

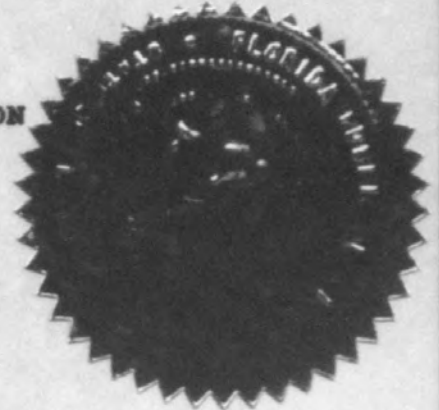
BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

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

SECOND DAY - FIRST SESSION

VOLUME 2

Pages 221 through 391



PROCEEDINGS:

HEARING

BEFORE:

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

DATE:

Tuesday, August 2, 1994

TIME:

Reconvened at 1:30 p.m.
Concluded at 5:18 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

APPEARANCES:

(As heretofore noted.)

FLORIDA PUBLIC SERVICE COMMISSION

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FPSC-RECORDS/REPORTING

I N D E X

MISCELLANEOUS - VOLUME 2

Page No.

CERTIFICATE OF REPORTERS

391

WITNESSES - VOLUME 2

Page No.

Name:

M. W. HOWELL

JAMES I. THOMPSON (Resumed Stand)

Continued Cross Examination By Ms. Erstling	230
Redirect Examination By Mr. Stone	260

WILLIAM BERG

Direct Examination By Ms. Erstling	265
Prefiled Direct Testimony Inserted	269
Cross Examination By Mr. McGlothlin	279
Cross Examination By Mr. Stone	294
Redirect Examination By Ms. Erstling	318

DENNY BRUEGGEMEIER

Direct Examination By Mr. McGlothlin	323
Prefiled Rebuttal Testimony Inserted	325

JEFFRY POLLOCK

Direct Examination By Mr. McGlothlin	334
Prefiled Rebuttal Testimony Inserted	336
Cross Examination By Ms. Erstling	347
Redirect Examination By Mr. McGlothlin	354

M. W. HOWELL

JAMES I. THOMPSON

Direct Examination By Mr. Stone	360
Prefiled Rebuttal Testimony of Mr. Howell Inserted	362
Prefiled Rebuttal Testimony of Mr. Thompson Inserted	365
Cross Examination By Ms. Erstling	377
Redirect Examination By Mr. Stone	384

EXHIBITS - VOLUME 2

	Number:	Identified	Admitted
3	8	(Staff) SS Rate Schedule in Effect Until June 1994	224 265
5	9	(Gulf) Modified Language to Mr. Thompson's Late-Filed Deposition Exhibit of 7-22-94	225 230
6	7		229
8	10	(Thompson) Number of Days that Included On-Peak non-SE Periods, by Month, 1990-1994	248 265
9	3		265
10	4		265
11	5		265
12	6		265
13	11	(Berg) WBB-1	278 323
14	12	(Berg) Company's Response to Late-Filed Deposition Exhibit No. 3	322
16	13	(Thompson) Gulf's Response to Staff's Interrogatory No. 13	378 390
18	14	(Late-Filed) (Thompson) Late-Filed Exhibit No. 7 from July 22, 1994 Deposition	380

P R O C E E D I N G S

(Transcript follows in sequence from Volume

1.)

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

CHAIRMAN DEASON: Call the hearing back to order. Staff, I believe you were inquiring.

MS. ERSTLING: Yes, Your Honor. If we could take a moment, Chairman Deason, first of all, there was some leftover matters from yesterday. We entered an exhibit, "Standby Services, SS Rate Schedule in effect until June 1994." We did not have that marked as an exhibit yesterday, may we have that marked today?

CHAIRMAN DEASON: Yes, that will be identified as Exhibit No. 8.

MS. ERSTLING: Thank you.

(Exhibit No. 8 marked for identification.)

MS. ERSTLING: At this time, Staff Counsel and the utility's counsel has met, and in order to abbreviate this hearing, we have come to some agreement on certain issues that I believe Mr. Stone would like to enter in now, so that we can avoid some questions; a modification to some of the CMM language.

It doesn't change what was already in the CMM provision, and we're offering this just to make sure that should the Commission decide to approve the CMM

1 privilege, that the language is clear as to what this
2 provides. So they have made some correction, which Mr.
3 Stone will offer now. And also if the Intervenor have
4 agreed to Exhibit No. 7, which was offered yesterday, we
5 will be able to reduce some of the questions that we
6 have today, too. I believe Mr. Stone would like to
7 address those before I continue cross examination.

8 CHAIRMAN DEASON: Mr. Stone?

9 MR. STONE: Mr. Chairman, as a result of the
10 deposition that was taken of Mr. Thompson on July 22nd,
11 there was a late-filed exhibit dealing with the first
12 subject matter that Ms. Erstling referred to. And I have
13 prepared a hearing exhibit that contains that modified
14 language from the late-filed exhibit.

15 Mr. Pollock has suggested one minor revision
16 to that language, which I'll let him get into in just a
17 moment, but I would like to hand out that hearing
18 exhibit. If we can get it marked, it should expedite
19 things.

20 CHAIRMAN DEASON: Very well. This will be
21 identified as Exhibit No. 9.

22 (Exhibit No. 9 marked for identification.)

23 MR. STONE: It is my understanding that by
24 agreeing to this change, it would allow Staff to eliminate
25 a whole line of cross. And since this was our intent, in

1 any event, we felt like it was an appropriate
2 clarification.

3 Mr. Pollock has pointed out to me that there
4 is a potential inconsistency between this draft of the
5 language and the intent, and he has one suggested change
6 to it that I think would be appropriate to resolve this
7 issue.

8 CHAIRMAN DEASON: Mr. McGlothlin?

9 COMMISSIONER KIESLING: May I ask you one
10 question for clarification. On this one that you just
11 passed out what -- oh, there it is, 6.31. I apologize.

12 MR. MCGLOTHLIN: Our suggested language, again,
13 is no attempt to change the meaning, it is clarification,
14 consistency with other provisions.

15 In its present form this would have the tariff
16 say this new higher BC will be used in the determination
17 of the local facilities charge for the current month as
18 well as the future billing periods. As it happens,
19 there is a provision in the tariff that provides that
20 that may be adjusted by mutual agreement under
21 circumstances that satisfy the tariff, and so we would
22 simply add a reference to that, put a comma at the end
23 and then add, "except as provided under the paragraph
24 entitled 'Provision for Lowering Standby Service
25 Capacity (BC).'"

1 MS. ERSTLING: Would you repeat that?

2 MR. McGLOTHLIN: Yes, ma'am. "Comma, except as
3 provided under the paragraph entitled, 'Provision for
4 Lowering Standby Service Capacity (BC).'"

5 COMMISSIONER KIESLING: I got as far as standby.
6 Provision for lowering standby?

7 MR. McGLOTHLIN: "Standby Service Capacity
8 (BC)."

9 COMMISSIONER KIESLING: Period?

10 MR. McGLOTHLIN: Yes, that would be the end of
11 the sentence at that point.

12 COMMISSIONER KIESLING: Okay.

13 MS. ERSTLING: As modified right now and
14 corrected, we agree to this.

15 CHAIRMAN DEASON: Who is going to explain what
16 this means?

17 MR. STONE: I will attempt to.

18 The intent of the coordinated maintenance
19 month provision was to have a zero daily demand charge
20 applied during the CMM. The other rate components would
21 remain in effect and would be applied normally during
22 the CMM. The only caveat to that is the local
23 facilities charge, which is set -- is also tied to the
24 BC, or the backup capacity. If a new BC was established
25 during a CMM, it was the intent under the old rate, it

1 is the intent under the SBS, that the local facilities
2 charge would not be excused and would not be forgiven or
3 waived or whatever term makes it clear. But the point
4 is, if there was a new BC set during the CMM, although
5 the daily demand charge -- there would be no daily
6 demand charge associated with that and the reservation
7 charge in the future would not be based on that, the
8 local facilities charge would be covered by the new
9 higher BC. So this was intended to clarify that fact.

10 And the addition that Mr. Pollock and
11 Mr. McGlothlin has added certainly clarifies what was
12 our intention all along.

13 As you can see, there is plenty of room to
14 have disagreements about language and so it is very
15 difficult to make sure we draft a tariff that shows
16 everyone's common understanding and that's what we're
17 trying to do.

18 CHAIRMAN DEASON: Further questions?

19 MR. STONE: If it would help in terms of
20 clarifying the record with regard to the stipulations
21 we're trying to enter into, I would be happy to move
22 Exhibit 7, which is the revised language we offered
23 yesterday, and Exhibit 9, as amended by Mr. McGlothlin,
24 into the record as part of the stipulation which, I trust,
25 would help us to expedite matters by eliminating whole

1 lines of inquiry.

2 It is my understanding that based on the
3 revision in Exhibit 7 that Issue 3 has been rendered
4 moot and can be dropped as a contested issue.

5 MS. ERSTLING: That is our understanding, too,
6 that if this language will be added to the tariff, if the
7 tariff is approved after this hearing, then we agree this
8 releases a whole line of questioning.

9 MR. MCGLOTHLIN: This is the one that relates to
10 the above 7,499 kW?

11 MS. ERSTLING: Yes, it relates to Issue No. 3.

12 MR. MCGLOTHLIN: The Intervenors are willing to
13 accept that amendment to the tariff.

14 CHAIRMAN DEASON: So the motion is to -- you're
15 moving, Mr. Stone, Exhibit No. 7 and there's no objection
16 by any party. We'll show that Exhibit number 7 is
17 admitted. And it is the representation of all parties
18 that if this language were to be included in any final
19 tariff, that it would fully address what's contemplated
20 within Issue 3?

21 MS. ERSTLING: Yes, it would.

22 CHAIRMAN DEASON: Very well.

23 (Exhibit No. 7 received in evidence.)

24 MS. ERSTLING: The language that Mr. Stone was
25 moving for Exhibit 9 is a clarification of an existing

1 provision. It does not change our objections to the whole
2 CMM itself provision, but it just clarifies a portion of
3 the language.

4 CHAIRMAN DEASON: And, Mr. Stone, you're moving
5 the admittance of Exhibit 9 at this time?

6 MR. STONE: Yes, please.

7 CHAIRMAN DEASON: Without objection, Exhibit 9
8 is also admitted.

9 (Exhibit No. 9 received in evidence.)

10 CHAIRMAN DEASON: I understand, Staff, that you
11 still have objections to the concept of CMMs, but that
12 this modifying language addresses one of your concerns.

13 MS. ERSTLING: That is correct.

14 CHAIRMAN DEASON: Within the CMM issues.

15 MS. ERSTLING: Yes.

16 - - - - -

17 M. W. HOWELL

18 JAMES I. THOMPSON

19 resumed the stand as a panel of witnesses on behalf of
20 Gulf Power Company and, having been duly sworn,
21 testified as follows:

22 CONTINUED CROSS EXAMINATION

23 BY MS. ERSTLING:

24 Q Now, we can move ahead and pass by quite a bit
25 what we have here.

1 There was a question -- I wanted a
2 clarification, if I could, from Mr. Howell. I don't
3 believe you intended to, but yesterday when you were
4 referring to the intercompany interchange contract, you
5 referred to it with the initials ICC, and I thought for
6 a while maybe I had it wrong. But the proper initials
7 for that would be IIC, wouldn't they?

8 A (Witness Howell) That's right. And if I did
9 it, that was in error. It is just the IIC, intercompany
10 interexchange contract. The first letter of each of the
11 words is what we typically refer to it as. It's a lot
12 easier to say.

13 Q Okay. And also for clarification, there was a
14 discussion that we had with Commissioner Clark talking
15 about the equalized reserve margins. I was not quite
16 sure, and I wanted to be sure for the record, that you
17 stated that the equalized reserve margin is calculated
18 using the coincident with Southern System's monthly peak
19 hour as opposed to Gulf system's monthly peak hour; is
20 that a correct statement?

21 A Well, let me give an example, because either
22 way I answer that is going to be confusing. Let's take
23 four companies, let's pretend Savannah is not there,
24 okay? And Gulf has a load of 1 megawatt, Mississippi
25 has a load of 1 megawatt; Alabama has a load of 3

1 megawatts and Georgia has a load of 5 megawatts. And
2 that was their individual peaks for the month. You add
3 those up and you get 10 megawatts. But let's suppose
4 that the Southern Company peak was only 9 megawatts
5 because the companies peak at different times, and that
6 typically happens. If you look at the sum of the
7 individual peaks, that's 10 megawatts. And if Gulf had
8 a 1 megawatt peak during that month and the sum was 10,
9 we're responsible for 10% of the Southern Company peak
10 or .9 megawatts. And that's just to illustrate
11 basically how that works. Does that help?

12 Q Well, it still leaves a little bit of
13 confusion. When the determination is made as to whether
14 or not a credit or a debit would occur, can you explain
15 how that margin that you're talking about, the company
16 margin, relates -- the intercompany, the total Southern
17 Company margins, relate to Gulf's margins and how that
18 determinant is made.

19 A Yes, ma'am. Basically, what you do is I
20 described how we're responsible, say, for 10% of the
21 Southern Company's peak load. We then look at all of
22 our generating resources, each company's generating
23 resources, and look at then what the Southern Company's
24 peak load was and we come up with a certain number of
25 megawatts that are in reserve. We are responsible to

1 cover 10% of the Southern Company's load under the
2 scenario that I gave; Mississippi covers 10%, Alabama
3 covers 30%; Georgia covers 50%.

4 In comparing how much load we're responsible
5 for with how much generation we have, we then have a
6 certain reserve that's left or that we're short and we
7 then compare whether we need to buy or sell reserves
8 based on whether we have extra reserves or whether we're
9 short.

10 Q And I think I'm following what you are saying
11 and I don't know whether my language is incorrect or
12 not, but basically what it boils down to in the
13 explanation is that it's -- Gulf's proportion is
14 naturally based upon how much --

15 A Gulf used.

16 Q Gulf has peaked during that month it's Gulf's
17 system?

18 A That is correct.

19 CHAIRMAN DEASON: Let me ask a clarifying
20 question. At what point in time within that month is the
21 determination made as to who is responsible for what? Is
22 it Southern's peak hour for the month, is that the
23 capacity to which you, in your example, have to be
24 responsible for 10%?

25 WITNESS HOWELL: Yes, sir. And it gets even

1 more complicated in that we take a three-year historical
2 average to levelize big swings. Like one company had a
3 big peak for some reason, a big hot spell that came
4 through and the other companies didn't experience that, we
5 look at what our responsibility is for that month's load
6 and then compare that. When the month is over, we say,
7 "Okay, what did Southern Company hit during that month?
8 What is Gulf's responsibility to cover that load?" If it
9 is 10%, we have to cover 10%. But we have to wait until
10 the month is over to see what Southern Company's load was.

11 CHAIRMAN DEASON: But it is Southern Company's
12 load at the peak hour of the month for the Southern
13 Company system?

14 WITNESS HOWELL: Yes, sir, and that's what goes
15 into a lot of the calculations is Southern Company's peak
16 load. And our responsibility to cover that load is based
17 on our percentage obligation, just as I described.

18 CHAIRMAN DEASON: Well, let me ask you this.
19 Why is it that you don't just look at that hour and see
20 what Gulf's load was at that hour and what Alabama's load
21 was at that hour, and go through that analysis and
22 determine what the percentage is as opposed to the
23 individual company's peak hour?

24 WITNESS HOWELL: You certainly could, sir. And
25 believe me, back when that was decided at FERC, that was

1 the subject of discussion. And it could have gone either
2 way, but the rationale for it was that let's suppose the
3 company just got lucky and a cold wave came through in the
4 summertime and they happened to only have a load of, say,
5 1,000 megawatts at the time that the Southern Company --
6 well, a thunderstorm comes up and Gulf gets lucky and
7 instead of hitting, say, 1,800 megawatts we only hit 1,600
8 at the time it was hot as blue blazes in Atlanta and
9 Birmingham. But the very next day we hit 1,900. They
10 would say that's not fair, you know, you've got 1,900
11 megawatts of load out there. So that argument seemed to
12 be overall a better consensus argument and that's why we
13 did it like that.

14 Q (By Ms. Erstling) Mr. Thompson, can you tell
15 me if any of the SBS customers changed the level of
16 their BC or standby service capacity in June or July of
17 this year?

18 A (Witness Thompson) They did not.

19 Q Have any of the SBS customers changed the
20 level of their supplementary service capacity, now
21 called the NC in June or July?

22 A Yes.

23 Q What changes were made, if any?

24 A One customer changed the level of their
25 supplementary capacity effective June the 30th of this

1 year. That change went from 7,700 kW to, 4,900 kW.

2 Q Now I would like to move on and discuss the
3 Option A provision. On Page 9 at Line 18 of your direct
4 testimony, you respond to the question, quote, "Would it
5 be appropriate to set the Option A daily demand charge
6 at a level high enough to ensure that there would always
7 be a downward adjustment at the time of the annual
8 review?" unquote. Was your response that the credit to
9 be issued at year-end would only amount to the
10 difference between the original high price and the
11 subsequent lower price applied to the daily demand
12 usage?

13 A My response is that is not an appropriate
14 adjustment or an appropriate structure to use in that
15 Option A and that if that credit, as you just described
16 it, was what resulted, that would also be inappropriate.

17 Q I don't think we're quite getting the question
18 as I asked. Let's go back and look at that again, and
19 let me pull my deposition. One moment, let me just pull
20 the direct testimony, if I may. (Pause)

21 COMMISSIONER CLARK: While they're doing that,
22 Mr. Howell, I'm looking at Staff's testimony by Mr. Berg
23 and on Page 3, he is concerned about standby customers
24 using power extensively during the coordinated maintenance
25 month and the impact this has on whether Gulf Power has to

1 pay under the intercompany interexchange contract or
2 whether it receives funds. And he makes this statement:
3 "This is an important consideration because any power used
4 by a standby service customer during a monthly Southern
5 System peak hour will result in Gulf losing approximately
6 6.50 per kilowatt or paying an additional 6.50 per
7 kilowatt pursuant to the contract."

8 Is he correct?

9 WITNESS HOWELL: Technically, no, ma'am.

10 Because if we also happen to peak at the time that the
11 Southern Company peaked, then that would be true. If our
12 peak were at a different hour than what the Southern
13 Company peak was, then it would not be true. So it really
14 depends on when our peak occurs.

15 I will point out that there have been hours in
16 the past that Gulf has peaked at the same time as the
17 Southern Company and some of the other companies did and
18 there have been instances where we did not peak at the
19 same time as the Southern Company peaked. Typically all
20 of the companies do not peak at the same time, so as a
21 result, we have to supply less capacity as an integrated
22 system than if we were all separate.

23 COMMISSIONER CLARK: I understand that. Let me
24 ask it in a slightly different way. Suppose without a
25 standby customer using power during Southern Company's

1 peak the total amount of load that Southern Company -- I
2 mean, Gulf Power would have to serve would be 10,000
3 megawatts. Now, because this customer is taking power at
4 11,000 megawatts, what impact does that have on whether it
5 receives money -- well, I guess it -- really what I'm
6 trying to understand is what impact that will have on
7 either revenues that will forego or payments that it will
8 have to make because that extra power is being used.

9 WITNESS HOWELL: Yes, ma'am. If it occurs over
10 the Company's peak for that month, it will affect the
11 payments. If it does not occur over the Company's peak,
12 it will not affect the payments.

13 COMMISSIONER CLARK: Okay.

14 WITNESS HOWELL: I will point out, and I may be
15 jumping the gun, one of the concerns we had with
16 Mr. Berg's concern there is that he seemed to feel like
17 because they could have a zero cost for the capacity in
18 the coordinated maintenance months, they would take a lot
19 more. I think the other witnesses have demonstrated that
20 they have a big incentive certainly not to do that.

21 COMMISSIONER CLARK: It still costs less for
22 them to generate.

23 WITNESS HOWELL: Yes, ma'am, that's right.
24 They're just like we are also, you know. They have an
25 incentive to keep their generators going just like we do

1 ours. And if they have got a certain amount of
2 maintenance they have to do, if it is spread in certain
3 months rather than all through the year, the impact on the
4 interexchange contract is going to wash out. There's not
5 going to be any big impact. The big concern we have is if
6 we can get them off that summer with this incentive that
7 we are trying to provide, then we'll have to build less
8 capacity. And that's my interest in it.

9 COMMISSIONER CLARK: Okay.

10 Q (By Ms. Erstling) Mr. Thompson, I'm going to
11 rephrase that. If you look at your testimony on Page 9,
12 Line 19, did you state in your response that though a
13 credit would essentially be issued at year-end the
14 credit would only amount to the difference between the
15 original high price and the subsequent low price applied
16 to the daily demand usage?

17 A (Witness Thompson) Yes, ma'am.

18 Q Is interest included in the recovery of the
19 true-up of fuel cost in the fuel clause?

20 A I'm not sure. I'm not involved with that
21 particular docket. If you will -- I may be able to get
22 some information on that, but I don't know. I'm not the
23 witness or the company person that's involved with that.

24 Q Would you accept, subject to check, that it
25 is?

1 A Yes.

2 Q Could interest be included in the credit
3 resulting from the annual review of the Option A daily
4 demand charge?

5 A It probably could. That would serve to
6 reintroduce some of the tremendous amount of
7 complications and complexities in the new rate that
8 we're trying to avoid by replacing the old one.

9 Q But it could be introduced?

10 A Sure.

11 Q Do SBS customers have the choice of taking
12 service on Option A or the non-Option A rates?

13 A Yes, they do. The Option A rate exists to
14 accommodate our cogeneration customers who do two
15 things: Who take standby service and, therefore, they
16 need to be on rate SBS; and who participate in our SE or
17 supplemental energy pricing program. And so those
18 customers could elect to not participate in our SE
19 program and be on the non-Option A or the standard
20 version of the rate SBS. However, it is my
21 understanding that we are obligated to price the
22 customer's supplementary service, the standby service
23 customer's supplementary service, under an approach
24 that's the same as if that customer were not
25 cogenerating at all and were not taking standby service.

1 And to economically preclude the customer on Option A
2 from not having Option A as a viable economic option,
3 from saying, "Now that you are cogenerating and you need
4 standby service, you can't participate in our optional
5 SE or supplemental energy pricing program anymore,"
6 could be construed as a violation of that, since all of
7 our noncogenerating customers have SE available to them.

