BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of	DOCKET NO. 931044-EI
Petition for Authority to Implement Replacement Rate Schedule for Standby Electric Service by Gulf Power Company	

FIRST DAY - FIRST SESSION

VOLUME 1

Pages 1 through 220

PROCEEDINGS: HEARING

BEFORE: CHAIRMAN J. TERRY DEASON
COMMISSIONER SUSAN F. CLARK
COMMISSIONER DIANE K. KIESLING

DATE: Monday, August 1, 1994

TIME: Commenced at 1:30 p.m.

PLACE: Florida Public Service Commission
Room 106
101 East Gaines Street
Tallahassee, Florida

REPORTED BY: JOY KELLY, CSR, RPR
Chief, Bureau of Reporting
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Official Commission Reporter

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APPEARANCES:

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P R O C E E D I N G S

(Hearing convened at 1:30 p.m.)

CHAIRMAN DEASON: Call the hearing to order. Notice, please?

MS. ERSTLING: Pursuant to notice issued July 20, 1994, in Docket No. 931044-EI, the hearing has been set for August 1, 1994, at 1:30 p.m. in Room 106 of the Fletcher Building, Tallahassee, Florida.

CHAIRMAN DEASON: Take appearances?

MR. STONE: Jeffrey A. Stone, of the law firm Beggs and Lane. The address is stated in the prehearing order, representing Gulf Power Company.

MR. McGLOTHLIN: My name is Joe McGlothlin, with McWhirter, Reeves, McGlothlin, Davidson and Bakas, 315 South Calhoun Street, Tallahassee. I represent Monsanto Company, Stone Container Corporation, and Champion International Corporation, collectively referred to as the Industrial Intervenors.

MS. ERSTLING: Sheila L. Erstling and Michael Palecki representing the Commission Staff.

MR. PRUITT: And I'm Prentice Pruitt, Counsel to the Commissioners.

CHAIRMAN DEASON: Do we have any preliminary matters?

MS. ERSTLING: No, there are no preliminary

matters, I believe.

MR. McGLOTHLIN: Mr. Chairman, I have two small matters, both of which I believe are noncontroversial, housekeeping in nature. First of all, on Page 4 of the prehearing order, I would like to suggest that we change the order of witnesses so that Mr. Brueggemeier follows Mr. Bogatie so that Witnesses Kisla and Bogatie, both of whom appear for the same intervenor, can appear back-to-back.

CHAIRMAN DEASON: Very well. Any objection?

MS. ERSTLING: No objection.

MR. McGLOTHLIN: And secondly, I'd like to simply bring to your attention that there is a potential issue of confidentiality involved in this hearing. It's a matter which I believe Staff and the parties have worked out, but so that you will be on notice, the industrial customers of Gulf Power Company asked the Utility to treat their consumption characteristics as proprietary and confidential because that information, if made public, would be perhaps useful to competitors in gaining insights as to costs and patterns of production.

Staff has advised us that they intend to use a spreadsheet that has some customer-specific data on it, but they intend to do it in a generic way. Gulf Power

at our request -- at our general request that they treat such matters as proprietary, Gulf Power filed a Notice of Intent to ask for confidential treatment of that information. If we get to that point and the Chairman deems it necessary, we're prepared and poised to file a Motion for Protective Order. As I say, this is all simply as a contingency, because it's our understanding that the questions will not be that specific in nature.

CHAIRMAN DEASON: Well, I appreciate your putting us on notice to that possibility. Hopefully we can work through it without that but if the need arises, please, let us know and we'll see what we can do.

Any other preliminary matters?

MR. McGLOTHLIN: The Industrial Intervenors call Bruce Hollinger.

CHAIRMAN DEASON: And I'll ask all witnesses who are in the room at this time to please stand and raise your right hand.

(Witnesses sworn collectively.)

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BRUCE K. HOLLINGER

was called as a witness on behalf of the Industrial Intervenors and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. McGLOTHLIN:

Q Please state your name and business address, sir.

A My name is Bruce K. Hollinger. My business address is 800 North Lindbergh, L-I-N-D-B-E-R-G-H, St. Louis, Missouri 63167.

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

A I'm employed by Monsanto Company, in the capacity of Manager of Utilities at their World Headquarters.

Q Have you prepared and submitted prefiled direct testimony in this docket?

A Yes.

Q Do you have any changes or corrections to make to the prefiled document?

A Yes, I do have one change to be made. On Page 3 of my testimony, Lines 6 through 9, the correct reading should be, "Thus far, the unit has performed in excellent fashion, with unscheduled outage time of only

six days in the first 11 months of operation. This is an availability rate of over 98%."

MR. McGLOTHLIN: Commissioners, we have distributed a revised page that reflects that correction.

Q (By Mr. McGlothlin) As amended, Mr. Hollinger, do you adopt this testimony as your testimony today?

A Yes, I do.

MR. McGLOTHLIN: I request that the prefiled testimony with the corrected page be inserted at this point.

CHAIRMAN DEASON: Without objection, it will be so inserted.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY

OF

BRUCE K. HOLLINGER

ON BEHALF OF MONSANTO CHEMICAL COMPANY

DOCKET NO. 931044-EI

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Bruce K. Hollinger. My business address is 800 North Lindbergh Boulevard, St. Louis, Missouri, 63167. My title is Manager, Utilities for Monsanto Chemical Company. My office is located at the Monsanto World Headquarters corporate offices in St. Louis.

Q. PLEASE GIVE A BRIEF DESCRIPTION OF YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I graduated from the University of Illinois with a B.S. degree in electrical engineering in 1969. I received my M.B.A. degree from Loyola University of Chicago in 1973, and joined Monsanto at that time. I have had assignments for Monsanto in electrical utility design and financial analysis, and assumed my current position in 1977. I am a registered professional engineer in the State of Missouri.

Q. WHAT ARE YOUR CHIEF RESPONSIBILITIES?

A. As my primary job function, I provide consultation and administration of Monsanto's participation in utility

rate cases. I also provide assistance to plants and locations in the negotiation of utility contracts, and assist with the development of forecasts of the cost and availability of utility services. In addition, my office is actively involved in the development of all cogeneration projects and activities for our various plant locations.

Q. **PLEASE GIVE THE COMMISSION SOME BACKGROUND ON MONSANTO'S OPERATIONS IN FLORIDA.**

A. Monsanto owns and operates a chemical plant facility near Pensacola, Florida. The plant has approximately 1,800 direct employees, with an aggregate annual payroll of about $100 million, plus approximately 1,000 additional contract employees. The plant's main product is nylon staple for carpet yarn and tire yarn. Intermediate products include Adipic Acid, Nitric Acid and Vydyne plastic staple. In addition, the plant is involved in several other operations, including Maleic Anhydride, Advanced Elastomers and Cyrex.

Q. **PLEASE DESCRIBE MONSANTO'S PENSACOLA COGENERATION UNIT.**

A. Monsanto installed an 86 MW cogeneration unit at the Pensacola facility in 1993. We anticipate that we will be the largest individual standby customer on the Gulf Power system.

Q. **HOW HAS THE MONSANTO COGENERATION FACILITY OPERATED SO**

FAR?

A. Our cogeneration unit was designed to provide a very reliable and cost-effective supply of electricity. Given the sensitivity of plant operations to outages, we expect to achieve an availability rate much higher than 90%. Thus far, the unit has performed in excellent fashion, with unscheduled outage time of only six days in the first eleven months of operation. This is an availability rate of over 98 percent.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY HERE TODAY?

A. I wish to express Monsanto's support for the Replacement Rate Schedule for Standby Electric Service as proposed by Gulf Power Company.

Q. WHY IS MONSANTO PARTICIPATING IN THIS PROCEEDING?

A. Our situation is a little different than that of the other current standby customers. Monsanto is a relatively new standby customer.

Since we are "new players," so to speak, we have little experience with the existing rate. However, in anticipation of our new unit coming on-line, and having been made very aware of the problems created by the complexity and subjectivity of the existing rate, we have participated fully in the collaborative effort between Gulf Power and the other standby service customers to develop a tariff that would be more objective, more

capable of precise determinations for purposes of our decision making, and therefore easier to administer.

Q. **ASIDE FROM THE OBJECTIVES OF OBJECTIVITY AND CERTAINTY THAT WILL MAKE THE REVISED RATE EASIER TO ADMINISTER, DOES THE PROPOSED RATE OFFER ANY OTHER ADVANTAGES?**

A. Yes. One of the more attractive features of the new tariff is the strong incentive to perform planned maintenance outages during the non-summer months. Specifically, there would be no daily demand charge applied during Coordinated Maintenance Months, or CMM's. The effort to move standby load to non-summer months makes economic sense, given my understanding that both Gulf Power Company and the Southern Company systems are summer-peaking. Further, I understand that the ability to coordinate maintenance outages with the utility, which would be the case during CMM's, is of value to Gulf Power and should be recognized in the pricing of maintenance service. The alternative -- that is, a greater likelihood of having to provide standby customers with maintenance power during the time of the highest peak -- could cause Gulf Power and/or Southern to construct additional capacity, the costs of which would be borne by all customers.

Q. **PLEASE SUMMARIZE YOUR RECOMMENDATION.**

A. I think that it is important to note that the new rate

proposal was agreed upon jointly only after discussions which ultimately extended over two years. The new rate represents a sincere effort by Gulf Power to work together with and respond to the needs of their customers. It most definitely is not a hastily assembled "quick-fix" solution. The problems are real, and the proposed tariff represents a realistic improvement and solution to those problems. I therefore urge the Commission to approve the implementation of the new rate schedule. Thank you.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Q (By Mr. McGlothlin) Mr. Hollinger, would you please summarize your testimony?

A Yes, thank you.

Monsanto operates a chemical facility near Pensacola, Florida, where it installed a 86-megawatt cogeneration unit in 1993. I'm here today to express our support of the standby rate schedule proposed by Gulf Power Company.

As I have already spoken to you at the agenda conference and submitted prefiled testimony, I will make this very brief. In my testimony I reiterate these points.

Our cogeneration unit was designed to provide a reliable and cost-effective supply of electricity. Thus far, the unit has experienced unscheduled outage time of only six days in the first 11 months, yielding an availability rate of over 98%. With good reason, then, we expect that the overall availability rate will be greater than 90%.

In anticipation of our unit coming on line, we have become very aware of the problems evident in the existing standby rate and have participated fully in the development of the improved rate that is the subject of this hearing.

One of the more attractive features of the new

rate is the incentive to perform planned maintenance outages during nonsummer months. This makes sense, given that Gulf Power system is summer peaking. The ability to coordinate maintenance outages is, therefore, of value to Gulf. If Gulf were required to serve standby customers during periods of peak demand, it could cause the construction of additional capacity, the cost of which would be borne by all customers.

The new rate offers a solution to real problems. The replacement rate is the culmination of two years of efforts by Gulf Power and its customers. I, therefore, urge you to authorize Gulf Power to implement the rate on a permanent basis. Thank you.

Q Does that conclude your summary?

A It does.

MR. McGLOTHLIN: The witness is available for cross examination.

CHAIRMAN DEASON: Mr. Stone.

MR. STONE: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. STONE:

Q Mr. Hollinger, in the course of this docket, have you received any interrogatories or data requests from the Staff with regard to how Monsanto would react to the new SBS tariff?

A No, I have not.

MR. STONE: Thank you. I have no further questions.

CHAIRMAN DEASON: Staff.

MS. ERSTLING: We have no cross for this witness.

CHAIRMAN DEASON: I assume there's no redirect?

MR. McGLOTHLIN: No redirect.

CHAIRMAN DEASON: Okay.

WITNESS HOLLINGER: Thank you.

CHAIRMAN DEASON: Thank you.

(Witness Hollinger excused.)

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MR. McGLOTHLIN: We call Tom Kisla.

TOM KISLA

was called as a witness on behalf of the Industrial Intervenors and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. McGLOTHLIN:

Q Please state your name and business address, sir.

A My name is Tom Kisla. My business address is Stone Container, 1979 Lakeside Parkway, Tucker, Georgia,

Zip Code 30084.

Q What is your position with Stone Container Corporation?

A I'm Manager of Energy Source Planning and Development.

Q Did you prepare and submit to the Commission prefiled direct testimony in this case?

A Yes, I did.

Q Do you have any changes or additions to make at this point?

A No, I don't.

Q Do you adopt the prefiled statement as your statement today?

A Yes, I do.

MR. McGLOTHLIN: I request that the direct testimony be inserted at this point.

CHAIRMAN DEASON: Without objection, it will be so inserted.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY

OF

TOM KISLA

ON BEHALF OF STONE CONTAINER CORPORATION

DOCKET NO. 931044-EI

Q. PLEASE STATE YOUR NAME, OCCUPATION, EMPLOYER AND BUSINESS ADDRESS.

A. My name is Tom Kisla. I work for Stone Container Corporation, as Manager of Energy Source Planning and Development. My office is the Corporate Technical and Engineering Center, located at 1979 Lakeside Parkway, Tucker, Georgia, 30084. Stone Container owns a paper mill in Panama City, Florida that is served by Gulf Power Company.

Q. DO YOU HAVE ANY RESPONSIBILITIES AT THE PANAMA CITY MILL?

A. Part of my job is to help the Panama City mill evaluate its various options related to energy supply and use.

Q. HAVE YOU GIVEN TESTIMONY ON GULF POWERS' STANDBY SERVICE BEFORE?

A. Yes. I appeared before the Commission in April of 1990, in Docket No. 891345-EI. That docket involved the development of tariffs governing standby service.

Q. WHAT WAS THE NATURE OF YOUR PARTICIPATION IN THAT DOCKET?

A. In my testimony I explained how cogeneration worked at

our mill in Panama City, and why the tariff as proposed was technically flawed and needlessly complex. In addition, based on our successful experience elsewhere, I suggested an alternative rate design.

Q. **DID THE COMMISSION ACCEPT ANY OF YOUR CONCEPTS?**

A. The Commission didn't adopt the rate methodology I suggested, but the Commission did make several changes to the tariff originally proposed by Gulf Power. One such change allowed for standby service billing to be reduced by any on-peak load reduction that could be attributed to a current generation outage. This change, although it was well intentioned and addressed a major shortcoming of the rate, inadvertently set the stage for many of the administrative difficulties we faced under the old standby rate.

Q. **COULD YOU ELABORATE ON THAT STATEMENT?**

A. As one becomes more familiar with the methodology that was in place before the Commission allowed the replacement rate to take effect, it should become clear that this provision required an interpretation of how the mill would have been running if the event requiring the use of standby power had not occurred. A series of decisions were required, each of which affected the standby billing.

This required our power house operating personnel to

wear two hats; one representing the utility and one representing the Panama City mill. I think most will agree that it's poor policy to put people in this situation.

Further, since the mill runs around the clock, it's almost certain that unless we change the mill staffing, some event requiring the use of standby service will occur when executive management supervision isn't available.

This forced the employee whose hand is on the switch at the moment to make an on the spot decision. Recognize that even with proper training the employee may not have immediate access to the information required to make an informed decision. Faced with this dilemma mistakes will occur.

Q. **IF MISTAKES OCCUR AT RANDOM, WOULDN'T THERE BE A TENDENCY FOR THEM TO LEVEL OUT OVER TIME?**

A. Unfortunately, no. Regardless of the mistake, be it responding too timidly or too boldly, it's the Panama City mill that loses.

Q. **COULD YOU EXPLAIN WHY THE MILL WOULD LOSE EITHER WAY?**

A. In one case it will lose production because we failed to use electric demand already paid for, or available in a cost-effective manner.

In the other case, we could use more electricity

than was economically justified. Remember, we were saddled with a two-year ratchet, which is a twenty-four (24) fold multiplier.

Q. **COULD YOU DESCRIBE SOME OF THE ACTUAL PROBLEMS WHICH HAVE SUBSEQUENTLY ARISEN DUE TO THE OLD METHODOLOGY?**

A. Chuck Bogatie, who is Manager of Operations at the Panama City mill, will illustrate specific problems that we have encountered.

After being on the rate for a while, Chuck complained to Gulf Power's customer service representatives about the difficulties that the standby rate created for our business. Gulf Power, to their credit, took this to heart. When Gulf Power confirmed that the other standby service users held similar views, Gulf encouraged the formation of the cooperative effort which ultimately developed the joint proposal currently before the Commission.

Q. **CAN YOU SUMMARIZE YOUR RECOMMENDATION TO THE COMMISSION?**

A. Yes. Really, our objectives haven't changed with time. We still want a rate that can be easily understood, and easily administered. We want a rate that promotes the best use of resources, both of the utility's and the mill's, and one based on the true cost of service and thus one that sends the right price signals. The replacement rate before the Commission may not be

perfect, but for right now it is a positive step in the right direction for three reasons:

(1) It is clearly a better rate than the one it replaced;

(2) I can't see that it harms anyone; and

(3) There is nothing here that can't be changed when we agree on a better way to do it.

I ask the Commission to approve the rate on a permanent basis.

Q. **DOES THAT CONCLUDE YOUR TESTIMONY?**

A. Yes. I'd like to thank all involved for their time and consideration.

Q (By Mr. McGlothlin) Mr. Kisla, would you proceed to summarize your testimony?

A Yes. Basically in my testimony, I stated that I appeared before the Commission in 1990 and had taken the position that the standby rate, as proposed at that time, was technically flawed and needlessly complex. I knew this to be true based on our successful experience in operating cogeneration units under workable tariffs elsewhere.

Although some changes were made in the rate, the changes didn't correct the basic problems in the design. These problems led to a coalition attempting to draft a new rate structure. Our objective, i.e., Stone Container's objective, was to try to develop a rate that could be easily administered, one that sent the right price signals and one that promoted the best use of resources. That rate is currently in effect by Commission order.

I recommend the Commission approve the rate modification, continue it, because it certainly is a step in the right direction. Because, one, it clearly is better than the one it replaced; two, I don't see that it materially harms anyone; and three, there wasn't anything proposed that couldn't be undone when a better rate structure was agreed upon.

MR. McGLOTHLIN: The witness is available for cross examination.

CHAIRMAN DEASON: Mr. Stone.

CROSS EXAMINATION

BY MR. STONE:

Q Mr. Kisla, to the best of your knowledge, has Stone Container received any interrogatories or data requests or submitted to any depositions in the course of this docket with regard to how Stone Container would react to the new SBS rate schedule?

A I have not received any inquiries.

Q And based on your position, is it likely that had any inquiries been made of Stone Container, they would have been brought to your attention?

A It should have been so.

Q It's my understanding from your testimony that part of your job is to help the Panama City mill evaluate various options related to energy supply and use; is that correct?

A That's correct.

Q As such, then, you are familiar with the cogeneration equipment that Stone Container has installed in its Panama City mill?

A Yes, I am.

Q Would it be a fair statement to say that the

effective heat rate of the cogeneration units installed at the Panama City mill are such that the heat rate is lower than the heat rate that you would expect for Gulf Power to have its units?

A Substantially lower, yes. I don't think I'm giving any trade secrets away when I tell that you the heat rate is basically a function of the fuel efficiency and the pressure that you're running at. How trivial a nominal overall rate would be someplace between 6,500 to 7,000 Btus per kilowatt-hour. This should be approximately half of what a thermal plant from Gulf Power, should yield. But that number in itself is probably not the telling number. When we talk about cogeneration, we're talking about simultaneous generation of steam and electric.

We have boilers at the mill and they produce steam, the biggest ones produce it at 12,000 pounds pressure. We need this steam to make paper. If all of our electric was being supplied by Gulf Power, we would still need to make this steam to make paper. We make it at 1,200 pounds. We cannot use it at 1,200 pounds. We've got to reduce the pressures. Most of our steam is taken at 150 and 160 pounds. If we didn't have any turbines at all, we'd put it through devices called "pressure reducing valves," which would lower them to

these operating pressures. So basically the steam is going to be produced at 12 and reduced to one of these -- to lower operating pressures if we're going to use it at all.

If we insert a turbine in between there, we can use the high pressure energy at 1,200 to make electric. When we run it through the turbine, we, in essence, make electric for 3,413 Btus per kilowatt-hour; it's theoretical. There's very little loss. You know, very little loss in the system. Our generator loss might be 1% or 2%, which would raise that Btu number.

So that's what it takes that turbine to make electric when the steam is going to one of the lower pressure uses. That energy is no longer available for the low energy use so we have to put some more back into the system. So we'll burn some more fossil fuel. How much does it take, depends on what you're going to use. If you're burning a gas and it happens to be 85% nominal efficiency, then you're probably going to be using 4,020, 4,200 Btus per kilowatt-hour, total. You compare that to the 1,200 that a plant would be, and you can see it's easily three or four times more efficient than any thermal plant that Gulf Power could have. The key is we need that steam for process; we're going to make it anyway. So those are our numbers.

Q Based on the fact that you have to make the steam for your process, you need the steam anyway, would a daily demand charge of zero during an approved coordinated maintenance month, encourage Stone Container to continue to purchase kilowatt-hours from Gulf Power after the scheduled maintenance is complete rather than bring your own units back on line?

A Absolutely not. And I've done some preliminary studies on that. These things are all a function of what the current fuel rates are.

My study right now would suggest that if we were to take our cogeneration equipment down and keep it down for a month, we would lose in excess of, oh, $150,000 a month. We can make electrical energy cheaper than Gulf Power can make and sell us energy for electric -- for energy cost only. Let me restate that.

We can make electrical energy, electrical kW, cheaper than we can buy it from Gulf Power if Gulf Power was charging us only for the energy component. And I would suggest this, you know, less than half of Gulf Power's cost.

MR. STONE: I have no further questions.

CHAIRMAN DEASON: Staff?

MS. ERSTLING: We have no questions for this witness.

CHAIRMAN DEASON: Commissioners? Redirect?

MR. McGLOTHLIN: No redirect.

CHAIRMAN DEASON: Thank you.

MR. McGLOTHLIN: Thank you.

(Witness Kisla excused.)

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MR. McGLOTHLIN: We call Mr. Bogatie.

CHARLES BOGATIE

was called as a witness on behalf of the Industrial Intervenors and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. McGLOTHLIN:

Q Please state your name and address, sir.

A My name is Charles Bogatie. Business address is 1 Everitt Avenue, Panama City, Florida, Zip Code 32402.

Q Mr. Bogatie, by whom are you employed and in what capacity?

A I'm employed by Stone Container. I am Manager of Operations at the Panama City mill.

Q Have you prepared and submitted prefiled direct testimony for this hearing?

A Yes, I have.

Q Do you have any changes or corrections to

make?

A No, I don't.

Q Do you adopt the written testimony as your statement today?

A Yes, I do.

MR. McGLOTHLIN: I request that Mr. Bogatie's testimony be inserted at this point.

CHAIRMAN DEASON: Without objection, it will be so inserted.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY

OF

CHARLES F. BOGATIE

ON BEHALF OF STONE CONTAINER CORPORATION

DOCKET NO. 931044-EI

Q. **PLEASE STATE YOUR NAME, OCCUPATION, EMPLOYER AND BUSINESS ADDRESS.**

A. My name is Charles F. Bogatie. I'm employed by Stone Container Corporation as Manager of Operations at the company's mill in Panama City, Florida. The street address is 1 Everitt Avenue.

Q. **ON WHOSE BEHALF ARE YOU APPEARING IN THIS DOCKET?**

A. I appear on behalf of Stone Container Corporation, Panama City, but I believe my testimony applies to all the industrial cogenerators who have had occasion to use standby service from Gulf Power in the past.

Q. **WOULD YOU DESCRIBE YOUR FACILITY, YOUR COGENERATION CAPACITY, AND YOUR RELATIONSHIP WITH GULF POWER.**

A. Usually, our mill directly employs over 600 people in the manufacture of over 1700 tons per day of linerboard and market pulp. We produce high pressure steam in four different boilers. The steam can pass through one or more of our three turbogenerators, one of which has condensing capacity. Our total cogeneration capacity is

35 Megawatts. Usually we generate about 30 to 33 Megawatts and buy 10 to 12 Megawatts from Gulf Power. Our old BC was 7.5 Megawatts and the total power tie line capacity, which ultimately represents the most power we could ever buy at a given point in time, is 30 Megawatts.

