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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition to Resolve Territorial)
Dispute with Gulf Coast Electric)
Cooperative, Inc. by Gulf Power)
Company)

Docket No. 930885-EU

REBUTTAL TESTIMONY

OF

ALEX M. COCKEY, JR.

ON BEHALF OF

GULF COAST ELECTRIC COOPERATIVE, INC.

December 20, 1996

ACK 1 Q. Please state your name and business address.

AFA _____

APP 12 A. My name is Alex M. Cockey, Jr. My address is Rural Utilities

CAF _____

CMU 3 Service, United States Department of Agriculture, 1400 Independence

CTR _____

EAG 4 Avenue, SW, Washington, 20250.

LEG 1

LIN 3 P. Q. What is your current position?

OPC _____

RCH 6 A. I am the Deputy Assistant Administrator, Electric Program for the

SEC 1

WAS _____

OTH _____

Rural Utilities Service of the United States Department of Agriculture.

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1 Q. On whose behalf are you appearing today?

2 A. I am appearing on behalf of Gulf Coast Electric Cooperative, Inc., one
3 of our electric distribution borrowers.

4 Q. Can you briefly describe the Rural Utilities Service and its activities in
5 the electric sector and rural economic development?

6 A. RUS was created under the Department of Agriculture Reorganization
7 Act of 1994 as the successor to the Rural Electrification Administration
8 (REA) with respect to electric and telecommunications loan program
9 activities authorized by law, including the Rural Electrification Act of
10 1936 (RE Act). RUS also administers water and waste disposal
11 programs. As part of its mission, RUS makes direct loans and loan
12 guarantees to electric systems that serve rural areas, oversees the
13 operations and management of borrowers' systems to maintain loan
14 security, and provides technical assistance to improve rural electric
15 service.

16 In addition to its loan and loan guarantee programs, RUS and its
17 borrowers are actively involved in promoting economic development
18 and employment under various rural economic development initiatives
19 authorized and funded by the Congress. Loans and grants under these
20 programs are offered without regard to electric service provider.

1 Q. Will you briefly describe the RUS loan and loan guarantee program?

2 A. RUS makes direct loans and loan guarantees to provide and improve
3 electric service in rural areas, as these areas are defined in the RE Act.

4 Direct loans are generally made to finance distribution and

5 subtransmission facilities. These loans usually provide about

6 70 percent of the debt financing needed for electric facilities. The

7 utility borrows the remainder from a supplemental private sector lender

8 without a Federal guarantee. RUS direct loans bear interest at a

9 variable rate that is tied to published indexes of municipal bond interest

10 rates.

11 Loan guarantees are generally made to finance construction of

12 transmission and generation facilities, and improvements to existing

13 generation facilities. The interest rate is set by the lender and, because

14 of the RUS guarantee, is generally favorable. Many systems obtain

15 new RUS loans every 3 or 4 years to meet system needs. RUS is, in

16 most cases, the majority noteholder.

17 Most RUS loans and loan guarantees are amortized over a period of

18 30 to 35 years and are secured by a mortgage or indenture on the

19 utility's electric system, or, in the case of a public power authority or

20 Native American tribal utility, by a lien on utility revenues.

1 Q. Will you briefly describe the extent of RUS loan and loan guarantees in
2 Florida and the systems they serve.

3 A. RUS and its predecessor REA have had a long-standing and sizable
4 commitment to Florida's utility systems. RUS financed systems in
5 Florida served over 623,000 consumers in 1995, providing over 8.8
6 million megawatt hours of electricity. As of December 31, 1995, RUS
7 was actively involved in providing financing assistance to 15 systems
8 in Florida, including 14 distribution cooperatives and Seminole Electric
9 Cooperative, Inc., a generation and transmission (G&T) cooperative.
10 Seminole is owned by 10 Florida distribution cooperatives, and one
11 Georgia electric cooperative. Gulf Coast Electric Cooperative and
12 three other Florida distribution cooperative borrowers are member-
13 owners of Alabama Electric Cooperative, Inc., an RUS financed G&T
14 based in Alabama.

