reasonable
7 result.

8 Q And you feel it was not necessary then for
9 Florida Power Corporation to conduct any kind of independent
10 verification of those figures?

11 A I don't think we could have improved upon them.

12 Q Don't you think, Mr. Southwick, it might have
13 been reasonable for you to independently evaluate those
14 numbers before you came to the Commission to ask for
15 recovery of them?

16 A No. As I say, we know what the inventory is.
17 The original figures that you referred to, the earlier
18 figures have been discredited because of the accounting
19 problems that we've heard about today, so they had no value
20 that we could turn to. The only way to establish the value
21 given the inventory was to apply a reasonable approach.
22 That approach was applied accurately, and the result we feel
23 is reasonable.

24 Q Okay. Just a minute. We have to switch staff
25 people here.

1 Mr. Southwick, we're passing out Deposition
2 Exhibit 1 to your deposition entitled Summary of 1993 Fuel
3 Costs With and Without the TECO Contract.

4 COMMISSIONER EASLEY: It will be identified as
5 Exhibit 14.

6 MS. BROWN: Thank you.

7 COMMISSIONER EASLEY: You're welcome.

8 MS. BROWN: Actually, we have been doing that
9 with these. I'm not sure we need to. This is already
10 in Mr. Southwick's deposition.

11 COMMISSIONER EASLEY: It will not be identified
12 as Exhibit 14.

13 BY MS. BROWN:

14 Q Do you have that before you?

15 A Yes, I do.

16 Q Do the fuel and purchased power costs on the
17 first line reflect Florida Power Corporation's load and
18 Sebring's load as forecasted by MRI?

19 A RMI, yes, it does.

20 Q I'm sorry. The 1993 savings for Florida Power
21 Corporation retail customers of approximately \$2 million is
22 the result of fuel and purchased power that is being
23 displaced by the TECO contract; is that correct?

24 A Yes.

25 Q Has Florida Power Corporation made any forecasts

1 of projected fuel savings for any years past 1993?

2 A Yes, we did. That was in my Deposition Exhibit
3 No. 2.

4 Q Can you tell me what those savings are projected
5 to be? Can you just give me the numbers for 1994, '95, '96,
6 and '97?

7 A In 1994 it's \$585,000. In 1995 it's a negative
8 170,000; that's actually an increase. In 1996 it's a
9 \$545,000 savings. In 1997 it's \$1.2 to 7 million. That's
10 out of my Deposition Exhibit No. 2.

11 Q All right. And those are projected fuel savings
12 for Florida Power Corporation's load and Sebring's load;
13 correct?

14 A Yes.

15 Q Under the TECO contract?

16 A Yes.

17 Q Isn't it true that Florida Power Corporation's
18 assumption of the TECO contract will result in increased
19 capacity cost charges of approximately \$600,000?

20 A In 1993, yes.

21 Q And isn't it true that Florida Power Corporation
22 is asking that those capacity cost charges be recovered from
23 Florida Power Corporation's general body of ratepayers
24 through the capacity cost recovery clause?

25 A Yes.

1 Q And so isn't it true, based on your projections
2 of energy and capacity costs, that Florida Power Corporation
3 ratepayers will realize a net benefit in 1993 from Florida
4 Power Corporation's assumption of this contract?

5 A That's correct.

6 Q But if capacity costs remain approximately the
7 same during 1994, 1995, and 1996, Florida Power
8 Corporation's ratepayers will no longer realize a net
9 benefit from Power Corp.'s assumption of the TECO contract;
10 isn't that true?

11 A Well, in fact they won't stay the same. They
12 will actually decline, so probably in '94 they would still
13 see a small savings. It would be a negative number in '95.
14 '96 would be a small savings, and '97 would be a very large
15 savings.

16 COMMISSIONER EASLEY: '97 would be what?

17 WITNESS SOUTHWICK: A very large savings.

18 BY MS. BROWN:

19 Q Would you agree that it would be important under
20 these circumstances to assure as much as possible that
21 Florida Power Corporation's general body of ratepayers are
22 not harmed by this acquisition?

23 A We believe they will not be harmed.

24 Q Well, that isn't what I asked. What I asked was,
25 would you agree that it is important in this circumstance to

1 try as much as possible to ensure that they are not harmed?

2 A Yes, I think that you should do that.

3 Q Well, to that end, would Florida Power
4 Corporation be willing to limit what is recovered from its
5 ratepayers to an amount equal to that which would have been
6 recovered without the purchase of Sebring?

7 A I don't think that's a reasonable request by
8 itself, no, I don't. I think you have to look at -- there's
9 two things right away that give me a problem with that. One
10 of them is, number one, you have to look at the overall
11 acquisition that we're talking about, all the benefits and
12 all the costs over the long period of time which it's going
13 to take place. And I think what you need to do is become
14 comfortable that those are favorable for everybody, and once
15 you become comfortable, you should approve the transaction.

16 Q Well, Mr. Southwick --

17 A Beyond that, I think it's unfair to put in a
18 one-sided penalty on the utility. If it's going to cut one
19 way, it should cut the other. And if we're going to be not
20 allowed to recover when costs drift a certain way, which
21 they will as the fuel costs go up and down and so forth, we
22 should be allowed to offset when things go the other way.
23 That's my initial reaction anyway.

24 Q Well, I think what I would like to ask you is,
25 haven't you phrased your request for relief in this case in

1 rather specific terms? You have a series of very specific
2 things that you would like the Commission to approve.

3 A Yes, we have, and we would like them to be
4 approved as a package.

5 Q And in each of those instances, there are
6 particular consequences that go along with the Commission's
7 approval; isn't that correct?

8 A Yes.

9 Q And don't you think it is important to explore
10 here the effect of each one of those decisions that you have
11 asked the Commission to make?

12 A Yes, I think you should.

13 Q That's what I'm trying to do.

14 Now, you are asking the Commission to preapprove
15 the prudence of Florida Power Corporation's assumption of
16 this TECO contract; is that correct?

17 A Yes.

18 Q But you are not asking the Commission, as I
19 understand it, for all time to approve recovery of any
20 particular number of costs associated with this contract in
21 future cost recovery proceedings; correct? It's possible
22 that the Commission may at some later date refuse to approve
23 a particular cost if it's associated with the contract not
24 being properly administered, that sort of thing?

25 A Yes, the Commission would certainly have that

1 authority.

2 MS. BROWN: No further questions.

3 CHAIRMAN BEARD: Redirect?

4 MR. FAMA: None. I would like to move Exhibit
5 13.

6 CHAIRMAN BEARD: Without objection.

7 (Exhibit 13 received in evidence.)

8 CHAIRMAN BEARD: The witness can step down, Leroy
9 can move to the stand, and we're going to take a
10 10-minute break.

11 (Short recess.)

12 CHAIRMAN BEARD: Okay. Pow-wow time. How about
13 you come on back up there for just a minute.

14 (Witness Warren resumes the stand.)

15 CHAIRMAN BEARD: We're trying to do a little
16 thinking here of where we stand. We've got two
17 witnesses to go. We will quit not later than six
18 o'clock today.

19 My understanding is that there's some closing
20 statements that have been requested. I think I gave
21 some guidance. Was it followed?

22 MS. BROWN: What do you mean, Commissioner?

23 CHAIRMAN BEARD: Well, somebody said something
24 about 20 minutes a pop, and I said no way, I think is
25 what my --

1 MS. BROWN: I don't know that any determination
2 has been made. That's really up to your discretion.

3 CHAIRMAN BEARD: Well, first off, who wishes to
4 make closing statements? One, two, and that makes
5 three.

6 COMMISSIONER EASLEY: Is that an up or a down,
7 Bruce?

8 CHAIRMAN BEARD: That's four.

9 MR. MAY: A very brief one.

10 CHAIRMAN BEARD: Well, I know that. We can all
11 take that to the bank. Closing statements are going
12 to be limited to ten minutes maximum. And my clock
13 will tick, and I can tell you when the ten minutes is
14 up, if you aren't done, you are still done. Okay?
15 I've learned by watching the Supreme Court. They work
16 good. They just flip the system off. So I'm just
17 putting you on notice now.

18 I think the way to handle this will be -- we're
19 trying to work our schedules out. We had some stuff
20 clear tomorrow. I think it might be appropriate to
21 finish the witnesses and then perhaps do the closing
22 statements in the morning.

23 MS. BROWN: That would be fine. Followed by
24 Staff's recommendation?

25 CHAIRMAN BEARD: Followed by Staff's

1 recommendation. And then we could make a decision
2 tomorrow as opposed to doing it next Tuesday.

3 COMMISSIONER EASLEY: And could we start like at
4 about 8:30?

5 CHAIRMAN BEARD: We certainly can.

6 COMMISSIONER EASLEY: Is that all right with
7 everybody?

8 CHAIRMAN BEARD: Does that present any problems
9 from a mechanical standpoint for anybody? Coming down
10 the line.

11 COMMISSIONER EASLEY: Speak now.

12 CHAIRMAN BEARD: Speak now or forever hold your
13 peace.

14 Okay. That gives you all a chance tonight to
15 think about those remarks and use that ten minutes
16 wisely. If you want me to speak for an hour, I'm
17 prepared now, but if you want me to speak for five
18 minutes, I need a week to get ready. That's about
19 where we are.

20 Okay. I think we've got an idea of where we're
21 headed, hopefully.

22 I had a question of you, and I have a little
23 modified drawing here.

24 COMMISSIONER EASLEY: And for the court reporter,
25 it's Mr. Warren again.

1 CHAIRMAN BEARD: It's Mr. Warren. I guess we're
2 going to call this, for lack of anything better,
3 GEW-6. I don't know if we have copies for other
4 people yet.

5 WITNESS WARREN: We've distributed those.

6 CHAIRMAN BEARD: Okay. If I can find my exhibit
7 list, I'll put it on it. That will be Exhibit 14.

8 (Exhibit 14 marked for identification.)

9 CHAIRMAN BEARD: And this is, as I understand it,
10 two-phase over eight years. And by your calculation,
11 that would come to a net present value of some \$4.491
12 million.

13 WITNESS WARREN: That's correct.

14 CHAIRMAN BEARD: Now, I don't know who the
15 appropriate one is, but since I've got Mr. Warren on
16 the stand, I will ask.

17 This chart which is Late-filed Deposition Exhibit
18 No. 2 of Witness Dagostino, I don't know how much
19 trouble is involved in getting some numbers associated
20 with this chart if you were to assume, number one --
21 let me find out exactly, because I want to get the
22 right question out there. If you were to assume the
23 going concern of 4.85 million, my understanding is
24 that that moved into rate base and moved out of the
25 rider is not included in these numbers. Is that

1 correct? I would like to see these numbers with the
2 4.85 million in rate base and out of the rider. What
3 does that do to the rider, and what is the impact?
4 And quite frankly, for simplistic purposes, if it
5 helps -- and who would be the appropriate person to do
6 this? I should have known.

7 COMMISSIONER EASLEY: Leroy.

8 CHAIRMAN BEARD: Okay. When we get you on the
9 stand, I'll ask for a late-filed exhibit, but you all
10 can be taking notes. If you all have got this
11 somewhere where it's quickly calculable on Lotus or
12 something like that, fine. If not, if I could even
13 just see a 1,000 KWH number, that will help me.

