

FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building
101 East Gaines Street
Tallahassee, Florida 32399-0850

MEMORANDUM

SEPTEMBER 22, 1994

TO : DIRECTOR, DIVISION OF RECORDS & REPORTING

FROM : DIVISION OF ELECTRIC & GAS (MEETER)
DIVISION OF LEGAL SERVICES (ERSTLING) *MM* *AVE* *PLT*

RE : DOCKET NO. 931044-EI - PETITION FOR AUTHORITY TO
IMPLEMENT A REPLACEMENT RATE SCHEDULE FOR STANDBY
ELECTRIC SERVICE BY GULF POWER

AGENDA: OCTOBER 2, 1994 - REGULAR AGENDA POST HEARING DECISION/
PARTICIPATION LIMITED TO COMMISSIONERS AND STAFF
(366.06(4))

PANEL: DEASON, CLARK, KIESLING

CRITICAL DATES: TWELVE-MONTH FINAL ORDER DATE: OCTOBER 28, 1994.

SPECIAL INSTRUCTIONS: I:\PSC\EAG\WP\931044.RCM

CASE BACKGROUND

On October 28, 1993 Gulf Power Company (Gulf) filed a petition requesting Commission approval of a Standby and Supplemental Service (SBS) rate schedule that would replace the Standby Service (SS) rate schedule in effect at that time. On December 21, 1993, Monsanto Company, Stone Container Corporation, and Champion International Corporation filed a Petition to Intervene. Intervention was granted by Order No. PSC 94-0019-PSC-EI, issued January 5, 1994. The Commission suspended the SBS rate schedule on December 20, 1993.

The governing language and rate design in the then effective SS rate schedule is consistent with the provisions established in PSC Order No. 17159, issued February 6, 1987, in Docket No. 850673-EU - Generic Investigation of Standby Rates for Electric Utilities. This order prescribes the cost allocation and rate design methodology to be used by Florida's investor-owned electric utilities for standby and supplemental service rates. The order also acknowledges that after the accumulation of additional load research data it may become evident that modifications will be needed to the standby and supplemental service rate design methodology.

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Gulf Power has provided standby electric service under the SS rate schedule to four customers since approximately 1988. A fifth customer began taking service under the SS rate schedule in August 1993. In its petition, Gulf states that, based on its experience with the SS rate schedule and concerns expressed by its standby customers, the current standby pricing or billing arrangement is inadequate to serve the needs of its customers. Gulf listed three categories of weaknesses in the current arrangement on page 4 of its petition: 1) the subjectivity involved with "sorting" electricity consumed into standby and supplemental billing determinants, 2) the unnecessary administrative costs placed on both the company and the customer in the form of communications and reporting requirements, and 3) the overall complexity of the rate schedule. As proposed, the SBS rate schedule represents an eighteen-month long collaborative effort between Gulf and its standby service customers to find a solution to the problems outlined. (Thompson, Tr. 373)

The complexity fostered by the SS rate schedule was primarily an outcome of the method used to classify customer usage as standby service and supplementary service. The determination had to be made for each day of an outage of the customer's generator based on customer operating data. Standby service means electric energy or capacity supplied by the utility to replace energy or capacity ordinarily generated by the customer's own generation during a scheduled or unscheduled outage. Supplementary service means electric energy or capacity supplied by the utility in addition to that which is normally provided by the customer's own generation equipment. Under the SBS rate schedule all usage in excess of the contracted level of supplementary service (NC) is billed as standby service.

At the June 7, 1994, agenda conference Staff presented a recommendation that the Commission deny Gulf's proposed SBS rate schedule because of several provisions in the SBS rate schedule unrelated to the changes in determining standby and supplementary usage. However, the Commission declined to act on staff's recommendation. Instead, the Commission allowed the SBS rate schedule, as modified at the agenda conference, to go into effect by operation of law; and on its own motion, the Commission set Gulf's Petition for hearing on August 1 and 2, 1994. This recommendation will cover the four issues identified in Prehearing Order No. PSC-94-PHO-EI and addressed at the hearing.

DISCUSSION OF ISSUES

ISSUE 1: Is the Coordinated Maintenance Month (CMM) provision on

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the Standby and Supplemental rate schedule appropriate?

