

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In re: Review of Florida
Power Corporation's earnings,
including effects of proposed
acquisition of Florida Power
Corporation by Carolina Power
& Light.

DOCKET NO. 000824-EI

DECLASSIFIED
CONFIDENTIAL
CERTIFIED ORIGINAL

DEPOSITION OF: ROBERT H. BAZEMORE, JR.
TAKEN AT THE INSTANCE OF: Office of Public Counsel
PLACE: Gerald L. Gunter Building
2540 Shumard Oak Boulevard
Room 309
Tallahassee, Florida
TIME: Commenced at 9:05 a.m.
Concluded at 11:25 a.m.
DATE: January 14, 2002
REPORTED BY: MARY ALLEN NEEL, RPR
Notary Public, State
of Florida at Large

CONFIDENTIAL TRANSCRIPT

ACCURATE STENOGRAPHY REPORTERS, INC.
100 SALEM COURT
TALLAHASSEE, FLORIDA 32301
(850) 878-2221

DOCUMENT NUMBER-DATE

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COMMISSION CLERK

APPEARANCES:

CHARLES J. BECK, Office of Public Counsel, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400, appearing on behalf of the Citizens of the State of Florida.

GARY L. SASSO, Carlton Fields Law Firm, Post Office Box 2861, St. Petersburg, Florida 33731, appearing on behalf of Florida Power Corporation.

ADRIENNE VINING, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, appearing on behalf of the Commission Staff.

ALSO PRESENT:

KIM DISMUKES, Office of Public Counsel.
TARIK NORIEGA, FPSC.

MARK MYERS and JAVIER PORTUONDO, Florida Power Corporation.

I N D E X

TESTIMONY (CONFIDENTIAL)

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S T I P U L A T I O N S

IT IS STIPULATED that this deposition was taken pursuant to notice in accordance with the applicable Florida Rules of Civil Procedure; that objections, except as to the form of the question, are reserved until hearing in this cause; and that reading and signing was not waived.

IT IS ALSO STIPULATED that any off-the-record conversations are with the consent of the deponent.

1 Thereupon,

2 ROBERT H. BAZEMORE, JR.
3 appeared as a witness and, having been previously duly
4 sworn by the court reporter, testified as follows:

5 DIRECT EXAMINATION

6 BY MR. BECK:

7 Q I'm going to hand out Interrogatory Number
8 56 from our third set and the attachment. And I think
9 the attachment has been labeled confidential.

10 MR. SASSO: Incidentally, we'll need
11 confidential treatment of this deposition
12 transcript as well. If it's transcribed and
13 ordered by any of the people who were on the
14 phone, they can't have this last part of it.

15 BY MR. BECK:

16 Q This excerpt from the response to
17 Interrogatory 56 contains a balance sheet for Progress
18 Ventures for the nine months ending September 30,
19 2001, and December 31, 2000; is that right?

20 A Yes, that's correct.

21 Q Can you identify what assets from either
22 year would be included in the undepreciated assets
23 allocator shown on page 12 of the attachment to
24 Interrogatory 58 that we discussed earlier? And if
25 you can describe it in a way that doesn't reveal the

1 numbers, that would be great.

2 A It would be the total fixed assets prior
3 to accumulated depreciation.

4 Q And you're referring to what?

5 A It would be total property, plant, and
6 equipment, if you look at page --

7 Q Do the page by the fax header, if you
8 would.

9 A Fax header 3, total fixed assets.

10 Q There's a total assets number, or is it
11 total -- okay. I see one number for total property,
12 plant, and equipment.

13 A Right. It would be total property, plant,
14 and equipment.

15 Q And not the total assets number?

16 A Yes. Oh, I'm sorry. Total property,
17 plant, and equipment.

18 Q And that's the number that's about the
19 fourth line down from the top?

20 A (Number omitted per agreement of counsel.)

21 Q I was trying to avoid that.

22 MR. SASSO: We don't want to publish the
23 numbers.

24 THE WITNESS: I'm sorry.

25 BY MR. BECK:

1 Q That's okay. That's the number at least
2 that's used for allocating.

3 As part of the component of the number you
4 just identified, there's construction in progress that
5 appears on fax header page 2. would that be included
6 as well in the allocation?

7 A As I stated before, I'm not sure. I need
8 to check on that. I'm just not sure if construction
9 work in progress is. I hesitate to answer
10 unequivocally until I'm sure.