14 Now, the other figure I want to look at -- that's
15 4.85 million, and the other figure would be roughly a
16 figure of approximately 7.341 million. And that quite
17 simply is substituting 4.491 for 2 million, is what
18 I'm doing there. I'm just trying to get some
19 comparative analysis. That is the number one item on
20 going concern, which is value of established customer
21 base. The 4.85 contains a figure of 2 million, and
22 I'm substituting the two-phase, eight-year number of
23 4.491. I would like to see what the impact is of
24 that, and looking at the rider.

25 And I guess I need -- well, I guess that will do

1 it. So that's two different things that I'm looking
2 for. And those can be -- well, when Sam gets on the
3 stand I can ask him when we can have them. In the
4 morning?

5 COMMISSIONER EASLEY: Where's Nixon?

6 CHAIRMAN BEARD: Well, when we get him on the
7 stand we'll ask him if that's feasible or not. Okay?

8 I don't think I have anything else for you.

9 WITNESS WARREN: Thank you.

10 MR. MAY: Mr. Chairman, could we have Late-filed
11 Exhibit -- well, Mr. Warren's Exhibit 14 admitted into
12 evidence?

13 CHAIRMAN BEARD: Without objection.

14 (Exhibit 14 received in evidence.)

15 MR. MAY: Thank you.

16 CHAIRMAN BEARD: And then there will be a
17 late-filed -- I'm going to call it Exhibit 15, for
18 Mr. Nixon that we'll deal with -- the question I was
19 asking you back there, did you hear what I wanted on
20 that?

21 WITNESS NIXON: Yes. In fact, I may be able to
22 give you a general answer while I'm up here.

23 CHAIRMAN BEARD: Okay. That's even better.

24 (Late-filed Exhibit 15 identified.)

25 Thereupon,

1 SAMUEL F. NIXON, JR.

2 was called as a witness and, having been first duly sworn on
3 oath, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. FAMA:

6 Q Please state your name and business address.

7 A Yes. My name is Samuel F. Nixon, Jr. My
8 business address is Post Office Box 14042, St. Petersburg,
9 Florida 33733.

10 Q By whom are you employed and in what capacity?

11 A I'm employed by Florida Power Corporation as the
12 Director of the Rate Department.

13 Q Have you prefiled direct testimony in this
14 docket?

15 A Yes, I have.

16 Q Do you have changes or corrections to that
17 testimony?

18 A Yes, I do. We have passed out amended pages 8, 9
19 and 15. Eight and 9 are intended to show the flexibility of
20 the notes that we intended to file, and on page 15 we have
21 corrected the numbers of customers in each other's area.

22 Q With the exception of those corrections,
23 Mr. Nixon, if I were to ask you the questions contained in
24 the testimony today, would your answers be the same?

25 A Yes.

1 MR. FAMA: I would ask that Mr. Nixon's prefiled
2 direct be inserted into the record as though read.

3 CHAIRMAN BEARD: It will be so inserted.
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**Before the
Florida Public Service Commission**

In re: Joint Petition of Florida)	
Power Corporation and Sebring Utilities)	Docket No. 920949-EU
Commission for Approval of Certain)	
Matters in Connection with Sale of)	Filed: September 25, 1992
Assets by Sebring Utilities Commission)	
to Florida Power Corporation)	

**DIRECT TESTIMONY
OF
SAMUEL F. NIXON, JR.**

I. INTRODUCTION AND QUALIFICATIONS

1

2

3 **Q. Please state your name and business address.**

4 **A. My name is Samuel F. Nixon, Jr. My business address is Post Office Box**
5 **14042, St. Petersburg, Florida 33733.**

6

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

8 **A. I am employed by Florida Power Corporation (Florida Power) in the capacity of**
9 **Director of the Rate Department.**

10

11 **Q. Please describe your educational background and professional experience.**

12 **A. I received a Bachelor of Science Degree in Engineering (Mechanical) from**
13 **Virginia Polytechnic Institute and State University in 1973. Since beginning my**
14 **employment with Florida Power in June, 1973, I have held various engineering**
15 **positions in the Production, System Operations, and System Planning**

1 departments. I held the position of Supervisor, Rate Design and Administration
2 from 1981 through 1989, and Manager, Generation Planning, during 1990. I
3 have been in my current position as Director of the Florida Power's Rate
4 Department since December, 1990.

5

6 **Q. What are the responsibilities of your present position?**

7 A. I am responsible for directing all activities of the Rate Department including
8 preparation of the cost of service studies, rate design, and tariff administration.

9

10 **II. PURPOSE AND SUMMARY OF TESTIMONY**

11

12 **Q. What is the purpose of your testimony in this proceeding?**

13 A. The purpose of my testimony is threefold: (1) to explain Florida Power's
14 proposed Rate Schedule SR-1, Sebring Rider; (2) to demonstrate potential
15 customer benefits using a comparison of customer bills that show Sebring rates
16 versus Florida Power rates; and (3) to describe the integration of customers into
17 Florida Power's rate structure and to discuss other applicable rates and charges.

18

19 **Q. Are you sponsoring any portions of Exhibit 1, which contains the Agreement**
20 **for Purchase and Sale of Electric System among Florida Power, Sebring**

1 A. The portions of my testimony that appear after Sections I and II are as follows:
2 Section III discusses the derivation of Rate Schedule SR-1, Sebring Rider.
3 Section IV discusses the implementation of the Rate Schedule SR-1. Section V
4 discusses the integration of Sebring customers into Florida Power's current rate
5 structures and the rate benefits for Sebring customers by becoming Florida Power
6 customers.

7

8 Q. Please summarize your testimony.

9 A. As part of the acquisition of the Sebring system, Florida Power will provide the
10 necessary funds above the value of the electric system to allow for the retirement
11 of Sebring's debt. In order for Florida Power to recover these costs, Florida
12 Power will assess former Sebring customers a charge (the Sebring Rider), in
13 addition to their normal electric charges. The Rider will be based on a formula
14 which will change over time, subject to Commission review and approval. Even
15 with the Rider, after the acquisition Sebring residential and commercial customers
16 can expect to pay significantly lower rates than they pay today. Florida Power's
17 current set of rate schedules is more numerous and contains more options than
18 Sebring's current set of rates. Converting Sebring customers to Florida Power's
19 rate schedules generally will be beneficial to Sebring customers.

1 **III. DERIVATION OF RATE SCHEDULE SR-1, SEBRING RIDER**

2

3 **Q. What rate or rates will Florida Power apply to the acquired customers?**

4 **A. Acquired customers will be charged a rate under Florida Power's effective tariffs**
5 **plus an additional rate (Sebring Rider). See Exhibit 1 to this proceeding,**
6 **Schedule 1.6, Rate Schedule SR-1, page 156.**

7

8 **Q. What is the rate for the Sebring Rider?**

9 **A. The Sebring Rider is initially established at 2.126 cents per kWh, before**
10 **consideration of any going concern value.**

11

12 **Q. What is Florida Power's ratemaking objective with respect to the Sebring**
13 **Rider?**

14 **A. The Sebring Rider is a formula rate designed to recover:**

15 (1) the capital which allows Sebring to retire its debt and cease
16 operations; plus

17 (2) the interest and other expenses incurred by Florida Power
18 associated with the capital to be recovered by the Sebring Rider;
19 plus

20 (3) other revenue related taxes.

1 **Q. Does the other revenue related taxes include income taxes?**

2 **A. No.**

3

4 **Q. Please define the amount of capital to be recovered by the Sebring Rider.**

5 **A. The amount of capital to be recovered by the Sebring Rider is the difference**
6 **between:**

7 (1) the Purchase Price; and

8 (2) the depreciated net book value of the Rate Base Assets *plus* any
9 going concern value determined by the Commission to be a prudent
10 Florida Power investment.

11

12 **Q. Is the exact capital amount to be recovered by the Sebring Rider known at**
13 **this time?**

14 **A. No. Several elements of the transaction will not be known until after the closing**
15 **and a final audit. Various factors influencing these elements are Sebring's sales**
16 **revenues and operating expenses, plant additions and going concern value.**

17

18 **Q. What capital amount was used in developing the Sebring Rider Rate of 2.126**
19 **cents per kWh?**

1 A. \$38,134,631 is the amount used in the Sebring Rider without the consideration of
2 any going concern value. The capital amount is shown in Exhibit 16 (SFN-1),
3 Sebring Rider (SR-1) Rate Calculation Worksheet attached to my testimony.
4

5 **Q. How does Florida Power plan to finance the final capital requirement amount**
6 **associated with the Sebring Rider?**

7 A. This amount will be 100% debt financed through medium term notes discussed
8 in the prospectus which is Exhibit 16 (SFN-2), Prospectus, Florida Power
9 Corporation Medium-Term Notes, Series B, attached to my testimony.
10

11 **Q. Has Florida Power used medium term notes previously?**

12 A. Yes. The current medium term note program is the second such program for
13 Florida Power. The first program (Series A) was in 1988, in the amount of
14 \$200,000,000.
15

16 **Q. Is the second medium term note program limited to this transaction?**

17 A. No. Florida Power currently has on file with the Securities and Exchange
18 Commission a shelf registration to issue up to \$200,000,000 Medium-Term
19 Notes, Series B. The capital requirement for the Sebring Rider will be one use
20 of this note program. The balance will be used for the reduction of short term
21 debt and for other general corporate purposes.

2 **Q. Will the medium term notes associated with the acquisition of Sebring be**
3 **handled separately from the balance of the medium-term notes, Series B**
4 **proceeds used in other Florida Power capital requirements?**

5 **A. Yes. For the Sebring Rider, separate notes are planned to be issued based on**
6 **market conditions by FPC at the time of closing. These notes will mature**
7 **beginning approximately the twelfth month after the date of closing through the**
8 **fifteenth year. The principal of each note is determined by the revenues received**
9 **from the Sebring Rider after interest expense and revenue related taxes.**

10 **Q. Will the individual notes be issued in the same amount?**

11 **A. No. The concept of the Sebring Rider is to create a levelized rate, on a kWh**
12 **basis, over the fifteen year period. It is anticipated that growth in the Sebring**
13 **area will generate a greater amount of dollars in each subsequent period. The**
14 **individual notes are expected to vary in size from approximately \$500,000 to**
15 **\$2,500,000.**

16
17 **Q. Is there any negative amortization; that is, a situation where the Sebring**
18 **rider will not yield sufficient revenues to pay annual interest and principal**
19 **payments as they come due?**

20 **A. No. The Sebring Rider will recover fully the incurred interest expense for all**
21 **outstanding notes plus a portion of principal for the upcoming expiring individual**
22 **note.**

1 Q. Do you have an Exhibit showing the amortization of the medium-term notes?

2 A. Yes. Exhibit ____ (SFN-1), page 4 of 5, shows an amortization of the medium
3 term notes. Again, these values are subject to change pending the final audit and
4 other actual incurred costs and any going concern value determined by the
5 Commission to be a prudent Florida Power investment.

