

UNITED STATES
 ATOMIC ENERGY COMMISSION
 WASHINGTON, D.C. 20545

AUG 30 1971

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Memorandum to File

MEETING WITH A. P. PEREZ, PRESIDENT, FLORIDA POWER CORPORATION

On Monday, August 23, I met with Mr. A. P. Perez, President, Florida Power Corporation. He gave me copies of their news release in regard to their announcement on August 19 to construct a second nuclear generating unit at their Crystal River plant site. The new unit will be a 897,000 kw pressurized water reactor and an order was placed with Westinghouse for this reactor. He also gave me a copy of a letter dated August 13, 1971, that he had written to the Honorable Jess Yarborough, Chairman of the Florida Public Service Commission, refuting the recent accusation of Senator Lee Metcalf of Montana. Attached to his letter is an article which appeared in the St. Petersburg Times, entitled, "On Carrots and Kilowatts and How They Differ," which also is aimed at Senator Metcalf's accusation. A copy of the news release and article are attached.

Mr. Perez said that their decision to contract with Westinghouse was a very close but clear-cut decision. He said Combustion Engineering and B&W were very competitive. He said that GE was essentially ruled out because Florida Power Corporation favored another pressurized water reactor at the Crystal River site.

One of the biggest factors in awarding to Westinghouse is a program Westinghouse has developed in regard to standardizing and licensing. He said their order to Westinghouse would be the sixth one for a standardized Westinghouse plant and is of the same type as the four that Carolina Power & Light ordered recently from Westinghouse.

Their overall plans now include fossil plants for 1974-75, no new plants for 1976-77, and the second Crystal River nuclear plant for operation in 1978. Their first Crystal River nuclear plant is scheduled for operation in 1973. In 1976 and 1977, they will probably work in several dual cycle fossil plants or peaking capacity.

He said that United Engineers helped them evaluate their proposals and that Stoller consultants helped evaluate the fuel proposals. Gilbert Associates will be the Architect-Engineer for the plant.

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He said fossil fuel costs are very high and the environmentalists are beginning to intervene on these types of plants. Thus, irregardless of the many problems of licensing nuclear plants, they felt this was the direction to go. He said they have included approximately \$10 million in their funding of the nuclear plant for cooling towers.

Ernest B. Tremmel

Ernest B. Tremmel, Director
Division of Industrial Participation

Enclosures:

1. News Release dtd 8/19/71
2. Ltr APPerez to Hon. JYarborough
dtd 8/13/71 w/encl (art. from
St. Petersburg Times dtd 8/11/71)

cc: Chairman (2)
Commissioner Ramey
Commissioner Johnson
Commissioner Larson
Commissioner Doub
Secretary
General Manager
General Counsel
P. Fine, OA
J. Flaherty, AGM
M. Shaw, RDT
H. Price, DR
P. A. Morris, DRL
A. A. Wells, ASLBP
R. Fraley, ACRS
H. Brown, Jr., AGM

FLORIDA POWER CORPORATION
ST. PETERSBURG FLORIDA

August 13, 1971

POOR ORIGINAL

The Honorable Jess Yarborough, Chairman
Florida Public Service Commission
700 South Adams Street
Tallahassee, Florida 32304

Dear Mr. Chairman:

Recently, Senator Lee Metcalf of Montana released figures which he claimed showed Florida's investor-owned electric utilities, as well as all other private tax-paying utilities in the Nation, were making excessive profits. This is the Senator's annual manipulation of the regulated electric utilities' published reports.

The Senator chose to ignore capital investment in his computations, which makes his allegations totally untrue. He took the operating revenues and the net income and got a percentage of the two. This percentage was what he then released and called profit.

As you know, this bears no relation to reality. Since electric utilities have one of the highest capital investments per dollar of revenue of any industry, the only appropriate and recognized method of determining earnings is to relate net income to the investment which is used and useful in serving the public.