RECOMMENDATION: No. This rate design does not comport reasonably with Order No. 17159, is not revenue neutral, and may result in underrecovery of the costs it was intended to recover. Given the utility's design of the daily demand charges for CMM and nonCMM months, the provision is inappropriate because the rate design features of the CMM provision are not limited to the time period of the planned maintenance nor the capacity of the generator(s) undergoing maintenance at any given time.

POSITION OF PARTIES:

GULF: Yes. The CMM provision provides an appropriate incentive to the SBS customers to perform their scheduled maintenance activities at a time when the impact of their demand is not likely to require additional capacity resources, and provides an appropriate price signal based on the incremental cost of additional generating capacity.

INDUSTRIAL INTERVENORS: Yes. The replacement standby tariff recovers all costs of providing standby capacity through continuation of the reservation charge when the CMM encourages customers to maintain units during off peak months. Staff's fear that customers will artificially extend maintenance outages are unfounded; it is as inherently more efficient and more economical to self-generate.

STAFF ANALYSIS: Staff would not object to Gulf's proposed CMM provision if Gulf had either followed the rate design outlined in Order No. 17159 or if the SBS rate charges were revenue-neutral with the SS rate schedule charges and the rate design comported reasonably with Order No. 17159. As we will show, Gulf did neither.

The CMM provision allows a standby customer to designate a maximum of four (4) months in the period September through May per year as coordinated maintenance months. The tariff states that:

The customer's request for designation of a particular month as a CMM should ordinarily be submitted six (6) months in advance. The Company, in its sole discretion, may accept a request submitted less than six (6) months in advance. (Exhibit 3, Sheet No. 6.31)

Customers receive an incentive to schedule maintenance in the September through May period through a waiver of the otherwise applicable daily demand charge. In addition, if the customer's

actual standby demand during an approved CMM exceeds the customer's contracted amount of standby demand, the customer would be excused from paying the reservation charge on the higher standby demand in future months. (Exhibit 3, Sheet No. 6.31) The customer would not be excused from paying the local facilities charge on the higher standby demand in future months. The company provided a modification of the language in the CMM provision to clarify the company's intent with respect to the local facilities charge. (Exhibit 9; Tr. 225-229)

Rule 25-9.005(1)(b) requires a utility to provide the estimated increase or decrease in annual revenues resulting from a tariff filing. Using the historical billing determinants for the years 1991 and 1992, Gulf calculated the base rate revenue effect of the replacement of the SS rate schedule with the SBS rate schedule would have been 6.1 percent and 5.3 percent decreases for 1991 and 1992, respectively. (Exhibit B attached to the company's petition) Neither Gulf nor the Industrial Intervenors refuted Staff Witness Berg's testimony (Tr. 273) that the decrease in base rate revenues is largely due to the CMM provision.

The CMM provision is inappropriate because: (1) Gulf has set the daily demand charge at zero for up to four of the nine nonsummer months, but has not made the corresponding upward adjustment in the daily demand charge from the unit or average cost for either the three peak summer months or the other eight months; and (2) Gulf has not limited the CMM period to the actual time period of the standby customers' scheduled or planned maintenance or the applicability of the incentives in the CMM provision to the capacity of the generator(s) undergoing planned maintenance at any given time. Because of the design of the daily demand charge, the lack of limitation is a problem.

Daily Demand Charge

Gulf has set the daily demand charge at the system on-peak daily unit cost (average cost) for production and transmission plant per 12-month average CP KW. (Exhibit 2, pages 1 and 2 of 3). To obtain the daily demand charge, Gulf divided the annual revenue requirement for production and transmission by the CP KW and then by 12 to obtain the monthly production and transmission unit cost of \$9.84. The monthly unit cost of \$9.84 was then divided by 21 days to yield the daily on-peak demand charge unit cost of \$0.47. Order 17159, page 14, recognizes that it is appropriate to encourage standby customers to schedule maintenance outages in the months when a utility has higher capacity reserve margins after considering the utility's own scheduled outages. To encourage such behavior, the Commission authorized a utility to weight the daily demand charge in a manner that raises the charge during the peak

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months and lowers the daily demand charge during the valley months. Gulf's former SS rate schedule had seasonally weighted daily demand charges that were consistent with the example on page 14 of Order No. 17159.

