

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

In re: Petition for rate increase by
Progress Energy Florida, Inc.

Docket No. 050078-EI

DIRECT TESTIMONY OF

THOMAS J. REGAN, JR.

On behalf of

White Springs Agricultural Chemicals, Inc.
d/b/a PCS Phosphate – White Springs

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Direct Testimony of Thomas J. Regan, Jr.

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

2 A. My name is Thomas J. Regan, Jr. My business address is:

3

4 Potash Corp

5 1101 Skokie Blvd., Suite 400

6 Northbrook, IL 60062

7

8 **Q. What is your position with PCS Phosphate (PCS) and what are your duties**
9 **in that position.**

10 A. I am President of PCS Phosphate division. My principal responsibilities include
11 all of the operating locations, including the White Springs facilities. I have
12 responsibility for the safety, environmental, quality and cost performance of each
13 of these locations.

14 **Q. Briefly describe your professional and educational background and your**
15 **work experience.**

16 A. I have a Bachelor of Science degree in Chemical Engineering from Pennsylvania
17 State University granted in 1968. I have done graduate work in Finance at
18 Marietta College, Ohio University, West Virginia University and McNeese State. I
19 have also attended an Executive Management program at Columbia University. I
20 have been involved in the mining and chemical business for 37 years, with

1 principal participation in the manufacturing and mining operations. My primary
2 responsibilities include ensuring site contribution to profitability and cost control.

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

4 A. The purpose of my testimony is to describe PCS and its operations and to
5 explain the serious adverse effect that PEF's rate proposal would have on PCS
6 operations in Florida.

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

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

9 A. PCS Phosphate is a division of PCS Corporation, whose other divisions include
10 PCS Potash, PCS Nitrogen and PCS Sales. By capacity, PCS Corporation is the
11 world's largest potash manufacturer, the fourth largest nitrogen manufacturer and
12 the third largest phosphate manufacturer.

13 **Q. Describe PCS' operations in the PEF territory.**

14 A. PCS Phosphate has one manufacturing facility in White Springs, Florida, at
15 which it conducts both mining and chemical processing operations and employs
16 approximately 950 people. It makes a property and sales tax contribution to the
17 local and state economy of more than \$5 million per year.

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

19 A. PCS Phosphate has a similar manufacturing facility in Aurora, N.C. Other
20 manufacturing facilities are located in Illinois, Nebraska, Missouri, Louisiana,
21 Ohio and Brazil. Other PCS divisions have locations throughout the US, Canada
22 and South America. PCS competes for sales on a world-wide basis.

23 **Effect of PEF's Proposal on PCS**

24 **Q. From the perspective of one of PEF's largest customers, what do you think**
25 **of the PEF rate filing.**

1 A. Fundamentally, I believe that (1) the PEF revenue increase is entirely unjustified
2 and (2) PEF's rate proposals are ill-advised and harmful to its industrial
3 customers. White Springs was sufficiently troubled by PEF's rates that it retained
4 its own experts to analyze PEF's filing and to submit testimony in this
5 proceeding. Based on that analysis and testimony, it is apparent that, if anything,
6 the Commission should order a PEF revenue decrease. Moreover, as White
7 Springs' witnesses explain in some detail, PEF's cost allocation and rate
8 proposals are quite harmful to industrial customers. First, those proposals
9 allocate a disproportionate amount of costs to industrial customers. Second,
10 PEF's proposal to eliminate the IS-1 and IST-1 rate schedules would have a
11 severe and unjustified adverse impact on industrial customers such as White
12 Springs.

13 **Q. Do you agree that customers have benefited from the fact that PEF has not**
14 **had a base rate increase since 1993?**

15 A. No, I do not. As White Springs witness Gorman explains, to a large degree PEF
16 has not needed a base rate increase because of various economic factors
17 beyond PEF's control, such as falling interest rates. Moreover, as explained by
18 Mr. Chalfant it appears that PEF is currently collecting revenues significantly in
19 excess what is required, and has been doing so for a number of years.

20 **Q. How do PEF's rate compare to those of other utilities.**

21 A. As Mr. Brubaker explains, PEF is a relatively high cost provider. For example,
22 PEF's industrial rates are the second highest of utilities surveyed in the
23 Southeastern United States. An interesting comparison can be made between
24 White Springs and the PCS Aurora, North Carolina facility. Both facilities
25 produce similar products, and thus in a sense compete with each other, and the

1 Aurora facility is served by PEF's affiliate Progress Energy Carolina. For many
2 years PEC's rates for our Aurora facility have been significantly lower than PEF's
3 rates for White Springs. In our discussions with PEF they have not provided any
4 plausible reasons for this discrepancy.

5 **Q. Do you believe that PEF should be rewarded for being an efficient utility?**

6 A. Absolutely not. As can be seen in Mr. Brubaker's testimony, PEF is a high cost
7 supplier. PEF cannot evade that fact through creative economic models and
8 statistics. From the perspective of a large industrial customer I do not view PEF
9 as a particularly efficient supplier. Indeed, PEF appears largely insensitive to
10 the economic concerns of its industrial customers.

