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GULF POWER COMPANY  
Before the Florida Public Service Commission  
Direct Testimony of  
W. P. Bowers  
In Support of Rate Relief  
Docket No. 891345-EI  
December 15, 1989

Q. Please state your name, address and occupation.

A. My name is W. Paul Bowers. My business address is 500 Bayfront Parkway, Pensacola, FL 32501. I am employed by Gulf Power as Director of Marketing and Load Management.

Q. Please describe your education and business background.

A. I received a Bachelor of Science Degree in Public Administration/Political Science from the University of West Florida. I also have a Master of Science Degree in Management from Troy State University. My career at Gulf Power started in 1979 when I joined the Company as Residential Marketing Representative. I have held positions of increasing responsibility, including Supervisor of Residential Sales, that have broadened my knowledge of utility marketing and marketing planning. I have appeared before this Commission on conservation related matters. I have held leadership positions with the Southeastern Electrical Exchange and served on several task forces for the Southern electric system in developing strategic plans for the 90s. I have been an

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1 instructor at Auburn University's Engineering Extension  
2 service for six years and currently serve on the Business  
3 Advisory Council education systems in Northwest Florida.  
4 In my current position as Director of Marketing and Load  
5 Management, I am responsible for directing the Company's  
6 activities in meeting our customers' needs through energy  
7 services that fulfill their expectations of an electrical  
8 supplier.

9  
10 Q. Have you prepared an exhibit that contains information to  
11 which you will refer in your testimony?

12 A. Yes.

13 Counsel: We ask that Mr. Bowers'  
14 Exhibit, comprised of  
15 5 Schedules be marked  
16 for identification as  
17 Exhibit \_\_. (WPB-1).

18  
19 Q. What is the purpose of your testimony?

20 A. The purpose of my testimony is to justify the Company's  
21 Customer, Information and Sales Expenses contained in the  
22 1990 test year. I will describe the purpose of the  
23 Marketing and Load Management Department; how and why the  
24 Company markets its product; and finally, I will justify  
25 the specific programs we are asking to be included in the

1 test year expenses.

2

3 Q. What are the specific activities that are handled by or  
4 through the Marketing and Load Management Department?

5 A. Specific activities include load research, customer  
6 forecast, kilowatthour forecast, base rate revenue  
7 forecast, demand forecast, customer service and  
8 information programs, conservation programs, marketing  
9 planning, technology assessment, market research, load  
10 research tape translation and analysis, direct customer  
11 contact and program monitoring.

12

13 Q. What are the responsibilities of the Marketing and Load  
14 Management Department?

15 A. The Marketing and Load Management Department is assigned  
16 the responsibility of formulating and implementing a  
17 corporate marketing strategy that is mutually beneficial  
18 both to our customers through cost-effective load-growth  
19 management and to our Company through the prudent  
20 commitment of costly facilities. Marketing is expected  
21 to know the needs of our present and prospective  
22 customers, to plan and develop marketing programs geared  
23 to meeting those needs in a profitable manner, to  
24 coordinate internally among those departments with those  
25 organizations and agencies that affect the success of our

1 strategy, and to assure that the Company is suitably  
2 prepared for program implementation in the marketplace.

3

4 Q. Please describe Gulf Power's overall marketing philosophy  
5 and policies.

6 A. First of all, our marketing philosophy and policies are  
7 an outgrowth of our corporate purpose, or mission. This  
8 corporate mission is to provide adequate electric service  
9 to all customers at the lowest possible price while  
10 earning an adequate return on the capital for investors  
11 who have provided the funds to make such service  
12 possible. Consistent with this corporate purpose, our  
13 basic overall marketing policy is to be the competitive  
14 choice energy supplier in Northwest Florida by providing  
15 superior value for the services which improve the quality  
16 of life and the business operations of our customers. As  
17 this overall marketing policy is carried out, we are  
18 guided by the recognition that our success is dependent  
19 upon gaining and retaining the business confidence of our  
20 customers. Since our service is an integral part of our  
21 customers' businesses or quality of life, we cannot  
22 expect to be their energy supplier of choice if we do not  
23 have their confidence.

24

25 Q. How do you determine what programs are developed and



1           **implemented?**

2    **A.**    **Company statistics, customer feedback, and marketing**  
3           **program performance are monitored for trends in the**  
4           **marketing environment. In addition, marketing research**  
5           **is conducted to identify emerging customer consumption**  
6           **patterns, preferences, and technological applications.**  
7           **This information is compiled, interpreted, and contrasted**  
8           **with long-term expansion plans and financial**  
9           **considerations to establish appropriate programs for**  
10          **implementation in the marketplace. Programs are also**  
11          **developed and implemented based on regulatory**  
12          **requirements included in the National Energy Act, Public**  
13          **Utilities Regulatory Policies Act and the Florida Energy**  
14          **Efficiency and Conservation Act.**

15  
16    **Q.**    **What marketplace changes have occurred in recent years**  
17           **that would affect Gulf's marketing efforts?**

18    **A.**    **A review of the proceedings and issues that have been**  
19           **heard by this Commission in recent years gives us an idea**  
20           **of the changes that have occurred in the energy market.**  
21           **Examinations of wheeling and transmission access and rate**  
22           **issues, retail sales by private suppliers, standby**  
23           **service and rates therefore, non-firm service and rates**  
24           **therefore, incentive rates, customer-specific load**  
25           **retention and cogeneration deferral rates and contracts,**

1 deposit policies and practices, energy and capacity  
2 payments offered for Q.F. power, energy and capacity  
3 payments to solid waste facilities, and transmission  
4 facility construction and ownership disputes are  
5 indicative of the number and broad range of factors  
6 increasing the competitiveness of the energy market  
7 during the past few years.

8

9 Q. What is the relationship between this increased  
10 competition in the energy market and Gulf's increased  
11 marketing efforts?

12 A. Since Gulf's last rate case, two of Gulf's largest  
13 industrial customers notified us, at separate times, that  
14 they were planning to install their own generation,  
15 eliminating, or nearly eliminating, their need for  
16 electric service from Gulf Power. The result of this  
17 change in status would have been increased overall costs  
18 to all of Gulf's customers. In each case, we learned of  
19 the customers' intentions through our information  
20 exchanges and contacts with them. We were able to work  
21 with those customers to prepare special contracts which  
22 represented alternatives beneficial to the individual  
23 contracting customer as well as all of Gulf's other  
24 customers. We brought those special contracts to this  
25 Commission for approval, and both were approved as cost

1           beneficial to Gulf's ratepayers over the life of those  
2           contracts. Our marketing and customer service presence  
3           provided both the opportunity and mechanism to reach this  
4           solution which benefits all concerned.

5           In 1985, Gulf Power requested approval of a new rate  
6           rider to be offered to the Company's larger commercial  
7           and industrial customers. This new rate rider,  
8           Supplemental Energy (SE), has been and still is a  
9           marketing tool which helps the Company improve its load  
10          factor through increased off-peak kilowatthour (kwh)  
11          sales without creating the need for additional generating  
12          capacity. The new pricing mechanism was conceived and  
13          developed following communications with our customers and  
14          careful examinations of the energy alternatives available  
15          to them, the Company's marketing objectives, and the  
16          Company's existing price menu. The SE rider was approved  
17          by this Commission and remains a very important marketing  
18          tool for Gulf Power.

19          These are examples of marketing activities that were  
20          made necessary by the increased competition in the energy  
21          market. All were developed using extensive customer  
22          input. The higher degree of market presence by  
23          alternative energy suppliers contributed substantially to  
24          the need for these activities. These competitive  
25          conditions continue to exist and, in fact, are still

1 growing. The result is a continuing need for increased  
2 marketing efforts associated with our customer service,  
3 information exchange, and sales activities. As was the  
4 case in the example mentioned, the ultimate result of  
5 these activities is lower overall costs for all of Gulf's  
6 customers.

7  
8 Q. Are your customers expecting an increase in the marketing  
9 services provided by Gulf Power?

