

**ORIGINAL
FILE COPY**

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

DOCKET NO 891345-EI

**REBUTTAL TESTIMONY
AND EXHIBITS
OF
C. E. JORDAN**

Gulf Power



DOCUMENT NUMBER-DATE

04461 MAY 21 1990

FPSC-RECORDS/REPORTING

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission
3 Rebuttal Testimony of
4 Charles E. Jordan
5 In Support of Rate Relief
6 Docket No. 891345-EI
7 Date of Filing May 21, 1990

- 8 Q. Please state your name, address and occupation.
- 9 A. My name is Charles E. Jordan, and my business address
10 is 500 Bayfront Parkway, Pensacola, Florida 32501. I
11 am General Manager of Power Delivery of Gulf Power
12 Company.
- 13 Q. Are you the same Charles E. Jordan that has filed
14 direct testimony in this docket?
- 15 A. Yes.
- 16
- 17 Q. Mr. Jordan, what is the purpose of your rebuttal
18 testimony?
- 19 A. The purpose of my rebuttal testimony is to address the
20 testimony of Public Counsel's witnesses, Mr. Schultz
21 and Mr. Larkin, with regard to their recommendation of
22 certain disallowances of distribution Operation and
23 Maintenance (O & M) expense and recommended disallow-
24 ance of the investment in Greenhead substation (Lei-
25 sure Lakes).

DOCUMENT NUMBER-DATE

04461 MAY 21 1990

PSC-RECORDS/REPORTING

1 Q. Have you prepared an exhibit that contains information
2 to which you will refer in your testimony?

3 A. Yes.

4 Counsel: We ask that Mr. Jordan's Exhibit,
5 comprised of 2 Schedules, be marked for
6 identification as Exhibit____ (CEJ-2).

7

8 Q. Would you please address Mr. Schultz's contention
9 with regard to the expense associated with underground
10 line extensions?

11 A. Yes. On page 83, lines 5 through 16, Mr. Schultz
12 reveals his misunderstanding of the relationship
13 between underground and overhead O & M expense.
14 Schedule 1 of my Exhibit (CEJ-2), which summarizes the
15 overhead and underground expenses as filed in conjunc-
16 tion with Gulf's Underground Differential Tariff,
17 shows Gulf's historical experience with distribution
18 line O & M expense. As shown on this exhibit, Gulf's
19 six year average underground O & M expense is
20 \$2,100.27 per mile, which compares to the six year
21 average overhead O & M expense of \$1,227.22 per mile.
22 This comparison demonstrates that the maintenance
23 costs associated with underground lines are, in fact,
24 considerably higher than that associated with overhead
25 lines. Gulf's experience over the past six years has

1 not provided any basis to suggest that this relation-
2 ship between overhead and underground maintenance will
3 change in favor of underground in the foreseeable
4 future.

5 Mr. Schultz makes a mistaken assumption regarding
6 the reason Gulf is experiencing greater growth in the
7 amount of new underground facilities relative to new
8 overhead facilities. This greater growth is not
9 because of any cost savings benefit, but rather is
10 the result of our customers' demand for these
11 facilities. This customer demand is met by the
12 Company consistent with the Commission's policy of
13 allowing the customer or developer to select under-
14 ground facilities, so long as any differential cost of
15 installation is paid up front by the customer or
16 developer. Once the developer or customer chooses to
17 pay this differential, Gulf is not only obligated to
18 install the underground service but also to maintain
19 it through its service life.

20 Underground distribution system failures have
21 some significant characteristic differences when
22 compared to overhead distribution failures. An
23 underground distribution failure is more difficult to
24 locate than an overhead failure, involves removing
25 earth or other coverages in order to gain access to

1 the fault or failure, and introduces a source for
2 future failures from moisture leakage at the splice.
3 The increased labor expense associated with repairing
4 an underground distribution failure coupled with the
5 higher cost splice material associated with an under-
6 ground repair, once again, are some of the reasons why
7 underground maintenance is higher than overhead
8 maintenance.

9 As a result, the requested level of expenses
10 relative to this issue should be allowed.

11

12 Q. Would you please address Mr. Schultz's contention
13 regarding the benchmark variance for distribution
14 system work order (DSO) clearance?

15 A. Yes. First, Gulf would like to apologize for a
16 typographical error in the MFR which indicated that
17 the percentage of CWIP allocated to expense was 8.0
18 percent in 1984 and 12.9 percent in 1987. The actual
19 percentage of DSO clearance from CWIP to expense in
20 1984 was 7.02 percent and in 1987 it was 11.66 per-
21 cent. These figures and the actual amounts on which
22 they were based are shown on Schedule 2 of my Exhibit
23 (CEJ-2). These errors would not have affected
24 Mr. Schultz's analysis.

