DOCKET NO.: 010949-EI - [Request for Rate Increase by Gulf Power Company]

WITNESS: **Direct Testimony of James E. Breman, Appearing on Behalf of Staff**

DATE FILED: January 14, 2002

DIRECT TESTIMONY OF JIM BREMAN

Q. Please state your name and business address.

A. My name is Jim Breman; 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850.

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

A. I am employed by the Florida Public Service Commission as a Utility Systems Communications Engineer in the Division of Economic Regulation.

Q. Please briefly describe your educational background and professional experience.

A. From April 1980 through December 1981 I was an engineering technician with Peoples Gas System Inc., North Miami Division. I graduated from Florida State University in 1986 with a Bachelor of Science in Mechanical Engineering. I was also employed by the College of Engineering while pursuing my degree at Florida State University.

I began employment with the Florida Public Service Commission in 1988 and have held various positions since that time. In April 2000 I was promoted to my current position.

Q. What are your present responsibilities with the Commission?

A. My responsibilities include reviewing utility distribution reliability reports and then preparing reports to the Commission on staff's findings. I also analyze various other electric utility filings concerning the Ten-Year Site Plans, underground vs. overhead distribution differentials, storm damage issues, and the environmental cost recovery clause. My responsibilities also include addressing customer complaints related to electric service.

Q. Have you previously testified before the Commission?

A. Yes. I testified in Docket No. 910615-EU that resulted in Rule 25-6.115, F.A.C., Facility Charges For Providing Underground Facilities of Public Distribution Facilities Excluding New Residential Subdivisions. I testified in Docket No. 960409-EI, Prudence Review to Determine Regulatory Treatment of Tampa Electric Company's Polk Unit.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to show why the Commission should implement a program that provides an incentive to Gulf Power Company for maintaining reliable service. I also discuss why a minimum distribution reliability standard is appropriate and necessary.

Q. Have you prepared any exhibits to which you will refer to in your testimony?

A. Yes. I prepared four exhibits. In JEB-1, I've reproduced the various graphs of distribution reliability indices presented to the Commission in a June 2001 Internal Affairs report on distribution reliability. In JEB-2, I state responses provided by each of the four major utilities when questioned about the costs necessary to comply with the vegetation management requirements of the National Electric Safety Code. JEB-3 consists of recent photographs of utility distribution facilities that are not being maintained in compliance with the National Electric Safety Code. JEB-4 is a detailed presentation of my proposed distribution reliability incentive program.

Q. Is Gulf Power Company currently providing reliable distribution service?

A. Overall, Gulf Power Company's distribution reliability is good. As Staff's Witness Durbin's testimony indicates, the Commission has not recently received many complaints. Therefore, I would agree that most of Gulf Power

Company's customers receive reasonable service.

Q. Why are you proposing an incentive program if Gulf Power Company's customers are not complaining about service reliability?

A. Waiting for a large number of customers to complain about frequent service interruptions is reactive rather than proactive. Last year, Gulf Power Company estimated that 4 percent of its customers experience more than five service interruptions. This is approximately double the amount reported by the other Florida investor owned companies. So we already know that some of Gulf Power Company's customers do not receive highly reliable service. Also, it appears there is a potential for complaints to increase.

In recent years the Commission elevated its review of distribution reliability primarily because the level of customer complaints seemed high for Florida Power & Light and Florida Power Corporation. As a result of the Commission's intervention, all the utilities began various activities to improve distribution reliability. JEB-1 contains various graphs of indices used to assess changes in distribution reliability. The graphs demonstrate general reliability improvement trends relative to 1997 for the utilities as a group. However, there is little assurance that Gulf Power Company or the other utilities will either maintain or even continue to improve distribution reliability absent continual Commission intervention.

Q. Why do you believe the utility provides little assurance that it will maintain or improve distribution reliability?

A. The utilities have been relying on self-set goals. These internal goals are typically tied to financial performance. The desire to meet such financial goals creates a disincentive to make expenditures that would

increase distribution reliability. Consequently, as in 1997, it is sometimes necessary for the Commission to intervene on behalf of the retail customers. The utilities do not have what I would call a minimum standard for distribution reliability because their current practice has not proven to be effective. Unless there is a change in the process, history is likely to be repeated.

Q. Do you have a specific example that demonstrates how your concerns apply to this rate case?

A. Yes. The test year budget includes a projection of all costs for planned activities including those affecting distribution reliability. There are certain causes of service interruptions that a utility has more ability to mitigate than others. Tree trimming or vegetation management is one of these. One would think that a utility would have a natural incentive to therefore promote vegetation management activities. The utility should also be motivated to promote vegetation management because Part 2, Section 21.218 of the National Electric Safety Code requires the utilities to maintain clearances between vegetation and utility distribution facilities. Yet, as you can see in JEB-1, vegetation continues to be a significant cause of service interruptions. Last year, staff asked the utilities to estimate the annual cost to be in continuous compliance with the National Electric Safety Code. Their responses are in JEB-2. Please note that some of the utilities characterized the tree trimming budget as the amount to most cost effectively comply with the National Electric Safety Code in 2001 while others simply stated the budgeted amount. Gulf Power Company responded with a budgeted 2001 amount of $2,599,198. Gulf Power Company's 2001 budget is at least $1.5

million less than the 2003 test year vegetation budget of $4.1 million.

Q. Did Gulf Power Company comply with the vegetation clearance requirements of the National Electric Safety Code during 2001?

A. No. JEB-3 is a catalog of recent photographs taken by Jerry Woodall, a PSC Safety Engineer. The pictures are of various locations where Gulf Power Company was not in compliance with the National Electric Safety Code.

Q. Gulf Power Company's test year budget is higher than the 2001 budget. If the vegetation management budget were doubled would your concern be addressed?

A. No. It is important to realize that vegetation management and other distribution reliability programs are expensive. However, I don't believe the Commission should be picking and choosing between distribution reliability activities. As I said earlier, vegetation management is just an example. Vegetation management is just one of many activities affecting distribution reliability. The vegetation management example highlights the incentives and dis-incentives a utility has to minimize the many causes of service interruptions shown in JEB-1. The example highlights current utility and Commission practices. The existing scheme relies primarily on customer complaints and is not proactive. A better approach would be one that ensures reliable distribution service.

Q. You appear to suggest a change from historical rate case reviews. What is wrong with performing a test year distribution budget review similar to what was done in prior rate cases?

A. In the past, a common method has been to review the previous five years and compare the test year budget levels to the five-year averages. However,

the five-year period of distribution expenses includes the effects of direct Commission intervention. Consequently, I don't know what level of expense would have occurred under "normal" or "average" conditions. In addition, there are no minimum distribution reliability standards. Neither the Commission nor the utility can tell the customer what average service is or that next year the same level of service will be considered average. Consequently, I don't know what normal or average distribution expense levels are because I don't know what normal or average service means.

Q. How should the Commission address the situation?

A. The Commission should establish a program that allows the utility and retail customer interests to be reasonably balanced between rate cases. The program should be based on two fundamental concepts.

The first concept is that distribution reliability should not decline between rate cases. At a minimum, the retail customer should not be expected to endure less reliable service once the rate case is concluded. Making such a commitment is consistent with setting base rates for average service.

