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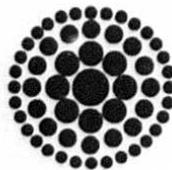
Before the
Florida Public Service Commission

In re: Joint Petition of Florida)
Power Corporation and Sebring)
Utilities Commission for Approval of)
Certain Matters in Connection with)
Sale of Assets by Sebring Utilities)
Commission to Florida Power)
Corporation.)

Docket No. 920949-EU

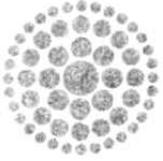
Filed: September 25, 1992

**DIRECT TESTIMONY
AND
EXHIBITS**



**Florida
Power**
CORPORATION

DOCUMENT NUMBER-DATE
11196 SEP 25 1992
PSC-RECORDS/REPORTING



Florida Power
CORPORATION

SEP 25 1992
FPC-RECORDS/REPORTING

9

James P. Fama
SENIOR COUNSEL

September 25, 1992

Mr. Steven C. Tribble, Director
Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, Florida 32399-0870

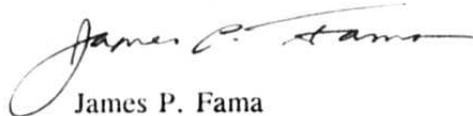
Re: Docket No. 920949-EU

Dear Mr. Tribble:

Enclosed herewith for filing with the Commission in the above-referenced docket are fifteen copies of the Direct Testimony and Exhibits of Peter Dagostino, Samuel F. Nixon, Jr., and Henry I. Southwick on behalf of Florida Power Corporation.

Please acknowledge your receipt of the above filing on the enclosed copy of this letter and return to the undersigned. Thank you for your assistance.

Very truly yours,


James P. Fama

JPF:ams
Enclosure

DOCUMENT NUMBER 171
11106 SEP 25
FPC-RECORDS/REPORTING



Before the
Florida Public Service Commission

In re: Joint Petition of Florida)
Power Corporation and Sebring Utilities) Docket No. 920949-EU
Commission for Approval of Certain)
Matters in Connection with Sale of) Filed: September 25, 1992
Assets by Sebring Utilities Commission)
to Florida Power Corporation)

DIRECT TESTIMONY
OF
PETER DAGOSTINO

Witness for
Florida Power Corporation

Before the
Florida Public Service Commission

In re: Joint Petition of Florida)	
Power Corporation and Sebring Utilities)	Docket No. 920949-EU
Commission for Approval of Certain)	
Matters in Connection with Sale of)	Filed: September 25, 1992
Assets by Sebring Utilities Commission)	
to Florida Power Corporation)	

**DIRECT TESTIMONY
OF
PETER DAGOSTINO**

1 **I. INTRODUCTION AND QUALIFICATIONS**

2

3 **Q. Please state your name and business address.**

4 A. My name is Peter Dagostino. My business address is 1150 Orange Avenue,
5 Winter Park, Florida 32790.

6

7 **Q. By whom are you employed and in what capacity?**

8 A. I am employed by Florida Power Corporation (Florida Power) in the capacity of
9 Vice President, Eastern/Mid-Florida/Ridge Divisions.

10

11 **Q. Please describe your duties and responsibilities in that position.**

12 A. I am responsible for directing all operations in the Eastern, Mid-Florida and
13 Ridge Divisions in Florida Power's eastern-most service area. This includes
14 customer service, district operations, engineering and construction, and energy
15 conservation programs.

1 Q. Please describe your educational background.

2 A. I received a Bachelor of Science degree in electrical engineering from the
3 University of Florida in 1968, and a Master of Engineering degree from the
4 University of South Florida in 1972.

5
6 Q. Please describe your professional background and experience.

7 A. I joined Florida Power in 1968 as an engineer in training, which was then
8 followed by assignments as an engineer in System Planning and System Load
9 Dispatching. In November, 1972, I became an engineer in Fuels and Special
10 Projects, and served in that position until February, 1975. From February, 1975
11 until July, 1977, I was a corporate analyst, in Economic Research. From July,
12 1977 until November, 1979, I was a Senior Fuel Engineer, in Fuels and Special
13 Projects. In November, 1979, I was appointed as Manager, Distribution
14 Engineering, where I served for approximately one year. In December, 1980, I
15 became the Northern Division Manager, in Monticello, Florida, and served in that
16 position until March, 1983. At that time, I became the Eastern Division
17 Manager, in Winter Park, which was then followed, in January, 1987, by my
18 appointment to my present position, as Vice President, Eastern/Mid-Florida/Ridge
19 Divisions, located in Winter Park.

20
21 Q. Have you previously testified before the Commission?

1 A. No. However, I once participated in a conference at the Commission on another
2 matter.

3

4 **II. PURPOSE AND SUMMARY OF TESTIMONY**

5

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

7 A. The purpose of my testimony is to: (1) explain why Florida Power wishes to
8 purchase the electric distribution system and the remainder of the electric
9 transmission system (Electric System) of Sebring Utilities Commission (Sebring);
10 (2) discuss the basic terms of the Agreement for Purchase and Sale of Electric
11 System, entered into among Florida Power, Sebring, and City of Sebring, Florida
12 (the City) with respect to the purchase of the Electric System; (3) summarize the
13 benefits to be derived by the customers of Sebring and Florida Power in the
14 Sebring area as a result of the purchase; and (4) summarize the benefits of the
15 purchase to Florida Power as a whole.

16

17 **Q. Are you sponsoring any portions of Exhibit 1, which contains the Agreement
18 for Purchase and Sale of Electric System among Florida Power, Sebring, and
19 City, dated August 28, 1992 as well as all the schedules to that Agreement?**

20 A. Yes. I am sponsoring the following portions of Exhibit 1:

1	Pages 01 to 75	Agreement for Purchase and Sale of Electric System among Florida Power, Sebring, and the City, dated August 28, 1992
2		
3		
4		
5	Pages 76 to 106	Amendment to Territorial Agreement and Termination of Settlement Agreement; Real Estate; Buildings, Plants, Facilities, Construction Work in Progress, and Other Structures and Improvements; Easements; General Plant - Office Furniture & Equipment; General Plant - Tools, Shop & Garage, and Other Miscellaneous Equipment; General Plant - Communication Equipment; General Plant - Transportation & Power Operated Equipment; Current Assets; Assigned Contracts.
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16	Pages 130 to 132	Assumed Obligations
17		
18	Pages 157 to 206	Exhibits A through D to Schedule 1.6
19		
20	Pages 583 to 628	Litigation; Terms and Conditions of Employment; Listing of Sebring Electric Distribution System Employees; Standard Florida Power Benefits Package; Form of Employment Agreement; Franchise Ordinance.
21		
22		
23		
24		
25		
26	Pages 638 to 639	Assignment and Bill of Sale
27		
28	Pages 644 to 649	Opinion Letter of City Attorney; Carlton Fields Opinion Letter.
29		

30

31 **Q. Are you sponsoring any other exhibits in this case?**

32 **A.** Yes. I am sponsoring the following exhibits, all of which are attached to my
 33 testimony:

- 34 Exhibit ___ (PD-1) Benefits to Sebring Customers of the Sale to Florida
- 35 Power
- 36
- 37 Exhibit ___ (PD-2) Florida Power's Energy Conservation Programs

1 Exhibit ___ (PD-3) Florida Power's Customer Service Programs

2

3 **Q What is the general outline of your testimony?**

4 A. The portions of my testimony that appear after Sections I and II can be
5 summarized as follows:

6 - Section III discusses the proposed sale by Sebring to Florida Power
7 including the following:

8 A. Events leading up to the purchase and sale of Sebring's
9 electric system

10

11 B. The assets being purchased by Florida Power, the
12 obligations being assumed by Florida Power, and the
13 purchase price

14

15 C. Florida Power's rate treatment of the Sebring purchase

16

17 D. Other important aspects of the transaction

18

19 E. Steps required in finalizing the transaction

20 - Section IV explains the benefits of the transaction to Florida Power and
21 Sebring and their respective customers.

22

23 **Q. Please summarize your testimony.**

24 A. Sebring and Florida Power have entered into an agreement under which Sebring
25 will sell its electric distribution system and the remainder of its electric
26 transmission system to Florida Power. The sale to Florida Power, together with
27 the sale of Sebring's water system to the City of Sebring, will enable Sebring to

1 retire its existing bonds and pay other debts and expenses. The sale to Florida
2 Power will end one of the longest-running episodes of territorial conflict before
3 the Commission, overlapping facilities, and customer confusion, and will establish
4 Commission jurisdiction over rate setting and complaint resolution in the area.
5 The sale is subject to certain approvals of the Commission, as requested by
6 Florida Power and Sebring in the Joint Petition filed in this proceeding. The sale
7 to Florida Power is in the best interests of Florida Power, Sebring, and all
8 Florida Power and Sebring electric customers.

9
10 **III. THE TRANSACTION**

11
12 **A. EVENTS LEADING UP TO THE PURCHASE AND**
13 **SALE OF SEBRING'S ELECTRIC SYSTEM**

14 **Q. Mr. Dagostino, has Florida Power entered into an agreement to purchase**
15 **Sebring's electric distribution system and the remainder of its electric**
16 **transmission system?**

17 **A. Yes. Florida Power, Sebring, and the City have entered into an Agreement for**
18 **the Purchase and Sale of Electric System, dated as of August 28, 1992 (the**
19 **"Electric System Agreement"), under which Sebring has agreed to sell the**
20 **Electric System to Florida Power. A copy of the Electric System Agreement**
21 **including all Schedules thereto has been introduced as Exhibit 1 in this**
22 **proceeding.**

1 Q. What are the circumstances that led to this Agreement?

2 A. Events leading to this Agreement began more than 11 years ago. These events
3 concern both territorial problems between Florida Power and Sebring, and
4 Sebring's financial difficulties. I will first describe the territorial problems. For
5 more than forty-five years, Florida Power and Sebring have been operating in
6 some of the same territory in the Sebring area. This has resulted, beginning
7 around 1981, in a number of serious disputes, most of which have been brought
8 before this Commission, as well as tremendous duplication of power lines and
9 other facilities in the area. In December, 1986, following complaints by certain
10 residents in the Sebring area and a Commission investigation, Sebring and Florida
11 Power entered into a Territorial Agreement. The Territorial Agreement, which
12 has a term of approximately 20 years: (a) allocates to Florida Power certain areas
13 in Highlands County as Florida Power's retail electric service territory; (b)
14 allocates to Sebring other areas in the City of Sebring and Highlands County as
15 Sebring's retail electric service territory; and (c) specifies under what
16 circumstances Florida Power and Sebring each retain the right and obligation to
17 continue to provide retail electric service at existing points of delivery or meters
18 which were in the retail service areas of the other party at the time the Territorial
19 Agreement became effective. The Territorial Agreement also provides for Florida
20 Power and Sebring to use reasonable efforts to eliminate, during the term of the
21 Territorial Agreement, electric services by either party in the retail service areas

1 of the other party. The Commission approved the Territorial Agreement in Order
2 No. 18018, issued August 20, 1987, in Docket No. 86-1596-EU.

3

4 **Q. Did the execution of this Territorial Agreement mark the end of disputes
5 between Sebring and Florida Power?**

6 A. Unfortunately that was not the case. In 1987, in Order No. 17215, in Dockets
7 No. 61596-EU and 85-0605-EU, the Commission directed Florida Power and
8 Sebring to report on proposals for resolving overlapping services, duplication of
9 facilities, and potential safety hazards. Eventually, in May 1988, Sebring and
10 Florida Power filed with the Commission a Joint Plan to Resolve Overlapping
11 Services (the "Joint Plan"), the purpose of which was to implement the Territorial
12 Agreement and to resolve overlapping services in the Sebring area. The Joint
13 Plan was approved by the Commission in Order No. 19432, in Docket No.
14 850605-EU, on June 6, 1988.

