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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 Corporation by Carolina Power & Light

Docket No.: 000824-EI
Filed: January 18, 2002

INTERVENOR TESTIMONY OF THOMAS J. REGAN

ON BEHALF OF THE FLORIDA INDUSTRIAL POWER USERS GROUP

CONFIDENTIAL VERSION

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FPSC-COMMISSION CLERK

1 **Introduction**

2 **Q. State your name and business address.**

3 A. My name is Thomas J. Regan. My business address is:

4 PotashCorp
5 1101 Skokie Blvd., Suite 400
6 Northbrook, IL 60062
7

8 **Q. Briefly describe your professional and educational background and your
9 work experience.**

10 A. I have a Bachelor of Science degree in Chemical Engineering from Pennsylvania
11 State University granted in 1968. I have done graduate work in Finance at
12 Marietta College, Ohio University, West Virginia University, and McNeese State.
13 I have also attended an Executive Management program at Columbia University.
14 I have been involved in the mining and chemical business for 33 years, with
15 principal participation in the manufacturing and mining operations. Primary
16 responsibilities include ensuring site contribution to profitability and cost control.

17 **Q. What is your position with PCS Phosphate (PCS) and what are your duties in
18 that position?**

19 A. I am President of PCS Phosphate division. My principal responsibilities are for
20 all of the operating locations, including the facilities at White Springs. Therefore,
21 I have responsibility for the safety, environmental, quality, and cost performance
22 of each of these locations.

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

24 A. The purpose of my testimony is to describe PCS and its operations and to advise
25 the Commission of the dramatic effect that granting FPC's rate design request as

1 to the IS-1 rate will have on PCS operations in Florida. I will describe the
2 possible repercussions of the proposed FPC rate structure changes on our
3 business.

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4 **Potash Corporation of Saskatchewan's (PCS) Operations**

5 **Q. Please describe PCS and its operations.**

6 A. PCS Phosphate is a division of PCS Corporation, whose other divisions include
7 PCS Potash, PCS Nitrogen, and PCS Sales. By capacity, PCS Corporation is the
8 world's largest potash manufacturer, the third largest nitrogen manufacturer, and
9 the third largest phosphate manufacturer (according to page 1 of the "PotashCorp
10 2000 Annual Report").

11 **Q. Describe PCS' operations in the FPC territory.**

12 A. PCS Phosphate has one manufacturing facility in White Springs, Florida, at which
13 it conducts both mining and chemical processing operations, and employs
14 approximately 610 people. It makes a property and sales tax contribution to the
15 local and state economy of more than \$5 million per year.

16 **Q. In addition to Florida, where else does PCS have operations?**

17 A. PCS Phosphate has a similar manufacturing facility in Aurora, N.C., and animal
18 feed manufacturing locations in North Carolina, Illinois, Nebraska and Brazil.
19 Other PCS divisions have locations throughout the U.S., Canada, and South
20 America. PCS competes for sales on a world-wide basis.

21 **Effect of FPC's Proposal on PCS**

22 **Q. Under what rate schedule does PCS currently rake service from FPC?**

1 A. PCS takes service primarily under FPC's IS-1 (in my testimony the use of "IS-1"
2 is meant to include "IST-1" as well) tariff, but also has a cogeneration (from
3 waste heat) plant that receives some power under a SS-2 tariff.

4 **Q. FPC has proposed to eliminate the IS-1 tariff. What effect will this have on**
5 **PCS?**

6 A. PCS' White Springs facility has estimated that elimination of the IS-1 tariff will
7 result in an increase in its total annual power bill of approximately 13.5%- more
8 than \$1.7 million per year. This assumes current operating levels, which are
9 significantly lower than historical averages due to current market conditions. If
10 year 2000 (a more representative year) electrical consumption is used, the cost
11 increases by more than \$2.8 million per year.

12 **Q. How does elimination of the IS-1 rate interact with other FPC rate increases**
13 **that have recently occurred?**

14 A. When the base rate increase FPC proposes, including the elimination of the IS-1
15 rate, is combined with the escalation in the fuel portion of FPC's rates since April
16 1999, the White Springs facility's \$/MWH costs will have risen by approximately
17 35% in less than three years. Since electrical power is a major component of our
18 mining costs, as well as our chemical processing costs, this represents a major
19 impact on our profitability and our ability to continue operations or expand in
20 FPC's territory.

21 We are appalled at the proposed increase in rates in light of the fact that
22 the utility merger was projected to result in over \$175 million in operational
23 savings. These potential savings coupled with the fact that fuel costs, interest

1 costs, and investors' expectations of return on their common stock have declined
2 dramatically in the last year led our forecasters to logically assume that electric
3 rates should go down. Instead FPC's proposals would significantly increase our
4 costs.

5 I am advised that last November the Florida Public Service Commission
6 reversed its prior determination that FPC hold some \$113 million in excess profits
7 subject to refund. It first reduced the sum to \$97 million, then ruled that FPC
8 could keep that amount if it wanted to bring earnings in line by rapidly writing
9 down a major portion of its recently acquired Tiger Bay generating plant. PCS is
10 a captive customer of FPC. While we strongly promote giving our exclusive
11 electricity supplier a fair return on its invested capital, we also believe that as long
12 as FPC is under government protection from the kind of competition we industrial
13 customers face, excess profits should be returned to FPC's customers, based on
14 their consumption.