The second concept is simply that the company will be held accountable for declines in service in a timely manner. Timely accountability will provide an incentive for the company to consistently ensure that distribution reliability is appropriately maintained.

Q. Can you be more detailed in how the new program would be implemented?

A. Yes. In JEB-4 I've prepared a schedule reflecting the implementation of the new program for Gulf Power Company. Simply stated, the utility is required to make an annual refund to its retail customers when the number of retail customers experiencing more than five service interruptions exceeds an

established standard in any consecutive 12 month period.

Q. Should there be a cap on the annual refund amount?

A. Yes. The total refund amount should be capped at the equivalent amount of 10 basis points of equity.

Q. Why do you recommend a cap of 10 basis points?

A. The intent of the refund is simply to provide sufficient incentive to cause the utility to manage distribution systems pro-actively between rate cases. It is not intended to be punitive.

Q. Why did you select the number of customers experiencing more than five interruptions as the index for the incentive program?

A. The number of Customers Experiencing More Interruptions than Five (CEMI5) is perhaps the best indicator of reliable service because CEMI5 is the number of customers who did not receive reliable service. By definition, CEMI5 provides the number of customers that have experienced six or more service interruptions. A prudent company should seek to minimize CEMI5. As seen in JEB-3, problems are likely to exist in areas where customers are experiencing many interruptions. In addition, as seen in JEB-1, CEMI5 is already used by the utilities and the Commission. Finally, the number of customers experiencing more than five interruptions is a measure that is easily understood.

Q. Do all utilities have similar abilities to report CEMI5?

A. Not as of June 2001. Gulf Power Company and Tampa Electric Company were implementing system changes that are expected to enable them to begin computerized reporting of CEMI5 in the near future. I believe the four largest companies will have similar abilities by the end of 2002 or sooner.

Therefore, Gulf Power Company should be able to begin implementing the program in 2003.

Q. How do you respond to the lack of computerized and historical data for Gulf Power Company?

A. Gulf Power Company estimated a CEMI5 of 4 percent for year 2000. Mr. Fisher's testimony highlights various service reliability improvement activities that are either new activities or expansions of year 2000 activities. Therefore, on a going forward basis, distribution reliability should improve. Consequently setting CEMI5 to 4 percent is not appropriate. I believe a CEMI5 of 2 percent is a reasonable standard primarily based on the expectation that Gulf Power Company's projected cost levels for activities are typical of future years. Continuation of similar budget levels should continue to improve retail service. In which case, at some future date, the Commission may need to adjust the incentive program.

Q. How do you propose Gulf Power Company implement the incentive program?

A. In 2003, they should include the necessary documentation in their final true-up testimony filed in an appropriate cost recovery clause where the refund amount can be allocated on a demand basis. The total refund amount, if any, would be a line item adjustment to the final true-up amount that Gulf Power Company would normally report for 2003. This way, a measure of the level of distribution reliability achieved during 2003 is used to set Gulf Power Company's retail cost recovery factors for 2004.

Q. Does this conclude your testimony?

A. Yes.

Source : 2001 Internal Affairs Report on Distribution Reliability

Figure 1

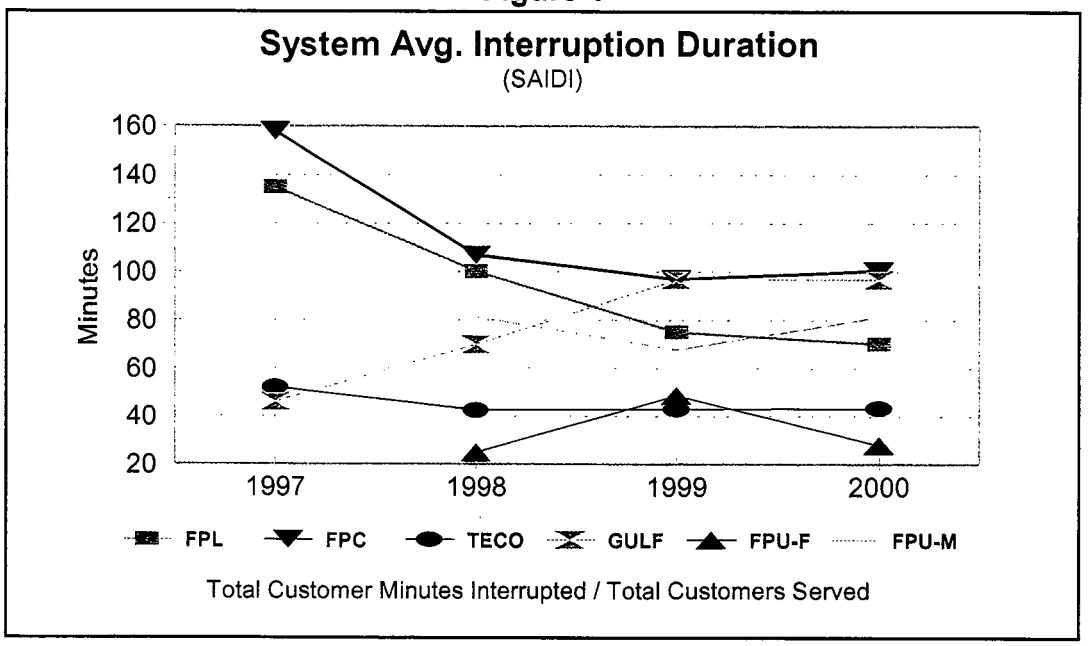
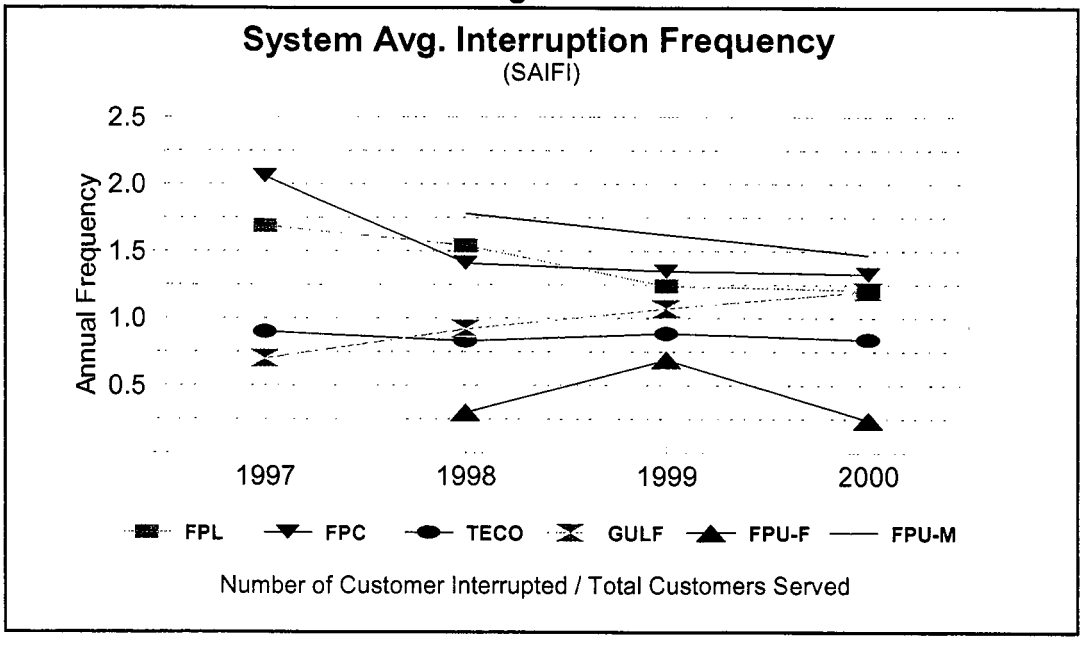


