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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) Docket No. 930885-EU
Company)

REBUTTAL TESTIMONY

OF

GEORGE PRATT

ON BEHALF OF

GULF COAST ELECTRIC COOPERATIVE, INC.

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December 20, 1996

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December 20, 1996

1 Q. Please state your name and address.

2 A. My name is George Pratt and my address is 1216 Belle Vista Drive, Alexandria, Virginia,
3 22307.

4 Q. What is your educational background?

5 A. I have a B.S. in Business Administration from Loyola University in New Orleans, Louisiana.

6 Q. What is your employment background and professional experience?

7 A. I retired in 1974 after 20 years of service in the U.S. Marine Air Corps where I attained the
8 rank of Lieutenant Colonel. Most recently, I served from 1989 to 1993 as Deputy
9 Administrator of the Rural Electrification Administration (now known as the Rural Utilities

1 Service and hereinafter referred to as "RUS" or "REA") where my responsibilities included:

2 1) establishing and developing program policy and objectives for the REA electric program;

3 2) approving loans and establishing loan conditions for REA loans to electric cooperatives

4 and other program borrowers; and 3) otherwise acting and administering the REA program

5 to promote the efficient provision of electric service to program participants.

6 I served from 1981 to 1989 on the Board of Trustees for Baldwin County Electric

7 Membership Corporation, an Alabama cooperative located in Gulf Shores, Alabama, which

8 is similar in structure to Gulf Coast Electric Cooperative and is also an all-requirements

9 wholesale customer of Alabama Electric Cooperative, Inc. I also served from 1982 to 1989

10 on the Board of Trustees for Alabama Electric Cooperative, Inc.

11 Q.. Have you previously testified before any State or Federal Regulatory Commissions such as

12 the Florida Public Service Commission?

13 A. No.

14 Q. Have you testified in any trial or court proceeding?

15 A. No.

16 Q. On whose behalf are you appearing in this proceeding?

17 A. Gulf Coast Electric Cooperative, Inc. (hereinafter called "Gulf Coast").

1 Q. Please summarize your expertise as it relates to the issues in this proceeding.

2 A. Having served four years in the administration of the Rural Utilities Service program and on
3 the boards of Baldwin County EMC and Alabama Electric Cooperative, Inc., I am familiar
4 with the overall objectives, purposes, and organizational structure of the Rural Utilities
5 Service and the general organization, structure, and operating characteristics of electric
6 distribution and generation & transmission cooperatives.

7 Q. What preparations did you undertake to familiarize yourself with the issues before the
8 Commission in this proceeding?

9 A. I reviewed the testimony filed in this docket by Theodore S. Spangenberg, Jr.; William C.
10 Weintritt; G. Edison Holland, Jr.; Russell L. Klepper; Archie W. Gordon; Stephen Page
11 Daniel; and Todd F. Bohrman.

12 Q. Briefly explain the organizational structure of an electric distribution cooperative, its
13 purposes, and how its rates are determined.

14 A. Electric distribution cooperatives are non-profit business entities owned by and operated for
15 the collective benefit of their member-owners. Contrary to Mr. Klepper's and other
16 similarly-held opinions, members who receive services own and control the cooperative and
17 direct its course and operating policies through an elected Board of Trustees. As
18 democratically elected representatives of the members, the Trustees set the cooperative's
19 rates for electric service. The Trustees, as representatives of the cooperative's consumers
20 and consistent with prudent utility practice, manage the cooperative in order to insure the

1 lowest cost of service and set retail rates at the lowest possible level to cover the cost of
2 providing electric service and to establish reserves for unexpected expenditures.

3 Q. Is Gulf Coast organized and operated in a manner similar to your description of electric
4 distribution cooperatives in general?

5 A. Yes. Gulf Coast is an electric distribution cooperative owned by its member-consumers and
6 operated for their collective benefit. Gulf Coast's consumers elect a Board of Trustees from
7 among its membership which directs Gulf Coast's business policies and objectives and sets
8 the rates at which Gulf Coast sells electricity to its member/consumers.

9 Q. Briefly explain the organizational structure of an electric generation & transmission
10 cooperative, its purposes, and how its rates are determined.