Q. **CAN YOU GIVE AN EXAMPLE OF A PROBLEM THAT YOU PERSONALLY HAVE HAD WITH THE ORIGINAL STANDBY SERVICE RATE?**

A. Yes, I can. About two years ago, my phone rang at 2:00 a.m. It was the paper mill's power superintendent. He told me that our 20 Megawatt turbine had just failed and it would probably be 24 to 36 hours before we expected to be able to bring it back on line. If we didn't elect to use standby power we would lose about half of our production for the period. The question he asked me seemed straightforward: was it more economical to shut down half the mill for that period or increase purchased power from the electric tie and set a new demand that we would have to pay for the next two years? My answer was, "I'm not sure at this hour, but let me talk to our controller." Well, you can imagine the surprise of our accounting director to get a call from me at that hour to help calculate the pluses and minuses of the issue, including shutting a machine down, laying off 300 people and disrupting customer schedules. After twenty minutes -- during which we still couldn't decide on a calculable

answer, mainly because the rules are so complex -- we made the decision to increase the power pull and continue production.

The next day I found that there were only two people in Florida (save for the rate staff at the PSC) who knew how to calculate the answer: one at Gulf Power who does the billing, and one at the paper mill who is a power engineer. Further, each of them would have to know a number of specifics concerning the way the mill was operating just prior to the event in order to begin their calculations.

I was quite relieved to find out, well after the fact, that I had made the right decision.

Q. **HAVING GONE THROUGH YOUR ORDEAL, WEREN'T YOU BETTER PREPARED TO MAKE THE RIGHT DECISION THE NEXT TIME SOMETHING SIMILAR HAPPENED?**

A. No. If there were lessons learned that night that could be applied in the future to avoid similar difficulties, then I wouldn't be here today.

Q. **COULD YOU PLEASE EXPLAIN WHY PAST EXPERIENCE WASN'T A GUIDE FOR FUTURE ACTION USING THE OLD RATE STRUCTURE?**

A. I'll try. Our paper mill operates 24 hours a day, seven days a week, 350 days a year. It is a dynamic process, one that is characterized by changing production and maintenance schedules. Each situation requiring a

standby/no standby decision is unique. With the system that was in effect, the rate was too complex. It required knowledge of the current status of each piece of equipment in the mill, as well as plans for continued use. We couldn't bring all of the required information together fast enough. Consequently, we made a decision, then waited for the technicians to go through their calculations. Only when they were finished did we know whether we made the right economic decision.

Sometimes the correct economic decision would be counter-intuitive. For instance, when we lose a small turbine, there are conditions under which we would be better off using more fossil fuel to generate more steam to go into our condensing turbine, so as to make more electricity, even if SE energy was available from Gulf Power. The irony here is that under the old rate there were times when it was more economical for us to use high priced fossil fuel to make electricity rather than buy it from Gulf when it was in surplus supply. This is counter to both energy conservation and the law of supply and demand.

Q. HAVE YOU HAD ANY EXPERIENCE WITH THE NEW TARIFF?

A. No, not yet. We have been fortunate enough not to need standby service in the short time it has been in effect.

Q. WOULD YOU LIKE TO SEE THIS RATE CONTINUED?

A. Yes, I urge the Commissioners to let this rate stay in effect until a better methodology is found.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

Q (By Mr. McGlothlin) Mr. Bogatie, please summarize your testimony for the Commissioners.

A I want to quickly reiterate the point that I made during the agenda conference in June. As manager of operations at the Panama City mill, I learned firsthand that Gulf Power's original standby rate was a nightmare. At 2:00 a.m. I was told that our 20-megawatt turbine had failed, and was asked to decide whether it would be more economical to shut down for 36 hours and sustain loss of production, or alternatively to purchase standby power.

My power superintendent, my accounting director and I, all with technical and accounting degrees, as well as being knowledgeable businessmen, couldn't calculate the right answer when we had to make a decision. We had to choose a course and hope that time would prove us right.

If the lessons learned that night could have provided guidance for future decisions, I would have never complained to Gulf Power originally two years ago and I probably wouldn't be here today. But that's not the case. Under the old rate, it was necessary to know specific values for a myriad of dynamic plant conditions immediately prior to the outage event. Therefore, each standby/no standby decision under the old rate was

unique and each was incapable of a timely resolution. The present rate goes a long way towards alleviating this problem and I ask that you make it permanent.

MR. McGLOTHLIN: The witness is available for cross examination.

CHAIRMAN DEASON: Mr. Stone.

MR. STONE: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. STONE:

Q Mr. Bogatie, you have been operating under rate schedule SBS for about a month now; is that correct?

A That's correct, yes.

Q Do you have any comments with regard to that as of last month?

A No experience at this point; it's really too early to tell at this point.

MR. STONE: Thank you. I have no further questions.

CHAIRMAN DEASON: Staff.

CROSS EXAMINATION

BY MS. ERSTLING:

Q Mr. Bogatie, you explained the difficulty in your testimony regarding Stone Container Corporation had in determining the most economical solution, whether to

shut down half of the mill or to purchase standby power from Gulf. Is that correct?

A That's correct.

Q Out of curiosity, can you tell us in what month that specific outage occurred?

A That was on November 11, 1991.

Q Thank you. Would you please help me to understand how the CMM provision and the Option A review provision in the new SBS rate could have helped Stone to determine the most economic solution in a forced outage situation?

A That particular situation was based upon the overall complexity of the old standby rate category.

The problem that we had incurred at that time is that any decision that you made to buy standby power, you had to pay on a 24-month ratchet. And because of that, you had to look at all the different situations that were in the mill at that time, all the various power units, the rates they were operating, the various production rates on the machines and the pulp mill, and being able to calculate the price of the product at that time, and then take all those costs and then compare that to the costs that you would incur over the next two years by paying Gulf Power. And that was my contention, that in a relatively short period of time, 15 or 30

minutes, that no one had the opportunity to make those long-term decisions.

Q And I understand what you're saying. However, I'm trying to find out in what manner the coordinated maintenance month provision in the new standby schedule and the Option A review provision would have helped you in making that decision?

A Well, in one way, there would not have been a 24-month ratchet to have interfered in the calculation. That would have been a major factor.

Q Would that have been the primary factor that those two provisions would have -- (Simultaneous conversation.)

A To us that would have been a primary factor, yes.

COMMISSIONER CLARK: Mr. Bogatie, would you go through -- I think I understand the complexity of what you would have had to do under the old rate, was contingent on the 24 month. What happens under the tariff that's in effect now? How do you make a determination as to how much it's going to cost you?

WITNESS BOGATIE: Well, one thing is that as we go through the analysis, you will not have the 24-month ratchet to deal with.

COMMISSIONER CLARK: I understand. So what will

you do?

WITNESS BOGATIE: Well, it's my understanding that we'll be paying essentially for the power that we will be using at that time.

COMMISSIONER CLARK: Here's our difficulty. You've made a statement that the old rate -- you couldn't determine what your cost was going to be and compare it to the benefit you gain by continuing to put out your product as opposed to shutting down your plant and not buying the power. What is it under this rate that makes it easier for you to calculate that cost/benefit ratio? If you can't answer it, you can defer it to perhaps Mr. Pollock or Gulf Power.

WITNESS BOGATIE: I would prefer to defer that to Mr. Pollock.

COMMISSIONER CLARK: Okay. Because we want to understand why you all think this is a good deal, and I want to understand why it makes it easier for you to make that calculation.

WITNESS BOGATIE: Well, if it's okay, I would like to defer that question.

COMMISSIONER CLARK: I sure will.

Q (By Ms. Erstling) Getting back and this is part of the same line of questioning, if an unscheduled or a forced outage occurred during a noncoordinated

maintenance month, aren't you still subject to the 24-month ratchet?

A As I understand it, yes.

MS. ERSTLING: Thank you, I have no further questions for this witness.

CHAIRMAN DEASON: Commissioners? Redirect?

MR. McGLOTHLIN: None.

CHAIRMAN DEASON: Thank you, sir.

(Witness Bogatie excused.)

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MR. McGLOTHLIN: We call Mr. Brueggemeier.

DENNY BRUEGGEMEIER

was called as a witness on behalf of the Industrial Intervenors and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. McGLOTHLIN:

Q Please state your name and a business address, sir.

A My name is Danny Brueggemeier. I am employed at Champion International, 375 Muscogee Road, Cantonment, Florida.

Q What position do you hold with Champion International, Mr. Brueggemeier?

A I'm the utility superintendent.

Q On behalf of Champion International, did you submit prefiled written testimony for this hearing?

A Yes, I did.

Q Do you have any changes or corrections to make to that document?

A No, I don't.

Q Do you adopt that testimony as your statement today?

A Yes, I do.

MR. McGLOTHLIN: I request that the prefiled direct testimony be inserted at this point.

CHAIRMAN DEASON: Without objection, it will be so inserted.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY

OF

DENNY BRUEGGEMEIER

ON BEHALF OF CHAMPION INTERNATIONAL CORPORATION

DOCKET NO. 931044-EI

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Denny Brueggemeier. I am employed by Champion International Corporation at its pulp and paper mill located at 375 Muscogee Road, Cantonment, Florida. I am currently the utility superintendent at the mill.

Q. PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I received a Bachelor of Science degree from Miami University in Oxford, Ohio. I have been employed with Champion International for 20 years, holding positions of increasing responsibility in Technical and Recovery and Utility Departments at three locations.

Q. WOULD YOU PLEASE GIVE A BRIEF DESCRIPTION OF YOUR RESPONSIBILITIES?

A. In my current position as utility superintendent, I am responsible for steam and electrical generation and distribution throughout the mill.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THESE PROCEEDINGS?

A. I am here today to request the Commission to approve the petition of Gulf Power Company for permanent authority to implement a replacement rate schedule for standby and supplemental service.

Q. WOULD YOU BRIEFLY DESCRIBE THE NATURE OF THE BUSINESS CONDUCTED AT YOUR CANTONMENT PULP AND PAPER MILL?

A. Our mill, which is located near Pensacola, Florida commenced operations in 1941. Over the years our company has invested hundreds of millions of dollars in capital to maintain our facility as a state-of-the-art operation. Our mill, which is a part of the Printing and Writing Division of Champion International Corporation, operates 24 hours a day, seven days a week and produces more than 1000 tons of paper daily for copier, envelope, and business forms customers.

Q. WHAT ARE THE ECONOMIC IMPACTS OF THE CANTONMENT PULP AND PAPER MILL?

A. The viability of our mill is not only important to Champion International, but also to the surrounding area. We employ approximately 1200 people and have an annual payroll of approximately $65 million. In addition, we spend well over $200 million for the purchase of raw materials, energy, supplies, and services. Champion pays more than $9.1 million annually in state and local taxes and last year spent almost $6 million for purchased

electricity from Gulf Power Company.

Q. **PLEASE DESCRIBE THE EXTENT OF COGENERATION AT YOUR MILL.**

A. While we are a significant purchaser of electricity, our mill cogenerates internally almost 80 percent of the total electricity we consume. We produce the electricity with two large, high pressure steam turbine-generators. Approximately 72 percent of the fuel used in our cogeneration process is also produced internally as a by-product of manufacturing pulp and paper at our facility.

Q. **HOW IMPORTANT IS A RELIABLE SUPPLY OF ELECTRICITY TO YOUR MILL?**

A. As I noted previously, we operate 24 hours a day, 7 days a week. The high quality paper we produce must be manufactured by equipment which is extremely expensive. To protect our operations against outages which might occur to our cogeneration facilities, we purchase standby service from Gulf Power.

Q. **COULD YOU BRIEFLY DESCRIBE THE PROBLEMS AND CONCERNS YOU EXPERIENCED WITH GULF POWER'S OLD STANDBY SERVICE TARIFF?**

A. We found it to be very cumbersome and confusing to work with. During major outages, the process of designating how much standby service was taken involved subjective judgments. We had to review 96 bits of data per day (the 15 minute billing increments). The designations were broken down further into on and off peak periods each

day. The designation of standby capacity had to be balanced against the requirement to maintain compliance with the minimum 75 percent load factor requirement of the PXT tariff. When emergency outages occur our operators' immediate concern is to protect our operating equipment and to keep our mill running. The requirement to make standby service designation decisions under these conditions is very onerous and mistakes can be very costly. We and other standby customers of Gulf Power had expressed our concerns over the provisions of the standby services tariff since its inception.

Q. WHAT HAS BEEN DONE BY GULF POWER TO ADDRESS THESE CONCERNS?

A. Across the country we are seeing a very positive trend with many electric utilities working more closely with their customers to respond to problems and to explore opportunities to keep them a viable entity. The growth of competition from independent power producers, the 1992 Energy Policy Act and its wholesale wheeling provisions make it all the more imperative that utilities be able to respond fairly and equitably to the needs of their customers. Certainly Gulf Power has tried to do that in this case. We and other standby customers have spent considerable time and expense in working with Gulf Power over the last two years to find a solution to our

concerns with the standby service tariff which would be equitable to standby service customers, to Gulf Power Company, and to the rest of Gulf Power's customers. We believe the SBS tariff now under consideration meets those objectives.

Q. ARE THERE SPECIFIC ASPECTS OF THE NEW RATE THAT YOU WISH TO ADDRESS?

A. Yes. I want to comment on "option A," which has been identified as one of the very few remaining issues regarding the new rate. Under option A, Champion could utilize "Supplemental Energy" when it is made available by Gulf Power pursuant to its SE rider. This option is beneficial because it will enable us to purchase the most economical energy available. The tradeoff is that, under option A, the daily demand charge for standby power is $1.40 per KW per day. This is three times the daily demand charge applicable to regular standby customers. Thus, Champion is at risk because an outage occurring on a non-SE day would be more expensive than an outage to a standby customer that does not make the option A election. We understand that SE energy will be less available than in the past as the Southern system reserves diminish over time. However, Champion is willing to take the risk that it can limit outages to avoid its exposure to the possibility that it may

experience outages on non-SE days. One direct consequence is that option A will provide a strong incentive to us to maintain high reliability of our cogeneration facility.

Q. DO YOU HAVE ANYTHING TO ADD?

A. Yes. We believe the collaborative rather than confrontational process in addressing problems is better for everyone. We respectfully request the Commission to recognize the collaborative efforts of both Gulf Power and its standby customers and approve the proposed SBS tariff.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

Q Mr. Brueggemeier, would you summarize your testimony?

A I'm here today on behalf of Champion International to support Gulf Power's new standby rate.

The mill operates 24 hours a day, employs approximately 1,200 people, and although the mill cogenerates almost 80% of the electricity it consumes, we spent nearly $6 million for purchased electricity from the Gulf Power Company last year. Due to the size and nature of our operations, a reliable supply of electricity is critical.

We have found Gulf's previous standby rate to be cumbersome and confusing. The designation of how much standby power would be taken was based on 15-minute billing increments and it was broken down into on-and off-peak periods each day. The designation then had to be balanced against the minimum 75% load factor requirement. Making these kinds of calculations during emergency outages is very difficult and mistakes can be costly.

We and other standby customers have expressed our concern over the old standby tariff since its inception and Gulf has responded by working with us to address the problems. The new standby rate offers a solution that is equitable to all.

One of the more attractive features under the new schedule is Option A, which allows Champion to use supplemental energy when made available by Gulf Power. It enabled us to buy the most economic energy available. But the tradeoff is that under Option A, we must pay three times the daily demand charge applicable to other customers. This is a strong incentive to maintain high reliability of our cogeneration. Champion urges the Commission to recognize the collaborative efforts of Gulf and its standby customers to correct the problems existing in the previous standby rate by allowing the new replacement tariff to become permanent. Thank you.

MR. McGLOTHLIN: Mr. Brueggemeier is available for cross examination.

CHAIRMAN DEASON: Mr. Stone?

MR. STONE: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. STONE:

Q Mr. Brueggemeier, on behalf of Champion International, have you been called upon to answer any questions, interrogatories or data requests submitted by the Staff with regard to how Champion International would be able to respond to Gulf's SBS rate tariff?

A No, I have not.

MR. STONE: Thank you. I have no further

questions.

CHAIRMAN DEASON: Staff.

CROSS EXAMINATION

BY MS. ERSTLING:

Q Mr. Brueggemeier, you have stated in your prefiled testimony that you have found the old standby tariff, quote, "Cumbersome and confusing to work with." Further, you have said that, quote, "During major outages, the process of designating how much standby service involves subjective judgment." Is that a fair summary of your concerns with the old SS rate schedule?

A Yes.

Q Would you explain to me how the coordinated maintenance month provision and the Option A provision mitigate the concerns of subjectivity and confusion with the old SS rate schedule that you have stated in your direct testimony?

A As far as the CMM month, the coordinated maintenance months, and the supplemental energy portion of the new standby rate, the other portions of the standby rate address the cumbersome part.

Q Then what we're saying is that the coordinated maintenance month provision and the Option A provision do not directly have any effect on the subjectivity problem and the confusion problem in determining what

the utility should do in a forced outage; is that correct?

A That's correct.

MS. ERSTLING: Thank you very much. I have no further questions for this witness.

CHAIRMAN DEASON: Commissioners? Redirect?

REDIRECT EXAMINATION

BY MR. McGLOTHLIN:

Q Mr. Brueggemeier, whether or not the CMM provision and the Option A provision relate to the subjectivity problem, in your opinion, do they improve the rate schedule in other respects?

A Yes, they do. The CMM option provides even more incentive to take scheduled outages during Gulf Power's nonpeaking times.

Q And is the Option A of value to Champion International?

A It would allow Champion to take the most economical energy when Option A -- when supplemental is available.

MR. McGLOTHLIN: No further questions.

CHAIRMAN DEASON: Thank you. Commissioner Clark.

COMMISSIONER CLARK: If I understand your testimony correctly, this does not cure the complexity of

trying to figure out how much it's going to cost you when you do have an unscheduled outage and you have to make a decision to keep your plant running by buying electricity or not keep it running and forego buying electricity. This tariff doesn't make that decision any easier in terms of calculating that cost/benefit ratio.

MR. McGLOTHLIN: Commissioner, may I ask a clarifying question?

COMMISSIONER CLARK: Absolutely.

MR. McGLOTHLIN: You said this tariff doesn't do that. Did you mean the entire tariff or the Option A and CMM provisions that were specific --

COMMISSIONER CLARK: I don't really care. I mean -- it's been advanced but this is an improvement in terms of understanding the tariff and being able to calculate what damages you may incur by either continuing to run your plant or deciding not to because the energy is too expensive. And it's not been made clear to me as to how this tariff, or any provision of the tariff, makes it easier for you to make that calculation.

WITNESS BRUEGGEMEIER: First of all, in our case because of the amount of capital we employ at our mill, one of our top priorities is to keep the equipment running.

In the case of the new SBS rate, the process

of designating is extremely simplified from the standpoint that under the new SBS rate, you take your NC up to your designated contract limit and then BC above it. Under the old system, and especially in the case where -- when you are on standby service and your purchased power usage rates varies every 15-minute period, you either have to vary the designations every 15 minutes or end up designating more on standby than on the PXT rate. And that's when the 75% load factor plays a role.

COMMISSIONER CLARK: What does NC mean?

WITNESS BRUEGGEMEIER: Pardon me?

COMMISSIONER CLARK: NC, what does that mean?

WITNESS BRUEGGEMEIER: Nominal capacity.

COMMISSIONER CLARK: BC?

WITNESS BRUEGGEMEIER: BC is backup capacity.

MR. STONE: Commissioner Clark, in terms of where the initials came from, NC or BC, there was some struggle at the Company to come up with designations or initials for those terms that made sense. I believe Mr. Thompson would be able to address where we came up with the term "NC." But it's my understanding that it meant normal capacity.

COMMISSIONER CLARK: What I'm trying to figure out is why is this tariff any easier? It appears to me it

gives them lower rates, but why is this any easier to help them make a decision at any given time as to whether they are going to take power or not? What witness will do that?

MR. McGLOTHLIN: Mr. Pollock can do that.

COMMISSIONER CLARK: But it's not in his prefiled testimony, is it?

MR. McGLOTHLIN: Well, let's see.

As I recall, his testimony is geared to addressing the two or three criticisms that have been made of the rate as opposed to -- you know, we took the improvements as a given and then addressed the remaining issues, but if there's no objection, he has a working knowledge of the old and new rates and can give you a before-and-after description of the mechanics of it.

COMMISSIONER CLARK: Mr. Chairman, I would appreciate that if it can be done.

CHAIRMAN DEASON: Well, Commissioner, I think that we've always given great latitude to the Commissioners to explore whatever area of inquiry with whatever witness, and so when Mr. Pollock takes the stand I think it would be appropriate for you to ask those questions to him.

COMMISSIONER CLARK: Okay.

CHAIRMAN DEASON: Any further redirect?

MR. McGLOTHLIN: None.

CHAIRMAN DEASON: Okay. Thank you.

(Witness Brueggemeir excused.)

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MR. STONE: Commissioners, as I believe was discussed at the prehearing conference, and I must confess I was not here, but we had discussed calling -- I'm sorry. I'm a whole witness ahead of myself. I'm sorry. I'll get back with the program here.

MR. CHAIRMAN: Mr. Pollock is the next witness.

MR. McGLOTHLIN: We call Mr. Pollock.

JEFFRY POLLOCK

was called as a witness on behalf of the Industrial Intervenors and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. McGLOTHLIN:

Q Please state your name and business address.

A Jeffry Pollock. My business address is 7730 Forsyth Boulevard, St. Louis Missouri.

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

A I'm a consultant in the field of public utility regulation and a principal in the firm of Drazen-Brubaker & Associates.

Q For whom do you appear today?

A I'm testifying on behalf of the Industrial Intervenors.

Q Did you prepare prefiled direct testimony for submission in this case?

A Yes, I did.

Q Do you have any changes or corrections at this point?

A Yes, I have two changes. The first one is on Page 10.

On Line 6, change the number 99% to 98% to correspond with a similar revision made by Mr. Hollinger in his direct testimony.

The second change is on Page 13.

COMMISSIONER KIESLING: Could I ask you one thing? On that same line on Page 10 it also refers to the first nine months of the operation and he amended his to be the first 11 months. Are you making that change also?

WITNESS POLLOCK: Yes, I should. Thank you, Commissioner.

The second change is on Page 13, Line 21, the word "were two years" should be replaced with the words "was one year." Those are the only changes.

Q Did you also prepare the exhibit consisting of three schedules that's attached to your prefiled

testimony?

A Yes, I did.

Q Mr. Pollock, as corrected, do you adopt the prefiled written testimony as your statement today?

A Yes, I do.

MR. McGLOTHLIN: I ask that the prefiled direct testimony be incorporated at this point.

CHAIRMAN DEASON: Without objection it will be so inserted.

MR. McGLOTHLIN: And, Mr. Chairman, could I have an exhibit number assigned to the attached exhibit?

CHAIRMAN DEASON: Yes, it will be identified as Composite Exhibit No. 1.

(Exhibit No. 1 marked for identification.)

GULF POWER COMPANY

Before the

Florida Public Service Commission

Docket No. 931044-EI

Date of Filing - July 1, 1994

Direct Testimony of Jeffry Pollock

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Jeffry Pollock, 7730 Forsyth Boulevard, St. Louis, Missouri, 63105.

Q WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?

A I am a consultant in the field of public utility regulation and a principal in the Firm of Drazen-Brubaker & Associates, Inc., regulatory and economic consultants.

Q WOULD YOU PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE?

A I have been a consultant in this field since 1975 and have worked on utility rate matters in both the United States and several Canadian provinces. Our Firm has provided utility rate consulting services since 1937. I have a Bachelor of Science degree in Electrical Engineering and a Masters in Business Administration from Washington University. More details are provided in Appendix A to this testimony.

Q **ON WHOSE BEHALF ARE YOUR TESTIFYING IN THIS DOCKET?**

A I am testifying on behalf of Champion International Corporation, Monsanto Company and Stone Container Corporation, all of whom are customers of Gulf Power Company (Gulf) and purchased standby power under Rate Schedule SBS. Further, both Champion International and Stone Container also purchased supplementary power under Rate Schedule PXT.

Q **WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A I shall address the two remaining issues raised in the Staff recommendation dated May 26, 1994. These issues are (1) the Coordinated Maintenance Months (CMM) and (2) Option A.

In addition, the Staff has identified a third issue in its preliminary list of issues whether the applicability of rate charges for the above 7,499 kW demand range customers is appropriate. I am advised by Counsel that this issue was resolved at the June 7 Agenda Conference in this Docket. However, I shall address this issue in the event that the Commission desires further input before making a final decision.

Q **ARE YOU SPONSORING ANY EXHIBITS IN CONNECTION WITH YOUR TESTIMONY?**

A Yes. I am sponsoring Exhibit JP-1 ( ), consisting of 3 schedules. These schedules were prepared by me or under my supervision and direction.