10 A. Absolutely. Our customers are demanding more and better  
11 marketing services.

12 To illustrate our industrial customers' expectation  
13 of quantity and quality in utility services, I have  
14 attached, as Schedule 1, a copy of a brochure titled "Air  
15 Products' Quality Management Process - A Guideline for  
16 Utilities." This document was provided to us by Air  
17 Products in 1988, and serves as a vendor specifications  
18 sheet for their utility service suppliers. I urge the  
19 Commission to note on the last page of the brochure that  
20 some of the utility supplier certification standards  
21 listed go beyond the mere provision of kilowatthours.  
22 The customer is concerned with marketing activities such  
23 as effective sales representation, innovative/competitive  
24 proposals and responsiveness to Air Products' needs.  
25 Factors such as utility rates based on cost-of-service;



1 reliability of supply consistent with contract; timely  
2 notice of proposed rate changes or other actions  
3 affecting costs; and adequate and reasonably priced fuel  
4 sources are also included. This is only one example.  
5 There are others and every indication is that this trend  
6 will continue to spread. Our industrial customers must  
7 remain competitive in the market place. We must continue  
8 our efforts to understand these businesses so that we may  
9 serve them better for the benefit of all our ratepayers.  
10 Our industrial customers really do expect, even demand,  
11 more and better marketing services.

12  
13 Q. What has been the reaction of your residential customers  
14 concerning the services you offer?

15 A. Gulf conducted a survey in 1988 to determine our  
16 residential customers' reaction to our programs. The  
17 respondents were asked a series of questions relating to  
18 awareness of programs, whether or not they had  
19 participated and their opinion of these programs.  
20 Respondents' opinions are summarized in Schedule 2.  
21 Based on this survey, we are convinced that our  
22 residential customers are receiving the kinds of services  
23 they deem most important.

24 In the last three years alone, we have received and  
25 fulfilled requests from customers for: (a) information

1 on such subjects as heat pumps, our levelized billing  
2 payment plan, outdoor lighting, and how to read a meter;  
3 (b) assistance with lighting planning and kitchen layout;  
4 and (c) presentations on energy related subjects to  
5 Optimist Clubs, Garden Clubs and Circles, Women's Clubs  
6 and Units, Kiwanis Clubs, Exchange Clubs, Rotary Clubs,  
7 Sertoma Clubs, Area Agency on Aging, Council on Aging  
8 Congregate Sites, Teachers Groups, Homemakers Extension  
9 Groups, Business Brown Bag Meetings, YMCA, Military Wives  
10 Groups, Girl Scouts, Boy Scouts, Rangers, School Classes,  
11 Boys Clubs, Girls Clubs, and 4-H.

12

13 Q. Has the level of Gulf's marketing activities and emphasis  
14 increased in recent years?

15 A. Yes. We are providing new customer education and  
16 information services to customers in all market segments.  
17 We are also providing additional energy analysis,  
18 including assisting our customers with cost/benefit  
19 analysis for their energy supply options. These are some  
20 of the new services which we are providing our customers.

21

22 Q. Is Gulf actively selling energy?

23 A. Yes, Gulf selectively sells energy but only when it is  
24 cost-effective to our ratepayers. Gulf attributes its  
25 success in the marketplace to its ability to sell

1 concepts to our customers such as conservation, load  
2 management and general economic efficiency. These skills  
3 have also enabled Gulf to selectively sell energy. In  
4 order to be the competitive choice energy supplier in  
5 Northwest Florida, we must minimize overall unit cost of  
6 service, thereby enabling our customers to maximize  
7 overall value received from our service. A few years  
8 ago, load factor improvement strategies were incorporated  
9 into our marketing plan. The load factor improvement  
10 strategies call for increased kwh sales, primarily during  
11 non-peak periods, in order to increase the utilization  
12 and efficiency of existing and planned facilities. Our  
13 load factor improvement strategies are a vital part of  
14 our commitment to minimize overall unit cost of service.

15

16 Q. You stated earlier that Gulf is actively selling energy  
17 selectively. Is the Company actively selling energy in  
18 the industrial market segment?

19 A. Yes. Additional industrial sales are an important part  
20 of our load factor improvement strategies. As I stated  
21 earlier, load factor improvement, which increases the  
22 utilization and efficiency of Gulf's facilities, can  
23 result in lower overall unit cost of service. Another  
24 very important reason for our emphasis in this market  
25 segment is the amount the Company earns on sales in that

1 market. Our return on investment in that market segment  
2 is equal to the return on our overall retail business and  
3 significantly higher than our return in the residential  
4 class. A kilowatt utilized by the residential class at  
5 about 50 percent load factor and a lower return is of far  
6 less benefit to the Company and its customers than the  
7 same kw utilized by the industrial class at a load factor  
8 in excess of 70 percent and a higher return. Therefore,  
9 if a kw can be "conserved" in the residential market  
10 without reducing comfort, and in most cases improving it,  
11 and made available for "sale" in the industrial market,  
12 total cost to all ratepayers is reduced.

13

14 Q. Has the Commission recognized the benefits resulting from  
15 off-peak energy sales to all ratepayers?

16 A. Yes. During the last three years, the Florida Public  
17 Service Commission has approved our Supplemental Energy  
18 rider and special contracts with two of our large  
19 industrial customers (Monsanto & Air Products) for which  
20 the stated purpose was and is to increase and retain kwh  
21 sales. The Commission recognizes that these sales are  
22 not the cause of expenditures for additional production  
23 capacity. In fact, in Order No. 14442, Docket No.  
24 850102-EI, dated June 6, 1985, it was stated that without  
25 these loads the ratepayers of Gulf Power could incur



1 higher costs for the energy they buy.

2

3 Q. Why do your marketing efforts concentrate on increasing  
4 off-peak energy sales?

5 A. Gulf's ongoing market and load research efforts reveal  
6 definite changes taking place in market conditions. We  
7 face an increasingly competitive market environment which  
8 has created a significant risk of losing large blocks of  
9 commercial and industrial loads for which Gulf has  
10 already constructed facilities to serve. Loss of high  
11 load factor loads on Gulf's system has occurred and will  
12 continue to occur due to foreign competition,  
13 cogeneration, higher customer production costs, and  
14 outdated customer facilities and technology.

15 Gulf Power Company's system annual load factor is  
16 currently lower than any of the other Southern electric  
17 system operating companies, and the growth in the general  
18 economy is steadily declining. This is because we have a  
19 lower concentration of industrial customers. Loss of  
20 high load factor sales will hurt contingency planning and  
21 can only result in further deterioration of the Company's  
22 load factor. The end result will be the need for higher  
23 rates and higher fuel charges to our customers. As a  
24 result of this environment, Gulf Power Company, in  
25 addition to the other companies in the Southern electric

1 system, has developed long-term plans to insure the  
2 lowest cost, most reliable electricity to its customers.  
3 A vital part of this strategic plan includes conservation  
4 and marketing efforts begun by the Company over ten years  
5 ago. The ultimate objective, which Gulf's management  
6 believes to be in the best interests of Gulf's customers,  
7 is to minimize overall costs of service through  
8 increasing the efficiency and utilization of existing  
9 facilities while reducing requirements for future  
10 facilities. This strategy conserves corporate  
11 investment, utilizes it more efficiently, and holds down  
12 rates to the consumer by spreading fixed costs over more  
13 kilowatthours.

14 The overall plan is a long-term one, encompassing  
15 conservation, selected load building, pricing  
16 alternatives, load management options, cogeneration and  
17 other demand side options as well as supply side  
18 alternatives, and encouraging the economic growth of  
19 Northwest Florida.

20  
21 Q. What benefits have accrued to your ratepayers as a result  
22 of your marketing efforts?