11 A. Electric generation & transmission cooperatives ("G&T") are generally non-profit business
12 entities owned by and operated for the collective benefit of their member-owners. The
13 G&T's member-owners, by contractual agreement, purchase all of their electrical
14 requirements from the G&T at rates set by the G&T's Board of Trustees which is comprised
15 of representatives of each member-owner. In accordance with the terms of the member
16 contracts, the G&T's Board of Trustees sets the rates at levels which are sufficient (but only
17 sufficient) to cover the operation and maintenance costs for the generation and transmission
18 facilities; the cost of any purchased power; debt service expenses; plus reasonable reserves
19 for additional facilities.

1 Q. Is the organizational structure of and relationship between Gulf Coast and Alabama Electric
2 Cooperative, Inc., the supplier of its generation and transmission services, similar to what
3 you previously described?

4 A. Yes. Gulf Coast purchases all of its bulk power requirements from Alabama Electric
5 Cooperative, Inc., a nonprofit membership corporation, (hereinafter called "AEC") under a
6 long-term all requirements contract. Gulf Coast is a member-owner of AEC, which operates
7 on the cooperative basis with equal member voting rights. The rates under which Gulf Coast
8 purchases bulk power from AEC are established by AEC's Board of Trustees in accordance
9 with the terms of the member contracts. AEC's Board of Trustees is composed entirely of
10 representatives of AEC's twenty-one member-owners. Accordingly, Gulf Coast and AEC's
11 other member-owners directly dictate the rates which they pay for wholesale service from
12 AEC. The AEC Board of Trustees, as representatives of AEC's twenty-one member-owners,
13 also sets the policies and objectives for AEC's management.

14 Q. Briefly explain the relationship between Gulf Coast and its principal financing organizations.

15 A. The Rural Utilities Service ("RUS"), either through direct or federally guaranteed loans, and
16 the National Rural Utilities Cooperative Finance Corporation ("CFC"), a cooperatively-
17 owned private financial institution, are the principal financing organizations for both Gulf
18 Coast and AEC. In order to protect their respective financial positions, RUS and CFC
19 mandate that AEC enter into long-term all requirements contracts with its twenty-one
20 member-owners. Loans extended to Gulf Coast and AEC are repaid according to terms and
21 conditions and at interest rates established by the U.S. Government and CFC, respectively.

1 Neither AEC nor Gulf Coast have defaulted on a direct federal loan or federally guaranteed
2 loan.

3 Q. Does RUS, as a principal lender, require certain financial and operating performances by
4 cooperative borrowers?

5 A. Yes. RUS exercises oversight responsibilities to insure that borrower systems are operated
6 efficiently and reliably and to insure the financial integrity of the borrowers and the security
7 of the lenders' loans.

8 Q. Are electric utility operations operations and financing subsidized?

9 A. The amount of governmental subsidy received by the different types of utilities is a highly
10 controversial issue with most informed electric industry experts believing that all utilities are
11 subsidized, regardless of organizational structure. Cooperatives obtain financing from CFC
12 at the prevailing rates in utility capital markets. RUS distribution borrowers obtain loans
13 from RUS at interest rates equivalent to prevailing municipal bond rates. G&T borrowers
14 obtain loans from RUS at the prevailing U.S. Treasury rates, plus 1/8%. Since current
15 financing is available to cooperatives at rates comparable to other segments of the electric
16 utility industry, the subsidy issue becomes extremely subjective.

17

18 Investor-owned utilities receive government subsidies through such preferential tax
19 treatments as accumulated deferred income taxes and accelerated depreciation of capital
20 assets. These preferential tax treatments provide the equivalent of interest-free or "zero"

1 interest loans from the government to the investor-owned utilities. Many experts in the
2 industry contend that the amount of subsidy enjoyed by investor-owned utilities through such
3 preferential tax treatment greatly exceeds any interest rate subsidy received by electric
4 cooperatives.

5 Q. What do you understand the objectives of the Rural Utilities Service to be?

6 A. Traditionally, investor-owned utilities refused to serve certain areas of the country because
7 of the high cost of service, poor return on investment, and low profit margins from serving
8 those areas. To further the development of such areas, the Rural Electrification
9 Administration (“REA”) was created by President Franklin D. Roosevelt on May 11, 1935.
10 Electric cooperatives, organized and owned by the cooperatives’ consumers, were funded by
11 loans from REA to provide electric service to areas which investor-owned utilities were
12 unwilling to serve.

13 The structure of the electric utility industry has remained basically unchanged for the more
14 than sixty years since the creation of REA, with the exception that, partly due to the services
15 provided by electric cooperatives, the areas served by cooperatives have become more
16 populated and, therefore, more desirable and potentially more profitable for investor-owned
17 utilities.

