BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 010949-EI

In the Matter of

REQUEST FOR RATE INCREASE BY
GULF POWER COMPANY.
_____/

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VOLUME 5

Pages 392 through 487

PROCEEDINGS:	HEARING
BEFORE:	CHAIRMAN LILA A. JABER COMMISSIONER J. TERRY DEASON COMMISSIONER BRAULIO L. BAEZ COMMISSIONER MICHAEL A. PALECKI COMMISSIONER RUDOLPH "RUDY" BRADLEY
DATE:	Monday, February 25, 2002
TIME:	Commenced at 9:30 a.m.
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	TRICIA DeMARTE Official FPSC Reporter (850) 413-6736
APPEARANCES:	(As heretofore noted.)

I N D E X

WITNESSES

EXHIBITS

NUMBER:		ID.	ADMTD.
32	RGM-1	396	427
33	FMF-1	430	

PROCEEDINGS

(Transcript follows in sequence from Volume 4.)

CHAIRMAN JABER: Whenever he's ready, Mr. Melson.

MR. MELSON: Sure.

ROBERT G. MOORE

was called as a witness on behalf of Gulf Power Company and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. MELSON:

Q Mr. Moore, you were sworn this morning?

A Yes, sir, I was.

Q Would you please state your name and address for the record, please.

A Robert G. Moore, One Energy Place, Pensacola, Florida.

Q And by whom are you employed and in what capacity?

A I'm employed by Gulf Power. I'm the vice president of generation and transmission.

Q Have you prefiled direct testimony in this docket consisting of 20 pages?

A Yes, I did.

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

A No, sir, I do not.

Q If I were to ask you the same questions today, would

your answers be the same?

A Yes, sir, they would.

MR. MELSON: Chairman, I'd ask that Mr. Moore's direct testimony be inserted into the record as though read.

CHAIRMAN JABER: The prefiled direct testimony of R. G. Moore shall be inserted into the record as though read.

BY MR. MELSON:

Q Mr. Moore, you had attached to your testimony one exhibit identified as RGM-1 and consisting of 11 schedules; is that correct?

A Yes, sir, it is.

Q And as indicated on Schedule 11 of that exhibit, you're sponsoring certain portions of the company's MFRs; is that correct?

A That's correct, yes.

Q Do you have any changes or corrections to your exhibit?

A No, sir, I do not.

MR. MELSON: I'd ask that Exhibit RGM-1 be identified as Exhibit 32.

CHAIRMAN JABER: RGM-1 is identified as Exhibit 32.

(Exhibit 32 marked for identification.)

GULF POWER COMPANY
Before the Florida Public Service Commission
Prepared Direct Testimony and Exhibit of
Robert G. Moore
Docket No. 010949-EI
In Support of Rate Relief
Date of Filing: September 10, 2001

Q. Please state your name, business address, and occupation.

A. My name is Robert G. Moore and my business address is One Energy Place, Pensacola, Florida 32520. I am Vice President of Power Generation and Transmission at Gulf Power Company.

Q. Please summarize your educational and professional background.

A. I graduated from the University of Alabama in 1973 with a Bachelor of Science Degree in Mechanical Engineering. I joined Alabama Power Company in 1973 as a junior engineer at Plant Barry in Mobile, Alabama. In 1978, I transferred to Mississippi Power Company where I held various positions of increasing responsibility including Plant Manager – Plant Daniel, and Plant Manager – Plant Watson. I transferred to Georgia Power Company in 1993 as Plant Manager – Plant Bowen.
In 1997, I was elected to my present position as Vice President of Gulf Power Company.

Q. What are your areas of responsibility within Gulf Power Company?

A. I have responsibility for the Power Generation, Fuel, Environmental Affairs, Procurement and Materials, and Transmission and System Control functions at Gulf Power Company. This includes the generation

and transmission of electricity, fuel supply, environmental services, intercompany interchange contract administration, and procurement of materials and contract services.

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

A. Yes. Schedule 1 is an index to the other schedules in my exhibit. Each schedule of this exhibit was prepared under my supervision and direction.

Counsel: We ask that Mr. Moore's Exhibit (RGM-1), comprised of 11 schedules, be marked for identification as Exhibit ____(RGM-1)

Q. Are you the sponsor of certain Minimum Filing Requirements (MFRs)?

A. Yes. The MFRs that I am sponsoring, in part or in whole, are listed on Schedule 11 of my exhibit.

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

A. I will present evidence related to Smith Unit 3, the Company's new combined cycle 574 megawatt generating unit scheduled to go into commercial operation on or before June 1, 2002, other production Operation and Maintenance (O & M) expenses, and construction projects included in our test year to show that the amounts budgeted for these items are reasonable, prudent and necessary. I will address: (1) the capital and O & M requirements of Smith Unit 3, (2) the need for additional O & M dollars to maintain our existing fleet of generating units,

(3) the variance between the O & M Benchmark and the test year for production, (4) the construction budget for power production, and (5) the projected fuel inventory included in working capital.