Figure 2



Source : 2001 Internal Affairs Report on Distribution Reliability

Figure 3

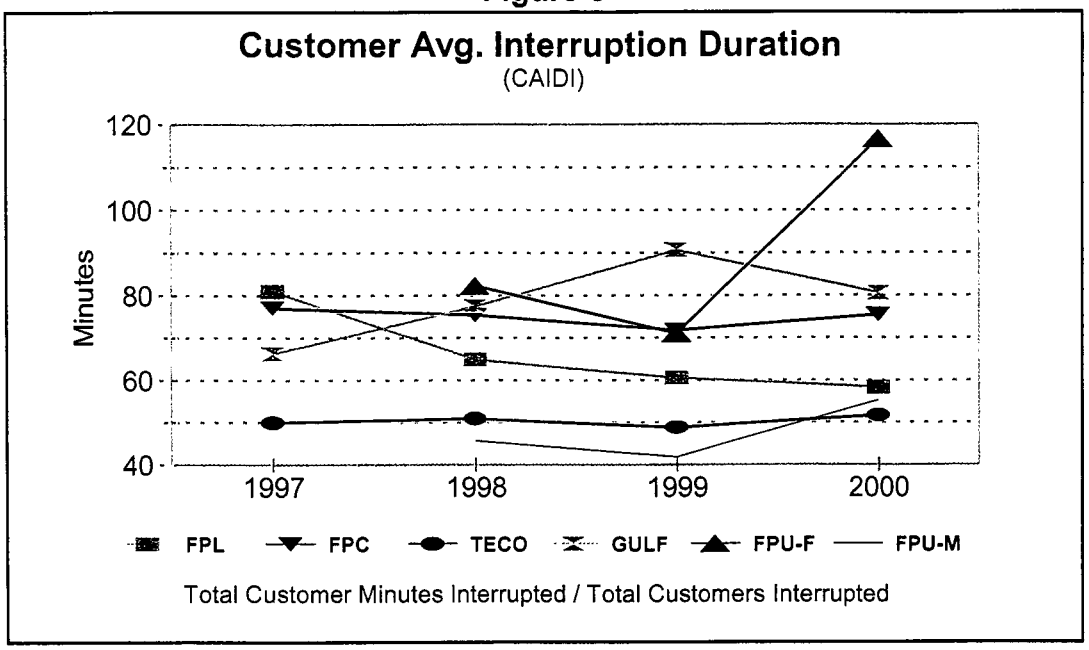
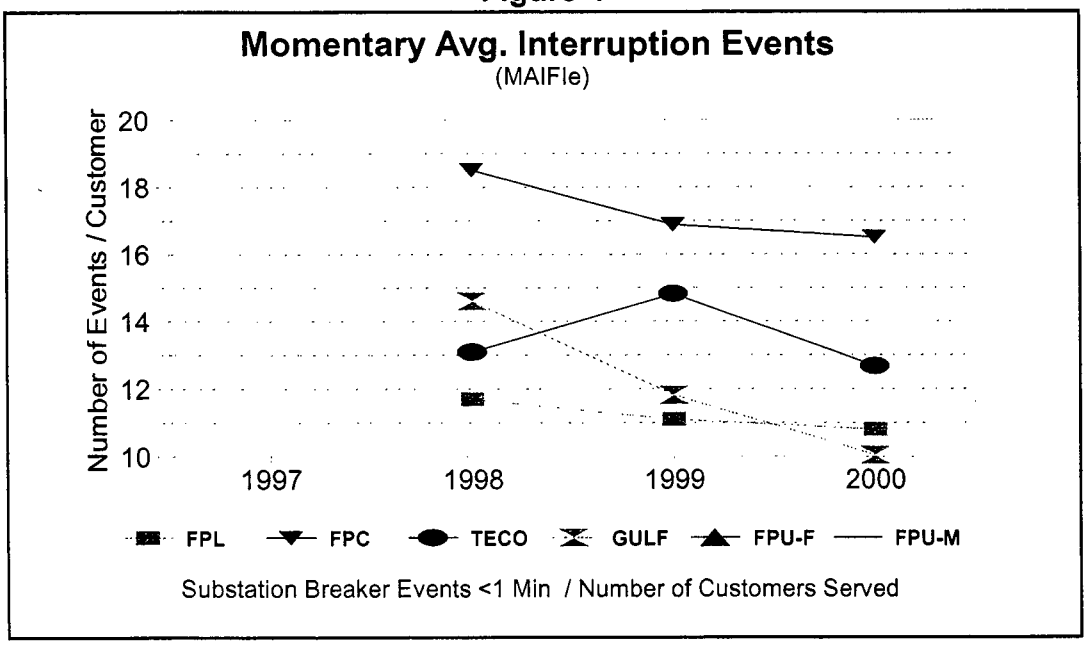