15

16 **Q. Have other disputes between Florida Power and Sebring been resolved since
17 June 1988?**

18 A. Yes. In October of 1990, Florida Power and Sebring resolved their outstanding
19 disputes, except the question of whether Florida Power or Sebring would serve
20 the Sebring Airport, which is the subject matter of a pending court suit. The
21 parties entered into a Settlement Agreement in Commission Docket No. 891034-

1 EU, in which the parties agreed to (a) terminate the Joint Plan, (b) eliminate
2 duplicate facilities, and (c) resolve substantially all of the other outstanding
3 disputes between them. Under the Settlement Agreement, elimination of duplicate
4 facilities would take place over an extended period of time, perhaps as long as 17
5 years. The Settlement Agreement was approved by Commission Order 23823,
6 in Docket No. 891034-EU, issued on December 4, 1990.

7
8 **Q. Please describe Sebring's financial difficulties which led to the Electric
9 System Agreement.**

10 **A.** Sebring's past and present financial difficulties are addressed in detail in the
11 testimony of Sebring's witness, Mr. Joseph Calhoun, Sebring's General Manager.
12 Therefore, I will touch only briefly upon the financial concerns leading up to the
13 Electric System Agreement.

14
15 Since about 1984, Sebring has encountered tremendous financial difficulties,
16 primarily because of the amount of its outstanding bond debt. As a result of
17 extremely high principal and interest payments on Sebring's debt, Sebring's retail
18 electric rates are the highest in Florida and among the highest in the nation.

19
20 In 1990, Sebring decided that it would try to sell its assets in order to pay off its
21 bonds and other debts. In 1991, Sebring sold its electric generating plants, and

1 most of its transmission system, to Tampa Electric Company ("TECO").
2 Thereafter, by request for proposals dated May 15, 1991, Sebring requested
3 interested parties to submit proposals for the purchase of Sebring's assets. The
4 request for proposals stated Sebring's preference that all of its bonds be paid in
5 full and requested interested parties to state in their offer how the bonds would
6 be paid.

7
8 Florida Power submitted a proposal, dated June 28, 1991, to purchase Sebring's
9 electric distribution system and the portion of Sebring's transmission system not
10 purchased by TECO. Sebring selected Florida Power's proposal and, after
11 extensive and protracted negotiations, Florida Power, Sebring, and the City have
12 entered into the Electric System Agreement.

13
14 **Q. Does the sale of Sebring's assets include sale of its water distribution system?**

15 **A.** Yes. Sebring and the City have entered into an Agreement for the Purchase and
16 Sale of the Water System, dated as of August 28, 1992 (the "Water System
17 Agreement"), under which Sebring will sell its water system to the City for
18 \$21,500,000. The closing under the Water System Agreement is to occur
19 simultaneously with the closing under the Electric System Agreement.

1 **B. THE ASSETS BEING PURCHASED BY FLORIDA POWER,**
2 **THE OBLIGATIONS BEING ASSUMED BY FLORIDA**
3 **POWER, AND THE PURCHASE PRICE**

4 **Q. Please summarize the assets to be acquired by Florida Power, the obligations**
5 **of Sebring to be assumed by Florida Power, and the purchase price**
6 **provisions under the Electric System Agreement.**

7 **A. Under the Electric System Agreement, Florida Power will purchase the Electric**
8 **System, including the exclusive right, as between Sebring and Florida Power, to**
9 **operate an electric distribution system in Sebring's service area. Florida Power's**
10 **purchase includes land, buildings, facilities, construction work-in-progress,**
11 **assignment of certain easements, tangible personal property, including furniture,**
12 **furnishings and equipment, certain current assets, and certain intangibles,**
13 **including amounts owed to Sebring as of the closing date for electricity provided**
14 **but not yet billed, certain contract rights, and any "going concern" value**
15 **determined by the Commission to be a prudent Florida Power investment. As**
16 **provided under Section 1.2 of the Electric System Agreement, Florida Power will**
17 **not purchase any of the assets of Sebring's water system.**

18
19 **Q. What obligations of Sebring will be assumed by Florida Power?**

20 **A. Florida Power will assume Sebring's obligations to repay electric customer**
21 **deposits that are outstanding on the closing date and certain of Sebring's**
22 **contractual obligations, as provided in Section 1.3 of the Agreement.**

1 Q. What is the purchase price being paid by Florida Power?

2 A. Section 2.1 of the Electric System Agreement provides for a purchase price
3 comprised of three components: (1) a Base Purchase Price, (2) an Additional
4 Purchase Price, and (3) an amount sufficient to repay Sebring's electric customer
5 deposits.

6

7 The Base Purchase Price, which will not exceed \$54 million, is the amount
8 necessary to repay in full all of Sebring's outstanding bonds after applying to the
9 payment of the bonds (1) the \$21.5 million purchase price that the City will pay
10 for the water system, and (2) the balance of Sebring's funds. Florida Power
11 estimates that the Base Purchase Price will be \$54 million.

12

13 The Additional Purchase Price consists of the sum of the following items:

- 14 (a) an amount, not to exceed \$750,000, necessary to enable Sebring to pay its
15 remaining debts and expenses;
- 16 (b) amounts owed by Sebring for purchases of electric power under a
17 requirements contract with TECO (the "TECO Power Purchase
18 Agreement"); and
- 19 (c) after closing, up to an additional \$16,000 to pay Sebring's miscellaneous
20 debts and expenses.

1 Q. Will all of Sebring's outstanding bonds be paid in full as a result of Florida
2 Power's purchase of the Electric System and the City's purchase of the water
3 system?

4 A. Yes. In addition to the purchase price to be paid by Florida Power, \$21.5 million
5 will be paid by the City under the Water System Agreement, and the balance of
6 Sebring's reserve funds will be deposited with an escrow agent under an escrow
7 agreement. These funds will be applied to retire the outstanding bond debt.

8

9 **C. FLORIDA POWER RATE TREATMENT OF THE SEBRING PURCHASE**

10 Q. What portion of the purchase does Florida Power intend to include in its rate
11 base?

12 A. Subject to Commission approval in this proceeding, Florida Power will include
13 in its rate base that portion of the purchase price equal to the depreciated net book
14 value of certain of Sebring's assets (the "Rate Base Assets") as of the closing
15 date. Sebring's audited financial statement as of September 30, 1991, a copy of
16 which is included as Exhibit E to Schedule 1.6 of Exhibit 1 in this proceeding and
17 is also an exhibit to the testimony of Ms. Nancy Holloway, Sebring's Chief
18 Financial Officer, states that the depreciated net book value as of
19 September 30, 1991, is \$17,813,753. Generally speaking, the "Rate Base Assets"
20 will include all assets of the Electric System other than Florida Power's exclusive
21 right to operate an electric distribution system in Sebring's former territory,

1 assigned contracts, and certain other intangible assets. A more detailed
2 description of the Rate Base Assets is contained in the testimony of Sebring's
3 witnesses, Ms. Nancy Holloway and Mr. David J. Rumolo. The prudence of
4 acquiring the Rate Base Assets is discussed in the testimony of Florida Power's
5 witness, Mr. Henry I. Southwick.

6

7 **Q. Which Sebring assets is Florida Power acquiring in addition to the Rate Base**
8 **Assets?**

9 A. Florida Power is acquiring (1) the exclusive right to operate an electric
10 distribution system in Sebring's service area, and (2) certain other intangible
11 assets of Sebring, such as assigned contracts, that are not includible in the Rate
12 Base Assets.

13

14 **Q. Does Florida Power plan to include in its rate base any "going concern" value**
15 **determined by the Commission to be a prudent Florida Power investment?**

16 A. Yes. The quantification of "going concern" value is sponsored in this case by
17 Sebring witness Mr. Gerald E. Warren. Florida Power believes that the Sebring
18 acquisition has inherent value beyond the tangible assets of the Electric System.
19 However, in order to allow this value to be realized, the Commission must allow
20 Florida Power to place the amount of such going concern in its rate base. Hence,
21 Florida Power and Sebring have agreed that any going concern value determined

1 by the Commission to be a prudent Florida Power investment will be included in
2 Florida Power's ratebase. This issue of ratebasing going concern value is
3 addressed in the testimony Florida Power witness Mr. Henry I. Southwick.
4

5 **Q. Will former Sebring customers be charged a rate in addition to those rates**
6 **paid by other Florida Power customers?**

7 A. Yes. Former Sebring customers will be charged Florida Power's applicable rate
8 as well as a rate rider which is described in the Electric System Agreement as the
9 "Transition Rate." Florida Power seeks approval of this rate rider, which is
10 embodied in the Rate Schedule SR-1 Sebring Rider (the "SR-1 Rate Rider")
11 sponsored by Florida Power witness Mr. Samuel Nixon.
12

13 **Q. What is the purpose of the SR-1 Rate Rider?**

14 A. The SR-1 Rate Rider is a rate sufficient to allow Florida Power to recover from
15 certain customers in the Sebring area over a period of approximately, but not
16 exceeding, 15 years, the sum of:

17 (a) the amount by which:

18 (1) the Purchase Price, exceeds

19 (2) the depreciated net book value as of the closing date of the Rate
20 Base Assets plus any "going concern" value determined by the
21 Commission to be a prudent Florida Power investment;

- 1 (the "Purchase Price Balance");
- 2 (b) Florida Power's costs incurred in issuing its medium term notes to finance
- 3 the purchase of the Electric System;
- 4 (c) Florida Power's interest expenses to be paid during the term of the
- 5 medium term notes; and
- 6 (d) certain fees and taxes related to the above items.

7 These four items, cumulatively, are described in the Electric System Agreement

8 as the "Transition Amount".

9

10 **Q. Which retail electric customers will be subject to the SR-1 Rate Rider?**

11 A. Generally speaking, the customers that will be subject to the SR-1 Rate Rider will

12 be existing retail electric customers and new customers in the former Sebring

13 territory, except that the SR-1 Rate Rider will not apply to customers in the

14 Sebring Airport area. The testimony of Florida Power's Mr. Samuel Nixon will

15 describe in more detail to whom and how the SR-1 Rate Rider will apply.

16

17 **Q. What is the initial estimated amount to be collected over time under the SR-1**

18 **Rate Rider?**

19 A. The initial estimate is \$68,976,000 which will be reduced by the "going concern"

20 value that the Commission determines is a prudent Florida Power investment.

1 Q. What is the initial SR-1 Rate Rider proposed in this case?

2 A. The initial estimated rate is \$21.80 per 1,000 kWh, and a proportionate amount
3 thereof for a fraction or portion of 1,000 kWh.

4

5 Q. Will the SR-1 Rate Rider be subject to adjustment?

6 A. Yes. From time to time, the SR-1 Rate Rider will be subject to increase or
7 decrease, as determined by the Commission and as provided in the Electric
8 System Agreement and the Joint Petition, to the extent necessary to reflect (a) the
9 final difference between (1) the Purchase Price and (2) the depreciated net book
10 value of the Rate Base Assets plus any amount for "going concern" value
11 determined by the Commission to be a prudent Florida Power investment; (b)
12 Florida Power's final costs incurred in issuing its medium term notes in
13 connection with the purchase of the Electric System; (c) Florida Power's interest
14 expenses to be paid during the term of the medium term notes; (d) regulatory
15 assessment fees, gross receipts taxes, and certain other revenue related taxes on
16 the foregoing amounts; and (e) the forecast from time to time of sales of
17 electricity to customers that are subject to the SR-1 Rate Rider. Adjustments will
18 be made so that the total amount to be collected under the SR-1 Rate Rider will
19 be collected during a period of approximately, but not exceeding, 15 years after
20 the closing date.

1 Q. How often will the SR-1 Rate Rider be adjusted?

2 A. Subject to Commission approval in this proceeding, Florida Power and Sebring
3 have agreed that the SR-1 Rate Rider will be reviewed periodically along with a
4 review of Florida Power's other rates. It is anticipated that this review and
5 resetting of rates will occur no less frequently than every four years. This is
6 discussed in greater detail in the testimony of Mr. Nixon.