Q. What are the capital additions to rate base for Smith Unit 3?

A. The Smith Unit 3 project is budgeted at $220.5 million. This includes project design, site preparation, environmental mitigation, generating equipment, start-up costs, taxes, and Allowance for Funds Used During Construction. Schedule 2 of my exhibit is the budget breakdown of the Smith Unit 3 construction costs.

Gulf's load and energy forecast identified a capacity need beginning in the summer of 2002 to serve our customers and maintain an adequate level of generating reserves. Previous market inquiries confirmed that the amount of firm capacity in the market was becoming scarce and more expensive. Gulf knew that it needed to re-evaluate its capacity resource alternatives to meet the Company's needs for 2002 and beyond. Commission Order No. PSC-99-1478-FOF-EI confirmed the need for the addition of Smith Unit 3.

Q. What is the impact on Gulf's production O & M expenses associated with Smith Unit 3?

A. The O & M budget for Smith Unit 3 is $3.4 million in the test year. Schedule 3 of my exhibit provides a summary of the operation and maintenance expenses for Smith Unit 3. The $1.7 million for labor includes an increased staff at Plant Smith of 29 full-time positions needed

to operate and maintain the new unit. Schedule 4 of my exhibit provides a detailed listing of the additional personnel complement associated with Smith Unit 3. The additional $1.6 million is needed to cover contract maintenance labor, including the Long Term Service Agreement (LTSA), and spare parts.

Q. Why did Gulf decide to contract with the equipment manufacturer for the long-term service of Smith Unit 3?

A. The LTSA with the equipment manufacturer allows Gulf access to an experienced group of technical experts with knowledge regarding the specifics of this state of the art generating equipment which is new technology for Gulf. The LTSA enables Gulf to reduce the number of additional full-time maintenance personnel and to hire a minimal staff to operate and maintain the unit. Furthermore, the LTSA provides Gulf with access to a ready supply of discounted parts for all major outages. The customers benefit from the LTSA through reduced costs of staffing, discounts on major parts, and reduced carrying costs on inventory.

Q. Please explain the need for additional O & M dollars to maintain Gulf's existing fleet of generating units.

A. In addition to Smith Unit 3, the other major factors contributing to the higher O & M expenses are increased planned outage costs and other increased maintenance costs applicable to Gulf's existing fleet of generating units. The total production costs in the test year are $83.7 million of which the O & M for Smith Unit 3 is $3.4 million.

Since Gulf's last rate case in 1990, our generating units have aged significantly and have been required to produce more electricity on an annual basis. Generating plants contain a large amount of rotating equipment. This equipment is subject to extremely high stresses due to the high temperatures and pressures at which they operate. Gulf's customers enjoy significant advantages over customers of other electric utilities in that we have chosen coal, a plentiful low-cost fuel, for Gulf's generating plants. However, coal is highly abrasive in nature and causes much more wear on generating plant components than gas or oil, thereby increasing maintenance costs. During the last 12 years, we have worked hard to maintain these units so that they have continued to provide reliable, low cost service to our customers. The fact that our rates are among the lowest in the nation is a testament to the value we provide our customers.

We are now at the point where we must spend additional money on these units so that they continue to provide this reliable, low cost energy into the future. The requested amount in the test year, which includes production A & G and production O & M, is essential to effectively operate, maintain and support Gulf's entire generating fleet.

Q. Please explain the increase in total production cost from the 2000 historical year to the test year.

A. As shown in Mr. Saxon's Schedule 3, the total increase in production from 2000 is $10.4 million. Of that total, $3.1 million is associated with increased planned outages and $3.4 million are expenses associated with

Smith Unit 3. The remaining $3.9 million in production cost is necessary for Gulf to continue to effectively maintain our generating fleet in a manner that maximizes our equipment and unit availability while maintaining the lowest cost to our customers. These units are 11 years older than in our last rate case; the newest went into commercial operation in 1981. These increased maintenance costs are directly related to the age of the units, coupled with the cumulative effect of a 37 percent increase in total generation. This increased generation translates to a significant amount of additional coal burned in the units since 1990. This, in turn, causes an increase in the wear and tear of boiler components and auxiliary equipment (i.e. coal mills, ash handling equipment, fans, ductwork, etc.)

Q. Please define planned outage and other maintenance cost.

A. In order to better manage our O & M expenses, track costs, and monitor performance results, Gulf has adopted a philosophy of capturing production expenses in the following categories: (1) Baseline, (2) Planned Outage, and (3) Special Projects.

Baseline expenses are the costs required to conduct the day-to-day operation and maintenance of the plant. Planned outage expenses are those that occur in support of periodically scheduled maintenance of major components such as boiler, turbine, generator, or auxiliary equipment. Special Projects expenses are for projects significant in cost, that are tracked individually to enhance cost control and ensure acceptable performance. Although a particular special project may not occur annually, there will be special projects that have to be completed

each year. The level of special project costs included in the test year is representative of the costs that will be incurred in future years. This change in philosophy was initiated to provide a consistent cost methodology to all our power plants. This consistent cost approach also provides Gulf with the ability to better manage our projects, while identifying best practices and opportunities for improvement to enhance the performance of our units.