However, under the SBS tariff, Gulf has now effectively set the daily demand charge at zero for four months. And, Gulf is charging only the average daily unit cost for the other eight months. (Exhibit 2, Tr. 272) Thus, Staff believes that the CMM provision does not reasonably comport to the rate design policy formatted in Order No. 17159. As Staff Witness Berg testified, "a daily demand charge that is not higher than the average cost for 12 months does not send customers the (price) signal that it is more expensive to consume standby power in the summer months than in the nonsummer months which, according to the Company, is the intent of the CMM provision." (Tr. 272) The SBS rate schedule daily demand charge in effect for the summer months (\$0.47) is actually lower than the former SS rate schedule daily demand charge for the summer months (\$.58). (Exhibits 3 and 8, Thompson, Tr. 195-196)

In addition, the assessment of an average charge (average unit cost) for nonCoordinated Maintenance Months and a zero charge for Coordinated Maintenance Months may not recover the annual total costs the daily demand charge is intended to recover. While the CMM provision may not increase IIC capacity equalization payments, staff believes its waiver of the daily demand charge will increase the likelihood of underrecovery of the IIC payments. Witness Berg testified that this combination of daily demand charges does not recover the total annual costs the daily demand charge is intended to recover. (Tr. 272) Witness Pollock, the intervenors' rate specialist, states in his direct testimony that "The annual total production and transmission demand-related cost of serving the standby customers is fully recovered in the reservation charge." (Tr. 342, lines 19-21) Further, he argues that the daily demand charge is designed first and foremost to send a price signal. (Tr. 95) However, neither Mr. Pollock nor Mr. Berg produced any concrete evidence in the form of an analysis that showed that the reservation charge and/or the SBS daily demand charges do or do not recover total production and transmission costs. (Tr. 353-354) Thus, any assumptions are hypothetical. Whether there would be an actual underrecovery of production and transmission costs due to having a zero daily demand charge for CMM's and a charge set at average unit cost for nonCMM's is speculative. (Gulf Br. 11) Therefore, Staff believes a complete cost of service study for all classes, such as is filed in a rate case, based on actual customer usage patterns, would be necessary to make this determination.

Gulf maintains that, in addition to providing an appropriate incentive for scheduling maintenance in nonsummer

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months, the CMM provides an appropriate price signal based on the incremental cost of additional generating capacity. (Gulf Br. 5) Witness Howell emphasized that the need to plan and meet Gulf's summer peak load is of far greater cost significance to all its customers than any actions that may influence load changes from month to month. (TR 165) Witness Thompson further emphasized that Gulf intended to use pricing as a major conservation promoting tool. (TR. 194 - 195) He further stated that because the daily demand charge during the coordinated maintenance month is zero the seasonal differential is greater and that this presents a stronger incentive than the former SS rate schedule. (TR.205-206) However, purported conservation goals and pricing signals aside, Gulf provided no evidence to show that the \$0.47 daily demand charge in effect for the summer months is based on the incremental cost of additional generating capacity.

Application

The SBS rate design does not have seasonally weighted demand charges that reasonably comport with Order No. 17159. Thus, staff believes, in the absence of a cost of service study demonstrating full cost recovery, this provision is merely an incentive in the form of a discount. Therefore, it becomes necessary to point out all our concerns with the CMM provision as presently structured. The language of the CMM provision does not require the customer to actually have maintenance scheduled for a month(s) which has been designated as a CMM(s). Nor does the provision limit the applicability of its rate design features to the amount of capacity undergoing maintenance at any given time. (Tr. 179-181) Staff believes the effect of this provision is to provide the customer up to four months of the year when he pays no demand charge for his full standby load (BC) regardless of whether the usage is for a forced or unforced outage.

The customer's only requirement when requesting designation of a particular month as a CMM is that his request be submitted in writing generally six months in advance. (Exhibit 3. Sheet No. 6.31.) Mr. Thompson admitted during cross examination, that there is nothing in the tariff to preclude a customer from requesting a CMM only twelve hours in advance. (Tr. 178) The only limitation on said designation is that it is subject to the approval of the utility. The company has not provided in the tariff any particular criteria it would use to evaluate granting a request for a CMM. (TR 188-192) Gulf argues that "... the Commission should not presume that the Company or its customers will act improperly, or even inappropriately, in negotiating a CMM period." (Brief, P. 11) The intervenors testified that it is cheaper for the cogenerators to generate electricity than to purchase it, even under the CMM provision. (Tr. 326-328, 337-338)

Therefore, they would not unduly use the CMM provision. But, Staff questions whether Gulf could deny any customer's request so long as the request met the two aforementioned requirements and the company was unable to demonstrate that it expected to have insufficient capacity to grant the request. As now written, there is no question that the CMM provision's rate design features would be applicable for the full time period of the designated coordinated maintenance months and for the full BC capacity and would apply equally to usage for forced and unforced outages.