15 Federal taxpayers through RUS have approved over \$ 770 million
16 in direct loans and over \$1.1 billion in loan guarantees to electric
17 utilities in Florida. Almost \$1 billion of these loans and loan
18 guarantees were still outstanding as of the end of the fiscal year 1996
19 (September 30, 1996).

1 Gulf Coast Electric Cooperative has over \$15 million in long-term
2 RUS debt. Its G&T supplier, Alabama Electric Cooperative has over
3 \$84 million in long-term debt to RUS and over \$500 million in RUS
4 loan guarantees. These loans and loan guarantees are secured by long-
5 term all requirements wholesale power contracts with Gulf Coast and
6 other member owners of Alabama Electric Cooperative. These
7 contracts are a condition for RUS financial assistance.

8 Q. In preparing this testimony, did you have an opportunity to review the
9 prior testimony of Russell L. Klepper concerning the structure,
10 governance, and regulatory oversight of electric cooperatives?

11 A. Yes. As a Federal official responsible for administration of the electric
12 loan program, I cannot agree with his characterization of cooperatives'
13 management, their financing arrangements, or federal policies
14 governing the ability of cooperatives to compete with other electric
15 service providers.

16 Cooperatives are owned and operated for the benefit of their
17 consumer owners. The directors are elected by the members. Unlike
18 Gulf Power, a wholly owned subsidiary of the Southern Company, a
19 registered public utility holding company, Gulf Coast is owned by its
20 member customers who live in Florida. They do not receive dividends.

1 The cooperative provides benefits to its members by providing reliable
2 electric service on a not-for-profit basis and by otherwise contributing
3 to the economic development of their communities.

4 Gulf Coast and its G&T supplier, Alabama Electric Cooperative,
5 Inc. (AEC), are joined together in the two-tiered organizational
6 structure established by RUS. In addition to the member-owner
7 relationship, the distribution cooperatives and the G&T's are bound
8 together by long-term all-requirements wholesale power contracts
9 required by RUS. These contracts are security for RUS loans and loan
10 guarantees.

11 Gulf Coast, like many other small cooperatives across the
12 nation, enjoys the operational and economic benefits of vertical
13 integration and economies of scale through its participation and
14 ownership of the AEC system.

15 Gulf Coast is not without any influence or input to decisions
16 made by AEC. In fact, Gulf Coast nominates and elects two members
17 to the AEC board, thus giving it direct representation in the decisions
18 of its G&T. Gulf Coast's long-term requirements contract with AEC is
19 a condition of and security for RUS loans and loan guarantees.

1 The characterization of AEC as unregulated is misleading. RUS has
2 over \$84 million in direct loans and over \$500 million in loan
3 guarantees secured by mortgages on the assets of the AEC system and
4 its long-term power supply contracts. RUS maintains oversight of key
5 aspects of the operations of its power supply borrowers and approves
6 their rates. RUS requires adherence to financial, technical, accounting,
7 and other standards in their operations as a condition of its financing
8 arrangements.

9 For many years, electric borrowers have benefited from RUS's low
10 interest loan program. These often below market interest rates
11 reflected a congressional determination that utilities experiencing the
12 high cost of serving rural loads required some form of assistance in
13 order to achieve the national policy goals of rural electrification. In the
14 Rural Electrification Loan Restructuring Act of 1993, Congress
15 increased interest rates for rural borrowers. Now loan rates for
16 borrowers under the RUS programs are tied to interest rates on tax-
17 exempt municipal bonds or Treasury's cost of money.