8 CHAIRMAN DEASON: Let me interrupt just a
9 moment. Could you explain to me -- I think you maybe
10 alluded to this a little bit yesterday -- the difference
11 between supplemental energy and supplementary, or whatever
12 the terminology is?

13 WITNESS THOMPSON: Yes, sir. They are really
14 two different things entirely, and it is unfortunate that
15 the words are so close together.

16 Supplemental energy, with an "l" on the end of
17 the word, is a pricing program that was begun at Gulf
18 Power. It first became effective in June of 1985 as a
19 two-year experiment. It was a more sophisticated
20 time-of-use price than what had been implemented four
21 years earlier as optional time-of-use prices for all
22 customers. And it was a pricing program where, if I can
23 borrow a hockey term, where "on the fly" we could
24 designate certain periods where the demand charge or the
25 demand component of the rate was ignored for billing

1 purposes.

2 Now, obviously, we chose those periods of
3 times very carefully at times when there were no
4 incremental demand-related costs associated with
5 providing incremental service to the customers. That
6 was our SE or supplemental energy pricing program. That
7 program was modified slightly, I believe, at the
8 conclusion of our last completed rate case but the
9 program still exists.

10 Supplementary --

11 CHAIRMAN DEASON: Before you leave that, what
12 criteria does the Company utilize to determine when
13 supplemental energy is available?

14 WITNESS THOMPSON: Just one moment, please, sir.

15 (Pause) Thank you, Commissioner -- Mr. Chairman.

16 It is not the intention of the Company to
17 designate a supplemental energy period. In other words,
18 we avoid designating supplemental energy periods when
19 any one of three events are likely to occur: One, the
20 average system fuel lambda for the supplemental energy
21 period may exceed the average fuel cost recovery factor
22 or our fuel cost adjustment factor that's in place.

23 CHAIRMAN DEASON: Does that mean it would have a
24 tendency to increase fuel cost for the system? Is that
25 what you're saying? Selling more energy would have a

1 tendency to increase fuel cost for the entire --

2 WITNESS THOMPSON: Yes, sir, it could.

3 CHAIRMAN DEASON: That's what one of your
4 concerns is. Is that what that meant when you were
5 talking about system lambda?

6 WITNESS THOMPSON: Yes, sir.

7 CHAIRMAN DEASON: Okay.

8 WITNESS THOMPSON: Two, the Southern System
9 territorial monthly peak hour demand will occur, or three,
10 there's a Gulf system territorial monthly peak hour demand
11 likely to occur.

12 So those are the circumstances under which we
13 would avoid designating a supplemental energy period.

14 CHAIRMAN DEASON: Okay. Now if you could
15 explain "supplementary?"

16 WITNESS THOMPSON: Yes, sir.

17 Cogeneration customers who have their own
18 generation capability nevertheless require some services
19 from utilities or may require some services. One of
20 those services that they may require is standby service.
21 And standby service is the service that the utility
22 supplies to a customer whenever the load that's supplied
23 by the customer's own generator is not being served by
24 the customer's generator.

25 Another service that utilities would supply to

1 a cogenerator is supplementary service, which is the
2 service that the utility supplies to the customer in
3 addition to that which is normally supplied or served by
4 the customer's own generation.

5 CHAIRMAN DEASON: How about going over that one
6 more time.

7 WITNESS THOMPSON: Sure.

8 COMMISSIONER CLARK: It's a partial
9 requirements; they can't meet all their requirements
10 themselves to they buy the extra power they need from you,
11 just as if they were buying all of their power from you.

12 WITNESS THOMPSON: That's a good way to look at
13 it.

14 CHAIRMAN DEASON: And supplementary is the term
15 you apply to that partial requirements portion?

16 WITNESS THOMPSON: Yes, sir.

17 MR. STONE: Mr. Chairman, if I might add, the
18 term "supplementary" is one that came to us from PURPA in
19 the FERC regulations. And again, the terminology is
20 what's causing the confusion here between those two
21 concepts.

22 WITNESS THOMPSON: Had I known, Mr. Chairman --
23 or had we known, and the other gentlemen that was much
24 more heavily involved in this than I was at the time is
25 out here in the front row -- had we known in 1985 when we

1 began our supplemental energy program, that the next year,
2 in August of 1986, we would be over here for hearings
3 talking about supplementary service, we would have chosen
4 another name for our SE program.

5 CHAIRMAN DEASON: Thank you.

6 Q (By Ms. Erstling) Does the SE or supplemental
7 energy customer pay the maximum demand charge for all
8 kilowatts regardless of when the maximum kilowatts are
9 used?

10 A (Witness Thompson) Yes.

11 Q Is the SE rider essentially a time-of-use rate
12 schedule with flexible time periods designated on short
13 notice by the utility?

14 A Yes, I would agree. And I'd like to -- just
15 to make sure I was answering the question you asked, the
16 previous question, you didn't mention standby service in
17 there, with the SE, so I interpreted that as -- that was
18 not involving any standby service at all; that was just
19 a noncogenerator who is on SE.

20 Q That's right.

21 A I was answering the question you asked then,
22 good.

23 Q It does get confusing at times, right.

24 Is the number of non-SE hours in a year less
25 than one-fourth of the hours in a year? Would you

1 accept, subject to check, that it is?

2 A Yes, I would accept that. Subject to check.

3 Q Okay.

4 COMMISSIONER CLARK: Let me ask a question.

5 Would that change radically if the marginal cost of fuel
6 increased from what it is today?

7 WITNESS THOMPSON: It could change radically,
8 yes, ma'am.

9 COMMISSIONER CLARK: Because you wouldn't make
10 it available, right?

11 WITNESS THOMPSON: Yes, ma'am. We would not
12 make it available. That's one of the three conditions
13 that would keep us from making supplemental energy
14 available as our system lambda increased; as our marginal
15 fuel cost increased.

16 COMMISSIONER CLARK: Is it correct today the
17 marginal cost of fuel is less than the average cost?

18 WITNESS THOMPSON: Yes, ma'am.

19 WITNESS HOWELL: Let me add something to that.
20 It is, in many of the hours of the year, as we've talked
21 about -- that's when we try to make it available. There
22 are many, just as she pointed out, there are about 25% of
23 the hours in the year when the marginal cost is higher
24 than the average cost.

25 COMMISSIONER CLARK: Sure.

1 WITNESS HOWELL: And, of course, the marginal
2 cost, if it's here this hour and here this hour, then
3 overall it might be, you know, the average there.

4 COMMISSIONER CLARK: It depends on what kind of
5 fuel you have --

6 WITNESS HOWELL: Yes, ma'am. It depends on what
7 the load and the generators are in fuel. Yeah. It does
8 vary.

9 COMMISSIONER CLARK: Okay.

10 Q (By Ms. Erstling) Mr. Thompson, at your July
11 22nd deposition, were you asked to provide as Late-Filed
12 Exhibit 8 the number of days that included on peak
13 non-SE periods, by month, for each of the years 1986
14 through 1994?

15 A (Witness Thompson) Yes, ma'am.

16 Q Was the exhibit also to include an average
17 number of days for each of the years for the full 12
18 months and an average for the 8 months exclusive of
19 March, April, October and November?

20 A Yes, ma'am.

21 Q I would like to enter that marked for
22 identification, entered as an exhibit at this point.

23 A May I point out, Shelia, that although the
24 data was asked for 1986 through 1994, we found that the
25 '86 through '89 data was no longer available. So what

1 the exhibit contains is '90 forward.

2 Q Yes. And that's how the exhibit is being
3 entered into the record.

4 CHAIRMAN DEASON: This will be identified as
5 Exhibit No. 10.

6 (Exhibit No. 10 marked for identification.)

7 Q (By Ms. Erstling) When you were summarizing
8 your direct testimony -- let's finish with this first.

9 Earlier when you were summarizing your direct
10 testimony, you stated that Gulf's other ratepayers won't
11 be harmed by Gulf's lowering the base rate charges for
12 standby service customers between rate cases. Is that
13 correct?

14 A (Witness Thompson) I don't believe that was
15 part of my summary.

16 Q I thought it was, but we will check that
17 again.

18 A I'm almost certain I didn't mention the words
19 "base rate" or "rate cases" or --

20 Q Okay. We'll clarify that, but I thought it
21 was but we will go back and check it.

22 Would you agree, subject to check, that the
23 base rates of all rate classes of at least one electric
24 investor-owned utility have been lowered between rate
25 cases because the utility was overearning?

1 A I don't know.

2 Q All right. Would you accept, subject to
3 check, that this has occurred?

4 MR. STONE: Can I ask you to repeat the
5 question, I didn't --

6 Q (By Ms. Erstling) Would you agree, subject to
7 check, that the base rates of all rate classes of at
8 least one electric investor-owned utility has been
9 lowered because of rate case is because the utility was
10 overearning?

11 A I just don't know. You know, I don't know if
12 that's happened or not.

13 Q Okay. All right. Let's go on then.

14 Is it true that lowering the base rates of one
15 class between rate cases will lower the utility's
16 reported rate of return in its monthly surveillance
17 report unless revenues are imputed for the lowering of
18 the rates?

19 A I'm not familiar with those Surveillance
20 Reports. I don't have anything to do with those and I'm
21 not -- I'm not aware of what type things would affect
22 those. I'm not sure I've ever seen one.

23 MS. ERSTLING: Can we have a moment, please?

24 CHAIRMAN DEASON: Surely.

25 MS. ERSTLING: All right. Can we have a

1 late-filed exhibit answering that question, please?

2 COMMISSIONER CLARK: I'm not sure we need one.

3 It seems, if everything else is equal and you
4 take five customers and you lower their rates, are your
5 revenues going to be the same as they were before you
6 lowered the rates are will they be less?

7 WITNESS THOMPSON: I would say they would be
8 less.

9 COMMISSIONER CLARK: Okay.

10 MS. ERSTLING: Thank you.

11 Q (By Ms. Erstling) If Gulf Power's rate of
12 return reported in the monthly surveillance reports is
13 near the top of Gulf's allowed range of rate of return,
14 would you agree that Gulf's other ratepayers could be
15 harmed because an overearning situation may be avoided
16 due to the reduced revenue received from the SBS class
17 of customers?

18 A Would you read that again?

19 Q Certainly. If Gulf Power's rate of return
20 reported in its monthly surveillance report is near the
21 top of Gulf's allowed range of rate of return, would you
22 agree that Gulf's other ratepayers could be harmed
23 because an overearning situation may be avoided due to
24 the reduced revenue received from the SBS class.

25 MR. STONE: I object to the question. It's

1 beyond the scope of Mr. Thompson's testimony. It is a
2 hypothetical question that has significant legal
3 overtones. And I think that in terms of whether or not it
4 is appropriate for this witness to answer the question, I
5 think it is just simply not relevant based on his
6 experience and what he has offered to testify to.

7 MS. ERSTLING: I believe that this issue gets to
8 the heart of the appropriateness of the CMM provision and
9 what the net result will be because of the provision, and
10 I think that it's one that should be addressed.

11 CHAIRMAN DEASON: I'll allow the question. To
12 the extent the witness has knowledge or opinion, he may
13 express it.

14 WITNESS THOMPSON: You see the reason I have to
15 say I don't know is because I'm not sure of all of those
16 things, like Mr. Stone was alluding to, that would go into
17 effect -- I mean that would come into play with rates of
18 returns and bringing harm to the other ratepayers, I don't
19 know.

20 COMMISSIONER CLARK: Let me ask you a question:
21 Have you made a projection of what revenues you would
22 derive if the rates stayed the way they were prior to this
23 current tariff, and -- not the rates, the revenues to the
24 Company would be, and the revenues that you project under
25 this new tariff?

1 WITNESS THOMPSON: I think that's a reasonable
2 estimate.

3 COMMISSIONER CLARK: I asked you if you've done
4 it? Did you make that projection?

5 WITNESS THOMPSON: No, ma'am.

6 COMMISSIONER CLARK: Now, go ahead.

7 WITNESS THOMPSON: Maybe we can expedite this
8 because there are some things I would agree to, and if
9 this is helpful, then maybe it would get us all through
10 some of this.

11 I do agree that the rate level of the new
12 rate, rate SBS is different, than the rate level of the
13 old rate. I do agree that the rate level of the new
14 rate is lower than the rate level of the old rate. I
15 also agree that the approximate amount by which the rate
16 level of the new rate is lower than the rate level of
17 the old rate might be reasonably estimated at somewhere
18 around \$300,000 per year on an annual basis for all of
19 Gulf's customer.

20 And the fourth thing I would agree to is that
21 that amount, around \$300,000 a year, represents about 3%
22 of the total revenues, total including fuel cost
23 revenues, for that group of customers.

24 So I would agree to those things.

25 I think it's important that we keep that in

1 perspective and treat that in terms of whether or not
2 that leaves us with a cost-based rate.

3 We accepted the rate level from our old rate
4 going into this one. We didn't undertake a new study or
5 a new evaluation of cost to do what we needed to do. We
6 didn't have to do that. We simply accepted the old rate
7 level and proceeded to try to achieve three things.
8 One, change the rate structure to cure the problems of
9 subjectivity and the administrative problems in the old
10 rate.

11 Two, develop a rate level for the new rate
12 that has dual objectives of no increase for Gulf Power
13 and no increase for any individual customers.

14 And three, seize the opportunity to send a
15 more strong signal towards conservation. We must not
16 define cost based so narrowly that it's like walking on
17 a balance beam. So that whatever movement, however
18 slight in either direction, will take us off the target
19 and on to the mat. We must look at cost-based pricing,
20 it's more like walking down a road, where there is some
21 range of movement, some reasonable range of opportunity
22 for operating in there. And the reason we have to do
23 that is to be able to accommodate the other noncost
24 factors or criteria in electric service pricing. Cost
25 is important. Cost is a very important one, but it's

1 not the only one to the exclusion of all others.

2 We're fortunate in this case because we don't
3 have to guess at what will happen if we wink at all
4 those other pricing.

5 COMMISSIONER CLARK: Are you through?

6 WITNESS THOMPSON: I can be if you need me to
7 be. (Laughter)

8 COMMISSIONER CLARK: I think you were basically
9 reiterating your justification for that tariff and we
10 would really sort of just ask you the change in revenues,
11 which you said were \$300,000 per year. And I also
12 understood you to say that that was 3% of the revenues
13 from these customers?

14 WITNESS THOMPSON: Yes, ma'am.

15 COMMISSIONER CLARK: All right. What percentage
16 of your total revenue is it?

17 WITNESS THOMPSON: I have not made that
18 calculation.

19 COMMISSIONER CLARK: I think what we may be --
20 what may be of interest is what impact it has on your rate
21 of return? And, you know, I'm not sure that's going to
22 have much of an impact at all. But I just can't remember
23 what change in revenues results in what --

24 WITNESS THOMPSON: Perhaps one of my comrades
25 can take a stab at --

1 COMMISSIONER CLARK: I think that's what the
2 Staff is asking for, is how does that impact your rate of
3 return and would you be overearning if you stayed on --

4 WITNESS THOMPSON: Yes, ma'am. I'm told it's
5 probably less than one-tenth of one percent.

6 COMMISSIONER CLARK: Okay.

7 WITNESS THOMPSON: And we simply say that that
8 small change in overall rate level leaves us on that road
9 of being cost based and is reasonable in the face of all
10 the other rate pricing objectives that we achieve with
11 this new rate.

12 Q (By Ms. Erstling) I would like, if it's at
13 all possible, and if we can get as a late-filed exhibit
14 an answer, if you cannot answer my question, if we can
15 get an answer to the question. I would also like to
16 know, perhaps you could answer it now, what percentage
17 of the base rate revenues for standby customers is the
18 \$300,000.

19 Q (Witness Thompson) I think it's somewhere
20 around 5%, a little over 5%. I think that's a number
21 we've heard or talked about in the last few months. I
22 think it's in that neighborhood.

23 And to put that in perspective, I was reading
24 through the Commission's rules and regulations the other
25 day, and I came across rule -- and please forgive me --

1 COMMISSIONER CLARK: Some people might suggest
2 you need to get a life, if you're just reading through our
3 rules and regulations. (Laughter)

4 MR. STONE: This docket has had that effect on a
5 lot of us.

6 WITNESS HOWELL: You're in bad shape, Jim.

7 COMMISSIONER CLARK: It's not what I would call
8 recreational reading.

9 WITNESS THOMPSON: Yes, ma'am. I understand. I
10 just have to admit that wasn't one I wasn't prepared for.

11 WITNESS HOWELL: You need a vacation.

12 WITNESS THOMPSON: I came across a rule, and
13 this is subject to check, 25-6.052, which is the
14 Commission's rule on meter accuracies. And that rule says
15 "That demand recording meters are considered accurate if
16 they are recording between 96% and 104% of absolute
17 accuracy." And some of us might ask, why isn't that
18 number 99.99 to 100.01 to narrow that down to a balance
19 beam. And, of course, we all know probably what the
20 reason is for that is, is that the cost would be
21 prohibitive to do that. So we make that trade-off in the
22 face of some other desirable objective.

23 MS. ERSTLING: Chairman Deason, you have not
24 ruled as to whether we can get that as a late-filed
25 exhibit; you have not given it a number. Could we have

1 that?

2 MR. MCGLOTHLIN: I'd like to ask what the
3 late-filed exhibit is?

4 MS. ERSTLING: The late-filed exhibit is an
5 answer to my question regarding whether if Gulf's rate of
6 return reported in the monthly surveillance report is near
7 the top of Gulf's allowed range of rate of return. Would
8 you agree that Gulf's other ratepayers could be harmed
9 because an overearning situation may be avoided due to the
10 reduced revenue received from the SBS class?

11 MR. STONE: Mr. Chairman, it's my understanding
12 that the way the question was rephrased by Commissioner
13 Clark, the need for that exhibit was eliminated. If not,
14 I renew my objection to the exhibit because it does not
15 take into effect what action the Commission would be
16 taking if it was presented in overearnings -- an
17 allegation of overearnings.

18 Essentially, in order to determine what harm
19 or what effect such a situation would have on all
20 customers, it would presumably -- one option the
21 Commission may have would be a Show Cause proceeding,
22 and it could well be that the outcome of the Show Cause
23 proceeding is no change. Another aspect could be that
24 we could end up going in for a rate case and as most
25 people, I believe, their understanding of rate cases,

1 you know, a lot of things can happen in the context of a
2 rate case.

3 So in terms of trying to answer the question
4 as phrased by Staff in a a late-filed exhibit I think is
5 beyond the stop of this proceeding. It's certainly
6 beyond the scope of these witnesses. but I think
7 it's -- in terms of the information needed, I think the
8 answer has been provided.

9 CHAIRMAN DEASON: Response.

10 MS. ERSTLING: I think that we are looking
11 for -- to narrow down basically to the effect that there
12 could be a possibility -- we're not necessarily asking
13 them to state that there is, but just to say that a
14 possibility exists or does not exist. That this could
15 occur.

16 COMMISSIONER CLARK: Well, hasn't the fact that
17 they have admitted that under their projections this will
18 decrease their revenues \$300,000 a year, isn't that all
19 you need?

20 MS. ERSTLING: Essentially, we know that it
21 would reduce the revenue \$300,000 a year. What we do not
22 know at this particular point is whether they are
23 approaching an overearnings capacity and what effect this
24 production would have. Our normal assumption would be the
25 reduction of 300,000 a year would, in effect, reduce their

1 level of being near an overearning and that's all I was
2 getting them to accept.

3 COMMISSIONER CLARK: And if I understood him
4 correctly, the change to your revenues is less than
5 one-tenth of 1%.

6 WITNESS THOMPSON: Yes, ma'am.

7 COMMISSIONER CLARK: And that's what we're
8 talking about for them to calculate is -- I mean -- it's
9 up to you, Mr. Chairman.

10 CHAIRMAN DEASON: Well, thank you.

11 I'm going to sustain the objection. I believe
12 the requested exhibit is beyond the scope of the
13 testimony. I believe that the factual situation as to
14 where the Company's earnings are is something that can
15 be substantiated by surveillance reports. And to go
16 beyond where the Company's earnings are and try to guess
17 at what action the Commission may or may not take as to
18 what would be the response to those overearnings is
19 really beyond what it should be contemplated within a
20 late-filed exhibit within such a hearing as this. So
21 I'm going to sustain the objection.

22 MS. ERSTLING: Mr. Thompson, I think that we --
23 we have no further questions at this time for this
24 witness -- for either of the witnesses at this time.

25 CHAIRMAN DEASON: Commissioners. redirect?

1 MR. STONE: May I have a moment, Mr. Chairman?

2 (Pause)

3 REDIRECT EXAMINATION

4 BY MR. STONE:

5 Q Mr. Thompson, today you were asked a question
6 relates to Page 9 of your testimony?

7 A (Witness Thompson) Yes, sir.

8 Q And as I understood the question, the emphasis
9 was on the fact that you said "only amount to the
10 difference between the original high price and the
11 subsequent lower price applied to the daily demand
12 usage." And the follow-up question to that was, to ask
13 you if interest could be added.

14 Is the absence of interest the issue that you
15 were trying to get to with that testimony?

16 A Oh, no, I didn't even think about that.

17 Q What was your point then by that testimony?

18 A Well, the point there is to set the unit price
19 at some arbitrarily high level, because we know we only
20 have a downward adjustment available to us is wrong.
21 It's just bad. It leaves the customer facing, in their
22 month-to-month decision making, a price at an
23 extraordinarily high level. And they may very well --
24 and the extreme case is the one I cite in my testimony,
25 the easiest one to look at, they may very well make the

1 decision in the face of that high price to buy zero
2 units at that price. And so you can go back later all
3 you want to and try and give credits of whatever amount
4 you want to give, multiplied by that consumption of
5 zero, and you won't be setting back things as if the
6 price had been a realistic price in the first place.
7 And I didn't even think about interest when I was
8 discussing that.

9 Q Yesterday we were asked -- you were asked a
10 number of questions with regard to spelling out the
11 criteria on which the granting of a request for a
12 coordinated maintenance month would be based. Is that
13 something the Company could do in the tariff?

14 A Yes, sir.

15 Q I assume that you're not prepared to spell out
16 that criteria here today?

17 A I don't think we are, no, sir.

18 Q Okay. But is that something that if that is a
19 concern, that's something that could be addressed and
20 still leaving the concept of the coordinated maintenance
21 month in tact?