6
7 Q. Is the interest rate fixed?

8 A. The interest rate is a fixed interest rate for each medium term note. There will
9 likely be different fixed interest rates, a different rate for each maturity.

10
11 Q. What is the total interest expense to be recovered by the Sebring Rider?

12 A. It is estimated that the total interest expense over the 15 year period will be
13 \$29,303,749. This amount includes monies to cover the costs incurred in issuing
14 the medium term notes plus the interest expense with respect to the notes. A cost
15 incurred in issuing the notes will include the Underwriter's Commission and a
16 proportionate amount of program expenses incident to the issuance and sale of
17 notes, such as printing, SEC fees, legal expenses, accounting fees and expenses,
18

1 notes, such as printing, SEC fees, legal expenses, accounting fees and expenses,
2 rating agency fees, and trustees' fees.

3

4 **Q. Do you have an estimate of the program expenses incident to the issuance and**
5 **sale of the notes?**

6 A. Yes. As tabulated in Exhibit 16, (SFN-2) Page II-1, the total for these items is
7 estimated to be \$225,000 for the full \$200,000,000 Medium Term Note Series B.
8 If the capital requirement for the Sebring Rider uses \$38,134,631 of the
9 \$200,000,000 then only 19%, or \$42,901 of the program expenses incident to the
10 issuance and sale of notes will be allocated to the Sebring Rider.

11

12 **Q. Are the revenues from the Sebring Rider pledged as security to the notes?**

13 A. No. The notes will be a general obligation of Florida Power Corporation.

14

15 **Q. How does Florida Power plan on financing the balance of the Sebring**
16 **acquisition?**

17 A. Florida Power will finance the remaining amount of the Sebring acquisition
18 consistent within its normal capital structure of debt and equity.

19

20 **Q. What other costs are included in the Sebring Rider?**

1 A. At this time, the only other item included in the Sebring Rider is the Regulatory
2 Assessment Fee, a cost assessed by this Commission. This cost was figured at
3 0.125%, and is subject to change in the future.

4

5 **Q. Are there other notable terms and conditions of the Sebring Rider?**

6 A. Yes. The Sebring Rider will be exempt from any municipal tax or franchise fee.

7

8 **Q. Why?**

9 A. There are three reasons. First, the City of Sebring has agreed that franchise fees
10 and municipal taxes should not be added to the Rider as stated in Exhibit 1,
11 Agreement for Purchase and Sale of Electric System, pp. 54; 628. Second, this
12 exemption provides some degree of rate relief to the City of Sebring electric
13 customers. Third, the City's cash flow will be essentially unchanged if the
14 Sebring Rider excludes franchise fee and municipal utility tax. The City's budget
15 will benefit favorably through lower City electric bills and increased revenues
16 from property taxes paid by Florida Power. On the other hand, the City's budget
17 will be adversely impacted because municipal utility tax proceeds will fall as
18 customers' electric bills decrease.

19

20 **Q. Please summarize the calculation of the Sebring Rider.**

1 A. The Capital Amount of \$38,134,631, the interest expense of \$29,031,000 and the
2 Regulatory Assessment Fee of \$84,062 totals \$67,249,693. This amount is
3 spread over the 15 year energy sales of 3,164,633,000 kWh, producing an
4 average rate of 2.126 cents per kWh.

5

6 **Q. How does the Rate Schedule SR-1 differ from the Transition Rate in the**
7 **contract for Sale and Purchase?**

8 A. The Transition Rate in the contract, stated at 2.180 cents per kWh, includes a
9 2.5% Gross Receipts Tax Factor. Reducing the Transition Rate by the 2.5%
10 Gross Receipts Tax Factor, which is collected separately, equals the Sebring
11 Rider rate of 2.126 cents per kWh.

12

13 **IV. IMPLEMENTATION OF RATE SCHEDULE SR-1**

14

15 **Q. Will the rate remain fixed over the 15 year period?**

16 A. Probably not. While most of the variables will become known shortly after the
17 closing, such as the interest rates and net book value, the assumption of kWh
18 sales over the 15 year period remains just that--an assumption. If the growth in
19 the area exceeds the medium forecast of 2.09% annually, the Sebring Rider will
20 be lowered; if growth does not meet the projected annual rate, the Sebring Rider
21 will be increased.

1 **Q. Who will initiate a request before the Commission to change this rate?**

2 A. Florida Power most likely will initiate a request to change the rate. If projected
3 SR-1 revenues from sales exceed the amount required to pay the notes and
4 interest, a reduction of the SR-1 rate would be appropriate. This would require
5 a review of updated electric sale projections to customers subject to the Sebring
6 Rider during the balance of the 15 year period. If, on the other hand, projected
7 SR-1 revenues do not recover the amount required to pay the notes and interest,
8 an increase may be requested.

9

10 **Q. Do you recommend a review of this rate by the Commission as often as the**
11 **fuel adjustment is reviewed?**

12 A. Not at this time. Florida Power has agreed with Sebring that the Rate Rider be
13 reviewed no less often than every Florida Power general rate increase filing, and
14 in any event, no less frequently than every four years. Towards the end of the
15 15 years, changes in the growth rates will have greater leverage and impact on
16 the rate. As that time approaches, more frequent reviews may be necessary. But
17 initially, there is no need for a formal automatic, semi- or annual review.

18

19 **Q. How do you propose accounting for the Sebring Rider?**

20 A. Florida Power will establish a balance account, maintained on its books, netting
21 the revenues from SR-1 against the payments for principal and interest expenses.

1 Any monies refunded from Sebring operations, such as insurance premium
2 refunds, or partial refund of the additional purchase price, will be credited to this
3 balance, to the benefit of the Sebring ratepayer. Interest will accrue on the
4 balance at a rate approved by the Commission. Florida Power will be willing to
5 address with the Commission a mutually acceptable way of keeping the
6 Commission informed of this account balance.

7

8 **Q. What group of customers will pay the Sebring Rider?**

9 **A.** The Sebring Rider will apply to:

10 (a) all customers currently receiving retail electric service through a
11 Sebring meter at the time of closing (and successors to such
12 customers) at any location within Sebring's territory, or within
13 Florida Power's territory in and near the City of Sebring, Florida,
14 and

15 (b) all retail electric service meters at new locations within the Sebring
16 territory at any time after the closing, *except* for meters in the
17 separate Sebring retail service area in and around the Sebring
18 Airport.

19 The areas affected by the Sebring Rider are described in Exhibit 16 (SFN-3),
20 Territorial Maps, attached to my testimony.

1 Q. What will become of the Sebring or Florida Power customers located in each
2 other's territory.

3 A. There still are approximately 739 Sebring customers located within Florida
4 Power's territory. These customers, and their successors, will be assessed the
5 Sebring Rider. Similarly, there still are approximately 957 Florida Power
6 customers within Sebring's territory. These customers, however and their
7 successors, will not be assessed the Sebring Rider.

8

9 Q. What about empty lots in Florida Power's territory that are in and around the 739
10 Sebring customers. Will these lots be subject to the Sebring Rider when they are
11 built upon?

12 A. No. Since these locations are neither within Sebring's territory, nor have a
13 Sebring meter at the time of closing, these customers will not be subject to the
14 Sebring Rider.

15

16 Q. On what basis will the Sebring Rider be developed?

17 A. The Rider is established on an energy basis, that is, on the basis of kilowatthours.
18 It may be proper to consider allocating the Sebring Rider Rate on a demand basis
19 because the Rider is associated with the cost of interest expense and capital
20 recovery. However it was decided to allocate the costs of the Rider on an energy

21

1 basis for purposes of simplicity and because of the unavailability of load research
2 data.

3

4 **Q. Has an Energy and Demand Forecast been prepared specifically for the**
5 **Sebring area?**

6 A. Yes. Resource Management International ("RMI") prepared an Energy and
7 Demand Forecast in late 1991 for the Sebring Utilities Commission 1991 - 2022,
8 which is found in Exhibit 16, (SFN-4), which is attached to my testimony.

9

10 **Q. What is the sales forecast for the period covered by the Sebring Rider?**

11 A. For the period, 1993 through 2007, the Medium Forecast produces a total kWh
12 sales of 3,164,633,000 kWh. This represents an average annual energy growth
13 rate of 2.09%.

14

15 **Q. Do you concur with the forecast as presented by RMI?**

16 A. Yes. The RMI's forecast results from an econometric model using assumptions
17 similar to those used by Florida Power in its long term forecast. These
18 assumptions include the population projections produced by the Bureau of
19 Economic and Business Research and normalized weather. RMI's forecast
20 includes specific assumptions with respect to Highlands County and Sebring. The
21 employment in retail trade and services in Highlands County will follow the

1 forecast provided by the United States Department of Commerce. In addition, the
2 additional load from the Lakeshore Mall which opened in February, 1992, is
3 included in the forecast.
4

5 **Q. Does the RMI energy forecast for Sebring consider any Load Management**
6 **Programs?**

7 **A. No. Sebring does not have any Load Management programs.**
8

9 **Q. What impact will Florida Power's Load Management programs have on the**
10 **energy forecast?**

11 **A. The majority of Florida Power's Load Management programs are directed at**
12 **reducing demand rather than energy consumption. Therefore, I do not know the**
13 **impact Florida Power's Load Management programs will have on the energy**
14 **consumption. I believe that the average use by today's Sebring residential**
15 **customer of 667 kWh per month, is in part attributable to Sebring's high electric**
16 **rates. Sebring's former customers will see the real price of electricity drop under**
17 **Florida Power's rates encouraging greater electric usage. I believe the lower real**
18 **price will offset any consumption losses produced by today's Florida Power Load**
19 **Management programs.**
20

21 **Q. What level of Load Management do you expect?**

1 A. A high level of interest has been expressed in Florida Power's Load Management
2 programs.

3

4 **Q. Will the average customer in Sebring be able to realize the full Load
5 Management credit?**

6 A. The Load Management credit can be up to \$17 per month. Though many
7 customers could qualify for the full credit, the average Sebring customer using
8 700 kWh per month will be limited to a credit up to \$11.94, 40% of the non-fuel
9 energy and demand charges. A credit of \$4.50 is available for a hot water
10 heater, up to \$9.00 per month for a central heating system, up to \$6.00 per month
11 for central cooling system, and \$3.50 for a swimming pool pump.

12

13 **Q. Is it discriminatory to apply the Sebring Rider to only the Sebring portion of
14 Florida Power's residential and commercial customers instead of all of
15 Florida Power's residential and commercial customers?**

16 A. Yes, it is discriminatory, but it is not unduly discriminatory. There is a factual
17 basis for distinguishing Sebring's former customers from Florida Power's other
18 residential and commercial customers. Retiring Sebring's debt is a cost of
19 serving these former Sebring customers, but it is not a cost of serving Florida
20 Power's other customers.

1 **Q. Is Florida Power setting Sebring's former customers apart in a separate rate**
2 **class, while all other Florida Power ratepayers pay the same rate?**

3 **A. No.** Florida Power has 17 different rates schedules, each of which may contain
4 various rates. Just as the costs to serve acquired Sebring customers are separate
5 and distinguishable, other Florida Power customer groups receive service under
6 differing circumstances which justify distinguishing their rates from one another.