Figure 4



Source : 2001 Internal Affairs Report on Distribution Reliability

Figure 5

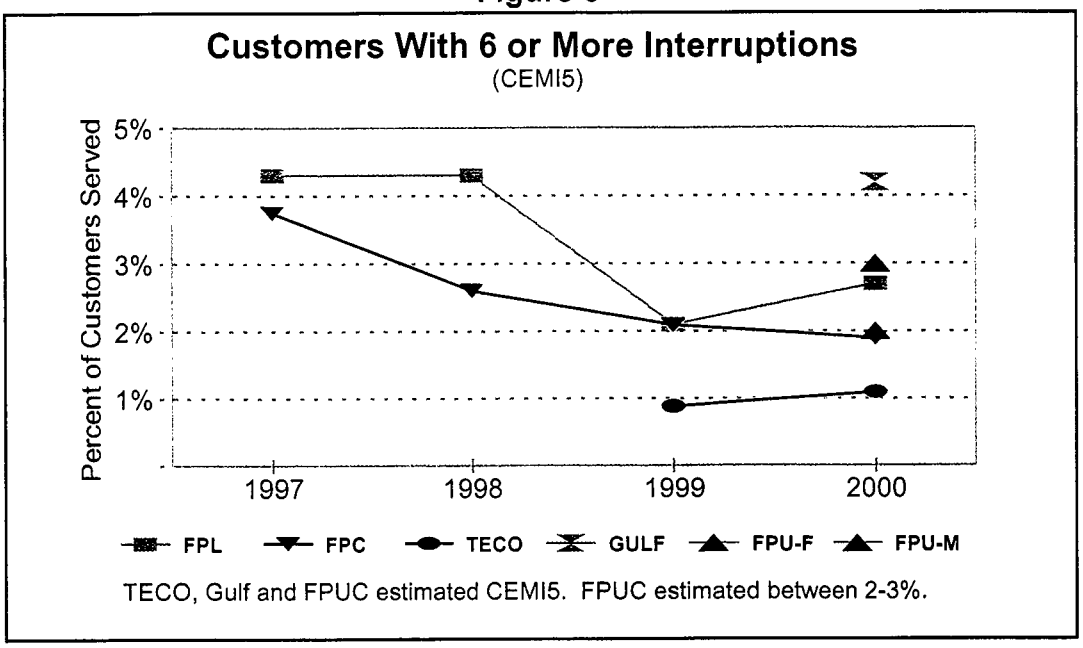
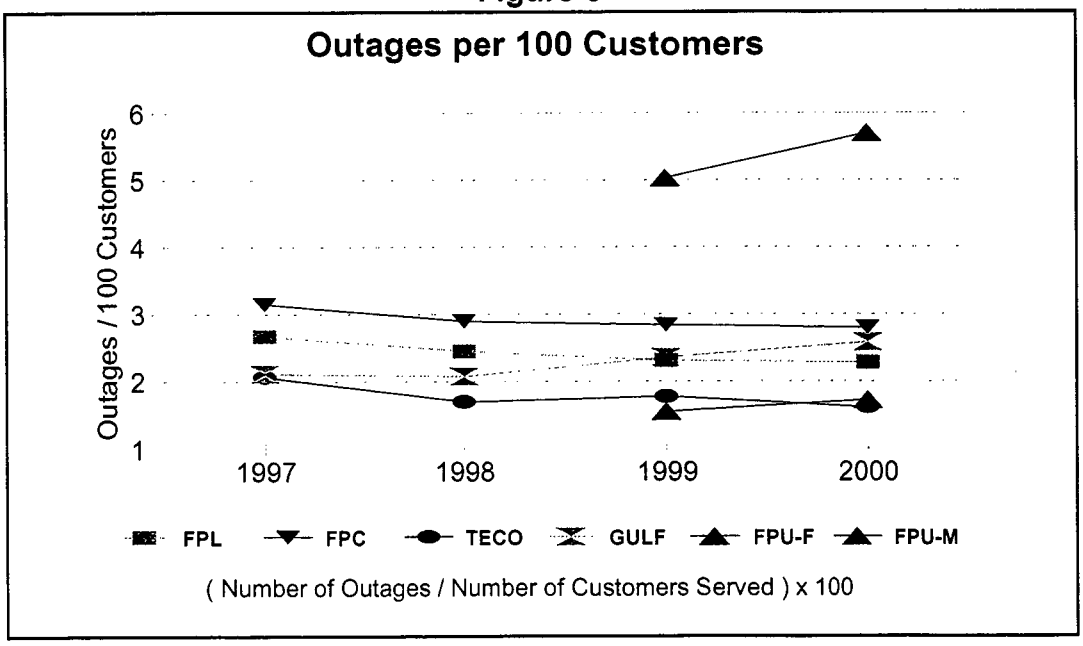


Figure 6



Source : 2001 Internal Affairs Report on Distribution Reliability

Figure 7

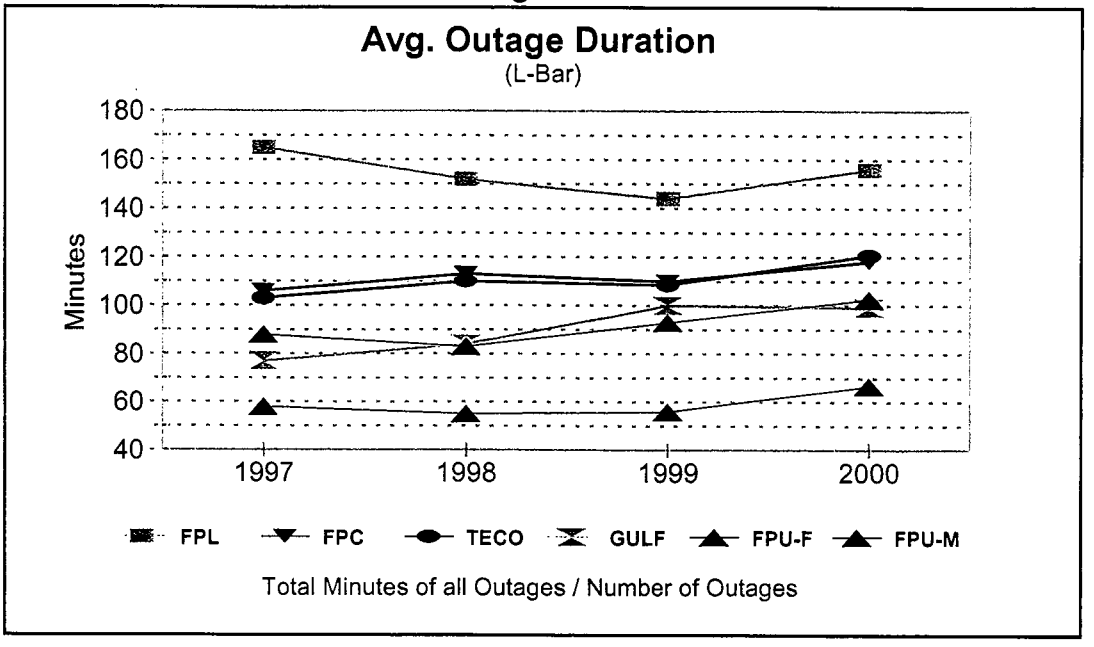
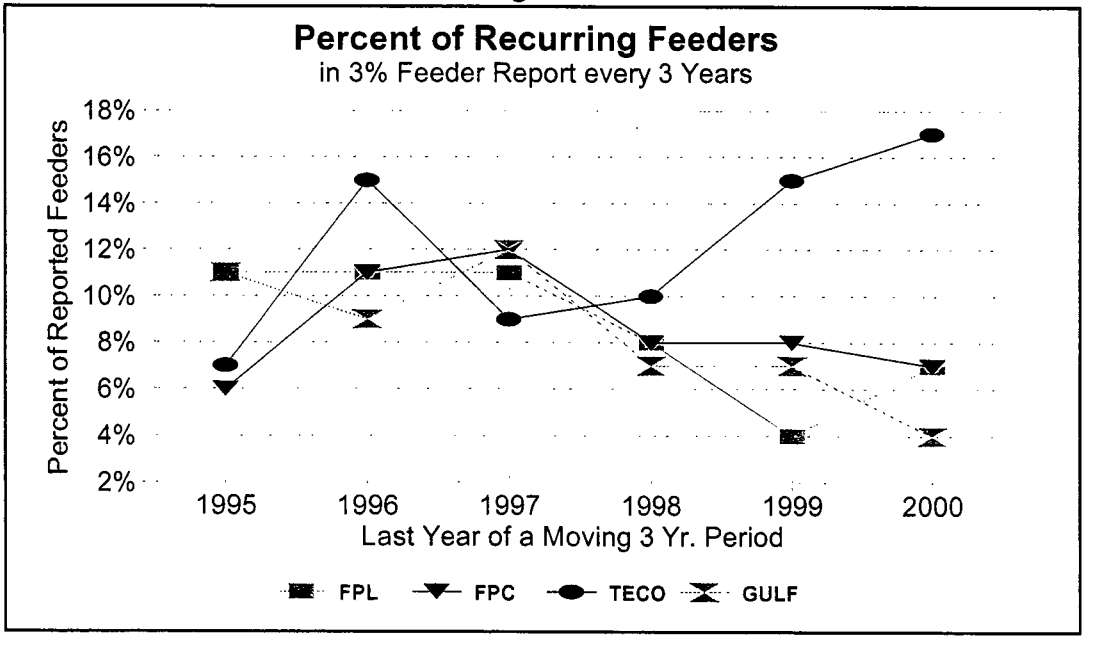