11 **Q. Under what rate schedules does PCS currently take service from PEF?**

12 A. PCS takes service primarily under PEF's IS-1 and IST-1 tariffs, but also has two
13 cogeneration (from waste heat) plants that receive some power under a SS-2
14 tariff.

15 **Q. PEF has proposed to eliminate the IS-1 tariff. What effect will this have on
16 PCS?**

17 A. PEF has proposed to eliminate the IS-1 and IST-1 rates and to transfer
18 customers currently receiving service under these rates to the IS-2 and IST-2
19 rate schedules. That change would have a dramatic adverse impact on White
20 Springs. Because the level of interruptible credits would be greatly reduced
21 under the PEF proposal, the real base rate increase to White Springs'
22 interruptible service would be approximately 84 percent.

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

1 A. Electrical power cost is factored into our economic evaluations when we are
2 determining whether to operate facilities such as our White Springs Suwannee
3 River Chemical Complex, ramp up production of operating facilities such as our
4 White Springs Swift Creek Mine, or build new plants in the state. These types of
5 evaluations compare the economics of increasing production at White Springs
6 versus using or expanding our facility in North Carolina or elsewhere outside of
7 Florida. If the IS-1 rate is eliminated as PEF proposes, any plans for future
8 production increases in Florida would be at a further competitive disadvantage
9 when compared to North Carolina or elsewhere in regards to power costs.
10 Similarly, an unjustified revenue increase or inappropriate cost allocation
11 methods would further disadvantage White Springs.

12 **Q. What are your thoughts on PEF's interruptible rates?**

13 A. I can give you White Springs' perspective on the issue. It cannot be assumed
14 that industrial customers would be able to pay higher firm rates in the absence of
15 viable interruptible rates notwithstanding that we are struggling under current
16 competitive pressures. All things being equal, PCS would like to have affordable
17 firm service rather than the interruptible service that we must accept in order to
18 remain competitive. In fact, Mr. Brubaker's testimony demonstrates, at Exhibit
19 MEB-1, that utilities in other states have firm industrial rates that are lower than
20 the interruptible rates that White Springs pays today.

21 Our company long ago recognized the difficulty in remaining competitive
22 under firm rates, and so went to interruptible rates, despite the disruptions to our
23 operations. We have also already changed operations at our plants to lower
24 electrical costs, in order to remain competitive. We have even added self-
25 generation capability to defray electrical costs, at a significant capital and

1 maintenance investment. Despite these changes, many phosphate companies
2 have already gone out of business in Florida because they could no longer
3 compete. For these reasons, it is incorrect to assume that industrial customers
4 could pay firm rates without significantly affecting consumption.

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

7 A. Even the current rate is higher. The PEF IS-1 rate is at a significant competitive
8 disadvantage, for example, when compared to the rate under which our facility in
9 Aurora, NC operates. During the last several years total rates for our Florida
10 operations have been higher than for our North Carolina operations served by
11 PEC. This circumstance provides an economic incentive to move parts of our
12 load to North Carolina, to the economic detriment of our small north Florida
13 community and to the consumers of Florida Power who benefit from the revenue
14 our company provides to the system.

15 **Q. Do you have any comments on Mr. Habermeyer's testimony?**

16 A. Yes. Mr. Habermeyer's Direct Testimony asserts that PEF has achieved "top
17 quartile performance in most key areas." From my perspective, there are two
18 key areas of performance, cost and reliability, and PEF has performed below
19 average in both. Regarding cost, Mr. Brubaker's testimony shows that PEF's
20 industrial rates are the second highest in the Southeastern United States. This
21 may be "top quartile" performance for PEF's shareholders, but from the
22 perspective of large customers such as White Springs it is bottom quartile
23 performance. In fact, PEF's attempt to raise our base rates, which are already
24 high, by as much as 84 per cent represents a significant threat to our ability to
25 compete in domestic and international markets. Regarding reliability, from White

1 Springs perspective PEF's performance has been at best mediocre. For
2 example, over approximately one month in 2004 there were three outages in the
3 115 kV transmission line feeding our Suwannee River complexes. Another
4 example of mediocre reliability is that our administration complexes are plagued
5 with outages, to the point where we do not even bother tracking them. We
6 average approximately one outage every 1 – 2 months during working hours,
7 with each outage typically lasting 1 – 4 hours during working hours. While I do
8 not address PEF's overall system reliability, the reliability of service to the White
9 Springs facility is unsatisfactory.

10 **Q. Do you have other concerns with PEF's rate filing.**

11 A. Yes. Mr. Gorman observes in his testimony that PEF has collected hundreds of
12 millions of dollars more than it needs purposes such as nuclear
13 decommissioning. I do not understand why PEF is allowed to force its customers
14 to provide such unneeded funds. The Commission should order PEF to return
15 such funds to the customers that provided those funds. Certainly companies
16 such as White Springs, which are facing tremendous competitive pressures, can
17 find more productive uses for those funds than simply allowing them to sit
18 unused and unneeded in PEF accounts.

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

20 A. Yes.