7

8 **V. THE INTEGRATION OF SEBRING'S FORMER CUSTOMERS INTO**
9 **FLORIDA POWER'S CURRENT RATE STRUCTURES**

10

11 **Q. Will all the acquired customers be in the same rate classification as they were**
12 **when they were served by Sebring?**

13 **A. Most customers will have the same rate classification with Florida Power as they**
14 **now have with Sebring. However, there will be some exceptions. Churches are**
15 **considered in the residential class by Sebring, but in the General Service class by**
16 **Florida Power. Generally, Sebring's demand customers will remain demand**
17 **customers, but will not be differentiated by the levels of demand. As Florida**
18 **Power's programs for load management and time-of-use rates become known and**
19 **accepted, many former Sebring customers will be taking service under these rate**
20 **schedules.**

1 **Q. Will any customer or group of customers see an adverse rate impact by this**
2 **transaction?**

3 A. After extensive review by my staff, I have found no customer or group of
4 customers who will experience a material adverse rate impact by paying Florida
5 Power's rates, including the Sebring Rider, as compared to paying current
6 Sebring rates.

7

8 **Q. How about customers, such as churches, who currently pay a Sebring**
9 **residential rate?**

10 A. All residential customers will see a reduction in their cost for electric service,
11 except for churches using less than 181 kWh per month. For these extremely low
12 energy use churches, the \$1.85 difference in the monthly customer charge is not
13 totally offset by the lower energy charges. The average small church in the
14 Sebring territory uses about 400 kWh per month. Their electric charges will drop
15 4%, from \$50 to \$48. Medium and large churches will have a minimum 11%
16 decrease in their electric bills. Greater savings will be realized by churches with
17 20% or higher load factors, by being on the General Service demand rate.

18

19 **Q. How do service charges compare between Sebring and Florida Power?**

20 A. Service charges are relatively equal between the utilities, but differences do exist.
21 Florida Power has a higher charge for installation of new electric service. But

1 the higher charge is offset by Sebring's charge for disconnect, which is not a
2 charge imposed by Florida Power. Sebring imposes a late payment penalty,
3 whereas Florida Power does not. A listing of Sebring's customer fees, service
4 charges and terms is included in Exhibit 6, (SFN-6), Sebring Utilities
5 Commission Electric Documentation (Rate Schedules.) The Florida Power
6 service charges are found in Exhibit 6, (SFN-7), Florida Power's Index of Rate
7 Schedules and Rate Schedule SC-1, Service Charges. Both of these exhibits are
8 attached to my testimony.

9

10 **Q. Will customers be impacted by Florida Power's customer deposit policy?**

11 **A.** Former Sebring customers will be favorably impacted by the Florida Power
12 customer deposit policy. Sebring residential customers who have had continuous
13 service for a period of 23 months and who have established a satisfactory payment
14 record will have their electric deposits refunded. New customers may have the
15 customer deposit waived upon submitting evidence of a satisfactory payment
16 record with another electric utility. Currently, Sebring customers are required to
17 provide a deposit that is refundable only upon termination of service.

18

19 **Q. Is interest on customer deposits the same?**

20 **A.** No. Florida Power's currently approved interest on deposits is 8% versus the 5%
21 annual rate granted by Sebring.

1 **VI. THE RATE BENEFITS TO SEBRING CUSTOMERS OF BECOMING**
2 **FLORIDA POWER CUSTOMERS**

3

4 **Q. How will Florida Power's rates, including the Sebring Rider compare to the**
5 **current rates of Sebring?**

6 **A. Sebring's customers will see a reduction in their total electric bill under Florida**
7 **Power's rates as you can see in the comparisons shown in Exhibit 16 (SFN-5),**
8 **Comparison of Bills for Electric Service Provided Under Sebring Utilities and**
9 **Florida Power Rate Schedules attached to my testimony. At the time that this**
10 **testimony was prepared, the 1993 rates from Florida Power's rate request were**
11 **not resolved. Hence, Exhibit 16 (SFN-5) compares Sebring's current rates with**
12 **the rates Florida Power proposes to have in effect in November, 1993. After the**
13 **Commission has rendered a decision on Florida Power's pending rate case, it is**
14 **expected that the November, 1993 rates will be somewhat lower, widening the**
15 **gap between Florida Power and Sebring rates.**

16

17 **Q. Please summarize the findings of your rate comparison for residential**
18 **customers.**

19 **A. The residential customer outside the city limits of Sebring, using 1,000 kWh per**
20 **month will realize an annual savings of \$117 or approximately 9%. A city**
21 **resident will have savings of \$110. The average residential customer of Sebring**

1 uses nearly 700 kWh per month. This typical customer will have annual savings
2 of \$86, or \$79, if a City resident.

3

4 Since both the Florida Power's customer charges and the charges associated with
5 energy are below Sebring's, all customers who transfer from Sebring's
6 residential class to Florida Power's residential class will receive a rate reduction.

7

8 As discussed earlier, if the Commission grants Florida Power less than the \$145.9
9 million revenue increase requested, the stated savings will be greater.
10 Furthermore, my comparison assumes Sebring's rates remain constant. However,
11 in the absence of the Florida Power acquisition, Sebring's rates could increase
12 37.1% for Sebring's fiscal year 1992-1993. Obviously, this would make the rate
13 disparity that much greater.

14

15 **Q. Explain the reason for different savings for city residents and non-city**
16 **residents.**

17 **A. City residents will be assessed a franchise fee and a municipal utility tax.**

18

19 **Q. Do the Florida Power rates incorporate the change in recovering the Energy**
20 **Conservation and Capacity Cost Recovery costs as well as the impact of the**
21 **Cost of Service and Rate Design Stipulation?**

1 A. Yes. In the proposed November, 1993 Florida Power rates, the Energy
2 Conservation Costs and the Capacity Cost Recovery are allocated to rate classes
3 on a demand and energy basis versus solely on an energy basis. In addition, the
4 Energy Conservation Costs have been adjusted to include the Load Management
5 programs for customers in the interruptible and curtailable classes.

6

7 **Q. Will similar saving be seen by commercial customers?**

8 A. Yes, and for commercial customers on demand rates, the savings are even
9 greater. The bill for a General Service non demand customer using 1,500 kWh
10 per month will be reduced \$419, or 18%. The City customer will have a \$429
11 savings, or 17%. A 25% reduction in the electric bill will be seen by non-City
12 commercial customers on the General Service demand rate at a 27% load factor.
13 Customers with higher load factors will also see significant reductions. An
14 annual Sebring electric bill of \$61,900 will decline by \$10,500, or 17%.

15

16 **Q. How will the rate comparisons be affected by any going concern value?**

17 A. The rate comparisons I have discussed do not take into account any going concern
18 value. Any such value would reduce the Sebring Rider, thereby reducing the
19 acquired customers' electric bills, widening the rate disparity.

1 Q. Does this conclude your testimony?

2 A. Yes, it does.

1 BY MR. FAMA:

2 Q Mr. Nixon, do you have attached to your prefiled
3 testimony seven exhibits?

4 A Yes, I do.

5 Q Do you have any changes or corrections to these
6 exhibits?

7 A No, I do not.

8 MR. FAMA: I would like these exhibits to be
9 given the next consecutive exhibit number.

10 CHAIRMAN BEARD: Sixteen.

11 (Exhibit 16 marked for identification.)

12 WITNESS NIXON: I would like just to make you
13 aware that we did revise Exhibit No. 5, but we did
14 pass that out and distribute that earlier. But for
15 the record, I would like to just make it clear that
16 Exhibit 5 was revised.

17 BY MR. FAMA:

18 Q Okay. That exhibit is SFN-5, which is now part
19 of Exhibit 16?

20 A That's correct.

21 Q Okay. Mr. Nixon, are you sponsoring any part of
22 what has been marked in this case as Exhibit 1?

23 A Yes, page 156, which is the Sebring Rider.

24 Q Mr. Nixon, were you deposed in this case?

25 A Yes.

1 Q And is your deposition transcript part of the
2 staff composite exhibit which has been marked as Exhibit 2?

3 A Yes.

4 Q And did you have a chance to provide corrections
5 to that deposition transcript?

6 A Yes, I did.

7 Q So the answers contained in that transcript are
8 true and correct to the best of your knowledge?

9 A Yes, they are.

10 Q Did you provide any deposition exhibits?

11 A Yes, I did.

12 Q And they were also made part of Staff's Composite
13 Exhibit 2?

14 A Yes, they were.

15 Q Are they true and correct to the best of your
16 knowledge?

17 A Yes.

18 MR. FAMA: In the interest of time, we'll waive
19 Mr. Nixon's summary, and I will tender the witness for
20 cross examination.

21 CHAIRMAN BEARD: I need to ask a quick
22 housekeeping question. According to my schedule,
23 there are no more Sebring or Florida Power Corporation
24 witnesses.

25 MR. FAMA: That's correct.

1 CHAIRMAN BEARD: I have some page number gaps.
2 Is there a reason for that, in Exhibit 1? I can give
3 them to you if you want to check on them and tell me
4 later.

5 I show no one having sponsored to date pages 134
6 through 155, no one sponsoring pages 635 through 637,
7 and no one sponsoring 640 through 643. That is
8 assuming 649 is the last page -- I haven't double
9 checked that -- because that's the last one I show
10 sponsored.

11 COMMISSIONER EASLEY: Also, I don't know how
12 vital the changes are, but I do not have a corrected
13 copy of the Exhibit No. 5 for Mr. Nixon.

14 CHAIRMAN BEARD: 650 I don't think requires a
15 sponsor, so 649 would be the last page. So those are
16 the gaps that I show, for purposes of the record. If
17 you all want to check on those and let me know --

18 MR. MAY: Mr. Chairman, I can clarify that very
19 quickly.

20 CHAIRMAN BEARD: Okay.

21 MR. MAY: It was our mistake. Those portions
22 should have been sponsored by Mr. Calhoun.

23 CHAIRMAN BEARD: By Mr. Calhoun?

24 MR. MAY: Yes, sir.

25 CHAIRMAN BEARD: And that would be again, for the

1 record, pages 134 through 155?

2 MR. MAY: Excuse me. 134 through 155 was not
3 intended to be sponsored by Mr. Calhoun. I was
4 referring to the latter pages, pages 635 through 637,
5 pages 640 through 641, and pages 642 through 643.

6 CHAIRMAN BEARD: Okay. That takes care of those.

7 MR. MAY: Pages 133 through 155, Florida Power
8 and Sebring determined that because that was a draft
9 joint petition, it would not be necessary to include
10 it in the record. A final version has been filed.

11 CHAIRMAN BEARD: Okay. That takes care of it,
12 then. That should mean at this point in time that all
13 parts of Exhibit 1 that are going to be sponsored are
14 sponsored. Okay.