Staff believes that if the rate design features of the CMM provision are found to be appropriate, the applicability of the features should be limited to only the time of the scheduled maintenance and only to the load of the generator(s) being maintained at the time. The features should not apply to usage for unscheduled outages. This is consistent with Gulf's intent to provide customers through the CMM provision a stronger incentive than was in effect under the old SS rate for Gulf's standby customers to perform planned maintenance during non-peak months. (Tr. 151, 194; Gulf Br. 5-6)

ISSUE 2: Is the annual review of the Option A daily demand charge found on the Standby and Supplemental rate schedule appropriate?

RECOMMENDATION: The provision for the annual review in effect is inappropriate because it provides only for a credit in those years when the average number of non-SE days is more than seven and does not provide for a surcharge in those years when the average number is less than seven.

POSITION OF PARTIES:

GULF: Yes. The annual review provision enables the Company to make an adjustment to the daily demand charge component to ensure that the Option A customer's total potential exposure to daily demand charges is no higher than it would be if the customer were not a participant in the SE program.

INDUSTRIAL INTERVENORS: Yes. Staff's concern that Gulf's Option A may result in underbilling looks to the past. In the future, Southern will build only gas turbines. As Southern's load grows, supplemental energy from existing base-loaded units will be less available. Gulf's design limiting non-SE days to seven is appropriate.

STAFF ANALYSIS: Option A on the SBS rate schedule allows customers to use the Supplemental Energy (SE) Rider in combination

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with standby and supplementary service. The Supplemental Energy Rider is a time-of-use rate schedule with flexible time periods designated on short notice by the utility. (Thompson, Tr. 245) The differences between taking standby service under Option A and under the standard (nonOption A) SBS rates are the size of the daily demand charge, the provision for annual review of the Option A daily demand charge, and the applicable time periods for determining on-peak demand.

Order No. 17159, specifies that the daily on-peak demand charge is to be calculated using the average number of days that contain on-peak hours in a month. One of the problems with combining the SE Rider with standby and supplementary service is that the number of days with non-SE on-peak hours varies by month and year. Hence, the average number of days with nonSE on-peak hours will vary by year. (Exhibit 10) The variability in the average number of days with non-SE on-peak hours is a problem because the use of a number different from the actual average number of non-SE days in a calendar year results in an expected over- or under-recovery of production and transmission costs. (Berg, Tr. 274) Gulf used seven days in calculating its Option A daily demand charge.

The annual review of the Option A daily on-peak standby demand charge provides that, if the monthly average of the non-SE on-peak days for the non-CMM months for a calendar year is greater than seven, the daily demand charge will be recalculated using the monthly average number of non-SE on-peak days for the customer's non-CMM months for that year. Any customer billed daily demand charges for that year will be credited on the December bill for the difference between the original charges that were based on seven days and the adjusted lower charge based on the year's actual monthly average number of days. (Exhibit 3, Original Sheet No. 6.31.1; Berg, Tr. 275)

Staff believes this provision is inappropriate because it is one-sided. It does not provide for an additional charge in those years when the average number of days per month with non-SE on-peak hours is less than seven and the Option A customer's total potential exposure to daily demand charges is lower (6 on-peak nonSE days times \$1.41 equals \$8.46) than it would be if the customer did not take Option A (21 on-peak days times \$0.47 equals \$9.87). Exhibit 10 shows that for two of the four years during the period 1990-93 Option A customers that had designated the months of March, April, October, and November as CMM's would have received credits from the annual review provision. This was because the average number of days was greater than seven. In 1993, for example, there would have been a credit of approximately 43 percent of daily demand charges. However, in 1992 the eight-month average

was five. Thus, there would have been an expected underbilling of the production and transmission costs that the charge was designed to recover for that year. (Berg, Tr. 275) Also, there would have been a total potential exposure to daily demand charges lower than the total potential exposure of nonOption A SBS customers.