Coordinated Maintenance Months

Q **WHAT IS YOUR UNDERSTANDING OF THE BASIS FOR STAFF'S RECOMMENDATION THAT THE CMM PROVISION IS INAPPROPRIATE?**

A Based on my review of the Staff recommendation and of the transcript of the June 7 Agenda Conference, it appears that one of Staff's primary objections is that the CMM provision would enable standby customers to "escape costs assigned to them in the last rate case." In other words, Staff contends the SBS rate is not cost-based. Staff's other concern is based on their contention that any seasonal differentiation of demand charges would be contrary to the so-called "pricing signals" which they attribute to the Southern Company Intercompany Interchange Contract (IIC). Because the capacity charges per kW under the IIC are virtually the same for all months, Staff contends that, "sending the price signal that Gulf's production and transmission costs are minimal or nonexistent in the non-summer months is totally inconsistent with the IIC." Finally, Staff also contends that, under the IIC, "Gulf may incur additional costs to serve the standby class due to the CMM provision."

Q **HAS THE STAFF OFFERED ANY VALID REASON FOR REJECTING THE CMM PROVISION OF RATE SBS?**

A No. I disagree with Staff's contention that the CMM provision is not cost-based and that it would send improper price signals. An implicit assumption underlying Staff's recommendation is that the cost to provide backup power is the same as the cost of providing maintenance power. This is not the case, and I shall explain why later in this testimony. Finally, Staff attributes far too much significance to the IIC. Having

become familiar with the IIC and having participated in regulatory proceedings involving all five Southern Operating Companies over the last 20 years, it is my impression that the IIC, which is regulated by the Federal Energy Regulatory Commission (FERC), is not considered to be the "bible" of costing and pricing practices throughout the Southern Company system. In fact, the pricing policies followed by most of the Operating Companies are designed to encourage customers to minimize their use of electricity during the summer peak hours and to shift load to off-peak hours. In fact, Gulf's proposed CMM provision would enable it to conform better to those peak-shifting pricing practices among the Southern Operating Companies.

Q IS THE CMM PROVISION COST-BASED?

A Yes. One reason why the CMM provision is cost-based is that it recognizes that both Gulf and the Southern Company systems are predominantly summer peaking. This is shown in Exhibit JP-1 ( ), Schedules 1, 2 and 3. These schedules were prepared in connection with testimony which I sponsored in Gulf's last rate case, Docket No. 891345-EI. The relevance of examining the Southern Company load characteristics is that Southern is the entity responsible for the development of electric power facilities and coordination of electric operations for the five Operating Companies, including Gulf.

Future capacity additions are based on the projected summer peak demand, plus an allowance for reserves to account for unforeseen contingencies such as abnormal weather, load forecasts error and unit outages. Thus, on a Southern system-wide basis, continued increases in summer

peak demand will cause and, perhaps, accelerate new capacity additions. On the other hand, pricing electric service to encourage customers to minimize demands during the summer peak hours may enable the Southern System to defer or even avoid capacity additions. The CMM provision in Gulf's proposed Rate Schedule SBS is consistent with sending this critical price signal.

Q **PLEASE EXPLAIN THE LOAD ANALYSIS PRESENTED IN SCHEDULE 1.**

A Schedule 1 is an analysis of Gulf's load characteristics. Schedule 2 is a similar analysis for the Southern Company. Page 1 shows the monthly peak demands as a percent of the annual system peak for the years 1984 through 1989. The monthly peaks are shown in blue. The peak months are denoted by the red/blue bars. The annual system peak is shown in red. Except for 1985 and the unusually cold winter of 1989, Gulf has had, and continues to have, a predominant summer peak. The summer peaks typically occur in the months June through September. Although not shown in Schedule 1, I understand that Gulf's system peak has occurred in the summer months in every year since 1989.

Gulf's predominant summer peak is further analyzed on Page 2 of Schedule 1. Page 2 shows the ratio of the annual system peak demand to the minimum monthly and average monthly peak. If the load pattern were nonseasonal, then these ratios would be close to 1.0. For Gulf, however, the maximum-to-minimum monthly peak has ranged from 1.47 to 1.83 times (Column 2). Similarly, the ratio of the maximum-to-average monthly peak has ranged from 1.18 to 1.29 times.

Q **DO GULF POWER AND THE SOUTHERN COMPANY HAVE SIMILAR LOAD PATTERNS?**

A Yes, they do. Exhibit JP-1 (|), Schedule 2, is an analysis of the Southern Company monthly system peaks as a percent of the annual system peak. This analysis demonstrates that Southern's total system load pattern is also highly seasonal, and that the annual system peak always occurs during the summer period. The peak demands during the non-summer months are generally below 85% of the annual system peak. Further, based on the ratios presented on Page 2 of Schedule 2, it is apparent that the Southern System is even more predominantly summer-peaking than Gulf Power.

Q **ARE THE DEMANDS DURING THE NON-SUMMER MONTHS ALSO IMPORTANT TO THE NEED TO ADD GENERATING CAPACITY BECAUSE OF THE NEED TO PERFORM SCHEDULED MAINTENANCE?**

A This proposition is not supported by the evidence. Exhibit JP-1 (|), Schedule 3, is an analysis of the monthly reserve margins of the Southern Company expressed as a percent of peak demand for the years 1984 through 1989. The reserves are shown in two ways: (1) before and (2) after planned and scheduled maintenance outages. The reserve margins before planned and scheduled maintenance outages are represented by the orange and blue bars. The orange portion of each bar denotes the portion of total reserve unavailable because of planned and scheduled maintenance outages. The blue portion, therefore, represents the reserve margins after removing planned and scheduled maintenance outages.

The overall reserve margins (orange and blue bars) are demonstrably lower during the summer peak months, which are identified by the yellow line. Further, Southern schedules most of the planned and maintenance outages during the non-summer period. This maximizes the availability of capacity during the more critical summer peak months.

In summary, Schedules 1, 2 and 3 demonstrate the predominance of the summer peak for both the Gulf and Southern systems.

Q IS STAFF CORRECT IN CONTENDING THAT THE DEMAND-RELATED COSTS ATTRIBUTABLE TO STANDBY CUSTOMERS WOULD NOT BE FULLY RECOVERED BECAUSE OF THE CMM PROVISION?

A No. Staff assumes that for Rate SBS to be cost-based, Gulf requires a higher daily demand charge during the peak months to compensate for the waiver of the daily demand charge during the four CMM months. Staff's contention is wrong for two reasons. First, the daily demand charge will apply to all backup power service provided during a non-CMM month. Second, backup and maintenance power are not identical services. The demand-related costs associated with backup power are significantly higher than for maintenance power.

Q WHAT IS BACKUP POWER?

A Backup power is electric energy or capacity which is supplied by an electric utility to replace energy ordinarily generated by a qualifying facility's own generation equipment during an <u>unscheduled</u> outage of a qualifying facility. Thus, backup power is directly associated with

self-generator equipment failures, which occur randomly and usually without advanced notice.

Q WHAT IS MAINTENANCE POWER?

A Maintenance power is electric energy or capacity supplied by an electric utility to a qualifying facility during scheduled outages of the qualifying facility. This type of power would normally be provided on a pre-arranged, scheduled basis to allow the customer to take its equipment out of service for routine inspections and preventive maintenance.

Q DO BACKUP AND MAINTENANCE SERVICES IMPOSE THE SAME COSTS ON THE UTILITY?

A No. Because backup power is the result of random forced outages of generating equipment. The extent to which backup power is required will depend on the reliability of a self-generating customer's facilities. The more reliable the unit(s), the less backup power is required and vice versa. A forced outage may occur at any time--summer or winter, on-peak or off-peak--usually with little or no advance warning. In other words, Gulf has a continuing obligation to provide capacity to meet the expected backup power demands of its standby customers.

There is no such continuing obligation to provide maintenance power service until a customer requests a CMM. Normally, this request will occur six months in advance of a maintenance outage. Gulf's obligation to provide maintenance power service is conditioned upon the availability of adequate resources to satisfy the then projected demands, including the request for maintenance power.

Therefore, the maintenance power is much less expensive to provide than backup power. A properly designed standby rate should recognize these important differences.

Q ARE YOU TESTIFYING THAT RATE SBS DOES RECOGNIZE THE DIFFERENCES BETWEEN BACKUP AND MAINTENANCE POWER?

A Yes. The CMM provision in rate SBS recognizes the critical differences in both the nature and cost of providing backup and maintenance service.

Q DOES WAIVING THE DAILY DEMAND CHARGE DURING A CMM IMPLY THAT MAINTENANCE POWER IS BEING PROVIDED AT NO CHARGE?

A No. It must be remembered that a standby customer is obligated to pay the reservation charge, irrespective of the type of standby service provided (i.e., backup or maintenance power) and irrespective of how much standby service is required. (The non-fuel energy charge also applies to all standby power purchased under Rate SBS.) The reservation charge is based on an assumption that standby power is required for about two on-peak days per month, on average. There will be some months when standby power is required for more than two days per month, and there will be many more occasions when standby power will either not be required or will be needed for several hours. If, on average, a standby customer requires less than two on-peak days of service or requires only maintenance power--which is available only if Gulf has adequate capacity--then the customer is being overcharged relative to the actual costs imposed on the utility.

Q **IS THERE ANY EVIDENCE THAT STANDBY SERVICE MAY NOT BE USED ON TWO OR MORE DAYS PER MONTH, ON AVERAGE?**

A Yes. I refer the Commission to the testimony of Mr. Bruce Hollinger on behalf of Monsanto Company who states that Monsanto's cogeneration unit "expects to achieve an availability rate much higher than 90% and thus far has achieved a ~~99%~~ 98% availability rate in the first ~~nine~~ 11 months of operation." Monsanto is the largest standby customer served by Gulf Power and accounts for about 60% of the total standby contract capacity. Further, the CMM provision will ensure that Monsanto schedules maintenance outages during the non-summer months. If both assumptions prove to be correct, then the majority of the Rate SBS class may not require standby service for even one day per month.

Q **IS THE IIC RELEVANT IN EVALUATING THE CMM PROVISION?**

A No. The IIC is not relevant in evaluating either the CMM or the costing/pricing practices of Gulf. As I previously testified, each of the other four Operating Companies has implemented pricing policies specifically designed to discourage demand imposed during the summer peak period and, further, to encourage customers to shift load from on-peak to off-peak hours. These pricing provisions include summer-based demand ratchets, off-peak forgiveness, real-time pricing and demand credits for interruptible service during the summer on-peak hours.

Staff has gone well beyond the purpose of the IIC. According to Section 1.9 of the IIC, the purposes of the IIC include (1) the joint development of electric power facilities and (2) achieving substantial economies through the coordination of the electric operations of each

of the Operating Companies. As a consequence of common planning and the joint development and coordination of electric operations, each Operating Company benefits because: (1) the construction of new generating facilities can be staggered to allow individual companies to construct and install the optimum size generating facilities which maximize economies of scale; (2) surplus capacity and energy available from time-to-time can be sold off-system; (3) the seasonal and diversity patterns of other utilities not contiguous to each Operating Company can be utilized, thus avoiding or deferring the construction of generating capacity to meet seasonal loads; (4) reserves can be pooled, thus reducing the magnitude of the reserve capacity required by each Operating Company to assure reliable service to their respective customers; (5) electric service reliability is improved by the use of transmission interconnections among the Operating Companies and between the Southern System and neighboring systems and (6) centralized economic dispatch can provide the most economical energy available for Southern territorial customers. [Reference: The Southern Company System Intercompany Interchange Contract, Section 1.9] To infer, as does the Staff, that the IIC dictates the costing and pricing practices of the Southern System is to completely overlook the greater purpose of the Contract, which is to provide the above-stated benefits. Also, as previously noted, Staff's contention would contradict the actual pricing practices of the other four Operating Companies.

Q **DOES STAFF HAVE A VALID CONCERN THAT GULF WILL NOT BE ADEQUATELY COMPENSATED FOR CHANGES IN CAPACITY EQUALIZATION PAYMENTS/CREDITS UNDER THE IIC, WHICH MAY BE ATTRIBUTABLE TO SCHEDULED MAINTENANCE POWER PROVIDED DURING A CMM?**

A No. However, as I previously stated, maintenance power service is not being provided at no charge. A standby customer is obligated to pay the reservation charge each and every month irrespective of the type or quantity of standby power used. This applies equally to maintenance power provided during a CMM.

Q **ARE THE CAPACITY EQUALIZATION PAYMENTS/CREDITS UNDER THE IIC RELEVANT TO THE PRICING OF STANDBY SERVICE?**

A No. The capacity equalization process is designed to ensure that each Southern Operating Company has sufficient capacity to meet its projected demands, plus an allowance for reserves. What is being equalized are the reserve margins among each of the Southern Operating Companies. Thus, in contrast with a stand-alone utility like Florida Power Corporation, Florida Power & Light Company and Tampa Electric, Gulf's reserve capacity costs vary as a result of the IIC. Because only reserve capacity varies, the amount of the capacity equalization payments/credits is small in relation to Gulf's total non-fuel operating expense. If the IIC did not exist and Gulf was a stand-alone utility, then, at a minimum, it would require higher reserve margins and it would incur higher capacity-related costs to provide the same level of service, not to mention foregoing all of the other benefits derived under the IIC as described above.

This further underscores the irrelevance of the IIC in evaluating the appropriateness of the CMM provision in Gulf's Rate Schedule SBS.

Q EVEN IF THE IIC WERE RELEVANT AND MATERIAL, WOULD THE IMPACT ON CONTRACT PAYMENTS BE THE ONLY PERTINENT CONSIDERATION TO TAKE INTO ACCOUNT?

A No. One flaw in Staff's reasoning is that it views the "CMM scenario" in isolation. It is necessary to compare the impact of this approach with the impact of the alternative. Absent the incentive to perform maintenance during off-peak months, standby customers could elect to require maintenance power during the summer peak. This could be far more costly than any differential in contract reserve equalization payments if the additional summer demand required the construction of new capacity.

Option A

Q WHAT IS YOUR UNDERSTANDING OF STAFF'S OBJECTION TO OPTION A?

A The Staff objects to using seven days in calculating the "Option A" daily demand charge. Staff's concern is that if the average number of days with non-SE on-peak hours in a year is less than seven, then the customer would be underbilled.

Q IS STAFF'S OBJECTION REASONABLE?

A No. Staff's contention that an SBS customer choosing Option A would be underbilled is based on past experience, when there ~~were~~ was ~~two~~ one year having less than seven non-SE on-peak days, on average. By relying solely on past experience, Staff fails to take into account prospective

changes in the availability of supplemental energy (SE) as the Southern System grows into its existing capacity resources.

Q **HOW IS THE AVAILABILITY OF SE AFFECTED BY LOAD GROWTH?**

A SE is generally available when the expected incremental cost of generation is below the average overall energy charges associated with offering SE service (consisting of the base energy charge and fuel adjustment). The availability of SE is directly related to the availability of surplus base load generation. As the Southern System's load grows, its surplus of base load generation will diminish. Following the principles of economic dispatch, the lowest operating cost units are dispatched first, followed by higher cost units. The larger the load, relative to available capacity, the more likely that higher operating cost units will be dispatched. The more frequent use of high operating cost generation will be further accentuated by the fact that Southern is planning to install only high operating cost combustion turbines to meet projected load growth for at least the remainder of the decade.

The bottom line is that higher operating cost generating units will operate more often than in the past. This will increase the Southern territorial system lambda (which is equivalent to incremental fuel and variable operation and maintenance expense). Thus, SE will be available for fewer hours in the future, because the incremental cost of generation will exceed the average energy cost recovery in more hours of the year. This being the case, I believe the assumptions of the new standby rate are well founded. On the other hand, Staff's recommendation to use either historical averages or the minimum number of

average days with non-SE on-peak hours would severely overprice standby service.

Applicability of Rate Charges Above 7,499 kW

Q WHAT DO YOU UNDERSTAND TO BE THE STAFF'S CONCERN REGARDING THE APPLICABILITY OF THE CERTAIN CHARGES IN RATE SBS TO CUSTOMERS ABOVE 7,499 KW OF BILLING DEMAND?

A The Staff objects to the provision that limits the applicability of the above 7,499 kW charges to customers that were included in the PX/PXT rate class for final rate calculations in Gulf's last base rate case. The basis for Staff's position is that Staff contends that at least one of the standby customers no longer qualifies for the PX/PXT rate schedule that requires a 75% annual load factor.

Q ARE STAFF'S CONCERNS VALID?

A No. The fact that one of the standby customers may no longer qualify for the PX/PXT rate schedule, because it does not have a 75% annual load factor, is irrelevant to determining both the local facilities and non-fuel energy charges appropriate for standby service. This is because the local facility charges for the PX/PXT rate class were developed based on a combination of direct assigned costs and costs which were allocated relative to the PXT class' non-coincident peak demand. In other words, the local facilities are related to size and not load factor. Similarly, the Rate PX/PXT non-fuel energy charge has nothing whatsoever to do with the size of the customer and is only indirectly related to the annual load factor of the customer. If there is any

problem with the non-fuel energy charge applicable to the over 7,499 kW customers in Rate SBS, then it is that the charge may exceed the actual non-fuel energy cost to provide service. Therefore, Staff's concerns are invalid.

Q **ARE YOU AWARE OF ANY CHANGES IN THE INVESTMENT IN LOCAL FACILITIES SERVING THE CUSTOMER REFERRED TO IN THE STAFF'S RECOMMENDATION?**

A No. My understanding is that there has been no change in the local facility costs serving the customer in question. The only change that has occurred is that this customer is purchasing only standby power under rate SBS, whereas, in the past, it purchased electricity from Gulf under the PX/PXT rate schedule. The transition from a supplementary-only to a standby-only purchase has no bearing whatsoever on the appropriateness of the local facilities or the non-fuel energy charges under Rate SBS.

Q **DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

A Yes, it does.

Q (By Mr. McGlothlin) Mr. Pollock, in the course of your work on behalf of the Industrial Intervenors, have you become familiar with the original standby rate and the rate that is now in effect?

A Yes, I have.

Q In the course of your summary, would you please describe briefly the mechanics of both, and explain how the subjectivity of one has been ameliorated in the new?

A Sure, I will do that.

First, let me summarize the issues which are addressed directly in my direct testimony, and then I'll summarize the issues with respect to the change in the complexity, or the reduced complexity of the SBS rate versus the SS rate.

My testimony addresses the three elements of the SBS rate, and specifically the coordinated maintenance month, or CMM provision; the use of the Option A demand charge with a post adjustment and the continued applicability of certain local facilities and nonfuel energy charges to customers in excess of 7,499 kW of billing demand.

First, with respect to the CMM provision, it's my contention that that provision is cost based for

several reasons, and that the criticisms rely far too much, or give far too much emphasize on the intercompany interchange contract between the Southern operating company.

The cost basis for the CMM provision is first and foremost recognized by the fact that Gulf and Southern Company, the holding company that dispatches all of the units on the system, or predominately summer peaking systems. The other reason for the cost basis is that maintenance service is cheaper than backup service.

With respect to the summer peaking nature of the Gulf and Southern Company systems, that means that increases in demands during the summer peak months will cause the system as a whole either to add new capacity or to accelerate future capacity additions, a point which is amplified by Gulf's witness, Mr. Howell. Likewise, decreases in summer demand will have the opposite effect; it will tend to either forestall capacity additions or potentially eliminate those additions over the long term. Therefore, irrespective of how costs within the Southern System may be shared among the different operating companies, electricity should still be priced in a manner to give customers a strong incentive to minimize the summer on-peak demands. These are, in fact, the price signals being conveyed

right now by the rate schedules in effect among the various Southern operating companies in their respective tariffs. The CMM provision of this tariff is designed to maximize the incentives for customers to perform scheduled maintenance outages during the nonsummer months. Absent that incentive, I believe there would be a much more costly outcome, because if maintenance occurs in the summer months, you're still going to incur passing payments through the Pool Equalization Agreement, which I'll talk about in a minute, but the continuation of those summer demands will eventually cause the Company to add additional capacity and that will increase the total cost of service for the entire system.

Finally, my participation in regulatory matters throughout the Southern System has led to the conclusion, in my opinion, that the intercompany interchange contract, which is referred to quite often in this case, is not the Bible of costing and pricing practices among the Southern System. You have the existence of things like summer demand ratchets, real-time pricing and various other signals being sent by other operating companies to minimize summer on-peak demands.

With respect to the second point, that

maintenance service is cheaper than backup service, maintenance power is prescheduled well in advance, the tariff requires a six-month period, and it can only be scheduled during certain periods, i.e., the nonsummer months, and the scheduling is further subject to Gulf's approval. A customer can't just arbitrarily schedule a maintenance outage without getting Company approval.

Therefore, unlike backup power, which is random in nature, it may occur at any time, on-peak or off-peak and for any duration, and which entails a continuing obligation on the part of the Company to serve that backup load, maintenance power doesn't require that continuing obligation until the Company and the customer agree and schedule a CMM.

This critical difference in cost between backup and maintenance is recognized in the SBS rate by the fact that the daily demand charge is being waived. But keep in mind the fact that this charge is being waived does not excuse the customer from paying the full reservation charge associated with providing standby service.

With respect to the Option A issue, the concern is that the use of seven days in developing an Option A demand charge might result in underbilling customers if the actual number of non-SE on-peak days

turns out to be less than seven days. The related concern is that this underbilling would somehow cause the utility to underrecover its costs. I disagree that the costs would not be recovered in that scenario. Option A customers will still pay the full reservation charge.

Secondly, whether seven days are proper -- seven days, on average, is a proper assumption, depends upon the expected availability of SE in the future. In this instance, history is not a very accurate -- necessarily a very accurate predictor of the future, because in the past the Southern System has had surplus baseload capacity. The SE is available only when the incremental cost of fuel in the Southern System is below the average cost of fuel recovered in the rate. As that surplus diminishes, because of the growth in system load, and as the peak load grows resulting in addition of primarily combustion turbine peaking capacity on the system, it's my belief that SE will be less available in the future. And based on that, based on both history and the future, seven days is a reasonable assumption with respect to the Option A issue.

Finally, with respect to the third issue, the applicability of certain local facility and nonfuel energy charges to customers that have a demand of 7,500

kW and above, those charges were based on rate PXT and derived in Gulf's last rate case, and they were based on cost of service in that case.

The concern is, I think, that if standby customers who were former PXT customers no longer maintain the 75% annual load factor that a customer on the PXT is required to maintain, that there is some injustice being done with respect to those charges not being cost based.

I disagree with that concern because the local facility charges in question are not related to load factor. They are, in fact, a result of allocating distribution demand costs and local transmission costs on the basis of the maximum demand of the customer, coupled with certain direct assignment of specific facilities to the PXT and standby classes. So for those PXT customers who are now SBS customers, my understanding is there really has been no change in the local facilities required to serve those customers; and, therefore, the charges that apply in the SBS rate which are identical, in fact, to the charges that applied in the previous rate, are still valid and cost based.

Now, with respect to the last issue with respect to the comparison of the two rates, SS and SBS, the issues that make -- in my opinion, make the SBS rate

much more workable -- first of all, let me say I think both rates are very complicated rates. They are not easy and straightforward. But the SBS rate is a decided improvement over the predecessor. It's a decided improvement because, by definition, the customer knows how much standby power that customer is using at all times of the year. The requirement under the new rate is -- and this is particularly important for customers that buy both supplemental power -- that's the NC term that Mr. Brueggemeier was referring to -- and standby power. When you have both types of power going through the same meter, the SBS rate contractually defines how much power is related to supplementary power -- that's the power that the customer uses in addition to what the customer can generate himself -- and it also defines the level above the supplemental NC contract demand as being the amount of standby power the customer uses. So a customer who can monitor his electric demands will know at any time when his demand exceeds the supplemental contract capacity that he's buying backup power, and because that quantity is known, and because the charge is set forth in the tariff, that customer will know exactly what the cost of that backup power, on a daily demand charge basis, what that cost will be. And the customer can then estimate how long, how many days of --

on-peak days will I require power in excess of my supplementary contract capacity. Taking the number of days times the rate tells the customer how much it's going to cost to take standby power. That's a fairly simple calculation once you know the assumptions about how much power you're going to take over and above the supplementary contract demand and how long the outage is. And that's a very straightforward calculation.