15 MR. FAMA: Madam Commissioner, are you looking
16 for a correct SFN-5? I can give you a copy.

17 COMMISSIONER EASLEY: Please. All I have is
18 what's in the book.

19 CHAIRMAN BEARD: Okay. Tendered? Questions?

20 CROSS EXAMINATION

21 BY MR. ROSS:

22 Q Mr. Nixon, you will perhaps recall that like
23 everybody else this morning, Mr. Dagostino passed the ball
24 to you with regards to a couple of questions. He testified
25 to the best of my recollection that in the event that this

1 purchase and sale transaction between Sebring Utilities
2 Commission and Florida Power Corporation is consummated and
3 the assets are transferred to Florida Power Corporation,
4 Florida Power Corporation will still charge the same base
5 rate to both its existing Florida Power customers and the
6 new customers that it will be obtaining from the Sebring
7 Utilities Commission base. Is that your understanding?

8 A My understanding is that all of our customers
9 will receive the identical rates that are in our tariff
10 book, and one rate there will be called a Sebring Rider,
11 which will be applicable to the customers in the Sebring
12 territory.

13 Q I appreciate the distinction, and that is
14 undoubtedly technically correct. What I'm trying to
15 understand is whether a residential customer, for example,
16 that is today a Florida Power Corporation residential
17 customer and a residential customer that is today a Sebring
18 Utilities Commission customer will be paying -- but for the
19 Sebring Rider, will be paying the identical rate in the
20 event this transaction is consummated.

21 A Yes, I would say that's true.

22 Q And I assume that it would also be true that both
23 of those hypothetical customers will in your judgment be
24 receiving identical service. There won't be any difference
25 in the service that they will receive?

1 A No, but there will be a difference in the cost
2 associated with that service for each of those customers.

3 Q All right. Why don't you expand on that, then?

4 A Well, today those Sebring customers are paying
5 costs associated with the debt of Sebring. They're embodied
6 in their rates for electricity.

7 Q What you're -- and I don't mean to interrupt you,
8 but what you're again attempting to distinguish is the fact
9 that those customers will be responsible in the event this
10 transaction is consummated for the Sebring Rider?

11 A Absolutely. Maybe you and I ought to change
12 positions.

13 Q No, not a bit. You're doing a great job. I
14 understand that distinction, and I'm going to come back to
15 it. But again, just to be clear, we are both saying that
16 the services that those two customers will be receiving once
17 this transaction is consummated will be identical from your
18 standpoint?

19 A Yes, as I understand, and I think --

20 Q All right. Now I'm going to let you go into a
21 little more detail about what the differences may be. And
22 my question that I want you to address then is: What is the
23 service that Florida Power Corporation is going to be
24 rendering in exchange for the transition rate that it is
25 asking this Commission to approve the imposition and

1 collection of?

2 A It's going to be rendering electric service.

3 Q But you've just testified that it's going to be
4 rendering identical electric service to both hypothetical
5 customers --

6 A I'm going to be delivering kilowatt hours that
7 are identical, but they have different prices. They have
8 different costs. They have different cost assignments. So
9 they are identical from the fact that the kilowatt hours
10 cannot be distinguished. They provide the heating and they
11 provide the cooling and they provide the services, and
12 that's what I mean by services that I'm providing, but not
13 at the same cost.

14 Q And again, not to take your testimony and put it
15 in my mouth, but what I hear you saying then is that it is
16 simply the cost of providing the service that will be
17 different.

18 A Absolutely.

19 Q And what is it, what is the cost broken down into
20 its elements that is going to be different? It is
21 essentially, to try to shorten this up, I gather that the
22 Sebring customers are going to be asked to pay the Sebring
23 Rider?

24 A That is correct.

25 Q Nothing else?

1 A That is correct, and that is the money necessary
2 to accomplish the paying off of all the bonds.

3 Q Yes, sir. Were there any requirements to your
4 recollection in the request for proposals that Sebring
5 Utilities Commission sent out relative to the satisfaction
6 of the outstanding bonded indebtedness?

7 A I know nothing about that.

8 Q Who would?

9 A I have no idea.

10 Q Did you know in connection with your negotiations
11 with the Sebring Utilities Commission representatives that
12 you would have to find some way to transfer enough money to
13 Sebring Utilities Commission in order for it to be able to
14 satisfy fully that outstanding bonded indebtedness?

15 A I do not know that. I think as the deal has been
16 struck, I think it does that. And I think when you look at
17 the overall deal, you must look at it as an overall deal,
18 and there are plenty of pluses in that deal for all
19 concerned.

20 Q I'm a little confused. As you know, everybody
21 has passed the ball to you, and I gather that you were one
22 of the main representatives of Florida Power Corporation who
23 was involved in the negotiations with Sebring Utilities
24 Commission.

25 A That is not true, and that's not part of my

1 testimony.

2 Q Do you know where the concept of the transition
3 rate came from?

4 A The concept of the transition rate?

5 Q Yes.

6 A The concept of the rate is to be able to apply a
7 rate that recovers these costs assignable to these
8 customers. We have had transition rates in the past. The
9 way I like to think of it is -- and that's just a term
10 called transition rate because it only lasts a period of
11 time. It has been given an official name, Sebring Rider.

12 But today on a shorter period of time, such as
13 our fuel expenses, for example, it's I guess a similar
14 arrangement where we have a certain amount of expenses we're
15 trying to collect, we charge the customers the rates, and
16 then we review it as we go forward. This happens to be over
17 a 15-year period for a specific amount of dollars, and we're
18 going to finance those dollars. That adds the interest. So
19 we're going to pay that off over this 15-year period of
20 time.

21 Q I guess there has also been prior testimony to
22 the effect that this base price that Florida Power
23 Corporation is going to pay is somewhere in the range of \$54
24 million, 56, whatever it may be, and that the hard asset
25 value, the tangible asset value is somewhere in the range of

1 17.8 million.

2 In the morning that seemed to give rise to a
3 difference of about 36.2 million, I gather depending upon a
4 final determination with respect to what portion of a going
5 concern value would be includable within Florida Power
6 Corporation's rate base. That number may change, may go as
7 low as 31 point something million dollars. But there
8 clearly is a very substantial amount of money, in excess of
9 \$30 million, that is not going to be allocated either to
10 tangible asset values or to going concern values. Is that
11 essentially correct?

12 A That's correct.

13 Q What is it in your understanding, Mr. Nixon, that
14 that 30 plus million dollars is going to buy for Florida
15 Power Corporation?

16 A I think what it buys is, I think you have all the
17 parties who have sat down and come up with an agreement, and
18 here a way to satisfy -- for Sebring to dissolve itself of
19 its debt, for Florida Power Corporation to take on the
20 service obligations of that territory, for Florida Power
21 Corporation stockholders to have the opportunity to earn a
22 return on the investments for those customers, and for those
23 customers, who otherwise would be stuck with much higher
24 rates in the future and already paying extreme rates today,
25 to receive a rate decrease and still pay the burden of the

1 debt.

2 Q Well, I hear you. As you may expect, I don't
3 exactly agree with that, but I appreciate that that is what
4 was negotiated and discussed between the parties.

5 Let me give you a characterization and see if you
6 would agree with this. And I'm going to use the card
7 playing analogy. In my mind, the 30 million plus is an
8 ante. It's an entry fee. It's a fee that you knew you
9 would have to pay in order to be given the opportunity to
10 acquire the hard assets, the transmission and distribution
11 system from Sebring Utilities Commission. You knew you had
12 to come up with some mechanism by which you could pay that
13 sum to Sebring Utilities Commission so that it in fact could
14 pay off its outstanding bonded indebtedness. Ms. Holloway,
15 as you will recall, testified this morning with regard to
16 the content of the bond resolution and effectively said the
17 same thing. There was a mechanism described to allow
18 Sebring Utilities Commission to pay off its outstanding
19 bonded indebtedness.

20 So my question to you is: Would you agree with
21 my characterization? Is this 30 million plus in effect an
22 entry fee, an ante?

23 A No.

24 Q I appreciate the answer. Would you expand upon
25 why you indicate otherwise?

1 A Again, you can characterize it anyway you want
2 to. I think the witnesses previously have said that they
3 had some alternatives to consider, and they looked at this
4 alternative here, and they said this is the best for
5 Sebring's customers, and this is why this one has been
6 chosen. The refinancing was not in the best interest, and
7 they discussed that further.

8 I don't see it as an ante fee. I see it as a
9 cost that is currently included in Sebring's rates today,
10 the cost of providing electric service, and I see it no more
11 than that cost. Because Florida Power gets those customers,
12 that cost is still going to be paid by those Sebring
13 customers who are paying them today, so it's no ante.

14 Q Well, there's certainly no question that the
15 customers are paying what is characterized as the Sebring
16 Rider today. And there's certainly no question that Florida
17 Power Corporation wants to transfer that obligation which
18 could legally be imposed on that customer base by Sebring
19 Utilities Commission directly to those customers once it
20 obtains those assets.

21 But again the question becomes: What does that
22 payment buy for Florida Power Corporation? If it's your
23 testimony that this benefits all the parties and one of the
24 parties is Florida Power Corporation, what does it buy
25 Florida Power? What does the \$30 million that you're paying

1 out bring to Florida Power other than the right to acquire
2 the hard assets?

3 A Well, I disagree that paying the \$30 million
4 allows us to acquire the hard asset. What I agree is that
5 there has been an arrangement set up that Florida Power will
6 pay dollars, and then Florida Power will set up a mechanism
7 to collect those dollars from the ratepayers of Sebring who
8 would otherwise continue to pay them anyway.

9 So I don't see that as anything that Florida
10 Power is getting. Florida Power is not paying those
11 dollars. Those customers are going to pay those dollars.
12 Those customers are going to receive a rate reduction
13 because of that. So it's those customers that are receiving
14 a benefit. They're the ones that are getting the ante
15 benefit, not Florida Power Corporation.

16 Q Well, let's spend just a minute on the rate
17 reduction. I agree with you there will be a rate reduction,
18 but the rate reduction, I guess you would agree, is not due
19 to the Sebring Rider. It's due to the fact that Florida
20 Power can provide the same level of service to a customer
21 base more efficiently than can Sebring Utilities Commission,
22 base service?

23 A I think the rate reduction is because we have a
24 number that says it's at \$110 and we have a number that says
25 it's at 97. And we also realize that there has also been

1 testimony and exhibits put in that that rate further needs
2 to be increased to 110 by 37%. That's \$151 per thousand.

3 Now, a rate reduction occurs because the level of
4 service that Florida Power is going to provide is going to
5 be at \$97, not 151 or 110. That's why the rate reduction
6 occurs.

7 Q Will Florida Power Corporation have any
8 responsibility for the amortization of the debt that is to
9 be created so that it can pay this \$30 million plus to the
10 Sebring Utilities Commission?

11 A Absolutely.

12 Q What will be that responsibility?

13 A We're asking that that intangible amount be
14 allowed to be amortized such that it can be a tax deduction.

15 Q Well, you're going to amortize it, but you really
16 are going to be collecting it from the customer base, aren't
17 you?

18 A Absolutely.

19 Q So what you're saying is that you will take the
20 collection in as revenue, and then you will deduct the
21 payments that you make in service of the debt and in
22 amortization of the principal debt?

23 A Yes.

24 Q But basically Florida Power Corporation is not
25 going to use any of its own assets other than the assets

1 that it derives through the receipt of the transition rate
2 to amortize that debt; correct?