22 A Sure. We could put out a list of those type
23 criteria that we would use to make the decision when
24 evaluating a request for a coordinated maintenance
25 month.

1 Q When a coordinated maintenance month had been
2 granted, is the Company making the determination in
3 advance that upon looking over its hand, that would be a
4 good time for the standby service customer to take his
5 unit down and perform maintenance with regard to what
6 cost impact that has on the Company?

7 A Yes.

8 Q And is it fair to say then that once the
9 Company has made that determination then, it is
10 comfortable with whatever time period within that
11 granted period the customer ultimately takes for its
12 scheduled maintenance?

13 A Yes, we grant the entire billing month.

14 Q If the Company was not comfortable with that
15 entire period, would that be a consideration that the
16 Company would take into account in whether to grant the
17 period?

18 A If we were not comfortable with the entire
19 period or any portion thereof, it could cause us to not
20 grant a request for a coordinated maintenance month.

21 CHAIRMAN DEASON: Well, let me ask kind of a
22 clarifying question: If a company were to come to you and
23 say they need two weeks to do some type of coordinated
24 maintenance and it's the last week of October and the
25 first week of November, that they chose to do that, do

1 they get a CMM status for the entire month of October and
2 the entire month of November?

3 WITNESS THOMPSON: That is the way -- yes, sir.
4 They could. They would ask us for October and November
5 under the scenario you just said and we would look our
6 hand over for those two months and grant those two billing
7 months. And that's the reason that we've allowed for up
8 to four months for that exact scenario that you just
9 described, Mr. Chairman, and that is, that the customer's
10 schedule for maintenance on their units doesn't in any way
11 coincide with our billing months. And though they may
12 only need maintenance for a week or a few days or two
13 weeks in that scenario, it might cross over billing
14 months. So that's the reason we've carved it out in
15 months the way we have.

16 CHAIRMAN DEASON: Well, wouldn't there be
17 incentive then to always schedule maintenance at the end
18 of a month and the beginning of a month? Say it was a
19 two-day maintenance, I don't know how long it takes to
20 maintain these plants, and they just happened to pick
21 October 31 and November 1st to do it. Would they get CMM
22 status for the entire month of October and the entire
23 month of November?

24 WITNESS THOMPSON: Well, we'd have to evaluate
25 all the factors and criteria involved with that request,

1 including, as you said, how long they would be down, how
2 much, what type of maintenance, all the factors involved.
3 And, if under this -- the new rate schedule, it's
4 possible, yes, sir.

5 CHAIRMAN DEASON: But that's something you would
6 look at is what you're saying?

7 WITNESS THOMPSON: Well, absolutely. We'd look
8 at all the factors and criteria involved in that written
9 request for a coordinated maintenance month designation.

10 MR. STONE: I have no further questions at this
11 time.

12 CHAIRMAN DEASON: All right. Exhibits?

13 MR. STONE: Commissioner, I would move Exhibit
14 4 -- I'm sorry, 3, Exhibit 3.

15 CHAIRMAN DEASON: Exhibit 3, which are the SBS
16 tariffs?

17 MR. STONE: Yes, sir.

18 CHAIRMAN DEASON: Without objection, Exhibit 3
19 is admitted. Other exhibits?

20 MS. ERSTLING: I would move Exhibits 4, 5, 6, 7,
21 and 8. I think we moved 9 and 10 earlier.

22 CHAIRMAN DEASON: Well, we have 7 and 9 already
23 admitted.

24 MS. ERSTLING: All right. So then it would be
25 4, 5, 6, 8 and 10.

1 CHAIRMAN DEASON: Any objection? Hearing none,
2 Exhibits 4, 5, 6, 8 and 10 are admitted. And according to
3 my record, we've identified ten exhibits and all ten have
4 been admitted. Thank you.

5 (Exhibit Nos. 3, 4, 5, 6, 8 and 10 received
6 into evidence.)

7 (Witnesses Howell and Thompson excused.)

8 - - - - -

9 CHAIRMAN DEASON: Staff, you may call your
10 witness. Do you need some time? This would be an
11 appropriate time, we'll take ten minutes at this time.

12 (Brief recess.)

13 - - - - -

14 CHAIRMAN DEASON: Call the hearing back to
15 order.

16 WILLIAM BERG

17 was called as a witness on behalf of the Staff of the
18 Florida Public Service Commission and, having been duly
19 sworn, testified as follows:

20 DIRECT EXAMINATION

21 BY MS. ERSTLING:

22 Q Mr. Berg, were you previously sworn when all
23 the other witnesses were sworn?

24 A Yes.

25 Q Would you please identify yourself for the

FLORIDA PUBLIC SERVICE COMMISSION

1 record and state by whom you are employed and in what
2 capacity?

3 A My name is William Berg. I'm employed by the
4 Florida Public Service Commission, and I'm a regulatory
5 analyst in the Division of Electric and Gas.

6 Q Mr. Berg, are you the same William B. Berg who
7 prefiled testimony in the docket on July 7th, 1994?

8 A Yes, I am.

9 Q Does your prefiled direct testimony consist of
10 eight pages and one exhibit?

11 A Yes, it does.

12 Q Do you have any revisions or corrections to
13 make to your prefiled testimony?

14 A Yes. I have inadvertently left out one
15 sentence on Page 4 of my testimony, beginning on Line
16 23, the additional sentence should read, "Furthermore, a
17 daily demand charge that is not higher than the average
18 cost for 12 months does not send customers the signal
19 that it is more expensive to consume standby power in
20 the summer months than in the nonsummer months, which
21 according to the Company, is the intent of the CMM
22 provision."

23 Q If you were asked the same questions --

24 COMMISSIONER KIESLING: Could I just ask you, do
25 you have that in like a written out form somewhere? I

1 mean I couldn't write that as fast as he read it.

2 MS. ERSTLING: Do you have it?

3 WITNESS BERG: No, I don't.

4 MS. ERSTLING: We could make a copy of that and
5 provide one. If we could get that from you, Mr. Berg. Do
6 you have that in a statement that we can copy?

7 MR. MCGLOTHLIN: We'd appreciate it if Mr. Berg
8 would read that once more.

9 WITNESS BERG: I don't have a copy with me, I
10 can get one.

11 CHAIRMAN DEASON: Please read it again.

12 WITNESS BERG: Furthermore --

13 COMMISSIONER CLARK: Give us the page and line
14 again.

15 WITNESS BERG: Page 4 of my testimony, beginning
16 on Line 22, at the end of the sentence that's partially
17 there: "Furthermore, a daily demand charge that is not
18 higher than the average cost for 12 months does not send
19 customers the price signal that it is more expensive to
20 consume standby power in the summer months --"

21 COMMISSIONER KIESLING: Could you go back to
22 "does not send customers . . ." I mean, I just can't
23 write this fast.

24 WITNESS BERG: I apologize. "Does not send
25 customers the price signal that it is more expensive to

1 consume standby power in the summer months than in the
2 nonsummer months, which according to the Company, is the
3 intent of the CMM provision."

4 Again, I apologize for not having a handout.

5 Q (By Ms. Erstling) If you were asked the same
6 questions today as in your prefiled testimony with the
7 revisions made today, would your answers be the same?

8 A Yes, they would.
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DIRECT TESTIMONY OF WILLIAM B. BERG

1

2

3 Q. Please state your name and business address?

4 A. My name is William B. Berg. My business address is 101 East Gaines
5 Street, Tallahassee, Florida 32339.

6

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

8 A. I am employed by the Florida Public Service Commission as a Regulatory
9 Analyst for the Bureau of Electric Regulation, Division of Electric and Gas.

10

11 Q. Please give a brief description of your educational background and
12 professional experience.

13 A. I was graduated from Lenoir-Rhyne College in 1990 with a Bachelor of
14 Arts in Business Administration and was awarded a Master of Arts in Applied
15 Economics from the University of Central Florida in December of 1991.

16 I began employment with the Florida Public Service Commission in 1992
17 as a Regulatory Analyst in the Bureau of Electric Rates, Division of Electric
18 and Gas. I am responsible for evaluating electric utility rate and cost of
19 service filings.

20

21 Q. What is the purpose of your testimony?

22 A. The purpose of my testimony is to advocate the position that Gulf's
23 Standby and Supplemental (SBS) rate schedule should be denied. Specifically,
24 I will state my concerns with the provisions for Coordinated Maintenance
25 Months and the Annual Review of Option A Daily Demand Charge. These two

1 provisions represent unjustified deviations from the rate design prescribed
2 in Order No. 17159, issued February 6, 1987, in Docket No. 850673-EU - Generic
3 Investigation of Standby Rates for Electric Utilities. This order is an
4 important reference point because it is the result of lengthy Commission
5 hearings on standby rate design and prescribes the uniform cost allocation and
6 rate design methodology to be used by all of Florida's investor-owned electric
7 utilities for standby and supplemental service rates.

8
9 Q. What is the Coordinated Maintenance Month provision?

10 A. The Coordinated Maintenance Month provision allows a standby customer
11 to designate a maximum of four (4) billing months between the months of
12 September through May, inclusive, each year as Coordinated Maintenance Months.
13 Customers receive an incentive to schedule maintenance in these nonsummer
14 months through a waiver of the otherwise applicable daily demand charge.

15
16 Q. What are your concerns with the Coordinated Maintenance Month provision?

17 A. First, I believe that waiving the daily demand charge during a
18 Coordinated Maintenance Month is inappropriate because it may encourage
19 customers to use an excessive amount of standby energy, which may in turn lead
20 to additional costs that will be borne by the general body of ratepayers.

21 My second concern is that the SBS daily demand charge is not designed
22 to recover the production and transmission costs that the charge was designed
23 to recover. The result is a reduction in the base rate revenues that will be
24 collected from the standby class of customers.

25 I also question the need for a Coordinated Maintenance Month provision

1 because Gulf currently has seasonal rates that provide an incentive for
2 customers to schedule maintenance in the nonsummer months. In addition, Gulf
3 has not justified why these customers will need to take a generating unit off-
4 line for four months of scheduled maintenance.

5
6 Q. Please discuss your concern that waiving the daily demand charge during
7 a Coordinated Maintenance Month could impose additional costs on the general
8 body of ratepayers.

9 A. The daily demand charge represents a significant component of the bill
10 for a standby customer who uses standby power for extended periods of time
11 during a billing month. This is because a customer's daily demand cost will
12 increase rapidly if he imposes load on the system every day in a billing
13 month. Waiving this significant portion of the customer's bill may encourage
14 this class of customers to use standby power that they otherwise would not
15 have used. This is because a customer may find it cheaper to continue to
16 purchase kilowatt-hours from Gulf Power after his scheduled maintenance is
17 complete than to bring his own generation back on line.

18 If the standby customers use power extensively during the Coordinated
19 Maintenance Months, the probability that they will be using power during the
20 monthly Southern Company system peak hour increases greatly. This is an
21 important consideration because any power used by an SBS customer during a
22 monthly Southern System peak hour will result in Gulf losing approximately
23 \$6.50 per kw or paying an additional \$6.50 per kw pursuant to the Southern
24 Company's Intercompany Interchange Contract (IIC). Any costs above the 1989
25 base rate IIC amount will be recovered through the capacity cost recovery

1 | clause from all customer classes on a per kwh basis.

2 |

3 | Q. Please discuss your second concern with the Coordinated Maintenance
4 | Month provision.

5 | According to Gulf, the intent of the Coordinated Maintenance Month
6 | provision is to encourage standby customers to schedule maintenance outages
7 | during nonsummer months when reserve capacity is not at a premium. As an
8 | incentive to customers, the Coordinated Maintenance Month provision allows
9 | Gulf Power to waive the daily demand charge for up to four of the nine
10 | nonsummer months. During the non-Coordinated Maintenance Months, including
11 | the summer peaking months, the customer pays \$.47 per kw/day which is simply
12 | the average daily demand charge.

13 | The Coordinated Maintenance Month provision does not, however, send
14 | customers the entire price signal because the corresponding charge in the
15 | summer months is not an above average charge. If Gulf provides a reduced
16 | charge, that is a charge below average costs, during the nonpeaking months
17 | then it is only logical to set an upwardly weighted charge, a charge above
18 | average cost, during the summer peaking months when capacity is at a premium.
19 | A daily demand charge that is simply an average charge during the non-
20 | Coordinated Maintenance Months and a zero charge during the Coordinated
21 | Maintenance Month results in a charge that does not recover the annual total
22 | costs it is intended to recover.

23 | Furthermore, a daily demand charge that is not higher than the
24 | average cost for 12 months does not send customers the signal that it is
25 | more expensive to consume standby power in the summer months than in the
nonsummer months, which according to the Company, is the intent of the
Q/M provision.

1 Q. Will the Coordinated Maintenance Month provision result in a reduction in
2 the base rate revenues collected from this class of customers?

3 A. Yes. Gulf's response to Staff Interrogatory Number 13 shows that in 1992
4 one particular standby customer would have received over a 20% reduction in
5 the base rate portion of his bill. The entire standby class would have
6 received approximately a five percent reduction in 1992, or about \$300,000.
7 This decrease in base rate revenues, using these historic billing
8 determinants, is largely due to the Coordinated Maintenance Month provision.
9 It is impossible, however, to determine the actual amount of reduction in base
10 rate revenues that results from the Coordinated Maintenance Month provision
11 because it is difficult to predict how customers will respond to the
12 provision.

13
14 Q. Do you believe the Coordinated Maintenance Month provision is necessary?

15 A. No. It is important to remember that the intent of the Coordinated
16 Maintenance Month provision, as described by Gulf, is to encourage standby
17 customers to schedule maintenance outages during nonsummer months when reserve
18 capacity is not at a premium. Gulf Power currently has seasonally weighted
19 demand charges that are designed to encourage customers to schedule
20 maintenance on their generating equipment during the nonsummer months. These
21 charges are \$0.43 per kw during the months of October through May and \$0.58
22 per kw during the summer peaking months of June through September. I believe
23 that this existing 35 percent seasonal difference in the daily demand charges
24 provides an adequate incentive for customers to schedule maintenance in the
25 nonsummer months.

1 Q. What is "Option A"?

2 A. "Option A" allows customers to use the Supplemental Energy (SE) Rider
3 in combination with standby and supplemental service. The Supplemental Energy
4 Rider is a time-of-use rate schedule with flexible on-peak and off-peak
5 periods.

6
7 Q. Please discuss your concerns with the Annual Review of Option A Daily
8 Demand Charge provision.

9 A. The annual review of Option A Daily Demand Charge as proposed by Gulf
10 will result in an under-recovery of the costs the charge was designed to
11 recover in those years when the average number of non-SE days is less than
12 seven.

13
14 Q. Please explain why the annual review of Option A will lead to an under-
15 recovery of the costs the charge was designed to recover.

16 A. A problem with combining the SE Rider with standby and supplemental
17 service is that the average number of days with on-peak (non-SE) hours varies
18 by year. This variability is a problem because using a number different from
19 the actual average number of non-SE days in a calendar year results in an
20 over- or under-recovery of production and transmission costs. Gulf has chosen
21 seven days in calculating its Option A on-peak daily demand charge.

22 To ensure that Gulf will not over-bill production and transmission
23 costs, the SBS rate schedule has a provision for an annual review of the
24 Option A daily demand charge. Under this provision, if the monthly average
25 of the non-SE days for the non-Coordinated Maintenance Months for a calendar

1 | year is greater than seven, the customer will receive a credit on his December
2 | bill. The credit will be equal to the difference between the original charges
3 | that were based on seven days and the adjusted charge that is based on the
4 | actual number of days. This provision is problematic because it is one-sided.
5 | It does not provide for an additional charge when Gulf under-bills the
6 | production and transmission costs, i.e. when the average number of days with
7 | non-SE hours in a year is less than seven.

8 | Exhibit No. 11 (WBB-1) illustrates the variability in the average number
9 | of non-SE days for the years 1990-1994 excluding March, April, October and
10 | November, which in this case are the designated Coordinated Maintenance
11 | Months. Based on these historical data the standby customers would have
12 | received a credit for the year on their December bill in 1990 and 1993. The
13 | credit in these years would have further reduced the revenues collected from
14 | this class of customers. In 1992, however, the standby customers' daily
15 | demand costs would have been under-billed by 28 percent because the actual
16 | average number of non-SE days was 5. Consequently, this class of customers
17 | is afforded a double benefit - a credit when it is applicable and no
18 | additional charge when it is equally applicable.

19 |
20 | Q. Does this conclude your testimony?

21 | A. Yes.

22 |

23 |

24 |

25 |

1 Q (By Ms. Erstling) Would you please summarize
2 your testimony?

3 A Yes. The purpose of my testimony is to state
4 my concerns about two provisions found in the SBS rate
5 schedule, and to support my recommendation to the
6 Commission that these tariffs be denied.

7 The first provision that I'm concerned with is
8 the coordinated maintenance month. The coordinated
9 maintenance month provision, as we've heard, allows the
10 standby customer to designate a maximum of four billing
11 months between the months of September through May,
12 inclusive, each year as CMM. During a CMM, the
13 otherwise applicable daily demand charge is waived. My
14 concerns with this provision are twofold.

15 First, waiving the daily demand charge during
16 the CMM may encourage customers to use an excessive
17 amount of standby power in these months. And that, in
18 turn, will increase the probability that these customers
19 will impose additional costs on the general body of
20 ratepayers.

21 My second concern is that the daily demand
22 charge, when the CMMs are considered, is not designed to
23 recover production and transmission costs that it was
24 intended to recover. This results in a reduction in the
25 base rate revenues that will be collected on this class

1 of customers. This also results in the daily demand
2 charge sending customers upwardly weighted price signal
3 that it is more expensive to consume standby power in
4 the summer months than in the nonsummer months. Which,
5 again, according to the Company, is the intent of the
6 CMM provision.

7 COMMISSIONER CLARK: Did you say "does" or "does
8 not"?

9 WITNESS BERG: Does not.

10 COMMISSIONER CLARK: Okay.

11 WITNESS BERG: Because it is not upwardly
12 weighted. In addition, I do not believe the CMM provision
13 is necessary. This is because Gulf had seasonally
14 weighted rates on the previous rate schedule that provided
15 customers an incentive to schedule their maintenance in
16 the nonsummer months.

17 The second provision that I'm concerned with
18 is the annual review of the Option A daily demand
19 charge. Not the Option A daily demand charge, but the
20 annual review of the Option A daily demand charge.

21 The annual review provision ensures that Gulf
22 will never overbill customers for production and
23 transmission cost. But it does not provide the
24 corresponding assurance that it will not underbill these
25 customers for these same costs. I believe this is a

1 valid concern because a review of the most -- four years
2 of the most recent historical data, which I have
3 attached as an exhibit to my testimony, reveals that in
4 1992 Gulf would have underbilled these customers by 28%
5 had the customers designated March, April, October and
6 November as CMM.

7 This concludes the summary of my testimony.

8 MS. ERSTLING: I ask that Mr. Berg's testimony
9 be submitted into the record as revised and be marked for
10 identification -- the attached exhibit be marked for
11 identification.

12 CHAIRMAN DEASON: Without objection, the
13 testimony will be so inserted and the attached exhibit
14 will be identified as Exhibit No. 11.

15 (Exhibit No. 11 marked for identification.)

16 (Reporters note: Prefiled testimony inserted
17 At Page 269 for the convenience of the
18 Record.)

19 MS. ERSTLING: Staff tenders this witness for
20 cross examination.

21 CHAIRMAN DEASON: Mr. Stone?

22 MR. STONE: Mr. Chairman, I would defer to
23 Mr. McGlothlin to ask his questions first, if that would
24 be okay with the Commission.

25 CHAIRMAN DEASON: That would be fine,

1 Mr. McGlothlin?

2 CROSS EXAMINATION

3 BY MR. MCGLOTHLIN:

4 Q Mr. Berg, is it correct that you did not
5 participate in Gulf Power's most recent rate case?

6 A That is correct.

7 Q And you did not participate in the development
8 of the original standby rate for Gulf Power, did you,
9 sir?

10 A No, sir, I did not.

11 Q I want to ask you several questions about one
12 of the concerns you express on Page 3, which is your
13 view that the CMM proposal may have the potential to
14 increase costs to other customers. And my questions are
15 designed primarily to clarify some relationships that I
16 believe are in your testimony.

17 And for the purposes of the questions, I want
18 to pose a very simple illustration. I'll serve as my
19 own holder here. I hope everybody can see this, this is
20 just a simple time line, Mr. Berg, showing the months in
21 a given year.

22 And would you agree that because we don't yet
23 have a perfect perpetual motion machine, cogenerators
24 will have a need from time to time to take their units
25 down for maintenance?

1 A I agree.

2 Q And so that's going to happen, there's going
3 to be a maintenance outage at some point during the
4 year?

5 A I agree.

6 Q Okay. I want you to assume that a particular
7 cogenerator schedules a maintenance outage in July and
8 imposes an additional demand on the system of 30
9 megawatts as a result of that scheduled maintenance
10 outage.

11 A Yes.

12 Q And while Mr. Howell made it clear that the
13 impacts for purposes of the intercompany interchange
14 contract occur only under certain limited conditions,
15 let's just take the worst case assumption and assume
16 that there's a maximum impact on the payments either
17 made by Gulf Power or impacts on payments made to Gulf
18 Power, associated with that 30 megawatts of increased
19 demand during the month.

20 A During the summer months?

21 Q Yes.

22 A Yes.

23 Q So you agree, do you not, that there could be
24 impacts on IIC payments under these limited
25 circumstances Mr. Howell described, even in the summer

1 months, if the maintenance outage is scheduled at that
2 point?

3 A I would agree.

4 Q All right. Now, let's change the hypothetical
5 for just a little bit and assume that perhaps as a
6 consequence of a new rate with a better incentive, the
7 outage occurs not in July but in November. And for
8 purposes of my question, assume that the outage is
9 exactly the same, the same period of time and same
10 impact on demand of 30 megawatts.

11 Would you agree that under the illustration,
12 the impact on the -- and again, let's assume that there
13 is a maximum impact under the limited conditions to
14 which it would be available on payments under the IIC --
15 would you agree that if the outage is the same, what
16 we're talking about here is a matter of timing as
17 opposed to impact/no impact?