Under the old rate, a customer could be using standby power even though the total demand purchased by the customer was less than or equal to his supplementary contract demand, because under the old tariff a customer had to make an interpretation. When an outage occurred, any kind of outage occurred, you had to look at the loads that the customer was imposing on the utility just prior to the outage and compare that to the loads imposed just after that outage and make a decision how much of that change in load is related to the outage. The other tariff also required a subjective adjustment to say if the customer, because of the outage, has to reduce load, or can reduce load, you have to make a subjective interpretation about how much load the customer reduced, or how much less power the customer was purchasing because of the outage. These are very, very complicated issues because it requires a customer

to have pretty much real-time metering, and to see what happened just before the outage and what's happening during the outage and what's likely to happen during the remainder of the outage. Whereas, under the new tariff, you know that any time you're above your supplementary contract demand you're buying standby power. Under the old tariff, you're buying standby power even though you're operating below your normal supplementary contract demand.

COMMISSIONER CLARK: If I understand you correctly, then, the new tariff assumes everything up unto the amount you contracted for as supplemental power, is always going to be supplemental power.

WITNESS POLLOCK: That's correct.

COMMISSIONER CLARK: Regardless of whether you had a unit go out and you're using more than you would have used if that unit was in. If it's 10 kW demand, if that's your level of supplemental power, it doesn't matter what you're using or what your generators were providing, that's going to be your base.

WITNESS POLLOCK: That's correct. So if a customer, let's say, has a 10,000 kW supplementary power demand, that customer will take and pay for that 10,000 kW regardless of what happens.

COMMISSIONER CLARK: Okay.

WITNESS POLLOCK: And anything over and above that will be billed under the daily demand charge provision if it occurs during an on-peak.

COMMISSIONER CLARK: All right. If it does occur, it's still multiplied by that -- then that demand factor applicable to the standby rate is applicable for the next 24 months.

WITNESS POLLOCK: If the customer exceeds the contract demand.

COMMISSIONER CLARK: Right.

WITNESS POLLOCK: The total of the supplementary or NC contract demand and the BC, the backup contract demand.

COMMISSIONER CLARK: Okay.

WITNESS POLLOCK: So let's add another layer to this; 10,000 kW, let's assume to be the NC or supplementary contract demand.

COMMISSIONER CLARK: Okay.

WITNESS POLLOCK: Let's say the customer has contracted for an additional 10,000 kW of backup demand, so that the customer now has a total contract demand, supplementary plus backup, of 20,000 kW.

COMMISSIONER CLARK: Right.

WITNESS POLLOCK: If a customer experiences an outage, and as a result does not -- the total demand

purchased from Gulf during that outage does not exceed 20,000, then there will not be a change in the level of that contract demand.

COMMISSIONER CLARK: And the level of the contract demand for backup power.

WITNESS POLLOCK: Backup and supplementary. So the customer can buy up to 20,000 kW of supplementary and backup power without incurring extra costs. In other words, they'll pay for that -- obviously, he's paying for the portion of the backup demand under the reservation charge, and when an outage occurs during on-peak days, he'll pay a daily demand charge for the use of that service.

COMMISSIONER CLARK: And then if he exceeds that, if he goes to 22, that changes his reservation charge for the next 24 months with respect to backup power, or is it with respect to both backup and supplemental power?

WITNESS POLLOCK: I think it will depend upon in the final analysis what caused the increase, but it could be either one. In other words, the Company and the customer could agree that -- first of all, the total contract demand is going to go up to 22,000 unless they could demonstrate that there were some extenuating circumstances that aren't going to take place, in which

case they can negotiate a different level. Then the question is, is the 22,000 -- how much of that is due to supplementary power and how much of it is due to backup power, and there's a negotiation that could take place in that to determine should the BC go up now from 10,000 to 12,000 or should the NC go from 10,000 to 12,000.

COMMISSIONER CLARK: All right. Tell me why that would be an issue when, in effect, by this new tariff you'd said we assume anything below 10,000 is supplemental, and once you go above that, so if you go from 20 to 22, why aren't you assuming that's all as a result of backup power?

WITNESS POLLOCK: I'm sorry. I may have misunderstood your question, but it may not necessarily be related to backup power, but it becomes less of an issue because now the customer has the ability to manage his total load and keep that demand at or below the contract level. Whereas, under the prior rate it was more difficult to do that because you could be using -- lessen your supplementary contract demand because you're using so much standby demand determined subjectively, you could still be subject to the 23-month ratchet. Even though the customer was using less demand than normal, he could still be subject to a 23-month ratchet on that portion of the demand under the old tariff that was subjectively defined

as standby power. Now it's pretty objective as to what constitutes supplementary power and what constitutes standby power. And the customer can now look at his total meter and say, "As long as I stay at 20,000 or less, I'm not going to be penalized by the rate. So my job is to keep the contract demand at or below, or keep the actual demand at or below the contract."

COMMISSIONER CLARK: What I am suggesting to you if it's no longer subjective with respect to the 10,000 that's supplemental, you know, as long as you stay below that, we'll assume it's supplemental -- once you make that assumption, why don't you also assume that once it goes above 20,000, assuming he has 10,000 as backup, why don't you also assume that that is, in fact, backup, in terms of deciding what the ratchet applies to?

WITNESS POLLOCK: Well, I think that's what the ratchet does apply to. In fact, if you --

COMMISSIONER CLARK: The ratchet would assume that the extra 2,000 is backup.

WITNESS POLLOCK: That's certainly a possibility, yes.

COMMISSIONER CLARK: Okay.

WITNESS POLLOCK: Because by that time the 22,000 becomes a new contract demand. If the customer says, "I'm still buying 10,000 of supplementary, and by

definition now I'm buying 12,000 of backup until circumstances are such that I can change that level of backup power."

COMMISSIONER CLARK: Okay.

Q (By Mr. McGlothlin) Does that complete your summary, Mr. Pollock?

A Yes.

MR. McGLOTHLIN: The witness is available.

CHAIRMAN DEASON: Mr. Stone.

CROSS EXAMINATION

BY MR. STONE:

Q Mr. Pollock, would it be fair to say that the efforts of the collaborative process between the -- well, first, let me ask this. Did you take part in the collaborative effort?

A Yes, I did participate.

Q Would it be fair to say that the focus or the intent of the collaborative process was to resolve what you refer to as cumbersomeness in the complexity of the rate rather than trying to achieve a lower rate level?

A It was -- the prime objective was to make the rate a lot easier to work with and still retain the essential cost-based elements of the rate that had been established in Gulf's prior rate case.

Q And, in your opinion, has that goal been

achieved?

A Yes. I believe the rate is, though complicated, is a lot more easily workable and understandable by both the Company and the customer.

Q Now, I understand that there is some debate as to whether or not there is actually a lower rate level associated with the new SBS rate. If you assume for a moment that there is a lower rate level, would you characterize that as incidental to the process, the collaborative process?

A Yes. That was not the goal to achieve a lower rate level. It was a goal to, as I have indicated previously, make the rate work better and retain the cost basis of the original rate.

MR. STONE: I have no further questions for Mr. Pollock.

CHAIRMAN DEASON: Staff.

CROSS EXAMINATION

BY MS. ERSTLING:

Q Mr. Pollock, I just wanted to clarify something that you said in your summary. You stated that subtransmission and distribution costs are allocated on a customer maximum demand.

Would you accept, subject to check, that common facilities are allocated on a class maximum

demand whenever it accrues and not -- whenever it occurs, pardon me -- and not on a customer maximum demand?

A If I said "customer," I meant to say "class maximum demand," yes.

Q Fine. Thank you. I just wanted to clear the point.

On Page 4 of your testimony, at Lines 12 and 13, you state that the coordinated maintenance month provision is cost based. Did you make a determination of whether the SBS rate is at or above the system rate of return using the approved or Compliance Cost of Service Study from Gulf's last rate case in Docket 891345-EI?

A No, we did not do a separate cost study for this determination. The cost basis, of course, flows from the rate levels that were established in Gulf's last rate case and the basis for the individual charges within the rate.

Q Based on your vitae provided in your testimony, it's quite evident that you are a specialist in cost of service and rate design. I'm going to propose several hypotheticals, if I may.

Let's assume a seasonal rate having only a demand charge is to be developed to collect a specified

revenue requirement and is to have a summer peak season charge and a nonsummer low season charge. Let's further assume that the unit cost for the demand charge at the rate of return for the specified revenue requirement is $6.25. If the nonsummer charge is set at $1 and the summer charge is set at $6.25, would the two rate charges collect the specified revenue requirement?

A When you say "revenue requirement," are you talking about the actual cost of service? You're equating the two terms, revenue requirement and cost of service.

Q Let us say that that is the specified revenue requirement coming out of the Cost of Service Study.

A Okay. So that in order to serve a given level of demand, you're going to have to charge the customers $6.25 all year round or some combination of off-peak and on-peak rates to produce on average $6.25 per billing kW.

Q Thank you.

A Now, I should caution, however, that while that is a derivation of a normal standard rate design, where you're taking a revenue target and dividing it by billing determinants, that is not how the standby rate is designed. I think you need to distinguish between the two situations.

Q Were you a witness on rate design for the present three intervenors in Gulf's last rate case, Docket 891345-EI?

A Yes, I was.

Q Did your testimony cover the cost allocation and the rate design for the PXT and standby service rate schedules, and the supplemental NG rider?

A Yes, it did.

Q We're handing out spreadsheets titled, "Gulf's Final Rate Design From Docket 891345," which I would like marked for identification as an exhibit at this time.

CHAIRMAN DEASON: It will be identified as Exhibit No. 2.

(Exhibit No. 2 marked for identification.)

Q (By Ms. Erstling) This spreadsheet shows the design and derivation of the rates, standby service rate schedule, that was in effect until June of 1994. Are you familiar with this spreadsheet or other similar ones used for designing standby and supplemental rates?

A Yes, I am.

Q Please turn to Page 2 of 3 to the section dealing with derivation of the daily demand charge. Is the production and transmission unit cost for coincident peak kW shown as $9.84?

A That's correct.

Q Was the daily demand charge unit cost of 46.86 cents derived by dividing the production and transmission unit cost by the average number of days in the month having on-peak periods?

A Yes.

Q Isn't it true that 47 cents is the average production and transmission cost for an on-peak kilowatt for the 12 months of the year?

A I'm sorry, you said for the 12 months' kilowatts.

Q Yes.

A Could you repeat the last part of your question?

Q All right. Isn't it true that 47 cents is the average production and transmission cost for an on-peak day kW for the 12 months of the year?

A I would agree that that reflects the daily charge that applies in the case of standby service that is used in excess of the amount of service allowed in the reservation charge. But whether it reflects the actual cost of providing standby service depends upon the assumptions that you make with respect to the level of standby use on average over a period of time.

Q Didn't you answer in the prior question with

the daily demand charge unit cost of 46.86 cents was derived by dividing the production in transmission unit cost by the average number of days in the month having on-peak periods?

A Yes. I said that was the result of a formula that the Commission had spelled out in the generic order saying that standby charges shall be -- daily demand charges shall be based on this formula, take the production and transmission demand-related costs and divide them by the number of on-peak days, as an assumption about what a proper daily demand charge should be for standby service. But that's a little different than saying what the actual cost of serving standby customers is.

Q Isn't the unit cost considered to be the same average cost?

A Yes, it is. But I think you have to distinguish between how that average cost is applied and in what context. The 984 number that you referred to before is also used in deriving the reservation charge. The reservation charge is based upon assumptions about the expected level of standby use on average, year-in and year-out; and thus, that is the charge that reflects the actual cost of providing service to standby customers on average, given that assumption.

The daily charge, on the other hand, while based on the same number, is designed really to do two things; it's designed first and foremost to send a price signal for customers that the more standby they use, the less reliable their generation is, the more it's going to cost. And it also provides a contribution to the fact that customers are using standby service more intensively than is assumed in the cost-based reservation charge.

So it really has a dual role that may or may not be related to the long-term cost of providing standby service.

Q Okay. I would appreciate very much if you would answer either yes or no before you giving your explanation, it would be a little easier to follow.

Was the daily demand charge of 56 cents for the four summer months derived by multiplying the daily demand charge unit cost by 1.2?

A Multiplying it by 1.2, I believe. Yes. I think with the exception of the fact that 47 times 1.2, I think, gives you the 56 cent charge, subject to check. Yes, if you multiply --

(Simultaneous conversation.)

Q Well, I think if you look at the schedule under the daily demand charge, that computation is

there.

A Yes.

Q Was the daily demand charge of 42 cents for the eight nonsummer months derived by mathematically determining what the charge for these eight nonsummer months would need to be in order for the daily demand charge production and transmission unit cost over 12 months to equal 47 cents?

A Yes.

Q Would you agree that the Utility derived the 56-cent daily demand charge for the summer months by solving an equation to determine what level the nonsummer charge X would have to be such that four times 56 cents, plus eight times the nonsummer charge would equal $5.62?

A Yes, mathematically, that's what they did in order to come up with the revenue requirement for the rate.

Q All right. Doesn't this formula result in the summer and not -- oh, excuse me.

Let's assume that one wanted to use the same methodology to obtain a summer charge X to be applicable for three months for the current SBS rate. Would you solve an equation such that four times zero, plus five times 47 cents, plus three times the summer charge X,

would equal $5.62?

A If the objective -- yes. If the objective is to collect the same amount of revenues -- costs, revenues, from a daily demand charge that is seasonally differentiated three months instead of four months, that would be the mathematics that you would go through.

Let me emphasis that that's simply a charge; there's no implication whatsoever with respect to the cost responsibility of that standby customer over the long term.

Q We were --

A That's simply a charge for collecting the same amount for revenues through a daily demand charge.

Q Would you accept, subject to check, that the solution to X for the summer charge would be $1.09 in that example that we just used?

A Yes. Based on a 26-cent charge for the other months.

Q We have four times zero, plus five times 47 cents, plus three times the summer charge, was the methodology.

A I'm sorry. Could you go a little bit slower and let me follow it again?

Q I'm sorry. The equation was four times zero, plus five times 47 cents, plus three times the summer

charge X, would equal $5.62. And then I'm asking would you accept, subject to check, that the solution for X, the summer charge, is $1.09?

A Yes.

Q Thank you. Let's assume that one wanted to use the same methodology to obtain a summer charge X to be applicable for three months for Option A. Would you solve an equation such that four times zero, plus five times 1.41, plus three times the summer charge X, equals $2.11? (Pause)

I'm sorry, that last part of that is (Pause) One moment, please.

CHAIRMAN DEASON: We'll go ahead and take ten minutes.

(Brief recess.)

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CHAIRMAN DEASON: Call the hearing back to order.

Q (By Ms. Erstling) Mr. Pollock, I apologize, I would like to restate that last question, it was incorrectly stated.

We're going back to a hypothetical again. Let's assume that you wanted to use the same methodology to obtain a summer charge X to be applicable for three months for Option A. Would you solve an equation such

that four times zero, plus five times 1.41, plus three times the summer charge X, equals 12 times 1.41, or 16.92? (Pause)

MR. McGLOTHLIN: Commissioners, before the witness answers, I'd like to insert an objection to the line of questioning because it was obvious from the question that the premise was, "If you wanted to make this alternative calculation." Mr. Pollock is here supporting his specific proposed rate and is here to advocate that that be adopted. It's not his testimony that any alternative should be used and, for that reason, I think it's beyond the scope of his testimony.

CHAIRMAN DEASON: Are you objecting to the question?

MR. McGLOTHLIN: Yes, sir.

CHAIRMAN DEASON: Okay. An objection has been made.

MS. ERSTLING: It is the contention of Staff that the solving of this equation is appropriate because it is directed to the methodology which is used to obtain the daily demand charge.

CHAIRMAN DEASON: I'm going to overrule the objection and allow the question, but I need to --

MS. ERSTLING: This is the last question.

CHAIRMAN DEASON: -- let Staff know that you're

not -- maybe your getting things in the record is going to help educate the Commissioners when it comes time to make a recommendation, which is fine. But you're not helping me right now with your questions because I am completely lost. Just thought I'd let you know that.

MS. ERSTLING: I appreciate that. Yes, you are correct, Mr. Chairman, that --

CHAIRMAN DEASON: Yes, I'm correct, I'm lost, that's for sure. (Laughter) I mean I've tried to follow your math and things, but I don't know where you're getting to. But I'm going to allow the question.

Q (By Ms. Erstling) Okay. Well, let me just say, Mr. Pollock, would you accept, subject tc check, that the solution to X, the summer charge is $3.29?

A Mathematically, that's the correct solution.

Q Thank you.

A But again, let's put it in the proper context. What you're trying to do is arrive at an average monthly charge -- or summer charge designed to collect, on average, a certain level of charges, assuming that four months there would be zero charge and five months there would a $1.41 charge. I don't know how to interpret that calculation other than to say that if that's your goal is to achieve some type of weighted average charge, that's the way you would calculate it. I don't agree

that that's a proper calculation, however.

MS. ERSTLING: Okay.

CHAIRMAN DEASON: Why is that improper?

WITNESS POLLOCK: Well, it's improper because what you're trying to hold constant the level of the charge, rather than looking at what the cost basis for the charge is.

In other words, you're trying to set a pricing signal through a daily demand charge that's designed to emulate or maintain, if you will, the same level of charge under a seasonally structured rate, with Option A in this instance, as the charge that existed before you made that change.

The reason that's irrelevant is that in this case for standby customers -- and this is a very key difference -- the use of standby service is not consistent from month to month and from year to year. And so, therefore, the only relevancy to this calculation, the only relevant aspect of it is based on the assumption that you've got a standby customer that's using standby service during on-peak hours in each of the 12 months at the same amount. So you end up at a weighted average demand charge for that customer using standby service every month. The reality is that in most of the months in the year, customers are not going

to use standby service.

What you're trying to do in designing a standby rate is develop a price of stable that reflects what we believe to be the long-term use of standby service, recognizing that in some years, use is going to be significant, in other years, it may be very minimal. That's the basis, the genesis, of the 10% forced outage rate that is used in arriving at the reservation charge.

So once you have designed a standby rate, making an assumption about forced outage rate, that sets what the cost of providing standby service is based on that assumption.

The reason for a daily demand charge working with the reservation charge is the pricing signal. In other words, I've said, on a cost basis, the reservation charge is what determines the cost of providing standby service on average over time. But we recognize that every year is going to be different, some years less, some years more. Therefore, the Commission, I think very properly, chose the daily demand charge mechanism to provide the utility compensation and to provide a price signal for the customer to make sure that that customer minimizes the use of standby service, minimizes -- maximizes reliability.

And that's a price; it's not a cost, it's a

pricing mechanism designed to send signals of customers and to provide a contribution for the utility for use of the production transmission system over and above what is already collected in the reservation charge.

CHAIRMAN DEASON: Well, as I already stated, I didn't follow Staff's line of questioning. But if I did get anything from it, it seems to me that they may be concerned with having some certainty in the generation of a specified revenue requirement from a certain customer class and they're trying to devise a methodology to generate those revenues which have been allocated. And that there may be some doubt as to whether the new tariff would have the same degree of certainty in generating the revenues.

Now, from a macro level, that's what I'm getting from this. Is that right or wrong?

WITNESS POLLOCK: I think you're on the right track, yes. I think the idea is to try to keep -- and what the Staff is approaching it as is trying to keep the level of generation the same before the rate was changed and after the rate so SS versus SBS, you generate the same level of revenues.

The problem is is that the level of revenues depends upon the actual usage in a given year. That usage is not going to be the same every year. So you're

not going to, by definition, generate the same level of revenues.

CHAIRMAN DEASON: You're advocating price signals; and you're saying by the very nature of this type of service, to give proper price signals, you are probably going to have some fluctuations in the revenues that generated from the tariff.

WITNESS POLLOCK: That's absolutely correct. In fact, if customers in Option A are wrong and they end up buying standby service at $1.41, they're Option A, they're going to pay a heck of a lot more for revenues, or for the fewer SC available days, they're going to -- it's going to generate a lot more revenues than the rates assumed during this particular test year.

CHAIRMAN DEASON: So under the new tariff which you're supporting, is the likelihood that that tariff is going to generate more revenues just the same as the likelihood that it's going to generate too little revenue? Or do you know?

WITNESS POLLOCK: Let's not say "too little," because "too little" implies a value judgment. What I'm saying is that the rate values in the rate are based on the cost of service. The revenue generation will depend upon the customers' responses to the price signals and their ability to manage their generation. It's possible

that if the customer --

CHAIRMAN DEASON: But it also depends on such things as forced outages of cogeneration units.

WITNESS POLLOCK: Exactly right. That's correct. And all of those factors will work to vary the level of revenue generation under the rate, from time to time. That's just the nature of the beast called "standby service," which is basically a random service with the exception of maintenance. You don't know how much you're going the get, but you want to price it such that you're sending the customers the proper signals.

And the prices themselves, basically the reservation charge, is where you are recovering the cost of production and transmission facilities to provide standby service. So once you've collected that reservation charge, the daily charge is basically a price signal and a revenue generation device to compensate the Company for the use of those facilities by customers who require more standby service in a given year than is assumed in the reservation charge. That's all the daily charge represents.

Q (By Ms. Erstling) Mr. Pollock, originally we were talking about the 56-cent summer and the 42-cent nonsummer daily demand charges. Were they increased to 58 cents and 43 cents respectively when the other rate

schedule charges were increased to the expiration of the two-year management penalty imposed in Docket No. 891345?

A Yes, I believe that's correct.

Q Mr. Pollock, on Page 14, Line 21, of your testimony, you discuss the likelihood that SE will be available for fewer hours in the future. Isn't it true then that if the availability of SE does decrease in future years that Gulf could file a petition at that time with the Commission to change only the Option A daily demand charge to reflect the larger number of days with non-SE on-peak hours?

A Yes, that's a possibility.

Q Thank you. At Page 15, Lines 20 through 22, of your testimony, you state that, "The local facilities are related to size and not load factor." Can you please explain this statement?

A Yes. The amount of capacity and the associated costs in local transmission and distribution facilities is a function of the maximum demand imposed by the class on the system for common costs. And in terms of -- for a dedicated facility, the actual cost of the facility is going to have a relationship with the amount of load that that facility is designed to serve. So it's a function of the kilowatt demand that the

customer or the class impose on the system.

Q Is the local facilities charge for over 7,499 kW customers set at the PX/PXT class unit cost for subtransmission and distribution system plant from Gulf's last rate case calculated using 100% ratchet at billing kW?

A Yes.

Q Would you agree that the primary reason that the local facilities charges that is applicable for the PX/PXT class for over 7,499 kW customers is 73 cents lower than the charge for 500 to 7,499 kilowatt customers is that no cost of primarily lines was allocated to the PXT rate class?

A Yes, it is lower; 73 cents, I believe, was the differential. And, yes, I believe it follows that the reason the charge for PXT is lower is the higher voltage level that that class takes service from than some of the other classes on average.

Q An there was no cost where the primary lines were allocated to the PX/PXT rate class?

A I believe that's correct.

Q Thank you.

A I'm not clear, but I think that's correct. That's a logical conclusion.

Q Would you agree that no primary line cost was

allocated to the PX/PXT rate class because all the PX/PXT customers were served at transmission voltage or had substation delivery?

A That would follow, yes. There may have been some direct assignments that could have been where you would have captured some of those facilities in the PXT class. For example, if there was a dedicated primarily line that was considered a tap line, that the cost of that could have very easily been directly assigned to the class when arriving at the facility charge for the PXT class, yes.

Q Would any primary line cost have been allocated to the LP/LPT class for those customers served at transmission voltage or primary voltage directed from the substation?

A No.

Q If size is an important criterion for applicability of the local facility charge, shouldn't any customer of similar size as the PX/PXT customers and taking service at transmission voltage or primary voltage directly from the substation be eligible for the over 7,499 kilowatt charges?

A I think what you're getting at -- yes. What you're getting at is the fact that the real distinction is not size particularly but also voltage level.

Usually size and voltage levels are correlated, but not completely so. For example, in the LPT class, there are transmission level customers. So the argument there is just because they're in the LPT class, they may be of a certain size, they may incur the same kind of local facility cost that a PXT customer would have, but for the fact that they happened to be in the LPT class in the last rate case.

Q Please turn to Page 2 of 2 of the final rate design schedule, which has been marked Exhibit 2, and look at the approved SS standby service rate charges. Does the data under the energy charge show that the system nonfuel energy unit cost is .448 cents?

MR. McGLOTHLIN: Excuse me, Page 2 of what?