3 A That's correct.

4 Q All right. Then I want to make another
5 characterization for you. You probably won't agree with
6 this one any more than you did the first. But it strikes me
7 and it strikes the Action Group in their intervening
8 capacity that what Florida Power Corporation is really doing
9 is lending its very considerable credit to Sebring Utilities
10 Commission so that that entity can find a mechanism by which
11 to pay off this bonded indebtedness and get out of the
12 business of supplying transmission and distribution electric
13 services to a customer base. That is the one thing that
14 Florida Power is doing. It is lending credit. It is in the
15 credit business, the financial business. It is providing
16 Sebring Utilities Commission with an opportunity to pay off
17 its debt.

18 CHAIRMAN BEARD: Is that your sworn testimony?

19 MR. ROSS: I appreciate your letting me go as far
20 as I did.

21 CHAIRMAN BEARD: I was enjoying it so much that
22 I hated to break it up, but I have an obligation
23 here.

24 MR. ROSS: Well, Mr. Pollard and I had a bet as
25 to how long you would let me go with that one, but I

1 appreciate it.

2 BY MR. ROSS:

3 Q Would you agree or disagree with that
4 characterization?

5 A I think Florida Power is doing more than just
6 being a lending company here. I think Florida Power
7 Corporation is going to be able to provide some customers in
8 the State of Florida that have received electric service at
9 extraordinary prices, and I think it's going to have the
10 opportunity to provide those customers not only superior
11 service, but additional services that were not offered in
12 Sebring at a much lower price, which includes the Sebring
13 Rider.

14 So you can characterize it as we're going to be a
15 lending company or whatever. But I want to step away from
16 the pieces of it, and I want to look at the whole, and I
17 think it's very important to do that. And what Florida
18 Power is providing is an opportunity for these customers to
19 get out from under what has been characterized as
20 mismanagement, what has been characterized as whatever. But
21 it gives it an opportunity to come under a company that is
22 regulated by this Commission, and we just can't go out and
23 do those things and charge those costs to our customers.
24 All costs that we charge to our customers must be approved
25 by this Commission.

1 Q So there is no misunderstanding, this intervenor
2 does not view Florida Power Corporation as wearing a black
3 hat. We understand that you have tried to come up with
4 something very creative and very unusual to solve an
5 intractable problem that has gone on for years and years.
6 The difficulty is that we don't believe you've picked the
7 opportunity that fits the bill. We don't believe that the
8 Commission should --

9 CHAIRMAN BEARD: Come on, come on.

10 MR. ROSS: No further questions. Thank you.

11 CHAIRMAN BEARD: Staff?

12 MR. POLLARD: I had some questions.

13 CHAIRMAN BEARD: I'm sorry.

14 MR. POLLARD: Am I supposed to jump up and
15 holler?

16 CHAIRMAN BEARD: I just got so wrapped up in this
17 last piece there that I lost my train of thought.

18 MR. POLLARD: Thank you. Mine won't be nearly
19 that long or nearly that complicated.

20 CHAIRMAN BEARD: But hopefully as entertaining.

21 CROSS EXAMINATION

22 BY MR. POLLARD:

23 Q In your deposition, Mr. Nixon, on pages 23
24 through 26, you discussed a 15-year period for the Sebring
25 Rider back and forth, and finally seemed to say that the

1 Sebring ratepayers would be better off than they were with
2 the 15-year limit, so why go to 20 or somewhere else. Would
3 you care to comment on that?

4 A Yes. I think the 15 years has gotten a lot of
5 discussion.

6 First of all, 15 years solves a lot of concerns
7 of the parties. Number one, you don't want a transition
8 rate in effect for a lengthy period of time. Number two,
9 what benefit do you get by going out any longer than 15
10 years? By going out any longer, you actually possibly lose
11 some benefit by higher interest rates. The fact is that we
12 need to pay off our principal here, and 15 years seems like
13 a reasonable time to do that.

14 If we were to extend this for 25 years, the
15 minimum that the rider could be is to pay off the interest
16 in the first year, and that would be somewhere around a
17 \$4.60 or so, \$4.70 cent reduction in the current price. So
18 that's not a great benefit to extend it to the 25-year
19 period of time for the Sebring customers.

20 Fifteen years also meets the tax issues as we
21 discussed earlier about being able to amortize this tangible
22 asset and have that tax deduction. So 15 years seems to be
23 a reasonable and excellent time frame to make this work.

24 Q I want to discuss the tax deduction, but just a
25 little bit later.

1 The average age of the Sebring ratepayer -- 15
2 years is a long time. When you start adding 15 years to my
3 66 --

4 COMMISSIONER EASLEY: Watch it.

5 MR. POLLARD: Sorry about that.

6 BY MR. POLLARD:

7 Q What I'm really saying is that we would
8 appreciate a \$4 a thousand rate break starting the first
9 month Florida Power takes over, if they do.

10 I'm testifying too.

11 CHAIRMAN BEARD: We didn't notice that.

12 BY MR. POLLARD:

13 Q These 13,000 ratepayers that I'm speaking about
14 are going to become your 13,000 public relations, customer
15 relations problem on the very first month that we make this
16 sale, are they not?

17 A Absolutely. And, you know, everybody keeps
18 focusing on where Florida Power's rates are and what they're
19 going to have to pay with the rider. Everybody needs to
20 start focusing from the other end. Where are the rates
21 today, and where are they going to be with the rider? You
22 know, we keep focusing from the wrong end of it. And where
23 are they going to be if this deal doesn't happen, and on and
24 on and on? And that is a tremendous burden.

25 Q I don't believe that we have missed that point.

1 The real point is that it doesn't have to be this high,
2 because it doesn't have to be 15 years. That's an arbitrary
3 figure.

4 COMMISSIONER EASLEY: Would you believe. That
5 makes a question out of it if you say "would you
6 believe."

7 MR. POLLARD: Would you believe. Thank you.

8 CHAIRMAN BEARD: Y'all.

9 BY MR. POLLARD:

10 Q Would you believe that, sir?

11 A I would believe that it doesn't have to be 15
12 years, but I would also tell you that 15 years is the term
13 of this deal, and it's the way it's structured, and it's
14 part of the package, and it's very important that that's
15 maintained.

16 Q Okay. To move on, as a ratemaker, how much
17 difference would it really make if the whole principal
18 amount of the Sebring Rider was spread across the whole
19 Florida Power total customer base?

20 A How much difference? Are you talking about now
21 if we take that and put it into Florida Power's rate base?

22 Q To clarify, I think you have about 1,200,000
23 customers?

24 A Uh-huh.

25 Q And if you took this \$38 million deficit that

1 we're talking about and you rolled that into the rate base
2 and diluted it by that many customers, including Sebring's
3 13,000, how many nickels would that add per thousand?

4 A Well, that would be somewhere around, if we were
5 allowed to recover that in rates, around 25 cents a
6 thousand.

7 Q I could live with that.

8 CHAIRMAN BEARD: That's your sworn testimony.

9 BY MR. POLLARD:

10 Q Would that not solve all of our problem?

11 A No, it wouldn't solve all of our problem.

12 Q Okay. Getting back to the question -- no, I'm
13 going to skip that one, because you didn't like that one.

14 As regards Issue 13, the tax consequences
15 associated with Florida Power's acquisition of Sebring, if I
16 read the Florida Power position correctly, Florida Power
17 intends to take amortization deductions for federal income
18 tax purposes with respect to a number of intangible assets
19 that Florida Power is purchasing. That amount allocated for
20 payment of those intangible assets seems to be the same
21 amount as the Sebring Rider is supposed to recover for
22 Florida Power. Would you please explain to me how you are
23 entitled to those deductions?

24 MR. FAMA: I'm going to have to object to that
25 question. That issue has been clearly delineated as

1 Mr. Dagostino's issue. That was noted on our
2 pre-hearing statement, our pre-hearing memorandum and
3 whatnot, the pre-hearing order in the case.

4 MS. BROWN: Mr. Chairman, if I might just
5 interject for a minute, Mr. Nixon did answer a
6 considerable number of questions about the tax
7 consequences at his deposition.

8 CHAIRMAN BEARD: Very briefly, do you have the
9 ability to answer that question? If you don't, say
10 so.

11 WITNESS NIXON: No, I really don't have any
12 answer to that.

13 CHAIRMAN BEARD: Okay. Moving right along.

14 MR. POLLARD: May I continue?

15 CHAIRMAN BEARD: Sure.

16 BY MR. POLLARD:

17 Q How will the money collected from the Sebring
18 Rider be treated taxwise?

19 A How will it be treated taxwise?

20 Q Right. Is it going to be --

21 A That will be treated just like all revenue that
22 comes into the corporation, and it's very important that
23 that revenue that comes in, that we can have that deduction
24 that you've talked about for tax purposes.

25 Q If there's that distinction, I can live with it.

1 But in the deposition, I think I read where you were going
2 to treat the Sebring Rider money as a separate entity.

3 A Can you point me to where in the deposition?

4 Q No, I cannot. I did more research than I know
5 how already. I thank you for your answers.

6 A You're welcome.

7 CHAIRMAN BEARD: Mr. Ross, you've come up with a
8 new idea. Staff, if you all will work on a rule. Any
9 time we don't like the question, the attorneys can't
10 ask it. I like that. That's a good thought. We're
11 going to shorten these hearings a bunch.

12 Your witness.

13 MS. BROWN: Can we have just two seconds?

14 CHAIRMAN BEARD: Two seconds. While you're doing
15 that, I'll ask for some information.

16 Just to get a feel, if we could even use 1,000
17 KWH -- and I don't care if it's with or without load
18 management, because I can figure the difference from
19 there. I just would like to have some kind of a rough
20 idea of the impact on rates of the 4. --

21 WITNESS NIXON: 4.8 million.

22 CHAIRMAN BEARD: 4.85 million.

23 WITNESS NIXON: Right. That would have the
24 effect of lowering the Sebring Rider down to \$18.59
25 per thousand, which is a \$2.67 reduction. So if we go

1 to -- without load management, instead of the \$96.59
2 there, it's going to be reduced by 2.67.

3 CHAIRMAN BEARD: Which would make it 93.92.

4 WITNESS NIXON: Now, that is a rough number,
5 because I haven't included franchise fees or taxes and
6 everything else that goes into that.

7 CHAIRMAN BEARD: So I can figure \$2.67 over 4.85
8 million, and I can extrapolate that pretty quickly to
9 deal with any other figure?

10 WITNESS NIXON: Yes, sir.

11 CHAIRMAN BEARD: Okay. Now, let's go the other
12 way just for fun. I don't know if you have the figure
13 or if you can get it. If we were to assume a rider
14 that was the equivalent of \$151 a month, in other
15 words, Corp. current rates plus whatever rider would
16 take us to \$151 a month, which is what was projected
17 to be the rates for Sebring if they had to raise
18 rates, how long would that rider have to be in
19 effect? We talked 15 years, and --

20 WITNESS NIXON: Well, if we kept the same time
21 frame, that would -- okay.

22 CHAIRMAN BEARD: Now, your time frame would
23 shorten.

24 WITNESS NIXON: Absolutely.

25 CHAIRMAN BEARD: By a long way.

1 WITNESS NIXON: Yes. We would start collecting
2 an additional \$50, \$60 a thousand there, and that
3 would probably pay it off -- I'll just provide an
4 estimate, probably in a five-year period.