18 Lastly, I would like to address the assertion by Mr. Klepper that
19 federal law reflects a national policy that cooperatives should not
20 compete with investor-owned utilities. Some investor-owned utilities

1 and others have focused on a provision in the Rural Electrification Act
2 of 1936 that authorized loans “for rural electrification and furnishing
3 electric energy to persons in rural areas who are not receiving central
4 station service” as a directive that cooperatives should not compete
5 with investor owned utilities. That interpretation was and is incorrect.
6 In fact, from the very early days of the federal loan program for rural
7 electrification, it was recognized that the restriction limited only the
8 granting of loans for the primary purpose of providing service to
9 customers with existing electric service. The provision did not limit a
10 cooperative’s activities. Moreover, it was also recognized that the
11 mere presence of another electric supplier in an area that a loan
12 applicant sought to serve did not preclude granting of a loan to provide
13 electric service. Indeed, this reflected an understanding that while
14 some rural customers may be attractive to investor owned utilities,
15 many others were unattractive and costly to serve. After the initial loan
16 is made, rural electric borrowers have always been able to compete
17 with other electric utilities for new patrons or patrons dissatisfied with
18 existing service to the extent allowed by state law, if any. These issues
19 are addressed in detail in an article, “The Legal Bases for REA Loans,”

1 by Louis Gorrin, the then General Counsel to REA, in the *Public*
2 *Utilities Fortnightly* in May 1963.

3 Congress recognized the value of universal electric service in
4 passing the RE Act. It continues to support electric loan programs to
5 assist electric cooperatives, even as it has moved to make electric loan
6 rates comparable to prevailing rates. Congress recognizes the
7 important role that electric cooperatives play in rural areas and
8 economic development by continuing to fund loan and grant programs
9 that encourage electric cooperatives to expand their involvement in
10 their communities.

11 Congress has repeatedly reaffirmed the importance of
12 cooperatives in the electric power sector through several recent
13 revisions to the RE Act. This support is evidenced in annual
14 appropriations and authorizations and in legislative changes intended to
15 bring the loan program in line with private sector practices, impose
16 variable interest rates, and to better equip cooperatives to operate in
17 today's environment. These amendments were adopted after the
18 passage of the Energy Policy Act of 1992, which is often cited as
19 promoting a transition toward a more competitive electric power
20 sector.

1 The Rural Electric Loan Restructuring Act of 1993 modified the
2 RE Act to expressly provide that loans could be made for the purposes
3 of furnishing and improving electric service in rural areas. In the 1996
4 Farm Bill, Public Law 104-127, the language in sections 2 and 4 of the
5 RE Act pertaining to “furnishing electric energy to persons in rural
6 areas who are not receiving central station service” was removed along
7 with other provisions that were termed “obsolete.” The amended
8 section 2 now reads:

9 The Secretary of Agriculture (referred to in this Act as the
10 “Secretary”) is authorized and empowered to make loans in the
11 several States and Territories of the United states for rural
12 electrification and for the purpose of furnishing and improving
13 electric and telephone service in rural areas, as provided in this
14 Act, and for the purpose of assisting electric borrowers to
15 implement demand side management, energy conservation
16 programs, and on grid and off grid renewable energy systems.

17 These actions by Congress are clear evidence that they do not
18 intend to narrow the activities of cooperatives and restrict their ability
19 to compete with investor owned utilities.

1 Q. Does RUS have a view about the impact of changes in the service
2 territories on electric borrowers, such as Gulf Coast, and on the RUS
3 loan programs?

4 A. RUS has long been concerned about the potential negative impacts on
5 its borrowers and on loan security from the loss of profitable new loads
6 and territorial service rights to competing utilities. In a February 3,
7 1994 memorandum to all our electric borrowers, RUS Administrator
8 Wally Beyer termed such losses as “one of the clearest threats to
9 borrowers and the success of the REA program.” Among the
10 potentially adverse impacts from such territorial encroachments are that
11 they often result in higher costs to rural consumers, adverse effects on
12 system efficiencies, reduced borrower participation in economic
13 development projects, damage to the financial health and stability of
14 borrowers, and threats to the feasibility and security of RUS loans.