25 Although Mr. Schultz accepts the Company's

1 justification for the variance, he questions our math
2 and wrongfully concludes that our explanation leaves a
3 portion of the variance unjustified. Additionally,
4 Mr. Schultz has misinterpreted the statement of Gulf
5 to which he referred in his testimony on page 81,
6 lines 23 - 25. This misinterpretation has led
7 Mr. Schultz to omit customer growth and inflation from
8 1984 to 1987 when calculating his figure. When we
9 stated that the relative level of dollars to do the
10 work did not increase, we included allowance for
11 increases in cost due to the growth in customers and
12 an increase in expense due to inflation. Therefore,
13 Mr. Schultz is incorrect when he states that our
14 justification does not address the full amount of the
15 variance.

16 For the period 1985 through 1989, as can be
17 derived from the data on Schedule 2 of my Exhibit
18 (CEJ-2), 10.89 percent was charged to maintenance
19 versus the 7.02 percent which was charged in 1984.
20 This means the base should be increased by an addi-
21 tional 55.1 percent (10.89% over 7.02%) as a result of
22 the revision in the method of allocating expense from
23 CWIP that has occurred since 1984. The revised base
24 should then be escalated for customer growth and
25 inflation. The appropriate new base should be

1 \$1,846,000. This amount, when multiplied by the
2 customer growth and inflation factor of 1.5073, is
3 \$2,782,000. Gulf's 1990 Budget for expenses trans-
4 ferred from Construction Work in Progress to mainte-
5 nance of \$2,745,000 is, therefore, \$37,000 below the
6 appropriate benchmark. As can now be seen, our
7 explanation does address all of the variance identi-
8 fied for this area of expense.

9

10 Q. Mr. Jordan, would you please address Mr. Schultz's
11 discussion of the O & M variance of \$83,000 associated
12 with obsolete distribution material?

13 A. I would first like to point out that our \$109,000
14 obsolete material write-off figure for 1990 is approx-
15 imately 0.99% of our average inventory. This compares
16 closely with the write-off figures for Florida Power &
17 Light (1.2%) and Florida Power Cooperation (1.0%) and
18 is reasonable.

19 Gulf's variance over the benchmark in 1990 is
20 reasonable because the 1984 benchmark was non-repre-
21 sentative of what should have been occurring with
22 regard to obsolete material write-offs. Gulf has
23 instituted a program to better control our inventory
24 and save our customers from the burden of higher costs
25 on a long term basis.

1 As Mr. Schultz correctly points out, Gulf Power
2 Company did implement the Communication Oriented
3 Production Information System (COPICS) in 1984.
4 Throughout 1984 the COPICS system was enhanced, and
5 the new functions were tested and modified as needed
6 for implementation on a systemwide basis.

7 In early 1985 the COPICS system was installed in
8 all of the Division warehouses as Gulf's first on-line
9 material and inventory control system. At the conclu-
10 sion of 1986, Gulf Power Company had two full years of
11 experience with the system's material and inventory
12 usage patterns. These two years worth of information
13 identified some inventory items which had little or no
14 use and allowed the Division and Corporate engineers
15 to analyze these materials to determine whether they
16 were truly needed in inventory as one-of-a-kind
17 special items or whether these items were no longer
18 usable materials for Gulf Power Company. At the end
19 of 1987, a comprehensive analysis of these materials
20 was completed and a decision was made to attain the
21 best recovery possible from the sale of this material
22 and to write-off those items which could not be sold.

23 Gulf Power Company acknowledges that the system
24 in place prior to implementing the COPICS system
25 resulted in the Company carrying obsolete and unusable

1 materials in inventory longer and in greater
2 quantities than was reasonable. However, it is
3 important to note that Gulf itself recognized and took
4 steps to correct the situation in order to make sure
5 that both the inventory book amount and the physical
6 inventory in Gulf's warehouse is appropriate. This
7 entailed a program which would require Gulf to catch
8 up with its write-offs of obsolete and unusable
9 materials. This catch up with write-offs occurred in
10 1988.