11 MR. BECK: Gary, could we get a late-filed
12 exhibit for the answer to that?

13 THE WITNESS: I would just like to check.

14 MR. BECK: Sure. We should call that
15 Exhibit 3, which would be a late-filed exhibit,
16 and it's whether construction work in progress
17 is included in the allocation for undepreciated
18 plant.

19 (Late-Filed Deposition Exhibit 3
20 identified.)

21 BY MR. BECK:

22 Q It wouldn't take long to find that out,
23 would it?

24 A No.

25 Q You could probably do it in a call?

1 A Pretty quick.

2 Q Do you think after we finish this if we
3 took a break that it might be possible to --

4 A I could find out today without any problem.

5 Q Okay. Let me refer you for a moment back
6 to Interrogatory 48.

7 A Okay.

8 Q On page 12 of the attachments.

9 MR. SASSO: Charlie, I'm just wondering,
10 the number that Mr. Bazemore just published, I
11 wonder if we could reach an agreement not to
12 have that appear in the transcript.

13 MR. BECK: That would be fine. Just say
14 the witness identified a number.

15 MR. SASSO: Right.

16 BY MR. BECK:

17 Q On the column on page 12 of the attachments
18 to Interrogatory 48, there's a column, 2001 annual
19 labor budget.

20 A Correct.

21 Q There is no annual labor budget indicated
22 for Monroe Power. Do you see that? In other words,
23 it's zero, essentially?

24 A Right.

25 Q And if we go to the next page, on page 13,

1 there's a head count indicated of four. If there's a
2 head count of four, why would there be no amounts
3 allocated on page 12?

4 A I don't know. I don't know the answer to
5 that.

6 Q On page 12, do you know how the annual
7 labor budget for each company is obtained?

8 A From our budgeting process and the annual
9 labor costs. We identify labor costs.

10 Q On page 13 where we looked at the head
11 count information, where is that number obtained for
12 the head counts?

13 A The head count information should be
14 obtained from Human Resources Department.

15 Q Do you know what year the head count
16 information reflects?

17 A My understanding is that it was information
18 -- it would be at the beginning of 2001.

19 Q So the beginning of 2001?

20 A The beginning of 2001, because that's the
21 time frame where we developed the metrics for the 2001
22 year.

23 Q Let's keep that page for a moment, and I
24 want to hand you another exhibit, and we're going to
25 go back and forth. That's why I asked you to keep

1 that page. And that's the response to Interrogatory
2 104. I'm handing out a confidential response to our
3 Interrogatory 104. I believe this has information the
4 company has claimed as confidential. I believe it has
5 been claimed as confidential. I don't see it stamped
6 on the pages, but I'm going to treat it that way for
7 now.

8 Could you turn to the third page of this
9 document I handed out, which is the response to
10 Interrogatory Number 104. On page 3 it has a summary
11 of the head count and labor dollars for Electric Fuels
12 Corporation for 2000 and 2001; is that right?

13 A Correct.

14 Q And it shows -- well, without speaking it,
15 it shows head counts for the year ending 2000 and a
16 number for 2001; is that correct?

17 A Yes.

18 Q Do you see the general level of those
19 numbers?

20 A Uh-huh.

21 Q Now, when we turn back to page 13 of the
22 response to Interrogatory 48, do you see that there's
23 a head count for Electric Fuels of 66?

24 A Right.

25 Q And that's quite different than the number

1 we just looked at in response to Interrogatory 104; is
2 that right?

3 A Correct.

4 Q Could you explain the different?

5 A The difference is that Electric Fuels
6 includes all the Electric Fuels Corporation, which is
7 one company under Progress Ventures. It includes the
8 rail business, coal mines, syn fuel operations, and
9 that's where you get that head count. They do not --
10 those companies are completely stand-alone and aren't
11 factors as part of the allocation.

12 Q So what is included on the Interrogatory 48
13 response where it shows 66? The head count of 66,
14 what does that actually reflect?

15 A All that reflects is the corporate
16 function, the 66 employees. You have management, some
17 accounting, some IT functions.

18 Q Okay. It doesn't include the total number
19 of employees of the company, then?

20 A No, not of Electric Fuels -- not of those
21 other companies, the rail business and those kind of
22 things, because those companies are stand-alone, run
23 autonomous from the other entities. They have their
24 own stand-alone functions.

25 Q And I guess it would be same answer about

1 the differences on -- labor dollars being different
2 between the two documents?

