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GULF POWER COMPANY

DOCKET 931044 - EI

DIRECT TESTIMONY OF WILLIAM B. BERG, BUREAU OF ELECTRIC REGULATION
ON BEHALF OF THE FLORIDA PUBLIC SERVICE COMMISSION
DIVISION OF ELECTRIC AND GAS

FILED: JULY 7, 1994

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FPSC-RECORDS/REPORTING

DIRECT TESTIMONY OF WILLIAM B. BERG

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Q. Please state your name and business address?

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

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

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

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

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

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

Q. What is the purpose of your testimony?

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

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

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

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

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

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

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

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

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

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

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

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

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

2 |
3 | Q. Please discuss your second concern with the Coordinated Maintenance
4 | Month provision.

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

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

23 |

24 |

25 |

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

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

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

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

1 Q. What is "Option A"?

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

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

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

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

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

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

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

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

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

21 | A. Yes.

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23 |
24 |
25 |

1990	
January	2
February	7
May	5
June	14
July	12
August	17
September	6
December	2
AVERAGE	<u>8.125</u>
W/ CMM *	

1991	
January	4
February	2
May	8
June	5
July	10
August	11
September	12
December	7
AVERAGE	<u>7.375</u>
W/ CMM *	

1992	
January	6
February	4
May	5
June	5
July	9
August	3
September	6
December	5
AVERAGE	<u>5.375</u>
W/ CMM*	

1993	
January	9
February	7
May	4
June	9
July	18
August	13
September	10
December	7
AVERAGE	<u>9.625</u>
W/ CMM*	

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for authority to) DOCKET NO. 931044-EI
implement replacement rate) FILED: July 7, 1994
schedule for standby electric)
service by Gulf Power Company.)

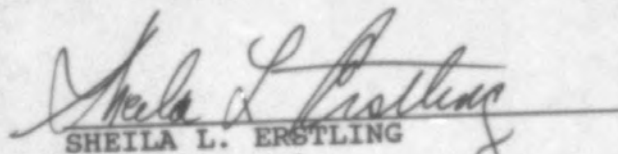
CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of TESTIMONY OF WILLIAM B. BERG
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