Q. What is the impact of planned outages on Gulf's production O & M in the test year?

A. The budget for planned outages in the test year is $14.0 million. This compares to $10.9 million in actual planned outage expenses in the year 2000, the most recent complete historical year available at the time of this filing. The increase from calendar year 2000 to the test year is primarily attributed to the overall scope of the planned outages. The major difference in the test year and the historical year is an increase in the scope of the planned outages at Smith Units 1 & 2 and the addition of an outage for Plant Daniel.

The test year budget is more representative of future conditions. As shown on my Schedule 5, the projected average annual planned outage expenses for the five-year period 2002 through 2006 is $15.7 million. Gulf's test year outage budget of $14.0 million is $1.7 million below the projected five-year average.

Q. What is the main performance indicator used by Gulf to determine the effectiveness of its planned outage and maintenance program?

A. Gulf uses Equivalent Forced Outage Rate (EFOR) to gauge the effectiveness of its planned outage and maintenance program. EFOR is one of many standard calculations developed by the North American Electric Reliability Council Generating Availability Data Systems (NERC GADS). Gulf has been a participant in NERC GADS since its inception in 1982. The EFOR calculation takes into account forced outages and deratings on a unit by unit basis. It is the measure of a unit's ability to meet full load when needed by the system.

Q. How does Gulf determine the priority of projects to address EFOR?

A. Gulf has been proactive in implementing several major preventive maintenance programs that have improved the overall effectiveness of scheduling and planning processes. One program is the plant reliability optimization (PRO) program that was developed in partnership with the Electric Power Research Institute (EPRI). PRO is a maintenance process that seeks to produce the appropriate balance between corrective maintenance, preventive maintenance, and predictive maintenance. PRO combines all diagnostic, maintenance, financial, and process data into an effective decision-making tool. The ultimate goal is to perform maintenance at the least cost while maximizing equipment reliability. The EFOR for Gulf's units has declined significantly since 1997, in part, because of efforts that have more effectively targeted preventive maintenance expenditures to those preventive maintenance projects that

have the greatest impact. These EFOR reductions have occurred even though total generation for Gulf's units has increased 25 percent from 1997 to 2000. Schedule 6 of my exhibit provides a detailed outline of Gulf's generation and EFOR for the years 1991 through 2000. The total increase in generation over this period is 37 percent.

Q. What is the effect of not performing the required maintenance?

A. In order to provide reliable and cost effective generation to our customers, Gulf must maintain plant efficiencies and minimize forced outages. Without O & M dollars sufficient to continue our current maintenance practices, the EFOR of the units will be negatively impacted and the customers would ultimately bear the burden of higher costs. In the short-term, higher forced outage rates could require additional market energy purchases in order to meet customer load requirements. For example, market replacement power costs for a one percent higher summer EFOR caused by a single outage (64 hours) on Crist Unit 7 could have cost the customers as much as $10 million in the summer period of 1999. The additional dollars we are requesting in this rate case are more than justified to offset the potential exposure of our customers to the costs associated with increased EFOR.

Q. How does the O & M Benchmark calculation included in Mr. McMillan's testimony for production compare to the test year?

A. As noted by Mr. McMillan, Gulf's total company O & M for the test year is $3.7 million under the O & M Benchmark. The test year budget for

Production O & M expenses is over the Benchmark by $9.4 million. As shown on my Schedule 7, this variance consists of four segments: (1) Production Steam, (2) Production Other, (3) Production Other Power Supply, and (4) Production Related Administrative and General.

Q. Please discuss the $5.8 million variance in total Production Steam.

A. In 1990, the Commission allowed $5.9 million for boiler and turbine inspections. This results in a Benchmark of $8.2 million as shown on my Schedule 8. In the test year, Gulf's total planned outage costs are $14.0 million for a variance of $5.8 million over the Benchmark. This is due, in part, to the additional maintenance costs associated with the increased amounts of generation required. As previously stated, our generating units have aged significantly and have been required to produce more electricity on an annual basis. Since 1990 there has been a 37 percent increase in total generation as compared to the historical year 2000.

In addition, we now use diagnostic tools that were not readily available in 1990 such as: thermography, boiler mapping, tube sampling, non-destructive examination, and motor signature testing. These tools allow us to locate problems before they actually occur, thereby increasing the maintenance activities performed today. The added costs of these additional maintenance activities are incurred to help reduce EFOR and provide more reliable, low cost generation to our customers. The Benchmark does not recognize this more inclusive outage philosophy used today as compared with 1990.

Q. Please explain how the outage philosophy used today differs from that used in 1990 and the resulting impact on the Benchmark comparison.

A. As I discussed previously in my testimony, Gulf adopted a philosophy of budgeting and tracking production expenses as baseline, planned outage, or special projects. As we currently define them, planned outages include maintenance work performed while the unit is scheduled off line for a specified period. Planned outages include, but are not limited to, work on the boiler, turbine, generator, pulverizer, precipitator, cooling towers, stack, ductwork, and other auxiliary equipment. Year to year budget fluctuations are largely due to scope changes in planned outages and special projects associated with various units within our generating fleet.