MS. ERSTLING: Page 2 of 2 of the final rate design that was marked Exhibit 2. It's from Gulf's last rate case, the final SS rate design, Page 2 of 2.

MR. STONE: Actually, if I may by clarification, I believe the page she's referring to is the rate ISS, rate design interruptible standby service, which none of our customers are on. (Pause)

Q (By Ms. Erstling) Sorry, where is it? All right. I apologize. Let's turn to Page 2 of 3 under "Energy Charge." All right, and the question is, does the data under the energy charge show the system nonfuel

energy unit cost is .448 cents?

A There's a calculation that shows that and I would make the assumption that the number is based upon systemwide nonfuel energy costs and systemwide kilowatt-hours. It's not clear in the calculation what voltage level it is, but I'll accept the fact that that's, on average, a nonfuel energy cost per kilowatt-hour, irrespective of voltage.

Q Okay. Would you agree that the nonfuel energy unit cost at the system rate of return for the PXT class would be the .448 cents adjusted for line losses?

A I don't think I can quite draw that conclusion unless I can see the source of the revenue requirement numbers, in particular the 34,451,000 number, to see if that was, in fact, based on system revenue requirements, or a systemwide cost of service. Subject to that check, yes.

Q Is the nonfuel energy charge for the above 7,499 kilowatt customers .411 cents? (Pause)

COMMISSIONER CLARK: May I ask a question while they're looking at that? Is there a copy of the tariff attached to testimony or pleading?

MS. ERSTLING: The current tariff that's in effect, the SBS tariff, or the prior SS tariff?

COMMISSIONER CLARK: The current tariff.

MR. STONE: No, Commissioner, it is not. We'll be happy to make that as an exhibit, if that would be helpful. The original proposed tariff was attached to the petition. As you know, we stipulated to some modifications at the agenda on June 7. Those modifications were made to pages which were ultimately placed into effect and we can produce an exhibit as it is currently in effect, if that would be helpful.

COMMISSIONER CLARK: Can you do it now?

MR. STONE: It will take us a few minutes but we can get it to you.

COMMISSIONER CLARK: If you have it, if you will deliver it to the Clerk's Office or my secretary and ask for -- I don't have -- do you want a copy?

COMMISSIONER KIESLING: Yes.

MR. STONE: It'll take me a few minutes just to assemble it, but we can do that.

COMMISSIONER CLARK: Okay.

While she's interrupted, what is Option A? Why would a person choose that, or a company -- customer choose that, and have any of these customers chosen it under the current tariff?

WITNESS POLLOCK: First of all, Option A allows the customer to combine or to use the SE rider in combination with supplementary and standby service being

provided under the SBS rate.

COMMISSIONER CLARK: Hold up. Say that more slowly.

WITNESS POLLOCK: I'm sorry. Option A is a provision in the SBS rate that allows a customer the option of taking some of the service that he's receiving from the Company off of the supplemental energy rider. So in other words, using the SE rider in lieu of using standard service under the rates, terms and conditions of the SE rate.

COMMISSIONER CLARK: All right. Go back to the example we had; does that mean he can increase his 10,000 level of supplemental energy to say 12,000?

WITNESS POLLOCK: No. It really does not apply -- let me back up a minute.

A customer could use, if the customer, let's say, had an outage and had 12,000 kW of load on the system, the customer could use the SE to satisfy that load when it is available.

COMMISSIONER CLARK: And what is the benefit of choosing that?

WITNESS POLLOCK: The benefit is that it gives a customer that has generation the same availability on access to lower cost energy that a customer currently has that doesn't have generation. In other words, right now

we have customers that don't have generation that are on standard rates, they can opt for the supplemental energy rider as a means of providing access to low cost energy or an as-available basis.

COMMISSIONER CLARK: Okay. What's the charge? $1.41, is that --

WITNESS POLLOCK: If the customer -- well, the SE rate applies for that portion of service on SE. But if the customer that chooses Option A were to have an outage and such that that outage occurred on a day when SE was not available and it was an on-peak a day, then that customer would be charged $1.41 for every kW in excess of, in this case, 10,000 kW for that day, and every day that SE was not available, such that the demand was above 10,000 kW. So the $1.41 charge is a daily demand charge that applies for an Option A customer during an outage or during whenever that customer's total purchase from the Company exceeds the supplementary contract capacity.

CHAIRMAN DEASON: When does that option have to be exercised?

WITNESS POLLOCK: I believe they have to exercise it as soon as they sign up for the rate.

CHAIRMAN DEASON: In other words, it's something that at the very beginning --

WITNESS POLLOCK: Yes, and in -- I would imagine

the Company would also allow them to negotiate into that provision at some time that the customer has met the requirements. In order to be on that option, in order to have SE, you've got to basically have all facilities in place to accommodate the total power that you're buying. In other words, if a customer is limited by tie line capacity, let's say at 30,000 kW, that customer can't expect the Company to provide 35,000 kW combination of supplementary power and SE, or regular power and SE, unless the customer undertakes to pay the Company the additional cost to provide that additional capacity in the tie line. So the condition is that all of the facilities have to be there at the customer site, in place, to accommodate the total purchase that the customer plans.

COMMISSIONER CLARK: If I understand Option A -- I have a note that they use their seven days resulting in underbilling because there may be more or less than seven days on-peak days.

WITNESS POLLOCK: Let me explain that.

The assumption behind the $1.41 charge is that if a customer were to take or require standby power, that is demand in excess of noncoincident supplementary demand, for seven days --

COMMISSIONER CLARK: Wait a minute. You changed terms on me.

WITNESS POLLOCK: I'm sorry.

COMMISSIONER CLARK: You have to stay with either supplemental energy or backup power.

WITNESS POLLOCK: Okay. Let's stay with those terms. If a customer uses more power than his supplemental contract capacity, and it's an Option A customer and they do so for seven days in the month when SE is not available, then that seven days times $1.41, that customer will pay the same total daily demand charge as a customer on the firm rate or as a customer that as the -- excuse me -- the cost responsibility of the customer taking service for the entire month. In other words, what the Company has said is it costs us $9.84 or so per kW, or so, to provide service, and if we're going to assume for a full requirements customer that's using only supplementary power, okay, if that customer is on Option A --

COMMISSIONER CLARK: Wait a minute. A full requirements customer doesn't use supplementary power, they are just a full requirements customer.

WITNESS POLLOCK: I'm using the term synonymously because in the case of a standby customer taking supplementary power but it has the same characteristics.

If you use power for the full month, the cost

is $9.84. If you use Option A for seven days a month, okay, you're going to end up paying roughly the same cost. So the idea of the $1.41 was to make sure that the Option A customer is not billed more demand charge for standby service than a nonstandby customer would be billed under the same circumstances, where that customer could use the power for the entire month.

So think of it as a ceiling, $1.41, the customer would not get billed more than seven days, which would produce the same amount of revenues a nonstandby customer would using power for the entire month. That's kind of the underlying philosophy of a standby rate design is that you don't want to charge the customer using power for the entire month for standby more than you would charge the same customer using the same amount of power, only you don't call it standby power. It's nonstandby power.

COMMISSIONER CLARK: I'm trying to understand why someone would choose Option A.

WITNESS POLLOCK: They choose Option A because the advantage is is that the supplemental energy rider, essentially, is the reason because under the SE rider, the energy price, the total energy price is lower than under the regular tariff.

COMMISSIONER CLARK: Okay. So they are

taking -- they are betting that supplemental energy will be available.

WITNESS POLLOCK: Yes.

COMMISSIONER CLARK: So they are paying less than $1.41 in a demand charge.

WITNESS POLLOCK: Yes.

COMMISSIONER CLARK: But there's a cap on the demand charge that says -- in effect, it says, "We won't charge you more than what we would have charged a full requirements customer for that same month."

WITNESS POLLOCK: That's right.

COMMISSIONER CLARK: Even if you use more than seven days.

WITNESS POLLOCK: Yes.

COMMISSIONER CLARK: Okay. You only get charged for seven days, which is equal to what?

WITNESS POLLOCK: The same total demand charge that a nonstandby customer would pay using the same amount of power.

COMMISSIONER CLARK: And the rationale for the utility offering that is they want -- if they have energy available, they'd like to sell it.

WITNESS POLLOCK: That's correct. And if it's cheaper energy than the customer can otherwise generate or the customer would buy under a different tariff, it's

better to sell and try to increase sales when the capacity is available and the energy is available, because that provides a revenue contribution to fixed costs.

COMMISSIONER CLARK: And I take it the $1.41 is more than the backup demand charge would be without Option A.

WITNESS POLLOCK: That's correct. So if you took the non-Option A demand charge for 21 days, you'd end up with the same total demand charge as the Option A demand charge for seven days.

COMMISSIONER CLARK: You'll have to repeat that again slower.

WITNESS POLLOCK: I'm sorry. If you took the regular, non-Option A daily demand charge for 21 days, you'd end up with the same total demand cost as you would under the Option A charge for seven days.

COMMISSIONER CLARK: Okay.

MR. STONE: Commissioner Clark, I can now see where there would be a benefit to have the rate schedules in front of you, because you can see the comparison between the non-Option A charges and the Option A charges. They are on consecutive sheets. I have them now if you'd like for me to distribute them.

COMMISSIONER CLARK: You have the copies?

MR. STONE: Yes, I do. (Hands out documents.)

COMMISSIONER CLARK: Mr. Chairman, I don't know if we should make this an exhibit or not.

CHAIRMAN DEASON: Mr. Stone, do you wish to have this identified as an exhibit?

MR. STONE: Yes, Commissioner, and I apologize for not having thought of that beforehand. It would seem appropriate that it should be before you.

CHAIRMAN DEASON: It will be identified as Exhibit No. 3.

(Exhibit No. 3 marked for identification.)

MR. STONE: This was the tariff that was made effective July 1, 1994, as issued by our President, Mr. T. J. Bowden, and it consists of tariff sheets, Pages 6.29 through -- and I apologize for the stapling -- it's 6.29 through 6.32.1. The last two pages in your stapled stack are index pages that were also modified that date and they actually go earlier in the tariff book than the relevant tariff. They are simply indexed pages and not part of the substantive portion of the tariff.

MS. ERSTLING: Chairman Deason, we have no further questions for this witness.

CHAIRMAN DEASON: Commissioners.

COMMISSIONER CLARK: I have a couple. What is your understanding of the Staff's concern with respect to Option A?

WITNESS POLLOCK: I think the concern is that if, in fact, the number of non-SE on-peak days were to average --

COMMISSIONER CLARK: The number of non?

WITNESS POLLOCK: The number of days in which SE is not available during on-peak hours for that day, that on average if that number in a given year is less than seven days, that the customer under Option A would produce or generate less revenue than he would otherwise if you would design the rate based on the, let's say, six or fewer days. So if you had an Option A demand charge based on the assumption of six days, that would be a charge that would be higher than $1.41 per kW per day. And the assumption is that less than six days -- less than seven days, you may underbill if you charge $1.41 rather than a dollar -- whatever the number is.

COMMISSIONER CLARK: As I understand it, it's not that you would underbill, but the revenues under this tariff will not generate the predicted revenues under the old tariff.

WITNESS POLLOCK: Well --

COMMISSIONER CLARK: There's more to it than that?

WITNESS POLLOCK: No, it won't generate the same revenue. I think the assumption is that a $1.41 times

seven is the cost that you're trying to collect.

COMMISSIONER CLARK: Okay.

WITNESS POLLOCK: And I don't agree with that assumption, but working with that assumption, if you only have six days and you only collect $1.41, then you're not going to collect the same level of costs. $1.41 times 6 is less then that $1.41 times seven.

COMMISSIONER CLARK: You're not going to collect the same level of costs or are not going to incur?

WITNESS POLLOCK: Well, I don't think you're going to incur the same level of costs, that's why I disagree with the Staff's contention, because the level of cost is really independent of the daily demand charge.

The level of cost is a function of the reservation charge, which Option A and all standby customers are required to pay, irrespective of the amount of standby power they use in a given month or a year." That's where the cost is. That's where cost causation sets. This is the cost of providing standby service. The daily charge is the price signal, pricing signal.

COMMISSIONER CLARK: With respect to the customers above 7,499, if I understand what you're saying is that Staff's point with respect to this issue is not valid because the local facilities charge is related to

demand, not capacity, capacity factor.

WITNESS POLLOCK: Well, load factor, yes.

COMMISSIONER CLARK: Load factor.

WITNESS POLLOCK: That's correct. They, however -- in fairness, they have pointed out that there are customers that may have similar size characteristics and similar voltage characteristics as PXT customers, but because of the way the rate is defined, may end up being charged more for local facilities by virtue of the fact that they are not in the PXT rate class or weren't in the PXT rate class in the time of the last rate case.

COMMISSIONER CLARK: What is PXT?

WITNESS POLLOCK: PXT is a large high load factor power service schedule. It's -- you have to have a load of at least 7,500 kW and you have to operate at an annual load factor of not less than 75%.

COMMISSIONER CLARK: And what you're saying is if the fact that the charge for local facilities may be wrong is not based on the fact that this is being -- that the capacity factor for these customers is less than 75. It's based on the fact it wasn't done correctly to begin with with respect to those people over 7,499?

WITNESS POLLOCK: What I'm saying is the fact that these customers who are on the SBS rate now who are 7500 kW and over, that they are, for all intents and

purposes, identical to the same PXT customers in terms of the cost of providing local facilities. Therefore, it makes sense to carry over the PXT or the equivalent PXT local facilities costs applied to these customers.

COMMISSIONER CLARK: And we have them.

WITNESS POLLOCK: And the rate does that. The rate will do that. So the rate is designed correctly with respect to its applicability to the customers who are currently on the rate that have a size of 7,500 kW and higher.

What Staff is pointing out is that there may be customers, 7,500 kW and higher, that were in a different rate class in the last rate case. They may be in the LPT rate class. They couldn't qualify for a PXT. The issue then is if some of those customers should decide to become standby customers, and it's not clear that any of them will, or I don't think they have been, but if that's the case, won't they be overcharged if you limit the applicability of the 7,500 kW charge only to those customers that were in the PXT rate class as of the last rate case.

COMMISSIONER CLARK: Okay.

WITNESS POLLOCK: I'm saying that's a issue, but I think it's a future issue. It's not going to have applicability for the immediate future.

COMMISSIONER CLARK: Okay.

CHAIRMAN DEASON: Redirect.

MR. McGLOTHLIN: Yes, sir.

REDIRECT EXAMINATION

BY MR. McGLOTHLIN:

Q Mr. Pollock, in response to one of the questions from the Commissioners, you used an example under which a customer had a given limitation as to tie line capacity with the utility. Would you explain what the tie line capacity concept is?

A Sure. It represents the amount of physical capacity, maximum amount of physical capacity that the customer can take power on. In other words, the line, the physical lines, the physical transformers out there to serve the customers plant are physically limited in terms of the rating of that equipment and there are customers on the system that are constrained. For example, one of my clients has a limitation in terms of the amount of power that that customer can buy. That's what I'm generically referring to as tie line capacity. It's the maximum amount of demand that the customer can safely buy electricity at from the Company without exceeding the rating of the physical facilities.

Q In terms of the improvements accomplished by the present rate compared to the original one, is it

true that under the original rate it would be possible for a customer to be charged for more capacity than was physically possible for him to buy or import from the utility?

A Yes. That was one of the issues that came up in the other rate case in 1990 was the fact that under the definition, the subjective definition of standby power, you can have a customer who would be billed -- let's say his supplementary contract demand or 20,000 kW, what he was paying for under the firm rate, regular rate, but during the month might have actually been billed a significant amount of standby power, even though the customer was not using at the time of the outage the 20,000 that he was paying for in the rate. So in effect, if during that outage they were being charged, let's say, 15,000 kW for standby because of the way it was determined, so you have a standby daily charge based on 15,000 kW, you have a supplementary charge based on 20,000 kW, and that total, 35,000 kW in that case, actually exceeded the amount of physical capacity available to serve that customer. So the customer was being billed for more total power under the combination of rate SS and rate PXT than the customer was physically able to receive from the Company.

Q Has that possibility been eliminated with the

existing rate?

A Yes, it has.

COMMISSIONER CLARK: Why did it even exist? I mean, why doesn't a customer come back and say, "Look, I couldn't have" -- I mean, "I'm physically incapable of taking that much power; therefore, you can't charge me that amount"?

WITNESS POLLOCK: Commissioner Clark, we made that argument in the 1990 case and, you know, for whatever reason it didn't go anywhere.

Q (By Mr. McGlothlin) When the Staff was asking you some questions about the handout that represented the final rate design from the last rate case, at one point you used the word "caution." You wanted to caution that that's how revenue requirements were set, but not how the standby rate was designed. Would you elaborate on that distinction and explain how it's significant to this proceeding?

A Well, I think it boils down to, really, the difference between costing and pricing. And, as I've said, I don't want to be overly repetitive, but in determining costs in providing standby service on an annual basis, they were developed based on a cost study and an assumption that standby customers or standby service would have 10% forced outage rate. And the

reservation charge that applies to the standby that was in the old SS rate and has now been carried over to the SBS rate recovers that annual cost of service. So that's the cost side of the equation in terms of production and transmission costs.

When a customer actually uses standby service, we recognize that that usage is not going to be the same from month-to-month. Some months it's going to be zero, many months it's going to be zero. Some months it's going to be relatively high. That's where the daily demand charge comes into play, to recover -- if you will, send a price signal to the customer, first of all to minimize outages during that time, particularly backup power, which are random and very costly for the company to serve, but also to provide a contribution to the additional production transmission cost, facilities that that customer requires during that temporary outage.

Q In response to a question from Commissioner Deason, you said that you gleaned from questions from the Staff that their premise is that the rate design should collect the same revenue requirement that was approved in the last rate case. Do you recall that exchange?

A Yes.

Q In your opinion is it clear that there will be some change in revenue requirements associated with the standby class presently?

A Yes, I think there would be.

First of all, the composition of the standby class today on a going-forward basis is quite substantially different than the class composition when the rate was set. We basically had a doubling of the size of the standby class occur last August when Monsanto came on the rate.

Monsanto is basically representing, and their contract, I believe, requires them to operate at a 98% availability when called upon to provide capacity from their generation. Given that, you would expect that the forced outage rate of Monsanto's facility certainly would, during on-peak hours, would be 2% or less; overall would probably be quite a bit less than 10%.

If that's the case, then applying the principles of the Commission's standby order, instead of using a 10% forced outage rate to design the reservation charge, you'd use some lower number because of that change in the class composition.

Q Mr. Pollock, assume for the sake of argument that this proposed rate design would generate fewer revenues than was the requirement set in the last rate

case. If this rate design is approved, would other customers be affected by any shortfall?

A No, it would not. Gulf is not seeking to recover or calculate any revenue shortfall or recover that shortfall from anyone until the revenues and costs can be reviewed in a full rate case.

Q And at that time would you expect the Commission to set the revenue requirement for all of the classes?

A Yes.

Q Staff asked you to accept certain calculations as the appropriate methodology to reach a particular result. Was there implicit in the Staff calculation any assumptions regarding the number or frequency of outages by the cogenerators?

A Yes. To arrive at a certain weighted average daily demand charge, the assumption that there would be four months coordinated maintenance months and three months at a higher summer charge and five months of lower nonsummer charge. Basically, to arrive at that result, you've got to make the assumption that the customer is using the same amount of standby power every month which, of course, is not going to be the case. If it were the case, then the reservation charge would be a lot higher, because then the customer would be using

standby service more than 10 percent of the time.

Q What assumptions as to forced outage rates were used to calculate revenue requirements in the last rate case?

A 10% forced outage rate.

Q Does the fact that Monsanto expects to achieve well above the 90% availability bear on the appropriate revenue requirements since that time?

A It will definitely have a effect on the cost of serving that class, yes. To the extent that the class forced outage rate ends up being below 10%, then the reservation charge would be affected by a corresponding amount.

COMMISSIONER CLARK: What does that mean? Does that mean that the reservation charge that's been implemented is at a level higher than the actual -- what we predict using less than 10% revenue charge would generate.

WITNESS POLLOCK: That's right. It means that the reservation charge at 10% may be generating more revenue than the actual cost that is incurred to provide the service.

COMMISSIONER CLARK: Okay.

Q (By Mr. McGlothlin) What's the chief advantage of the coordinated maintenance month feature

of the new rate?

A The advantage is to provide the very strong signal for customers to schedule their maintenance and to do it at times when the Company has resources available.

Q If the Commission were to revise what is now presently in place to require a daily demand charge during the CMM months, what affect would that have on the incentive to schedule outages during nonpeak months?

A Well, if, in the event that a coordinated maintenance month, that there would be a daily demand charge that would -- depending on the level of that charge, that would diminish the incentive to schedule maintenance during off peak times.

Q Staff asked if, in your opinion, Gulf Power would have the ability, procedurally, to initiate a proceeding limited to the number of non-SE days that should be used in calculating Option A in the future. Do you recall that question and answer?

A Yes.

Q Does the fact that it would have that procedural ability alter your conclusion that the assumptions underlying the proposed new rate are appropriate?

A Not at all. The assumptions reflect the

expectation in terms of the availability of SE in the future when the rate will be in effect.

Q And what are those expectations and on what are they based?

A The expectations are based on, in part, history and in part the realization that the system is growing and the amount of baseload capacity surplus is shrinking and that correlates to the amount of availability of SE. And that in three of the four historical years that we know about SE was not available on average seven or more days per month. And as the load grows, that expectation will be that it won't be available for more than seven days on average per month.

Q With respect to the future availability of baseload units on Southern System on which the SE availability depends, do you know what the Southern Companies are planning to build in terms of future units?

A Well, I think I stated in my summary that they are planning to build combustion turbine capacity to meet what is the projected increase in summer peak demands.

Q Does that support your conclusion that SE will become increasingly less available?

A Yes, because as the load grows, more of that

high load is going to be served from higher cost units, and under those circumstances, SE would not be available.

MR. McGLOTHLIN: Those are all the questions I have.

CHAIRMAN DEASON: Exhibits.

MR. McGLOTHLIN: I move Exhibit 1.

CHAIRMAN DEASON: Without objection, Exhibit 1 is admitted.

MS. ERSTLING: I move Exhibit 2.

CHAIRMAN DEASON: Without objection, Exhibit 2 is admitted.

MR. STONE: Commissioner, the actual witness that would be sponsoring Exhibit 3 is about to take the stand. I'll be happy to move it now or reserve that movement.

CHAIRMAN DEASON: I'll let you move it later.

(Exhibit Nos. 1 and 2 received into evidence.)

CHAIRMAN DEASON: You may call your witness.

MR. STONE: And now I can tell you that we discussed, at least it was my understanding it was discussed, that we would call Gulf's two witnesses as a panel.

CHAIRMAN DEASON: Any objection?

Hearing no objection, that will be permissible.

MR. McGLOTHLIN: I won't object to the panel if they don't object to my borrowing a cup of water from them.

CHAIRMAN DEASON: I'm sure they won't mind.

MS. ERSTLING: Mr. Chairman, could we take a five-minute break?

CHAIRMAN DEASON: Sure, we'll take five minutes.

MS. ERSTLING: This is going to be a long cross. Thank you.

(Brief recess.)

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CHAIRMAN DEASON: Call the hearing back to order.

MR. STONE: Mr. Chairman, both Mr. Thompson and Mr. Howell have taken the stand and I will in a moment get their testimony inserted into the record and ask them to summarize their testimony.

As I indicated, they will be tendered for cross examination as a panel. There may be occasions when one or the other witness is more appropriate to answer the question, depending on what the nature of the question is. There may also be occasions when each witness has input on a particular question, depending on

the nature of the question. I just wanted to alert you to that possibility.

CHAIRMAN DEASON: Very well.

MR. STONE: We will make sure they try not to step on each other's words so the court reporters can hear them distinctly.

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M. W. HOWELL

JAMES I. THOMPSON

were called as a panel of witnesses on behalf of Gulf Power Company and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. STONE:

Q Good afternoon, Mr. Howell. You were previously sworn when all the witnesses were sworn, I take it?

A (Witness Howell) Yes.

Q Are you the same M. W. Howell who has filed direct testimony in this proceeding dated July 1, 1994, consisting of ten numbered pages?

A Yes.

Q Do you have any changes or corrections to your prefiled direct testimony?

A No.

Q There were no exhibits attached to your prefiled direct testimony?

A None.

Q If I were to ask you the questions contained in that prefiled direct testimony, would your responses be the same?

A Yes.