23 A. Utilities have traditionally brought plant in service  
24 just prior to the time it was needed. More often than  
25 not this would be a large base load unit. When the plant

1 was put in service, little or none of the capacity would  
2 actually have been sold. As a result, the costs of this  
3 plant were spread over the same number of units of sales  
4 (kwh) that existed prior to its operation, thereby  
5 creating a significant impact on the utility's customers.  
6 The amount of rate relief we are asking for in this case  
7 is lower than it would have been, because we have "sold"  
8 parts of Plants Daniel and Scherer before they were  
9 brought into the rate base.

10 Our marketing strategies developed in 1984 were  
11 designed to avoid filing for rate relief by increasing  
12 off-peak sales to a level that would generate revenues to  
13 cover the cost of Plants Daniel and Scherer. Our efforts  
14 have been focused on increasing off-peak sales. The  
15 growth in peak-hour demand is simply a result of natural  
16 growth in all classes of customers, not a direct result  
17 of our marketing efforts. The fact is that these  
18 programs have significantly reduced the impact of our  
19 bringing Daniel and Scherer into rate base. Gulf is  
20 justifiably proud of the results of its efforts in this  
21 regard and should be supported.

22

23 Q. What would happen if the Commission forced Gulf to cease  
24 and desist all marketing efforts?

25 A. The best example would be to describe what happened to

1 the utility industry from 1970 to 1985. The oil embargo  
2 in the early 70s had a devastating impact on the nation,  
3 especially on energy suppliers. Prices skyrocketed and  
4 utilities all over the country were blamed by their  
5 customers and their regulators. Utilities had to close  
6 down their sales departments because they were hounded  
7 out of the marketplace. As we all know, significant  
8 amounts of plant were already committed and were put in  
9 service, exacerbating the problem.

10 The industry was in chaos as customers and utilities  
11 fought each other, and the regulators were caught in  
12 between. Everybody was losing and the nation was  
13 suffering as a result. This scenario actually occurred  
14 at the national level, and it is highly likely that it  
15 can occur on a regional level if the overall economics of  
16 a utility's service area are not considered.

17

18 Q. What happened next?

19 A. Several pieces of federal legislation were passed that  
20 had the effect of prohibiting utilities from selling  
21 their product. In Florida the FEECA Act was passed  
22 requiring the Commission to set goals and mandate  
23 programs beginning in 1980 and implemented in 1981.  
24 Utilities began offering conservation services but with a  
25 unique twist: gas utilities were given funds to



1           implement programs to aggressively market their product,  
2           while at the same time the electric utilities were  
3           similarly funded to reduce their energy sales and were  
4           encouraged to promote the use of natural gas. This  
5           environment continued until the mid 80s when another  
6           change was identified.

7

8    Q.    What was this change?

9    A.    Electric utilities returned to the marketplace realizing  
10          that some sales were beneficial and could actually reduce  
11          the cost to customers. Reduced costs are achieved by  
12          improving load factor through off-peak and valley period  
13          sales, thereby spreading more units across investments.  
14          Certain electric utilities were able to do this without  
15          adversely impacting peak-hour demand and the efforts on  
16          the part of utilities and regulators to conserve scarce  
17          resources.

18

19   Q.    Why don't the utilities aggressively promote their  
20          product if the benefits are there?

21   A.    Some of them have. Others have not been allowed to do so  
22          due to legislative and regulatory constraints which have  
23          failed to respond to this changing environment.

24

25   Q.    Should regulators assume part of the responsibility?

1 A. If blame were to be placed, then it would be on both the  
2 utilities and the regulators. As an industry, utilities  
3 have not been able to totally persuade regulators that we  
4 understand the marketplace, customers, competition, and  
5 that we will not let history repeat itself. At the same  
6 time regulators have, in numerous instances, refused to  
7 address these changes and are sticking to the policies of  
8 the early 80s. The Florida Commission has been quicker  
9 to react to the changes that have occurred, especially  
10 over the past few years.

11 What virtually all regulators and many utilities  
12 have failed to recognize is that conservation and the  
13 marketing of off-peak energy are not mutually exclusive.  
14 They can, when properly combined, be of tremendous  
15 benefit to the customers. What we are really talking  
16 about is the efficient use of energy. This is how Gulf  
17 has interpreted FEECA. We believe that the legislature  
18 never intended to put the electric utilities in the state  
19 out of the business of marketing their products. The  
20 legislature simply intended that the customers use all  
21 sources of energy in the most efficient manner.  
22 Legislating consumer behavior concerning energy  
23 purchasing decisions will not be successful; you cannot  
24 legislate consumer thought.

25

1 Q. Where does Gulf fit into all this?

2 A. The trials and tribulations experienced by utilities  
3 throughout the nation were not experienced by Gulf Power.  
4 We were active participants in the promotional practices  
5 of the 60s and early 70s in programs such as the Gold  
6 Medallion Home. In the mid-70s, the changes previously  
7 discussed were anticipated, and Gulf implemented a wide  
8 range of conservation programs beginning in 1976 with the  
9 Good cents Home and Residential Energy Audits: five  
10 years before anyone else in the state. Commercial and  
11 Industrial programs were implemented in 1979. When FEECA  
12 was passed, Gulf already had the programs in place and  
13 had achieved significant results. These same programs  
14 were included, without modification, in our conservation  
15 plan approved in 1981 for Conservation Cost Recovery.

16 Gulf did not experience the negative customer and  
17 regulatory reactions that other utilities experienced  
18 because we knew who our customers were and what they  
19 wanted.

20 Our price remained stable and continues to be one of  
21 the lowest in Florida and one of the lowest in the  
22 nation. Gulf's record of consumer complaints about  
23 reliability and customer services is one of the lowest in  
24 the state. We have played a major role in stabilizing  
25 the economy of our service area. Our operation and

1 maintenance expenses and cost of providing service are  
2 among the lowest in the nation.

3 We are where we are and have been able to accomplish  
4 this high level of customer satisfaction because of our  
5 presence in the market. Were our marketing efforts to be  
6 gutted, as some have proposed, these accomplishments  
7 would soon be lost. We have little doubt that very soon  
8 after having ceased these efforts, we would be forced  
9 back into the marketplace by our customers and this  
10 Commission at a much higher cost than if simply allowed  
11 to continue and maintain our current efforts. Customer  
12 actions are the source of all solutions. When the  
13 information and programs they demand are provided to  
14 them, they will determine the final outcome.

15  
16 Q. Since marketing has enabled you to anticipate the future,  
17 what is going to happen next?

18 A. We do not know for sure, but we are certain that with  
19 marketing we will be in a better position to anticipate  
20 and react to change quicker and more effectively than we  
21 would be able to without marketing.

22 With market research, we can accurately determine  
23 what customers expect in their changing environment.  
24 They expect their utility to offer more stable voltages  
25 needed for sensitive electronic equipment, innovative



1 account and billing services, and greater comfort and  
2 efficiency in their homes. Customers will and are  
3 demanding a more responsible utility to meet their needs,  
4 and if we are not allowed by regulators to respond to the  
5 market, the future is bleak. The marketplace is not the  
6 same as it was in the 70s or early 80s, and it is  
7 changing more rapidly as we enter the 90s. Customers  
8 will find other sources for their energy needs. Some of  
9 our industrial customers have already taken that course  
10 of action. If we are not able to meet this problem, we  
11 will find ourselves raising our price to cover our costs  
12 over fewer and fewer customers. We do not want that to  
13 happen. We want to be the energy supplier that is  
14 responsive to customer needs. Marketing is vital to our  
15 future success in that regard.

16 We are asking the Commission to recognize our track  
17 record and abilities and to support our total effort to  
18 continue providing low cost reliable electric service to  
19 our customers. Marketing, which provides the link to our  
20 customers, is the key to this endeavor.

21

22 Q. Do you have any final comments with which you would  
23 conclude this portion of your testimony?

24 A. We recognize that some of the marketing philosophies and  
25 principles which we are embracing may be new to the

1 Commission, and in many cases, they are also new to us.  
2 Significant changes in the energy services marketplace,  
3 both in the recent past and expected in the near future,  
4 have caused us to update our marketing philosophies. New  
5 strategies and programs have been developed and  
6 implemented after careful consideration. Each of these  
7 strategies and individual programs are designed to play a  
8 role in accomplishing our marketing objective, which is  
9 reducing overall cost to our customers.