The current philosophy of tracking baseline, outage, and special projects costs provides our management with the ability to better manage projects, while identifying best practices and opportunities for improvement to enhance the performance of our units. This was not the case in 1990 when only three major turbine and boiler inspections occurred as shown on my by Schedule 5. Other outages were taken but not identified as major turbine boiler inspections. The associated additional outage dollars were not specifically identified with outages in the 1990 test year. Because of the diagnostic tools available today, outages under our definition are more inclusive in terms of scope of work to be performed during the planned outage. Therefore, comparing the resulting Benchmark amount to the planned outage amount in the test year is not an appropriate comparison.

Q. Please compare Gulf's Production Other O & M expenses for the test year to the Benchmark level.

A. The Production Other segment is $3.8 million over the Benchmark level. This variance is attributed to the additional costs associated with Smith Unit 3 of $3.4 million and annual maintenance cost of $450,000 applicable to the Pea Ridge Cogeneration facility which was added to Gulf's system after the 1990 test year. The amount budgeted for these two facilities is reasonable, necessary, and prudent in order to keep these generating units operating to serve Gulf's customers.

Q. Please compare Gulf's Production Other Power Supply O & M expenses for the test year to the Benchmark level.

A. The test year budget in Production Other Power Supply accounts is $1.1 million over the Benchmark level. Of this variance, $896,000 is directly related to Gulf's share of costs associated with operating the Southern electric system's wholesale energy trading floor. This activity provides: (1) better utilization of the most efficient generating sources, (2) management of reliability power purchases, (3) economic purchases of lowest-cost wholesale power, and (4) wholesale sales of excess system generating capacity. Gulf's customers benefit from greater system reliability and reduced costs.

The remainder of the variance for the Production Other Power Supply segment is related to increased costs of the Power Coordination Center (PCC) which coordinates the bulk power supply operations for Gulf and the other operating companies of the Southern electric system. The

bulk power supply operations provided by the PCC include interchange evaluations, real time generation control, transmission security and sales, and operations planning. FERC regulations related to Orders 888, 889, and 2000 have all been issued since the Benchmark year. Activities associated with compliance with these orders have caused the increase of $208,000 associated with the development and implementation of relevant automated systems. These costs are offset by the benefits that Gulf's customers receive through an enhanced competitive wholesale energy market.

Q. Please compare Gulf's Production Related A & G expenses for the test year to the Benchmark level.

A. As shown on Schedule 7 of my exhibit, the budget for Production Related A & G in the test year is $1.3 million under the Benchmark. This variance is associated with reductions in A & G costs at Plant Daniel of $914,000 and an overall reduction of $871,000 in A & G costs associated with insurance expenses and employee benefits allocated to Production.

Q. Is the $83.7 million included in production the appropriate level of O & M expense to use in setting Gulf's base rates?

A. Yes. As mentioned earlier, Gulf as a company is $3.7 million below the Benchmark established by this Commission. The approved level in the last rate case resulted in a Benchmark level of $74.3 million for production. I have discussed reasons for the variance of $9.4 million from the Benchmark previously in my testimony. The $83.7 million level of

O & M for Production in the test year is reasonable, prudent, and necessary to continue to maintain reliable low cost generation for our customers. Furthermore, the test year O & M level is representative of levels that will continue to be incurred in the future when new rates resulting from this case are in effect.

Q. Please summarize the Production Construction Budget for the period January 1, 2001 through May 31, 2002.

A. The total Production Construction Budget for the period January 1, 2001 through May 31, 2002 is $238.1 million. This includes $188.2 million associated with Smith Unit 3 and $49.8 million of other production-related items. The other production related items include $9.5 million of environmental projects and $5.8 million of Scherer capital expenditures. Mr. Labrato addresses the adjustments used to remove investments and related accumulated depreciation associated with UPS contracts and with amounts recovered through the Environmental Cost Recovery Clauses. The remaining $34.5 million included in the production construction budget is for specific projects at Gulf's generating facilities designed to improve heat rate, prevent forced outages, or otherwise help ensure the availability of efficient, low-cost generation to our customers. Schedule 9 of my exhibit is a listing of all capital projects included in this period for production.

Q. Please summarize the Production Construction Budget for the test year.

A. The test year construction budget for production is $13.0 million. This

includes $677,000 associated with Smith Unit 3, $11.0 million of retrofit items, $1.0 million of environmental projects, and $301,000 of Scherer capital expenditures. All capital projects are designed to improve heat rate, prevent forced outages, or improve plant efficiency. Schedule 10 of my exhibit is a listing of all capital projects for the test year.