18 With the Department of Agriculture Reorganization Act of 1994 (“Reorganization Act”), the
19 Rural Electrification Administration was renamed as the Rural Utilities Service (“RUS”) and

1 its mission expanded to include the promotion of basic utility services, communication
2 services, and community infrastructure development. RUS' mission was enlarged to further
3 the development all of America and to offer comparable services and conveniences to all
4 American citizens, not just those fortunate to live in or near more populated areas. The U.S.
5 Congress, in enacting the Reorganization Act, also acknowledged that the most efficient and
6 orderly manner to develop the infrastructure of small communities was to utilize the existing
7 management and business resources available through the RUS electric cooperative program.

8 Through their history, electric cooperatives, with the support of REA, and now RUS, have
9 attempted to improve the lifestyle in their service areas through the provision of reliable and
10 affordable electric service. In addition, many electric cooperatives have become involved
11 in economic and industrial development programs to improve the standard of living in their
12 service areas, provide additional employment opportunities for their members, and reduce
13 the cost of electric service to their consumer-owners.

14 Through the provisions of the Reorganization Act, the U.S. Congress endorsed REA's past
15 efforts and established a framework to further develop the infrastructure and improve the
16 lifestyle in areas served by cooperatives by utilizing the assets available through the RUS
17 electric cooperative program and the existing cooperative organizations. Loan and grant
18 programs were established for use through electric cooperatives for the provision of basic
19 utility services such as water, garbage, sewer and telecommunications. Economic and
20 industrial loan and grant programs were also made available through electric cooperatives

1 to provide additional employment opportunities and to develop basic infrastructure in areas
2 served by cooperatives.

3 Q. What are the factors which affect an electric cooperative's ability to provide reliable electric
4 service at affordable rates?

5 A. Regardless of the utility's organizational structure, the primary determinants of its cost of
6 electric service are the diversity and density of its customer base. In general, the greater the
7 diversity and density of customers, the more economical it is for the utility to provide electric
8 service. Likewise, the less the diversity and density of customers, the more expensive it is
9 to provide electric service.

10 Cooperatives have striven for over 50 years to provide reliable electric in their service areas,
11 which have primarily been the less dense, residential areas of America, including northwest
12 Florida. Typically, investor-owned and municipal utilities have served the more heavily
13 populated areas of the country and, thus, enjoyed a lower cost of service per consumer and
14 reaped the profits from a more diverse and higher density customer base. Given the extreme
15 economic disadvantages faced by most cooperatives, it is absolutely imperative that
16 cooperatives build and maintain the integrity of their respective service territory.

17 RUS and the U.S. Congress have recognized the importance of building more economically
18 viable communities and improving the lifestyle for all Americans. That initiative especially
19 requires that electric cooperatives continue to strive to develop more diverse and dense

1 service areas to reduce the cost of electric service for all of their consumer-owners.

2 Q. Why is it important that electric cooperatives retain and develop their traditional service
3 areas and increase the diversity and density of their customer base?

4 A. Regardless of the disadvantages and additional costs, electric cooperatives, such as Gulf
5 Coast, have recognized their obligation and responsibility to serve all customers within their
6 traditional service areas, whether they were small, large, good, bad, accessible, remote,
7 efficient or inefficient. Through the development of their service areas, cooperatives have
8 seized an opportunity to lower or hold down their cost of service through load diversity, the
9 addition of higher load factor customers and increased density. Until recently, the investor-
10 owned utilities have been satisfied to allow cooperatives to labor away in these non-
11 profitable areas. However, with the movement of more industrial and commercial customers
12 to the traditional cooperative service areas, in part through the economic development and
13 recruitment activities of electric cooperatives, these areas are now appealing to investor-
14 owned utilities because of their potential for greater revenues and profit opportunities.
15 Investor-owned utilities and municipalities are attempting to encroach upon the historical
16 service areas of electric cooperatives to “cherry pick” these industrial and commercial loads
17 to enhance their profit structure and increase the return to their stockholders. Very rarely,
18 if ever, do you see a cooperative trying to take service territory from an investor-owned
19 utility or municipality.

20 Q. Does the infringement of investor-owned utilities and municipalities into the historical

1 cooperative service territory threaten their overall viability as well as RUS's loan security?