10 Our customers would not tolerate merely reading  
11 meters and rendering bills. Surely this Commission does  
12 not expect Gulf Power to limit its business function to  
13 these activities.

14

15 Q. Mr. Bowers, how are the expenses for the Marketing and  
16 Load Management Department recovered?

17 A. A portion of our expenses is recovered through the  
18 Energy Conservation Cost Recovery (ECCR) mechanism and  
19 the balance through base rates. We are asking for  
20 approval to recover \$5,426,000 or 77 percent of our total  
21 1990 expenses through base rates.

22

23 Q. What is the 1990 benchmark deviation for the Marketing  
24 Department?

25 A. The Department is under the benchmark by \$281,000 for

1 the 1990 test year.

2

3 Q. Have you made any adjustments to the 1984 approved  
4 expenses?

5 A. Yes, an adjustment was made to include expenses for  
6 programs that were being recovered through base rates in  
7 1984 and subsequently transferred to ECCR during our 1984  
8 retail rate case. The total amount of this adjustment is  
9 \$2,248,000. I will discuss later in my testimony the  
10 justifications for the programs that we are requesting to  
11 be included in base recovery in the 1990 test year.

12

13 Q. Why did you make this adjustment?

14 A. Prior to Gulf's 1984 rate case, approximately 61 percent  
15 of the Department's expenses were recovered through base  
16 rates and the balance through ECCR. Gulf's 1984 filing  
17 sought to continue this ratio. Although the total  
18 dollars were largely unaffected, the Commission ruled  
19 that approximately 61 percent of the expenses should be  
20 recovered through the ECCR mechanism. As a result of  
21 this decision, a revised filing to reflect this change  
22 was submitted. This decision, which Gulf fully  
23 supported, had the effect of artificially lowering the  
24 1984 Benchmark by \$1,625,000. Schedule 3 shows how this  
25 decision impacts the 1990 Benchmark calculation.



1 Q. Mr. Bowers, would you now specifically address the  
2 individual programs and their expenses that you are  
3 requesting to be included in the 1990 test year?

4 A. Yes, there are expenses for programs that we are  
5 requesting to be included in this test year. The four  
6 programs are Good cents New Home, Good cents Improved  
7

8 Q. What benefits does the Good cents Home Program provide to  
9 Gulf Power Company's ratepayers which are not considered  
10 in the Commission's cost-effective methodology?

11 A. Many other quality customer services are offered through  
12 the Good cents Home Program which are not considered in  
13 Home, Energy Education and Presentations/Seminars. I  
14 will address each program individually beginning with the  
15 Good cents New Home Program.  
16

17 Q. Is the Good cents New Home Program cost-effective?

18 A. Yes, the Good cents Home program is cost-effective based  
19 on the FPSC approved cost-effectiveness evaluation  
20 methodology. While there are three criteria used by the  
21 Commission, they are not given equal weight in  
22 determining cost-effectiveness. In Order No. 9677,  
23 November 26, 1980, Docket No. 800671-EG(MC), on page 2,  
24 the Commission states, "A cost benefit analysis of  
25 conservation plans should be limited to costs and



1 benefits experienced by the utility alone." The Order  
2 further states that, "Analysis of customer costs and  
3 benefits involves many assumptions, some of which are  
4 speculative, and some of which are not quantifiable, and  
5 such an analysis is somewhat superfluous...."

6

7 Q. What benefits does the Good Gents Home Program provide to  
8 Gulf Power Company's ratepayers which are not considered  
9 in the Commission's cost-effective methodology?

10 A. Many other quality customer services are offered through  
11 the Good Gents Home Program which are not considered in  
12 the Commission's cost-effective methodology. It is  
13 important to remember that these services would not be  
14 offered unless they were sought by customers. These  
15 services include, but are not limited to:

16 1. Design assistance - Gulf Power representatives  
17 regularly assist customers in determining the most  
18 efficient design options when planning the  
19 construction of a new home. These options include  
20 orientation, window placement and specifications,  
21 equipment sizing and selection, duct design, and  
22 thermal options.

23 2. Education - Representatives work closely with  
24 builders, heating and air-conditioning dealers,  
25 insulation contractors, real estate salespeople,

1            lenders, and customers to provide any information  
2            needed to build and sell energy efficient new homes.  
3            This includes information on emerging technologies,  
4            technical services, and promotional tools available  
5            in the market.

6            3.    Inspection - Gulf Power Representatives are required  
7            to provide inspections of Good Gents Homes during  
8            construction to insure quality installation of  
9            energy efficient features and to verify that the  
10           work meets the standards required for certification.

11           4.    Follow-up - The Good Gents Home Call is the final  
12           part of the certification process. Once the  
13           customer takes occupancy of a Good Gents Home, the  
14           representative makes an appointment to discuss the  
15           energy efficient features in detail, explain the  
16           type and operation of energy efficient heating and  
17           air-conditioning equipment, explain the effect of  
18           lifestyle on energy consumption, and show the  
19           customer how to read the meter.

20           Each of these services have contributed to the  
21           success and longevity of the Good Gents Home Program.  
22           Though they are not quantifiable as defined by the  
23           Commission's cost-effectiveness test, they do provide a  
24           valuable service to the customer.

25

1 Q. Why isn't the Good Gents Home Program included in Energy  
2 Conservation Cost Recovery (ECCR)?

3 A. The program was removed from ECCR by mutual agreement  
4 between Staff and the Company in October 1987, because  
5 the benefit to cost ratio was considered marginal for  
6 participating customers. Staff's recommendation in  
7 Docket No. 860718-EG, June 22, 1988, page 5 states:  
8 "This provision should not be viewed as Staff opposition  
9 to utility involvement in improving building standards or  
10 encouraging compliance with the Code. These activities  
11 may be appropriate forms of customer service."  
12

13 Q. Why do you continue to operate the Good Gents Home  
14 Program when you have the Florida Energy Efficiency Code  
15 for building construction?

16 A. The Good Gents Home Program offers superior services and  
17 benefits to our customers which are not provided through  
18 the Code. The Good Gents Program provides a vehicle to  
19 optimize compliance with the Code which is not  
20 universally enforced in Northwest Florida. The Code is,  
21 in actual practice, the minimum standards for building  
22 construction in the state. The Code does not provide the  
23 signals or incentives for builders to include the  
24 "optimum" in energy conserving technologies in new  
25 construction. Examples of optimization of the Code



1 include proper installation and sizing of heating and  
2 air-conditioning equipment to insure savings are realized  
3 and to encourage efficiencies beyond those set as  
4 minimum. Proper installation also insures the service  
5 and maintenance expenses will be at a minimum and the  
6 life of the equipment will be optimized.

7 We are absolutely convinced that without our  
8 involvement in and promotion of the Good Cents Home  
9 Program, the number of homes meeting even the minimum  
10 standards set by the Code would be far fewer than is now  
11 the case. If we are forced to shut this program down,  
12 the tremendous gains which have been made beginning in  
13 1976 in educating the public of the importance of  
14 constructing energy efficient new homes will be lost.  
15 This is not in the customers' best interest. Customer  
16 demand for service will not end with the cancellation of  
17 this program or any other program. What will end is the  
18 Company's ability to respond to their demands.

19

20 Q. Mr. Bowers, what is the next program you are seeking  
21 expense recovery for in this case?

22 A. The next program is the Good Cents Improved Home Program.

23

24 Q. Please describe the program.

25 A. The Good Cents Improved Home Program is designed to



1 encourage energy efficient retrofitting and remodeling in  
2 all types of existing residential dwellings. Since the  
3 inception of the program in 1977, there have been over  
4 10,000 residential dwellings retrofitted to meet Gulf's  
5 Good Gents Improved Home Program qualifications. The  
6 program utilizes field personnel in direct one-on-one  
7 contact with trade allies (Heating, Ventilation and Air  
8 Conditioning contractors, insulation contractors, window  
9 and door manufacturers, realtors and lenders) and  
10 customers to promote the use of the latest conservation  
11 measures. Incorporated into the program are training,  
12 general public education activities, energy analysis on  
13 dwellings, cost-effective analysis on all measures,  
14 advertisements, and dissemination of materials concerning  
15 residential conservation. Many customers learn of this  
16 program through educational presentations and choose to  
17 retrofit their existing homes as a result of the  
18 information they receive.