Senator Metcalf used no accepted utility accounting principles recognized by any state or federal regulatory agency. His type of approach has never been accepted or considered as a valid means of determining the financial status of utilities.

As you know, our books and records are regularly audited by your Commission, periodically audited by the Federal Power Commission, and annually audited by the Internal Revenue Service. In addition, our financial reports are audited and certified to by Arthur Andersen & Co., one of the world's largest firms of certified public accountants. Furthermore, detailed statistical reports of our financial picture are published by Moody's and Standard & Poors, financial rating agencies. No one, save Senator Metcalf, gives any meaning or credence to the ratio of an electric utility's net income to gross income.

Enclosed is an article which was published in the St. Petersburg Times on August 11, 1971. The author of this story is business editor of the paper and a former writer for the Wall Street Journal. I think you will agree he sums up the Senator's errors concisely and explains how it really is in understandable terms.

The Honorable Jess Yarborough, Chairman
Florida Public Service Commission
August 13, 1971
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POOR ORIGINAL

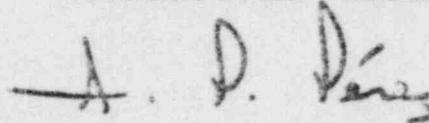
It is unfortunate that a United States Senator would release misleading information about an industry which is so critical to the continued economic and physical well-being of the Nation. It is even more unfortunate that it would receive such wide circulation and thereby credibility. However, an indication of his acceptance by his colleagues in the Senate would have to be the fact that no other member has ever joined him in this annual misguided effort.

Senator Metcalf directs his meaningless accusations exclusively at the regulated segment of the electric utility industry -- as an advocate of public power his biased motives are no secret.

I hope this information proves to be useful in helping to clarify recent news stories.

Cordially,

FLORIDA POWER CORPORATION



A. P. Perez
President

APP:tm
Encl.

cc: Governor Reubin O'D. Askew
Commissioner William T. Mayo
Commissioner William H. Bevis
All Members of: Florida Cabinet
Florida Congressional Delegation
Florida Legislature
Pinellas County Commission
City of St. Petersburg City Council

BUSINESS AND FINANCE

Wednesday, Aug. 11, 1971

On Carrots And Kilowatts
And How They Differ

By CLAYTON REED

Times Business Editor

The role of television personality doesn't come easy for A. P. Perez. He's an engineer, and has been since he took his degree in electrical engineering from Auburn back in the early Depression days.

But Perez — "Joe" to his friends — found himself before TV cameras the other day. His associates at Florida Power Corp. persuaded him that the cause was urgent enough, so he suffered through three days of rehearsals, sat still for the makeup man, then went before the cameras to plead Florida Power's case for its first rate increase in 18 years.

PEREZ'S DECISION to undertake a TV commercial himself, as company president, points up the concern felt at the big St. Petersburg utility about the fate of its requested \$20-million rate boost.

Officials are confident they can sufficiently show need for the 12 per cent increase before the Florida Public Service Commission, but "the timing was the worst," as one FPC man put it. Just one day after the application was

filed, Sen. Lee Metcalf, D-Mont., listed Florida Power as one of 100 electric utilities that are already making too much money.

Metcalf's charge, inserted in the Congressional Record, was considerably off base, as events proved. But the news media trumpeted it all across

the nation, and it's pretty hard to sell a rate boost when somebody says you're rolling in dough already.

THE SENATOR alleged that all three of the state's big power producers — Florida Power & Light Co. of Miami, Tampa Electric Co. and Florida Power Corp. — had far exceeded a 6.95 per cent "profit limit" set by the Florida Public Service Commission (PSC).

Well, there is no such animal. David Swafford, director of PSC's rating division in Tallahassee, quickly responded that regulators don't and can't go by the familiar "profit margin" — the ratio of profits to sales — in judging utilities.