2 A. Absolutely. If the investor-owned utilities and municipalities are allowed to continue to
3 infringe upon traditional cooperative service territory that is positioned for growth through
4 customer diversity and density, then cooperatives will always be higher cost electric
5 providers. Further, as the cooperative service territory is eroded and the best customers are
6 lost to investor-owned utilities, the cost of service to the remaining customers of the
7 cooperative will likely increase. This, in turn, will jeopardize the cooperatives' ability to
8 repay their financial obligations to RUS and other financing organizations and threaten their
9 ability to continue operations.

10 Q. What public policy considerations should the Florida Public Service Commission take into
11 account in resolving this territorial dispute?

12 A. Contrary to Mr. Klepper's and other similarly-held opinions, I do not recall "capitalism"
13 being mentioned in the U.S. Constitution. However, the Constitution does state one of its
14 preamble purposes to be to "promote the general welfare." The Constitution, by amendment,
15 also guarantees all citizens the "equal protection" of its laws. The general welfare and the
16 equal protection of all citizens, regardless of location or place in society, includes the right
17 to receive electric service at the lowest reasonable cost to society. Accordingly, it is
18 appropriate for the Florida Public Service Commission to consider the effects of the utilities'
19 position on all electric consumers in examining this matter to insure that all Florida citizens
20 receive reliable electric service and not just those customers who are "desirable" to investor-
21 owned utilities and municipalities. Cooperatives have been promoting the general welfare

1 and providing equal opportunity for all citizens for over 50 years and their economic viability
2 should not now be threatened through the loss of their traditional service territory.

3 If Gulf Power is allowed to acquire service territory, at its discretion, either now or later,
4 through territorial arrangements which favor its unique characteristics and advantages, Gulf
5 Coast's remaining customers will be forever relegated to a higher cost of service solely
6 because of their location and failure to be a profitable customer for Gulf Power. By that
7 action, those "undesirable" customers will be disenfranchised to the extent that they will
8 always be subject to higher rates for electric service.

9 Further, the erosion of Gulf Coast's service area compromises its ability to repay its financial
10 obligations to its lenders which, in extending financial assistance, relied upon the further
11 economic development of the customer base within Gulf Coast's traditional service area.
12 That result was not contemplated by Congress in adopting the Rural Electrification Act of
13 1935 and the Agriculture Reorganization Act of 1994. To allow Gulf Power or other
14 investor-owned utilities to acquire or infringe upon service territory developed by electric
15 cooperatives is counterproductive to the provision of reasonable electric rates for all
16 Americans, regardless of location, and contrary to the intent of Congress in enacting
17 economic and infrastructure development programs.

18 Q. Does this conclude your testimony?

19 A. Yes.

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Company)

AFFIDAVIT

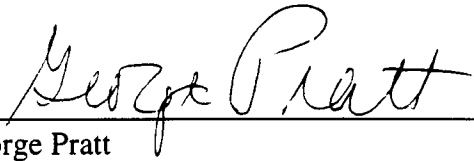
OF

GEORGE PRATT

STATE OF VIRGINIA)

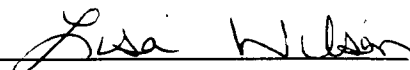
COUNTY OF FAIRFAX)

George Pratt, being first duly sworn, on oath, deposes and says that the foregoing Rebuttal Testimony in Docket No. 930885-EU was prepared by him or under his supervision and that the information contained in such testimony is true and correct to the best of his knowledge, information, and belief.



George Pratt

SWORN TO AND SUBSCRIBED before me this the 16th day of December, 1996.



Notary Public
My Commission Expires: May 3, 1998

**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 GEORGE PRATT
ON BEHALF OF
GULF COAST ELECTRIC COOPERATIVE, INC.**

Gulf Coast Electric Cooperative, Inc. (Gulf Coast) hereby files the attached original Rebuttal Testimony of George Pratt 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 George Pratt have been furnished this 20th day of December, 1996 by U.S. Mail or hand delivery to the following:

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J. PATRICK FLOYD, ESQUIRE

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

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

AFFIDAVIT
OF
GEORGE PRATT

STATE OF VIRGINIA)
COUNTY OF FAIRFAX)

George Pratt, being first duly sworn, on oath, deposes and says that the foregoing Rebuttal Testimony in Docket No. 930885-EU was prepared by him or under his supervision and that the information contained in such testimony is true and correct to the best of his knowledge, information, and belief.

George Pratt
George Pratt

SWORN TO AND SUBSCRIBED before me this the 16th day of December, 1996.

Lisa Wilson
Notary Public
My Commission Expires: May 3, 1998

DN 13628-96
12/23/96