18 A I would agree to that. But I would point out,
19 however, that in the summer months when comparing the
20 previous rate schedule to this rate schedule, Gulf has
21 actually lowered the daily demand charge in the summer
22 months so that if the customer absolutely had to
23 schedule his maintenance in the summer months, then he
24 would pay less under the current rate schedule than
25 under the previous rate schedule.

1 Q Nonetheless, in terms of impacts on IIC
2 payments and, therefore, potential effects on other
3 customers; we have identified simply a matter of timing
4 of impact as opposed to any difference in impact; is
5 that correct?

6 A Yes. But the customer times his outages so
7 that he can receive the greatest cost savings in the
8 price of electricity.

9 Q Granted. But my question goes to your concern
10 that the CMM may cause adverse impacts on other
11 customers, noncogenerating customers. Would you agree
12 that because there are going to be maintenance outages,
13 if we assume that the outage is simply moved in time as
14 opposed to increased in either terms of demand or length
15 of time, we're talking about changing the timing of an
16 impact as opposed to avoiding one?

17 A I agree.

18 Q Okay. So would you agree that your concern
19 about the potential for increasing costs to nonstandby
20 customers grows -- it is directly tied to your view that
21 the CMM may have the effect of causing standby customers
22 to use more standby than they would otherwise use,
23 either in terms of increased demand or increased
24 duration of outage?

25 A I agree. But you have recognized in your

1 testimony that there could be -- in your cross
2 examination that there could be additional costs. The
3 daily demand charge in the CMM months is waived, so
4 you're not recognizing that additional cost.

5 Q What costs are those?

6 A The costs associated with the IIC payments.
7 By sending customers a signal that there are zero cost,
8 i.e, waiving the daily demand charge in whatever month,
9 you're saying that there are no additional costs
10 associated with the customer performing this maintenance
11 then. And I'm saying there are.

12 Q Okay. Would you agree that the customer will
13 continue to pay the reservation charge in either of
14 those months under the new rate?

15 A Yes. But the reservation charge is not the
16 daily demand charge.

17 Q Granted that. But in terms of impacts on the
18 IIC, your view that the rate has the potential to
19 increase those is tied to your view that the customers
20 may increase their usage of standby power either in
21 terms of additional demand at time of peak, or in terms
22 of increased duration of outage; is that correct?

23 A Would you say that one more time?

24 Q All right. My question is limited to your
25 concern that costs to other customers may be increased

1 as a function of IIC payments?

2 A Yes.

3 Q Is it true that that concern is tied directly
4 to your view that the CMM provision will lead customers
5 to use more standby power, either in terms of increased
6 demand or in terms of increased duration of the outage,
7 than they would use absent the CMM provision?

8 A More standby power is one of the concerns.
9 And the other concern is that by providing the CMM, you
10 are encouraging the customer to concentrate all their
11 usage into one month or four months, which, in turn,
12 increases the probability that there would be additional
13 cost.

14 Q All right. Does your concern that customers
15 would increase their use of standby stem from your
16 belief that it may be economically advantageous to them
17 to buy more standby than to self-generate?

18 A Yes.

19 Q Is it fair to say that you had no study or
20 analysis of the comparative costs associated with buying
21 as opposed to self-generating it when you made that
22 testimony?

23 A I have no factual evidence to support that.

24 Q If the Commissioners determined that the
25 standby customers have a strong economic incentive to

1 maximize self-generation, and, therefore, minimize usage
2 of the standby rate, would that go towards satisfying
3 your concern about impacts on other customers through
4 the IIC?

5 A Partially. Again, what we're talking about
6 here is economics. If the customer uses power for
7 economic reasons during the CMM, then that impact would
8 be there. But there is also the impact of encouraging a
9 customer to concentrate all their usage into the CMMs,
10 which, in turn, increases the probability that they will
11 impact the IIC. So there are two reasons.

12 Q Are you speaking of the incentive to move
13 their maintenance outages from summer months to
14 nonsummer months?

15 A Well, I'm not sure that the maintenance
16 outages are in the summer months right now. Could you
17 repeat that question?

18 Q Okay. Well, again, I think you were speaking
19 in terms of incentives you believe are inherent to the
20 CMM provision of a new rate. And would you agree that
21 those CMM months are intended to encourage standby
22 customers to take their maintenance outages during the
23 nonsummer months?

24 A Among other things, yes.

25 Q And, thereby, remove their demands from the

1 summer peak?

2 A Yes.

3 Q Would you agree that if that is successful,
4 that there's less likelihood that Gulf Power will be
5 required to add capacity to meet the demands of its
6 customers?

7 A If the customers are currently ignoring the
8 price signal that was in place on the previous rate
9 schedule, and are scheduling their maintenance in the
10 summer months, then, yes, I would agree.

11 Q Did you hear testimony to the effect that Gulf
12 Power presently experiences occasions when standby
13 customers do take maintenance outages during the summer
14 months?

15 A No, sir, I heard testimony which said that
16 there is standby power in the summer months.
17 Mr. Howell, I believe, it's my understanding, was
18 unclear as to whether or not that was for scheduled
19 outages or for unscheduled outages.

20 Q Okay. You've testified that your concern that
21 the CMM provision would lead Gulf to recover less than
22 the costs of the production and transmission capacity
23 costs; is that correct?

24 A The design of the daily demand charge is such
25 that, yes.

1 Q Would you agree that the production and
2 transmission capacity costs were allocated to the
3 standby customers in the last rate case based on an
4 assumption of a 10% forced outage rate?

5 A I believe it was -- I can't answer that for
6 sure.

7 Q All right. Well, let me ask you a similar
8 question with respect to the reservation charge. Would
9 you agree that was derived from using the same 10%
10 forced outage rate assumption?

11 A The reservation charge? Yes.

12 Q All right. With respect to the revenues that
13 would be generated by the replacement standby rate,
14 would you agree that the shortfall that has been
15 described, or the differential, would occur only if the
16 billing determinants are exactly those that were used in
17 the last rate case?

18 A The revenue shortfall will occur any time a
19 customer designates a CMM, I believe.

20 Q Are you assuming that the billing determinants
21 would be those that were the same as in the last
22 historical rate case?

23 A The historic billing determinants, I believe,
24 were used to determine the \$300,000 revenue shortfall
25 that was discussed by the --

1 Q So when people describe a \$300,000
2 differential, that assumes that the historical billing
3 determinants would be operative for the current usage
4 patterns; is that correct?

5 A Yes.

6 Q One of the subjects you address in your
7 testimony is the feature of the CMM that provides four
8 months within which the customer may identify a
9 maintenance outage. Do you know whether any of the
10 standby customers on Gulf's system presently operate
11 more than one cogeneration unit?

12 A I believe there are some that have multiple
13 generators, and I base that on the Ten-Year Site Plan
14 which lists that.

15 Q In terms of the need to schedule the needed
16 manpower and to continue to maximize the amount of
17 self-generation possible, do you think it's practical
18 for the customers to maintain those units one at a time
19 as opposed to taking them down together?

20 A I would assume so.

21 Q Do you think that the availability of four
22 months within which to schedule maintenance outages
23 would accommodate that need?

24 A Well, it would depend on, number one, how many
25 generators there are, and, number two, how long the

1 maintenance period is.

2 I believe, again, according to the Ten-Year
3 Site Plan, there are two customers that have four
4 generators, and I believe in Mr. Pollock's testimony he
5 said an average annual outage is anywhere from three
6 days to two weeks. So if you assume the maximum of two
7 weeks for each unit with four units, that would be two
8 months. So there would be two months left over that the
9 customer could designate a CMM.

10 Q Yes. Would you expect there to be several
11 variables involved in scheduling those maintenance
12 outages? As an example, the availability of maintenance
13 personnel to perform that work.

14 A Yes, that's why you would do it one at a time.

15 Q With respect to the Option A feature of the
16 rate, as I understand it, your concern is that Gulf
17 Power would underrecover a cost that the data demand
18 charge is designed to recover if the number of non-SE
19 days averages less than seven in a given month; is that
20 correct?

21 A My concern is twofold. The first concern is
22 that the annual review provision has ensured that Gulf
23 will never collect more from customers than they should
24 if the number is greater than seven. If the number is
25 greater than seven at the end of year, these customers

1 will receive a credit on their December bill for all the
2 demand charges they've used during that year. But if
3 the number is less than seven, which is the case as
4 evident in my exhibit, then there's no provision to go
5 in and collect the dollars that have been underbilled.
6 So it seems like a one-sided provision.

7 Q Would you agree that the concern applies only
8 if there are less than seven non-SE days in a given
9 month?

10 A Yes.

11 Q According to your schedule, would you agree
12 that that has happened in one year of the four years for
13 which you compiled the data?

14 A Yes, 25% of the time.

15 Q Would you agree that the availability of SE or
16 the SE rider is dependent upon the availability of
17 baseload units on the Southern System to provide that
18 energy?

19 A Yes.

20 Q Would you agree that Southern Company, at this
21 point, in terms of its future plans, is planning to
22 construct only peaking capacity to meet any growth and
23 demand on its system?

24 A Subject to check.

25 Q Accepting that, would you agree that the

1 availability of SE then would be limited to those
2 baseload plants presently on its system?

3 A Would you say that one more time?

4 Q Doesn't it follow that the units on which the
5 availability of the SE rider depends is limited to those
6 presently on its system because it's not building any
7 more of them. I'm talking about the baseload units that
8 provide the SE energy.

9 A Yes.

10 Q Okay. Would you agree that it would be
11 reasonable to expect that the load on the Southern
12 System will be growing over time?

13 A I have no way of knowing. I mean, I would
14 assume so, but --

15 Q All right. If you make that assumption, does
16 it follow that the Southern Company will be using those
17 baseload units that are the source for SE rider energy
18 to meet their own loads more frequently than is
19 presently the case over time?

20 A Yes. But you're failing to overlook the
21 weather, for example. Cold snaps or hot snaps could
22 also affect the SE, the number of times that SE is
23 called.

24 Q Okay. I'm sure there are other variables, but
25 would you agree that one consideration is the continued

1 availability of these limited baseload units if, in
2 fact, the Southern Companies are experiencing load
3 growth on their own system?

4 A Yes, I would agree.

5 Q In terms of designing a rate, would you agree
6 that it's more reasonable to base a design on future
7 expectations as opposed to past experience?

8 A No. I mean you can't ignore historic data
9 points, I don't believe.

10 Q Okay. Granted that we shouldn't ignore
11 historic data, would you agree that it would be
12 reasonable to incorporate what we know about the load
13 growth on other Southern companies in the design of the
14 rate?

15 A I would believe you would incorporate all
16 information that is available to you.

17 Q I believe you agreed that the reservation
18 charge feature of the rate was derived using an
19 assumption of a 10% forced outage rate?

20 A Yes.

21 Q If a particular company -- if a particular
22 customer experienced a forced outage rate of only 5%, is
23 there a provision under the rate to give them a refund?

24 A Would you say that one more time?

25 Q Sure. If a particular customer had

1 experienced only a 5% forced outage rate, thereby
2 incurring fewer costs, causing the utility fewer costs
3 than was the assumption, under the standby rate does he
4 get a refund?

5 A No, he does not. But I would point out that
6 that is for a forced outage rate and it does not
7 consider outages, that are unscheduled -- scheduled
8 outages, so that's not the only consideration.

9 Q Okay. If you were to assume that the -- if
10 you assumed that the total availability, including both
11 kinds of outages, is greater than 95%, would the
12 customer get a refund?

13 A No, he would not.

14 Q Would you agree that the costs imposed by the
15 standby customer on a utility that are associated with a
16 forced outage are different than those associated with
17 the maintenance outage?

18 A I see no evidence in the record to support
19 that.

20 Q Have you read Mr. Pollock's testimony?

21 A Yes, I have.

22 Q Well, let me ask you this: Is it your
23 understanding that rate SS, the original standby rate,
24 was structured so that the same daily demand charge
25 would apply to all outages, forced and maintenance

1 outages, that would occur in the summer months and that
2 a lower charge would apply to all outages, forced
3 outages and maintenance outages, in nonsummer months?

4 A Yes.

5 MR. MCGLOTHLIN: Those are all my questions.

6 CHAIRMAN DEASON: Mr. Stone.

7 MR. STONE: Thank you, Mr. Chairman.

8 CROSS EXAMINATION

9 BY MR. STONE:

10 Q Good afternoon, Mr. Berg.

11 A Good afternoon.

12 Q Mr. Berg, do you believe that utilities such
13 as Gulf Power Company should have the flexibility
14 between rate cases to take into account their customer's
15 needs with regard to rate structure and to modify the
16 rate structure as appropriate in response to those
17 changes in customer needs?

18 A I believe that the utility should have the
19 discretion to address administrative needs, but I
20 believe the rates and the costs were assigned in the
21 last rate case and I believe that's an appropriate place
22 to look at those considerations.

23 Q Perhaps I have misunderstood your answer then.
24 I asked you rate structure, and I will
25 rephrase my question and say, setting aside the issue of

1 rate level, addressing rate level only in the context
2 of -- if the problem to be addressed is rate level, do
3 you believe that the Company should be -- have the
4 opportunity to address only the rate structure issues
5 between rate cases?

6 A Would you define "rate structure" for me? I
7 mean --

8 Q How would you define rate structure?

9 A There's -- rate structure is the -- I would
10 define rate structure as the relationship between the
11 rates that you charge the various customer classes,
12 different customer classes.

13 Q Would there also be a consideration in rate
14 structure differences in the cost components within a
15 class?

16 A That's not how we typically view rate
17 structure, I believe. I believe rate structure, we
18 typically look at the relative rates of return to the
19 various customer classes and compare the overall rate
20 structure of the entire system.

21 Q So if I understand your testimony correctly,
22 then the concepts of customer charges, demand charges,
23 energy charges, that is not a part of rate structure?

24 A As I consider rate structure. I mean, it's
25 the design of the rates. It's how you design the rates

1 to recover the revenues from a particular class, the
2 customer charge, energy charge and demand charge.

3 Q Well, let's assume for a moment that there was
4 a configuration within a rate class of those various
5 cost components and the charges attached to those
6 components between rate cases. And that class, because
7 of considerations that had occurred subsequent to the
8 rate cases, increasing competition in their industry,
9 the availability of alternative sources of electric
10 power, and other considerations, and that mixture of
11 components within that class was no longer adequate for
12 the Company to serve the needs of its class of
13 customers. And it's not a rate level issue; it's a rate
14 structure issue, as I'm defining rate structure now.

15 Would you agree that the Company should have
16 the flexibility to address the customer's needs between
17 rate cases?

18 A As long as attempts were made to ensure that
19 it was revenue neutral, yes.

20 Q Okay. So we're in agreement there, as long as
21 the attempt is made to make it revenue neutral.

22 A Yes.

23 Q And you would agree, then, that the Commission
24 should allow the Company the flexibility with that
25 caveat that you've given?

1 A If the Commission so chooses to allow that.

2 Q It would be your recommendation to the
3 Commission as one of its regulatory analysts that that
4 flexibility be accorded to the utility.

5 A Yes.

6 Q Mr. Berg, are you recommending that Gulf
7 Power's standby service customers be removed from rate
8 SBS as it now exists?

9 A Yes. As it now exists, meaning the rate
10 schedules that are currently in effect.

11 Q Okay. What rate or pricing arrangement are
12 you recommending that they be moved to?

13 A The concerns that I have stated in my
14 testimony relate to the daily demand charge
15 specifically. And I had envisioned that the old daily
16 demand charge that was found on the previous rate
17 schedule be employed again. This is the daily demand
18 charge that was established at the time of the last rate
19 case.

20 Q All right, sir. So the old daily demand
21 charge would be use any other elements that you're
22 talking about moving the customers to in your new
23 pricing arrangement?

24 A I'm not sure I have presented a new pricing
25 arrangement. I have presented concerns with pricing

1 arrangement that you have submitted, that the Company
2 has submitted, and informed the Commission of my
3 concerns with that pricing arrangement.

4 Q Well, as I understand it then, you are --
5 you're not saying to move them back to the old SS rate?

6 A Yes, that's a better way to look at it, yes.

7 Q You were not saying go back to the SS rate.

8 A I'm saying deny the SBS rate schedule.

9 Q Okay. If we accept that as a premise, you
10 deny the SBS rate schedule, what rates would the Company
11 be charging? What rate schedule would the Company be
12 using?

13 A The SS rate schedule.

14 Q So you are saying go back to the old SS rate.

15 A Yes, I am. I apologize. I apologize. Yes.

16 Q So, in essence, what you're saying to the
17 customers and the Company is, based on your
18 recommendation, that rate schedule SBS be removed from
19 the tariff book, which was Exhibit 3, I believe, and
20 that the old SS rate, which has been identified as
21 Exhibit 8, you place back into the Company's tariff
22 book.

23 A Yes, because of these two concerns.

24 Q With no changes.

25 A With no changes.

1 Q And it's my understanding that the Staff's
2 position in the prehearing statement acknowledges that
3 there were some complexity issues that were addressed,
4 have been addressed by the new rate SBS. You're saying
5 that those issues should be set aside, the fact that
6 those have been addressed, in order to return to the old
7 SS rate?

8 A I cannot modify your tariffs. I have in the
9 various meetings prior to the Staff -- the original
10 Staff recommendation, we stated our concerns. We said
11 that "Yes, we can live with certain things, but we can't
12 live with other things," and those two other things or
13 the CMM provision and the Option A demand charge. So
14 since we could not overcome those two hurdles, and we
15 could not modify your tariffs, I'm recommending denial.

16 Q So it's an all-or-nothing proposition, is what
17 you're saying?

18 A I cannot modify your tariffs.

19 Q Have you made any attempt to -- if you were in
20 a position that you could modify a tariff, have you made
21 any attempt to come up with a modified tariff that you
22 would find acceptable?

23 A I believe that the concerns with subjectivity
24 and sorting could be addressed through a modification of
25 the billing arrangement similar to the one that Gulf has

1 proposed. Had Gulf submitted that billing arrangement
2 in isolation, I believe that there would have been a
3 favorable recommendation.

4 Q All right. I don't mean to belabor the point,
5 but I guess I'll ask it a different way: Do you have
6 such a rate schedule in mind?

7 A No, I do not.

8 Q So you have not developed such an alternative
9 rate schedule that you would find acceptable.

10 A No, I have not.

11 MS. ERSTLING: Excuse me. I'd like to make an
12 objection to that question. I don't think it's the
13 posture of the Commission Staff to assert a rate schedule
14 that they would think. I think it is the position of the
15 utility to come forward and present the rate schedule, not
16 the Staff's position to present the rate schedule in its
17 stead.

18 CHAIRMAN DEASON: I understand the objection has
19 been made, but the question was asked and was answered.
20 And I'll just let the answer stand, with clarification
21 made by counsel.

22 MR. STONE: Thank you, Commissioner.

23 Q (By Mr. Stone) Are you saying that the SBS
24 rate schedule, as it exists today, in simply striking
25 through and eliminating the CMM provision language

1 altogether, and the Option A annual review language
2 altogether, leaving the Option A itself in place, that
3 that's a rate schedule that you would contemplate being
4 acceptable?

5 A Yes.

6 Q Would there be any other changes other than to
7 strike through the CMM provision altogether and to
8 strike through the annual review provision altogether?

9 A Again, I'm not sure I understand your
10 question.

11 Q Okay. Well, you mentioned a moment ago the
12 daily demand charge. Would that also be a change that
13 you would be talking about making through the SBS rate?

14 MS. ERSTLING: I think that's beyond the scope
15 of Mr. Berg's testimony. He's addressed the issues that
16 you've raised and he's answered them. The question was
17 asked and answered.

18 CHAIRMAN DEASON: An objection has been made.
19 Do you care to respond, Mr. Stone?

20 MR. STONE: Mr. Chairman, I'm trying to
21 understand. He made the statement that the rate should be
22 denied.

23 COMMISSIONER CLARK: Tariff.

24 MR. STONE: That the tariff should be denied,
25 I'm sorry. And I'm trying to understand if he has

1 analyzed the effects of such denial, and I'm trying to
2 understand what it is that would be acceptable consistent
3 with his testimony.

4 CHAIRMAN DEASON: Objection overruled. I'll
5 allow the question.

6 A Would you repeat the question?

7 Q (By Mr. Stone) I was afraid you were going to
8 say that.

9 We've already discussed that taking the SBS
10 tariff, that one of the changes -- two of the changes
11 that you would make to make it acceptable to you would
12 be to strike through the CMM provisions altogether, and
13 to strike through the annual review that is associated
14 with the Option A provision altogether.

15 I'm asking is, if there were any other changes
16 that you felt necessary to it. I believe your answer
17 was no, and then I went back and asked you is there a
18 need to change the daily demand charge itself that is
19 contained in rate SBS as it exists today in your view?

20 A If the CMM provision is eliminated, then the
21 daily demand charge would be designed to recover the
22 cost that it was intended to recover.

23 Q Okay. The number, and I'll have to state the
24 question subject to check because I forgot to bring the
25 page out in front of me, but the number that's in the

1 SBS tariff is, I believe, .47 cents -- I mean, its 47
2 cents per kW.

3 A Yes.

4 Q Okay. That number is acceptable to you if the
5 CMM provision is struck altogether, and the annual
6 review related to the Option A is struck altogether?

7 A Yes.

8 Q And it is your understanding that that 47
9 cents is constant throughout the 12 months of the year,
10 once you eliminate the CMM provision; is that correct?

11 A Yes.

12 Q Now, you spoke about the incentive to not
13 perform maintenance during the summer months in the old
14 SS rate, and you referred to the differential, I think
15 it was 35%. Percentages sometimes can be misleading.
16 The comparison is actually between the 58 cents that was
17 the summer charge per kW and the 43 cents, which was the
18 nonsummer charge per kW.

19 A That is correct.

20 Q That's the differential you're talking about
21 being the incentive?

22 A 15 cents, yes.

23 Q 15 cents. Now, under SBS as it exists today,
24 the differential that we're talking about between the
25 non-CMM months, which is 47 cents, and the CMM months,

1 which is zero, that's a 47-cent differential; is that
2 correct?