19  
20 Q. Is the Good Gents Improved Home Program cost-effective?  
21 A. Yes. In Gulf Power Company's answers to Staff's First  
22 Set of Interrogatories in Docket No. 880002-EG, the  
23 Company showed that the program is cost-effective to all  
24 ratepayers, participating customers, and to the State of  
25 Florida based on the FPSC approved cost-effectiveness

1 evaluation methodology.

2

3 Q. Can you substantiate the savings you claim in your  
4 cost-effectiveness evaluation?

5 A. Yes. We know from our load research that heating and  
6 cooling are peaking loads. We also know that by raising  
7 the efficiency of equipment, coupled with a reduction in  
8 the sizing of that equipment due to increased thermal  
9 integrity required in the Good Gents Improved Home  
10 Program, will result in substantial savings. For  
11 example:

12 7.0 SEER @ 36,000 BTUH = 5.14 kw

13 9.0 SEER @ 30,000 BTUH = 3.33 kw

14 Net kw reduction at system peak-hour = 1.81 kw

15 Gulf has worked with individual customers both  
16 before and after retrofitting and is certain that demand  
17 and energy savings are accruing to participants in the  
18 Good Gents Improved Home Program. Again customers need a  
19 reliable source to turn to for information and  
20 assistance. This program provides the vehicle for the  
21 thousands of customers who need help.

22

23 Q. Why were the program costs disallowed for approval  
24 through ECCR?

25 A. Staff analysis on April 20, 1989, indicated that the Good

1           **cents Improved Home Program should be removed from ECCR**  
2           **for two reasons:**

- 3           1.   **Gulf has not performed a post retrofit analysis on**  
4               **the program to validate the claimed kw and kwh**  
5               **savings identified through Gulf's engineering**  
6               **estimates.**
- 7           2.   **The payback to participating customers was marginal**  
8               **(1.045 to 1).**

9

10   **Q.   Has Gulf Power Company performed a post retrofit analysis**  
11   **on the Good cents Improved Home Program?**

12   **A.   Gulf has investigated a post retrofit analysis in the**  
13   **past; however, several factors contributed to the**  
14   **Company's belief that the benefits did not justify the**  
15   **cost of the project. The sampling process required for**  
16   **statistical validity would require a large number of**  
17   **homes that met the standards for Good cents to an equal**  
18   **number of inefficient homes of similar characteristics in**  
19   **size, appliance loads, and occupancy. In order to**  
20   **accurately track consumption patterns, the project would**  
21   **require the monitoring period to be at least two years.**

22           **For these reasons, the Company believes that the**  
23   **benefits of this type of research do not warrant the**  
24   **cost.**

25



1 Q. What about the issue of payback?

2 A. Gulf has shown through the cost-effectiveness analysis  
3 that this program provides a payback to the participant.  
4 However, Staff has taken the position that, because the  
5 payback to the participant is marginal, they will  
6 discontinue to participate in the future, resulting in  
7 the program benefits turning negative.

8 The Company has repeatedly tried to point out to the  
9 Staff that economic payback in and of itself is not the  
10 determining factor for a customer's participation in this  
11 program. As stated in Commission Rule 25-17.008, the  
12 value of a program should be primarily judged on the  
13 benefits provided to all customers of a utility.  
14 Customers continue to participate in the program and have  
15 a high level of satisfaction with the services provided  
16 in spite of Staff's assertion that they would not be  
17 rational to do so. On page 2 of Order No. 9677, November  
18 26, 1980, Docket No. 800671-EG(MC), the Commission  
19 states, "Analysis of customer costs and benefits involves  
20 many assumptions, some of which are speculation, and some  
21 of which are not quantifiable, and such an analysis is  
22 somewhat superfluous...."

23 Gulf Power has historically shown its ability to  
24 maintain a high level of customer participation in this  
25 program. The reason for this is that customers recognize



1 and place value on other factors associated with this  
2 program. These include, but are not limited to increased  
3 comfort and resale value. These factors are not taken  
4 into account in the cost-effectiveness methodology but  
5 have a major impact on customer participation. The net  
6 present value of the savings associated with this program  
7 to all ratepayers of Gulf Power Company is 3.461 to 1.  
8 The Company believes that this justifies our  
9 participation in the program and that it is unfair to  
10 disallow such a program based on assumptions concerning  
11 participation before they occur.

12  
13 Q. Are there any other benefits which accrue to the  
14 ratepayers?

15 A. Yes. The Company, through its sponsorship of the Good  
16 cents Improved Home Program has a major impact on the  
17 quality of installation in the marketplace. Each job is  
18 inspected prior to a home being certified Good cents to  
19 ensure that the installation meets the standards required  
20 for certification. There are no other agencies in the  
21 marketplace which are available to assist the customer  
22 through inspections.

23 In addition, participation in this program helps  
24 Gulf Power improve load factor in the residential class.  
25 In the long run this helps all ratepayers through

1 efficiencies that assist the Company in offering the  
2 lowest rates possible.

3

4 Q. Please describe the Energy Education Program.

5 A. Energy education consists of services offered to all  
6 customers that are not specifically provided for in other  
7 marketing and customer service programs. The  
8 presentations are offered to present as well as future  
9 customers. Activities and programs for customer groups  
10 include appliance selection and use, residential electric  
11 system design, optional energy use and application for  
12 household tasks, residential interior lighting, energy  
13 management, lifestyle information and economic efficiency  
14 of energy use. The programs are designed to meet the  
15 customers' needs by providing them with the necessary  
16 information to enable them to understand how to optimize  
17 the benefits of their energy investment. The  
18 presentations promote wise choices so the customer will  
19 receive a high return on their energy dollars.  
20 Information is tailored to the customers' needs and  
21 presented without bias for the customers to choose what  
22 is best for them.

23

24 Q. What activities comprise your Energy Education Program?

25 A. All of the activities associated with this program are





1 reading. Children learn about energy conservation and  
2 adopt it as a routine part of their lives. Presentations  
3 include:

- 4 \* Magic of Power
- 5 \* Your First Home Away From Home
- 6 \* Electricity Your Most Valuable Resource
- 7 \* We're Talking About Electricity

8 Q. Mr. Bowers, would you please describe your  
9 Presentations/Seminars Program?

10 A. Presentations and seminars are educational tools offered  
11 to commercial customers. The presentations are  
12 customized to meet the individual needs of the customer  
13 and are used to educate customers regarding advanced  
14 end-use technologies. Customers attending these seminars  
15 range from corporation executives to local construction  
16 allies.

17  
18 Q. What are some of the topics of discussion?

19 A. Topics of discussion in the presentations and seminars  
20 include technology assessment, improved load factor,  
21 improved demand-side management, increased productivity  
22 and improved planning ability. Technology assessment  
23 benefits the customers through lower investment risk,  
24 lower life cycle cost and increased product quality.  
25 Customers request the seminars because of the complexity



1 of the energy-related issues facing them and the impact  
2 on the economic stability on commercial and industrial  
3 market segment.

4  
5 Q. Why aren't the expenses for these programs included in  
6 ECCR?

7 A. Staff's basic concern with these programs is that they  
8 are not quantifiable and do not have limits on  
9 expenditures under ECCR. In the Staff Analysis of Energy  
10 Education Programs throughout the state in Docket No.  
11 890002-EG it states, "We believe programs of this kind  
12 are a fundamental part of the customer service  
13 responsibility of the Company and, therefore, do not  
14 require special recovery." Staff further states that,  
15 "If the FEECA statute and ECCR were abolished tomorrow,  
16 customers would still be calling service offices  
17 inquiring about energy efficient products and uses. The  
18 company should and would provide such information on how  
19 to use its product wisely."