MR. STONE: I would ask that Mr. Howell's prefiled direct testimony be inserted into the record as though read.

CHAIRMAN DEASON: Without objection, it will be so inserted.

Q (By Mr. Stone) Good afternoon, Mr. Thompson.

A (Witness Thompson) Good afternoon.

Q You were previously sworn?

A Yes, sir.

Q Are you the same James I. Thompson who prefiled direct testimony dated July 1, 1994, consisting of 11 pages, in this proceeding?

A Yes.

Q Did you also prefile on July 18 additional supplemental direct testimony consisting of four pages?

A Yes, I did.

Q Are both these sets of testimony considered your direct testimony?

A That's correct.

Q Do you have any changes or corrections to your prefiled direct or your prefiled supplemental direct testimony?

A Yes, I have one correction, for which I apologize. It is on Page 2 of my supplemental direct testimony at Line 17. On Line 17 of Page 2 of my supplemental direct testimony, the change is we should delete the six-word phrase begining with the word, "at," so we should delete the words "at the same voltage level and." That's the only correction.

COMMISSIONER KIESLING: Can you repeat that page number again? I must have misunderstood.

WITNESS THOMPSON: Yes, ma'am. On Page 2 of my supplemental direct testimony at Line 17, we're deleting the phrase beginning with the word "at" and to the end of that line. That's the only changes.

Q (By Mr. Stone) With that change in the question, if I were to ask you the questions contained in your prefiled direct and prefiled supplemental direct, would your responses be the same?

A Yes.

MR. STONE: I woud ask that Mr. Thompson's two sets of direct testimony, his original and his supplemental direct, be inserted into the record as though

read.

CHAIRMAN DEASON: Without objection, it will be so inserted.

Q (By Mr. Stone) Do you have any exhibits attached to either set of direct testimony?

A I did not.

Q Today we have handed out an exhibit that has been identified as Gulf's current SBS rate that is in effect. Are you familiar with that exhibit?

A Yes.

Q And what has been handed out and marked Exhibit 3, that is in fact the tariff rate schedule that is in effect for Gulf's standby service customers at this time; is that correct?

A Yes, sir.

Q And that is the tariff that we are asking for permanent approval of in this proceeding?

A Yes, sir.

MR. STONE: I would ask that Mr. Thompson be listed as a sponsoring witness for Exhibit No. 3.

CHAIRMAN DEASON: Very well.

Gulf Power Company

Before the Florida Public Service Commission
Direct Testimony of
M. W. Howell
Docket No. 931044-EI
Date of Filing: July 1, 1994

Q. Please state your name, business and occupation.

A. My name is M. W. Howell, and my business address is 500 Bayfront Parkway, Pensacola, Florida 32501. I am Manager of Transmission and System Control for Gulf Power Company. In this position, I have management responsibility over Gulf's bulk power system planning function and the Company's bulk power interchange function, including the Company's participation in the Southern electric system's Intercompany Interchange Contract (IIC).

Q. Have you previously testified before this Commission?

A. Yes. I have testified in various rate case, cogeneration, territorial dispute, planning hearing, fuel cost recovery and purchased power capacity cost recovery dockets.

Q. Please summarize your educational and professional background.

A. I graduated from the University of Florida in 1966 with a Bachelor of Science Degree in Electrical Engineering. I received my Masters Degree in Electrical Engineering from the University of Florida in 1967, and then joined Gulf Power Company as a Distribution Engineer. I have since served as Relay Engineer, Manager of Transmission, Manager of System Planning, Manager of Fuel and System Planning, and Manager of Transmission and System Control. My experience with the Company has included all areas of distribution operation, maintenance, and construction; transmission operation, maintenance and construction; relaying and protection of the generation, transmission, and distribution systems; planning the generation, transmission, and distribution system additions in the future; bulk power interchange administration; overall management of fuel planning and procurement; and operation of the system dispatch center.

I have served as a member of the Engineering Committee and the Operating Committee of the Southeastern Electric Reliability Council, chairman of the Generation Subcommittee and member of the Edison Electric Institute System Planning Committee, and

chairman or member of a number of various technical committees and task forces within the Southern electric system and the Florida Electric Power Coordinating Group, regarding a variety of technical issues including system operations, bulk power contracts, generation expansion, transmission expansion, transmission interconnection requirements, central dispatch, transmission system operation, transient stability, underfrequency operation, generator underfrequency protection, system production costing, computer modeling, and others.

Q. What is the purpose of your testimony in this docket?

A. The purpose of my testimony is to describe the conditions which influence Gulf's need for additional supply side or demand side capacity resources. I will discuss the role that the IIC and its capacity equalization component play in Gulf's provision of electric service. Finally, I will discuss the potential benefits that would accrue to our customers if we successfully encourage our self generating customers to perform planned preventive maintenance activities on their generation equipment at times other than during Gulf's summer peak months.

Q. What conditions influence Gulf's need for additional capacity resources?

A. Gulf, like all electric utilities, must anticipate the needs of its customers and plan its resources to be able to meet those needs. With regard to capacity resources, the primary driver is the Company's annual peak load. Gulf is a summer peaking utility. That is, the annual system peak load on Gulf Power Company's system occurs during the summer months. We therefore must plan our capacity resources in order to be sure that we have the capability to meet the summer peak with an appropriate margin of reserves. To the extent that there is a growth in the Company's summer peak load, there is a need for additional capacity resources.

Q. How is Gulf's system planning affected by its membership in the Southern electric system?

A. First of all, the fact that Gulf Power is an operating company member of the Southern electric system does not alter Gulf's basic responsibility to plan and procure the resources necessary to serve the needs of its customers over the long-term. Each operating company within the Southern electric system must plan and procure the necessary resources to serve the needs of their own customers over the long-term. However,

because of our membership in the Southern electric system and the associated power pooling arrangement, Gulf and the other operating companies are able to plan resource additions as a system as well as individual operating companies, and achieve lower overall costs than would be possible for each of the companies on a stand alone basis.

Q. What is the role of the IIC in Gulf's provision of electric service to its customers?

A. The IIC is the vehicle that allows all of the operating companies of the Southern electric system to participate in pool operations and realize all the many benefits to their customers that accrue to all participants.

Q. What are these benefits?

A. They include the following:

1. Economic dispatch production cost savings.
2. Economic sharing of generating reserve capacity.
3. Ability to install large, efficient generating units.
4. Reduced requirements for operating reserves.
5. Pool market for temporary surpluses of capacity and energy on Gulf Power's system.

6. Ready supply of energy for purchase when Gulf Power is short.

7. Long-term power sale revenues.

8. Unit power sale benefits.

9. Peak-hour load diversity.

10. Economy energy transaction benefits.

These many benefits have long been recognized and noted by the Commission in prior proceedings. At least partially as a result of the benefits our customers receive, Gulf Power has been able to provide reliable electric service at low cost, and our rates are the lowest of any investor-owned electric utility in Florida.

Q. What is the purpose of the IIC capacity equalization process?

A. The capacity equalization component is only one piece of the IIC arrangement. The capacity equalization component is a device that has been approved by the Federal Energy Regulatory Commission (FERC) as a way to share in the capacity benefits of the system. The capacity equalization component exists only for the purpose of handling temporary surpluses and deficits in reserve capacity that will arise as a result of our pooling system. The capacity equalization mechanism is

not intended to serve as a long-term means of meeting the resource needs of any member of the Southern electric system.

Q. Does this mean that there are limits on the role the IIC capacity equalization plays in Gulf's business?

A. Yes. For example, Gulf does not use the capacity equalization model as a tool to evaluate the economics of customer load changes, capacity additions, or any other action needed to provide electric service to its customers. In all decisions, we try to determine what the customers' needs are and satisfy those needs in the most appropriate and cost-effective manner. Each of the other operating companies of the Southern system, acting for the benefit of their customers, is doing the same thing. If we all attempted to use the IIC and its mechanism for handling temporary surplus/deficit capacity transactions as a measure of what is good for our customers in the long-term, we likely would make many wrong decisions and would fail to satisfy the needs of our customers in the least costly manner.

Q. How do Gulf's IIC capacity equalization costs compare to the Company's total cost of providing electric service?

A. They are very small. For example, the annual IIC

capacity equalization costs for 1994 are projected to be less than one percent of the Company's total annual operating expenses. By comparison, Gulf's production related revenue requirements amount to fifty-five percent of the Company's total annual revenue requirements. The difference in magnitude between these two components of Gulf's cost of providing electric service and the fact that, from a planning perspective, the need to plan and procure resources sufficient to meet Gulf's summer peak loads demonstrates that of the two, Gulf's primary concern should be focused on properly managing the summer peak load as opposed to the effect of changes in load from month to month.

Q. How does this proper focus of concern relate to the provision of standby electric service?

A. By definition, the customers taking standby service from Gulf rely on their own generation to serve as the primary source of supply for all or part of their own electric power needs. From Gulf's planning perspective, it is the likelihood that the standby customer will be calling on Gulf to provide standby service at the time of the Company's annual peak that is the primary concern of Gulf Power. To the extent that these customers can be encouraged to plan their maintenance activities for

times other than at the time of Gulf's annual peak, then this will assist Gulf in deferring or avoiding the need for additional generating capacity or other capacity resources. Our experience with our current standby customers under the old standby rate shows that they indeed purchased standby service from Gulf Power during the summer months, at times when Gulf experiences its highest system loads and its highest cost to provide service. In fact, the Company has seen a fairly high incidence of standby demand at times during the summer months when the load is between 90% and 100% of Gulf's annual peak.

The shift in maintenance activities to months other than those in which Gulf's annual peak is likely to occur provides benefits to Gulf from a planning perspective in at least two ways. First, because the planned maintenance is occurring in an off-peak month rather than an on-peak month, the associated standby usage and related standby demand will also occur in the off-peak month. Second, because of the planned maintenance activity, the probability of an unplanned or forced outage of the customer's generation is reduced which also has the effect of reducing the possibility that the cogenerator would have a need for standby service at the time of Gulf's annual peak.

Q. Does this conclude your testimony?

A. Yes it does.

Gulf Power Company

Before the Florida Public Service Commission
Prepared Direct Testimony of
James I. Thompson
Docket No. 931044-EI
July 1, 1994

Q. Please state your name, business address, employer and position.

A. My name is James I. Thompson and my business address is 500 Bayfront Parkway, Pensacola, Florida 32501. I am employed by Gulf Power as a Pricing Specialist.

Q. Please describe your educational and professional background.

A. In 1977, I earned a Bachelor of Science degree in Industrial Management from Georgia Tech. I joined Gulf Power in 1980, as an analyst in the company's Rate Department. In 1988, I became a member of the company's marketing organization, and currently serve as a Pricing Specialist in that organization. Throughout my career, I have been involved in the pricing of Gulf Power's energy services.

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

A. I will present and explain two specific components of Gulf Power's new rate for Standby electric service. These components are the Coordinated Maintenance Months provision and the "Option A" version along with its Annual Review provision. My testimony is limited to these components because it is my understanding that these are the specific areas of Gulf's new pricing arrangement for standby electric service about which the Commission has expressed a need for additional information to be presented through this hearing.

Q. What is the purpose of the "Coordinated Maintenance Months" feature in Rate SBS?

A. In order to understand the purpose of this feature, it is important to remember that our standby service customers, by definition, have the capability to serve all or part of their electric requirements through their own generation. The Coordinated Maintenance Months feature provides an economic incentive for our standby service customers to perform maintenance on their generation equipment at certain times of the year and not to do so at other

times of the year. This customer incentive comes in the form of a reduced price for the standby service they would purchase from Gulf Power while performing maintenance on their generating equipment during the coordinated maintenance months.

Q. Is there a similar provision in Gulf Power's previous Standby Service rate?

A. Yes. The Coordinated Maintenance Months provision in the new rate is an enhancement of a similar provision in the old rate. The new version results in a stronger incentive for our customers to avoid purchasing standby service during our summer months when Gulf's annual peaks are likely to occur, and offers the customers a more useful opportunity to perform maintenance, from a planning perspective. Seasonal price distinction is found in both the old and the new standby service rates.

Q. Please compare the seasonal price distinction in Gulf's previous standby service rate to the seasonal price distinction in Gulf's new standby service rate.

A. The seasonal price distinction in the old standby service rate was found in the Daily Demand Charge

component. Likewise, the seasonal price distinction in the new rate is found in the Daily Demand Charge component.

The seasonality in the old rate was found in the Daily Demand Charges that were slightly higher in summer than the Daily Demand Charges applicable the rest of the year. The lower Daily Demand Charge was thus applicable during eight months of the year. The seasonality in the new rate is in the form of no Daily Demand Charge during the Coordinated Maintenance Months, which are limited to a maximum of four months and must not be during the summer. A Daily Demand Charge is applicable to all other months. Under this approach, the lower Daily Demand Charge (zero) is applicable during, at most, four months of the year.

Q. In those four Coordinated Maintenance Months during which there is no daily demand charge, what other components of the new standby service rate are still applicable?

A. The Customer Charge, Local Facilities Charge, On-Peak Demand Charge, Reservation Charge, and Energy Charge are applicable, along with the fuel cost recovery factor, energy conservation cost recovery

factor, environmental cost recovery factor, and purchased power capacity cost recovery factor.

Q. Will the Coordinated Maintenance Months provision in the new rate result in reduced summer peak demands for Gulf Power?

A. That is one of the intended results of this feature in our new pricing arrangement. Based on indications we have received from our affected customers, we believe this is a likely result. This can create benefits for all of our customers by delaying our need for additional investment.

Q. Is the Coordinated Maintenance Months provision an appropriate component of Gulf Power's new rate for standby electric service?

A. Yes. That provision is an important component of our new pricing plan. It is structured as a result of discussions with our cogeneration customers, is born out of our experience over the last six years, and provides benefits to all of our customers.

Q. Please describe these potential benefits.

A. First, there is the opportunity to avoid investment to meet summer peak demand. As Mr. Howell discusses

in his testimony, Gulf Power is a summer peaking utility and it is our need to have resources to serve the summer peaks that drives our resource planning. Also, there is an opportunity for Gulf Power to reduce its administrative costs associated with this component.

Q. If a small portion of Gulf Power's cost of providing service was not incurred on a seasonal basis, would that necessarily mean that there should be no seasonality in Gulf Power's prices?

A. No. It is easy to think of examples of costs incurred which are not seasonal in nature, but which represent a small portion of overall cost. We would not necessarily conclude from this that there should be no seasonality in Gulf's pricing.

Q. What is the purpose of the "Option A" portion of rate SBS?

A. The "Option A" version of the new standby service rate enables our cogeneration customers who purchase standby service to avail themselves of our optional Supplemental Energy (SE) rate rider. The SE rate rider is also available to our full-requirements (non-cogeneration) customers. Gulf Power has an

obligation, under Section 366.81 of the Florida Statutes, not to discriminate against our cogeneration customers who purchase standby service with regard to their eligibility to participate in our optional SE program. The "Option A" version thus exists to handle the pricing of service for those customers who purchase standby service and wish to participate in our SE program.

Q. How does the "Option A" version differ from the standard version in rate SBS?

A. There are two basic differences. The first is the amount of the Daily Demand Charge. The second is the provision for the Annual Review of this Daily Demand Charge in "Option A".

Q. Why are the two differences necessary?

A. The SE rate rider designates certain periods in the month during which the Daily Demand Charge is not applicable. The Daily Demand Charge in the "Option A" version is set at a higher amount to compensate for the reduced number of days in the month on which the Charge is applicable. The number of days on which the Daily Demand Charge will be applied differs from month to month through normal operation

of the SE program. As a result, the amount of this charge is set based on some reasonable expectation of the number of days on which it will be applied. We have set the amount of this charge based on an expectation that it would be applied to an average of seven days each month. This amount was selected based both on our experience over the last few years and our expectation for the future.

The "Annual Review" provision of the Daily Demand Charge in the "Option A" version serves to ensure that the customer's total potential exposure to Daily Demand Charges is no higher than it would be if the customer were not a participant in the SE program, and were instead being billed on the standard version of the standby service rate. This is accomplished by adjusting the Daily Demand Charge downward if, over the course of the year, the average number of days per month on which the published Daily Demand Charge was applicable was greater than seven. There is no provision for an after-the-fact upward adjustment to the Daily Demand charge if, at year's end, it turns out that the opposite was true.

Q. Why is there no provision for an after-the-fact upward adjustment?

A. First, Gulf Power determines the number of days on which the Daily Demand Charge is applicable, since Gulf designates those periods in which the SE price is invoked. Also, it is not good customer service to attempt to raise the price after the customer has made the purchase. Finally, attempting to raise the unit price after-the-fact raises concerns about retroactive ratemaking.

Q. Would it be appropriate to set the Option A Daily Demand Charge at a level high enough to ensure that there would always be a downward adjustment at the time of the annual review?

A. No. This would leave the customer in the position of making operational decisions based on the higher, unrealistic price. Though a credit would essentially be issued at year-end, the credit would only amount to the difference between the original high price and the subsequent lower price applied to the daily demand usage. This would not be the same as if the "true" price had been in effect originally, since the customer's daily demand usage decisions were based on an inappropriate higher

price. The most obvious example of the shortcoming of the approach would be the case where the customer decided, due to the price in effect at the time, not to purchase standby service at all. A credit which was based on the difference between that original price and a lower price determined later and which is applied to the customer's daily demand usage, zero in this scenario, would yield zero adjustment. Obviously this result could be very different from what might have occurred if the lower price had been in effect at the time the customer was making the operational decision.

That type of pricing scheme is especially inappropriate in pricing standby service to cogenerators, who need to be able to efficiently evaluate their expected cost of purchasing standby electric service against the value they expect to receive from that purchase.

Q. Is the "Annual Review" feature an appropriate component of Gulf's new standby service rate?

A. Yes, this mechanism, combined with the other components of the "Option A" version, represents a reasonable way to price our standby service for those customers who participate in Gulf Power's SE

program. It is fair to all parties, recognizes Gulf Power's role in the SE program, and affords us the opportunity to achieve the benefits expected from the new standby service pricing arrangement.

Q. Do you have any final comments with which you would conclude your testimony?

A. Yes. Gulf Power's new standby service rate resolves most of the weaknesses found in the old standby service rate, including the most severe ones. Also, the new arrangement is an example of Gulf Power's commitment to effectively utilize pricing to achieve marketing objectives, including our conservation objectives.

Q. Does this conclude your testimony?

A. Yes.

Gulf Power Company

Before the Florida Public Service Commission
Prepared Supplemental Direct Testimony of
James I. Thompson
Docket No. 931044-EI
July 18, 1994

Q. Please state your name, business address and occupation.

A. My name is James I. Thompson and my business address is 500 Bayfront Parkway, Pensacola, Florida 32501. I am employed by Gulf Power as a Pricing Specialist.

Q. Have you previously testified on direct in this proceeding?

A. Yes.

Q. What is the purpose of this portion of your testimony?

A. I will address Issue 3, regarding the applicability of the charges for the Above 7499 KW demand range.

Q. Does Gulf Power have a standby service customer purchasing service at this demand range who does not purchase supplementary service under Gulf's PXT rate?

A. Yes. One of our standby service customers began purchasing standby service from Gulf Power in August, 1993. Since that time, this customer has purchased only Standby Service, with no supplementary service required. Prior to August, 1993 this customer purchased only supplementary service, under Rate Schedule PXT.

This customer was thus a Rate Schedule PXT customer before, during, and after Gulf's last completed rate case.

Q. Is this customer purchasing standby service under Rate Schedule SBS ~~at the same voltage level and~~ through the same local facilities as it previously purchased supplementary service under Rate Schedule PXT?

A. Yes, and these are also the same facilities through which the customer purchased standby service under our old Standby Rate for nearly one year, beginning in August, 1993.

Q. Is the Local Facilities Charge which the customer is currently paying under Rate SBS the same as the Local Facilities Charge previously paid by the same customer under Gulf's old Standby Rate?

A. Yes. The determination of which charges should be applicable to this customer was, in effect, made in August, 1993.

Q. Are the charges found in the Above 7499 demand range appropriate for this customer?

A. Yes. Those charges, including the Local Facilities Charge, come from the current PXT rate and the old standby service rate. Not only was this customer a Rate Schedule PXT customer during the Company's last rate case (when these charges were established), this customer was by far the largest PXT customer. If there is any single customer for which those charges are appropriate, it is certainly this one.

Q. Is this customer currently being billed according to the terms and applicability provisions of Rate SBS?

A. Yes.

Q. Is the applicability of the charges for the Above 7499 KW demand range appropriate?

A. Yes. This component works in combination with all

of the other components and provisions of Rate SBS. The result is an improved arrangement for pricing standby electric service for our cogeneration customers, which affords opportunities for benefits to all of Gulf's customers.

Q. Does this conclude your testimony?

A. Yes.

Q (By Mr. Stone) Mr. Howell, would you please summarize your testimony?

A (Witness Howell) Yes.

Good afternoon, Commissioners. The designation of coordinated maintenance months for our standby customers will encourage them to plan their maintenance activities to incur during times other than our annual peak. This will ensure that the standby customers' maintenance loads do not cause us to add unnecessary generating capacity to meet our annual peak load growth.

Our primary consideration in planning our capacity resources is to meet the summer system peak load with an adequate margin of reserves. As our summer peak load grows, so does our need for additional capacity resources. Our membership in the Southern electric system pool enables us to plan these capacity additions in concert and cooperation with the other operating companies of the Southern system, and we can do that and achieve lower overall cost than would be possible if we were a stand-alone utility.

I have testified in many previous dockets that our coordinated planning provides many benefits to our customers. Through the intercompany interchange contract, or what many call the IIC, the operating

companies have agreed to a capacity equalization method of sharing temporary surpluses and deficits of capacity that result from our planning activities. This process is just a process, though, it is not a long-term means of meeting our capacity resource needs for our electric system. Each company is responsible for securing enough capacity to adequately meet their individual company load obligations.

The need to plan and procure sufficient capacity to meet our summer peak load is of far greater cost significance to all of our customers than are any actions that may influence load changes from month to month through the IIC capacity equalization process.

We think that you should give us the tools necessary to supply our summer peak load in the most economical manner. The proposed standby tariff with the coordinated maintenance month provision is one of the best tools that the Commission can give us to help us keep our rates low.

We request that you listen to the concerns of the Company, listen to the concerns of our customers, and grant our request.

Q Mr. Thompson, would you please summarize your direct and supplemental direct testimony.

A (Witness Thompson) Yes.

I have presented and explained in my direct testimony three specific components of Gulf Power's new arrangement for pricing our cogeneration customers' standby electric service. These three components are appropriate and important inclusions in our new rate, rate SBS.

I have pointed out in my testimony and I emphasize now that these three components, though they are important parts of our new rate, they are but three of the many components, provisions and conditions in rate SBS. We need to keep the whole picture in mind.

Gulf Power's new standby service rate is the result of an extensive collaborative effort with our cogeneration customers, as we heard the customers describe earlier this afternoon. The new rate replaces one which was simply inadequate to meet our customers' needs. This new pricing plan, rate SBS:

One, meets the needs of our cogeneration customers.

Two, not only does no harm to our other customers, in fact, it offers genuine opportunities for benefits for them.

Three, comports with good electric service pricing principles. And

Four, represents a step forward in Gulf

Power's commitment to effectively utilize pricing to achieve our conservation objectives.

Our new rate, rate SBS, has been offered only after lots of homework was done. It has been implemented following rigorous analyses of economic effects; assessments of its conservation effects; consideration of our customers' needs for how useful the new rate would be; a verification of our own ability to handle the actual billing under the new rate; an evaluation of the new rate's effect on our ability to perform accurate and effective cogeneration evaluations; and finally, consideration of Gulf Power's relevant legal requirements under federal and state law.

In short, rate SBS is a complete pricing plan which we thoroughly researched before implementation. It is the only such plan offered in this proceeding.

That concludes my summary.

MR. STONE: We'd tender the witnesses as a panel for cross examination.

CHAIRMAN DEASON: Mr. McGlothlin?

MR. McGLOTHLIN: No questions.

CHAIRMAN DEASON: Staff?

CROSS EXAMINATION

BY MS. ERSTLING:

Q Although you are sitting as a panel and you may answer certain questions where you both have a response, I'm going to, based on your prefiled testimony, I'm first going to direct my questions to Mr. Howell and then to Mr. Thompson.

Mr. Howell, as a member of the Southern Company pool, does Gulf make monthly payments or get monthly receipts pursuant to the ICC on the basis of Gulf's monthly equalized reserve?