3 A Yes, it is.

4 Q Okay. Now, the reason why a percentage -- you
5 can't calculate a percentage on that, can you?

6 A No.

7 Q Okay.

8 A But I would point out that in the summer
9 months there has been no -- what Gulf has done is they
10 have taken the average over the course of a year, which
11 is 47 cents, and they have said, "We are going to lower
12 the average in four months, for up to four months, to
13 zero." But they have not said, "We're going to raise
14 the demand charge in the summer months, such that over
15 the course of a year, you get the 47 cents back." And
16 that is the point I make in my daily demand charge
17 arguments; my second concern with the daily demand
18 charge.

19 Q Now, you have used the term "summer months."
20 In that context of what you just stated, are the summer
21 months eight months, the non -- whatever months or not
22 the CMM months.

23 A The summer months are the three months, June,
24 July and August.

25 Q Okay. So you would have still a seasonal

1 differential between summer and nonsummer, and a
2 differential of CMM of zero and non-CMM either the
3 summer or the winter number, whichever they are. Is
4 that what you're saying?

5 A That's not what I'm suggesting. I'm saying it
6 would be consistent with your argument that we need to
7 send an unmistakable price signal to the customers in
8 the summer months. And it only seems fair that if
9 you're affording the customer the benefit of four CMM
10 months, which he can designate at his discretion, and
11 say that's a zero demand charge in this those months,
12 then the customer should pick up the responsibility of a
13 raised daily demand charge in the summer months. And
14 that would send an even stronger signal than the signal
15 that the Company has proposed, because the zero demand
16 charge would be higher in the summer months than it is
17 on the SBS rate schedule.

18 Q But, again, the differential that we're
19 talking about, what the Company has proposed is zero to
20 47, and what you're saying would be comparison of zero
21 to something greater than 47.

22 A For the three summer months. I'm not sure I
23 understand. Would you say that one more time?

24 Q Okay. I'm trying to make sure I understand
25 what you're saying.

1 A Right.

2 Q Rate SBS as it exists today, the incentive to
3 perform maintenance in something other than the months
4 of June, July and August, is that if, in addition to
5 performing it sometime other than June, July and August,
6 you coordinate that with the Company, it's a two-step
7 process. Not only do you not perform it in June, July
8 and August, but you actually coordinate it with the
9 Company and get, if you will, permission in advance.
10 That is an incentive to do that; you're talking about a
11 47 cent price differential per kW. That's what the
12 Company's proposal is, do you agree?

13 A Yes.

14 Q And what I think I understand you to say is
15 that you would say that that differential would be for
16 June, July and August even greater than 47 cents because
17 you would have raised the price in those three months,
18 and in all of the other non-CMM months it would be
19 something lower than 47 cents. Is that correct?

20 A What I'm talking about here is weighting the
21 daily demand charge, such that over the course of a year
22 you recover the 47 cents that you're supposed to
23 recover.

24 So what I'm saying is you would have zero
25 daily demand charge in the coordinated maintenance

1 month, four of those. 47 cents in the five remaining
2 nonsummer months, and a \$1.09, I think, is the algebraic
3 calculation, during the three summer months. That would
4 send customers the entire price signal.

5 The first half of the price signal is that it
6 is to your benefit to designate CMMs and do your
7 maintenance in the nonsummer months. It also sends
8 customers the signal that you had better stay away from
9 our summer peak; otherwise, it's going to cost you a
10 lot. There's two sides to a price signal.

11 Q So, in essence, then, what you're saying is
12 that the differential, the price signal should be from
13 zero to \$1.09 for June, July and August, and zero to 47
14 for any of the other months of the year?

15 A With 47 cents being the nonsummer months that
16 are not designated as CMM, yes.

17 Q Have you performed any economic analysis, or
18 any analysis, I'm sorry, to determine the economic
19 effects of that change in price?

20 A No, I have not.

21 Q Do you know whether or not that change in
22 price that you just advocated would be revenue neutral?

23 A No, I do not.

24 Q Do you know whether that change in price that
25 you just described would result in an increase to any of

1 the current standby service customers of Gulf Power
2 Company?

3 A Not offhand, but intuitively the only way it
4 would result in an increase is if the customers did
5 actually consume standby power in the summer months and
6 actually paid the \$1.09 demand charge.

7 Q But you've not taken that analysis to confirm
8 what you believe is your intuition.

9 A That is correct.

10 Q What was the total annual revenue effect for
11 Gulf Power compared -- I'm sorry, scratch that. You
12 don't know the total annual effect for Gulf Power of
13 that price that you just described?

14 A No, I do not.

15 Q And you don't know the annual effect by
16 customer?

17 A No, I do not.

18 Q Do you know whether or not Gulf Power's total
19 costs -- not as revenue, mind you, but as total costs,
20 could be expected to change as a result of your
21 recommendation?

22 A I don't know the answer to that question.

23 Q I'd ask you to turn to Page 5 of your
24 testimony. Have you -- you indicated at the bottom of
25 that page, the last four lines, the sentence that begins

1 on Line 22, that you believe that this existing
2 differential which you described as 35%, but which is
3 actually the 15 cents that we discussed earlier,
4 provides an adequate incentive for customers to schedule
5 maintenance in the nonsummer months. That is your
6 testimony?

7 A Yes. To the extent that customers can
8 schedule their maintenance and receive any kind of
9 savings to reduce their total cost of electricity, I
10 believe they would do so.

11 Q And you came to that conclusion that that's an
12 adequate incentive, based on your discovery in this
13 case?

14 A I came to that conclusion because it would
15 seem to me that these customers that we're talking about
16 are competitive -- are private sector companies that
17 have a incentive to reduce all costs, with the cost of
18 electricity being one of those costs. To the extent
19 that they can schedule their maintenance, which is what
20 we're talking about here, in a lower cost month and
21 realize a savings, I believe that they would do that.

22 Q The rate has been in effect for several years
23 now. Would you accept that?

24 A Yes.

25 Q The old SS?

1 A Yes.

2 Q And so did you undertake any discovery, either
3 from the customers who have intervened in this
4 proceeding or from Gulf Power Company, to prove the
5 thesis of your statement?

6 A No, I have not.

7 Q You talked about concentrating the maintenance
8 into four months of the year. Isn't the effect of the
9 coordinated maintenance provision, as it exists in the
10 current SBS tariff that's in effect, doesn't it have the
11 effect of concentrating that maintenance into eight
12 months of the year because the Company can control which
13 CMM months it grants to which customers?

14 A Yes. (Pause) But if the customer --

15 Q I'm sorry, and I would like to correct my
16 statement, it's nine months of the year. The only months
17 months that cannot be designated as CMM are June, July and
18 August?

19 A Yes.

20 Q Okay. I'm sorry, I interrupted you.

21 A That's all right.

22 Q In conjunction with this docket, have you
23 sought direct input from Gulf's standby service
24 customers as to whether they would find the rate that we
25 have worked through -- you and I together this

1 afternoon -- whether they would find it useful?

2 A No, I have not.

3 Q Have you asked any of Gulf's standby service
4 customers whether they believe the rate that you would
5 recommend, as we've discussed this afternoon, would?
6 leave them better off or worse off than Gulf's old rate SS?

7 A I have not.

8 Q Have you visited the facilities of any of
9 these customers in the past year?

10 A No.

11 Q Have you verified via interrogatories or
12 discovery or in any other manner, that Gulf's customer
13 accounting system could actually render bills using the
14 rate you recommend?

15 A No, I have not.

16 Q Have you made estimates of changes in customer
17 electric demand or consumption that might result from
18 your recommendation?

19 A No.

20 Q Did you get input from the customers as to
21 what their response might be in terms of load change as
22 a result of your recommendation?

23 A No.

24 Q Have you made any estimate or evaluations of
25 the effects your recommendations would have on Gulf's

1 conservation objectives?

2 A No, I have not.

3 Q Are you familiar with Section 210 of what is
4 commonly referred to as PURPA?

5 A Very generally.

6 Q Could you describe in general what that
7 section deals with?

8 A Does it -- I believe it deals with the
9 treatment of cogenerators, that they should receive --
10 the treatment that cogenerators should receive; is that
11 correct?

12 Q Okay.

13 A I'm not exactly sure of the specific number.

14 Q Are you familiar with Section 292.305 of the
15 FERC rules?

16 A Not by number, not as you've Cited it.

17 Q Is it your understanding that it would be
18 improper in accordance with both state and federal laws
19 and regulations to discriminate against a qualifying
20 facility or a cogenerator in terms of the rates or
21 charges that they're eligible for simply because of the
22 fact that they're a qualifying facility or a
23 cogenerator?

24 A Yes, I believe that was the driving force
25 behind the Order 17159.

1 Q Would you agree that the elimination of the
2 annual review provision could have the economic effect
3 with regard to the SE -- E as in Edward -- provision
4 under Gulf's -- the way that Gulf's nonself-generating
5 customers are eligible for SE and can utilize SE under
6 the optional rate rider Schedule SE?

7 A I wouldn't know if that would be
8 discriminatory based on a legal argument, I wouldn't
9 know.

10 Q Is cost an important consideration in
11 designing or evaluating electric rates?

12 A I believe it's important to collect the
13 revenues that a class of customers has been assigned,
14 which is based on a cost of service.

15 Q Does that mean that cost is an important
16 consideration in designing or evaluating rates?

17 A Not in designing rates. I believe cost -- by
18 costing things out, you will get the revenue requirement
19 that you need. Once you have the revenue requirement,
20 you will then design your rates to collect your cost of
21 service, the costs that have been allocated.

22 Q Okay. Then the cost of service is what you're
23 trying to collect in rates?

24 A You're trying to collect the revenue
25 requirement --

1 Q Which is equal to the cost of service?

2 A Yes.

3 Q So then can we agree that cost -- that you're
4 saying that cost is an important consideration?

5 A In designing rates?

6 Q Yes.

7 A Yes.

8 Q Okay. Is it the only important consideration?

9 A No. You would like to have rates which
10 recover the cost of doing business; costs that have been
11 allocated to the customer classes.

12 Q Are there any other considerations important?

13 A I believe customer acceptance, ease of rate
14 design have been tossed out as considerations in
15 designing rates.

16 Q "Ease of rate design." I --

17 A Customers understanding the rates and how they
18 affect them.

19 Q Are there any other considerations that you
20 would consider important in the design of rates?

21 A I can't think of any offhand, but I'm sure
22 there are.

23 Q I'd like to ask you a hypothetical. In your
24 position as a regulatory analyst for the Florida Public
25 Service Commission, if five customers that make up 100%

1 of a rate class of a utility that is regulated by the
2 Florida Public Service Commission, came to you and said,
3 "We have a problem with a rate, the rate that we're
4 under as part of this rate class. Now, we're not saying
5 we've got a problem with the rate level, but we have a
6 problem with how this rate applies to us with regard to
7 the various components in the rate." If they came to
8 you and the customers said, "Okay, we need to fix those
9 components." Again, the customers didn't raise the
10 issue of rate level. Would you think it was fair to
11 those five customers and it was an adequate response for
12 you to design rates that resulted in decreases to three
13 of the customers, or four of the customers, and an
14 increase to one of the customers who came to you
15 collectively and complained about the rate?

16 A Well, then you would be talking about the rate
17 level, which you have said is not a consideration.

18 Q No. Let's assume that the rates you designed
19 that resulted in an increase to one or two customers and
20 a decrease to the other three, that overall, the rates
21 were the same. So the rate level was not an issue.

22 Would you think it was a fair response to the
23 problem that was brought to you that did not relate to
24 rate level, to have a new pricing arrangement that
25 resulted in an increase to one or two of the customers

1 and a decrease to the remainder?

2 A If there was a problem with the rate
3 structure, and it was brought in and it was determined
4 that the problem was, for example, X, we need to correct
5 the problem, but we're going to ensure to the best of
6 our ability, that it is revenue neutral, I would say
7 that, yes, that would be an appropriate decision
8 because, on average, it is revenue neutral. And I
9 believe that there is precedent to support that.

10 I believe in 1990, Gulf Power filed a petition
11 to correct a problem that was found in the GSD
12 time-of-use rate schedule. In correcting that problem,
13 it was designed to be revenue neutral. However, while
14 you were correcting the problem, some customers saw an
15 increase in their bill and some customers saw a decrease
16 in their bill.

17 Q That situation you're describing, that was not
18 a problem that was brought by the customers in the
19 class; is that correct?

20 A That's true.

21 Q So that differs from the hypothetical I asked
22 you on that basis, at least in part?

23 A At least in part, yes.

24 Q Is it also true that the class was much more
25 numerous than five customers?

1 A I agree.

2 Q Is it also true that the rates that you're
3 talking about there are -- in one case it was an
4 optional, a time-of-use rate versus the standard rate?

5 A I agree.

6 Q Would you agree that in the case of Gulf's
7 standby service customers, that there is a requirement
8 they be on the standby service rate?

9 A Yes.

10 Q Would you agree then that those are
11 significant differences between what you site as
12 precedent and what I have posed to you as a
13 hypothetical?

14 A They are differences, yes.

15 Q I was asking you earlier if cost or cost of
16 service, the cost of doing business, was an important
17 consideration in designing or evaluating electric rates
18 and I believe your answer was yes, but you also said
19 there were other considerations; is that correct?

20 A Yes.

21 Q Should customer satisfaction be important to
22 Gulf Power Company?

23 A Yes.

24 Q Where would you think it should rank: at the
25 top, in the middle, or at the bottom of the list of

1 importance considerations with regard to designing or
2 evaluating rates?

3 A That's hard to respond to; I have no way of
4 ranking it. I'm sure all your customers would be
5 satisfied if there was no cost of electricity, so
6 there's some break-even point but I wouldn't know how to
7 rank them.

8 Q So what things do you think should be more
9 important than customer satisfaction?

10 A I believe you look at the total package and
11 you do the best you can to develop rates which recover
12 the costs which are assigned to the class, which are
13 easy for the customers to understand and which are fair,
14 just and reasonable. I wouldn't try to prioritize them.

15 MR. STONE: I have no further questions.

16 CHAIRMAN DEASON: Commissioners, questions?
17 We're going to take ten minutes before we do redirect.

18 (Brief recess.)

19 - - - - -

20 CHAIRMAN DEASON: Call the hearing back to
21 order. Redirect?

22 REDIRECT EXAMINATION

23 BY MS. ERSTLING:

24 Q Mr. Berg, there was a line of questions asked
25 by Mr. Stone in regards to your supposed proposed

1 replacement schedule for the present SBS tariff. Did
2 your prefiled testimony intend to offer a proposed
3 replacement for the SBS tariff?

4 A No, it did not.

5 Q Was your prefiled testimony directed at
6 showing the concerns you had with the tariff proposed by
7 Gulf?

8 A Yes, it was.

9 Q Isn't it true that if the SBS daily demand
10 charges are the same as those in the SS rate schedule,
11 that there will be no effect on this class customers'
12 bills due to the elimination of the CMM provision?

13 A Yes.

14 Q You had agreed when Mr. McGlothlin was asking
15 you several questions, you had agreed that the impact on
16 the IIC cost responsibility would be the same regardless
17 of whether the usage was in July or November; is that
18 correct?

19 A Yes.

20 Q Under this scenario, is it true that the SBS
21 customers would only pay \$1 through the reservation
22 charge for production and transmission costs for
23 November?

24 A Yes, it is.

25 Q Is it true also that the SBS customers would

1 pay up to \$9.84 in July through the reservation and
2 daily demand charges?

3 A Yes, it is.

4 Q And that's on a per kW basis, right?

5 A Yes.

6 Q Okay. Would you agree that if the SE is
7 available for less hours in the future, that Gulf could
8 petition to change the Option A daily demand to reflect
9 that greater number of non-SE?

10 A Yes.

11 Q In a response to a question by Mr. Stone, you
12 answered that you didn't think it was appropriate for a
13 utility to lower a class's rates between rate cases and
14 that a change should be revenue neutral; is that
15 correct?

16 A Yes.

17 Q If revenues were imputed for lowering of class
18 rates for the rate of return surveillance report
19 purposes, would you accept the lowering of a class's
20 rates between rate cases?

21 A Yes.

22 Q In general, you were asked about the
23 comparative economics between the customer generating
24 his own kilowatt when possible, versus the customer
25 purchasing kilowatt-hours that the customer would

1 normally generate during a CMM; is that correct?

2 A Yes.

3 Q Are you familiar with the Company's response
4 to Deposition Late-Filed Exhibit No. 3, dated April 18,
5 1994, which is being handed out at this time?

6 A Yes.

7 Q Would you please read the first two sentences
8 in Paragraph A of the Company's answer to this question?

9 MR. STONE: Mr. Chairman, if I might, if we
10 could ask the witness to wait before he answers that
11 question until we've all got a copy of it in front of us?

12 CHAIRMAN DEASON: Very well. (Pause)

13 A Yes. "First, a standby customer may choose
14 for economic reasons to buy from Gulf rather than
15 generate. This purchase for economic reasons usually
16 occurs during SE periods and/or off peak periods."

17 Q So based on the Company's response, it may be
18 more economical for the customer to purchase
19 kilowatt-hours from Gulf that he would have otherwise
20 generated; is that correct?

21 A Based on this response, yes.

22 MR. MCGLOTHLIN: Mr. Chairman, could I ask
23 Counsel to refrain from leading on redirect. We've had
24 several questions of that nature and I've withheld an
25 objection but they don't stop.

1 CHAIRMAN DEASON: You've been requested not to
2 lead the witness in your questions. I guess that's an
3 objection. Do you care to respond?

4 MS. ERSTLING: I don't think I was leading the
5 witness in that. I think that the paragraph was out there
6 and it said what it had to say directly and it didn't take
7 any leading on my part.

8 CHAIRMAN DEASON: Okay. Well --

9 MS. ERSTLING: If you'd like, I --

10 CHAIRMAN DEASON: There may be an objection. I
11 guess Mr. McGlothlin is putting you on notice that he
12 thinks you're asking leading questions and he may object.
13 I don't think he has objected yet.

14 MS. ERSTLING: I will take note of that
15 objection. May we have the Company's response to the
16 Late-Filed Deposition Exhibit No. 3 marked for
17 identification as an exhibit?

18 CHAIRMAN DEASON: Yes, it will be identified as
19 Exhibit No. 12.

20 (Exhibit No. 12 marked for identification.)

21 MS. ERSTLING: I have no further redirect of the
22 witness.

23 CHAIRMAN DEASON: Thank you. I think that
24 concludes all the direct testimony. We may now proceed to
25 rebuttal. I'm sorry, exhibits?

1 MS. ERSTLING: We would like to move Exhibits
2 Nos. 11 and 12 into the record, please.

3 CHAIRMAN DEASON: Without objection --

4 MR. MCGLOTHLIN: Could I ask that you withhold
5 the ruling for several minutes? This is the first time
6 I've seen this and I'd like to confer before we decide
7 whether we have an objection or not.

8 CHAIRMAN DEASON: Very well. Is there and
9 objection to Exhibit 11? No objection, Exhibit 11 is
10 admitted. And we will allow you to move Exhibit 12 at a
11 later time.

12 MS. ERSTLING: Okay. Mr. Pollock?
13 (Exhibit No. 11 received into evidence.)
14 (Witness Berg excused.)

15 - - - - -
16 CHAIRMAN DEASON: Mr. McGlothlin, you may call
17 your witness.

18 MR. MCGLOTHLIN: Mr. Brueggemeier.

19 DENNY BRUEGGEMEIER
20 was called as a rebuttal witness on behalf of the
21 Industrial Intervenors and, having been previously
22 sworn, testified as follows:

23 DIRECT EXAMINATION

24 BY MR. MCGLOTHLIN:

25 Q Mr. Brueggemeier, do you have before you the

1 document entitled "Rebuttal Testimony of Denny
2 Brueggemeier"?

3 A I have the summary of it.

4 Q Did you prepare prefiled rebuttal testimony?

5 A Yes, I did.

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

8 A No, I do not.

9 Q Do you adopt that as your testimony?

10 A Yes, I do.

11 MR. MCGLOTHLIN: I request that the prefiled
12 rebuttal testimony be inserted at this point.

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

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1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2 REBUTTAL TESTIMONY

3 OF

4 DENNY BRUEGGEMEIER

5 ON BEHALF OF CHAMPION INTERNATIONAL CORPORATION

6 DOCKET NO. 931044-EI

7 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

8 A. My name is Denny Brueggemeier. My address is 375
9 Muscogee Road, Cantonment, Florida. I am utility
10 superintendent for Champion International Corporation
11 ("Champion").

12 Q. DID YOU SUBMIT PREFILED DIRECT TESTIMONY IN THIS DOCKET?

13 A. Yes.

14 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

15 A. I wish to respond to an erroneous statement which appears
16 in the prefiled testimony of Staff witness William Berg.

17 Q. PLEASE IDENTIFY THE STATEMENT TO WHICH YOU WISH TO
18 RESPOND.

19 A. At page 3, lines 9 - 17, Mr. Berg states: "The daily
20 demand charge represents a significant component of the
21 bill for a standby customer who uses standby power for
22 extended periods of time during a billing month. This is
23 because a customer's daily demand cost will increase
24 rapidly if he imposes load on the system every day in a
25 billing month. Waiving this significant portion of the

1 customer's bill may encourage this class of customers to
2 use standby power that they otherwise would not have
3 used. This is because a customer may find it cheaper to
4 continue to purchase kilowatt-hours from Gulf Power after
5 his scheduled maintenance is complete than to bring his
6 own generation back on line."

7 Q. WHAT IS WRONG WITH THE QUOTED STATEMENT?

8 A. Mr. Berg mistakenly assumes that the comparative
9 economics of self-generation and buying standby power
10 from Gulf Power are such that standby power would be
11 cheaper than the cogenerator's own power whenever the
12 daily demand charge is not applicable.

13 Q. IS THIS NOT THE CASE FOR CHAMPION INTERNATIONAL
14 CORPORATION?

15 A. Far from it. Not only would Champion not have an
16 incentive to remain on the new standby rate after its
17 unit was operationally ready; we would have every
18 incentive to restore our unit to service as quickly as
19 possible.

20 Q. WHY IS THIS SO?

21 A. In his rebuttal testimony, Jeffry Pollock describes
22 generally the aspects of the cogeneration process that
23 disclose the flaw in Mr. Berg's assumption. I will
24 illustrate how those general principles apply to
25 Champion's Cantonment mill. I am informed that my

1 statements regarding comparative economics and incentives
2 hold true for the other industrial intervenors as well.