20  
21 Q. How does Gulf view the Staff's position regarding the  
22 Energy Education and Presentations/Seminars programs?

23 A. The Company feels that the ECCR mechanism offered the  
24 best mechanism to monitor the levels of expenditures in  
25 Energy Education. However, Gulf Power's primary position

1 is that these programs are an essential part of our  
2 business and must be continued. We agree with Staff that  
3 customers will always demand these services and the  
4 Company has an obligation to provide them. We feel that  
5 our expenditures in Energy Education Programs are prudent  
6 and will continue to be. The reason this issue is being  
7 addressed here is to ensure future recovery of these  
8 expenses through base rates, as recommended by Staff,  
9 rather than through ECCR.

10

11 Q. Would you summarize your position on these four programs?

12 A. Yes. Gulf Power has a proven track record of providing  
13 quality customer service programs that benefit our  
14 customers as well as the Company. When customers  
15 identify a need that we feel is our responsibility to  
16 provide, we do. Gulf Power Company does not look at the  
17 recovery mechanisms available and then design programs to  
18 fit those mechanisms. The high level of customer  
19 participation in these programs indicates that our  
20 customers demand them. We have an obligation to those  
21 customers, to our Company, and to the state of Florida to  
22 continue.

23 Gulf Power Company has made major investments in the  
24 development and implementation of these programs. The  
25 positive image enjoyed by the Good Gents Program is

1 greater than any other utility sponsored program in the  
2 history of our Company or any company in the state. If  
3 the Commission disallows future recovery of the expenses  
4 associated with these programs, the result will be  
5 disastrous. The Company will lose contact with its  
6 customers and trade allies, resulting in distrust and  
7 disinterest. These programs must be maintained so that  
8 as the Commission identifies program needs in the future  
9 our Company will be prepared to implement them at the  
10 lowest possible cost and highest level of participation.  
11 Should the Commission rule that the Company should get  
12 out of these programs now, only to restart these or  
13 similar programs at a later date, will require huge cash  
14 outlays with minimal participation and results.

15

16 Q. Mr. Bowers, what are your 1990 test year expenses for  
17 Economic Development?

18 A. The total expenses we are asking to be recovered  
19 are \$687,000. Schedule 4 shows the benchmark  
20 calculation.

21

22 Q. Mr. Bowers, please define economic development.

23 A. The definition of economic development is creating wealth  
24 through the mobilization of human, financial, capital,  
25 physical and natural resources to generate marketable

1 goods and services. Traditionally, economic development  
2 has been viewed as the "marketing" of Florida to domestic  
3 and foreign business and industry as a favorable place to  
4 relocate or expand their operations. The rapid emergence  
5 of global economic events such as heightened domestic and  
6 international economic competition, growing international  
7 trade, and rapid technological advancements, are  
8 mandating that economic development be looked at from a  
9 much broader perspective: one of assessing the strengths  
10 and weaknesses of an economy and making the investments  
11 necessary to improve the environment in which our  
12 existing businesses operate. Gulf Power has identified  
13 the need for and has committed resources to community  
14 development and not just generating economic growth.  
15 These activities, if successful, will be mutually  
16 beneficial to all ratepayers, society as a whole and the  
17 Company.

18  
19 Q. Why are utilities in general and specifically Gulf Power  
20 actively involved in community development?

21 A. Gulf Power Company has long recognized that its own  
22 well-being is directly tied to that of our community and  
23 that we have a direct stake in the community's overall  
24 development. For utilities in particular, community  
25 development is critical to the long-term success because



1 a utility is only as strong as the communities it serves.  
2 This has not always been the case for some utilities but  
3 is essential for Florida utilities especially because of  
4 growth management legislation. Specifically, economic  
5 development has become a key part of our electric utility  
6 demand-side marketing plans due to the greater  
7 opportunities provided to increase load factor, by adding  
8 or expanding customers that have a higher load factor  
9 themselves or have need for utilizing energy during  
10 non-peak hours.

11  
12 Q. What is Gulf Power's role in the economic development of  
13 Northwest Florida?

14 A. Although utilities have limited ability to directly  
15 "land" a new industry or expand an existing industry (the  
16 communities themselves are responsible for providing the  
17 "bundle" of benefits to prospective new or expanding  
18 industry), there are a number of resources and activities  
19 electric utilities can provide to enhance the prospects.  
20 A key strategy Gulf has invested in has been a regional  
21 marketing and promotional campaign to develop the  
22 appropriate infrastructure, information and data base as  
23 well as combine and coordinate the limited resources of  
24 numerous local communities for maximum effort. Gulf  
25 Power, as common link among Northwest Florida

1 communities, has also assumed a leadership role in  
2 furthering the capability of communities in its service  
3 territory to attract and/or expand the industrial base.  
4 Electric utilities can be a driving force in economic  
5 development by exerting various forms of community  
6 leadership. Senior officers and management personnel of  
7 Gulf Power have been called upon to serve local civic  
8 organizations having an interest in economic development  
9 and thus assumed leadership roles and responsibilities.

10

11 Q. Would Northwest Florida continue to grow if you were not  
12 involved in economic development?

13 A. Yes, the region would continue to grow; however, there is  
14 a greater risk that the growth would not strengthen the  
15 economy or be beneficial to our ratepayers.

16

17 Q. Please explain.

18 A. Gulf Power, like the other natural monopolies regulated  
19 by the FPSC, has an obligation to provide electric  
20 service to all potential customers regardless of size and  
21 their impact on our system. Included in this  
22 responsibility is an obligation to provide reliable  
23 electric service at the lowest possible cost to all  
24 ratepayers. Mismanaging growth can be detrimental to the  
25 entire economy because of the negative impacts on the

1 price, quality and reliability of our product.

2 Gulf is not interested in growth just for the sake of  
3 it, we want to be in a position to assist in the  
4 management of growth so that our communities and  
5 ratepayers will receive lasting benefits with a minimum  
6 of risk.

7

8 Q. Does this conclude your testimony?

9 A. Yes, it does.

10

11

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25

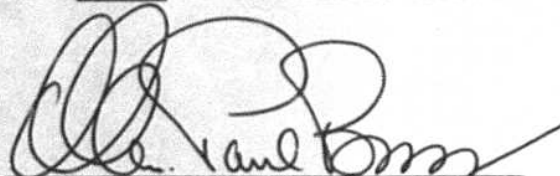
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STATE OF FLORIDA )

COUNTY OF ESCAMBIA )

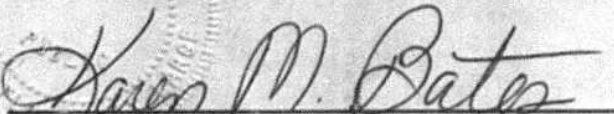
Before me the undersigned authority personally appeared W. P. Bowers, who first being duly sworn, says that he is the witness named in the testimony to which the Affidavit is attached; that he prepared said testimony and any exhibits included therein on behalf of Gulf Power Company in support of its petition for an increase in rates and charges in Florida Public Service Commission Docket No. 891345-EI; and that the matters and things set forth herein are true to the best of his knowledge and belief.

Dated at Pensacola, Florida this 7<sup>th</sup> of December, 1989.



W. P. Bowers

Sworn to and subscribed before me  
this 7<sup>th</sup> day of December, 1989.