A (Witness Howell) Yes.

MS. ERSTLING: Staff is handing out Gulf's response to Item No. 33 of Staff's First Set of Interrogatories which we would like to have marked for identification as an exhibit.

CHAIRMAN DEASON: It will be identified as Exhibit No. 4.

(Exhibit No. 4 marked for identification.)

Q (By Ms. Erstling) Mr. Howell, does this interrogatory provide the Southern IIC charge rate per kilowatt for each month for 1992 for Gulf Power Company?

A Yes.

Q Isn't it true that in some months Gulf's reserve margin compared to the Southern Company's

systems is such that Gulf must pay IIC charges?

A Talking about the equalized reserves?

Q Yes.

A Yes, there are some months that we pay.

Q And in other months it receives IIC revenues; is that correct?

A That's right.

Q Isn't it true that any kW used by an SBS customer in a Southern Company monthly system peak hour during any month will either increase the IIC charges Gulf must pay by approximately $6.50 per kW or reduce the IIC revenues received by Gulf by approximately $6.50 per kW?

A I'm sorry, would you repeat that question, please?

Q Isn't it true that any kW used by an SBS customer in a Southern Company monthly system peak hour during any month will either increase the IIC charges Gulf must pay by approximately $6.50 per kilowatt-hour or reduce the IIC revenues received by Gulf by approximately $6.50 per kilowatt, depending upon whether Gulf is paying charges or receiving revenues in a given month?

A Well, technically the answer is no, it depends on the Company's peak. If the Company's peak occurs at

a different time than that of the Southern Company peak, our reserves and obligation are based on our peak during the month, not necessarily our peak at the time of the Southern Company peak. But as our load at our peak increases, then there is a phase-in. There is no immediate reaction to that. But in general, as our loads increase, the equalization process does require us to either buy more capacity in a particular month or receive less.

Q Mr. Howell, I noticed on Page 2 of your testimony that you have served on the Operating Committee of the Southeastern Electric Reliability Council. Are you familiar with the generating availability reports published by the North American Electric Reliability Council?

A Which specific reports are you talking about?

Q They published a generating availability -- North American Generating Availability Report for June 1994, it covers the years 1989 to 1993.

A I might have seen that but I don't recall it.

MS. ERSTLING: All right. If we hand out this availability report, or pages from it that we believe are relevant to the issues in this docket, at this time I would like to have these pages marked as an exhibit.

CHAIRMAN DEASON: They will be identified as

Exhibit No. 5.

MR. STONE: Mr. Chairman, I understand from Ms. Erstling's representation that these are excerpts from the full report. I don't have a copy of the report, nor have I seen these pages prior to this proceeding.

MS. ERSTLING: These are an appendix containing definitions and formulas. (Pause)

(Exhibit No. 5 marked for identification.)

CHAIRMAN DEASON: Is there a question pending?

MS. ERSTLING: Yes, there is. I didn't know if there was an objection to looking at it.

Q (By Ms. Erstling) Would you please look at page 138, which is the appendix containing definitions and formulas. Would you agree that the appendix defines the SOF as the scheduled outage factor?

A That's what it says, yes.

Q Would you agree, subject to check, that the scheduled outage factor in this report represents the average percentage of hours that this type of plant experienced planned outages, maintenance outages, and scheduled outage extensions of planned and maintenance outages factored for the total outages the plant was in active service?

A I have not seen this report before in this format. I'm going to clarify an answer I gave earlier.

I said I didn't know if I had seen the report or not; I have not looked at these pages. You are asking me to try to follow you with terms that I don't normally deal with on a day-to-day basis.

MR. STONE: I would also at this point, I'm not sure where this relates to his testimony other than the fact that he testified that he has previously served on this committee or is currently serving on this committee, whichever. I'm not sure what relevance this has to his testimony.

MS. ERSTLING: I believe at the time that we had the prehearing conference the Prehearing Officer stated that if the -- we would have this panel discussion because it was possible that we would want to hear more from a witness if he was willing to give it to us and had that information available. And it was on that basis that we agreed to go ahead with the panel discussion because we agreed that the witness might testify more than on Issue 1, which his testimony was on.

CHAIRMAN DEASON: We'll allow the question. But to the extent that the witness cannot verify or does not have working knowledge, then he can not testify to it. That's for the witness to answer as he sees fit.

Q (By Ms. Erstling) I'm going to have you look at Page 62 to 63, which contains a table of annual unit

performance statistics for a steam unit fired by natural gas, which --

A You say 62 through 63?

Q Pages 62-63, yes. Through 63.

A The copy I have does not have a 63.

Q Just look at 62 then.

With the capacity in the range of 1 to 99 megawatts. Would you agree that this table shows that for gas turbines having a capacity factor of 1 to 99 megawatts, the scheduled outage factor is 6.98% of the time for the period 1989 through 1993?

A Well, I see that this is gas primary 1 to 99, and it is 1989 through 1983 --

Q '93.

A I'm sorry, '89 through '93. I cannot read the other numbers down there, they're kind of small; if I hold it far enough out, I can.

What was the question again?

Q Would you agree that this table shows that the gas turbines having a capacity of 1 to 99 megawatts, the scheduled outage factor is 6.98% of the time for the period 1989 through 1993?

MR. McGLOTHLIN: Before the witness answers, I need to ask a clarifying question. Does the question suggest that this is data from cogeneration units, from

utility units? I'm trying to follow what is being offered here.

MS. ERSTLING: Yes. It's from utility generating units that use gas as their primary fuel for their generators.

MR. McGLOTHLIN: On that basis I object to the question as being irrelevant for the purposes of the hearing, which is designed as standby rates for cogeneration units.

CHAIRMAN DEASON: Objection has been made.

MS. ERSTLING: I would like to ask a follow-up question on that, because I believe that the relevance is in the combined factor that they're using for the coordinated maintenance months.

CHAIRMAN DEASON: I'll allow you to ask the follow-up question and then you may renew the objection, Mr. McGlothlin.

A I never answered the first question because we didn't get it straight what the -- you asked a question about 6.98. Would you repeat that, please?

Q Yes. I said on Page 62 it contains a table of annual unit performance statistics for steam units fired by natural gas with a capacity in the range of 1 to 99 megawatts. And then I asked, would you agree that this tables shows that for gas turbines having the capacity

of 1 to 99 megawatts, the scheduled outage factor is 6.98% of the time for the period 1989 to 1993?

A That's what it shows. I have no idea if this information is correct or not.

Q Okay.

A Okay.

Q Isn't it true that Gulf's SBS tariff provides for up to four coordinated maintenance months, which is equivalent to 33.3% of the year? (Pause)

CHAIRMAN DEASON: Do you have an objection, Mr. McGlothlin?

MR. McGLOTHLIN: No, sir.

A It's four months out of the 12 months, that's one-third of the year.

Q Do two of the four current SBS customers use gas as the primary fuel for their generators?

A I'm not familiar in detail with what they use. I do recall reading one of -- and I do not recall who it was -- one of the gentleman's testimony said they use waste wood as a fuel and that is their primary fuel. I don't recall which one it was.

MS. ERSTLING: Okay. We would like at this time to pass out the Ten-Year Site Plan into the record as an exhibit and like it marked for identification.

CHAIRMAN DEASON: It will be identified as

Exhibit No. 6.

(Exhibit No. 6 marked for identification.)

Q (By Ms. Erstling) If you will look at the data on Page 36 under Columns 5 and 6, for the first two companies shown on there? And for the last one on there, would you agree then that two of the four current SBS customers use gas as the primary fuel for their generator? (Pause)

A It's what it shows.

Q Thank you. Mr. Thompson, -- thank you very much, Mr. Howell, I have no further questions at this moment.

Is there anything in the SBS tariff that specifically requires a customer to notify Gulf Power a specific amount of time in advance of their intent to designate a month as a coordinated maintenance month?

A (Witness Thompson) Yes.

Q Would you please read to me where, you have the tariff in front of you, where that is shown -- where the language specifically requires a customer to notify Gulf and specify the amount of time in advance?

A This is the fourth tariff sheet in the package -- that is, if we don't have those two index sheets on the front that Jeff Stone described earlier. It's Sheet No. 6.31. Sheet No. 6.31, the middle of the

page where it says, "Provision for --"

Q We don't have a 6.31 here. Do you have 6.30.1 is what you're saying, or 6.31?

A No, ma'am. Well, you should have both; but you should have 6.31 and followed by a 6.31.1.

Q No.

A Well, you have a bad copy, I'm sorry. My copy has 6.31 in it.

COMMISSIONER CLARK: So does mine, but it has 6.30.1 before 6.31.

MS. ERSTLING: All right, we have it now. Thank you very much.

MR. STONE: I guess it would be helpful to make sure who else did not receive all their pages if we went through how many pages there are supposed to be in this tariff. If we could just ascertain -- because if there's someone else operating without a complete set, we would like to remedy that as soon as possible.

Could we ask Mr. Thompson to inventory the pages that are supposed to be in Exhibit 3?

A (Witness Thompson) I have the rate schedule now in the proper order and it should be as follows: Sheet 6.20 -- excluding the two index pages. Sheet 6.29; 6.30; 6.30.1; 6.31; 6.31.1; 6.32, and 6.32.1.

Q Okay. All right, now, if you can now read to

me where that specific language is?

A Okay. It's on Sheet 6.31 around the middle of the page there where it says, "Provision for coordinated maintenance months. The customer's request for designation of a particular month as a CMM should ordinarily be submitted six months in advance. The Company in its sole discretion may accept a request submitted less than six months in advance."

Q Then what you are saying, as I read it there, is that the Company does have the option of taking a lesser notice than six months' notice?

A Sure.

Q Mr. Thompson, based on the fact that this option does exist, is there anything in the tariff that specifically precludes a customer from designating -- subject to Company approval, of course -- a coordinated maintenance month, say, only 12 hours before the maintenance CMM is to begin?

A Did you say 12 hours?

Q Yeah. In other words, is there anything specifically that would prohibit that other than it being up to the Company, subject to the Company's approval?

MR. STONE: I'm sorry, could I ask you to repeat the question? I totally got lost.

MS. ERSTLING: All right.

Q (By Ms. Erstling) Is there anything in the tariff that specifically precludes the customer from designating, subject to Company approval, of course, a CMM, say, only 12 hours before the CMM is to begin?

A No.

Q Thank you. Can a customer designate a month as CMM for reasons other than planned maintenance?

A Yes.

Q Is there anything in the tariffs that specifically requires the customer to perform planned maintenance during the designated CMM month?

A No. However, the fact that it needs to be prearranged or scheduled with the Company's concurrence well in advance, or it is anticipated that it would be done well in advance, would make it awfully likely that the customer's usage of that service would be more maintenance.

Q Is there anything in the SBS tariff that precludes a customer from requesting a designated CMM even though he doesn't have maintenance planned in advance for that month?

A No.

Q Let's assume a customer has only one generating unit. Let's also assume that he needs only

two weeks a year to perform planned maintenance on the generator. Does the CMM provision provide for the customer to pay no daily demand charge for the entire CMM month in which he performs the planned maintenance?

A I hate to do this, Shiela, that was kind of a long one. Would you read me that one again.

Q Sure.

A Thank you.

Q That's okay. Let's assume a customer has only one generating unit. Let's also assume that he needs only two weeks a year to perform planned maintenance on that generator. Does the CMM provision provide for the customer to pay no daily demand charge for the entire CMM month in which he performs the planned maintenance?

A Yes, it does.

Q If the customer has designated four CMM months, does the CMM provision also provide for the customer to pay no daily demand charge for the other three CMM months, even though we had no planned maintenance?

A Yes. However, I'm not sure whether or not the customer would request, nor the Company would grant, approval of a CMM -- of the other CMMs under the conditions that you described. We have to remember that the availability of a coordinated maintenance month

period is always subject to the approval, prior approval of Gulf Power Company.

Q But, specifically, there's nothing in the tariff itself, in the provision, that would preclude that from occurring other than the fact that it would be based upon Company approval; is that correct?

A That's correct.

Q Okay. Let's assume a customer has three generating units of equal size. Lets also assume that the customer plans to perform planned maintenance on each of the units in a different month. Does the CMM provision provide for the customer to pay no daily demand charge for the entire standby demand, even though the customer is performing planned maintenance on only one of his generators?

A Did you say during a CMM month in there?

Q That's correct.

A During the CMM month there would be no daily demand charge applicable at all.

Q Okay. On Page 2 of your direct testimony, in the paragraph beginning at Line 17, you state that the purpose of the CMM provision is to provide --

A You're on Page 2?

Q Page 2, Line 17.

A Okay. Thank you.

Q Could you hold one moment, please?

COMMISSIONER CLARK: While she's doing that, if I understood the tenor of Staff's questions with regard to the coordinated maintenance time, what is to prevent one of these customers from saying, "We want the whole four months for our coordinated maintenance period"? And that way they protect themselves from having -- if they have a forced outage they won't pay a demand charge. So can they say to you, "We want the total amount, four months, to do our coordinated maintenance"?

WITNESS THOMPSON: Well, they can request that four months be approved by the Company, yes, ma'am. But no more than that.

COMMISSIONER CLARK: So even if you know that they are only going to conduct two weeks of maintenance, actual maintenance during the four months, and what they are trying to do is avoid a daily demand charge by saying "We want the whole four months," and yet you know they are only going to do maintenance during two of those months, they in effect can avoid that daily demand charge for forced outages during that time.

WITNESS THOMPSON: The purpose of having four months there was to accommodate the type of situation that Mrs. Erstling was getting to when she gave me two different scenarios. In the first scenario we had a

customer with one generator, and then we had another scenario with a customer, I believe, with three generators. We have got customers just like both of those and then some other types of customers. So the purpose of having up to four months of coordinated maintenance months available was to accommodate all of those different types of customers and their needs.

COMMISSIONER CLARK: I'm not asking you about its intended purpose. I'm asking about some intended uses to which it can be put, unintended uses.

By telling you they are going to conduct maintenance for four months during the months that are September through May, will you automatically approve the whole four months, even though you know or you have reason to believe the only maintenance they are going to do is going to be two weeks out of that period. How do you prevent the customer using that to protect themselves under forced outages that occur during those four months they designate?

WITNESS THOMPSON: Well, the direct answer to your first question is no, ma'am, we would not automatically approve that.

The second part of that is how do we protect ourselves and protect our customers, our standby service customers from that situation is if we knew that, if

that was a situation we knew, that would be considered in the Company's evaluation process of that request for coordinated maintenance.

COMMISSIONER CLARK: Well, let me ask it a different way: Doesn't it make sense to indicate in the tariff that the request for designation of a coordinated maintenance period shall be limited to actual maintenance that they predict? I mean, how are you going to prevent them from asking for the whole four months when they don't need it?

MS. ERSTLING: Go ahead.

COMMISSIONER CLARK: It may be my question is irrelevant.

COMMISSIONER KIESLING: Can I take a stab at it?

WITNESS THOMPSON: Sure.

COMMISSIONER KIESLING: If I understand this tariff on 6.31, just because they ask for it doesn't mean you're going to approve it. Is that -- first of all, am I clear on that?

WITNESS THOMPSON: That's correct, Commissioner.

COMMISSIONER CLARK: And if you, as the utility, don't approve their request for CMM, then they have to come back and request something else.

WITNESS THOMPSON: Well, yes, ma'am, they might. If we didn't approve the request for CMM, then it would

not be a CMM.

COMMISSIONER KIESLING: And if you determine that there is no planned maintenance, or the entire period that they request is not going to be used for maintenance, then you won't approve it. Am I correct in figuring that out?

WITNESS THOMPSON: That would be one of the factors that we would look to or include in our evaluation process. There would be others.

COMMISSIONER KIESLING: I'm sure there would.

WITNESS THOMPSON: Yes, ma'am.

COMMISSIONER KIESLING: So, then, if I understand correctly, the answer to Commissioner Clark's question is there's nothing that will keep them from asking for it, but you don't have to grant it?

WITNESS THOMPSON: That's true. And there's nothing that would keep a customer from asking for any of the nine nonsummer months, but there's no guarantee or no assurance that any of them would be approved, just as you described.

COMMISSIONER CLARK: Why don't you have a provision in the tariff that indicates their request for a designation of up to four months has to relate to the time they believe they will need to conduct their maintenance? I mean, why isn't it stated that a basis for rejecting

their request may be that they've asked for more than they need to do their maintenance? Let me change it.

Suppose during -- they only requested three weeks of coordinated maintenance, and it was -- say it was the first three weeks in October. That's available to them, right?

WITNESS THOMPSON: Yes, ma'am.

COMMISSIONER CLARK: Okay. Now suppose they have a forced outage in December, do they pay a daily demand charge?

WITNESS THOMPSON: We had a coordinated maintenance month in October?

COMMISSIONER CLARK: Yeah. They only requested the month of October.

WITNESS THOMPSON: As a coordinated maintenance month.

COMMISSIONER CLARK: Right. And then they had an outage in December, are they going to be paying a daily demand charge?

WITNESS THOMPSON: For the outage in December?

COMMISSIONER CLARK: Right.

WITNESS THOMPSON: Yes, ma'am.

COMMISSIONER CLARK: Okay. In order to avoid that, why don't they say to you, "We want from October 1st" -- what is four months -- "to February 1st," and that

way if they have a forced outage from the first of November to the first of February they are covered.

WITNESS THOMPSON: Well, I can think of two possible reasons why the customers might not want to do that.

The first one is that if they had done that, that roll of the dice, if you will, by designating or asking for the designation of those four months as coordinated maintenance month, they would be precluding themselves from getting a coordinated maintenance month during, to continue with that example, March or April or May when they might really need a coordinated maintenance month because it would have exhausted their supply of four months.

The second reason is I think that is the type of gamesmanship, if you will, that causes us to need to scrutinize the application or the administration of the tariff more closely and causes us to jeopardize the application of it.

COMMISSIONER CLARK: Well, I guess my question is why wouldn't you make it clear in the tariff that just because they get up to four months doesn't mean that they can -- why isn't it made absolutely clear that this is solely for the purpose of maintenance? I guess what I'm trying to ask, why don't you provide in the tariff the

basis on which you might reject their request?

MR. STONE: Commissioner Clark, if I may, part of that becomes a legal interpretation, and if I may offer part of that legal interpretation, if we were to specify the basis on which we would -- at least part of the basis on which we would deny the request, then we would be limiting the basis on which we can deny the request. And as it is currently phrased, we have more discretion as a company than we would be if we would put those limits in place.

COMMISSIONER CLARK: Well, maybe, maybe not, but I understand that argument.

WITNESS THOMPSON: Commissioner, we have not included in the rate schedule itself any of the reasons or considerations that we would go through in evaluating the customer's request for coordinated maintenance month.

COMMISSIONER CLARK: Okay.

WITNESS THOMPSON: So -- I'm sorry, go ahead.

COMMISSIONER CLARK: How would you address the charge that you're being discriminatory in how you apply that tariff among your customers? If you don't specify the criteria under which you would evaluate, how does each customer know they have been fairly evaluated, when you say to one customer, "Yes, you can have a month," and you say to the next one, "You can only have three weeks"?

MR. STONE: Commissioner, it would appear to me that that would also boil down to the question -- it would be a question of fact, obviously, but it would also be a question of law. And that if there was a complaint by a customer to that effect, both sides would be called upon to state their case, perhaps before this body, and the Company would have to demonstrate why it believed it acted without discriminating against similarly situated customers.

WITNESS THOMPSON: I'm also reminded, Commissioner, that on Sheet 6.32.1, which is part of this rate schedule also, we have as a definition of maintenance service the -- we have the definition of maintenance service included there.

COMMISSIONER CLARK: Go ahead.

COMMISSIONER KIESLING: This may actually be more of a question for Mr. Stone, but I'll address it to you and then he can answer it.

Why not include in 6.31 a listing of the criteria that you're going to apply in deciding to approve these by saying it in terms of, you know, "These are the criteria including, but not limited to," so that everyone knows, including us, what you're going to be looking at when you decide whether to approve?

MR. STONE: I hesitate to step on an area that's

properly within the witness's frame, but in terms of --

COMMISSIONER KIESLING: Well, If the witness can answer, let me see if he can then.

MR. STONE: Well, I want to offer what I would, as drafting a legal requirement, a contract for my client. It would, in part, depend on whether or not I can predict all of those circumstances as they would exist in the future. And I think it's a dynamic process. It's going to depend on what our own maintenance situation is at the time that we're looking forward and looking at the request period, we'll look at what our schedule is during that period. There's a bunch of dynamics that come into play. And I'm not sure that the Company believes that it is comfortable in predicting all possible scenarios in order to lay out those criteria. And it is for that reason, as counsel, we advise them to maintain the maximum degree of flexibility possibility.

COMMISSIONER KIESLING: That didn't really answer my question. If you use the language that says we're going to look at these, you know, including but not limited to, these things.

MR. STONE: That certainly is one --

COMMISSIONER KIESLING: It's done every day in the statutes to avoid the same legal problem that you're talking about.

MR. STONE: And I would ask the witness to address from the operation standpoint, but I was offering my legal opinion as to why we advise certain conduct in terms of drafting the language.

COMMISSIONER KIESLING: Okay. Not from an operations point of view.

WITNESS THOMPSON: We could do that.

COMMISSIONER KIESLING: Okay. Thank you.

COMMISSIONER CLARK: Mr. Thompson, I want to make it clear that I'm not telling you to do that. I'm just -- I am concerned that there may be an opportunity to avoid some costs that legitimately should be paid by standby customers for outages other than when they schedule it. And I'm just trying to test whether or not you've looked into that.

It seems to me that one way to address it is to simply say that, you know, when they apply to designate the period of time they want to have as scheduled maintenance, they could indicate the maintenance they intend to perform and how long it's going to take. And, you know, that will give you some -- I mean, then they have to sort of legitimize how many days they have requested.

But having said that, I can understand that these are sophisticated customers. I don't want to

imply that they would engage in any gamesmanship and that is certainly something within your discretion to decide that that's the way it should be done. And after the fact we may discover that it needs to be tightened up because people are engaging in scheduling time as maintenance which, in fact, covers forced outages. I mean, I think that's what the point was that Staff was trying to make.

MS. ERSTLING: Yes.

Q (By Ms. Erstling) If I may, I'd just like to summarize where we've come with this and ask that as the tariff provision is now written, and it can be applied completely at the discretion of the utility; is that correct?

A Shiela, I missed the first couple of words.

Q As a tariff provision for the CMM is currently written, it can be applied arbitrarily at the discretion of the utility; is that correct?

A Well, the term "arbitrarily" concerns me a little bit. The utility has sole discretion over the approval of a coordinated maintenance month request.

Q Okay. I'll accept that language. But it's also, as a tariff is currently written, the customer doesn't necessarily have to have scheduled maintenance at that time. It may be something that you're looking

at, but there's no specific requirement that in the tariff, as it's presently written, that the customer has to have planned maintenance scheduled.

A It doesn't say that in the tariff. However, it says that the request for coordinated maintenance month provision must be submitted in writing. And one of the things that we would certainly expect to see in that request for a coordinated maintenance month period were things like how much and how long. Those are the types of things we would need in order to be able to evaluate that request.

Q All right. Well, I think that Commissioner Clark and Commissioner Kiesling have covered the matter in depth as to what might be expected in that.

Let's go on to Page 2 of your direct testimony. In the paragraph beginning at Line 17, you state that the purpose of the CMM provision is to provide an economic incentive for your standby service customers to perform maintenance on their generation equipment at certain times of the year and not to do so at other times of the year.

At Page 3, Line 11, do you assert that the new SBS rate schedule, in effect, results in stronger incentive for your customers to avoid purchasing standby service during the summer months when Gulf's peaks --

annual peaks are likely to occur?

A Yes. The CMM provision, if I might elaborate on that one having answered directly, the coordinated maintenance month provision in the rate is the mechanism or the vehicle in the rate that we use to try to create a stronger pricing message or pricing signal to the customer with respect to shifting demand or shifting load off of our summer peak demand.

There was some talk or discussion earlier with some of the earlier witnesses about what relationship the coordinated maintenance month provision had with solving the subjectivity problems that were inherent in the old standby service rate and in addressing the administrative complexity. Well, that's not really what the coordinated maintenance month provision is aimed at. Those were structural problems with the old rate that we had to solve. Having embarked on this process, having opened the hood on this thing, so to speak, we said we have an opportunity now to maximize our usage of pricing as a conservation promoting tool.