Q. What processes do you use to ensure capital dollars are spent effectively?

A. As previously stated, Gulf monitors NERC GADS data as part of the production capital analysis process. Gulf develops plans to address GADS events that continue to be problematic and makes decisions to repair or replace existing equipment. For all capital projects, the Project Evaluation and Prioritization System (PREPS) model is used to determine the economic viability of a project. The PREPS model assigns benefits in terms of dollars to heat rate improvements, reduced forced outage rates, or reduced station service expenses and compares those benefits to the project costs. The normal criteria to implement a capital project are a payback of less than five years and a 1.2 benefit to cost ratio.

Q. How is the Construction Budget managed?

A. Each project is assigned a project manager who is responsible for developing potential solutions and preparing all PREPS analyses. The project manager will develop documentation outlining the scope of the project and work with procurement contract personnel to develop a bid package. From start to finish, the project manager is responsible for all

on-site management including contractor performance and invoice review. The plant manager receives a report from Generation Services each month detailing total capital project expenditures and budget variances for all projects. The plant manager is responsible for explaining all budget variances. At the Company level, the Corporate Planning group requires a detailed explanation quarterly of all budget variances that meet specific variance criteria.

Q. What recovery amount is Gulf requesting for total inventory dollars including fuel stock and in-transit fuel?

A. Gulf is requesting a total fuel inventory of $42.4 million. This includes $29.4 million for fuel stock and $13.0 million for in-transit fuel.

Q. Please describe Gulf's coal inventory policy.

A. Our policy is to maintain plant inventory levels sufficient to safeguard against disruptions in supply and inconsistencies in delivery of coal due to weather conditions and other factors affecting the transportation sector. Preliminary stockpile levels are determined using the Utility Fuel Inventory Model developed by EPRI and the electric utility industry. The model evaluates, among other factors, the economics associated with being forced to procure coal in the spot market versus the costs associated with carrying various levels of inventory. The model results are then considered along with specific plant logistics and other market intelligence in setting inventory target levels for the coming year. These inventory levels are then used in the SES Fuel Optimization and Evaluation System

(FOES) model to develop a fuel budget for all plants in the SES, including Gulf. FOES is used to evaluate the load dispatch of the SES fleet and fuel price forecast. It then generates a fuel budget for each plant. For the test year this evaluation resulted in inventory targets for Gulf's barge-served coal fired plants of approximately 40 normal full load (NFL) days and for its rail-served plants (excluding Scherer), a range from 20 to 37 NFL days.

Q. How does this policy compare to the policy used in the last case?

A. The SES fleet of generating units is dispatched and runs based on the economics associated with marginal fuel prices. Because the marginal prices are constantly changing with the markets, burn projections fluctuate accordingly. Since "burn" is really a moving target, Gulf now employs a "NFL burn day" as a stable Benchmark by which to measure inventory levels. A NFL burn day is equal to the amount of fuel required, at a standard unit per plant heat rate and given fuel-heating value, to run at full load for 24 hours. In the last case, a budget burn or projected test year burn was employed to determine burn days. Based on the latter method of determining burn days, Gulf is requesting 52 days of projected burn, as compared to the last rate case in which the Florida Public Service Commission allowed for 90 projected burn days.

Q. Based on this policy, what is Gulf's forecasted inventory level for the test year?

A. For all Gulf plants (excluding Scherer), the 13 month average of the

monthly ending inventory levels, not including in-transit coal, for May 2002 through May 2003, is a stockpile of 695,829 tons ($26.8 million), or 36 days NFL supply. This compares to a total of 784,887 tons ($37.0 million) allowed in the last rate case.

Q. Have you included in your request for working capital an amount for in-transit coal?

A. Yes. Gulf pays its coal suppliers upon shipment. Therefore, capital is invested in coal that has not yet been received at the plants. The amount of the in-transit coal for the test year is $13.0 million. Since a major portion of Gulf's coal supply is delivered by barge, considerable time is involved in transporting the coal to the plant sites. This investment in coal that is in-transit should be included in the working capital component of Gulf's rate base.

Q. What is Gulf's natural gas inventory forecast for the test year?

A. Gulf's current policy is to maintain a certain portion of its natural gas requirements in storage to provide for pipeline balancing and natural gas interruptions caused by pipeline and compressor station failures, hurricanes, well freezes, etc. Gas storage for balancing is necessary to avoid penalties imposed by pipelines for large swings in daily and hourly demands when the generating unit is economically dispatched or when other sudden changes, like plant outages, cause a swing in demand. Currently, a target inventory level of approximately ten NFL days supply for Smith Unit 3, or 850,000 MMBtus, has been set. Based on the

capacity factor for Smith Unit 3 in the test year, this equates to about 17.5 average burn days. In addition, Gulf maintains approximately ten days burn of natural gas storage for Crist Plant or about 100,000 MMBtus. Gulf has included $2.1 million in working capital for gas storage.

Q. What is Gulf's forecast distillate oil inventory level for the test year?

A. Gulf's projected distillate oil inventory level, including both lighter oil and combustion turbine generating fuel, for the test year (excluding Scherer) is 16,105 barrels. The amount of $487,000 has been included in working capital for distillate oil inventory.