11 Mr. Schultz's figure of \$16,485 as shown on page
12 58, line 7, excludes the 1988 write-off and misrepres-
13 sents the situation which has occurred. He offers no
14 evidence to support his implication that we are not
15 purchasing appropriate quantities of materials. It
16 should also be pointed out that, as a result of the
17 obsolete materials identification program, Gulf has
18 also gained the ability to immediately and more
19 appropriately assign the proper account when charging
20 off these materials. As a result, a shift occurred
21 from the former practice of writing-off obsolete
22 materials initially to the FERC 163 Clearing Account,
23 to the current practice of writing these materials off
24 directly to the proper O & M Accounts. The following
25 tabulation indicates that, when combined, these

1 accounts average \$165,555 per year in obsolete materi-
2 al write-offs over the past six years.

3
4 GULF'S OBSOLETE MATERIALS WRITE-OFFS

5	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
6	<u>O & M ACCOUNTS</u>					
7	\$ 8,855	\$ 11,167	\$ 7,509	\$ 5,895	\$480,000	\$49,000
8	<u>CLEARING ACCOUNT</u>					
9	\$17,049	\$129,989	\$56,399	\$207,345	\$ 20,157	(\$33)
10	=====	=====	=====	=====	=====	=====
11	<u>TOTAL</u>					
12	\$25,904	\$141,156	\$63,908	\$213,240	\$500,157	\$48,967
13						
14	<u>SIX YEAR AVERAGE</u>	-----		\$ 165,555	-----	

15
16 In fact, if the entire 1988 write-off of \$500,157
17 were excluded from the calculation, the remaining five
18 year average would be \$98,635. This figure also
19 confirms the reasonableness of Gulf's \$109,000 - 1990
20 Budget amount.

21
22 Q. Mr. Jordan, do you have any comments as to witness
23 Hugh Larkin, Jr. and his statements in his prefiled
24 direct testimony starting on page 13 with regard to
25 the facilities initially intended to serve Leisure

1 Lakes subdivision, which is properly known as
2 Greenhead substation?

3 A. Yes. I would like to further amplify that Leisure
4 Lakes is a subdivision and Greenhead is a substation.
5 Mr. Larkin apparently feels that since this particular
6 investment was disallowed in the 1984 rate case, it
7 should continue to be disallowed without regard to the
8 critical fact that the Greenhead substation facilities
9 are currently in use providing service to Gulf's
10 existing customers and, as such are used and useful.
11 In my prefiled direct testimony I have justified the
12 inclusion of the Greenhead substation equipment (what
13 he calls Leisure Lakes) and have clearly described how
14 it does and will serve Gulf's customers in their best
15 interest. Mr. Larkin does not contest my direct
16 testimony, just simply ignores it.

17 Gulf's study of the Vernon area has clearly
18 indicated that conversion to 25 kv distribution is in
19 the best interest of its customers. It just so
20 happens that the Greenhead transformer and its buswork
21 in the substation provides the most cost effective
22 utilization of equipment for the Vernon area
23 distribution. Although it will take two to three
24 years for the complete conversion of the Vernon area
25 distribution system to 25 kv, in the interim, as the

1 conversion takes place, the Greenhead substation will
2 be picking up greater portions of the Vernon
3 distribution customers, even as it sits at Greenhead.
4 In addition, the Greenhead substation transformer and
5 facilities at this time not only back-up the Sunny
6 Hills 25 kv subdivision, but also pick-up, on a daily
7 basis, some of the Vernon area distribution load
8 through the Moss Hill autobank transformer.

9 The alternatives to utilizing the Greenhead
10 transformer facilities in Vernon are far more expen-
11 sive but would, in future rate proceedings, be includ-
12 ed in rate base since this improvement is legitimately
13 justified for the service conditions in the Vernon
14 area distribution system. If the Commission should
15 accept Mr. Larkin's recommendation on this issue, Gulf
16 will certainly be back to the Commission with an
17 alternative solution requested for rate base inclusion
18 which will, in fact, cost Gulf's general body of
19 customers more than if Gulf were to utilize the
20 Greenhead substation equipment in the Vernon area as I
21 have discussed both here and in my direct testimony.

22 Gulf Power Company does not contest Mr. Larkin's
23 statement that in Docket No. 830484-EU, the Commission
24 did rule in favor of the rural electric cooperative
25 with regard to Leisure Lakes subdivision. What Gulf

1 would like to point out is that we have used and
2 continue to use the Greenhead substation (which Mr.
3 Larkin continues to refer to as Leisure Lakes) for the
4 useful function of back-up to the Sunny Hills subdivi-
5 sion and also to add reliability support to the Vernon
6 area distribution system. What Gulf would like to
7 point out is that we have subsequently found an
8 additional very valuable and useful function for those
9 facilities directly in the Vernon distribution area
10 where the equipment will continue to provide back-up
11 to Sunny Hills while further improving the service to
12 the Vernon area distribution customers.