3 The variable cost of producing electricity from a
4 cogeneration unit such as Champion's is largely a
5 function of two variables; fuel cost and the heat rate of
6 the unit. As I mentioned in my direct testimony, at our
7 Cantonment mill we obtain 72% of our fuel from by-
8 products of our paper process. Said differently, 72% of
9 the fuel involved in the cogeneration of electricity and
10 steam is essentially free. The implications of this fact
11 on the comparative economics are as significant as they
12 are obvious.

13 Q. WHAT ABOUT THE OTHER FACTOR YOU MENTIONED, WHICH IS THE
14 HEAT RATE OF THE UNIT?

15 A. Bear in mind that the heat rate refers to the Btu's of
16 fuel that a particular unit must burn to generate a
17 kilowatt hour of electricity. In short, the heat rate is
18 a measure of the unit's efficiency in converting heat
19 energy to electrical energy. Cogeneration is inherently
20 far more efficient than the utility's central station
21 generator. The heat rate of the utility's unit is
22 generally in the range of 10,000 to 11,000 Btu's per
23 kilowatt hour. The precise value of the heat rate of our
24 unit, like our specific cost of producing electricity, is
25 proprietary and confidential; however, in order to give

1 you some insight as to the comparable economics, I have
2 been authorized to tell you that it is below 8200
3 Btus/kWh.

4 As a result of these factors, our self-generation
5 enjoys a cost advantage over Gulf Power's alternative
6 that is not erased by the removal of the daily demand
7 charge during certain periods. To us, that feature of
8 the rate is simply an enhanced incentive to perform
9 maintenance during CMM's rather than at other times.

10 Q. DIDN'T THE FORMER STANDBY RATE INCORPORATE SUCH AN
11 INCENTIVE?

12 A. The small differential between summer and non-summer
13 daily demand charges in the old rate to which Mr. Berg
14 alludes in his testimony was insufficient to cause
15 Champion to plan all of its maintenance outages during
16 non-summer months.

17 Q. ARE THERE ANY OTHER CONSIDERATIONS THAT BEAR ON THE
18 VALIDITY OR INVALIDITY OF MR. BERG'S ASSUMPTION?

19 A. Yes. Mr. Berg fails to take into account that our
20 cogeneration unit produces both electricity and steam,
21 and we need both to maintain production. When the
22 cogeneration unit is not operating, we must either
23 produce steam by an alternative, and generally much more
24 expensive means, or lose production. To Champion, each
25 of these alternatives is an undesirable scenario that we

1 try hard to avoid. This is another reason why Mr. Berg's
2 concern is entirely unfounded.

3 Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

4 A. Yes.

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1 Q (By Mr. McGlothlin) Please summarize your
2 rebuttal testimony.

3 COMMISSIONER CLARK: I'm sorry, I have forgotten
4 which witness you are.

5 MR. MCGLOTHLIN: This is Mr. Brueggemeier.

6 COMMISSIONER CLARK: Thank you.

7 WITNESS BRUEGGEMEIER: The one with the long
8 last name.

9 A At Page 3 of his testimony, Mr. Berg expresses
10 a notion that eliminating the daily demand charges
11 during coordinated maintenance months might lead
12 customers to delay bringing their units back on line.
13 Mr. Berg is wrong for two fundamental reasons.

14 First, the new rate would not be cheaper than
15 the cost of self-generation. The principle variable
16 costs of running the cogeneration unit, the ones that
17 would bear on the economics of generating versus buying,
18 are the fuel costs and the heat rate. Champion burns
19 by-products of the pulp and paper-making process, so 72%
20 of its fuel is essentially free. Whereas, the utility's
21 heat rate is probably 10,000 Btus or more of fuel to
22 make a kilowatt-hour; Champion uses substantially less
23 than 8,200. The precise number is confidential.

24 Mr. Berg's concern that the new rate may be
25 more economical than self-generation is simply

1 unfounded.

2 Second, Mr. Berg overlooks the fact that
3 cogeneration is the production of electricity and steam.
4 Both electricity and steam are essential to our
5 production processes. When the cogeneration unit is not
6 making electricity, we must either lose production or
7 supply steam through a more expensive means.

8 The point Mr. Kislak with Stone Container made
9 in his testimony yesterday on fully utilizing one's
10 cogeneration capacity is also true for Champion.

11 A cogeneration facility operates at its
12 highest efficiency when maximizing the cogeneration of
13 both the steam and electricity. For our mill to
14 continue to produce the steam required for the
15 paper-making process and not utilize that steam for
16 cogeneration, has a synergistic effect on the energy
17 cost with a higher steam fuel cost transferred to the
18 production processes and the higher costs incurred with
19 the additional purchased electricity.

20 For these reasons, it is abundantly clear that
21 Champion would make every effort to bring a cogeneration
22 unit back on line and not leave the unit down as
23 Mr. Berg has suggested during the CMM months just
24 because there are no demand charges.

25 I hope it is obvious by now that we try to

1 avoid outages and to keep any necessary outages as short
2 as possible because it is in our best interest to do
3 that. This has not changed under the new rate.
4 Mr. Berg is simply mistaken. The only effect of a CMM
5 provision is to enhance the incentive of the rate to
6 perform maintenance during the nonsummer months. Thank
7 you.

8 MR. MCGLOTHLIN: Mr. Brueggemeier is available
9 for cross.

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

12 COMMISSIONER CLARK: I have a question.

13 CHAIRMAN DEASON: Commissioners?

14 COMMISSIONER CLARK: You're a pulp mill?

15 WITNESS BRUEGGEMEIER: Yes. Pulp and paper.

16 COMMISSIONER CLARK: And you operate seven days
17 a week, 24 hours a day?

18 WITNESS BRUEGGEMEIER: That's correct.

19 COMMISSIONER CLARK: Do you shut down at all?

20 WITNESS BRUEGGEMEIER: We shut down typically
21 every three to five months, the total mill shut down to
22 pull necessary repair on steam equipment and other
23 electrical distribution equipment that normally we can't
24 shut down without shutting the whole process down.

25 COMMISSIONER CLARK: Well, I guess my question

1 is, I'm familiar with the fact that the Buckeye plant in
2 Perry used to shut down, predictably, for two weeks every
3 year and perform all the maintenance they could at that
4 time.

5 WITNESS BRUEGGEMEIER: We do not do that.

6 COMMISSIONER CLARK: You do it in the course
7 of -- how many times a year did you say you shut down?

8 WITNESS BRUEGGEMEIER: The last total cold mill
9 outage we had was in 1989. We are planning one for 1994.

10 COMMISSIONER CLARK: How long do you expect that
11 to last?

12 WITNESS BRUEGGEMEIER: Typically a cold outage,
13 the last one we tried to limit it to about three days.
14 And again, the reason we go down for cold outages in our
15 mill is to make necessary repairs to equipment that we
16 can't shut down any other time. We do have scheduled
17 outages on certain lines of equipment that we perform
18 periodically on an annual or semi-annual basis.

19 COMMISSIONER CLARK: That does not require you
20 to shut down the whole plant.

21 WITNESS BRUEGGEMEIER: That does not require the
22 mill to go completely down, no.

23 COMMISSIONER CLARK: So you're still producing
24 at some level --

25 WITNESS BRUEGGEMEIER: That's correct.

1 COMMISSIONER CLARK: You indicated that -- what
2 did you say, the kilowatts per Btu is confidential?

3 WITNESS BRUEGGEMEIER: Correct.

4 COMMISSIONER CLARK: All right. I guess then am
5 I to presume likewise your cost of producing electricity
6 is confidential?

7 WITNESS BRUEGGEMEIER: That's correct, too.

8 COMMISSIONER CLARK: Okay, thank you.

9 CHAIRMAN DEASON: Redirect?

10 MR. MCGLOTHLIN: None.

11 CHAIRMAN DEASON: Thank you.

12 (Witness Brueggemeier excused.)

13 - - - - -

14 MR. MCGLOTHLIN: Mr. Pollock?

15 JEFFRY POLLOCK

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

19 DIRECT EXAMINATION

20 BY MR. MCGLOTHLIN:

21 Q You have before you a document captioned
22 "Rebuttal Testimony of Mr. Jeffry Pollock."

23 A Yes, I do.

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

1 A Yes, I have one change.

2 Q Go ahead and describe the change, Mr. Pollock.

3 A Yes, sir. The change is on Page 5 of the
4 testimony, beginning at Line 10. I've revised one of
5 the numbers; \$10.10 is \$9.84 as the production and
6 transmission capacity unit cost from the last rate case.
7 And I've also revised the description of how that charge
8 or that cost was then translated into the \$1.01 per kW
9 per month reservation charge.

10 Q As revised, do you adopt this as your
11 testimony today?

12 A Yes, I do.

13 MR. MCGLOTHLIN: I request that Mr. Pollock's
14 prefiled rebuttal be incorporated into the record at this
15 point.

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

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GULF POWER COMPANY

Before the

Florida Public Service Commission

Docket No. 931044-EI

Date of Filing - July 11, 1994

Rebuttal Testimony of Jeffry Pollock

1 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

3 Q ARE YOU THE SAME JEFFRY POLLOCK WHO HAS FILED DIRECT TESTIMONY IN THIS
4 PROCEEDING ON BEHALF OF CHAMPION INTERNATIONAL CORPORATION, MONSANTO
5 COMPANY AND STONE CONTAINER CORPORATION?

6 A Yes.

7 Q WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

8 A I shall respond to three contentions raised in the direct testimony of
9 William B. Berg, on behalf of the Florida Public Service Commission
10 Staff. First, Mr. Berg contends on Page 3, Lines 13-17 that waiving the
11 daily demand charge during a Coordinated Maintenance Month (CMM) may
12 encourage standby customers to use standby power that they otherwise
13 would not have used. Second, he further disagrees with the CMM
14 provision because Gulf has not justified why standby customers need four
15 months to take a generating unit off-line for scheduled maintenance

1 (Page 3, Lines 2-4). Third, he claims that waiving the Rate SBS daily
2 demand charge during the Coordinated Maintenance Months would result "in
3 a charge that does not recover the annual total costs it is intended to
4 recover." (Page 4, Lines 13-22)

5 The fact that I am not addressing other issues raised by Mr. Berg
6 should not be interpreted as an endorsement of his position or
7 recommendations concerning the issues not addressed herein.

8 Q IS MR. BERG CORRECT THAT WAIVING THE DAILY DEMAND CHARGE DURING A CMH
9 WOULD CAUSE STANDBY CUSTOMERS TO CONTINUE PURCHASING ELECTRICITY FROM
10 GULF POWER RATHER THAN BRING THEIR GENERATION BACK ON-LINE?

11 A No. Mr. Berg assumes, without providing any factual evidence, that a
12 self-generating customer (SGC) would behave irrationally. Implicit in
13 his statement is the assumption that the energy cost of purchasing
14 additional standby power from Gulf would be cheaper than the energy cost
15 associated with cogenerated electricity. This is a highly unlikely
16 scenario, given the inherent advantages of cogeneration over utility
17 generation. The inherent advantage is that cogeneration is
18 substantially more efficient. Whereas a typical utility may consume
19 10,000 Btus to produce 1 kilowatthour, the corresponding "heat rate" for
20 a cogenerator may range from 5,000 Btu/kWh to 8,000 Btu/kWh. Also, in
21 the case of paper companies, much of the fuel used to produce
22 electricity is a byproduct of the papermaking process itself and
23 therefore has zero cost. Finally, to the extent that an electrical
24 outage does not impair a customer's steam production capability, the
25 manufacturing process will continue as long as the SGC can purchase

1 standby electricity. Under these circumstances, the steam produced is
2 at a very high pressure. Therefore, it must be flowed through a
3 pressure reducing valve in order to be used in the manufacturing
4 process. This is highly inefficient.

5 Further corroboration of these points may be found in Mr.
6 Brueggemeier's rebuttal testimony, on behalf of Champion International
7 Corporation. The bottom line is that Mr. Berg is simply misinformed.
8 Waiving the daily demand charge during a CMM will not encourage SGCs to
9 consume more standby power.

10 Q MR. BERG COMPLAINS THAT GULF HAS NOT JUSTIFIED WHY STANDBY CUSTOMERS
11 WILL NEED TO TAKE A GENERATING UNIT OFF-LINE FOR FOUR MONTHS OF
12 SCHEDULED MAINTENANCE. DO YOU HAVE A RESPONSE?

13 A Yes. Mr. Berg has overlooked several factors. First, four months is
14 the maximum time allotted for scheduled maintenance. It is unlikely
15 that any SGC would require four months to perform annual scheduled
16 maintenance on a single generating unit. I am informed that a typical
17 annual maintenance cycle may last anywhere from three days to two weeks.
18 Major overhauls may require between 21 and 45 days per generating unit.
19 However, my understanding is that such major overhauls may only occur
20 every five to seven years.

21 Mr. Berg also overlooks the fact that at least two of Gulf's
22 standby customers have multiple generating units. Because of labor
23 constraints, it is impractical to take all of a customer's generating
24 units down simultaneously. It is not uncommon to stagger unit

1 maintenance to make the most efficient use of the available contract
2 labor.

3 Finally, a four-month period will allow customers to schedule
4 maintenance which may overlap two or more billing periods. This
5 provides the customer with greater flexibility. Further, it doesn't
6 cost any more to provide two consecutive weeks of standby service
7 irrespective of whether the service is provided in one or two billing
8 months.

9 Q WHAT INCENTIVES DO SELF-GENERATING CUSTOMERS HAVE TO MINIMIZE
10 MAINTENANCE OUTAGES?

11 A The strongest incentive is the need to remain competitive. This
12 requires a customer to maximize production and to minimize all costs,
13 including the cost of electricity. An SGC that sustains a maintenance
14 outage is either producing steam at a higher cost or is unable to
15 maintain full production. Either outcome would have a detrimental
16 effect on the customer's competitive position.

17 Q IS MR. BERG CORRECT IN CONTENDING THAT THE STRUCTURE OF THE DAILY DEMAND
18 CHARGES IN RATE SBS RESULTS IN A CHARGE THAT DOES NOT RECOVER THE ANNUAL
19 TOTAL COSTS IT IS INTENDED TO RECOVER?

20 A No. What Mr. Berg overlooks is the fact that the annual total cost
21 associated with standby service is recovered in the reservation charge.
22 The reservation charge applies each month irrespective of how much
23 standby service is actually taken and irrespective of whether that month
24 would happen to be a CMM.

1 Q IS THE RESERVATION CHARGE IN RATE SBS ANY DIFFERENT FROM THE
2 CORRESPONDING CHARGE IN THE PREDECESSOR STANDBY RATE, RATE SS?
3 A No. The same reservation charge is being used in Rate SBS as the
4 Commission approved for Rate SS in Gulf Power Company's last base rate
5 case (Docket No. 891345-EI).

6 Q WHAT WAS THE BASIS OF THE RESERVATION CHARGE IN RATE SS?
7 A It was based on a class cost of service study under the assumption that
8 SGCs' generators would have an assumed 10% forced outage rate. The
9 Commission found that Gulf's production and transmission unit cost of
10 service was \$9.84 per kW-month. Multiplying this charge by 10% and
11 adjusting the result to yield the targeted revenue requirement for the
12 Rate SS Class yielded the \$1.01 per kW per month reservation charge.
13 Thus, the Rate SBS reservation charge recovers all
14 production/transmission demand-related costs, which the Commission
15 previously found to be appropriate.

16 Given that the reservation charge will equitably recover the cost
17 incurred by Gulf in standing continuously ready to serve the backup and
18 maintenance power needs of SGCs, it is wrong to contend, as does Mr.
19 Berg, that the daily demand charge does not recover the annual total
20 costs it is intended to recover.

21 Q WHAT COSTS WAS THE DAILY DEMAND CHARGE INTENDED TO RECOVER?
22 A The daily demand charge becomes a factor in determining the cost of
23 standby service whenever an SGC requires service for more than two on-
24 peak days per month. In other words, it applies only in those months
25 when an SGC's forced outage rate exceeds 10%. The daily demand charge
26 thus compensates the utility for the use of production and transmission

1 facilities beyond the level assumed in the reservation charge. The
2 combination of reservation and daily demand charges has the desirable
3 effect of making standby service more expensive for less reliable SGCs
4 and less expensive for more reliable SGCs.

5 Q DOES THE FACT THAT A STANDBY CUSTOMER REQUIRES SERVICE FOR MORE THAN TWO
6 ON-PEAK DAYS IN A PARTICULAR MONTH NECESSARILY CAUSE THE UTILITY TO
7 INCUR HIGHER ANNUAL COSTS TO PROVIDE THAT SERVICE?

8 A No. The annual production and transmission demand-related cost to serve
9 the standby customers depends upon (1) how much service is required on
10 average over time and (2) when and under what conditions standby service
11 is provided. The assumption underlying Rate SBS is that standby service
12 will be required on two on-peak days per month, on average. The fact
13 that service may be required for more than two days in any particular
14 month would be irrelevant because, by definition, there would be months
15 when little or no standby service is required. Should a subsequent
16 analysis of standby requirements determine that the class is
17 consistently using standby service more than two days per month, then
18 the Commission may have to reexamine the 10% forced outage rate
19 assumption underlying the reservation charge. That examination can be
20 properly made in a base rate case.

21 Q HOW DOES THE TIMING OF STANDBY USE AFFECT THE ANNUAL COST TO PROVIDING
22 STANDBY SERVICE?

23 A Standby service is less costly to provide when the utility is not under
24 a continuing obligation to provide that service and when the service is

1 provided only when the utility expects to have sufficient capacity
2 resources available to accommodate an SGC outage. It is much less
3 costly to provide standby service when that service must be pre-
4 scheduled well in advance and when such service will be provided at
5 times when the utility expects to have sufficient capacity resources
6 available. This is the case during a CMM.

7 By contrast, it would be more costly to provide standby service
8 immediately upon request or during the more critical times of the year
9 when increase demand might cause the utility to expand its capacity
10 resources. For Gulf Power, these critical times clearly occur during
11 its summer peak period. This conclusion is confirmed by the analysis
12 presented in my direct testimony and in the testimony of Gulf's Witness,
13 Mr. M. W. Howell, who states that: "to the extent that there is a
14 growth in the Company's summer peak load, there is a need for additional
15 capacity resources." (Howell testimony at Page 4)

16 Q IN YOUR OPINION, WOULD WAIVING THE DAILY DEMAND CHARGE DURING A CMM
17 CAUSE GULF TO UNDER-RECOVER THE ANNUAL TOTAL COST OF PROVIDING STANDBY
18 SERVICE?

19 A Absolutely not. The annual total production and transmission demand-
20 related cost of serving the standby customers is fully recovered in the
21 reservation charge. Further, the fact that standby customers may
22 require service more than two on-peak days per month does not mean that
23 Gulf would incur additional annual costs, especially if this service
24 were provided during a CMM. Because the CMMs are designated in the non-
25 summer peak months and given the requirement to schedule a CMM well in

1 advance, Mr. Berg is simply mistaken to assert that the Rate SBS daily
2 demand charge does not recover the annual total cost it is intended to
3 recover.

4 Q DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

5 A Yes, it does.

1 Q (By Mr. McGlothlin) Mr. Pollock, would you
2 summarize your rebuttal?

3 A Yes, sir. I shall address several of
4 Mr. Berg's concerns.

5 First, in my rebuttal testimony I describe how
6 waiving the daily demand charge during a CMM period will
7 not encourage excessive standby energy use. To assert
8 that it might, and it just maybe an assertion, would
9 imply that cogenerators would behave irrationally.
10 Irrationally because inherent deficiency of cogeneration
11 means that it is cheaper for a cogeneration system to
12 operate rather than not to operate.

13 A cogeneration system, as you've heard prior
14 testimony from Mr. Kislak and Mr. Brueggemeier, operates
15 at an average heat rate ranging from 5,000 to 8,000 Btus
16 per kilowatt-hour. A typical utility that uses steam
17 condensing to produce electricity will use 10,000 Btus
18 or more to produce the same kilowatt-hour. Given that
19 inherent efficiency, cogenerated energy has a decided
20 advantage over the energy component of costs that a
21 utility would provide.

22 Given the compelling incentive to minimize
23 costs, these companies could not remain competitive in
24 the global world by incurring high costs and incurring
25 high costs of electricity by requiring needlessly on

1 standby power.

2 The second point in my rebuttal testimony is
3 that the four-month CMM provision is reasonable.
4 Remember that the four-month period is a maximum per
5 year allotted to each customer. A customer, I believe,
6 is unlikely to require four months, certainly to
7 maintain the single generating unit. But the point is,
8 is that the class consists of customers not just with
9 single units but with multiple ones.

10 As my rebuttal indicates, the outages may be
11 typically 21 to 45 calendar days. Major overhauls may
12 take a longer period of time. However, as the phrase
13 goes, "oftentimes the best laid plans go awry." In
14 order to schedule these units down, particularly for
15 major overhauls, companies have to provide well in
16 advance six months notice and arrange all of the
17 logistics, which means bring in people from outside the
18 company to perform these outages. There are, of course,
19 constraints on their time and inevitably things might
20 have to slip because of either labor unavailability, or
21 because an outage is determined to require more time
22 than was expected six months prior. Therefore, the
23 four-month period provides the customer the needed
24 flexibility to be able to accommodate events beyond the
25 customer's direct control.

1 My third point is that waiving the daily
2 demand charge during a CMM will not cause Gulf Power to
3 underrecover the production transmission costs assigned
4 to the standby class. As my testimony yesterday
5 indicated, and is further amplified in my rebuttal, cost
6 recovery is assured through the reservation charge. The
7 10% forced outage rate, which is kind of like the 26
8 bucks that Motel 6 advertises, is an average. It means
9 in some places the cost might be higher than 26 bucks or
10 the forced outage rate maybe higher than 10%. In some
11 instances it may be lower than 10%, but the average over
12 time is still 10%.

13 If you ignore that component of the rate and
14 focus solely on the daily demand charge, you overlook
15 the fact when a customer is guaranteed to have to pay
16 the 10% forced outage rate, and does it in the
17 reservation charge, where that customer will not receive
18 a refund if he operates significantly better than 10%
19 forced outage rate, nonetheless that customer is still
20 going to pay daily demand charges any time that standby
21 power is required more than two days per month. If
22 anything that's a very asymmetrical provision. That's
23 why the reservation charge was designed to recover cost
24 and the asymmetry was designed to send a price signal to
25 make sure that customers remain efficient.