Q. Please summarize your testimony.

A. The construction of the 574 megawatt Smith Unit 3 is a major factor creating Gulf's need for rate relief. Gulf's RFP and subsequent need determination clearly demonstrate that Smith Unit 3 is necessary and the most economical option available to Gulf's customers. The capital addition of Smith Unit 3 of $220.5 million and the associated O & M expenses of $3.4 million are reasonable, prudent and necessary expenses and in the best interests of Gulf's customers.

The Production Construction budget is necessary to continue to improve heat rate, prevent forced outages, or otherwise help ensure the availability of efficient, low-cost generation to our customers. The fuel inventory levels requested in working capital are reasonable and the coal inventory levels fall below the guidelines established in our last rate hearing proceeding.

Gulf's production operations continue to provide low cost, reliable electricity to our customers, while at the same time the demand has increased significantly. The availability of Gulf's generating units and low EFOR are clear indications that Gulf has developed an effective program that will continue to provide our customers with reliable service. Gulf is committed to maintaining our generating facilities through the effective use of resources. Gulf's production construction and O & M costs are carefully controlled and utilized in a manner to ensure high availability and low EFOR. The $83.7 million budgeted for power production O & M in the test year are reasonable, prudent, and necessary expenses and are representative of levels that will continue to be incurred in the future when new rates resulting from this case are in effect. Gulf is committed to continual improvement of our maintenance and operations practices so that our customers will be best served and their long-term electric costs will continue to be among the lowest in the nation.

The results, as reflected in Gulf's record associated with EFOR, are a clear indication that the planned outage and maintenance practices of Gulf are efficient and effective. With the increasing age of our generating facilities and a 37 percent increase in generation for those units, Gulf has reached a point where we can no longer continue to maintain a reasonable level of reliability without the level of O & M and capital expenditures requested in the test year.

Q. Does this conclude your testimony?

A. Yes.

BY MR. MELSON:

Q Mr. Moore, would you summarize your testimony for the Commission, please.

A Yes, sir. Good afternoon, Commissioners. Over the past 12 years, Gulf has utilized its resources prudently and effectively. Gulf's high customer satisfaction and reliability are evidence of these efforts. Gulf's production function has managed to use the available resources in such a manner that peak season reliability for Gulf's plants are at an all-time high.

With Gulf's overall O&M requests for the test year, we will be $3.7 million below the 1990 benchmark. Keep in mind that this is inclusive of Smith 3. Gulf's request for $83.7 million of O&M production expenses for May 2003 projected test year are the amount needed to effectively maintain and operate Gulf's generating fleet.

Since our last rate case, Gulf's generating fleets have grown 12 years older. But during that period of time, customers have enjoyed reliable, low cost electricity while the demand for our product has increased significantly. With the increased demand, that has required our generating plants to produce 37 percent more electricity than in 1990 with 25 percent of that increase coming since 1997. Even with this aging fleet and increased demand, Gulf has managed its resources in such a manner that peak season reliability for all

its units is at an all-time high. The effective management translates to high system reliability, high customer satisfaction, and low cost.

Unfortunately, Gulf cannot expect our generating fleet to continue to perform at this high level without additional maintenance expenditures. While our product-related O&M expenses were at or below the benchmark for many years, our actual production costs continue to increase above that benchmark and will continue to in the future. We believe that this money is well spent performing the necessary maintenance on our generating fleet, helps us ensure that our customers will have minimal impact to high replacement energy costs.

As we discussed, previous O&M dollars spent in the past test year, I want to make it clear that the increased demand of our units and the increased age of these units has resulted in production expenditures exceeding the benchmark. Looking into the future, O&M dollars we're requesting in the test year are still $9.5 million below the projected five year average for the years 2002 through 2006. The requested amount is a conservative representation of the dollars needed to maintain our generating fleet today and in the future.

In our last rate case, this Commission approved $45.4 million of total fuel to be included for working capital for Gulf. Our current request is 42.4 million in total fuel which includes natural gas. That's $3 million below the amount

approved for the last rate case in 1990. Keep in mind, our current requests includes $2.1 million for natural gas. No natural gas was required in the previous rate case. The fact that Gulf is making this reduction in working capital even though generation and fuel requirements are increasing is an example of Gulf's proactive approach to better manage our total fuel inventory.

In conclusion, we do not take our requests for a rate increase lightly. We recognize that our customers trust Gulf Power to do the right thing to ensure that they continue to receive reliable, low cost electricity. The employees of Gulf Power are some of the most dedicated and highly trained employees in the electric utility industry. The decisions we make and the expenditures we are requesting are in the long-term best interest of our customers. Thank you. This summarizes my testimony.

MR. MELSON: Mr. Moore is available for cross.

CHAIRMAN JABER: FEA.

MR. ERICKSON: No questions.

CHAIRMAN JABER: FIPUG.

MR. PERRY: No questions.

CHAIRMAN JABER: Public counsel.

CROSS EXAMINATION

BY MR. BURGESS:

Q Mr. Moore, one of the challenges that Gulf has been

facing has been the aging plants that have been required to produce more electricity on an annual basis; is that correct?

A Yes, sir.