Gulf's position on the annual review provision is that it is necessary to ensure that the Option A customer's total exposure to daily demand charges is no higher than it would be if the customer were not an SE participant (Thompson, Tr. 156); that an upward adjustment is not necessary since Gulf's role is to designate those periods in which the SE price is invoked (Thompson, Tr. 157); and that an upward adjustment may raise the specter of retroactive ratemaking (Thompson, Tr. 157). Gulf argues that the economics of eliminating the annual review provision would effectively preclude standby service customers from taking part in the SE program. (Brief, p.16) Gulf may be right that, if the provision is eliminated, some customers may not be willing to risk a higher potential total exposure in those years when the monthly average number of days with non-SE on-peak hours is greater than seven. However, taking service on the SBS Option A, SE program is optional. Gulf and the intervenors simply ignore the inequity caused by the current tariff provision in those years when there is a lower potential total exposure for Option A customers than for nonOption A customers.

Intervenor Witness Pollock testified that SE power will be less available in the future due to the growth of the Southern System. (Tr. 72) In their Briefs, both Gulf and the Industrial Intervenors reiterated that the base load units that generate SE power will be less available in the future to generate SE power. (Industrial Intervenors' Brief, pp. 14-15; Gulf's Brief, p. 14) Based on their belief that SE power will be less available, Gulf and the Intervenors do not consider the annual review provision of any significance. Gulf declares that "[i]t is the intention of the Company in its design of this provision that downward adjustments will not prove to be necessary." (Brief, p. 14, 2nd paragraph) However, Gulf's intentions are not relevant to this issue; the thing that is important is the actual monthly average number of non-SE on-peak days that occur in the future. If Gulf and the Industrial Intervenors believe that in the future the monthly average number of non-SE days with on-peak hours will never be less than seven, they should not object to making the provision bilateral. If their scenario proves correct, then no upward adjustment would ever be necessary.

Both Gulf and the Industrial Intervenors question the validity of their own rate schedule by raising the specter of retroactive ratemaking. (Thompson, Tr. 157; Industrial Intervenors'

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Brief, p. 15) Staff's understanding is that the term retroactive ratemaking as used by this Commission is the billing of consumption of electricity on rate charges that are different from those that were in effect at the time the electricity was actually used. Using that standard, then an adjustment either upward or downward would have to be considered retroactive ratemaking.

Staff recommends that you find the annual review of Option A to be inappropriate because of the bias in favor of this group of customers. As Witness Berg testified, the Option A customers are getting a "double benefit - a credit when it is applicable and no additional charge when it is equally applicable." (Tr. 275)

ISSUE 3: Is the applicability of rate charges for the above 7,499 KW demand range customers appropriate?

STIPULATION: The parties stipulated or agreed that, if the SBS tariff is approved after the August 1, 1994, hearing, the paragraph on Limitation of Above 7,499 KW Demand Range for Billing Purposes on Fourth Revised Sheet No. 6.29 would be modified as shown below in legislative format. (Exhibit 7)

Limitation of Above 7,499 KW Demand Range for Billing Purposes

This billing range will be available only to Customers: (1) which have a BC or NC that is above 7,499, and (2) which are required to take service under this rate schedule pursuant to the criteria contained in the section on Applicability set forth above, included in the Rate PX/PXT for final rate calculations in the Company's last general rate case, Docket No. 891345-EI.

STAFF ANALYSIS: This modification allows all of the customers billed the rate charges for the above 7,499 KW category under the SS rate schedule to continue to be eligible for these charges under the SBS rate schedule. However, in addition, this language modification would allow any similarly situated nongenerating customer to be eligible for this demand category if the customer installed generation and took service on the SBS rate schedule.

ISSUE 4: Should the Commission approve the Gulf Power Standby and Supplemental rate schedule?

RECOMMENDATION: No. Because its CMM provision and Annual Review of Option A Daily Demand Charge are inappropriate, the SBS rate schedule should not be approved. In its stead the Standby Service

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(SS) rate schedule that was in effect prior to June 28, 1994, when it was replaced by the SBS rate schedule by operation of law, should become effective again thirty (30) days after the Commission decision on this issue.

If the Commission decides to approve the SBS rate schedule, Gulf should file revised tariffs to incorporate the modifications to the tariff language provided in Exhibits 7 and 9 and agreed to by both Gulf and the Industrial Intervenors in the August hearing.

POSITION OF PARTIES:

GULF: Yes. New rate schedule SBS is the result of a collaborative effort between Gulf and its customers. It is based on sound ratemaking principles and sends an appropriate price signal to Gulf's self-generating customers and is to the ultimate benefit of the Company's general body of ratepayers.