3 A Correct.

4 Q Okay. On pages 4 and 5 of the response to
5 104, this has head counts for Progress
6 Telecommunications Corporation. Do you see that?

7 A Yes.

8 Q And on page 4 it shows it by various months
9 in the year 2000.

10 A Uh-huh.

11 Q And winding up, we have a figure for 2001
12 on page 5; is that right?

13 A Yes.

14 Q Now, when we look at the response to
15 Interrogatory 48, Progress Telecom, we have the same
16 head count --

17 A That's correct.

18 Q -- for Progress Telecom on 48 as we do on
19 104?

20 A Correct.

21 Q The labor dollars is different, though. On
22 Interrogatory 48 it shows \$13.7 million of labor
23 dollars; right? But we have different amounts on the
24 response to 104. And again, I'm wondering why the
25 head counts are the same but the labor dollars are

1 different.

2 A Because on page 12 that we're referring to,
3 those are budgeted dollars. The 2001, I assume this
4 is actual costs on page 5.

5 Q Okay.

6 A I'm not positive of the exact reason for
7 the difference, but I surmise it must be a difference
8 between budget and actual.

9 Q But the head count is the same. I guess
10 I'm looking for a reason why the head count would be
11 the same, but your dollars would be different. Is it
12 dollars per head count?

13 A Well, I think when we did this allocation
14 factor, they had a business plan of where they planned
15 to be with their labor and their budget. The only
16 thing I can surmise is that 203 was a great guess.

17 I think one thing to keep in mind there,
18 that 203, that labor dollar could vary based upon the
19 ramp-up. Progress Telecom is a telecommunications
20 business and is growing. Depending on when they
21 ramped up in their plan, how they did it, it could
22 vary.

23 Q Okay. On page 6 of the response to
24 Interrogatory 104, this page of this response shows
25 CP&L companies, and with the exception of North

1 Carolina Natural Gas, the CP&L companies are added
2 together without any breakdown of individual
3 subsidiaries. Could you provide a late-filed exhibit
4 showing the head count and labor for the different
5 CP&L companies, CP&L Utility, Energy Services, and
6 Energy Ventures?

7 A Well, the only CP&L companies are CP&L --
8 I'm not sure -- hold on.

9 Q We're looking for a breakdown on --

10 A I don't follow what you mean by a breakdown
11 between CP&L companies.

12 Q What I'm asking for is a breakdown similar
13 to what's shown on Appendix C, where the CP&L entities
14 are broken down.

15 A Oh, okay. That would be a breakdown.
16 These are not entities, as we say. They're really
17 business units within the CP&L legal entities. That's
18 why we break it down, delivery, supply. They're not
19 necessarily separate entities. We could break --

20 MR. SASSO: We don't maintain them that
21 way. Why don't you restate what you want,
22 Charlie, and we'll reconsider that. I'm not
23 sure we can agree to that.

24 MR. BECK: Okay. We're going to consider
25 that and send you an interrogatory if we need

1 to, so let's just pass for now on that.

2 BY MR. BECK:

3 Q Okay. Pages 8, 9, and 10 of your response
4 to 104 contain the labor and head count for Strategic
5 Resource Solutions for 2000, 2001, and 2002. Do you
6 see the head count, for example, on page 2 for
7 December of 2000?

8 A Yes.

9 Q And then there's a number for 2001, a
10 different number, slightly greater?

11 A Right.

12 Q But then on the last page, you see an
13 estimated head count for Strategic Resource Solutions
14 in 2002 that's different, materially different. And
15 the question is, why is that?

16 A We're under confidentiality?

17 Q Right. I'm trying to verbalize it without
18 -- yes, we're covered if you need to be specific.

19 A Okay. The SRS subsidiary, we are
20 anticipating selling off two divisions of that
21 subsidiary and significantly reducing its operations.

22 Q And hence the lower head count for 2002
23 than we saw for --

24 A Yes. That's expected to be accomplished in
25 the first quarter of 2002.

1 Q. which divisions do you anticipate getting
2 rid of?

3 A The software division --

4 MR. SASSO: Maybe it would be better to
5 provide this in some other way. Do you need to
6 have the --

7 MR. BECK: Okay. Hold off on that.

8 THE WITNESS: This is the Strategic
9 Resource Solutions subsidiary, SRS.

10 MR. BECK: Okay. We'll move on. We don't
11 need anything further at this point.

12 BY MR. BECK:

13 Q In your response to Interrogatory 104, we
14 did not see any information concerning Monroe Power.
15 And the question is, given the scope of the question,
16 why was no information provided concerning Monroe
17 Power?