7

8 D. OTHER IMPORTANT ASPECTS OF THE TRANSACTION

9 Q. Will Florida Power assume Sebring's obligations under the TECO Power
10 Purchase Agreement?

11 A. Yes. Florida Power has agreed in the Electric System Agreement to assume
12 Sebring's obligations under the TECO Power Purchase Agreement. This matter
13 is discussed in the testimony of Mr. Southwick.

14

15 Q. Will Florida Power borrow any funds to finance the purchase of the Electric
16 System?

17 A. Yes. As discussed in the testimony of Mr. Nixon, Florida Power will borrow,
18 under its medium term note program, an amount necessary to finance the
19 Purchase Price Balance. The portion of the Purchase Price associated with the
20 Rate Base Assets plus any "going concern" value determined by the Commission
21 to be a prudent Florida Power investment, will be financed in the same manner

1 as any other capital investment made by Florida Power using the most appropriate
2 source of funds at the time the transaction occurs.

3

4 **Q. What will give Florida Power the right to operate the Electric System?**

5 A. Under an Amendment to Territorial Agreement and Termination of Settlement
6 Agreement, entered into by Florida Power and Sebring as of August 28, 1992,
7 a copy of which is attached as Exhibit D to Schedule 1.6 of Exhibit 1 in this
8 proceeding (pages 203 through 206 of Exhibit 1), and subject to Commission
9 approval in this proceeding, Florida Power will have the exclusive right, as
10 between Florida Power and Sebring, to operate an electric distribution system in
11 Sebring's retail electric service territory.

12

13 In addition, the City has agreed, under the Electric System Agreement, to grant
14 to Florida Power a 30 year franchise to operate an electric distribution system
15 within the City of Sebring.

16

17 Florida Power will apply to the Federal Energy Regulatory Commission for
18 approval to acquire and operate Sebring's remaining electric transmission system.

19

20 Finally, under the Electric System Agreement, and subject to Commission
21 approval, Sebring has agreed to assign to Florida Power all of Sebring's rights

1 under a Territorial Agreement dated February 19, 1987 between Sebring and
2 Glades Electric Cooperative, Inc.

3

4 **Q. Will Florida Power offer employment to the employees of Sebring's electric
5 distribution system?**

6 A. Yes. Under Section 5.1 of the Purchase and Sale Agreement, Florida Power will
7 offer employment to Sebring's electric distribution system employees on terms
8 that are more favorable, generally speaking, than under their existing employment
9 with Sebring. The terms of employment are set forth in Schedules 5.1, 5.1-A,
10 5.1-B, and 5.1-C of the Electric System Agreement.

11

12 **Q. Will Florida Power establish any facilities in the former Sebring retail electric
13 service territory?**

14 A. Yes. As provided in Section 5.3 of the Agreement, as soon as practical following
15 the closing, Florida Power will establish and operate (a) a business office in the
16 City of Sebring to provide ready access to the former Sebring customers to pay
17 their electric bills or to meet with customer service personnel, and (b) an
18 operations center in Highlands County, Florida.

- 1 - The assignment by Sebring to Florida Power of Sebring's entire right,
2 title, and interest under the Glades Agreement;
3 - The purchase by Florida Power of the Rate Base Assets, under the terms
4 of the Electric System, as a prudent investment;
5 - The Capacity Cost Recovery of the TECO Power Purchase Agreement.

6 In addition, the Federal Energy Regulatory Commission shall have issued all
7 necessary approvals in connection with the transaction, and any waiting or appeal
8 periods required for the final effectiveness of the Commission's order containing
9 the approvals I have described above and FERC's order shall have expired.

10

11 **Q. When will the closing of the transaction occur under the Electric System
12 Agreement?**

13 **A.** Pursuant to Section 10.1 of the Electric System Agreement, the closing will occur
14 within 10 days after all of the conditions precedent set forth in Articles VIII and
15 IX of the Electric System Agreement shall have been satisfied or waived, or upon
16 such other date as Sebring and Florida Power shall agree in writing.

17

18 **Q. Are there any circumstances under which the Electric System Agreement may
19 be terminated by Sebring or Florida Power?**

20 **A.** Yes. In addition to a termination by mutual written agreement between Sebring
21 and Florida Power, or a termination resulting from a breach by either party of its

1 obligations under the Electric System Agreement, the Electric System Agreement
2 may be terminated under any of the following circumstances:

- 3 (1) by either Sebring or Florida Power if closing shall not have occurred on
4 or before June 30, 1993;
- 5 (2) by either Sebring or Florida Power if a hearing officer appointed by the
6 Commission fails to issue an order with respect to the Joint Petition within
7 90 days after the filing thereof; or
- 8 (3) if the hearing officer's order fails to include provisions imposing a
9 Transition Rate (the SR-1 Rate Rider) computed as provided for in Section
10 5.4 (a) through (d) of the Electric System Agreement, or fails to include
11 a provision allowing Florida Power to recover from Florida Power's
12 general body of ratepayers certain amounts which will be paid by Florida
13 Power to TECO under the TECO Power Purchase Agreement, which
14 Florida Power has agreed to assume.

15
16 **Q. Why does the Agreement contemplate a hearing officer's order within such**
17 **a short period of time, that is, 90 days?**

18 **A.** The Joint Request to Initiate Proceedings and Establish Expedited Case Schedule
19 filed by Sebring and Florida Power in this proceeding sets forth reasons why such
20 expedited treatment is necessary. Sebring witness Ms. Nancy L. Holloway
21 describes in more detail why expedited treatment is necessary.

IV. BENEFITS OF THE TRANSACTION

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Q. What benefits will be realized by Florida Power and its customers as a result of Florida Power's purchase of the Electric System?

A. Florida Power and its customers will realize the following benefits:

(1) Elimination of overlapping facilities. While the Settlement Agreement was intended to eliminate overlapping facilities over an extended period of time, i.e., up to 17 years, Sebring's service territory is in the middle of our Avon Park and Lake Placid districts. Thus, Florida Power's facilities not only surround Sebring's facilities but, in many cases, are also intermingled with Sebring's facilities, which often makes it difficult to determine which utility serves a particular customer. This problem will be eliminated as a result of Florida Power's purchase of the Electric System. Efficiencies in time and cost savings resulting from this elimination of confusion will enhance service to all customers in the Sebring area.

(2) Elimination of burdensome recordkeeping and accounting. Under the Territorial Agreement and Settlement Agreement, the recordkeeping and accounting requirements necessary to document consumptive load and the transfer of customers between the two

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utilities has become burdensome and inefficient. Removing this difficulty will not only benefit Florida Power and Sebring but the affected customers as well.

(3) Deferring or eliminating construction. Florida Power will be able to defer, or possibly eliminate, construction of a planned distribution substation.

(4) Consolidation of resources. Sebring's service area lies in the middle of Florida Power's Ridge Division. By combining resources, Florida Power will be able to better utilize its personnel, material, and transportation resources. In this regard, Sebring's employees will be a valuable resource to Florida Power because of their knowledge and experience. We believe they will be of great assistance in implementing Florida Power's Energy Efficiency programs. Florida Power's purchase of Sebring's assets will include the acquisition of the customer service office located in Sebring. Through that office, Florida Power's current customers in the Sebring area will be able to receive more convenient service because of the more centralized location. We plan to open an operations center in Sebring, which will improve response time to reconnect or restore service.

1 (5) Enhancement to Florida Power's service territory. The purchase
2 of the Electric System will give Florida Power a desirable service
3 territory with good economic development potential. Sebring
4 residents pride themselves in strengthening the quality of life and
5 bringing new business and industry to the area. A large mall
6 recently constructed is one example of the growth potential in the
7 Sebring area. The combining of the resources of our two utilities
8 will assist in the continued economic prosperity of the entire
9 Central Florida area.

10
11 **Q. Will there be any electric rate benefits to Sebring's existing customers as a
12 result of Florida Power's purchase of the Electric System?**

13 **A. Yes.** Sebring's electric rates are the highest in the State of Florida and among the
14 highest in the nation. After the acquisition, Sebring's former customers will pay
15 Florida Power's standard rate plus the SR-1 Rate Rider and still receive an overall
16 rate reduction. For example, former Sebring residential electric customers will
17 receive a rate reduction of approximately \$17.00 per 1,000 kWh, plus an
18 additional reduction of up to \$14.00 per month for customers participating in
19 Florida Power's load management program (based on Florida Power's and
20 Sebring's rates currently in effect). Sebring's commercial customers will be able
21 to take advantage of the savings from a wide variety of commercial rates offered

1 by Florida Power which are not available from Sebring. Mr. Nixon's testimony
2 will demonstrate the substantial reduction in rates to become available to
3 Sebring's customers.

4
5 **Q. What other benefits will Sebring's former customers realize as a result of this**
6 **purchase?**

7 A. All customers in Sebring and surrounding areas, including Sebring's former
8 customers, will be served by the same utility, which is expected to expand the
9 economy of the Sebring area, and result in a consistent treatment of customers in
10 the area. Confusion over which utility to call will be eliminated. The disparity
11 in property values resulting from two utilities with vastly different rates operating
12 in the same area will be minimized and eventually eliminated when the SR-1 Rate
13 Rider expires. Potential property buyers will be assured that their electric rates
14 will be competitive regardless of the specific location they choose. Exhibit ____
15 (PD-1) to my testimony sets forth many additional benefits to become available
16 to Sebring's customers.

17

18 **Q. Will Florida Power offer its Load Management program to Sebring's former**
19 **customers after the closing?**

20 A. Yes. Pursuant to Section 5.2 of the Electric Service Agreement, in addition to
21 Florida Power's customer service programs and customer assistance programs that

1 I have listed in the previous question, Florida Power's energy efficiency
2 programs, including Florida Power's load management program, will become
3 available to Sebring's former customers. These programs, which are described
4 in more detail in my Exhibit ____ (PD-2) attached to this testimony, will give
5 Sebring's former customers the opportunity to lower their rates and enhance their
6 service.

7

8 **Q. Does Florida Power offer any customer service programs that are not**
9 **currently available to Sebring customers?**

10 A. Yes. Former Sebring customers will be able to take advantage of more than a
11 dozen Florida Power customer service programs, many of which are aimed at
12 serving the needs of retired and elderly persons. A summary of these programs
13 is set forth in Exhibit ____ (PD-3).

14

15 **Q. Will any other benefits be realized as a result of this purchase?**

16 A. Yes. From a regulatory viewpoint, one of the longest-running episodes before
17 the Commission of territorial conflict and confusion will be resolved as a result
18 of the acquisition. The establishment of Commission jurisdiction will also
19 provide regulatory review over rate setting and complaint resolution in the area.
20 The burdens of two utilities attempting to serve their respective customers within
21 intermingled service territories will no longer exist. Customer service satisfaction

1 will be enhanced and rates and property values will be greatly improved. In
2 summary, we believe this purchase will benefit everyone concerned.

3

4 **Q. Does this conclude your testimony?**

5 **A. Yes, it does.**

EXHIBITS SPONSORED
BY
PETER DAGOSTINO

BENEFITS TO FORMER SEBRING CUSTOMERS
AS A RESULT OF THE SALE TO FLORIDA POWER

- * Florida Power offers customers many services that Sebring does not have. Many of these services are in the area of bill paying and credit transactions.

- * Florida Power pays an annual interest rate of 8% on all customer deposits. Currently, Sebring only pays 5%.

- * Florida Power has an on-line-cash system where a customer's bill payment is immediately posted to the customer's account.

- * Florida Power does not charge for late paying of the account or if the account appears on the disconnect list. The customer only pays a reconnect charge if the power is disconnected for non-payment.

- * Florida Power utilizes front line customer service representatives who are empowered to grant credit extensions either in person or over the telephone without supervisory approval.