"The law says they're entitled to a 'sufficient rate of return' on any property used and useful, but there's no set rate — that's what we have all these rate hearings about," said Swafford.

METCALF WAS correct in reporting Florida Power's profit margin, which was 19.79 per cent last year — if you go by the accounting method used at the corner grocery store. Tampa Electric's was 18.63 per cent and Florida Power & Light's 14.24.

But a grocery store can start up with maybe a building and some shelf stock — say a \$100,000 investment in all — and do a \$500,000 annual

sales volume with it. His profit may be low, perhaps \$10,000 or \$15,000, for a "profit margin" of 2 or 3 per cent.

But he has paid his employees (and possibly himself) wages, and settled his bills with the wholesalers, so 2 or 3 per cent in profit margin might be a cause for celebration with him.

SUPPOSE, however, he had to invest \$500,000 to start the business. Suppose he took the \$100,000 he had and put it with \$400,000 borrowed at 9 per cent to build a really classy food mart. And suppose he still pulled in only \$500,000 in sales for a profit margin of \$10,000-\$15,000 or 2-3 per cent.

He would be wiped out in no time. The interest cost on his \$400,000 borrowing would run him \$36,000 the first year.

That, in a nutshell oversimplification for purposes of clarity, explains the utilities' predicament. Florida Power last year had a whopping \$31-million in profit out of the \$158-million collected in revenues, for the "profit margin" of 19.79 per cent that Metcalf grumbled about.

BUT ITS total investment in plant was something like \$685-million. And the "capitalization" behind that — the money accumulated to build a 32-county electric company — was \$588-million. 60 per cent long-term borrowing, 44 per cent common and preferred stock).

Looking at last year's \$158-million in revenues, you find that after paying \$57-million in operating expenses, \$70-million in taxes, \$17-million in interest (borrowing costs), \$17-million in stock dividends (the 3.05 per cent yield on common isn't much to brag about), and \$23-million in assorted other charges, the big fat utility ended up with about \$14-million in income it could play around with.

That was promptly plowed into a \$700-million construction program needed to keep up with Florida's explosive growth. By reinvesting this in the business, the company avoided that much more high-cost borrowing and earned a good bond rating on Wall Street (where it still must borrow \$150-million in 1971-72).

WITH INFLATION slashing at utilities no less than at thee and me, Florida Power's net income has been slipping lately — but this essay isn't intended to defend its rate boost plea. The merits of that will be weighed at PSC public hearings next winter.

But there is a difference between carrots and kilowatts and this is aimed only at explaining how Sen. Metcalf confused his grocery store with his electricity company. And how it happens that you're seeing an amiable theatrical engineer named Joe Perez performing on the TV tube these days.

POOR ORIGINAL



NEWS RELEASE

FLORIDA POWER CORPORATION

W. C. (BILL) JOHNSON, PUBLIC INFORMATION OFFICER / ST. PETERSBURG, FLORIDA 33733 / (813) 898-2141

FOR RELEASE AFTER 3:00 P.M.
THURSDAY, AUGUST 19, 1971

The board of directors of Florida Power Corporation approved plans today to construct a second nuclear generating unit at the Crystal River plant site. The new unit will be an 897,000 kilowatt (kw) pressurized water reactor similar to the company's first nuclear unit which is now under construction and scheduled for operation in 1973. Target date for the second unit to begin operation is 1978.

"The projected growth of our service area, along with the continued increased usage of electricity by present customers has indicated to us that this unit is a necessity for the late 1970s," A. P. Perez, president, said. "Presently, we have 2,000,000 kw of generating capability under construction, and this new unit will bring us to almost 3,000,000 kw being added in the next seven years. That is approximately one and one-half times the size of the present system."

The new nuclear unit, which will be the largest committed to date in the state of Florida will be supplied by Westinghouse Electric Corporation.

Gilbert Associates, Inc. of Reading, Penna., have been selected as architect-engineers for the project.