18 A I don't know. It was an oversight if it
19 wasn't provided. As shown on the prior exhibit, we
20 show four employees. I do not know off the top of my
21 head how many employees are there. That was an
22 oversight.

23 Q And would the same be true for Eastern
24 NCNG?

25 A I don't think there are any employees at

1 Eastern NCNG at this point.

2 Q You're saying as we sit here, you don't
3 think Eastern NCNG has any employees?

4 A I'm not sure. I don't believe so. It's
5 mainly in a construction phase and is using contract
6 employees to lay the pipelines and things like that.
7 I'm not aware there are employees at this point,
8 formal employees of ENCNG.

9 Q I have another exhibit labeled
10 confidential, and it's staff RFP Number 19. I said
11 exhibit. I don't mean an exhibit to the deposition,
12 just a document. And I would like to refer you to a
13 document to Mr. Robert P. Wason, the first page and
14 the third paragraph, where it states, "In reviewing
15 the allocation methods of other registered holding
16 companies and our customers' feedback, we proposed
17 these additional allocation methods." Do you know
18 what other holding company allocation methods were
19 reviewed by the company?

20 A We looked at other registered holding
21 companies under the 35 Act.

22 Q Can you give me some examples?

23 A AEP, Southern Company.

24 Q Do you know what the feedback of your
25 customers was that caused you to modify the allocation

1 factors?

2 A We looked for a -- I can give you a little
3 bit of background. We talked to these other
4 registered holding companies and reviewed our
5 allocation methodology and made those changes. The
6 input from the other holding companies was just a
7 technique to benchmark what others were doing.

8 Q But what specific feedback from customers
9 did you look at?

10 A We just talked to the other companies on
11 what methodologies they used.

12 Q But this sentence, unless I'm reading it
13 wrong, says you reviewed the allocation of registered
14 holding companies and your customers' feedback.

15 A Customers being our internal customers, the
16 companies that we're allocating costs to.

17 Q Do you recall what the feedback was that
18 was reviewed?

19 A What we're proposing here is to go to the
20 asset ratio, and our customers and management of other
21 subsidiaries felt that it was an enhancement to the
22 process that we have today.

23 Q And how does that differ from what you have
24 today?

25 A We use the -- on the asset ratio, I

1 mentioned the Modified Massachusetts method, where we
2 use labor and assets. We're going to a method that
3 just uses assets.

4 Q And why do you think that's --

5 A We proposed that method to the FCC. We
6 have not received approval of that.

7 Q Why do you believe this method is better
8 than the method you were using?

9 A It's a simpler method. It's easy to
10 understand. You don't have to get into -- like you
11 said, if you've got the assets, can estimate the
12 assets, you don't have to get into the labor dollars.
13 People just felt it was a simpler and easier method to
14 use. And it does not -- we don't see that it results
15 in any significant change at all to the allocation.

16 * * *

17 BY MR. BECK:

18 Q Mr. Bazemore, earlier we had asked you some
19 questions about the assets included for allocation
20 purposes, the undepreciated assets, and we asked
21 whether CWIP was included in that amount. Do you know
22 the answer now?

23 A Yes, it is included.

24 (CONCLUSION OF CONFIDENTIAL PORTION OF THE
25 DEPOSITION TRANSCRIPT.)

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CERTIFICATE OF ADMINISTERING OATH

STATE OF FLORIDA)
COUNTY OF LEON)

I, MARY ALLEN NEEL, Notary Public in and for the State of Florida at Large:

DO HEREBY CERTIFY that on the date and place indicated on the title page of the foregoing transcript, an oath was duly administered by me to the designated witness before testimony was taken.

WITNESS my hand and official seal this 20th day of January, 2002.

Mary Allen Neel

MARY ALLEN NEEL, RPR
100 Salem Court
Tallahassee, Florida 32301



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CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, MARY ALLEN NEEL, do hereby certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter transcribed under my supervision; and that the foregoing pages numbered 1 through 19 are a true and correct transcription of my stenographic notes.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, or relative or employee of such attorney or counsel, or financially interested in the action.

DATED THIS 20th day of January, 2002.



MARY ALLEN NEEL, RPR
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