- * With Florida Power, customers will have more options as to where to pay their electric bills or deposits since they will be able to make payments at any Florida Power district office or payment collection site. In addition, as a customer convenience, Florida Power accepts payment of both electric and/or deposit bills with Mastercard or Visa.

- * All Florida Power front counter employees are full service customer service representatives. They handle all customer activities including bill payment, service order requests, billing information and energy conservation questions.

- * Florida Power offers a toll free telecommunications device for the deaf and is available for hearing impaired customers who contact the company.

- * Since Florida Power is regulated by the Florida Public Service Commission, customers with concerns that cannot be handled at the local level will have a formal regulatory agency with whom to direct their inquiries or file official complaints. After the acquisition, former Sebring customers will also have this accessibility to the Commission. Florida Power strives to be customer-driven and, as a result, has had the lowest justified complaints per 1,000 customers of the electric investor owned utilities in Florida in 1991 and YTD in 1992.

- * Florida Power performs extensive questioning and surveying of its customers through the use of focus groups, customer and business advisory panels, quarterly customer opinion surveys and quarterly customer service surveys. All of these channels are used to obtain customers' opinions, ideas and suggestions so that energy issues can be addressed as a shared concern with more positive outcomes and solutions.

FLORIDA POWER ENERGY CONSERVATION PROGRAMS

Florida Power has many energy conservation programs for our residential, commercial and industrial customers. The most popular program is our residential Load Management program. This is a voluntary program that allows Florida Power to turn off selected energy using equipment for short intervals during peak electrical hours. The customer receives a credit on his or her monthly electric bill depending on the equipment and schedule selected. Many of the programs offered to customers are listed below.

Home Energy Check - a certified Florida Power representative performs a free energy check by examining the home structure and energy-using equipment. The customer is given information on the cost of any recommended repairs or equipment and how much the energy savings would be.

Home Energy Analysis - a more extensive energy check where the customer receives a computerized analysis covering the costs and energy savings of recommended measures and practices for that residence.

Home Energy Fixup Program - if recommended during a Home Energy Check, and agreed to by the customer, Florida Power arranges for a contractor to do low-cost energy improvements to the home. Florida Power pays half the cost of this work up to a maximum of \$75.00.

Residential Load Management - a voluntary program that allows Florida Power to turn off selected energy-using equipment for short intervals during peak electrical hours. The customer receives a credit on their monthly electric bill depending on the equipment and schedule selected.

Comfort Cash Loan - if the Home Energy Check determines that major improvements are needed to conserve energy, Florida Power will assist in obtaining a low interest loan.

Air-Conditioning Duct Test & Repair - a pressure test is performed on the central duct work system to identify any air leaks that could cause energy loss. Florida Power will pay half of the cost of the test and up to \$125.00 for repairs.

Insulation Upgrade - if insulation in the ceiling/attic is less than R-12, Florida Power will pay half of the cost up to \$75.00 to have the insulation improved to a minimum of R-19.

HVAC Service (Heating, Ventilation and Air Conditioning) - if the Home Energy Check indicates the need for air-conditioning or heat pump service, Florida Power will give the customer a \$5.00 certificate toward this service.

HEATWORKS Heating Storage System - water is heated in a dedicated storage thermal tank during off-peak hours. During periods of high demand, the domestic heating system is interrupted, and heating from HEATWORKS is available in place of the customer's regular heating system.

Business Energy Check - an inspection of a commercial/industrial facility's lighting, building, water heating system, heating, ventilating, air conditioning and other energy-using systems. The customer is given information on the cost of any recommended repairs or equipment and how much the energy savings would be.

Business Energy Analysis - an in-depth computer-assisted analysis of a commercial/industrial customer's facility. Identifies energy consumption and makes written recommendations on how to improve energy efficiency. Includes information on costs, energy savings and payback for alternate recommendations.

Business Energy Fixup - provides minor weatherization repairs identified in a Business Energy Check with a maximum payment of \$100.00.

Interior Lighting and Conversion - provides rebates to business customers who install pre-approved lighting products designed to reduce energy consumption and demand.

Motor Replacement Rebate - offers an incentive to customers to replace inefficient motors with high efficiency types.

FLORIDA POWER CUSTOMER SERVICE PROGRAMS

Average Billing Program - this program offers residential customers the option of paying levelized bills as opposed to actual monthly usage. Customers are permitted to participate in the program at any time without a length of service requirement.

Energy Neighbor Fund - contributions made to this fund helps customers pay their energy bill during a financial crisis. Customers voluntarily contribute money when they pay their monthly electric bill. Donations are matched by stockholder funds and sent to non-profit agencies for distribution in participating counties.

Summary Billing - is a method of consolidating electric bills for commercial and industrial customers who have more than ten accounts. The customers receive a maximum of three summary billing statements per month.

Senior to Senior - is especially designed for our senior citizens. This program addresses specific needs and concerns through an array of educational and informative presentations and services.

Gatekeeper Program - customer contact employees are trained to recognize warning signs that indicate special assistance may be needed. Florida Power makes a referral to the appropriate social service agency on the senior's behalf.

Elderly Customer Awareness - we provide training for employees who work with senior customers in order for them to better understand the special needs of our elderly customers.

Speakers Bureau - employees go to civic organizations and residential communities to make presentations on energy-related topics to encourage customers to take advantage of our conservation programs.

Visually Impaired Program - we install raised markings on the controls for the customer's stove, microwave oven and thermostat, so he/she can use the appliances efficiently and safely.

Third Party Notification - if the customer gives us the name of a third party to contact, we will notify them if the customer's bill should become delinquent.

POWERCARE - a phone call from the hospital to us, and our representatives will put a hold on the customer's account until after the customer is discharged.

Neighborhood Radio Watch - any Florida Power vehicle that has a Neighborhood Radio Watch sign on it, will use their radio equipment to call for assistance for customers during an emergency.

Hands Across the Ages - brings young people and senior adults together to increase their understanding and acceptance of aging as a natural and exciting process.

Vial of Life - an identification program to provide medical information about a person that can be used in an emergency.

Before the
Florida Public Service Commission

In re: Joint Petition of Florida)
Power Corporation and Sebring Utilities)
Commission for Approval of Certain)
Matters in Connection with Sale of)
Assets by Sebring Utilities Commission)
to Florida Power Corporation)

Docket No. 920949-EU

Filed: September 25, 1992

DIRECT TESTIMONY
OF
SAMUEL F. NIXON, JR.

Witness for

Florida Power Corporation

Before the
Florida Public Service Commission

In re: Joint Petition of Florida)	
Power Corporation and Sebring Utilities)	Docket No. 920949-EU
Commission for Approval of Certain)	
Matters in Connection with Sale of)	Filed: September 25, 1992
Assets by Sebring Utilities Commission)	
to Florida Power Corporation)	

DIRECT TESTIMONY
OF
SAMUEL F. NIXON, JR.

I. INTRODUCTION AND QUALIFICATIONS

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Q. Please state your name and business address.

A. My name is Samuel F. Nixon, Jr. My business address is Post Office Box 14042, St. Petersburg, Florida 33733.

Q. By whom are you employed and in what capacity?

A. I am employed by Florida Power Corporation (Florida Power) in the capacity of Director of the Rate Department.

Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Science Degree in Engineering (Mechanical) from Virginia Polytechnic Institute and State University in 1973. Since beginning my employment with Florida Power in June, 1973, I have held various engineering positions in the Production, System Operations, and System Planning

1 departments. I held the position of Supervisor, Rate Design and Administration
2 from 1981 through 1989, and Manager, Generation Planning, during 1990. I
3 have been in my current position as Director of the Florida Power's Rate
4 Department since December, 1990.

5

6 **Q. What are the responsibilities of your present position?**

7 A. I am responsible for directing all activities of the Rate Department including
8 preparation of the cost of service studies, rate design, and tariff administration.

9

10 **II. PURPOSE AND SUMMARY OF TESTIMONY**

11

12 **Q. What is the purpose of your testimony in this proceeding?**

13 A. The purpose of my testimony is threefold: (1) to explain Florida Power's
14 proposed Rate Schedule SR-1, Sebring Rider; (2) to demonstrate potential
15 customer benefits using a comparison of customer bills that show Sebring rates
16 versus Florida Power rates; and (3) to describe the integration of customers into
17 Florida Power's rate structure and to discuss other applicable rates and charges.

18

19 **Q. Are you sponsoring any portions of Exhibit 1, which contains the Agreement**
20 **for Purchase and Sale of Electric System among Florida Power, Sebring**

1 A. The portions of my testimony that appear after Sections I and II are as follows:
2 Section III discusses the derivation of Rate Schedule SR-1, Sebring Rider.
3 Section IV discusses the implementation of the Rate Schedule SR-1. Section V
4 discusses the integration of Sebring customers into Florida Power's current rate
5 structures and the rate benefits for Sebring customers by becoming Florida Power
6 customers.

7
8 **Q. Please summarize your testimony.**

9 A. As part of the acquisition of the Sebring system, Florida Power will provide the
10 necessary funds above the value of the electric system to allow for the retirement
11 of Sebring's debt. In order for Florida Power to recover these costs, Florida
12 Power will assess former Sebring customers a charge (the Sebring Rider), in
13 addition to their normal electric charges. The Rider will be based on a formula
14 which will change over time, subject to Commission review and approval. Even
15 with the Rider, after the acquisition Sebring residential and commercial customers
16 can expect to pay significantly lower rates than they pay today. Florida Power's
17 current set of rate schedules is more numerous and contains more options than
18 Sebring's current set of rates. Converting Sebring customers to Florida Power's
19 rate schedules generally will be beneficial to Sebring customers.

1 **III. DERIVATION OF RATE SCHEDULE SR-1, SEBRING RIDER**

2

3 **Q. What rate or rates will Florida Power apply to the acquired customers?**

4 A. Acquired customers will be charged a rate under Florida Power's effective tariffs
5 plus an additional rate (Sebring Rider). See Exhibit 1 to this proceeding,
6 Schedule 1.6, Rate Schedule SR-1, page 156.

7

8 **Q. What is the rate for the Sebring Rider?**

9 A. The Sebring Rider is initially established at 2.126 cents per kWh, before
10 consideration of any going concern value.

11

12 **Q. What is Florida Power's ratemaking objective with respect to the Sebring
13 Rider?**

14 A. The Sebring Rider is a formula rate designed to recover:

15 (1) the capital which allows Sebring to retire its debt and cease
16 operations; plus

17 (2) the interest and other expenses incurred by Florida Power
18 associated with the capital to be recovered by the Sebring Rider;

19 plus

20 (3) other revenue related taxes.

1 Q. Does the other revenue related taxes include income taxes?

2 A. No.

3

4 Q. Please define the amount of capital to be recovered by the Sebring Rider.

5 A. The amount of capital to be recovered by the Sebring Rider is the difference
6 between:

7 (1) the Purchase Price; and

8 (2) the depreciated net book value of the Rate Base Assets *plus* any
9 going concern value determined by the Commission to be a prudent
10 Florida Power investment.

11

12 Q. Is the exact capital amount to be recovered by the Sebring Rider known at
13 this time?

14 A. No. Several elements of the transaction will not be known until after the closing
15 and a final audit. Various factors influencing these elements are Sebring's sales
16 revenues and operating expenses, plant additions and going concern value.

17

18 Q. What capital amount was used in developing the Sebring Rider Rate of 2.126
19 cents per kWh?

1 A. \$38,134,631 is the amount used in the Sebring Rider without the consideration of
2 any going concern value. The capital amount is shown in Exhibit ___ (SFN-1),
3 Sebring Rider (SR-1) Rate Calculation Worksheet attached to my testimony.
4

5 **Q. How does Florida Power plan to finance the final capital requirement amount**
6 **associated with the Sebring Rider?**

7 A. This amount will be 100% debt financed through medium term notes discussed
8 in the prospectus which is Exhibit ___ (SFN-2), Prospectus, Florida Power
9 Corporation Medium-Term Notes, Series B, attached to my testimony.
10

11 **Q. Has Florida Power used medium term notes previously?**

12 A. Yes. The current medium term note program is the second such program for
13 Florida Power. The first program (Series A) was in 1988, in the amount of
14 \$200,000,000.
15

16 **Q. Is the second medium term note program limited to this transaction?**

17 A. No. Florida Power currently has on file with the Securities and Exchange
18 Commission a shelf registration to issue up to \$200,000,000 Medium-Term
19 Notes, Series B. The capital requirement for the Sebring Rider will be one use
20 of this note program. The balance will be used for the reduction of short term
21 debt and for other general corporate purposes.