1 That concludes my summary.

2 MR. MCGLOTHLIN: Mr. Pollock is available for
3 cross.

4 CHAIRMAN DEASON: Mr. Stone. No questions.
5 Staff.

6 CROSS EXAMINATION

7 BY MS. ERSTLING:

8 Q Mr. Pollock, in Commission Order No. 23573
9 issued in the last rate case, did the Commission find
10 that the standby service rate should be designed using
11 the compliance cost of service study and the rate design
12 specified in Order No. 17159?

13 A Yes. And in that sense what was done to
14 interpret that a little bit for the Commissioner's
15 benefit, was that the unit cost developed in that case
16 were used to develop the rates, the actual charges that
17 are in the standby rate. And the procedure for doing
18 that was -- followed consistently the procedure outlined
19 in the generic standby order that you referred to.

20 MS. ERSTLING: At this time I would like the
21 Chairman to take official recognition of Commission Orders
22 Nos. 23573 and 17159.

23 CHAIRMAN DEASON: The Commission will take
24 recognition of its own orders.

25 Q (By Ms. Erstling) Is the compliance cost of

1 service study filed after the conclusion of the rate
2 case?

3 A Yes.

4 Q Does the compliance service study reflect all
5 the Commission's decisions in the rate case?

6 A Yes.

7 Q Isn't it true that the Commission approved the
8 daily demand charge, as well as the reservation charge,
9 to recover production and transmission costs?

10 A It's true that they approved the charges that
11 are in the rate, including the reservation and the daily
12 demand charges.

13 Q Would you turn to the Order No. 23573, Page 5,
14 and if you will read from the line beginning "The SS
15 charges should be designed."

16 MR. STONE: What page reference was that again,
17 please?

18 MS. ERSTLING: Page 5 of 23573.

19 MR. STONE: I'm sorry, Page 5 is a Table of
20 Contents.

21 MS. ERSTLING: Sorry. We've got the wrong page.
22 Would you give us a moment, please. I'm sorry, it should
23 be Page 59, a typo, and begin on the last paragraph to the
24 bottom. Would you begin reading where it says "The SS
25 charges should be designed"?

1 A Yes. "The SS charges should be designed using
2 this compliance cost of service study and the rate
3 design specified in Order No. 17159."

4 Q Okay. Would you also read down the last
5 sentence beginning with the word "If"?

6 A "If the resulting charges generate either more
7 or less revenue than the class's revenue responsibility
8 as approved herein, all charges except the customer
9 charge should be decreased or increased by the same,
10 (percentage required to generate the class's revenue
11 requirement)."

12 Q That's sufficient. Okay. Would you now turn
13 to Order No. 17159 on Page 13, and would you please read
14 from the line beginning, "We find that a combination --"

15 A Could you give me the page reference again,
16 please?

17 Q It's Page 13. It's the second paragraph.

18 A The paragraph --

19 Q And it starts with "As stated above, we find."

20 A Okay. "As stated above, we find that a
21 combination of the reservation charge and a daily demand
22 charge incorporating time-of-use pricing are most
23 appropriate for the recovery of demand-related
24 production and transmission costs for firm backup and
25 maintenance services."

1 Q Isn't it true that forced outages are
2 unscheduled outages caused by unplanned component
3 failure or other condition which requires the unit be
4 removed from service immediately within six hours or
5 before the end of the weekend?

6 A Yes, I'll accept that.

7 Q Isn't it true that planned maintenance outages
8 allow for the removal of a unit from service in order to
9 perform scheduled work on specific components, and that
10 the scheduled work has a predetermined start date and
11 duration?

12 A Yes.

13 Q Isn't it true that a forced outage rate would
14 not reflect planned maintenance outages? (Pause)

15 A It may not, depending upon the level of -- or
16 how the forced outage rate is actually calculated. If
17 it is a pure forced outage rate, then it would reflect
18 only forced outages, that's correct.

19 Q At Line 16 of Page 6 of your rebuttal
20 testimony, you state that, quote, "Should a subsequent
21 analysis of standby requirements determine that the
22 class is consistently using standby service more than
23 two days per month, the Commission may have to
24 re-examine the 10% forced outage rate assumption
25 underlying the reservation charge."

1 A Yes, my testimony says that.

2 Q Okay. If a reservation charge is to recover
3 all allocated or expected production and transmission
4 demand-related costs, isn't it true that the outage rate
5 used to calculate the charge has to include both types
6 of outages, planned maintenance and forced outages?

7 A That's a reasonable assumption. I think that
8 the -- in fact, the analysis that was done in the last
9 rate case looked at both types of outages.

10 Q Isn't it correct that the 10% used to
11 calculate the current reservation charge is a forced
12 outage rate only?

13 A It's described that way. But as I indicated,
14 I think that there may be a little different context
15 that that percentage may be looked upon. That context
16 is what is the expected use of standby service without
17 distinguishing between the use of that service between
18 forced outage and maintenance outage. And what I'm
19 suggesting to you is not that the Commission meant the
20 10% to be one or the other, but that the 10% outage rate
21 could imply either/or. And it is very possible, and, in
22 fact, if you look at the analysis that was performed by
23 myself in the last rate case, and the analysis that I
24 performed subsequent to that rate case looking at
25 outages and expected use of standby service, which also

1 includes maintenance outages, and their effects on the
2 utility planning process, i.e., their contributions to
3 the system peak, that the outage rates have been
4 significantly below 10%, taking both factors into
5 account.

6 Q Okay. What is your definition of the, quote,
7 "production/transmission demand-related cost" that the
8 Commission previously found to be appropriate?

9 A The definition includes all production
10 demand-related plant costs, and fixed -- and those O&M
11 costs, operation and maintenance expenses that were
12 classified as demand related.

13 Q Have you done an analysis which shows that the
14 reservation charge recovers all production/transmission
15 demand-related cost that the Commission previously found
16 to be appropriate?

17 A I've looked -- excuse me, have I performed an
18 analysis in this context, in this case? I'm sorry, I'm
19 not sure what context you're asking.

20 Q Yes. In this case.

21 A I've looked at the compliance cost study that
22 you referenced and is referenced in the final order.
23 And would note that the relative rate of return in the
24 compliance cost study is higher than 100%, which says
25 that the rate, however the revenue was distributed in

1 that case, produced a revenue greater than the cost of
2 providing service. I also saw a cost study that the
3 Company had prepared in connection with the case that
4 they were going to file this year or the year before,
5 and it also showed that the standby service class rate
6 of return was above the system average.

7 Based on that I would conclude that the
8 standby rates were designed in the last case and are
9 currently above cost of service.

10 Q But my specific question was did you make an
11 analysis which shows that the reservation charge
12 recovers all production/transmission demand-related cost
13 that the Commission found to be appropriate?

14 A In the last case? Which case are we talking
15 about?

16 Q In this case.

17 A In this case. I have not made an independent
18 analysis. I have relied on the studies that the Company
19 has performed.

20 Q Have you performed an analysis which shows
21 that the reservation charge recovers all
22 production/transmission demand-related costs allocated
23 to the standby service rate class in Docket 891345?

24 A I have looked at the derivation of the basis
25 for the reservation charge, which goes back again to the

1 \$9.84 number. That number is not based upon an
2 allocated cost of service. It is derived by taking the
3 systemwide production and transmission cost and dividing
4 it by the system, 12 monthly peak demands. That is not
5 an allocated number, it is simply a number that is
6 derived from using systemwide unit costs.

7 Q But you, yourself, did not perform the
8 analysis?

9 A As I said before, I relied on the analysis
10 that were done in the last rate case and reviewed the
11 derivation of the \$9.84 charge, which, as I said, is a
12 systemwide cost, not an allocated cost to the standby
13 class.

14 MS. ERSTLING: Then I think that we have no
15 further questions for this witness at this time.

16 CHAIRMAN DEASON: Commissioners. Redirect.

17 MR. MCGLOTHLIN: Just a few questions.

18 REDIRECT EXAMINATION

19 BY MR. MCGLOTHLIN:

20 Q With respect to the purposes and functions of
21 the daily demand charge and the reservation charge
22 components of the standby rate, Mr. Pollock, Staff
23 counsel directed you to Page 13 of Order 17159. Do you
24 have that before you?

25 A Yes, I do.

FLORIDA PUBLIC SERVICE COMMISSION

1 Q And in the second paragraph, toward the
2 bottom, there's a sentence that begins, in mid-line, "we
3 find that"-- I'd like for you to read that portion of
4 Order 17159 so that's in context with the others that
5 you read earlier.

6 A The phrase beginning with "The reservation
7 charge"?

8 Q Yeah. "We find that the reservation charge."

9 A Okay. "We find that the reservation charge
10 described above will equitably recover the costs
11 incurred by the utility in standing continuously ready
12 to serve the backup and maintenance power needs of
13 self-generating customers."

14 Q Now, if you'll turn to Page 14, there's just
15 one more quick one. At the top of the page, at the end
16 of the first line, the sentence beginning "We explicitly
17 recognize." Would you read that also?

18 A I'm sorry. Could you point me to the right
19 place again?

20 Q Page 14, top of the page, end of Line 1, "We
21 explicitly recognize."

22 A "We explicitly recognize that this amounts to
23 crediting the reservation charge against the daily
24 demand charge. We find this to be appropriate because
25 in addition to recovering a fair contribution to the

1 cost of reserve capacity continuously available to serve
2 standby customers, the reservation charge is designed to
3 recover the costs of serving customers with a 10% forced
4 outage rate. That is, whose loads are expected to be
5 present 10% of the time as those costs would be
6 determined using traditionally accepted cost-of-service
7 methods."

8 Q Among the costs that would be so recovered
9 through the reservation charge, Mr. Pollock, are you
10 satisfied that in the last rate case the reservation
11 charge was designed to recover the cost of the
12 transmission?

13 A Production and transmission costs, yes.

14 Q You were asked some questions about a
15 compliance cost of service study.

16 How does the subject of historical billing
17 determinants relate to the compliance cost of service
18 study?

19 A The historical billing determinants for the
20 test year in the rate case will determine, along with
21 the charges that are derived separately, how much actual
22 revenue the class would generate. And that revenue will
23 then be inputted as part of the cost of service study.
24 The cost assumptions would then be carried out and costs
25 would be allocated. And once you subtract the costs

1 from the revenues, you end up with the return, and you
2 divide that by the rate base and you get the rate of
3 return.

4 Q Do you think it's appropriate to simply carry
5 forward the historical billing determinants to predict
6 or ascertain the revenue impacts associated with
7 revisions to the rate being considered in this case?

8 A Absolutely not. It's not appropriate to say
9 that just because the rates were set one way in a rate
10 case that occurred a bunch of years ago that those costs
11 continue to follow the class. I think it's pretty clear
12 that no witness in this case, not even myself, with all
13 the crystal balls that I'm alleged to have, can predict
14 how much revenue the Company may or may not get under
15 this rate. But I do believe that there are significant
16 potentials for both upside and downside, depending upon
17 what actually transpires, and particularly in terms of
18 the availability of SE in the future, and what happens
19 with respect to customer outages.

20 Q Staff Counsel asked you to agree that in the
21 last rate case the Commission established a daily demand
22 charge and reservation charge to recover costs. And you
23 were careful in answering to say only that you agree
24 that they approved certain charges. Why did you stop
25 short of agreeing with the entire question?

1 A Because in the cost of service study, costs
2 were allocated, the production/transmission demand costs
3 were allocated on the assumption that standby loads were
4 expected to be on the system on average 10% of the time,
5 and that was the basis for developing the demand
6 allocator for that class.

7 MR. MCGLOTHLIN: Those are all the questions I
8 have.

9 COMMISSIONER CLARK: Mr. Chairman, I'm sorry, I
10 just wanted to ask him to repeat something he had either
11 made in answer to a question or in his summary.

12 You had indicated how many Btus it takes to
13 generate X amount of electricity for a cogenerator as
14 opposed to an electric company using a steam generator.

15 WITNESS POLLOCK: Yes, steam condensing.

16 COMMISSIONER CLARK: Would you give me those
17 figures again?

18 WITNESS POLLOCK: Yes, ma'am. The range that
19 I'm familiar with varies from 5,000 Btus per kilowatt-hour
20 to approximately 8,000 Btus per kilowatt-hour.

21 COMMISSIONER CLARK: And it's 10,000 for --

22 WITNESS POLLOCK: The typical coal-fired plant
23 is about 10,000 -- let's say, 9,500 to 10,000 Btus per
24 kilowatt-hour. As you get into the lesser efficient
25 plants, for example, combustion turbines, the heat rates

1 can go anywhere 12,000 Btus per kilowatt-hour all the way
2 up to 13,000 or 14,000 Btus per kilowatt-hour.

3 COMMISSIONER CLARK: Is it a fair inference that
4 the cost of providing that electricity for a cogenerator
5 would be at least 50% less if we took the 5,000?

6 WITNESS POLLOCK: If you assume that the fuel
7 cost is the same, the input fuel cost on a
8 dollar-per-million-Btu basis, then that's absolutely
9 right. So given the same fuel costs, the cogenerator can
10 produce energy for half or less of what it costs the
11 utility to produce energy.

12 COMMISSIONER CLARK: Well, what does Champion
13 use as boiler fuel? Do they use wood chips, do you know?

14 WITNESS POLLOCK: I believe they use a variety
15 of by-products from the pulp paper process, identity of
16 which I can't be totally certain. I think
17 Mr. Brueggemeier could tell you that more than I could.

18 COMMISSIONER CLARK: Do you think we could
19 conclude it costs less than coal?

20 WITNESS POLLOCK: Yes, I would conclude it
21 because it's a by-product. It's a process that's there
22 just as a virtue of the existence of the paper making,
23 pulp and paper-making processes, in effect, free fuel.

24 COMMISSIONER CLARK: Okay. Thank you.

25 WITNESS POLLOCK: Thank you.

(Witness Pollock excused.)

- - - - -

CHAIRMAN DEASON: Mr. Stone, you may call your rebuttal witnesses.

MR. STONE: In the interest of time we will again put Mr. Howell and Mr. Thompson on the stand as a panel.

M. W. HOWELL

JAMES I. THOMPSON

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

DIRECT EXAMINATION

BY MR. STONE:

Q Gentlemen, you've each testified before and have been sworn in this proceeding.

I would ask Mr. Howell first, did you prefile three pages of rebuttal testimony dated July 11, 1994?

A (Witness Howell) Yes.

Q Do you have any changes or corrections to that rebuttal testimony?

A No.

Q If I were to ask you the questions, would your responses be the same as prefiled?

A Yes.

1 MR. STONE: I would ask that Mr. Howell's
2 rebuttal testimony be inserted into the record as though
3 read.

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

6 Q (By Mr. Stone) Mr. Thompson, did you prefile
7 ten pages of rebuttal testimony dated July 11, 1994?

8 A (Witness Thompson) Yes, sir.

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

11 A No.

12 Q If I were to ask you the questions, would your
13 responses be the same as prefiled?

14 A Yes.

15 MR. STONE: I would ask that his testimony be
16 inserted into the record as though read.

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

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GULF POWER COMPANY

Before the Florida Public Service Commission
Rebuttal Testimony of
M. W. Howell
Docket No. 931044-EI
Date of Filing: July 11, 1994

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Q. Please state your name, business address 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.

Q. Are you the same M. W. Howell who previously filed direct testimony in this Docket?

A. Yes.

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

A. The purpose of my testimony is to rebut the portion of Mr. William B. Berg's direct testimony filed in this docket that is specifically related to Standby customer power usage during the system's monthly peak hours.

363

1 Q. Mr. Berg states on page 3 , line 18 of his testimony
2 that the extensive use of power by standby customers
3 during the proposed Coordinated Maintenance Months
4 (CMMs) greatly increases the probability that they will
5 use power during a monthly Southern Company peak hour.
6 Do you agree?

7 A. No. As Mr. Berg pointed out on page 5, line 9 of his
8 testimony, it is difficult to predict how standby
9 customers will respond to the CMM provision. In fact,
10 the customers now have an incentive to concentrate their
11 standby use in only four months of a year. This greatly
12 decreases the likelihood of impacting our peak hour
13 demand in the other months of the same year. The key
14 focus should be that the customers now have a strong
15 signal to avoid such use during the summer months. This
16 will avoid the need for Gulf to add additional
17 generating capacity to serve a higher summer peak, which
18 will reduce overall costs of electricity.

19
20 Q. If the standby customers use power during a Gulf summer
21 peak hour, what impact will this have on Gulf's total
22 capacity costs?

23 A. Not only will IIC capacity costs be impacted, but load
24 incurred during Gulf's summer peak hour will cause the
25 company to accelerate plans for some type of capacity

364

1 addition. Capacity additions have long-term production
2 cost and base rate revenue requirement effects on Gulf's
3 customers. In contrast, any IIC capacity cost increases
4 are temporary and short-term in nature. Also, the
5 magnitude of IIC capacity costs compared to Gulf's total
6 costs to provide service is quite small.

7
8 Q. Does this conclude your testimony?

9 A. Yes.

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Gulf Power Company

Before the Florida Public Service Commission
Prepared Rebuttal Testimony of
James I. Thompson
Docket No. 931044-EI
July 11, 1994

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

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

12
13 Q. Have you previously testified on direct in this
14 proceeding?

15 A. Yes.

16
17 Q. What is the purpose of your rebuttal testimony?

18 A. The purpose of my testimony is to respond to and
19 rebut portions of the testimony of Mr. William B.
20 Berg.

21
22 Q. Is there an overall shortcoming in Mr. Berg's
23 position?

24 A. Yes. Mr. Berg has not offered a recommended
25 complete plan for pricing and billing Gulf Power's

366

1 customers for standby electric service. He simply
2 states that the present rate, Rate SBS, "should be
3 denied"; that the Coordinated Maintenance Month
4 provision in Rate SBS is unnecessary; and that the
5 Annual Review of the Option A Daily Demand Charge
6 provision is "problematic." What is not clear from
7 Mr. Berg's testimony is just what his plan for
8 pricing standby electric for those customers now
9 served under Rate Schedule SBS would be if the rate
10 schedule is denied.

11
12 Q. Do you have any comments regarding Mr. Berg's
13 reference to FPSC Order No. 17159, an order which
14 was issued in February, 1987?

15 A. Yes. Mr. Berg has concluded that the Coordinated
16 Maintenance Months provision and the Annual Review
17 of Option A Daily Demand Charge provision are not in
18 compliance with specific provisions in that 1987
19 FPSC order entered in Docket No. 850678-EU. It is
20 inappropriate to test this proposal against the
21 specific letter of what was written in a 1987 order
22 based on 1986 hearings in a 1985 docket. At that
23 time, Gulf and the other electric utilities in
24 Florida had virtually no experience with pricing and
25 billing standby service. We now have the benefit of

367

1 several years of experience.

2 I counted five times in that 1987 order that it
3 either stated explicitly or referred to the need to
4 revisit or reconsider the policies and concepts
5 included in that order as we gained experience. We
6 have gained that experience over the past several
7 years, and it leads us to know now that we can do a
8 better job than perhaps we did when we were just
9 starting out in this process.

10 I would add that I believe the FERC is also
11 under the impression that we in Florida are going to
12 live and learn when it comes to pricing standby
13 service. In the FERC's May 1993 order denying a
14 petition for rehearing filed by the industrial
15 cogenerator intervenors in the FERC docket initiated
16 for purposes of reviewing FPSC Order No. 17159, the
17 FERC appears to have relied on the Florida
18 Commission's stated intention to continue to review,
19 revise, and revisit its policies on pricing standby
20 service as experience is gained.

21
22 Q. What has Mr. Berg advocated with regard to the
23 Coordinated Maintenance Month Provision in Rate SBS?

24 A. Mr. Berg is apparently suggesting that the Daily
25 Demand charge in Rate SBS should be higher in the

1 Coordinated Maintenance months than the current
2 amount for this component, which is zero. He also
3 suggests that the Daily Demand Charge in the non-
4 Coordinated Maintenance Months should be higher than
5 what is currently found in Rate SBS, in light of the
6 zero daily demand charge during the Coordinated
7 Maintenance months. As a result, it is not clear
8 which one or both of the two changes Mr. Berg is
9 advocating. In either event, Mr. Berg has not
10 addressed the revenue impact of the changes he has
11 suggested either in total, or equally importantly,
12 by customer.

13 As has been mentioned previously, the new
14 standby service pricing arrangement was developed
15 with two rate level objectives in mind - no overall
16 increase in revenues for Gulf Power and no increase
17 for the individual customers. This second
18 objective:

- 19 a) is especially appropriate in light of the
20 circumstances that caused us to seek a change in
21 our standby service pricing arrangement, and
22 b) can reasonably be accomplished since only a few
23 customers are involved.

24 The economic effects on individual cogeneration
25 customers associated with a change in Gulf's standby

1 service rate should not be overlooked.

2 Mr. Berg concludes his testimony on the
3 Coordinated Maintenance Months component with the
4 statement that he does not believe the Coordinated
5 Maintenance Month provision is necessary, and that
6 the seasonal differential in the daily demand charge
7 component of the old rate provides an adequate
8 incentive for customers to schedule maintenance in
9 the non-summer months. Mr. Berg is apparently
10 suggesting that a new rate be adopted for these
11 customers which is different from both the present
12 rate SBS or the old rate. Mr. Berg's new rate
13 apparently would have no provision for coordinated
14 maintenance and would have seasonal daily demand
15 charges which mirror those in Gulf's old standby
16 service rate. This suggestion suffers several flaws
17 which make it inappropriate. First, Mr. Berg has
18 not offered any indication of the economic effect of
19 such a rate on Gulf's customers. Also, that
20 suggestion would leave Gulf's customers with no
21 opportunity to usefully coordinate maintenance with
22 Gulf Power and receive an economic incentive for
23 doing so. This is a position which they have not
24 been in under either the old rate or rate SBS, since
25 the Coordinated Maintenance Months provision in Rate

1 SBS is an enhancement of a similar provision in
2 Gulf's old rate. Mr. Berg has not addressed the
3 effect this would have on Gulf's customers' standby
4 service usage.