5 CHAIRMAN BEARD: You would be collecting an
6 additional \$75 a month, if I read this correctly.
7 Just taking it without load management, your current
8 residential rates are 74.78, subtracted from 151 --

9 WITNESS NIXON: Well, I was going up from the 97
10 or wherever we were.

11 CHAIRMAN BEARD: Well, I'm just saying because
12 the differential is from 74.78, so you're talking
13 double.

14 WITNESS NIXON: Absolutely.

15 CHAIRMAN BEARD: Okay. That's 75 a month times
16 13,000 customers?

17 WITNESS NIXON: Well, they only use about 700
18 kilowatt hours a month. They're not at the thousand.

19 CHAIRMAN BEARD: Okay. Well, I've still got a
20 rider of 75 bucks; right?

21 WITNESS NIXON: Absolutely. Close enough.

22 CHAIRMAN BEARD: So 75 bucks times 13,000
23 customers times 12 months, that's 11.7 million, if my
24 math is right, in one year, and I've got to collect 38
25 million plus some interest.

1 WITNESS NIXON: Yes.

2 CHAIRMAN BEARD: So the rider would last three or
3 four years?

4 WITNESS NIXON: That's what I said, approximately
5 five years, depending on what the interest would do.

6 COMMISSIONER EASLEY: Let me make sure I
7 understand that. It wouldn't make any difference
8 whether you charged the \$75 or Sebring charged the
9 \$75, would it?

10 WITNESS NIXON: That's correct.

11 COMMISSIONER EASLEY: It would still amount to
12 the same bottom line. The difference would be where
13 you're starting from.

14 WITNESS NIXON: Absolutely.

15 COMMISSIONER EASLEY: But you would be adding \$75
16 to Sebring's current rate -- no?

17 CHAIRMAN BEARD: You would be adding --

18 COMMISSIONER EASLEY: What would you be adding to
19 Sebring's current rate? That's what I need to --

20 CHAIRMAN BEARD: You would be adding
21 approximately \$41 to Sebring's current rate. If
22 they're around 110, you would be adding 41 to their
23 current rate.

24 COMMISSIONER EASLEY: So you're saying get to a
25 bottom line of \$151 either way.

1 CHAIRMAN BEARD: If they stayed with Sebring and
2 Sebring did what they said and raised rates to 151,
3 that's what the people would pay on a going forward
4 basis, for, as I understand it, an indeterminable
5 length of time. If you conversely said, okay, we're
6 going to assume 151 -- and don't get panicky on me.
7 I'm just trying to think out loud, because I want to
8 get all the comparisons.

9 COMMISSIONER EASLEY: That's just the color of
10 his tie, Mr. Chairman.

11 CHAIRMAN BEARD: And if you assume that Florida
12 Power Corporation purchased this utility and charged
13 that same exact \$151 a month, for what length of time
14 would they have to charge that quote, unquote, rider,
15 before then those people would also be entitled to
16 the same rates as Florida Power Corporation's current
17 customers, which is approximately -- well, it would
18 depend on how much you use. And that net effect is
19 somewhere in the three- to five-year time frame.

20 And the question -- and I can calculate it myself
21 -- is then, if you maintain the \$110 a month constant
22 that you have now and didn't lower it, how long would
23 you have to have a rider? So I know how to get where
24 I want to get.

25 Are you ready now? Have I stalled long enough?

1 MS. BROWN: Yes, Mr. Chairman. Thank you.

2 CHAIRMAN BEARD: Go ahead.

3 CROSS EXAMINATION

4 BY MS. BROWN:

5 Q Mr. Nixon, Mr. Pollard asked you about recovering
6 the cost of the Sebring debt from all of Florida Power
7 Corporation's ratepayers, and you seemed to indicate that
8 the amount would be rather small; is that correct?

9 A Yes. We sell about 30 million megawatt hours a
10 year, and we're talking about around 178,000 megawatt hours
11 here. So absolutely, it would be very small.

12 I would like to point out one thing about that.
13 First of all, it just -- first of all, Florida Power
14 Corporation's rates would have to be changed to reflect
15 that, and that's not what we are here asking to do, number
16 one. Therefore, in the short term, until we had a rate
17 proceeding or something of that nature, then Florida Power
18 Corporation's earnings would be hurt by such an acceptance
19 of rolling that into rate base.

20 Q Now, you also spoke to Mr. Pollard about the
21 amortization and wanting to amortize this amount so you can
22 take it as a tax deduction. Would approving the
23 amortization be enough, or would you need a time certain
24 over which to amortize it?

25 A I am not sure. It is my understanding that we

1 need to have the Commission order to allow us to amortize
2 this over a certain period of time such that we can use that
3 for a tax deduction.

4 Q Where is that specific relief requested in the
5 petition?

6 A I don't think it is requested in the petition.

7 Q Are you now adding that to --

8 A No, I'm not adding that. I said that was my
9 understanding, that we need to make sure that that risk is
10 removed from Florida Power Corporation, being able to
11 amortize and treat this as a tax deduction so that we don't
12 pay taxes, additional taxes on this Sebring Rider revenue
13 that is coming in. If that's the case, then the rider must
14 be increased to recover those associated tax payments.

15 Q Now, Florida Power Corporation has proposed an
16 amount of approximately 2.18 cents per kilowatt hour as the
17 amount of the initial rider; is that correct?

18 A Yes, that is correct.

19 Q How did Florida Power Corporation arrive at that
20 amount? Can you just sort of go through the process for
21 us?

22 A Yes. I would like to take you to my Exhibit
23 SFN-1 on page 1 of 5, and that exhibit clearly examines how
24 the calculation is developed. Are there any specific
25 questions on that exhibit, or is that enough?

1 Q Just walk us through it.

2 A Okay. Let's first go to page 2 of 5. If we
3 would start with the line item that says outstanding bonds,
4 we will see that that's a total amount of almost \$86
5 million. The resources to take care of that amount of
6 dollars is 21-1/2 million from the water system and 10.7
7 million from funds from reserves, so that leaves that
8 additional at the top there, the base purchase price
9 calculation of almost \$54 million. Then we have some
10 additional costs that are added to that that produces almost
11 56 million, 55.948.

12 Over on page 1 of 5, we've carried that purchase
13 price over, and we've now subtracted from that the net book
14 value of the 17.8 million that we've talked about. That
15 leaves a net principal amount of 38 million which the rider
16 would be designed to collect.

17 We have interest -- we are expecting interest and
18 related expenses of approximately 29 million, and that
19 interest is identified on pages 3 and 4 of 5 of that
20 exhibit. There's a regulatory assessment fee, and then we
21 have an estimate of the kilowatt hour sales, which is RMI's
22 medium forecast of growth over this 15-year period.

23 Therefore, we've developed an average rate on
24 cents per kilowatt hour of .02126 cents per kilowatt hour,
25 and then we've added gross receipts tax to the figure that

1 you quoted before.

2 Q Will the rider be fixed over the proposed 15-year
3 period?

4 A No. The rider has the possibility to either
5 increase or decrease. Again, one type charge that would be
6 very similar but over a shorter period of time would be the
7 company's fuel costs.

8 Q Any other elements that would cause the rider to
9 fluctuate?

10 A Absolutely. The major item that will cause it to
11 fluctuate is the sales. And as we move through this 15-year
12 period, we will be at least updating our projections of this
13 rider at least every four years when we have a general rate
14 increase or file the information associated with that.

15 Q Now, you sponsored the kilowatt hour forecast
16 prepared by RMI; correct?

17 A I think RMI sponsored the forecast.

18 Q I think you sponsored it, sir.

19 A Okay. If you say I am, I am.

20 Q Well, regardless of who did, do you approve it?

21 A Absolutely. We think it's extremely reasonable
22 as a starting point. And everything we've seen to date
23 indicates that that's a reasonable forecast for the
24 calculation of this rider as a starting point.

25 Q How does Florida Power Corporation propose to

1 track the kilowatt hour monies associated with the Sebring
2 sales?

3 A It will be a separate item on those customers'
4 bills, just like we've had separate items before, for
5 example, the fuel charge. And we're able to through the
6 accounting ledgers track the amount collected, and we will
7 do the same with this.

8 Q And will Florida Power Corporation create a
9 separate line item on its monthly surveillance reports to
10 track those dollars versus the dollars that are needed so
11 that the Commission can keep track of it also?

12 A We would be happy to do that if that's the
13 desire, absolutely.

14 Q Now, you've said that at least every four years
15 you will be reviewing the rider and the forecasts and
16 revenues to assure that what is needed to be collected is
17 being collected, or if more is being collected than needs to
18 be collected, an adjustment will be made to the rider; is
19 that correct?

20 A That is correct. If we see that the economy
21 picks up and because of the lower rates there's additional
22 growth that occurs, then obviously the rider should be
23 adjusted, and we will keep track of that. I did not mean to
24 say that we're going to put this aside and four years from
25 now then we're going to take a look at it. We're going to

1 be monitoring this on a regular basis.

2 Q Would you be willing to provide the Commission
3 more frequent reports of the Sebring Rider than every four
4 years, not necessarily to come in with a request for
5 approval, but just so that the Commission can keep tabs on
6 it, because a lot can happen in four years?

7 A Yes. One of the things that I think we would be
8 glad to do is that with our budgeting process and with our
9 annual forecasting -- on an annual basis I think would be
10 appropriate.

11 Q What are Florida Power Corporation's currently
12 achieved earnings levels?

13 A Are you talking about in dollars?

14 Q Percent.

15 A Our rate of return or return on equity? Our rate
16 of return?

17 Q Yes.

18 A 8.37%.

19 Q And what is the return on equity?

20 A 12%.

21 Q What is the impact on earnings if the dollars
22 associated with the rider are moved into rate base?

23 A What is the impact on earnings? Approximately \$7
24 million. And that's a negative impact.

25 Q Because Sebring is a full requirements customer

1 of TECO and TECO will be supplying all of the power to
2 Sebring customers, is it fair to say that unless an
3 adjustment is made, Florida Power Corporation will receive
4 approximately \$2.9 million in production revenues for which
5 it occurred no costs and a net of \$236,000 in transmission
6 revenues for which it has incurred no costs?

7 A Yes, I would agree with that.

8 Q Florida Power Corporation has proposed to make
9 these adjustments to correct that; is that right?

10 A Yes, it has. And I would like to say that there
11 should be one more adjustment to that.

12 Q That's nice. Tell me what it is, please.

13 A It goes in the other direction. Presently when
14 these 13,000 customers are acquired, it will also be paying
15 expenses associated with the energy conservation clause.
16 That will be expenses that our other ratepayers would
17 otherwise had to have paid, and it is estimated that that is
18 going to remove from their obligation about \$575,000 of
19 expenses.