1 **Q. Will the medium term notes associated with the acquisition of Sebring be**
2 **handled separately from the balance of the medium-term notes, Series B**
3 **proceeds used in other Florida Power capital requirements?**

4 A. Yes. For the Sebring Rider, twenty-nine separate notes will be issued by Florida
5 Power at the date of closing. These notes will mature semi-annually beginning
6 approximately the twelfth month after the date of closing through the fifteenth
7 year. The principal of each note is determined by the revenues received from the
8 Sebring Rider after interest expense and revenue related taxes. The proceeds
9 from the twenty-nine notes will not become a part of Florida Power's general
10 operating funds but will be paid directly to the escrow agent under the escrow
11 account established to pay the bonds in full.

12
13 **Q. Will the twenty-nine individual notes be issued in the same amount?**

14 A. No. The concept of the Sebring Rider is to create a levelized rate, on a kWh
15 basis, over the fifteen year period. It is anticipated that growth in the Sebring
16 area will generate a greater amount of dollars in each subsequent period. The
17 individual notes will vary in size from approximately \$500,000 to \$2,500,000.

18
19 **Q. Is there any negative amortization; that is, a situation where the Sebring**
20 **rider will not yield sufficient revenues to pay annual interest and principal**
21 **payments as they come due?**

1 A. No. The Sebring Rider will recover fully the incurred interest expense for all
2 outstanding notes plus a portion of principal for the upcoming expiring individual
3 note.

4
5 **Q. Do you have an exhibit showing the amortization of the medium-term notes?**

6 A. Yes. Exhibit ___ (SFN-1), page 4 of 5, shows an amortization of the medium
7 term notes. Again, these values are subject to change pending the final audit,
8 other actual incurred costs, and any going concern value determined by the
9 Commission to be a prudent Florida Power investment.

10

11 **Q. Is the interest rate fixed?**

12 A. The interest rate is a fixed interest rate for each medium term note. There will
13 likely be twenty-nine different fixed interest rates, a different rate for each
14 maturity.

15

16 **Q. What is the total interest expense to be recovered by the Sebring Rider?**

17 A. It is estimated that the total interest expense over the 15 year period will be
18 \$29,303,749. This amount includes monies to cover the costs incurred in issuing
19 the medium term notes plus the interest expense with respect to the notes. A cost
20 incurred in issuing the notes will include the Underwriter's Commission and a
21 proportionate amount of program expenses incident to the issuance and sale of

1 notes, such as printing, SEC fees, legal expenses, accounting fees and expenses,
2 rating agency fees, and trustees' fees.

3

4 **Q. Do you have an estimate of the program expenses incident to the issuance and**
5 **sale of the notes?**

6 A. Yes. As tabulated in Exhibit ____, (SFN-2) Page II-1, the total for these items is
7 estimated to be \$225,000 for the full \$200,000,000 Medium Term Note Series B.
8 If the capital requirement for the Sebring Rider uses \$38,134,631 of the
9 \$200,000,000 then only 19%, or \$42,901 of the program expenses incident to the
10 issuance and sale of notes will be allocated to the Sebring Rider.

11

12 **Q. Are the revenues from the Sebring Rider pledged as security to the notes?**

13 A. No. The notes will be a general obligation of Florida Power Corporation.

14

15 **Q. How does Florida Power plan on financing the balance of the Sebring**
16 **acquisition?**

17 A. Florida Power will finance the remaining amount of the Sebring acquisition
18 consistent within its normal capital structure of debt and equity.

19

20 **Q. What other costs are included in the Sebring Rider?**

1 A. At this time, the only other item included in the Sebring Rider is the Regulatory
2 Assessment Fee, a cost assessed by this Commission. This cost was figured at
3 0.125%, and is subject to change in the future.

4
5 **Q. Are there other notable terms and conditions of the Sebring Rider?**

6 A. Yes. The Sebring Rider will be exempt from any municipal tax or franchise fee.

7
8 **Q. Why?**

9 A. There are three reasons. First, the City of Sebring has agreed that franchise fees
10 and municipal taxes should not be added to the Rider as stated in Exhibit 1,
11 Agreement for Purchase and Sale of Electric System, pp. 54; 628. Second, this
12 exemption provides some degree of rate relief to the City of Sebring electric
13 customers. Third, the City's cash flow will be essentially unchanged if the
14 Sebring Rider excludes franchise fee and municipal utility tax. The City's budget
15 will benefit favorably through lower City electric bills and increased revenues
16 from property taxes paid by Florida Power. On the other hand, the City's budget
17 will be adversely impacted because municipal utility tax proceeds will fall as
18 customers' electric bills decrease.

19
20 **Q. Please summarize the calculation of the Sebring Rider.**

1 A. The Capital Amount of \$38,134,631, the interest expense of \$29,031,000 and the
2 Regulatory Assessment Fee of \$84,062 totals \$67,249,693. This amount is
3 spread over the 15 year energy sales of 3,164,633,000 kWh, producing an
4 average rate of 2.126 cents per kWh.

5
6 **Q. How does the Rate Schedule SR-1 differ from the Transition Rate in the**
7 **contract for Sale and Purchase?**

8 A. The Transition Rate in the contract, stated at 2.180 cents per kWh, includes a
9 2.5% Gross Receipts Tax Factor. Reducing the Transition Rate by the 2.5%
10 Gross Receipts Tax Factor, which is collected separately, equals the Sebring
11 Rider rate of 2.126 cents per kWh.

12
13 **IV. IMPLEMENTATION OF RATE SCHEDULE SR-1**

14
15 **Q. Will the rate remain fixed over the 15 year period?**

16 A. Probably not. While most of the variables will become known shortly after the
17 closing, such as the interest rates and net book value, the assumption of kWh
18 sales over the 15 year period remains just that--an assumption. If the growth in
19 the area exceeds the medium forecast of 2.09% annually, the Sebring Rider will
20 be lowered; if growth does not meet the projected annual rate, the Sebring Rider
21 will be increased.

1 **Q. Who will initiate a request before the Commission to change this rate?**

2 A. Florida Power most likely will initiate a request to change the rate. If projected
3 SR-1 revenues from sales exceed the amount required to pay the notes and
4 interest, a reduction of the SR-1 rate would be appropriate. This would require
5 a review of updated electric sale projections to customers subject to the Sebring
6 Rider during the balance of the 15 year period. If, on the other hand, projected
7 SR-1 revenues do not recover the amount required to pay the notes and interest,
8 an increase may be requested.

9

10 **Q. Do you recommend a review of this rate by the Commission as often as the
11 fuel adjustment is reviewed?**

12 A. Not at this time. Florida Power has agreed with Sebring that the Rate Rider be
13 reviewed no less often than every Florida Power general rate increase filing, and
14 in any event, no less frequently than every four years. Towards the end of the
15 15 years, changes in the growth rates will have greater leverage and impact on
16 the rate. As that time approaches, more frequent reviews may be necessary. But
17 initially, there is no need for a formal automatic, semi- or annual review.

18

19 **Q. How do you propose accounting for the Sebring Rider?**

20 A. Florida Power will establish a balance account, maintained on its books, netting
21 the revenues from SR-1 against the payments for principal and interest expenses.

1 Any monies refunded from Sebring operations, such as insurance premium
2 refunds, or partial refund of the additional purchase price, will be credited to this
3 balance, to the benefit of the Sebring ratepayer. Interest will accrue on the
4 balance at a rate approved by the Commission. Florida Power will be willing to
5 address with the Commission a mutually acceptable way of keeping the
6 Commission informed of this account balance.

7
8 **Q. What group of customers will pay the Sebring Rider?**

9 **A.** The Sebring Rider will apply to:

10 (a) all customers currently receiving retail electric service through a
11 Sebring meter at the time of closing (and successors to such
12 customers) at any location within Sebring's territory, or within
13 Florida Power's territory in and near the City of Sebring, Florida,
14 and

15 (b) all retail electric service meters at new locations within the Sebring
16 territory at any time after the closing, *except* for meters in the
17 separate Sebring retail service area in and around the Sebring
18 Airport.

19 The areas affected by the Sebring Rider are described in Exhibit ___ (SFN-3),
20 Territorial Maps, attached to my testimony.

1 Q. What will become of the Sebring or Florida Power customers located in each
2 other's territory?

3 A. There still are approximately 700 Sebring customers located within Florida
4 Power's territory. These customers, and their successors, will be assessed the
5 Sebring Rider. Similarly, there still are approximately 300 Florida Power
6 customers within Sebring's territory. These customers, however and their
7 successors, will not be assessed the Sebring Rider.

8
9 Q. What about empty lots in Florida Power's territory that are in and around
10 the 700 Sebring customers. Will these lots be subject to the Sebring Rider
11 when they are built upon?

12 A. No. Since these locations are neither within Sebring's territory, nor have a
13 Sebring meter at the time of closing, these customers will not be subject to the
14 Sebring Rider.

15
16 Q. On what basis will the Sebring Rider be developed?

17 A. The Rider is established on an energy basis, that is, on the basis of kilowatthours.
18 It may be proper to consider allocating the Sebring Rider Rate on a demand basis
19 because the Rider is associated with the cost of interest expense and capital
20 recovery. However it was decided to allocate the costs of the Rider on an energy

1 basis for purposes of simplicity and because of the unavailability of load research
2 data.

3

4 **Q. Has an Energy and Demand Forecast been prepared specifically for the**
5 **Sebring area?**

6 A. Yes. Resource Management International ("RMI") prepared an Energy and
7 Demand Forecast in late 1991 for the Sebring Utilities Commission 1991 - 2022,
8 which is found in Exhibit ____, (SFN-4), which is attached to my testimony.

9

10 **Q. What is the sales forecast for the period covered by the Sebring Rider?**

11 A. For the period, 1993 through 2007, the Medium Forecast produces a total kWh
12 sales of 3,164,633,000 kWh. This represents an average annual energy growth
13 rate of 2.09%.

14

15 **Q. Do you concur with the forecast as presented by RMI?**

16 A. Yes. The RMI's forecast results from an econometric model using assumptions
17 similar to those used by Florida Power in its long term forecast. These
18 assumptions include the population projections produced by the Bureau of
19 Economic and Business Research and normalized weather. RMI's forecast
20 includes specific assumptions with respect to Highlands County and Sebring. The
21 employment in retail trade and services in Highlands County will follow the

1 forecast provided by the United States Department of Commerce. In addition, the
2 additional load from the Lakeshore Mall which opened in February, 1992, is
3 included in the forecast.

4
5 **Q. Does the RMI energy forecast for Sebring consider any Load Management**
6 **Programs?**

7 A. No. Sebring does not have any Load Management programs.

8
9 **Q. What impact will Florida Power's Load Management programs have on the**
10 **energy forecast?**

11 A. The majority of Florida Power's Load Management programs are directed at
12 reducing demand rather than energy consumption. Therefore, I do not know the
13 impact Florida Power's Load Management programs will have on the energy
14 consumption. I believe that the average use by today's Sebring residential
15 customer of 667 kWh per month, is in part attributable to Sebring's high electric
16 rates. Sebring's former customers will see the real price of electricity drop under
17 Florida Power's rates encouraging greater electric usage. I believe the lower real
18 price will offset any consumption losses produced by today's Florida Power Load
19 Management programs.