5 Also, though Mr. Berg testifies that the
6 seasonal differential in Gulf's old rate would
7 provide an adequate incentive for Gulf's customers
8 to schedule maintenance in non-summer months, the
9 company's actual experience indicates differently.
10 As Mr. Howell states in his direct testimony
11 beginning on line 4 on page 9, Gulf's experience
12 "under the old standby service rate shows that they
13 indeed purchased standby service from Gulf Power
14 during the summer months, at times when Gulf
15 experiences its highest system loads and its highest
16 cost to provide service. In fact, the Company has
17 seen a fairly high incidence of standby demand at
18 times during the summer months when the load is
19 between 90% and 100% of Gulf's annual peak."
20

21 Q. What has Mr. Berg recommended with regard to the
22 Annual Review of Option A Daily Demand Charges?

23 A. It is not clear from his testimony what
24 recommendation Mr. Berg is making with regard to
25 this provision.

1 I can think of three possible suggestions he
2 might have in mind, each of which is entirely
3 inappropriate.

4 The first one would be to modify the Annual
5 Review component so that it would provide for an
6 upward adjustment at year-end as well as the
7 downward adjustment provided for in Rate SBS. That
8 suggestion was addressed in my direct testimony, and
9 fails to recognize the asymmetrical responsibility
10 for designating Supplemental Energy periods, and
11 raises retroactive ratemaking concerns. It simply
12 is bad practice to attempt to raise the price after
13 the customer has made the purchase.

14 The second possible suggestion Mr. Berg may
15 have in mind would be to set the Option A Daily
16 Demand Charge at a level high enough to ensure that
17 there would always be a downward adjustment at the
18 time of the annual review. This approach was also
19 addressed in my direct testimony. This approach
20 would leave the customer in the position of making
21 operational decisions throughout the year based on
22 unrealistically high "prices". I used the term
23 prices in quotes here because the "prices" in effect
24 every month would be expected to change by some
25 unknown amount due to the Annual Adjustment.

1 Also, such an approach would reintroduce too much of
2 the "puzzling decision economics" that plagued our
3 customers under the old rate, as described in Mr.
4 Bogatie's "2:00 AM" example.

5 The third possible suggestion that Mr. Berg may
6 have in mind would be to remove the Annual Review
7 provision from the Option A version altogether.
8 This would leave those customers with the potential
9 exposure to the Daily Demand Charge of \$1.41 per KW
10 per day for every single weekday of the month, since
11 Gulf is under no obligation to designate any
12 Supplemental Energy periods. This would equate to a
13 demand charge of nearly \$30 per KW per month. In
14 reality, such a provision might economically
15 preclude our cogeneration customers who purchase
16 standby service from availing themselves of Gulf's
17 optional Supplemental Energy program. This could be
18 construed as a violation of the Public Utility
19 Regulatory Policies Act (PURPA) enacted by Congress,
20 the FERC rules established to implement PURPA, and
21 the Florida Statutes regarding cogeneration.

22
23 Q. Do you have any final remarks with which you would
24 conclude your testimony?

25 A. Mr. Berg has offered no valid reason for removing
our cogeneration customers from Rate SBS and placing

373

1 them on either the old rate or some different rate.
2 Gulf Power has developed, through an 18 month long
3 collaborative effort with its customers, a complete
4 plan for pricing and billing standby electric
5 service. We have visited all of these customers'
6 facilities on numerous occasions to learn what their
7 needs are, and what they aren't. We have combined
8 the understanding we have gained of our customers'
9 needs with our own experience in pricing our
10 services to develop Rate SBS. Rate SBS:

- 11 a) is cost based;
- 12 b) complies with relevant federal requirements;
- 13 c) is born out of our specific experiences over
14 the last several years;
- 15 d) is a substantial improvement over its
16 predecessor;
- 17 e) is consistent with principles of good utility
18 pricing;
- 19 f) gives appropriate recognition to non-cost
20 inputs to pricing; and
- 21 g) is an example of Gulf Power's commitment to
22 rely on pricing as a primary means to achieve
23 marketing objectives, including conservation
24 objectives.
- 25 Finally, Rate SBS is the only complete plan for

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1 pricing and billing standby service that has been
2 offered in this proceeding.

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4 Q. Does this conclude your testimony?

5 A. Yes.

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1 Q (By Mr. Stone) Mr. Howell, would you please
2 summarize your rebuttal testimony.

3 A (Witness Howell) Yes.

4 Commissioners, two points -- and I'm not going
5 to belabor this because a lot of it has already been
6 covered in our direct. But Mr. Berg did point out in
7 his testimony on Page 5 that it is difficult to
8 determine how the customers would respond to the CMM
9 provision. But he also in his testimony said, "But if
10 they do use a lot more, then it's going to greatly
11 increase the probability that they'll hit a peak hour."

12 I think the other witnesses have testified
13 sufficiently that I don't need to cover it, that they
14 would not -- the customers would not act irrationally
15 and go against pure economics. And that was our
16 concern, is that the customers, we just don't see that
17 they're going to do that.

18 The other point is that we are trying to get
19 the usage off of the summer peak months. I think
20 Mr. Pollock adequately covered that this 10%, there's a
21 lot of confusion about whether it's maintenance or
22 forced outage rate. But it really represents the amount
23 of time that was anticipated that they would be on us
24 when the tariffs were set.

25 I've testified already that we see this in the

1 summer months when it's most critical to us. We see
2 this on us about 20% of the time and we have a need to
3 get the usage off the summer months so we can decrease
4 the capacity we add, because capacity we don't have to
5 add decreases everyone's cost.

6 That concludes my summary.

7 Q Mr. Thompson, would you please summarize your
8 rebuttal testimony.

9 A (Witness Thompson) Yes. I responded to
10 portions of the prefiled testimony of Mr. Berg.
11 Specific shortcomings in Mr. Berg's position include
12 improperly testing rate SBS against the FPSC Order No.
13 17159, and failing to adequately consider noncost rate
14 design factors.

15 Mr. Berg has offered no valid reason for
16 removing our cogeneration customers from rate SBS and
17 placing them on either the old standby rate or some
18 different rate.

19 That concludes my summary.

20 MR. STONE: We tender for cross examination.

21 CHAIRMAN DEASON: Mr. McGlothlin.

22 MR. MCGLOTHLIN: No questions.

23 CHAIRMAN DEASON: Staff.

24 MS. ERSTLING: I have no questions for

25 Mr. Howell. My cross is directed to Mr. Thompson's

1 rebuttal.

2 CROSS EXAMINATION

3 BY MS. ERSTLING:

4 Q If you would turn to Exhibit B of the
5 Company's petition in this docket and we're handing this
6 out not to be marked as an exhibit because it's already
7 part of the petition but so you can follow it. Do you
8 have a copy of that available, Mr. Thompson? If not, we
9 will hand that out to you.

10 A (Witness Thompson) I have one, I'll be to it
11 in just a second. (Pause)

12 (Hands document to the witness.)

13 Q Does Exhibit B calculate the revenue effect
14 for 1991 and 1992 of the proposed now effective SBS
15 rates?

16 A Yes.

17 Q Does the calculated revenue effect show the
18 difference between the revenue that was paid by standby
19 customers under the prior SS rate schedule and the
20 revenue that would have been paid under the proposed now
21 effective SBS rate schedule?

22 A Yes.

23 Q Is the calculation based on the actual 1991
24 and 1992 historical billing units?

25 A Yes.

1 Q Were the rates used for 1991 and the four
2 months of 1992 the rates in effect before the \$2 million
3 management penalty expired? Would you accept, subject
4 to check that they were?

5 A Would you say that again? I think you said
6 four months of '92 and maybe you meant to say eight
7 months of '92.

8 Q You're right. I stand corrected. You're
9 correct.

10 A Okay. That way, yes.

11 Q We're going to hand out now Gulf's response to
12 Interrogatory 13 from Staff's First Set of
13 Interrogatories. (Hands document to witness.) (Pause)

14 Does this interrogatory provide the same
15 calculation for 1992 as provided in Exhibit B except
16 that it uses the SS rates in effect since September of
17 1992, after the management penalty expired and shows a
18 separate calculation for the SS customer who started
19 taking standby service in August of 1993?

20 A Yes.

21 MS. ERSTLING: Can we have this marked as an
22 exhibit?

23 CHAIRMAN DEASON: It will be identified as
24 Exhibit No. 13.

25 (Exhibit No. 13 marked for identification.)

1 Q At your deposition on July 22, 1994, were you
2 asked to provide as a Late-Filed Exhibit No. 7 a
3 schedule showing the difference between what the SBS
4 customers would have paid in 1992 on the SS rate
5 schedule that was replaced in June, and what they would
6 have paid under the SBS rate schedule if the daily
7 demand charge for non-Option A was increased to \$1.09
8 for the three summer months?

9 A We were asked for that, yes.

10 Q Has this schedule been provided to date?

11 A No.

12 Q Okay. May we have this as a late-filed
13 exhibit, please?

14 A I would add that at that deposition -- and I
15 would again characterize that what we will be providing
16 is the result of the calculation which you requested.
17 We do not know the derivation of any of the numbers.
18 We're merely taking your numbers and performing a
19 calculation on your behalf. We'll do that calculation.

20 Q And the other provision was that it would use
21 the 1992 actual historical billing units; was that
22 correct?

23 A Yes.

24 MS. ERSTLING: Okay. May we have that as a
25 late-filed exhibit?

1 CHAIRMAN DEASON: It will be identified as
2 Late-Filed Exhibit 14. Could I have a short title,
3 please?

4 MS. ERSTLING: "Late-Filed Exhibit No. 7 from
5 July 22, 1994 Deposition."

6 (Late-Filed Exhibit No. 14 identified.)

7 Q (By Ms. Erstling) Were you also asked to
8 provide as part of the Late-Filed Exhibit No. 7 a
9 schedule showing the difference between what the SBS
10 customers would have been paid in 1992 on the SS rate
11 schedule that was replaced in June, and what they would
12 have paid under the SBS rate schedule if the daily
13 demand charge for Option A was increased to \$2.13 for
14 the three summer months?

15 A Yes.

16 Q Has this schedule been provided to date?

17 A No.

18 Q Was this exhibit used in 1992 actual
19 historical billing units?

20 A Yes.

21 MS. ERSTLING: May we have this -- okay, this is
22 part of the Late-Filed Exhibit No. 7 in Schedule, where it
23 can be shown as Schedules A and B.

24 CHAIRMAN DEASON: Are you just going to
25 incorporate that as part of Late-Filed 14?

1 MS. ERSTLING: Yes, a composite exhibit.

2 CHAIRMAN DEASON: Very well.

3 MR. STONE: Just to clarify it, I think what she
4 is describing as Late-Filed Exhibit 7 is what the request
5 was made at the time of the deposition. For purposes of
6 this proceeding, it has been identified as Late-Filed
7 Exhibit 14. And that's my understanding.

8 MS. ERSTLING: That is correct.

9 Q (By Ms. Erstling) Would you agree that if no
10 change the made in the daily demand charge from what was
11 in effect on the previous standby service rate schedule
12 that there would be no revenue effect over the old rate
13 schedule for the daily demand charge?

14 A Absolutely not.

15 Q Would you explain that, please, your answer?

16 A I have not made the calculations yet; but we
17 have simply reused the old rate components from the old
18 standby service rate but changed substantially the
19 structure of the rate and the way those rate components
20 are applied. We've changed how we determined what
21 portion of the consumption is standby, what portion is
22 supplementary service, and some other changes
23 structurally; so, in fact, I believe there would be a
24 difference. I have not made the calculation.

25 Q I'm going to get back to that in a minute.

1 In July 1991, after the new charges for the
2 Company's last rate case had been in effect for a number
3 of months, Gulf filed petition Docket 910601 to correct
4 a problem in the design of its GSD time-of-use rate
5 schedule. At your deposition you were asked if the GSDT
6 rates requested by Gulf and those approved by the
7 Commission were revenue neutral with respect to the
8 rates they replaced. Did you respond that you had no
9 reason to doubt that the pair of the approved GSDT and
10 the GSD rates were revenue neutral with respect to the
11 rates they replaced?

12 A Yes.

13 Q Have you reviewed the work papers in that
14 docket to confirm the revenue neutrality of those rates?

15 A Yes.

16 Q Does revenue neutrality mean one pair of
17 GSD/GSDT recovers the same amount of revenue as another
18 pair of GSD/GSDT rates using the same set of billing
19 determinants?

20 A Yes. (Pause)

21 While you're looking for your next question, I
22 would point out, without repeating, the important
23 differences between that and this case as brought out by
24 Mr. Stone's cross exam earlier.

25 Q Would you agree that some customers received

1 an increase in their bills over what they were paying
2 prior to the petition that was submitted in Docket 91061
3 to change the GSDT rate to approved the rate case, and
4 other customers received a decrease?

5 A They may have. Those that would have
6 apparently had increases were free to leave that rate,
7 since it was an optional rate, and many of them did.

8 Q But, in effect, some did receive increases and
9 some received decreases?

10 A No. They may have. Those that would have
11 received increases due to the higher rate had the option
12 of leaving to go to the nontime-of-use version of that
13 rate. That was an optional rate.

14 Q Okay. But as the rate was so designed, it
15 then became the change revenue neutral?

16 A Became what?

17 MR. STONE: Commissioner, I believe the question
18 has been asked and answered.

19 CHAIRMAN DEASON: I think we understand the
20 situation.

21 MS. ERSTLING: We have no further questions for
22 this witness -- no, hold it just a moment.

23 Q (By Ms. Erstling) I'm going to go back to the
24 question I asked before and maybe I'll read it and be
25 clear now. Would you agree that if no change is made in

1 the daily demand charge from what was in effect on the
2 previous standby rate schedule that there would be no
3 revenue effect as calculated in Exhibit B over the old
4 rate schedule for the daily demand charge?

5 A No, I still couldn't agree with that. There
6 would be a difference.

7 Q Okay. Were there changes in the billing
8 determinants?

9 A There were changes in the way the
10 determination was made as to what was supplementary and
11 what was standby. That was the whole point in making
12 the structural change. We determined those things in
13 the new rate based on the contracts and the meter
14 readings.

15 MS. ERSTLING: Okay, we have no further
16 questions for this witness.

17 CHAIRMAN DEASON: Redirect?

18 MR. STONE: Yes, Mr. Chairman.

19 REDIRECT EXAMINATION

20 BY MR. STONE:

21 Q Mr. Thompson, you were asked a question about
22 the Company's filing to correct a rate anomaly in the
23 relationship between GSD and GSDT that I believe
24 occurred in the filing that made in 1991, is that
25 correct?

1 A (Witness Thompson) The filing to correct that
2 anomaly was made in '91, yes.

3 Q And is that the filing that you understood the
4 questions that you were asked to be related to?

5 A Yes.

6 Q Okay. You have alluded to, and I think you
7 made reference to some questions I asked on cross of
8 Mr. Berg, the significant differences between that
9 situation and the situation we face today. Would you
10 please explain those differences?

11 A Well, I think we covered one of them, the fact
12 that it was optional. The second one was the fact that
13 what brought us to the table in that case was not an
14 unanimous customer dissatisfaction among the customers
15 on that rate schedule. The third major difference was
16 the sheer number of customers involved, they numbered in
17 the hundreds, and there are certain practical
18 constraints.

19 Again, those trade-offs involved, inherently
20 and invariably, involved in rate design trading off
21 practicality for something else. You can do some things
22 when you have five customers that you can't when you
23 have 150 or 200 or 2,000.

24 Q Despite those important differences that
25 distinguish the situation in the GSD/GSDT situation and

1 the situation before the Commission today with regard to
2 the pricing arrangement for Gulf standby service
3 customers, are there any lessons or elements from that
4 GSD/GSDT case that you think may have some relevance
5 here?

6 A I can think of one. The rates which the
7 Company filed in the case -- which the Company proposed
8 and filed in the case did not contain the structural
9 flaw that were later found to be present in the ones
10 which were ultimately approved. The rates which were
11 filed by the Company were designed by the Company, and
12 the rates which were ultimately approved and found to
13 contain the structural flaws were not designed by the
14 Company. That's the only thing I can think of that
15 might be relevant.

16 MR. STONE: I have no further questions.

17 (Witnesses Thompson and Howell excused.)

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19 CHAIRMAN DEASON: Exhibits?

20 COMMISSIONER KIESLING: Could I get a
21 clarification of whether this document that has "Exhibit
22 B" on it, has that been marked?

23 MS. ERSTLING: No, because it is already part of
24 their original petition. I just gave it out for
25 informational purposes.

1 COMMISSIONER KIESLING: Great.

2 CHAIRMAN DEASON: Exhibits?

3 MR. STONE: I don't believe I had any exhibits,
4 Mr. Chairman.

5 MS. ERSTLING: We had not entered Exhibit No. 12
6 and we have now just had the two Late-Filed Exhibits 13
7 and 14 -- no, we have 13, which is the, that's here,
8 that's the Staff response to Item No. 13, and 14, which is
9 the composite exhibit.

10 CHAIRMAN DEASON: Are you moving 12 and 13?

11 MS. ERSTLING: I'm moving 12, 13 and 14.

12 MR. MCGLOTHLIN: I object to Exhibit No. 12,
13 Mr. Chairman, which was the one that was distributed when
14 Mr. Berg was on the stand.

15 The basis of my objection is this. When
16 Mr. Berg was testifying, I specifically asked him if his
17 testimony to the effect that a standby customer may be
18 tempted to use more standby as opposed to ending an
19 outage and self-generating because of the economics of
20 the comparison. I asked him at that point whether his
21 testimony was based on any analysis or studies he had
22 made of the relative costs of self-generating versus
23 buying? And he said no, he had not.

24 Now, what was offered on redirect is not
25 something that was prepared by Mr. Berg and so he's

1 unable to sponsor that as information of which he is the
2 source, of which he has any knowledge. It's a response
3 to an interrogatory prepared by Gulf Power and submitted
4 in this case. But because he's not the origin of the
5 information, we would have no ability to get into any
6 matters of context or explore for any errors of
7 information with that witness.

8 It's fundamental, it's not something that he
9 can sponsor as having prepared it and I object to it on
10 that basis.

11 MS. ERSTLING: We have offered this. They
12 opened the area of economic reasons and whether the
13 companies would possibly choose for economic reasons, and
14 it was one of the issues raised here during this whole
15 proceeding, to buy from Gulf rather than to generate. It
16 was one of the general underlying issues. And throughout
17 this, it has been the contention of the witnesses that
18 they would not choose to do so for economic reasons.

19 And we entered this as an exhibit because
20 during the period of the deposition of Mr. Thompson and
21 Ms. Groesbeck at the time, it was definitely indicated
22 that one of the reasons why a standby customer may
23 choose it was for economic reasons. So I think this was
24 a direct response to the position put forth by various
25 witnesses for --

1 MR. MCGLOTHLIN: With respect, sir, the question
2 is not whether the comparative economics is at issue or is
3 a proper subject for testimony, the question is whether
4 Mr. Berg as a witness is competent to sponsor the response
5 to an interrogatory prepared by someone other than
6 himself -- and on redirect, at that. And that's the basis
7 of the objection, not whether the comparative economics is
8 a proper subject for the hearing.

9 CHAIRMAN DEASON: Mr. Pruitt, have you got any
10 advice?

11 MR. PRUITT: Mr. Chairman, it appears that
12 Mr. Berg was merely asking for the production of a
13 Company-supplied answer to interrogatories -- as a
14 deposition exhibit, rather; and the witnesses listed on
15 that, Mr. Thompson appears to be one of them. And any
16 cross examination any of the parties wished to make on it,
17 they could have directed the questions towards
18 Mr. Thompson.

19 COMMISSIONER CLARK: Mr. Pruitt, if I understand
20 what you were saying is, the opportunity to get this into
21 evidence would have through cross examination of
22 Mr. Thompson so that Mr. McGlothlin could have tested the
23 validity of the facts on which he based that opinion?

24 MR. PRUITT: That's what I was saying, yes.

25 COMMISSIONER CLARK: You can't do it through

1 Mr. Berg?

2 MR. PRUITT: Mr. Berg could only identify it, he
3 couldn't answer any questions on it.

4 CHAIRMAN DEASON: Objection sustained, the
5 exhibit is not admitted.

6 Exhibit 13 is admitted without objection and
7 Exhibit 14 is a late-filed.

8 (Exhibit No. 13 received into evidence.)

9 CHAIRMAN DEASON: Any other matters at this
10 time?

11 MS. ERSTLING: No, we have no further matters.

12 MR. STONE: We just want to thank you for the
13 time.

14 CHAIRMAN DEASON: I guess the briefing schedule
15 is as set out in the CASR?

16 MS. ERSTLING: There have been no changes to the
17 CASR.

18 CHAIRMAN DEASON: Okay. Very well. This
19 hearing is adjourned. Thank you all.

20 MR. MCGLOTHLIN: Thank you, Commissioners.

21 (Thereupon, the hearing concluded at 5:18
22 p.m.)

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1 STATE OF FLORIDA)
 2 :
 3 COUNTY OF LEON)

CERTIFICATE OF REPORTERS

4 We, JOY KELLY, CSR, RPR, Chief Bureau of
 5 Reporting and SYDNEY C. SILVA, CSR, RPR, Official
 6 Commission Reporters,

7 DO HEREBY CERTIFY that the hearing in Docket
 8 No. 931044-EI, was heard by the Staff of the Florida
 9 Public Service Commission at the time and place herein
 10 stated; it is further;

11 CERTIFIED that we stenographically reported
 12 the said proceedings; that the same has been transcribed
 13 under our direct supervision; and that this transcript,
 14 consisting of 390 pages, Volumes 1 and 2, inclusive,
 15 constitutes a true transcription of our notes of said
 16 proceedings.

17 DATED this 16th day of August, A. D., 1994.

18 *Joy Kelly*
 19 JOY KELLY, CSR, RPR
 20 Chief, Bureau of Reporting

21 *Sydney C. Silva*
 22 SYDNEY C. SILVA, CSR, RPR
 23 Official Commission Reporter
 24 (904) 488-5981

25 STATE OF FLORIDA)
 :
 COUNTY OF LEON)

The foregoing certificate was acknowledged
 before me this 16th day of August, 1994, by JOY KELLY
 and SYDNEY C. SILVA, who are personally known to me.

21 *Patricia A. Church*
 22 PATRICIA A. CHURCH
 23 Public - State of Florida
 24 My Commission No. CC-90785
 25 Notary Public, State of Florida
 My Commission Expires April 20, 1995
 Bonded Thru Troy Fain - Insurance Inc.