Figure 8



Source : 2001 Internal Affairs Report on Distribution Reliability

Figure 9

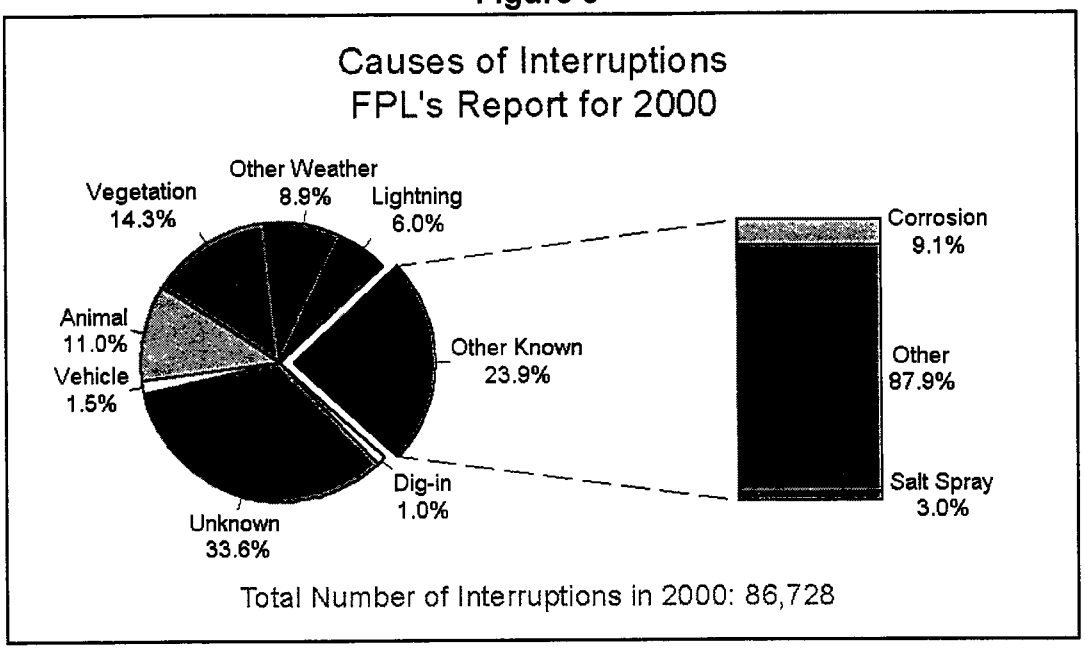
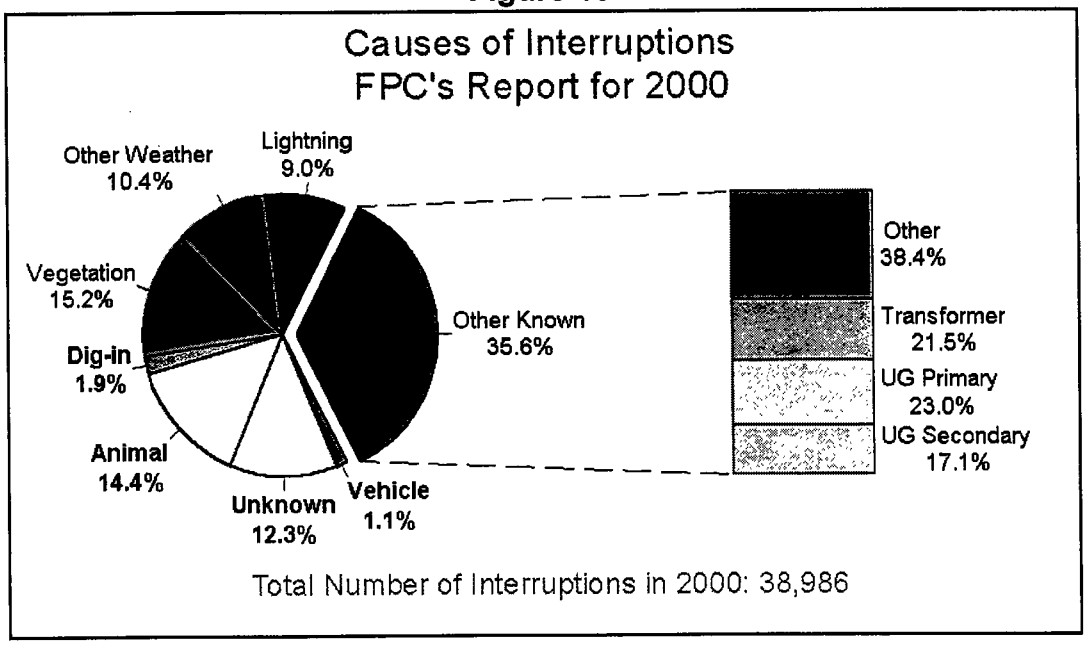