20
21 **Q. What level of Load Management do you expect?**

1 A. A high level of interest has been expressed in Florida Power's Load Management
2 programs.

3

4 **Q. Will the average customer in Sebring be able to realize the full Load
5 Management credit?**

6 A. The Load Management credit can be up to \$17 per month. Though many
7 customers could qualify for the full credit, the average Sebring customer using
8 700 kWh per month will be limited to a credit up to \$11.94, 40% of the non-fuel
9 energy and demand charges. A credit of \$4.50 is available for a hot water
10 heater, up to \$9.00 per month for a central heating system, up to \$6.00 per month
11 for central cooling system, and \$3.50 for a swimming pool pump.

12

13 **Q. Is it discriminatory to apply the Sebring Rider to only the Sebring portion of
14 Florida Power's residential and commercial customers instead of all of
15 Florida Power's residential and commercial customers?**

16 A. Yes, it is discriminatory, but it is not unduly discriminatory. There is a factual
17 basis for distinguishing Sebring's former customers from Florida Power's other
18 residential and commercial customers. Retiring Sebring's debt is a cost of
19 serving these former Sebring customers, but it is not a cost of serving Florida
20 Power's other customers.

1 Q. Is Florida Power setting Sebring's former customers apart in a separate rate
2 class, while all other Florida Power ratepayers pay the same rate?

3 A. No. Florida Power has 17 different rates schedules, each of which may contain
4 various rates. Just as the costs to serve acquired Sebring customers are separate
5 and distinguishable, other Florida Power customer groups receive service under
6 differing circumstances which justify distinguishing their rates from one another.

7

8 V. THE INTEGRATION OF SEBRING'S FORMER CUSTOMERS INTO
9 FLORIDA POWER'S CURRENT RATE STRUCTURES

10

11 Q. Will all the acquired customers be in the same rate classification as they were
12 when they were served by Sebring?

13 A. Most customers will have the same rate classification with Florida Power as they
14 now have with Sebring. However, there will be some exceptions. Churches are
15 considered in the residential class by Sebring, but in the General Service class by
16 Florida Power. Generally, Sebring's demand customers will remain demand
17 customers, but will not be differentiated by the levels of demand. As Florida
18 Power's programs for load management and time-of-use rates become known and
19 accepted, many former Sebring customers will be taking service under these rate
20 schedules.

1 Q. Will any customer or group of customers see an adverse rate impact by this
2 transaction?

3 A. After extensive review by my staff, I have found no customer or group of
4 customers who will experience a material adverse rate impact by paying Florida
5 Power's rates, including the Sebring Rider, as compared to paying current
6 Sebring rates.

7
8 Q. How about customers, such as churches, who currently pay a Sebring
9 residential rate?

10 A. All residential customers will see a reduction in their cost for electric service,
11 except for churches using less than 181 kWh per month. For these extremely low
12 energy use churches, the \$1.85 difference in the monthly customer charge is not
13 totally offset by the lower energy charges. The average small church in the
14 Sebring territory uses about 400 kWh per month. Their electric charges will drop
15 4%, from \$50 to \$48. Medium and large churches will have a minimum 11%
16 decrease in their electric bills. Greater savings will be realized by churches with
17 20% or higher load factors, by being on the General Service demand rate.

18
19 Q. How do service charges compare between Sebring and Florida Power?

20 A. Service charges are relatively equal between the utilities, but differences do exist.
21 Florida Power has a higher charge for installation of new electric service. But

1 the higher charge is offset by Sebring's charge for disconnect, which is not a
2 charge imposed by Florida Power. Sebring imposes a late payment penalty,
3 whereas Florida Power does not. A listing of Sebring's customer fees, service
4 charges and terms is included in Exhibit ___, (SFN-6), Sebring Utilities
5 Commission Electric Documentation (Rate Schedules.) The Florida Power
6 service charges are found in Exhibit ___, (SFN-7), Florida Power's Index of Rate
7 Schedules and Rate Schedule SC-1, Service Charges. Both of these exhibits are
8 attached to my testimony.

9
10 **Q. Will customers be impacted by Florida Power's customer deposit policy?**

11 **A.** Former Sebring customers will be favorably impacted by the Florida Power
12 customer deposit policy. Sebring residential customers who have had continuous
13 service for a period of 23 months and who have established a satisfactory payment
14 record will have their electric deposits refunded. New customers may have the
15 customer deposit waived upon submitting evidence of a satisfactory payment
16 record with another electric utility. Currently, Sebring customers are required to
17 provide a deposit that is refundable only upon termination of service.

18
19 **Q. Is interest on customer deposits the same?**

20 **A.** No. Florida Power's currently approved interest on deposits is 8% versus the 5%
21 annual rate granted by Sebring.

1 VI. THE RATE BENEFITS TO SEBRING CUSTOMERS OF BECOMING
2 FLORIDA POWER CUSTOMERS

3

4 Q. How will Florida Power's rates, including the Sebring Rider compare to the
5 current rates of Sebring?

6 A. Sebring's customers will see a reduction in their total electric bill under Florida
7 Power's rates as you can see in the comparisons shown in Exhibit ___ (SFN-5),
8 Comparison of Bills for Electric Service Provided Under Sebring Utilities and
9 Florida Power Rate Schedules attached to my testimony. At the time that this
10 testimony was prepared, the 1993 rates from Florida Power's rate request were
11 not resolved. Hence, Exhibit ___ (SFN-5) compares Sebring's current rates with
12 the rates Florida Power proposes to have in effect in November, 1993. After the
13 Commission has rendered a decision on Florida Power's pending rate case, it is
14 expected that the November, 1993 rates will be somewhat lower, widening the
15 gap between Florida Power and Sebring rates.

16

17 Q. Please summarize the findings of your rate comparison for residential
18 customers.

19 A. The residential customer outside the city limits of Sebring, using 1,000 kWh per
20 month will realize an annual savings of \$117 or approximately 9%. A city
21 resident will have savings of \$110. The average residential customer of Sebring

1 uses nearly 700 kWh per month. This typical customer will have annual savings
2 of \$86, or \$79, if a City resident.

3

4 Since both the Florida Power's customer charges and the charges associated with
5 energy are below Sebring's, all customers who transfer from Sebring's
6 residential class to Florida Power's residential class will receive a rate reduction.

7

8 As discussed earlier, if the Commission grants Florida Power less than the \$145.9
9 million revenue increase requested, the stated savings will be greater.
10 Furthermore, my comparison assumes Sebring's rates remain constant. However,
11 in the absence of the Florida Power acquisition, Sebring's rates could increase
12 37.1% for Sebring's fiscal year 1992-1993. Obviously, this would make the rate
13 disparity that much greater.

14

15 **Q. Explain the reason for different savings for city residents and non-city**
16 **residents.**

17 **A.** City residents will be assessed a franchise fee and a municipal utility tax.

18

19 **Q. Do the Florida Power rates incorporate the change in recovering the Energy**
20 **Conservation and Capacity Cost Recovery costs as well as the impact of the**
21 **Cost of Service and Rate Design Stipulation?**

1 A. Yes. In the proposed November, 1993 Florida Power rates, the Energy
2 Conservation Costs and the Capacity Cost Recovery are allocated to rate classes
3 on a demand and energy basis versus solely on an energy basis. In addition, the
4 Energy Conservation Costs have been adjusted to include the Load Management
5 programs for customers in the interruptible and curtailable classes.

6
7 **Q. Will similar saving be seen by commercial customers?**

8 A. Yes, and for commercial customers on demand rates, the savings are even
9 greater. The bill for a General Service non demand customer using 1,500 kWh
10 per month will be reduced \$419, or 18%. The City customer will have a \$429
11 savings, or 17%. A 25% reduction in the electric bill will be seen by non-City
12 commercial customers on the General Service demand rate at a 27% load factor.
13 Customers with higher load factors will also see significant reductions. An
14 annual Sebring electric bill of \$61,900 will decline by \$10,500, or 17%.

15
16 **Q. How will the rate comparisons be affected by any going concern value?**

17 A. The rate comparisons I have discussed do not take into account any going concern
18 value. Any such value would reduce the Sebring Rider, thereby reducing the
19 acquired customers' electric bills, widening the rate disparity.

1 Q. Does this conclude your testimony?

2 A. Yes, it does.

Before the
Florida Public Service Commission

In re: Joint Petition of Florida)
Power Corporation and Sebring Utilities)
Commission for Approval of Certain)
Matters in Connection with Sale of)
Assets by Sebring Utilities Commission)
to Florida Power Corporation)

Docket No. 920949-EU

Filed: September 25, 1992

DIRECT TESTIMONY
OF
HENRY I. SOUTHWICK

Witness for
Florida Power Corporation

DIRECT TESTIMONY
OF
HENRY I. SOUTHWICK

I. INTRODUCTION AND QUALIFICATIONS

1

2

3 Q. Please state your name and business address.

4 A. My name is Henry I. Southwick. My business address is Post Office Box 14042,
5 St. Petersburg Florida 33733.

6

7 Q. By whom are you employed and in what capacity?

8 A. I am employed by Florida Power Corporation (Florida Power) in the capacity of
9 Director of Energy Control.

10

11 Q. Please describe your responsibilities in that position.

12 A. As Director of Energy Control I am responsible for the day-to-day operation of
13 the Florida Power electric system. This includes the scheduling and dispatching
14 of all power resources available to Florida Power to serve customer demand and
15 the operation of the electric transmission system. I am also responsible for

1 interchange operations between Florida Power and other utilities in Florida and
2 the Southeast.

3

4 **Q. Please describe your education and business experience.**

5 A. I have a Bachelor of Science degree in Electrical Engineering from Clemson
6 University and a Masters degree in Engineering Administration from the
7 University of South Florida. I am a registered Professional Engineer in the State
8 of Florida. I have held various positions at Florida Power Corporation in
9 Industrial Development, Division Operations, and Economic Research. In 1983,
10 I was promoted to Manager of System Planning with the responsibility for Florida
11 Power's generation, transmission and distribution planning. In 1990, I was
12 named Director of Engineering and Technical Services for the Fossil Operations
13 area of Florida Power. I became Director of Energy Control in July, 1992.

14

15 **Q. Have you previously testified before the Commission?**

16 A. Yes, I have testified in several previous Florida Power rate and fuel cost recovery
17 proceedings.

18

19 **II. PURPOSE AND SUMMARY OF TESTIMONY**

20

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

1 A. The purpose of my testimony is to discuss various aspects of Florida Power 's
2 proposed purchase of Sebring Utilities Commission's (Sebring) electric
3 distribution system (Electric System). My testimony will address three areas: (1)
4 benefits to Sebring's ratepayers; (2) prudence of Florida Power's acquisition of
5 the Electric System under this agreement; and (3) assumption of the Tampa
6 Electric Company (TECO) Power Purchase Agreement.

7 **Q. Are you sponsoring any exhibits in this case?**

8 A. Yes. I am sponsoring the TECO Power Purchase Agreement identified as
9 Exhibit ____ (HIS-1) which is attached to my testimony.

10

11 **Q. What is the general outline of your testimony?**

12 A. The portions of my testimony that appear after sections I and II are as follows:
13 Section III discusses expected benefits to Sebring ratepayers which will result
14 from the proposed transaction. Section IV discusses the prudence of Florida
15 Power's acquisition of the Electric System. Section V discusses the circumstances
16 under which the Power Purchase Agreement between Sebring and TECO arose,
17 and Florida Power's assumption of the TECO Power Purchase Agreement.