Q Now, is that going to be relieved somewhat by the addition of Smith 3 being brought on-line?

A Bringing Smith 3 on-line will take care of certain capacities that we need today. We have approximately 450 megawatts of energy under contract today that when Unit 3 goes on-line in June, that energy from that plant will displace those contracts.

Q So because Smith 3 is coming on-line, you're going to drop that contract?

A Yes, sir. That was the term of those contracts, was sufficient to get us to June 1 of this year, at which time Smith 3 would go into commercial operations.

Q And you're saying then that it's more cost-effective to put that 450 megawatts back on the shoulders of these other plants than to engage in another contract of a similar size; is that correct?

A Yes, sir. It goes back to Smith Unit 3.

Q Now, in the planned outages in the past for Gulf's plants, has there been less of a need for planned outage than you anticipate in the future, or have you restricted the actual planned outage as a result of your load needs?

A If I understand your question, what we do with

planned outage today is significantly different than we did in 1990, for example. The technologies that we use today, the equipment we use to make our determinations on what needs to be done in terms of planned outages is much more comprehensive today.

For example, we use tomography, infrared cameras to survey boilers, to survey external steam piping to look for efficiencies and losses. We have computerized programs to help monitor our boilers and boiler-related outages. We have equipment to test motors, circuit breakers, those type things, as well as we do a much more comprehensive job today of inspecting our equipment than we have in the past. And I think that's indicative of the change that you see from 1990 to planned outages today.

Q Let's take the computerized aspect that you initially identified. Now, you said that's as opposed to the infrared --

A No.

Q -- or that's in addition to the --

A It's in addition to.

Q When did these begin? When did these particular capabilities begin?

A We actually started utilizing the work orders -- the boiler work management system at Gulf in 1997 to start tracking these type events.

Q And you would agree that there is a -- would you

agree that there is a significant increase between what you anticipate for the first five years starting in the year 2000 from what it was -- or the first five years starting in the year 2001 from what it was in the years from 1996 to 2000, is that correct, in the total expenditures -- or the total expense necessary for planned outage?

A Would you ask your question again, please.

Q Yes. Is there a significant difference in the average annual expense expected for planned outage in the five-year period beginning in the year 2001 significantly higher than the five-year period from 1996 to 2000?

A There is an increase, yes, sir.

Q Can you tell me approximately what magnitude that increase is?

A In just planned outages alone?

Q Yes.

A In 1996 we had an increase from the benchmark of $2,400,000. In 1997 we were below the benchmark in terms of planned outages by 2.3 million. In '98 we were over the benchmark by 1 million. In 1999 we were over the benchmark by 3.5 million. In 2000 we were over the benchmark by 3.1 million. And the five-year average is 1.5 million. And the actual for 2001 is 2.3 million, and the test year is 5.8 million.

MR. BURGESS: Thank you, Mr. Moore. That's all we

have.

CHAIRMAN JABER: Thank you, Mr. Burgess.

Staff.

MR. HARRIS: We have no questions.

CHAIRMAN JABER: Commissioners.

Go ahead, Commissioner Bradley.

COMMISSIONER BRADLEY: Thank you, Madam Chair. Mr. Moore, you're responsible for the generation and transmission functions at Gulf; is that correct?

THE WITNESS: Yes, sir, I am.

COMMISSIONER BRADLEY: Would you please tell me why you think Gulf should be rewarded or given a higher ROE for performance in your area of responsibility.

THE WITNESS: Yes, sir, I'd be glad to. I think in my particular area, predominately when you look at low cost, we have a lot of impact on cost at Gulf, and it's a significant part of the impact in our O&M budgets and the performance of that company. So if we don't do a good job of maintaining our fleets and maximizing the performance of those units, we subject our customers to higher replacement energy costs which in turn will drive their cost up which in terms from being the lowest in terms of cost of energy, we wouldn't maintain that very long.

The other factors that impact us are the transmission system. Reliability numbers on the transmission system would

be impacted. Unfortunately, when you look at the generating plants, the buck kind of stops here, so to speak. If we don't make it, you can't transmit it and you can't distribute it. So that also shows up in our reliability numbers. Gulf also is responsible for a GPIF accountability today where we're held accountable by this Commission for our heat rate and our availability of these same units.

So all those are inclusive of what we think we do well and we do a good job at. And I think they're indicative of the performance of Gulf as a whole. As we said, we haven't been here for 12 years, and even with the inclusion of Smith Unit 3, Gulf's request is $3.7 million below the 1990 benchmark. That's quite an accomplishment.

COMMISSIONER BRADLEY: One follow-up.

CHAIRMAN JABER: Yes. Go right ahead.

COMMISSIONER BRADLEY: Also, would you discuss somewhat what the difference in performance factors would be for coal-fired units versus gas- or oil-fired units?