We have been over here -- and I say "we," Mr. Tom Kilgore, Mr. Duncan Bushart of Gulf Power Company have been over here in the conservation goal hearings and committed us to maximize the usage of pricing as one of our primary conservation tools as

often as we can. And we didn't feel that it would be proper to let an opportunity go by without seizing it to do that. This was an opportunity to increase the strength of our pricing signal as a conservation tool and we took advantage of it to do so. So in that respect I think that the coordinated maintenance month provision is necessary, not specifically to handle the subjectivity or the administrative problems directly, but because it's necessary that we use pricing every chance we get to enhance our chances of being successful with our conservation objectives.

Q If you will look on Sheet No. 6.30 for the non-Option A customers, on this currently effective SBS rate schedule is a summer daily demand charge 47 cents for non-Option A customers?

A The daily demand charge shown there is 47 cents. It would not merely cover the summer period, it would cover at least eight months out of the year.

Q On the previous standby service rate schedule that was in effect, was the daily demand charge for summer months 58 cents?

A Yes.

Q So the summer daily demand charge on the current SBS rate schedule is actually lower than the summer daily demand charge on the preceding SS rate

schedule?

A That's correct. And the daily demand charge during the coordinated maintenance months is very much lower.

Q Are all the other charges on the new SBS rate schedule the same in summer and nonsummer months?

A Yes.

Q In your April deposition, you were asked how Gulf arrived at the four-month period of CMMs. Isn't it true that -- and that's on Page 34, Line 22, of your deposition. Isn't it true that you responded that, quote, "In talking with our in-house generation folks and in talking with the customers, it was determined that four months would give them the opportunity to do two planned outages of their generation equipment per year"?

A Yes.

Q You were also asked whether you had any data or technical evidence to support the choice of four months. Isn't it true that you responded with, "No, I don't have any. No, just discussions. It seemed like a reasonable amount"?

A Yes, that's the way I responded.

Q I'm handing you a copy of Gulf's standby service rate schedule that was in effect until the

proposed SBS tariff became effective in June. Please note on Sheet No. 6.31 of that rate schedule has a provision in the middle of the page which states that, quote, "This ratchet provision will be waived for the reservation charge only if a change in the BC is the result of a maintenance outage which was fully coordinated in advance with the Company and did not include a peak hour that determines the Company's IIC payments or revenues."

A Yes, it says that.

Q Does the CMM provision in the SBS rate schedule now under consideration provide a similar provision which results in not increasing the BC for future months for the reservation charge for higher BC demands incurred in coordinated maintenance months?

A Yes, it has a similar provision.

Q Does the CMM provision in the SBS rate schedule now under consideration preclude the customer in future months from getting the waiver of the ratchet for the reservation charge when usage during a maintenance outage included a peak hour that determines the Company's IIC payments or revenues?

It is a long one; would you like me to repeat it?

A Please.

Q I will repeat it.

Does the CMM provision in the SBS rate schedule now under consideration preclude the customer in future months from getting the waiver of the ratchet for the reservation charge when usage during a maintenance outage included a peak hour that determines the Company's IIC payments or revenues?

A Let me try to answer that. It was "preclude from getting the waiver," and that was the kind of the double negative, I want to get the answer right.

If the amount of service taken during the coordinated maintenance month, regardless of when during the coordinated maintenance month, exceeds the sum of the previous contracted amount, then that new higher contracted amount is not applicable to the reservation charge on an ongoing or on a forward-looking basis.

I was just trying to sort through how to answer that yes or no based on the "preclude getting the waiver."

Q No, the critical portion of that question was the phrase "included a peak hour that determines the Company's IIC payments or revenues."

A Yes, and that is not considered in the new rate schedule SBS.

Q Thank you. On Page 6 of your direct

testimony --

COMMISSIONER CLARK: Can I interrupt?

MS. ERSTLING: Yes, go ahead.

COMMISSIONER CLARK: I didn't understand that whole thing and I think I want to understand it.

I think the monthly peak has some impact on whether you pay money under the IIC or whether you pay money; is that correct?

WITNESS HOWELL: Let me address that, Commissioner Clark. I'm certainly not the witness that can talk about BC and ratchets and all those magic things the rate people talk about, but I would like to address this issue about the IIC, which seems to keep cropping up in the discussion.

One of the things we try to avoid is making decisions for the needs of our customers and future capacity additions on what happens in the IIC.

As I filed in my direct testimony, the intercompany interchange contract is a pretty big contract. There are a lot of issues that fall into it. There are a lot of advantages that we, as a company, get as a result of that contract. We have been able to put in very large-scale sized units that we never would have been able to otherwise. We have been able to dispatch our system as one of the largest dispatch systems in the

United States. We get a lot of advantages from that.

And we recognize that, especially the fact that Gulf is a fairly small utility, if we're going to be putting in large units as we did in the past, that our reserves are going to be high in some years after we add a unit and low in some years before we add a unit. So we said it seems to make sense that we ought to try to make provision for the fact that all of our reserves are not going to be the same every year. So we came up with an equalization process that we said approximates that; and that's all that is there for is to try to recognize the fact that we are not always going to be able to hit our reserves right where we want them every year, especially when we are growing a lot less than the capacity of a large unit.

The IIC does not generate or make any capacity. All it does is try to balance reserves each year. We don't make any long-term decisions based on what the IIC does; we base our capacity additions and our need for capacity based on what our customers' needs are.

Somebody has already said we're adding combustion turbines in the future because we've got enough baseload capacity. We don't look at what would happen in the IIC if we added one unit versus the other,

we try to say, "What are our needs long-term?"

The only thing that will get all our customers' rates down in the long term is to avoid adding generating capacity. The payments that may go back and forth in a particular month between the companies in no way affects whether we can reduce the cost to our customers.

If we took the position that I sense from the Staff that we're going to measure everything by what happens with those IIC payments and every other company in the system did the same thing, then we'd probably never do anything that even hinted, "Well, that may be a bad thing because of the IIC."

COMMISSIONER CLARK: Mr. Howell, I appreciate that. But I think what the Staff is trying to get at is what impact it will have on payments under the IIC and how that impacts the rest of Gulf's customers. Not necessarily that it shouldn't be done, but how can it be fairly allocated between customer classes?

And I may be wrong. But as I understood the question to Mr. Thompson, it was that if a customer during -- used power extensively during the coordinated maintenance month and during that time that customer exceeded, I guess, both his supplemental power and backup power such that he might be subject to a ratchet

increasing the demand charge over the 24-month period, is the decision to waive that, saying there may have been special circumstances and you're not going to apply that ratchet, does that decision on waiver take into account whether or not the use of that extra power occurred during the monthly Southern System peak hour?

WITNESS THOMPSON: No, ma'am. The decision as to whether or not the reservation charge would be applicable on an ongoing basis would have in effect been made back when the request for a coordinated maintenance month period was granted. That particular provision -- the part of that provision about not applying the reservation charge on a forward-looking basis whenever the customer established a new higher demand during a coordinated maintenance month, that particular part is straight out of the old standby service rate into the new one.

COMMISSIONER CLARK: I think we're talking past each other. Under what --

WITNESS THOMPSON: I apologize.

COMMISSIONER CLARK: Under what circumstances -- how does a customer have a ratchet applied to them? I mean in the sense they are, I guess, given a higher demand charge than the one they had suggested was appropriate for them?

WITNESS THOMPSON: Let's go back, maybe it would be easiest if we go back to the example we had with Mr. Pollock a little bit earlier.

We had a customer, if I recall, that had a supplementary contract capacity with us of 10 megawatts. Let me pause right there and add, I know this is complex and confusing; and when we developed our SE -- and this is a digression for just a moment. When we developed our SE, or supplemental energy program, in late 1984-early 1985 and came to the Commission, had we known just a year or two later the term "supplementary service" would be popular to describe the services that were needed by standby service customers, we would have probably chosen a different word. It is unfortunate those two words sound so much alike. "Supplementary" I try to use to refer to the service sold to a standby service company --

COMMISSIONER CLARK: The ten megawatts.

WITNESS THOMPSON: Right.

COMMISSIONER CLARK: Okay.

WITNESS THOMPSON: That same customer has a backup or standby service contract with us of 10 megawatts. Let's say that one month that customer's metered demand is 22 megawatts. Now, absent hearing from the customer at all, the backup or standby service

contract for that customer will be moved up to 12 megawatts.

COMMISSIONER CLARK: And they'll incur a higher reservation charge?

WITNESS THOMPSON: Yes, ma'am, they would incur a higher reservation charge as well as a new local facilities charge. And, of course, it's not the charge that changes; the reservation charge and local facility charge would now simply be applied to 12 megawatts of standby instead of 10 megawatts, as it had been previously.

COMMISSIONER CLARK: Okay.

WITNESS THOMPSON: Now, let's take that same case where the same customer, the same two contracts originally, ten megawatts supplementary and ten megawatts of standby, and let's say that that 22 megawatts is recorded during a coordinated maintenance month, okay? The 12 megawatts backup capacity or backup contract, the new contract amount, would be applicable on a forward-looking basis to the local facilities charge. The local facilities charge component would be applied to the 12 megawatts from that point forward but the reservation charge would only be applied to that new 12 megawatt level for that current month, the month in which it occurred, that coordinated maintenance month, and would not be

applied from that point forward. And that particular feature in the rate is the part that I was saying was lifted out of the old rate and put into the new one.

COMMISSIONER CLARK: So it's the same.

WITNESS THOMPSON: It is the same. But the distinction that the Staff was making is that the old rate had in there a reference to the interchange contract whereas the new rate does not.

MS. ERSTLING: That's correct.

Q (By Ms. Erstling) That was going to be my follow-up question was that the old rate provided that the waiver for the reservation charge would only take effect if it did not include peak hours that determines the Company's IIC payments or revenues and the new provision as written makes no provision for exclusion of those peak hours that come up to determine IIC payments or revenues. Would that be a correct way of stating it?

A (Witness Thompson) That's right. And that's another way that we have strengthened the conservation incentive to the customers.

In my testimony -- and I don't have the exact page reference, I could find it. In my testimony, I believe I said that it provides a stronger and more useful incentive to the customers. It's stronger because the daily demand charge during the coordinated

maintenance month is zero so that the seasonal differential is greater. It's more useful because the coordinated maintenance month provision in the new rate schedule, once agreed to by the Company and the customer, is not recallable by the Company. It is firm, that's set out.

Under the old rate, as Ms. Erstling just pointed out, even after we designated or granted what was effectively a coordinated maintenance period, we monitored that on an ongoing basis to determine whether or not we could live with it or recall it or cancel that. And in an effort to increase the strength of the price signal, we made that a firm commitment in the new rate, so that we do not have to continue to monitor that. Once agreed to, the coordinated maintenance month provision is in effect.

COMMISSIONER CLARK: So the way I understand what you just said is the reason you don't apply that higher reservation charge is that, despite what may happen, despite the fact that they may use energy that coincides with the monthly Southern System peak, is you want to encourage them to do their maintenance during that time. And not only do they get a zero daily demand charge, you won't be adjusting, even if it occurs at that peak time, you will not be adjusting their reservation to

12 megawatts.

WITNESS THOMPSON: Precisely.

COMMISSIONER CLARK: Okay.

WITNESS THOMPSON: There are three --

COMMISSIONER CLARK: Whereas, in the past, you would have, because you had a longer, you had five months, I guess, that they could do it under and they didn't have to tell you when they were going to do it.

WITNESS THOMPSON: Well, the customers would request -- under the old system, also, the customers would have still requested coordinated maintenance; but once granted by the Company, it was still subject to be recalled; and that happened.

COMMISSIONER CLARK: Okay.

WITNESS THOMPSON: One way to look at it is the old the coordinated provision in the old rate -- and I have referred to the one in the new rate as an enhancement of the old one. The old one contained one feature, if you will, that made it a coordinated maintenance period; and that is, it said, "If your usage is higher than your total that you contracted with us in the past, then we will only apply the reservation charge to the current month and won't do it on an ongoing, forward basis." We've taken that provision and moved it into the new one and said, "Now, we're going to add two other things; first, the

daily demand charge goes to zero; second, the coordinated maintenance month, once designated, is not subject to recall."

So it is a more useful, it is a more firm commitment on the part of the Company towards that coordinated maintenance designation and, therefore, more useful.

That provision is one of the specific subjects of collaborations between the Company and the customers in developing this. We went through a lot of "what-ifs" with the customer to find out what type of arrangement would be more useful to the customers and serve us well.

WITNESS HOWELL: Commissioner Clark, let me throw in something, too, that we have observed.

For whatever reasons the customers didn't like the old tariff, it was not successful in getting them off of our summer peak. We don't always know, we can't tell you our peak is going to occur on a certain day. We might set a peak, for example, the middle of July and not know that that's it for the month, that's the peak; because the forecast was it was going to stay hot but all of a sudden, as it has done all summer, it rained. So we don't know when our peak was in July until July is over because we don't know what is going to happen to us.

But we have looked at what the standby customers have done; and over the past four years they've averaged being on us about 20% of the time when our loads were either at peak or within 10% of peak.

We think part of the reason is because they didn't have much of an incentive to be off of us in the summer. And I'm not a rate person, so I admit I don't understand it; but I can observe that with that small a differential between what they get charged in the summer and what they get charged in the other periods apparently is not much of an incentive.

What we're trying to do is say, we don't think it is reasonable for them to be on us about 20% of the time when we're at our peak periods. If we can get them off, then that means, if they've got a strong enough incentive, then we can eliminate the need for additional capacity or defer a capacity that we're going to have to build in the future.

And what my position is here is I'm trying to take an overall global look at this and say, "We've just got to get them off the summer peak." And I think what we've proposed -- I don't understand all the details, Mr. Thompson does -- but I think what we've proposed is going to get them off the summer peak. I don't know what the number is; but if we can get them down from 20%

to 10%, we've accomplished a large number of kilowatts that our other customers won't have to pay for.

COMMISSIONER CLARK: Thank you.

Q (By Ms. Erstling) Just to follow up on what you have said, you've been talking about the availability and how many were on during your summer peaks. But that does not take into account, or I don't know if you can tell me, how much of that time utilized, that so-called 20%, was due to planned maintenance or was due to forced outages? Have you any study that would indicate where that time frame came from?

A (Witness Howell) I don't have that information, no, ma'am, and I don't know if we have the records for it. The key point, you know, was the generators don't care what they call it. If our generation has to supply that load, then we've got to have additional generation.

So the point is what we're trying to do is get them to recognize that, okay, do all of your maintenance in the nonsummer peak months. We've given you the opportunity here to pick enough months where you do the maintenance where you do a good job, get the units well-maintained and try to get your forced outage rates down, don't have any scheduled maintenance in the summer months, and we will then accomplish our goal of getting

load off.

We've noticed with our own generation, we emphasize very much not having forced outages on our generators in the summer months. And, amazingly, we have lower forced outage rates on our machines in the summer than we do other periods.

So we think if they focus on that and they have the rate incentive to do that will get the load, whatsoever it is called, off of us in the summer, we'll have less generation we have to add; everybody's cost will be lower in the future.

Q But basically what you have said is that this is a plan in an attempt to reduce that, but you cannot really say and do not have any study that you could submit that would say to us that these outages -- the usage that we're getting during the summer peak months is primarily due to planned maintenance and not to forced outages? That's the unknown right now; is that what you're saying?

You can assume that a certain number might be, but you really have no study telling us which is which.

A I'm saying yes and no. Yes, we don't have the detail. But the key is that we know what the behavior has been under the old tariff without a coordinated maintenance provision. Give us some time to see how the

customers behave knowing, "Hey, it's not just a small percentage, whammy, you're going to suffer if you're on in the summer, you're going to really pay."

If you can get off of them in the summer and get all that maintenance done in months where there is no demand charge, it is our expectation that their future behavior will show that we can eliminate a considerable amount of summer usage -- regardless of whether it is forced outage rates or what.

Q Are you aware that the summer daily demand charge on the SBS tariff is actually lower than the daily demand charge on the rate schedule it replaced?

A Would you say that again, please?

Q That the summer daily demand charge on the SBS tariff is actually lower than the daily demand charge on the rate schedule it replaced?

A I'm not familiar with the details of the rate. What they have explained to me is that there's not that big a difference, and I think it's less than 35% difference now, between off peak and peak; and I think Mr. Thompson can verify that the numbers are in the ballpark, the difference now whether they're on us in the summer versus other periods. If they can become, if they can get on us only in the coordinated maintenance month periods and not in the summer, then there's a 100%

difference in their incentive to not be on us in the summer. That's the basis on which I am saying my personal belief is that we will see a significant decrease in the amount of megawatts that they place on our system in the summer months.

Q Let's go on, Mr. Thompson, on Page 60 --

CHAIRMAN DEASON: Let me interrupt just a second. How much more do you have for these witnesses?

MS. ERSTLING: Quite a while, sir.

CHAIRMAN DEASON: We're going to go ahead and take a break at this time. During the break, I just encourage Staff and the parties to make an assessment of the time remaining. When we reconvene, we'll discuss what our plans are going to be.

(Brief recess.)

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CHAIRMAN DEASON: Call the hearing back to order.

MS. ERSTLING: Chairman Deason.

CHAIRMAN DEASON: Yes.

MS. ERSTLING: We are working at right now trying to get some language that would resolve Issue 3 so that we would not have to address Issue 3 today. Mr. Stone was meeting with his clients to determine if that would be okay. Barring that, Issue 3, and taking

into account that we would not be addressing Issue 3, if it works out that way, I figure I still have about 40 minutes of cross examination of these witnesses on the other issues, and a total of possibly 45 minutes on redirect -- on rebuttal, I'm sorry, not redirect, on the rebuttal cross examination.

CHAIRMAN DEASON: And how much cross is anticipated for Staff witness? Mr. McGlothlin.

MR. McGLOTHLIN: I may have 20 to 25 minutes.

CHAIRMAN DEASON: Mr. Stone.

MR. STONE: Commissioner, I will endeavor to cut my list down considerably and try to get it under that time frame.

With regard to the possible stipulation of Issue 3, I had drafted some language that I thought might be responsive to what was Staff's concern if I could ever identify what Staff's concern was. And I have now, in working with the Staff, they have made it clear to me what their concern was with regard to Issue 3, and it has to do with other customers in the future.

I have drafted some language which I had recommended to my client that it allow be inserted into the tariff, and in the interest of getting that issue stipulated so we can eliminate that class of questions and expedite this proceeding, they have agreed here at

the last minute, to accept this language which I drafted. And so I have handed out to everyone this language which I understand we have a stipulation with Staff that would resolve Issue 3, and I would ask that this be identified as an exhibit.

CHAIRMAN DEASON: You want this language identified as an exhibit? We'll identify it as Exhibit No. 7.

(Exhibit No. 7 marked for identification.)

MR. STONE: Now, this language, which is proposed modification to final paragraph on fourth revised Sheet No. 6.29 of Gulf Power Company's tariff for retail electric service, it applies to the paragraph that is entitled, "Limitations above 7,499 kW demand range for billing purposes." It is in a red line strike out format, and this would not affect any of the Company's existing customers. That is to say, all of the Company's existing customers can meet this criteria so it is especially neutral to any of the intervening customers. And this does provide a definition of criteria that other similarly situated customers would then be eligible for this demand category. And on that basis Staff has agreed that with the Company's agreement to this language, that we can stipulate Issue 3. And I have been authorized to represent to you that we will, in an effort to expedite

this proceeding, agree to this change to our tariff.

CHAIRMAN DEASON: Mr. McGlothlin, have you seen this language?

MR. McGLOTHLIN: We just received it and I think I may need only a moment or two to confer before we can respond.

CHAIRMAN DEASON: Maybe I want to give you several hours because we're contemplating adjourning this hearing and reconvening tomorrow at the conclusion of the agenda conference. And from what I understand we're looking at two hours, maybe three hours at the most to finish the hearing. And I've been informed that it may be preferable to conclude this hearing tomorrow. Especially considering that the Commissioners have to prepare for an agenda tomorrow, and unless there's some strenuous objection to continuing the hearing, that's what I plan on doing. So do I hear any objections at this time?

MR. McGLOTHLIN: No objections, sir. May I inquire whether you all had contemplated a bench decision in this case? There are only three issues as identified in the Prehearing Order. And some of the industrial intervenors are getting to the point where, for their own planning purposes for planning the maintenance outages, they need to understand what the future rules of the game are. I wonder if you would think really the idea of -- if

you're comfortable and think you're going to be ready to rule, we would consider waiving posthearing procedures and maybe having just five minutes for closing comments instead.

MS. ERSTLING: Chairman Deason, it's Staff's position that this is a very complex issue and they would prefer to be able to completely handle it and not have it as a bench decision and write a recommendation for it if that meets with your approval.

CHAIRMAN DEASON: Commissioners, do you have a preference?

COMMISSIONER CLARK: Mr. Chairman, I doubt I'm going to be ready to draw a conclusion and rule tomorrow.

CHAIRMAN DEASON: Right.

COMMISSIONER CLARK: I just don't think that's a possibility.

CHAIRMAN DEASON: I would tend to agree with that. This is rather complex. And I understand the industrial customers desire to get this thing nailed down, but we've been trying to move this thing along as fast as we can, and we'll try to keep it moving along.

MR. McGLOTHLIN: That's fine, sir.

COMMISSIONER CLARK: Let me ask a question: Is the posthearing proceedings likewise shortened? They have been for this case, as I recall.

MR. McGLOTHLIN: I don't recall without looking.

MS. ERSTLING: Yes, everything has been shortened so that we actually have a decision out before 12 months, from point-to-point.

COMMISSIONER CLARK: Well, when is the recommendation due?

MS. ERSTLING: I believe it's the end of September.

COMMISSIONER CLARK: The what?

MS. ERSTLING: The end of September.

CHAIRMAN DEASON: Of course, the tariff is in effect. Of course, I know there's a concern that the tariff could change or could be --

MS. ERSTLING: The actual date --

CHAIRMAN DEASON: -- rejected.

MS. ERSTLING: I'm sorry.

CHAIRMAN DEASON: Go ahead.

MS. ERSTLING: The actual date in which the recommendation is due is 9-22 and the agenda that it's set for is October 4th. And that's it. And the order will be out by October 24th.

COMMISSIONER CLARK: Okay.

CHAIRMAN DEASON: Your clients should know where they stand by October 4th.

MR. McGLOTHLIN: All right, sir.

CHAIRMAN DEASON: Is there anything that we desperately need to do this evening before we adjourn?

MS. ERSTLING: No. I believe if we just adjourn now at this particular point, there's nothing that needs to be done now. And would give everybody time to review this tariff that was presented to us so that we will be sure that we agree with everything that is on it. I just want to point out that Mr. Stone made a remark that we were stipulating to that, but Staff does not stipulate, but we have no objection to it as presented by the Utility.

MR. STONE: Well, it's my understanding that it was Staff that raised Issue 3, and that if Staff accepts this language as resolving their concerns, then it would seem to me to be appropriate to eliminate Issue 3 as an area of contention.

CHAIRMAN DEASON: I believe it would be -- Staff can stipulate, it's that you can't bind the Commission. I mean, but your position can be in agreement if that is your position. Mr. Palecki.

MR. PALECKI: Staff's policy for the last three to four years has been not to stipulate. But we do -- thus far we support the draft and we'd have no difficulty in withdrawing that issue if that will expedite matters.

CHAIRMAN DEASON: Okay. That being the case,

we're going to adjourn the hearing at this time. We will reconvene tomorrow at the conclusion of the internal affairs, but no sooner than 1:00. I'm sorry, agenda conference. Today was internal affairs. We're doing too much in too short a period of time.

MS. ERSTLING: I'm sorry, I didn't hear you. Is that 1:00; no sooner than 1:00?

CHAIRMAN DEASON: It's going to be at the conclusion of the agenda conference tomorrow, but in no way would it be before 1:00.

MS. ERSTLING: Okay. Thank you.

MR. STONE: Mr. Chairman, we'll beg your indulgence that some of us may look very similarly attired to today. (Laughter)

MR. McGLOTHLIN: All of us.

CHAIRMAN DEASON: I understand.

COMMISSIONER KIESLING: All of you can swap ties and that will give it a whole new look.

CHAIRMAN DEASON: See you all tomorrow.

(Thereupon, the hearing adjourned at 5:55 p.m., to reconvene after the agenda conference, Tuesday, August 2, 1994, at the same location.)

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(Transcript continues in sequence in Volume 2.)