18

19 **Q. Please summarize your testimony.**

20 A. Florida Power's proposed purchase of the Sebring electric distribution system will
21 yield beneficial results in the short and long term for both parties. As a result of

1 this transaction, Sebring customers will have the immediate benefit of increased
2 quality of electric service by Florida Power's system; superior customer service
3 programs offering flexibility in payment and billing options; and participation in
4 many energy conservation programs. Sebring customers will also benefit from
5 lower electric rates by Florida Power's acquisition and from lower operating costs
6 with the elimination of Sebring's long-term bond debt. By fully integrating the
7 Sebring electric system into its existing transmission and distribution system,
8 Florida Power will also derive the benefit of a combined system whereby service
9 and territory conflicts will no longer be at issue. It is the position of Florida
10 Power that \$17.8 million is the correct value to be allocated to the tangible assets
11 of this transaction because it represents the net book value of the assets to be
12 purchased and all negotiations between the parties were conducted at arm's
13 length. Finally, Florida Power contends that the purchase of the Rate Base Assets
14 at this price is a proper and prudent investment.

15 16 **III. BENEFITS TO SEBRING RATEPAYERS**

17
18 **Q. Will there be benefits to Sebring's existing electric ratepayers as a result of**
19 **this transaction?**

20 **A. Yes. There will be a number of benefits to Sebring ratepayers as a result of this**
21 **transaction. The Commission has an established practice of reviewing the impact**

1 of acquisitions and the change of ownership of utility systems and assets in a
2 number of specific areas. Accordingly, I will discuss the benefits to the existing
3 customers of the Sebring system in six areas: (1) increased quality of service
4 including Florida Power's energy conservation programs; (2) lower operating
5 costs; (3) increased ability to attract capital for system improvements; (4) a lower
6 cost of capital; (5) more professional management; and (6) lower rates for
7 customers.

8
9 **Q. In what ways will the Florida Power purchase of the Sebring electric**
10 **distribution system improve the quality of service for Sebring's customers?**

11 **A.** When the array of services provided by Florida Power to its retail electric
12 customers are compared to those provided by Sebring, it is evident that there are
13 numerous areas in which Florida Power customers receive a greater level of
14 service than current Sebring customers. Areas of better customer service afforded
15 Florida Power ratepayers include: (1) customer deposit policies; (2) customer
16 billing; (3) energy conservation programs; (4) other customer service programs;
17 and (5) recourse to the Commission regarding customer complaints.

18
19 **Q. How are Florida Power's customer deposit policies more beneficial than those**
20 **of Sebring?**

1 A. As Florida Power customers, former Sebring customers will be eligible to receive
2 deposit refunds if they meet Florida Power's good credit criteria, a practice not
3 followed by Sebring. Customers who continue to maintain deposits will receive
4 interest at an 8% annual rate from Florida Power, whereas Sebring pays only 5%.

5
6 **Q. What benefits will be available to ratepayers from Florida Power's customer
7 billing system as compared to that of Sebring?**

8 A. Customers will have more options as to where they pay their electric bills or
9 deposits since they will be able to make payments at any Florida Power district
10 office or payment collection site. In addition, as a customer convenience, Florida
11 Power accepts payment for both electric bills and deposits with Mastercard or
12 Visa. Florida Power's On-Line-Cash system insures that bill payments are
13 immediately posted to the customer's accounts. A toll-free telecommunication
14 device for the deaf is available for hearing-impaired customers to contact Florida
15 Power for billing and other customer services.

16
17 Sebring's current billing system is shared between the electric and water
18 operations and does not segregate accounts receivable balances between amounts
19 owed for electric service and amounts owed for water service. Sebring does not
20 differentiate between electric and water customers on such policies as overdue
21 bills, customer deposits, and service cutoff and reconnection. By contrast,

1 Florida Power maintains all necessary customer records in administering customer
2 billing, connection policies, and rules as approved by the Commission.

3

4 **Q. What additional or improved energy conservation programs will be made**
5 **available to Sebring's customers as a result of this transaction?**

6 A. Florida Power offers many energy conservation programs to its residential,
7 commercial and industrial customers which will also become available to Sebring
8 customers. A very popular program is Florida Power's nationally-recognized
9 residential load management program. This is a voluntary program that allows
10 Florida Power to control selected energy-using equipment for short intervals
11 during periods of peak electricity usage. Participating customers receive a credit
12 on their bill depending on the equipment being controlled and the load
13 management schedule selected. In addition, many other programs are offered to
14 customers including the following: Home Energy Check, Home Energy Analysis,
15 Home Energy Fixup, Comfort Cash Loan, Air Conditioning Duct Test & Repair,
16 Insulation Upgrade, HVAC Service (Heating, Ventilation and Air Conditioning),
17 HEATWORKS Heating Storage System, Business Energy Check, Business
18 Energy Analysis, Business Energy Fixup, Interior Lighting Conversion, and
19 Motor Replacement Rebate. These programs are discussed in Mr. Dagostino's
20 testimony.

6 Billing, Senior to Senior, Gatekeeper Program, Elderly Customer Awareness,
7 Speakers Bureau, Visually Impaired Program, Third Party Notification,
8 POWERCARE, Neighborhood Radio Watch, and Vial of Life. These programs
9 are also discussed in Mr. Dagostino's testimony.

10
11 **Q. How will the operating costs of the electric distribution system serving**
12 **Sebring change as a result of this transaction?**

13 **A.** Operating costs will be reduced with the integration of Sebring's electric system
14 into Florida Power's operations. Some cost reductions will be implemented
15 immediately and additional cost reductions will be achieved in the future.
16 Functions including management, accounting, purchasing and stores will be
17 integrated with Florida Power's operations and centralized where appropriate.
18 Staff associated with duplicate functions will be redeployed or reduced through
19 attrition. Florida Power will fully integrate the Sebring area electric system into
20 its existing transmission and distribution system (which surrounds Sebring's

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21 ... an investor-owned utility. First, Sebring is financed primarily with tax-
exempt revenue bonds, whereas Florida Power is financed primarily with a

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-9-

1 Q. What additional or improved customer service programs will be made
2 available to Sebring's customers as a result of this transaction?

3 A. As a result of this transaction, Sebring customers will now have several Florida
4 Power customer service programs available to them. Such Florida Power
5 programs include the Average Billing Program, Energy Neighbor Fund, Summary
6 Billing, Senior to Senior, Gatekeeper Program, Elderly Customer Awareness,
7 Speakers Bureau, Visually Impaired Program, Third Party Notification,
8 POWERCARE, Neighborhood Radio Watch, and Vial of Life. These programs
9 are also discussed in Mr. Dagostino's testimony.

10

11 Q. How will the operating costs of the electric distribution system serving
12 Sebring change as a result of this transaction?

13 A. Operating costs will be reduced with the integration of Sebring's electric system
14 into Florida Power's operations. Some cost reductions will be implemented
15 immediately and additional cost reductions will be achieved in the future.
16 Functions including management, accounting, purchasing and stores will be
17 integrated with Florida Power's operations and centralized where appropriate.
18 Staff associated with duplicate functions will be redeployed or reduced through
19 attrition. Florida Power will fully integrate the Sebring area electric system into
20 its existing transmission and distribution system (which surrounds Sebring's

1 system) and will operate the resulting combined system according to accepted
2 Florida Power standards in all respects.

3

4 Since Florida Power is a much larger utility than Sebring, materials and supplies
5 are purchased in much larger quantities, thereby potentially lowering prices and
6 the cost of purchasing. Examples of this include transformers, wire, poles,
7 vehicles, meters, computers and office supplies.

8

9 **Q. What will be the effect of this transaction on the ability to attract capital for
10 improvements to the electric system in the Sebring area?**

11 A. Sebring's current restrictions on its ability to attract capital for system
12 improvements will be eliminated as a result of the proposed transaction. Florida
13 Power will conduct capital improvement programs for the electric system in the
14 Sebring area at appropriate levels.

15

16 **Q. Will this transaction result in a lower cost of capital for capital improvements
17 to the Sebring electric system?**

18 A. For several reasons, it is difficult to directly compare the cost of capital of
19 Sebring, which operates as a municipal utility commission, to that of Florida
20 Power, an investor-owned utility. First, Sebring is financed primarily with tax-
21 exempt revenue bonds, whereas Florida Power is financed primarily with a

1 combination of first mortgage bond debt and equity. Second, as a result of
2 Sebring's deteriorating financial condition, it has a negative net worth and its debt
3 substantially exceeds the value of its assets. Third, it is not possible to clearly
4 identify what portion of the outstanding debt is associated with the electric
5 distribution system rather than the water system or the generation assets
6 previously sold to TECO.

7
8 **Q. Does the interest rate on Sebring's outstanding bonds represent a fair**
9 **estimate of Sebring's cost of capital?**

10 **A.** No, it does not. When Sebring issued the outstanding debt in 1986, it was
11 already under adverse financial pressure because of its growing debt burden. The
12 1986 financing consisted of a carefully structured debt package consisting of a
13 combination of insured Series A bonds and uninsured Series B bonds. The
14 currently outstanding Series A bonds, with interest rates between 7.00% and
15 7.35%, are rated AAA by virtue of being insured by AMBAC. The Series B
16 bonds were issued at an interest rate of 11.50%, which was high compared to
17 other tax-exempt rates at that time. The high interest rate for the Series B bonds
18 is an indication that Sebring did not have access to capital markets at competitive
19 rates at that time. Most of the Series B bonds were retired with proceeds of the
20 sale of generation and transmission assets to TECO.

1 Sebring's financial condition has continued to deteriorate since the 1986 debt
2 restructuring, as discussed by Sebring witness Mr. Calhoun. Therefore, it is not
3 clear to what degree Sebring currently has access to capital or at what cost it
4 could be obtained.

5
6 **Q. Given the difficulties of quantifying Sebring's cost of capital, what can you
7 conclude with respect to how this transaction will affect the cost of capital for
8 the Sebring area system?**

9 A. Sebring's current problems can be traced directly to its past inability to control
10 its debt burden. Sebring's high retail electric rates result primarily from the debt
11 service required on its outstanding debt. The proposed transaction will eliminate
12 Sebring's financial crisis by retiring the outstanding debt. Additionally,
13 alleviation of Sebring's financial distress will restore the financial posture of the
14 Sebring area electric system to a stable capital structure and an acceptable cost of
15 capital.

16
17 **Q. Will the proposed transaction result in more professional and experienced
18 management?**

19 A. Sebring is presently managed by excellent utility people. However, because of
20 the depth of the financial problems that have plagued Sebring for almost ten
21 years, it has not been possible for Sebring management to be as effective as

1 would otherwise be the case. There are several areas in which Florida Power
2 will provide management stability and thereby afford Sebring the benefit of the
3 managerial skills and resources of a large, financially sound utility. The proposed
4 transaction will end Sebring's financial crisis and as a result, bring to the electric
5 system stable, professional management that is not burdened with an overriding
6 concern with financial survival.

7
8 **Q. Can you cite any examples where Florida Power can bring better
9 management focus on problem areas?**

10 **A.** Yes. Numerous problems and deficiencies in Sebring's records and accounting
11 systems and procedures have been identified. Sebring's personnel have verified
12 the existence of these deficiencies and errors. For example, as discussed in the
13 testimony of Sebring witness Ms. Holloway, the basis of accounting at Sebring
14 has not been in compliance with the Uniform System of Accounts. The proposed
15 transaction will replace Sebring's accounting systems with Florida Power's. This
16 procedural change to Florida Power's system will result in accounting and audit
17 functions being timely and efficient and assure successful financial management
18 in the future.

19
20 Another example where management can be strengthened is Florida Power's
21 safety program. By including Sebring's electric system field operations in Florida

1 Power's safety program, Sebring's employees will have Florida Power's high
2 level of expertise and safety training available to them. Customers will also
3 benefit indirectly by sustained and enhanced safety practices for the Sebring area
4 system.

5
6 Florida Power has an extensive training department which includes training
7 programs for all levels of employees to insure that they maintain and develop
8 professional skills and capabilities. Training includes courses for managers;
9 office and technical skills training; computer training, communications and
10 personal development; distribution line training; meter reader training; substation
11 maintenance; and many other courses and subjects.

12
13 In sum, Florida Power has established a record of solid, forward-looking
14 management, thus creating opportunities and benefits which have served its
15 customers well. A direct result of Florida Power's quality of management is its
16 sustained position of having among the lowest retail electric rates in Florida.