15 From a policy standpoint, and without reference to impacts on
16 any particular system, RUS would be concerned about the impacts on
17 any cooperative and its ability to repay its loan obligations if it were
18 left in a situation where competing utilities could “cherry pick” more
19 profitable new loads in territories traditionally served by cooperatives
20 and leave the cooperatives and their remaining customers with the

1 higher cost, less attractive loads. RUS believes that it is critical that its
2 electric borrowers be able to develop and retain more densely
3 populated service areas and serve the higher load factor industrial and
4 commercial loads that locate in their service areas.

5 RUS is not opposed to retail customer choice. Indeed, we
6 believe that in any state initiated retail choice plan rural consumers
7 should be able to share fully and fairly in any potential benefits of such
8 reforms. RUS is concerned, however, that, because of their load
9 characteristics, many rural customers will not attract the kind of
10 competition that could lead to lower prices and more choices.

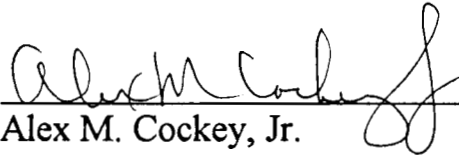
11 Accordingly, RUS has urged state regulators in other proceedings to
12 consider the impacts on rural consumers and the remaining customers
13 in resolving territorial issues and in designing retail choice policies.

14 Q. Does this conclude your testimony?

15 A. Yes.

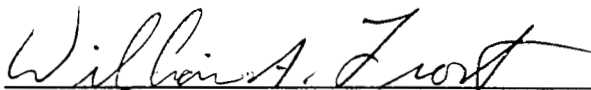
AFFADAVIT

Before me the undersigned authority, personally appeared Alex M. Cockey, Jr. who being first duly sworn, deposes, and says that he is Deputy Assistant Administrator, Electric Program of the Rural Utilities Service, United States Department of Agriculture, that the foregoing is true and correct to the best of his knowledge, information, and belief. He is personally known to me.



Alex M. Cockey, Jr.
Deputy Assistant Administrator
Electric Program
Rural Utilities Service

Sworn and subscribed before me this 19 day of December, 1996.



Notary Public

William A. Frost
Notary Public District of Columbia
My Commission Expires: April 14, 2001

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

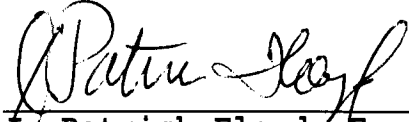
In Re: Petition to Resolve)
Territorial Dispute with Gulf Coast)
Electric Cooperative, Inc. by) Docket No. 930885-EU
Gulf Power Company)

REBUTTAL TESTIMONY
OF ALEX M. COCKEY, JR.
ON BEHALF OF
GULF COAST ELECTRIC COOPERATIVE, INC.

Gulf Coast Electric Cooperative, Inc. (Gulf Coast) hereby
files the attached original Rebuttal Testimony of Alex M. Cockey,
Jr. together with 15 copies thereof this 20th day of December,
1996.

Respectfully Submitted,

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I HEREBY CERTIFY that a true copy of the following
together with one copy of the Rebuttal Testimony of Alex M. Cockey,
Jr. have been furnished this 20th day of December, 1996 by U.S.
Mail or hand delivery to the following:

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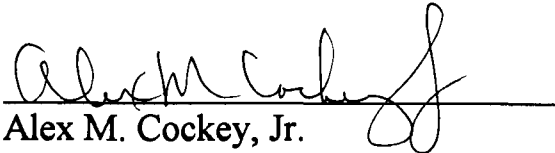
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J. PATRICK FLOYD, ESQUIRE


AFFADAVIT

Before me the undersigned authority, personally appeared Alex M. Cockey, Jr. who being first duly sworn, deposes, and says that he is Deputy Assistant Administrator, Electric Program of the Rural Utilities Service, United States Department of Agriculture, that the foregoing is true and correct to the best of his knowledge, information, and belief. He is personally known to me.



Alex M. Cockey, Jr.
Deputy Assistant Administrator
Electric Program
Rural Utilities Service

Sworn and subscribed before me this 19 day of December, 1996.


Notary Public

William A. Frost
Notary Public District of Columbia
My Commission Expires: April 14, 2001

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12/23/96