INDUSTRIAL INTERVENORS: Yes. The new rate is a product of two years of cooperative effort and negotiations resulting in a rate that reduces complexity in making operational decisions for the affected customers and helps the utility avoid the cost of adding generating capacity, all without negatively affecting other customers.

STAFF ANALYSIS: Staff recommends that the SBS rate schedule be denied. Staff is cognizant of the fact that Order 17159 recognized the potential need to review standby and supplemental rate schedules. Staff is also very aware that Gulf and the Intervenors had difficulty administering the SS rate schedule that was previously in effect. Staff does not deny that many provisions of the new SBS tariff help reduce the administrative burdensomeness of the SS rate schedule. That being said, staff is very concerned that certain additional provisions that do not in any way relate to the administrative burdens have been tagged onto the new SBS rate schedule. While these provisions may be beneficial for the co-generators, they may have an adverse affect upon the general body of rate payers and are not revenue neutral. The CMM provision and the Annual Review of the Option A daily demand charge are the two prime examples.

In summary, staff believes that because of the failure to upwardly adjust the price of the summer daily demand charge above average cost when the charge for up to four months is zero the CMM provision sends a one-sided price signal. Also, there is the unresolved problem as to whether the daily demand charge in combination with the reservation charge would actually recover the production and transmission costs they were designed to recover.

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If one accepts the one-sided price signal or discount for up to four nonsummer months as an incentive for scheduling maintenance during nonsummer months, there is the problem of the CMM provision not being limited to (1) the time period of the scheduled maintenance; and (2) the amount of capacity being maintained at any given time in this time period. It is inappropriate for a discount to apply for forced outage usage in the four months and to capacity that is not undergoing scheduled maintenance. Staff believes that this class of customers would be receiving a presumably unintended benefit for forced outages--particularly in light of Gulf's stated intention that the primary purpose is to provide an incentive to customers to schedule their planned maintenance in nonsummer months. (Tr. 151) For all of these reasons staff believes that the CMM provision is inappropriate.

As to the provision for Annual Review of the Option A daily demand charge, staff believes that because it benefits only certain customers within the class it is unduly discriminatory. It ensures that the Option A customer's total potential exposure to daily demand charges is no higher than it would be if the customer were not a participant in the SE program. However, it also guarantees that the Option A customer's total potential exposure to daily demand charges will be less than it would be if the customer were not a participant in the SE program for those particular years when the monthly average number of nonSE days with on-peak hours for nonCMM months is less than seven.

Both Gulf Power and the Industrial Intervenors Briefs stress that the new rate schedule is a collaborative effort between the utility and the affected customers that reduces the complexity of the SS rate schedule. (Gulf Brief, p. 17; Industrial Intervenors, p. 15) However, in Gulf's original Petition for the SBS tariff it presented only the problems of complexity, subjectivity, and administrative burden as the reasons to replace the SS rate schedule with the SBS rate schedule. At that time Gulf did not advance any reasons for the changes to other provisions of the tariff. The Industrial Intervenors refer to these two features of the rate schedule as "additional refinements." (Brief, p.16, 1st paragraph) It is quite understandable that the five customers are highly supportive of this rate schedule. Not only does it reduce the complexity and possible subjectivity in the rate schedule for self-generators customers but it also results in an expected five or six percent reduction in the revenues paid by the group of customers.

Gulf's position is that the new rate schedule sends an appropriate price signal to Gulf's self-generating customers for the ultimate benefit of the Company's general body of ratepayers.

(Tr. 146-147, 153) Similarly, the Industrial Intervenor's maintain that the rate schedule will help the utility avoid the cost of adding generating capacity. (Tr. 171) However, no witness presented evidence that the customers are now scheduling planned maintenance in the summer. Mr. Howell, a Gulf witness, testified that the standby customers over the past four years have on average been "on" about 20 percent of the time when Gulf's loads were at peak or within 10 percent of peak during the summer. (Tr. 208-209) However, Mr. Howell did not have any information as to how much of the 20 percent from was planned maintenance or due to forced outages. He didn't know if Gulf kept records on that information. (Tr. 210) As discussed earlier in depth, staff questions whether the provision as written sends the appropriate price signal as intended by the company.

Staff accepts that certain aspects of the SBS rate schedule help reduce the complexity that apparently was so burdensome in the SS rate schedule: the language in the tariff that results in usage in excess of the contracted level of supplementary service (NC) being billed as standby service and any usage below that level being billed as standby service. But, because the two "refinements" discussed earlier do not contribute to any reduction in the complexity and subjectivity of the rate design and also grant one-sided benefits to this group of customers, staff considers the SBS tariff as written inappropriate. Therefore, Staff recommends that the SBS rate schedule be denied and be replaced by the SS rate schedule that was in effect prior to June 28, 1994.