Notary Public

My Commission Expires  
July 25, 1990



Florida Public Service Commission  
Docket No. 891345-EI  
Gulf Power Company  
Witness: W. P. Bowers  
Exhibit No. \_\_\_\_ (WPB-1)  
Page 1 of 1

INDEX

	<u>Schedule Number</u>
Air Products Quality Management Process A Guideline for Utilities . . . . .	1
Importance of Programs and Services Residential Customer Survey Summary . . . . .	2
Impact of FPSC Decision on Benchmark Calculation . . . . .	3
1990 Sales Expenses by Function . . . . .	4
Minimum Filing Requirments . . . . .	5



*"At Air Products, we view the quality process as one which delivers consistent conformance to customer expectations 100% of the time.*

*"It's a demanding standard that doesn't accept excuses.*

*"Yet adherence to this standard will help ensure that we continue to realize profitable growth - to the benefit of customers, employees, shareholders, and suppliers alike."*

Dexter F. Baker  
Chairman of the Board  
and Chief Executive Officer

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## INTRODUCTIO



### Quality

Quality is consistent conformance to customer expectations 100% of the time.

The Quality process involves the development of the attitude that conformance to customer needs and expectations has top priority. There must be respect for individuals and their ability to contribute to improvement. Quality improvement includes everyone in all parts of an organization. The major emphasis is on prevention and problem solving rather than error detection and correction after the fact. The quality process begins with the commitment of top management and brings all employees into the implementation process.

### Quality Management

Quality Management is a management style, a mode of behavior, an attitude, a cultural element deeply ingrained in an organization. It focuses on the process and benefits of continual improvement, from problem-solving to enhanced communications; from specific high-visibility improvement projects to changes and adaptations of systems, processes and procedures to achieve consistent customer satisfaction in the face of constantly changing customer expectations.

At Air Products, we've always believed in delivering quality products and services, but recently we've begun to formally manage the quality process by sharpening the focus of our management philosophy. Our experience has reinforced our commitment to quality performance. Today, more than ever, we know that aggressive quality management—all aspects of our jobs—is the most effective way to meet our customers' expectations.

### Purpose of Brochure

We've developed this brochure to introduce you to Air Products quality management process and to introduce the requirements and expectations you must meet as a quality utility supplier to Air Products. It will review the key elements and stress the importance of your commitment to quality in all aspects of our relationship.

While our standards are rigorous, you should understand that they are consistent with the standards by which we measure our own performance when dealing with our own customers.



## QUALITY MANAGEMENT PROCESS

---

### Defining Our Expectations

Quality in the buyer/seller relationship begins when we first talk to utilities about our requirements and continues throughout the life of our contract. We expect consistent conformance to mutually agreed-upon requirements, including the expectation that utility services will be provided safely. We expect that our utility suppliers will be characterized by strong management commitment to meeting customers' expectations, responsive staff, and effective buyer/seller communications. While we recognize our responsibility to clearly define and communicate our expectations, we encourage your comments and suggestions.

### Key Principles

Air Products' quality management process is founded on four key principles of excellence. Adherence to these principles directly impacts our evaluation of utility supplier performance.

To Air Products, quality performance from a utility is based on the following:

- Ability to consistently meet Air Products' requirements and expectations 100% of the time.
- Demonstrated evidence of management commitment to quality as a way of life.

- Contribution in helping to satisfy Air Products' customers' expectations and minimizing the total evaluated cost of materials and services provided.

- Ability to prevent errors from occurring through specific improvement projects.

As partners in quality, we will work with you to define requirements and design and implement an approach which fits both our needs; an approach which will build and strengthen a long lasting relationship.

### Implementation

There are four formalized steps to implementing the Quality Management Process relationship with our utility suppliers. These steps guide us from the early stages of quality awareness, through the establishment of quality standards and feedback, to a fully operational system designed to rate your performance and recognize those utilities who have achieved a superior level of performance throughout the year.



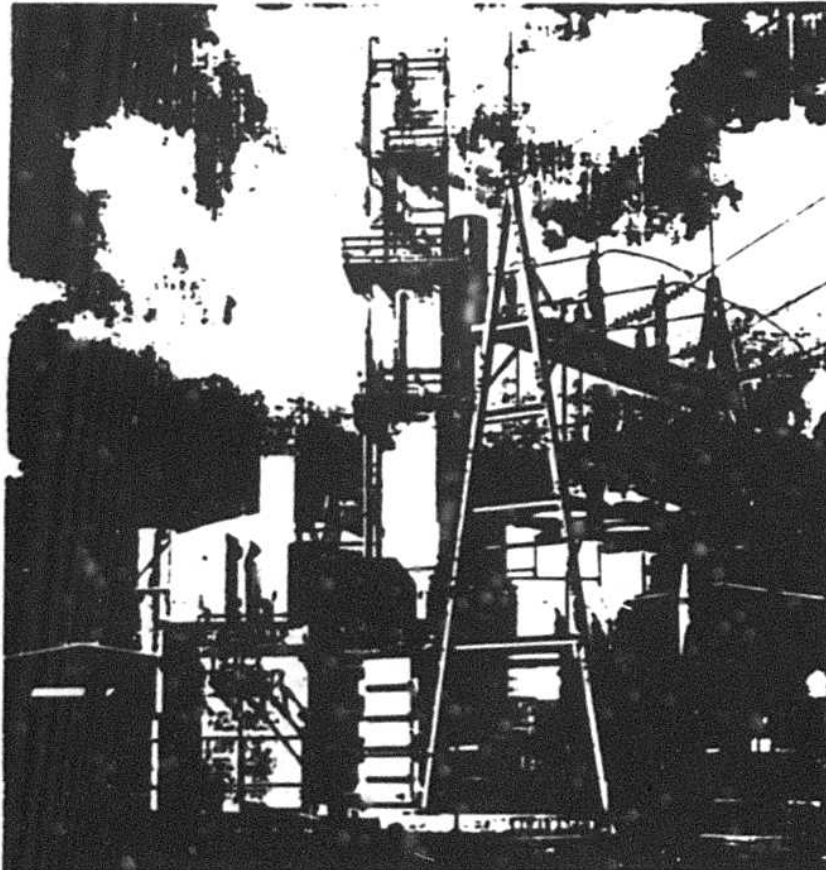
*Air Products' energy teams meet on a regular basis to review the quality process.*



---

## The Four Steps In the Quality Management Process

- I. Quality Awareness
  - II. Quality Standards and Measurement
  - III. Quality Feedback
  - IV. Utility Rating and Recognition
- 



*Quality from our utility suppliers is vital to production.*

### I. Quality Awareness

The first step is to ensure that the utility management thoroughly understands our business needs, functions and goals. We do this by conducting awareness sessions with suppliers to inform

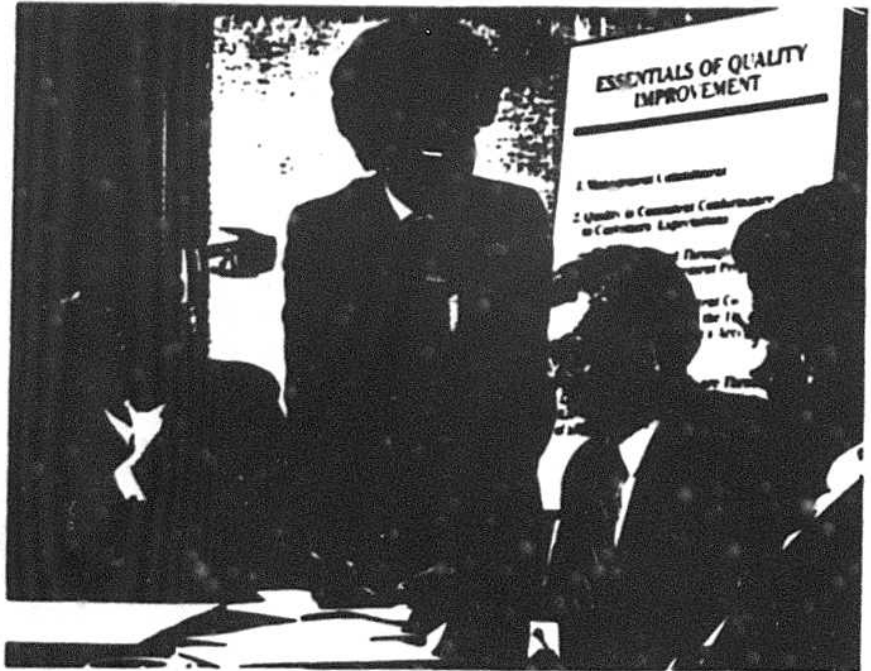
you about our quality commitment and expectations. These sessions have proven to be important in building long-term quality partnerships.