13 The conversion to 25 kv in the Vernon area would
14 commence whether or not the Greenhead substation
15 facilities were available for utilization in the
16 conversion. The point is that if the Greenhead
17 substation facilities were not available, it would
18 increase the cost to our general body of customers to
19 provide the upgraded capacity and to back-up Sunny
20 Hills. Gulf's customers are fortunate that the
21 Greenhead facilities are available to make this
22 service improvement at a lower cost than would other-
23 wise be possible.

24

25 Q. Mr. Jordan, does this conclude your testimony?

A. Yes.

AFFIDAVIT


STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 891345-EI

Before me the undersigned authority, personally appeared
C. E. Jordan, who being first duly sworn,
deposes and says that he/she is the General Manager of
Power Delivery of Gulf Power Company and that the
foregoing is true and correct to the best of his/her knowledge,
information and belief.



Sworn to and subscribed before me this 11th day of
May, 1990.



Notary Public, State of Florida at Large

My Commission Expires: MY COMMISSION EXPIRES MAY 18, 1991

SUMMARY OF OVERHEAD VERSUS UNDERGROUND EXPENSES
AS FILED WITH THE FPSC PURSUANT TO ORDER No. 8483

1984	EXPENSES	POLE MILES	ANNUAL \$/MILE
OVERHEAD -	\$4,297,323	4578.81	\$938.52
UNDERGROUND -	\$690,379	345.24	\$1,999.71
1985			
OVERHEAD -	\$5,694,235	4720.00	\$1,206.41
UNDERGROUND -	\$1,036,716	416.27	\$2,490.49
1986			
OVERHEAD -	\$4,837,502	4817.10	\$1,004.24
UNDERGROUND -	\$905,205	461.06	\$1,963.31
1987			
OVERHEAD -	\$6,810,847	4914.70	\$1,385.81
UNDERGROUND -	\$950,766	496.10	\$1,916.48
1988			
OVERHEAD -	\$7,816,099	4986.98	\$1,567.30
UNDERGROUND -	\$1,141,217	539.23	\$2,116.38
1989			
OVERHEAD -	\$6,358,590	5042.25	\$1,261.06
UNDERGROUND -	\$1,233,406	583.10	\$2,115.26
SIX-YEAR AVERAGE	EXPENSES	POLE MILES	ANNUAL \$/MILE
OVERHEAD -	N/A	N/A	\$1,227.22
UNDERGROUND -	N/A	N/A	\$2,100.27

Florida Public Service Commission
Docket No. 891345-EI
GULF POWER COMPANY
Witness: C. E. Jordan
Exhibit No. _____ (CEJ-2)
Schedule 2

COMPARISON OF DSO CHARGES (1984-1989)
ACTUAL AMOUNT CHARGED TO

YEAR	PLANT IN SERVICE		O & M EXPENSE		COST OF REMOVAL		TOTAL
	(\$000)	%	(\$000)	%	(\$000)	%	
1984	\$16,537	89.62	\$1,295	7.02	\$620	3.36	\$18,452
1985	\$18,984	85.68	\$2,338	10.55	\$835	3.77	\$22,157
1986	\$16,804	86.02	\$1,938	9.92	\$793	4.06	\$19,535
1987	\$15,824	83.26	\$2,217	11.66	\$965	5.08	\$19,006
1988	\$19,499	82.61	\$2,627	11.13	\$1,477	6.26	\$23,603
1989	\$17,650	82.45	\$2,389	11.16	\$1,367	6.39	\$21,406

RECALCULATION OF 1990 BENCHMARK BASED ON NEW
ACCOUNTING PROCEDURES AND STANDARDS PUT IN PLACE SINCE 1984

1984 Percent O & M to Total	7.02%
(1985-1989) Average Percent O & M to Total	<u>10.89%</u>
O & M Increase Factor	<u>1.551</u>
	=====
	(\$000)
Budget 1984 DSO O & M	\$1,190
O & M Increase Factor	1.551
Amount that would have been charged to O & M in 1984 had the new Accounting Procedures & Standard been in effect	1,846
Customer Growth and Inflation Factor (1990-50.73%)	1.5073
Total Recalculated 1990 Benchmark	2,782
1990 Budget	<u>2,745</u>
Amount Under the Benchmark	(37)
	=====