15 **Q. What impact do electric power costs have on PCS' decisions regarding**
16 **whether to operate a facility in Florida?**

17 A. Electrical power cost is factored into our economic evaluations when we are
18 determining whether to start up recently idled facilities such as our White Springs
19 Suwannee River Chemical Complex, ramp up production of operating facilities
20 such as our White Springs Swift Creek Mine, or build new plants in the state.
21 These types of evaluations compare the economics of increasing production at
22 White Springs versus using or expanding our facility in North Carolina. If the IS-
23 1 rate is eliminated as FPC proposes, any plans for future production increases in

1 Florida, including restarting idled plants, would be at a further competitive
2 disadvantage when compared to North Carolina in regards to power costs.

3 **Q. In its sales forecast, FPC has projected a decline in consumption by**
4 **industrial customers. Can you comment on that from PCS' perspective?**

5 A. It is my understanding that one of the arguments FPC has made in support of the
6 elimination of the IS-1 rate is that it is not cost-effective. Some of the largest
7 industrial customers on FPC's system are phosphate companies like ourselves,
8 whose industry is experiencing a downturn. Using the last year's electrical
9 consumption data is not representative of normal usage. Using the average
10 consumption for the last ten years would be more appropriate. We fully expect
11 our cyclical industry to rebound.

12 In addition, if industrial power consumption has decreased during a period
13 in 2000-2001 when power bill off-peak fuel costs rose 25% and on-peak fuel
14 costs rose 54%, what will happen when power bills significantly rise again due to
15 elimination of IS-1? Normal economic models would predict that industrial
16 consumption will further decline, i.e., Florida jobs will be lost as companies
17 reduce or eliminate operations in the state. My understanding is that industrial
18 customers are already less than 10% of FPC's customer base. If FPC is trying to
19 drive this percentage down even further, with the concomitant job loss and
20 revenue loss to the state, elimination of the IS-1 rate schedule will further their
21 goal, by crippling PCS in Florida.

1 **Q. From your observation of the operation of similar domestic and foreign**
2 **electric suppliers do you believe that the prices you pay should be cost-**
3 **effective for FPC?**

4 A. This is a question better answered by our rate consultants, but I can give you our
5 management's perspective on the issue. I am advised that one of the underlying
6 assumptions for determining whether interruptible rates are cost-effective is that
7 firm service is a viable option. We believe that assumption is seriously flawed,
8 because it presupposes that we industrial customers would be able to pay higher
9 firm rates when we are struggling under current competitive pressures. It also
10 presents a conundrum: "the higher firm rates are set, the greater will be the loss on
11 non-firm rates." If general revenues are reduced, as we believe they should be,
12 perhaps IS-1 will again become cost-effective under FPC's analysis. PCS would
13 like to have affordable firm service.

14 Our company and other industrial companies long ago recognized the
15 difficulty in remaining competitive under firm rates, and so went to interruptible
16 rates, despite the disruptions to our operations. We have also already changed
17 operations at our plants to lower electrical costs, in order to remain competitive.
18 We have even added self-generation capability to defray electrical costs, at a
19 significant capital and maintenance investment. Despite these changes, some
20 phosphate companies have already gone out of the mining business in Florida
21 because they could no longer compete. For these reasons, it is not viable to
22 assume in the cost-effectiveness analysis that industrial customers could pay firm
23 rates, without significantly affecting consumption.

1 **Q. Do you have additional objection to the conclusion that the IS rates are not**
2 **cost-effective?**

3 A. Yes. The cost-effectiveness test gives no consideration to the fact that non-firm
4 customers currently constitute 78% of FPC's winter reserve margin. We believe
5 the incentive to assume this risk is insufficient. The test also does not consider
6 the fact that since the last rate case our service is not subject just to the need of
7 FPC's firm customers, but to the need of all firm customers throughout the state.

8 **Q. Do you benefit from time of day pricing?**

9 A. Yes, but less so than in the past. With the time of day pricing structure currently
10 in place, we have recently found it more cost-effective to change from time of day
11 rates to levelized/standard rates for two of our five major accounts.

12 **Q. How does the current IS-1 rate, which FPC proposes to eliminate, compare**
13 **with similar rates at other PCS plants?**

14 A. Even the current rate is higher. The FPC IS-1 rate is at a significant competitive
15 disadvantage, for example, when compared to the rate under which our facility in
16 Aurora, N.C. operates. It is indeed ironic that the merger resulted in lowered rates
17 due to savings in North Carolina, but potential increases in Florida. The
18 circumstance provides an economic incentive to move parts of our load to North
19 Carolina, to the economic detriment of our small north Florida community and to
20 the consumers of Florida Power who benefit from the revenue our company
21 provides to the system.

22 **Q. What should the Commission do in this case in regard to FPC's request that**
23 **the IS-1 rate be eliminated?**

1 A. As the IS-1 rate is the best rate currently available, we ask that it not be
2 eliminated as FPC proposes, in order to help keep the small percentage of
3 remaining industrial customers in FPC's service territory viable.

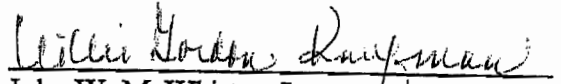
4 **Q. Does that conclude your testimony at this time?**

5 A. Yes.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing **CONFIDENTIAL** Intervenor Testimony of Thomas J. Regan on Behalf of the Florida Industrial Power Users Group has been furnished by (*) hand delivery to the following this 18th day of January, 2002:

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