## II. Standards and Measurement of Quality

The heart of the quality management process is the ability to meet standards based on customers' expectations . . . standards that have been clearly defined. These standards include:

- Utility rates which are based on the cost of service;
- Reliability of supply consistent with contract requirements;
- Timely notice of proposed rate changes or other actions affecting our electricity and natural gas costs;
- Adequate and reasonably priced fuel sources.

We expect our utility suppliers to conform to these standards at all times and contribute to their refinement and improvement.



*We meet regularly with suppliers to evaluate performance and discuss ways of further improving quality.*

## III. Quality Feedback

Feedback is an effective communications tool which ensures that the quality management philosophy continues to grow within organizations. Air Products' system allows us to monitor supplier conformance to requirements and expectations. Nonconformance is reported so we can work with you to promptly correct any deficiencies and prevent recurrence. Positive performance is also reported to encourage and recognize achievement.

## IV. Utility Rating and Recognition

Ratings of our utility suppliers are designed to monitor performance against defined standards. A program to recognize exemplary performance by our utility suppliers provides awards to those that have demonstrated progress and achievement in the total quality process every year.

We have four categories of utility supplier ratings:

# AIR PRODUCTS' SUPPLIER CERTIFICATION STANDARDS

## UTILITY SUPPLY

- Category I - Certified**  
The quality process is fully implemented. Requirements are met 100% of the time.
- Category II - Certifying**  
Requirements are usually met. The supplier is working toward and committed to achieving a Category I rating.
- Category III - Qualifying**  
There is a formal commitment in quality, but the process is not implemented. Requirements are occasionally met.
- Category IV - Not Certified**  
The quality process is not implemented and requirements are rarely met.

We want every one of our utility suppliers to achieve a Category I rating, and we intend to work with you to meet this objective. A formal Supplier Recognition Program will recognize your achievement as an Air Products Category I supplier among the business community as well as within your company. The attached chart summarizes the utility supplier certification standards and criteria

## CATEGORY STANDARDS

FACTOR	I CERTIFIED	II CERTIFYING	III QUALIFYING	IV NOT CERTIFIED
Quality (combustion)	The company has written quality plans signed by senior management. Quality management process fully implemented as verified by Air Products' review.	The company has written quality plans signed by senior management. Quality management process is only partially implemented as verified by Air Products' review.	Has quality plan but no implementation.	No quality plan.
Utility rates based on cost of service	Industrial rates are always based on cost of service.	Industrial rates are usually based on cost of service.	Industrial rates are occasionally based on cost of service.	Industrial rates are rarely based on cost of service.
Reliability of supply even when with contract	Reliability always consistent with contract requirements.	Reliability usually consistent with contract requirements.	Reliability occasionally consistent with contract requirements.	Reliability rarely consistent with contract requirements.
Timely notice of proposed rate changes or other actions affecting our cost	Always adopts consultative position before changes occur.	Usually adopts consultative position before changes occur.	Occasionally adopts consultative position before changes occur.	Rarely adopts consultative position before changes occur.
Adequate and reasonably priced fuel source as gas supply	Adequate and reasonably priced fuel sources are always used for generation.	Adequate and reasonably priced fuel sources are usually used for generation.	Adequate and reasonably priced fuel sources are occasionally used for generation.	Adequate and reasonably priced fuel sources are rarely used for generation.
Investing	Adequate and reasonably priced gas supply always used for systems supply.	Adequate and reasonably priced gas supply usually used for systems supply.	Adequate and reasonably priced gas supply occasionally used for systems supply.	Adequate and reasonably priced gas supply rarely used for systems supply.
Buyer/Fielder Expectations	Supplier is in accordance with applicable rate schedules and contracts 100% of the time.	Supplier is in accordance with applicable rate schedules and contracts 100% of the time.	Supplier is in accordance with applicable rate schedules and contracts more than 90% of the time.	Supplier is in accordance with applicable rate schedules and contracts 50% of the time or less.
Buyer/Fielder Expectations	Always	Usually	Occasionally	Rarely



**Importance of Programs/Services**

<u>Program or Service</u>	<u>Percentage Saying "Important"</u>
Attracting New Industry	85.48
Electric Safety Tips	83.2
Monthly Bill Inserts Info	79.6
Installing Outdoor Lighting	75.4
New Home Building Advice	73.0
\$1,200 Energy Improvement Loans	71.0
TV, Radio Add Information	69.3
Recommending Dealers, Etc.	67.4
Energy Audits	65.0
\$5,000 Energy Improvement Loans	64.9
\$300 for HP Installation (Replacement)	64.7
Choice of Billing Data	62.5
Levelized Billing Plan	56.4
Appliance Sales and Services	53.0
Time of Use Rate	48.1
Extended Office Hours	42.8
Electric Bill Paid via Bank Draft	26.0
Computer Sales and Services	15.2

TURF analysis revealed that virtually any combination of programs or services grouped in 2's, 3's, or 4's would yield between 92.0% and 98.6% of all customers indicating "importance." In other words, it makes no difference which two, three, or four programs and services are offered to customers, 92% or more of all customers will be reached with a program or service they consider "very important."

IMPACT OF FPSC DECISION ON  
 1990 BENCHMARK

EXPENSE RECOVERY - 1984 TEST YEAR

	<u>AS FILED</u>	<u>FPSC ADJUSTMENTS</u>	<u>AS APPROVED</u>
Base Rate Recovery	\$3,290	(\$1,625)	\$1,505
Conservation Cost Recovery	2,105	1,625	3,730
TOTAL O & M Expenses	\$5,395	\$ 0	\$5,235

COMPARISON OF 1984 AND 1990  
 CUSTOMER SERVICE AND INFORMATION EXPENSES

	<u>1984 ALLOWED</u>	<u>1990 BUDGET</u>
Base Rate Recovery	\$ 1,505	\$ 5,426
Conservation Cost Recovery	3,730	1,640
TOTAL O & M Expenses	\$ 5,235	\$ 7,066

IMPACT OF RECOVERY MECHANISMS ON  
 CUSTOMER SERVICE & INFORMATION BENCHMARK

	<u>1984 ALLOWED</u>	<u>1990 BENCHMARK</u>	<u>1990 BUDGET</u>	<u>VARIANCE</u>
Base Rate Recovery	\$1,505	\$2,268	\$5,426	\$3,158
Conservation Cost Recovery	3,730	5,622	1,640	(3,982)
TOTAL O & M Expenses	\$5,235	\$7,890	\$7,066	\$( 824)

\*Includes \$33,000 Customer Growth Adjustment.

The following table shows the impact on the 1990 benchmark calculation as a result of the shift of \$1,625,000 in 1984 from Base Rate Recovery to ECCR.

	<u>1984 ALLOWED</u>	<u>1990 BENCHMARK</u>	<u>1990 BUDGET</u>	<u>VARIANCE</u>
Base Rate Recovery	\$3,130	\$4,719	\$5,426	\$ 707
Conservation Cost Recovery	2,105	3,173	1,640	(1,533)
TOTAL O & M Expenses	\$5,235	\$7,892	\$7,066	\$( 826)

1990 SALES EXPENSES

BY FUNCTION

<u>FUNCTION</u>	<u>1984 APPROVED</u>	<u>1990 ALLOWED</u>	<u>1990 BUDGET</u>	<u>DIFFERENCE</u>
Economic & Area Development	\$0	\$0	\$687	\$687

Florida Public Service Commission  
Docket No. 891345-EI  
Gulf Power Company  
Witness: W. P. Bowers  
Exhibit No. \_\_\_\_ (WPE-1)  
Schedule 5  
Page 1 of 1

MINIMUM FILING REQUIRMENTS

Schedule

Title

F-16

Conservation Actions