17
18 **Q. Will there be a reduction in rates for Sebring's existing electric customers as
19 a result of this transaction?**

20 **A. Yes.** Sebring's customers currently pay the highest electric rates in the state and
21 among the highest in the nation. Under the proposed transaction, Sebring's

1 customers will pay Florida Power's standard rates plus the SR-1 Rate Rider as
2 discussed by Florida Power witness Mr. Nixon, and will still receive a substantial
3 rate reduction. In addition, many residential customers will be eligible for
4 Florida Power's Load Management Program which will further reduce rates up
5 to \$17.00 per month depending on energy use. As an example, a residential
6 customer using 1,000 kWh per month, will receive an immediate reduction of
7 approximately \$17.00 (or 15%, without consideration of any going concern
8 value), plus additional reductions if the customer participates in Florida Power's
9 Load Management Program (for a total reduction of up to approximately 28%).
10 For commercial customers, Florida Power offers a wide variety of commercial
11 rates with the potential for rate savings which are not available from Sebring.
12 The effect of this transaction for Sebring customers is discussed more fully in the
13 testimony of Florida Power witness Mr. Nixon. Furthermore, in the absence of
14 this transaction, Sebring's rates would need to be increased substantially over
15 present levels as discussed in the testimony of Sebring witness Mr. Calhoun.

16
17 **IV. PRUDENCY OF FLORIDA POWER'S ACQUISITION OF THE**
18 **SEBRING ELECTRIC SYSTEM UNDER THIS AGREEMENT**

19
20 **Q. What is the basis for Florida Power's allocation of the Purchase Price to the**
21 **tangible assets associated with this transaction?**

1 A. The value for the tangible assets set forth in the Agreement for Purchase and Sale
2 of the Electric System is based on the actual net book value of these assets as of
3 the date of closing. As discussed by Sebring witness Ms. Holloway, the
4 September 30, 1991 audited financial statements includes a supplemental schedule
5 of the assets identified for sale. According to this schedule, as of September 30,
6 1991 the net book value of these assets was \$17,813,753. This net book value
7 will be updated to reflect the actual net book value of these assets as of the date
8 of closing based on a post-closing audit.

9
10 **Q. Are you the witness in this proceeding who is sponsoring the calculations in
11 support of the \$17.8 million net book value for Sebring's tangible assets?**

12 A. No. Sebring witnesses Mr. Rumolo and Ms. Holloway are sponsoring testimony
13 in support of the net book value of \$17.8 million. The purpose of my testimony
14 is to explain why the purchase of the tangible assets at this price is a proper and
15 prudent investment for Florida Power.

16
17 **Q. Will Florida Power seek to include its purchase of the Electric System in its
18 rate base in Florida Power's next rate case?**

19 A. Yes. Florida Power intended to include a rate base amount for the Sebring
20 purchase in its most recent rate case, but the timing of the transaction did not
21 allow this to occur. Based on the Commission's approval of the Rate Base Assets

1 of the Electric System in this proceeding, Florida Power will seek rate base
2 treatment of the Rate Base Assets in the next rate case.

3

4 **Q. How will the Sebring debt associated with the SR-1 Rate Rider discussed in**
5 **Florida Power witness Mr. Nixon's testimony be repaid?**

6 A. Florida Power's offer includes the payment of an amount above the value of the
7 Rate Base Assets which will enable Sebring to retire all of its bond indebtedness,
8 pay its other debts and close-out expenses. This payment will be recovered by
9 Florida Power through a rider applicable only to ratepayers who would have
10 remained Sebring customers in the absence of this transaction. As discussed in
11 the testimony of Florida Power witness Mr. Nixon, all costs associated with
12 financing and recovering the amount associated with the SR-1 Rate Rider will be
13 recovered exclusively through the SR-1 Rate Rider.

14

15 **Q. Has Florida Power offered to pay any additional amount related to a "going**
16 **concern" value for the Sebring electric system?**

17 A. Florida Power's allocation of the Purchase Price to tangible assets of the Sebring
18 electric system represents only the net book value of these assets. Sebring
19 witness Mr. Warren is sponsoring testimony in this proceeding in support of a
20 going concern value in addition to the net book value of tangible assets. Florida
21 Power believes that the acquisition of the Electric System has going concern value

1 beyond the physical assets. However, in order to allow this value to be realized,
2 the Commission must allow Florida Power to place the associated dollars in its
3 rate base. Therefore, Florida Power would pay such an amount related to going
4 concern value only on the condition that the Commission approves such amount
5 as a prudent investment for inclusion in rate base in Florida Power's next rate
6 case.

7

8 **Q. Was the process by which Florida Power was selected for negotiation an**
9 **arm's length, formal process?**

10 A. The proposed transaction is the result of a formal request for proposal (RFP)
11 process during which Sebring sought proposals to purchase its electric and water
12 system assets. This process is discussed further in the testimony of Sebring
13 witness Mr. Calhoun and Florida Power witness Mr. Dagostino. Throughout this
14 process, Florida Power and Sebring negotiated on an arm's length basis with the
15 objective of successfully consummating the purchase and sale of the Electric
16 System.

17

18 **Q. How was the allocation of the purchase price for the tangible assets of the**
19 **Electric System established to be net book value?**

20 A. First and foremost, in order to make this transaction a reality and achieve the
21 inherent benefits, it was necessary to arrive at a price considered to be fair and

1 equitable by both buyer and seller. Florida Power's proposal stated that the
2 allocation of the Purchase Price to the tangible assets of the Electric System
3 would be equal to their net book value. Florida Power was confident that the
4 transaction could be successfully negotiated on this basis, and this proved to be
5 the case. Florida Power's position is that \$17.8 million is the correct allocation
6 of the Purchase Price to the tangible assets because it represents the net book
7 value of these assets, and is a prudent acquisition at that value. Again, it was
8 determined by arm's length negotiations between the parties.

9
10 The parties recognize that the transaction is dependent upon the Commission's
11 approval of Sebring's depreciated net book value in anticipation of including these
12 assets in Florida Power's rate base in Florida Power's next rate proceeding.
13 Florida Power's opinion is that the allocation of the Purchase Price to tangible
14 assets based on net book value provides the greatest assurance of timely
15 regulatory approval based on past practices and statements of the Commission.

16
17 **Q. Why is Florida Power requesting Commission approval of the Rate Base**
18 **Assets of the System?**

19 **A.** Florida Power intends to include all of the Rate Base Assets in Florida Power's
20 rate base in its next retail rate proceeding. Florida Power's objective is to
21 address in the present proceeding any issues or concerns which the Commission

1 may have regarding the acquisition of these assets. The request for Commission
2 approval of the Rate Base Assets, including the depreciated net book value of the
3 tangible assets and any going concern value determined by the Commission, is the
4 means by which Florida Power intends to accomplish this objective.

5
6 **Q. Will the assets included in the purchase be used and useful in the provision**
7 **of electric service to customers?**

8 A. Yes. As part of its pre-acquisition review, Florida Power conducted a physical
9 inventory of the System as well as a detailed review of the books and records
10 associated with these assets. As a result, Florida Power is confident that the
11 facilities to be acquired are in acceptable condition and are necessary for the
12 continued provision of electric service to Sebring's customers.

13

14 **V. ASSUMPTION OF THE TECO POWER PURCHASE AGREEMENT**

15

16 **Q. How and when did Sebring enter into the Power Purchase Agreement with**
17 **TECO?**

18 A. During the RFP process, TECO offered to purchase Sebring's generation assets,
19 which resulted in the sale of these assets to TECO in 1991. As a part of this
20 transaction, Sebring continued to operate the generation units under an operating

1 agreement with TECO and Sebring signed a full requirements Power Purchase
2 Agreement with TECO.

3

4 **Q. Will Florida Power assume Sebring's Power Purchase Agreement with TECO
5 as part of this transaction?**

6 A. Yes. One of the conditions of Sebring's Power Purchase Agreement with TECO
7 is that any buyer of Sebring's electric distribution system is obligated to assume
8 the agreement. The agreement is a valid contract which has been approved by
9 FERC and provides for the legal assumption of the agreement by successors and
10 assigns of Sebring. Florida Power intends to assume the TECO Power Purchase
11 Agreement in conjunction with its purchase of the Electric System.

12

13 **Q. Will Florida Power assume the TECO Power Purchase Agreement in its
14 present form or seek to modify the terms of this agreement with TECO?**

15 A. Florida Power could assume the Power Purchase Agreement in its present form
16 and continue to purchase power from TECO under the existing terms of this
17 agreement. However, some changes to the agreement may be mutually
18 advantageous to Florida Power and TECO. While the agreement as presently
19 written is an all-requirements contract, another form of agreement may be more
20 appropriate after the purchase of the Electric System has been completed and

1 Florida Power is purchasing power from TECO. Florida Power has already
2 initiated discussions with TECO to explore modifications to the agreement.

3

4 **Q. Given that the Power Purchase Agreement may be modified by Florida Power
5 and TECO and replaced by an agreement with different terms, how should
6 this possibility affect the Commission's review of the existing contract?**

7 **A.** The Commission should conduct its review on the basis of the existing Power
8 Purchase Agreement between TECO and Sebring as if this agreement will be
9 assumed unchanged by Florida Power. The agreement may in fact be assumed
10 on this basis, and any changes made to the agreement will be on comparable or
11 more favorable terms.

12

13 **Q. How does Florida Power plan to recover the fuel cost associated with the
14 TECO Power Purchase Agreement?**

15 **A.** Florida Power intends to recover the jurisdictional portion of fuel costs associated
16 with the Power Purchase Agreement through its retail Fuel Cost Recovery Clause.
17 These fuel costs will be included in Florida Power's retail fuel adjustment filing
18 coincident with the closing of the transaction.

19

20 **Q. How does Florida Power plan to recover the demand cost associated with the
21 TECO Power Purchase Agreement?**

1 A. As discussed in paragraph 23 of the Joint Petition, Florida Power is requesting
2 that the Commission approve Florida Power's right to recover in the Capacity
3 Cost Recovery proceedings, coincident with the closing of the transaction, the
4 retail portion of the difference between the demand charges provided in the Power
5 Purchase Agreement and the production component of Florida Power's retail cost
6 of service as determined by the Commission in Florida Power's 1992 base rate
7 case and included in Florida Power's base rates, until such time as the
8 Commission establishes new base rates for Florida Power. In the future when
9 new base rates are established for Florida Power it is expected that any
10 production component in Florida Power's base rates attributable to the Power
11 Purchase Agreement will be removed from base rates and the demand charges for
12 the Power Purchase Agreement with TECO will be fully recovered through the
13 Capacity Cost Recovery proceeding.

14
15 **Q. Why is Florida Power requesting the Commission's approval of Florida**
16 **Power's right to recover costs associated with the Power Purchase**
17 **Agreement?**

18 A. Florida Power's objective is to address in the present proceeding any issues or
19 concerns which the Commission may have regarding these proposed actions.
20 Furthermore, Florida Power seeks to avoid any over-recovery or duplicate
21 recovery of costs associated with the Power Purchase Agreement which may

1 occur if cost recovery through base rates and the Capacity Cost Recovery clause
2 are not properly coordinated. The request for Commission approval of recovery
3 of demand costs as described above is the means by which Florida Power intends
4 to accomplish these objectives.

5

6 **Q. How does Florida Power plan to recover any non-fuel energy costs associated**
7 **with the TECO Power Purchase Agreement?**

8 A. Florida Power intends to recover the jurisdictional portion of any non-fuel energy
9 cost associated with the Power Purchase Agreement through its retail Fuel Cost
10 Recovery Clause. These non-fuel energy costs will be included in Florida
11 Power's retail fuel adjustment filing coincident with the closing of the transaction.

12

13 **Q. Does this conclude your testimony?**

14 A. Yes, it does.