20 Q Have you provided us any figures in this case to
21 demonstrate that?

22 A No. That was in our 1992 retail rate case.

23 Q Okay. How do you propose to make these
24 adjustments that we've just been talking about?

25 A How do I propose to make these adjustments?

1 Q Yes.

2 A I think those adjustments should be made in the
3 capacity cost recovery clause to the amount -- I think it's
4 \$4.7 million that is proposed to be collected.

5 Q How often do you propose to make those
6 adjustments?

7 A Those adjustments would need to be made until we
8 have a general rate case, at which time they would
9 disappear.

10 Q Now, the medium term notes that will finance the
11 Sebring acquisition come from Florida Power Corporation's
12 normal financing arrangements; is that correct?

13 A That is correct.

14 Q Is it true that the debt issued by Florida Power
15 Corporation to purchase Sebring will be specifically
16 eliminated from Florida Power Corporation's capital
17 structure for ratemaking purposes?

18 A Yes.

19 Q Are you aware of any Commission precedent to
20 specifically identify financing from a utility that is done
21 in the normal course of business?

22 A No, but I'm not sure this is the normal course of
23 business.

24 Q I'm sorry?

25 A No, but I'm not sure this is the normal course of

1 business.

2 Q But you are going to finance this abnormal
3 acquisition in a normal way; is that correct?

4 A Yes, we are. We're going to use our notes in
5 order to achieve what I said earlier in my deposition, what
6 we've called the low cost approach. We're seeking to use
7 whatever advantage we can to provide that advantage to the
8 Sebring ratepayers.

9 Q But then out of your entire debt financing
10 scheme, you're going to identify a certain little pool of
11 costs and apply them to one specific little set of
12 customers?

13 A Yes, we are, for the --

14 Q And that has not been done before; is that
15 correct?

16 A That is my understanding.

17 Q Why should the Commission in this instance treat
18 this financing differently?

19 A Because it's in the best interest of all
20 concerned in the State of Florida. There's no need in my
21 opinion to have 57 different utilities operating in the
22 State of Florida. Consolidation brings an awful lot of
23 efficiencies that we can talk about that absolutely will
24 occur, and this is good for the ratepayers of Sebring. It's
25 good for in the long run the stockholders of Florida Power

1 Corporation, and it has no material impact at all on the
2 existing customers of Florida Power Corporation. So when
3 you look at it from that perspective, if this is a piece
4 that helps make that work, absolutely, the Commission should
5 agree with it.

6 Q Well, as to all of these pieces, I know that you
7 haven't testified to all of them, but one thing that has
8 been concerning Staff, and I would like your opinion on it,
9 is: What do all of these special little arrangements, what
10 kind of precedent do they set for the Commission in future
11 decisions that it has to make? It's not unusual, is it, to
12 consider that other troubled utilities might be acquired at
13 some other point? What kind of precedent are we setting
14 here, and is this what the Commission wants to do?

15 A Well, I'm not sure that Sebring, as little as I
16 know about it, could say that their situation has been
17 anything but of the abnormal with all that has transpired
18 over this time. So I think there's enough reasons there
19 that I'm sure the attorneys can say that this was a special
20 case or a special whatever that would not bind the
21 Commission's hands in the future, that this is the way that
22 it has to be done or vice versa.

23 Q Mathematically, what happens to Florida Power
24 Corporation's equity ratio when debt is removed from
25 investor sources?

1 A It would increase, if I understood it
2 correctly.

3 Q Florida Power Corporation is going to be facing
4 some major construction in the near term; is that not
5 correct?

6 A Yes, that is correct.

7 Q Could the debt financing that Florida Power
8 Corporation will acquire to purchase Sebring be used to
9 finance Florida Power Corporation's construction?

10 A Well, if Florida Power Corporation was going to
11 use its maximum available debt to it in that construction,
12 you would say yes. But I'm not aware that we are, so I
13 would saying that we're talking about dollars coming from
14 our ability to do financing. And whether or not that is
15 needed for the construction or not, I am unaware.

16 MS. BROWN: No further questions.

17 REDIRECT EXAMINATION

18 BY MR. FAMA:

19 Q Mr. Nixon, in Mr. Ross's testimony -- excuse me,
20 his cross examination, he asked you about the transition
21 rate and what it was being paid for. Do you remember those
22 questions?

23 A Yes, I do.

24 Q Do you have a copy of the Florida Power
25 pre-hearing memorandum in your binder or a copy of the

1 pre-hearing order?

2 A Yes, I do. Let me get to it. I'm there.

3 Q Could you take a look at Issue 13, specifically
4 Florida Power's position?

5 A Yes, and it says that Florida Power will take
6 amortization deductions for federal income tax purposes with
7 respect to a number of intangible assets that FPC is
8 purchasing, including without limitation the exclusive right
9 to operate in Sebring's service area. These amortization
10 deductions are extremely important to FPC, and the
11 Commission's order should be consistent with FPC's intent as
12 expressed in the discussion of Issue 13 below.

13 Q Mr. Nixon, I'm not interested in the tax aspects
14 of that issue. I'm interested in going back to what
15 Mr. Ross asked you.

16 A Okay.

17 Q Is the money being paid under the transition rate
18 being paid to gain for Florida Power the exclusive right to
19 serve in Sebring's territory?

20 A Yes.

21 Q You were asked various questions about what the
22 correct rate comparisons would be and what Florida Power's
23 rates would be, what Sebring ratepayers would pay with the
24 rider and without the rider, and if the deal didn't go
25 through and the deal did go through. In your mind, what's

1 the correct rate comparison for this Commission to keep in
2 mind?

3 A I think the correct rate comparison is what
4 Sebring's ratepayers will have to bear if this does not go
5 through versus what they will pay if they approve this deal.

6 Q Can we have those numbers, Mr. Nixon, so the
7 record is clear?

8 A Yes. I think it has been testified to that that
9 rate for a thousand kilowatt hours is expected to go to \$151
10 per thousand.

11 Q And?

12 A And the rate as provided in Exhibit Number 2,
13 which is the late-filed exhibit for Pete Dagostino, would
14 show that with the Sebring Rider as proposed by Florida
15 Power Corporation in the city limits would be \$96.59. So
16 that's about \$57, \$58 savings associated.

17 Q Okay. Mr. Nixon, Mr. Pollard and the Staff asked
18 you questions about whether Florida Power would be
19 interested in rate-basing the entire purchase price for
20 Sebring and in effect eliminating the rider. Do you recall
21 those questions?

22 A Yes, I do.

23 Q Mr. Nixon, if Florida Power were to do that, if
24 that were to be the result of this case, would Florida Power
25 have to conduct a rate case, in your opinion?

1 A In my opinion, I think in order -- if Florida
2 Power chose to carry forth with the deal, Florida Power
3 Corporation mostly likely would have to conduct a rate
4 case. I've been advised by management that is here today
5 that if that is part of the decision, then Florida Power
6 does not want any part of that.

7 Q So the fact that Florida Power -- strike that.
8 Is part of the thinking there, Mr. Nixon, that the rate case
9 would have to come -- that in order to reflect such a
10 decision in rates, there would have to be a rate adjustment
11 at a fairly early stage?

12 A Absolutely. As I testified to before, by just
13 including that \$38 million into rate base, it has a negative
14 impact of \$7 million annually to the corporation's earnings.

15 Q If the Sebring transaction were approved by this
16 Commission as proposed by Florida Power and Sebring in this
17 case, when would you expect Florida Power's next rate case,
18 knowing what you know now?

19 A I think I would have the same opinion that John
20 Scardino did when he was asked that question during our '92
21 rate case, and I think the 1995 time frame is pretty
22 positive as probably a test period.

23 Q If we rate-base the entire Sebring transaction,
24 we might be looking at a rate case much earlier than '95,
25 hypothetically?

1 A Absolutely. We would have to take care of the
2 earnings problem immediately, absolutely.

3 CHAIRMAN BEARD: Let me back up. You said '95
4 test year. Test years are usually projected, or have
5 been in recent history, to include your last rate
6 case. That means a filing when?

7 WITNESS NIXON: It would be probably in --

8 CHAIRMAN BEARD: Early '84?

9 WITNESS NIXON: Early '94.

10 CHAIRMAN BEARD: Early '94. It seems like a
11 century has gone by today.

12 WITNESS NIXON: It could be early '94 to prevent
13 regulatory lag, or it could be as late as into the '95
14 time frame. If the economy doesn't turn around, it
15 could be earlier. You know, there are no guarantees
16 on this.

17 CHAIRMAN BEARD: I understand. I'm just trying
18 to understand the difference.

19 MR. FAMA: That's all I have.

20 MR. MAY: Mr. Chairman, just one follow-up
21 question.

22 CHAIRMAN BEARD: Briefly.

23 RE CROSS EXAMINATION

24 BY MR. MAY:

25 Q Following up on what Mr. Fama asked you,

1 Mr. Nixon, with respect to your rate calculations, if you
2 would turn to page 1 of 5 on your Exhibit SFN-1.

3 A Yes, I'm there.

4 Q As you work through the calculation, you end up
5 with a transition rate calculation of 2.18 cents per KWH; is
6 that correct?

7 A That is correct.

8 Q Now, that calculation does not assume any going
9 concern recognized by the Commission; is that correct?

10 A That's correct.

11 Q And if going concern were recognized by the
12 Commission, you would expect the transition rate as
13 reflected on your work sheet to go down?

14 A That is correct, and I testified to that by
15 answering the Chairman's question that if it was the full
16 4.8 million, it would go down by \$2.67 approximately.

17 MR. MAY: Thank you for that clarification.

18 MR. FAMA: I move Exhibit 16.

19 CHAIRMAN BEARD: Without objection.

20 (Exhibit 16 received in evidence.)

21 CHAIRMAN BEARD: The witness is excused. We're
22 now to the witness we've been looking for.

23 MR. FLYNN: CURE calls Nancy Hawk.

24 CHAIRMAN BEARD: We're always looking for the
25 last witness. That's the one we want to find.

1 Thereupon,

2 NANCY HAWK

3 was called as a witness and, having been first duly sworn on
4 oath, was examined and testified as follows:

5 DIRECT EXAMINATION

6 BY MR. FLYNN:

7 Q Would you please state your name and address.

8 A My name is Nancy Hawk. I'm representing CURE,
9 whose post office box is 1623 --

10 CHAIRMAN BEARD: Please hold it down so we can
11 hear the witness. My apologies.

12 A Sebring, Florida. The zip is 33871.

13 Q In what capacity are you here?

14 A I am the spokesperson and the secretary for CURE,
15 which is an organization that stands for Citizens for
16 Utility Rate Equity. CURE is a non-profit grassroots
17 organization which was established in July of 1989 by
18 citizens in the Sebring area who were fed up with high
19 utility rates from the Sebring Utilities Commission.

20 Q Mrs. Hawk, have you prefiling direct testimony in
21 this docket?

22 A Yes, I have.

23 Q Do you have any changes or corrections to that
24 testimony?

25 A No, I do not.

1 Q If I were to ask you the questions contained in
2 that testimony today, would your answers be the same?

3 A Yes, they would.

4 MR. FLYNN: I would like to ask that the direct
5 testimony be inserted into the record.

6 CHAIRMAN BEARD: It will be so inserted
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