Figure 10



Source : 2001 Internal Affairs Report on Distribution Reliability

Figure 11

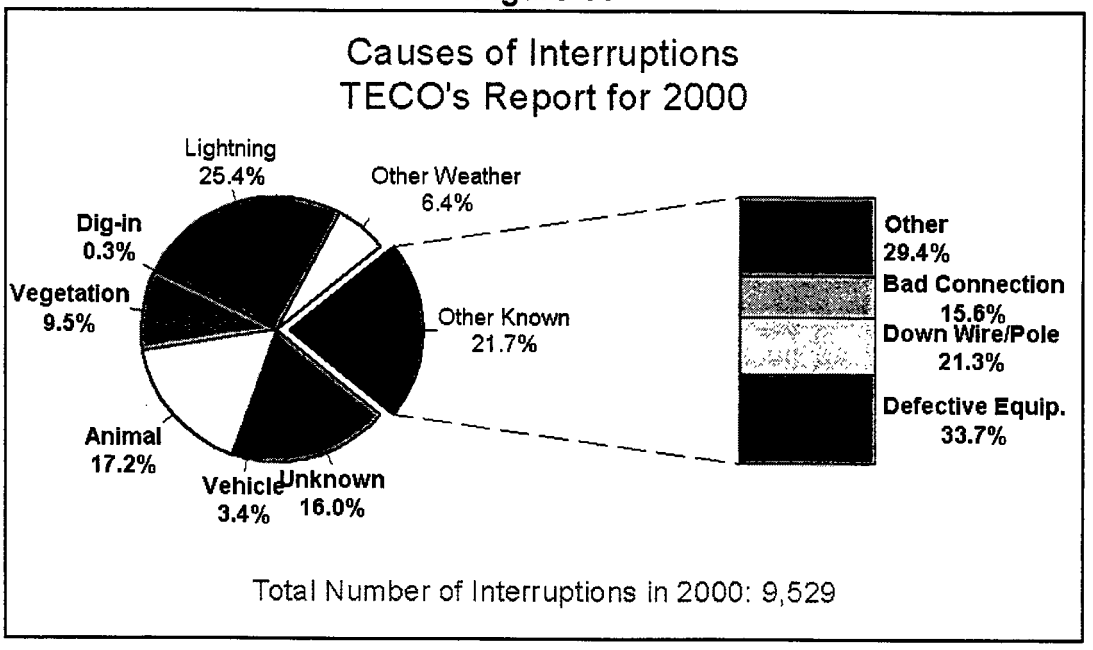
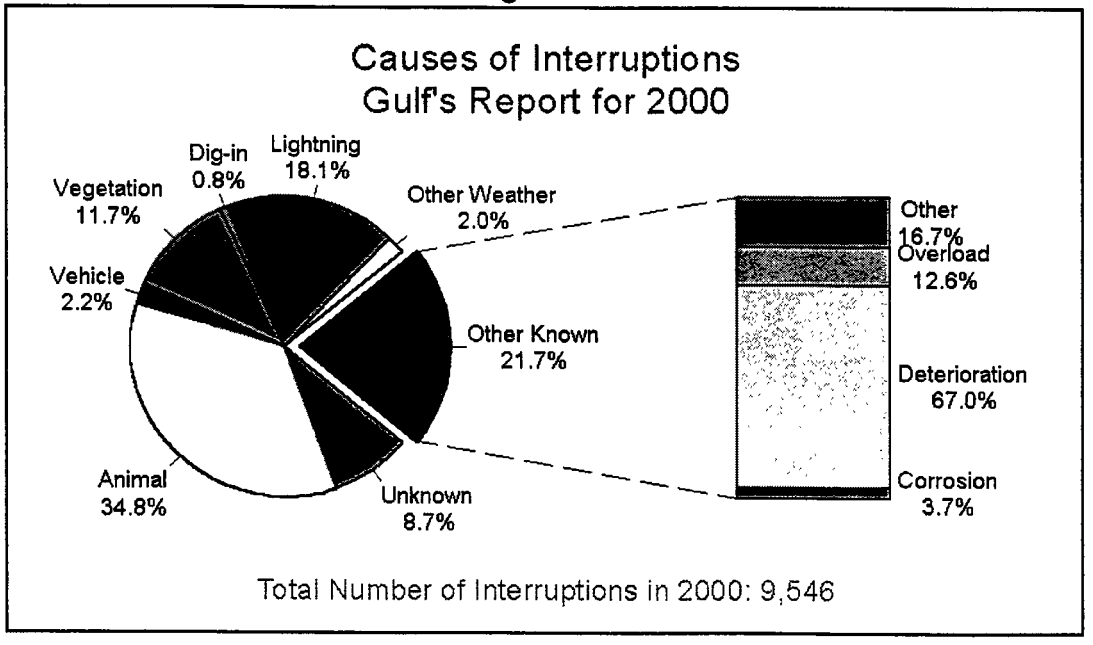


Figure 12



Source: Responses to question 5 of an April 2, 2001 staff data request.

Question 5:

Please identify the estimated annual cost to maintain clearances between vegetation and utility distribution facilities such that the facilities are maintained in continuous compliance with the National Electric Safety Code.

Responses:

Florida Power & Light

"FPL has budgeted 31.5 million dollars in 2001 to most cost effectively comply with the NESC."

Florida Power Corporation

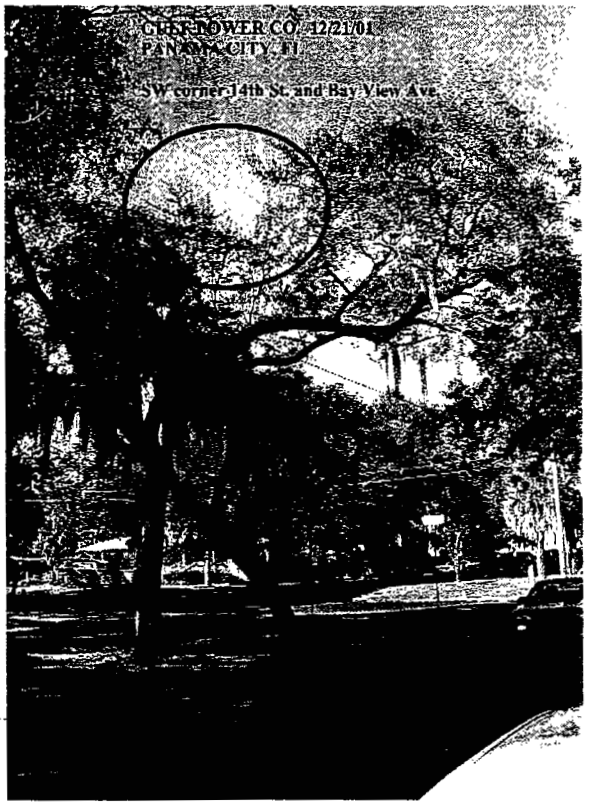
"FPC's estimated cost to effectively comply with the National Electric Safety Code is $8.2 million for 2001."