If the Commission decides to approve the SBS rate schedule, it should be refiled with the language modifications in Exhibits 7 and 9 agreed to by the parties. (TR. 224-230) Also, as discussed herein, the CMM provision should be limited to scheduled maintenance only and to the load factor of the generators upon which maintenance is being performed at the time.

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PROPOSED FINDINGS OF FACT AND CONCLUSIONS OF LAW

Staff makes the following recommendations with regard to the proposed findings of fact and conclusions of law submitted by the parties to this docket.

PROPOSED FINDINGS OF FACT

Issue 4

1. Under Gulf Power's original standby rate customers were required to make subjective decisions concerning the portions of their consumption that consisted of standby power and supplementary power. (Tr. 82).

RECOMMENDATION: Accept with the insertion of the phrase "that used supplementary service" after the word "customers."

2. Under Gulf Power's original standby rate, when a forced outage occurred customers had to know immediately the values for numerous dynamic plant conditions in order to determine whether it would be more economical for the customer to purchase standby power or curtail operations. (Tr. 32, 33).

RECOMMENDATION: Accept.

3. Under Gulf Power's original standby rate the interplay of the several rate components was such that a standby customer could be billed for more power than its maximum physical tie line capacity would enable it to receive. (Tr. 125).

RECOMMENDATION: Accept with the insertion of the word "hypothetically" after "could" and replacement of the word "power" with the word "kilowatts".

Issue 1

4. Gulf Power and the Southern Company experience their highest peak demands during the summer months. Peak demands during the non-summer months are generally below 85% of the annual system peak. (Tr. 62, 64).

RECOMMENDATION: Accept with the word "usually" inserted before the word "experience". For example, Hearing Exhibit 1, Schedule 1, shows that for two years of the period 1984-1989 the highest peak demand of the year for Gulf Power was in January or December.

5. Under Gulf Power's original standby rate, the Daily Demand Charges were higher in the summer months than during the rest of the year.

RECOMMENDATION: Accept with the substitution of the phrase "Charge applicable for the summer months was higher than the Charge in effect for" for the phrase "Charges were higher in the summer months than during". The accepted finding of act should read

Under Gulf Power's original standby rate, the Daily Demand Charge applicable for the summer months was higher than the charge in effect for the rest of the year.

6. Maintenance outages sometimes occurred at the time of Gulf Power's summer peak under the original standby rate, notwithstanding the seasonally differentiated demand charges of the old rate. (Tr. 147).

RECOMMENDATION: Reject as not supported by competent, substantial evidence. Mr. Howell testified that standby service customers purchased standby service during the time of summer peak loads, but he did not have any information as to whether the usage was for forced outages or planned maintenance. (Tr. 147, 208-210)

7. The reservation charge element of Gulf's original standby tariff which continues unchanged in the replacement tariff, fully recovered Gulf Power's cost of standing continuously ready to provide standby power to a cogeneration unit having a forced outage rate of 10%. (Tr. 126).

The standby customer must pay the reservation charge, irrespective of the type of standby service provided (i.e. backup or maintenance power). (Tr. 67).

RECOMMENDATION: Reject the first statement. This is not a finding of fact, but an opinion without supporting evidence. Accept the

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second statement with the replacement of the word "provided" with "used in the month".

8. Monsanto Company's cogeneration unit, which was placed in service after Gulf Power's last rate case, has experienced an availability of more than 98% during its first 11 months of operation. (Tr. 68).

RECOMMENDATION: Accept.

9. Application of the 1987 billing determinants that were employed in Gulf's last rate case to the standby tariff yields revenues that are less than the target revenue requirement established for the standby class in the last rate case by about \$300,000. (Tr. 255). The \$300,000 figure represents approximately 5% of the standby class' base revenues; 3% of the class' overall revenues; and less than 0.1% of Gulf Power's revenue requirement. (Tr. 255).