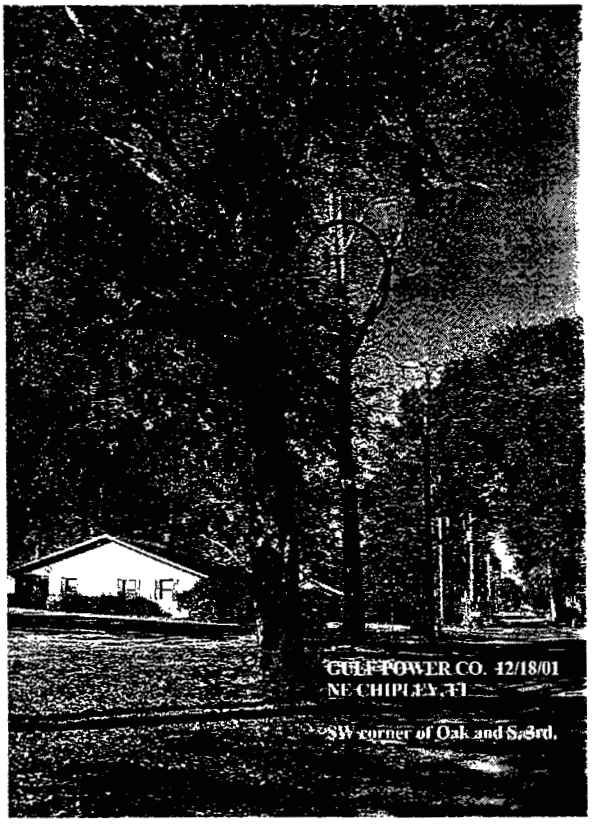
Tampa Electric Company

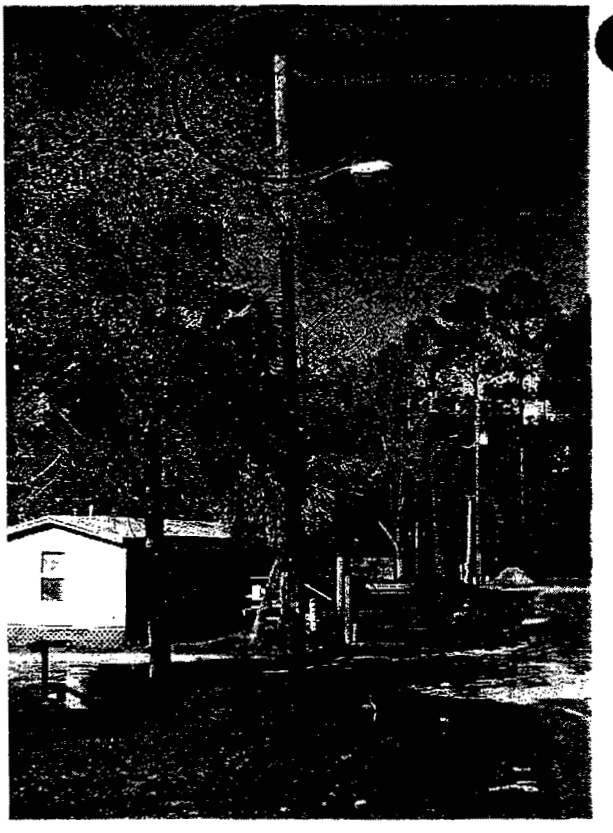
"$5.8 million for 2001"

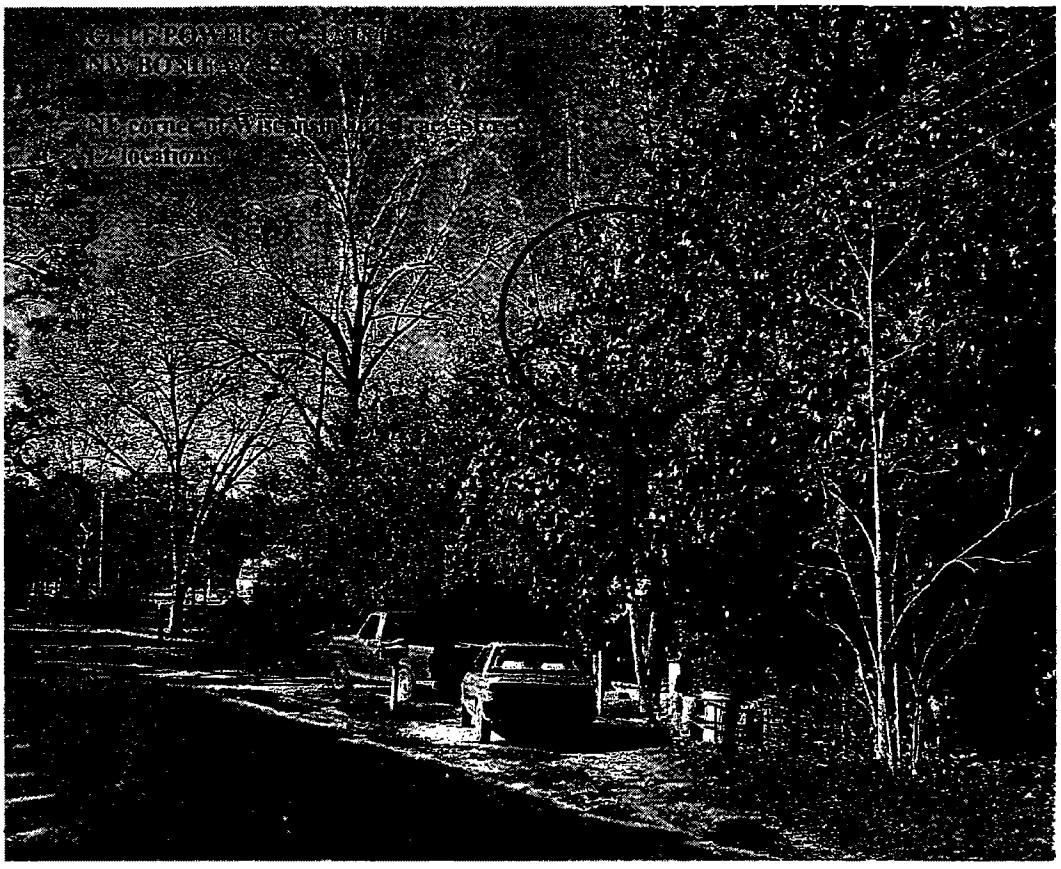
Gulf Power Company

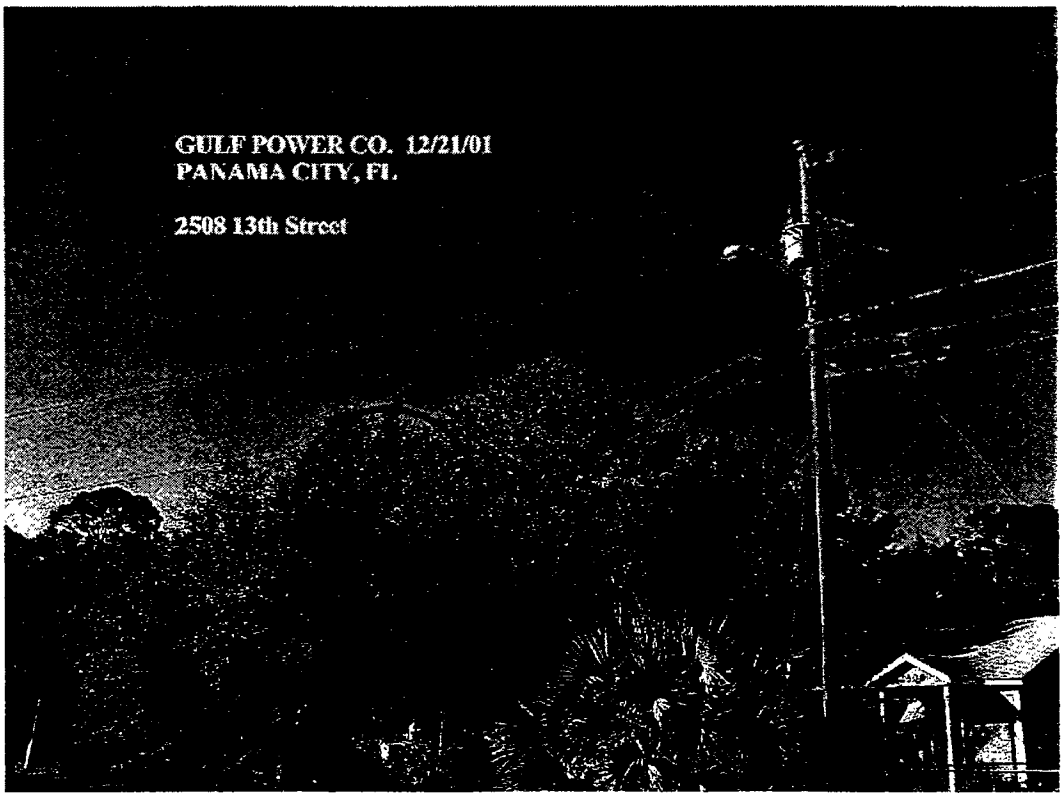
"Gulf Power's budgeted amount for 2001 is $2,599,198"

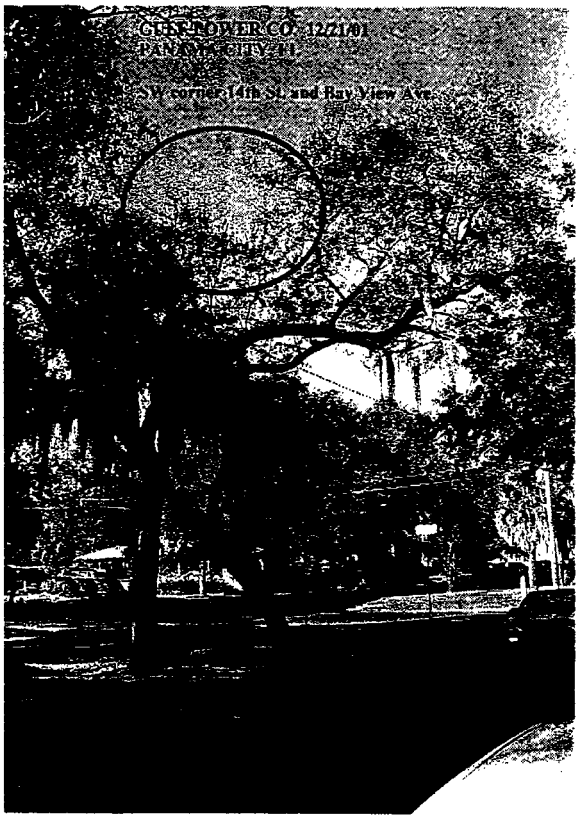

GULF POWER CO. 12/21/01
PANAMA CITY, FL
SW corner 14th St. and Bay View Ave.

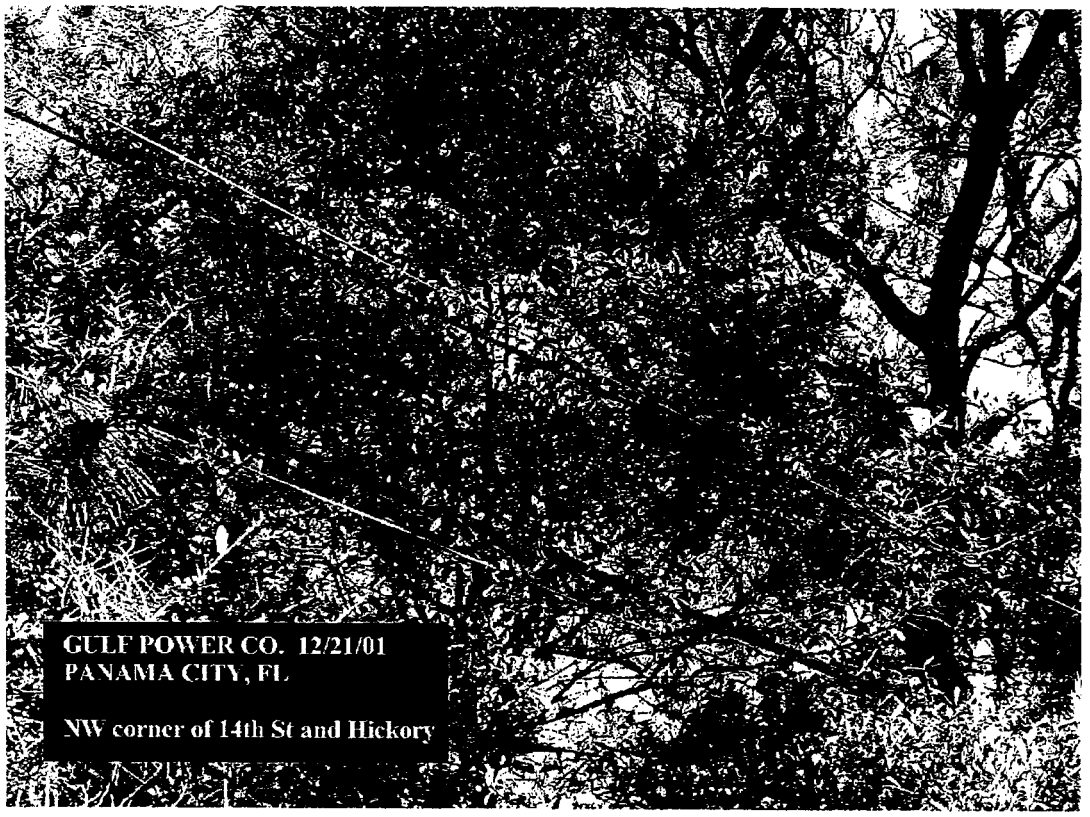

GULF POWER CO. 12/18/01
SW corner of Oak and S. 3rd.






GULF POWER CO. 12/21/01
PANAMA CITY, FL.
2508 13th Street


GULF POWER CO. 12/21/01
PANAMA CITY, FL
NW corner of 14th St and Bay View Ave


GULF POWER CO. 12/21/01
PANAMA CITY, FL
NW corner of 14th St and Hickory

Example of Distribution Reliability Incentive Program Calculations

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	CEMI5 % of Customers		Variance from Standard				Refund Calculation			
Month	Actual	Standard	Amount	%	Weighted	Points	1/12 Basis Point $	Monthly	Cum. $	Period Total $
Jan	7.00%	2.00%	0.0500	250.0%	1.3	10.0	3,261	32,610	32,610	
Feb	6.00%	2.00%	0.0400	200.0%	1.0	10.0	3,263	32,630	65,240	
Mar	4.50%	2.00%	0.0250	125.0%	0.6	6.0	3,291	19,746	84,986	
Apr	2.97%	2.00%	0.0097	48.5%	0.2	2.0	3,298	6,596	91,582	
May	2.84%	2.00%	0.0084	42.0%	0.2	2.0	3,301	6,602	98,184	
June	2.68%	2.00%	0.0068	34.0%	0.2	2.0	3,320	6,640	104,824	
July	2.53%	2.00%	0.0053	26.5%	0.1	1.0	3,325	3,325	108,149	
Aug	2.25%	2.00%	0.0025	12.5%	0.1	1.0	3,353	3,353	111,502	
Sept	2.06%	2.00%	0.0006	3.0%	0.0	0.0	3,378	0	111,502	
Oct	2.08%	2.00%	0.0008	4.0%	0.0	0.0	3,384	0	111,502	
Nov	2.03%	2.00%	0.0003	1.5%	0.0	0.0	3,386	0	111,502	
Dec	2.01%	2.00%	0.0001	0.5%	0.0	0.0	3,394	0	111,502	111,502

Notes:

Column(1)-Actual CEMI5 for the same 12 month period as Column(7). Percent of customers experiencing more than 5 outages.

Column(2)-CEMI5 Standard is 2% of customers experience more than 5 outages in a consecutive 12 month period.

Column(3)-The amount by which CEMI5 Standard is exceeded.

Column(4)-Percent Variance. Exceeded Amount divided by the CEMI5 Standard and rounded to the nearest tenth.

Column(5)-Weighted Variance. Percent Variance times a weight of 0.5 and rounded to nearest tenth.

Column(6)-Variance Points. Weighted Variance times 10 but not exceeding 10.

Column(7)-1/12 Basis point of jurisdictional equity as reported on PSC monthly surveillance reports.

Column(8)-Monthly Refund Amounts. Variance Points times Basis Points.

Column(9)-Accumulated Monthly Refund Amounts.

Column(10)-Sum of all refund amounts for the period.