RECOMMENDATION: Reject. (1) 1991 and 1992 billing determinants instead of the 1987 billing determinants from Gulf's last rate case were used by Gulf Power in the calculation of the \$300,000 in Exhibit B attached to its recommendation and referred to on page 255 of the hearing transcript. Further, the target revenue requirements established for the standby class in the last rate case was not used in the calculation of the \$300,000. Gulf used the total annual charges to the standby service customers based on the standby service rates that were in effect in 1991 and 1992. (Petition, p. 3 and Exhibit B; Tr. 377) (2) Mr. Thompson testified that he had been told that the impact of the \$300,000 on company's rate of return was probably less than 0.1 percent. (Tr. 255)

10. The variable cost of standby power sold by Gulf Power during CMM would be primarily a function of Gulf's fuel costs and the heat rate (efficiency) of Gulf's generating plants. (Tr. 26).

RECOMMENDATION: Reject. This statement is incomplete. It does not take into account IIC capacity equalization payments which are another variable.

11. The variable cost of self-generation is primarily a function of the cogenerator's fuel cost and the heat rate of the cogenerator's permit. (Tr. 26).

RECOMMENDATION: Accept.

12. In view of the relative efficiencies of the units, a cogenerator's cost of generation would be as little as half that of the utility if fuel costs were equal. (Tr. 28).

RECOMMENDATION: Reject. Conclusory. Further, the testimony by Mr. Kisla on pages 27 and 28 of the transcript regards the efficiencies of only Stone Container's cogeneration units not cogeneration units in general. Further, Mr. Kisla did not provide the assumptions in his preliminary studies that were the basis of his "suggestion". Mr. Pollock testified that the heat rate of a typical coal-fired plant is about 9,500 to 10,000 BTU per kilowatt-hour and that the heat rate for a cogenerator may range from 5,000 to 8,000. (Tr. 337, 358) He agreed during cross examination that, if one assumed (1) the heat rate of a cogeneration unit was 5,000 BTU's and (2) fuel costs were the same for the utility and the cogenerator, the cost of providing that electricity for the cogenerator would be half or less of the utility's cost.

13. Approximately 70% of the fuel that Champion International burns in its cogeneration unit consists of by-products from its industrial process and is essentially free. (Tr. 327).

RECOMMENDATION: Accept.

14. A cogeneration unit produces both electricity and thermal energy such as steam. The cogenerator needs both. (Tr. 26).

RECOMMENDATION: Accept.

15. When the cogeneration unit is not operating, the cogenerator must produce steam through more expensive means. (Tr. 28).

RECOMMENDATION: Accept.

16. A maintenance outage that occurs during a CMM is no more likely to impact capacity equalization payments than an outage that occurs during the summer. In 1992, a maintenance outage at the time of the system peak in July would have had a more expensive impact in IIC payments than if the same maintenance outage occurred during the November peak. (Exhibit 4).

RECOMMENDATION: Reject. (1) This is speculative. There are too many contingencies which have a direct bearing on the impact. (2) The second sentence is misleading and immaterial. The July IIC charge rate per KW is 0.6 percent (four cents) higher than the November charge. Further, the three highest charge rates for the year were those for the months of March, May and December, and the range is very small from a high of \$6.59 to a low of \$6.48.

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17. A maintenance outage that occurs during the summer peak is more likely to cause Gulf Power to require additional generating capacity than a maintenance outage that occurs during a coordinated maintenance month. (Tr. 71).

RECOMMENDATION: Reject. Not a finding of fact. Conclusory.

ISSUE 2

18. The availability of energy produced under the Gulf Power Supplemental Energy Rider (SE) is related to the surplus economical, base-loaded capacity on Southern's system. (Tr. 72).

RECOMMENDATION: Accept.

19. Southern plans to install gas turbines in the future to meet projected load growth for at least the remainder of the decade. (Tr. 72).

RECOMMENDATION: Accept. The Commission should accept this as Southern's plan. However, it is merely speculative until such time as Southern may act on it, and, therefore, the Commission should not grant it much weight.

20. In the past, the Southern system has had surplus baseload capacity. SE will not be available as often in the future. (Tr. 79).

RECOMMENDATION: Reject. Speculative. Prediction of a future event is not a fact. In finding facts, the Commission should not engage in crystal ball reading.

PROPOSED CONCLUSIONS OF LAW

1. The Gulf Power replacement standby tariff is fair, reasonable, is based on the cost to serve, and does not discriminate against other customers, all within the meaning of Section 366.06 and 366.07, Florida Statutes.

2. Based on the evidence of record and the criteria of Chapter 366, Florida Statutes, Gulf Power's request to place its replacement standby tariff in effect on a permanent basis should be granted.