THE WITNESS: Yes, sir. There is a significant difference in terms of the maintenance for oil and gas as compared to coal. Coal, obviously, it starts from the time you buy it and you receive it at the plant. You have a lot of handling charges that you have to handle it, where you have to unload the coal, push it up on the stockpile. Then you have to run the coal through the crushers, through the conveyor

systems. None of that is applicable to gas and oil. And even once you get it into the plant and you get it into the boiler, coal is very abrasive. The equipment that pulverizes the coal grinds it up into face powder consistency before it is injected into the furnace. That equipment is -- takes a significant amount of wear and tear, and just over time, you have to rebuild it. Where if you're burning gas or oil, you wouldn't have those expenses or that maintenance you wouldn't be incurred to those either.

And then when you get in the boiler and actually get into the combustion process, the ash is very, very abrasive. It's similar to sandblasting, and the erosion on the boiler tubes themselves are significant, and it requires a great deal of maintenance. If you can imagine, a boiler is typically the size of this room and it goes up ten stories. And the fireball itself is approximately three stories tall, and there is a significant amount of ash in that boiler and heat. And you're looking at pressures upwards of 2,400 pounds pressure, a thousand degrees exit temperature, furnace temperature up and the superheater gets up to 2,300 degrees. You take those pressures and those temperatures and then you start sandblasting it with ash blowing through that boiler. It is a significant amount of wear and tear. Where if you have, again, gas or oil, you are not subjected to those type maintenance costs as a result of that wear and tear. And then it goes on

out through your precipitators, on out to your draft system and continue to get subjected to that wear and tear. It is a significant difference. It's like trying to compare apples to oranges.

CHAIRMAN JABER: Thank you, Commissioner.

Any other questions?

COMMISSIONER PALECKI: Yes. Mr. Moore, before Gulf Power filed this rate case, you filed a petition involving Smith Unit 3 basically where you requested that the Commission approve a procedure where the output from Smith Unit 3 would be sold to Gulf Power by way of a long-term contract. And in that petition and in the filing that went with it, you explain that there were many reasons that this was a better deal for the ratepayers of Florida. And I don't see in this rate case where you explain why putting Smith Unit 3 into base rates is a better deal for the ratepayer. Could you please explain why we should not go back to what you told us several months ago was a better deal.

MR. STONE: Commissioner Palecki, if I may, I think, first of all, there is no issue on that subject in this matter, but the Smith Unit 3 proposal that was proposed last summer, basically we were talking about a contract that was a financing plan. And I believe the more appropriate witness to address that question would be Mr. Labrato.

COMMISSIONER PALECKI: I'll wait for the other

witness then. If you could, remind me when he takes the stand. Thank you.

CHAIRMAN JABER: Thank you, sir.

Redirect, Mr. Melson, Mr. Stone.

MR. MELSON: No redirect. And we move Exhibit 32.

CHAIRMAN JABER: Okay. Exhibit 32 will be admitted into the record without objection.

(Exhibit 32 admitted into the record.)

THE WITNESS: Thank you, Commissioner.

(Witness excused.)

CHAIRMAN JABER: Mr. Fisher is our next witness.

MR. STONE: Thank you, Chairman.

FRANCIS M. FISHER, JR.

was called as a witness on behalf of Gulf Power Company and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. STONE:

Q Would you please state your name -- I'm sorry. Mr. Fisher, have you been sworn?

A Yes, I have.

Q Would you please state your name and business address for the record.

A My name is Francis M. Fisher, Jr. My business address is One Energy Place, Pensacola, Florida.

Q And by whom are you employed and in what capacity?

A I'm employed by Gulf Power Company, and I'm the vice president of power delivery and customer operations.

Q Mr. Fisher, have you prefiled direct testimony in this proceeding consisting of 26 pages?

A That's correct.

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

A Yes. I have four minor changes. Page 4, Line 17, correct the spelling of the word "Dobel" to D-O-B-L-E. Page 4, Line 24, change the word "arching" to "arcing," A-R-C-I-N-G. Page 14, Line 2, change "85 percent" to "88 percent." Page 20, Line 12 --

CHAIRMAN JABER: Yeah, Mr. Fisher, hang on. The last change you made was to Page 14, Line 2?

THE WITNESS: Line 2.

CHAIRMAN JABER: And you changed 85 to 88?

THE WITNESS: That's correct, Madam Chairman.

CHAIRMAN JABER: Commissioners, did you get the other two changes?

COMMISSIONER BRADLEY: Yes.

CHAIRMAN JABER: Okay. What's the next change?

THE WITNESS: One final change, Page 20, Line 12, change "94" to "98" percent.

CHAIRMAN JABER: Okay. Page 20, Line 12, change 94 percent to what?

THE WITNESS: To 98 percent.

CHAIRMAN JABER: Thank you.

THE WITNESS: And that concludes the corrections.

BY MR. STONE:

Q With these corrections, if I were to ask your -- the questions in your prefiled testimony, would your answers be the same?

A That's correct.

MR. STONE: We ask that Mr. Fisher's prefiled testimony as corrected be inserted into the record as though read.

CHAIRMAN JABER: The prefiled direct testimony of Francis M. Fisher as corrected today shall be inserted into the record as though read.

BY MR. STONE:

Q Mr. Fisher, you have an exhibit identified as FMF-1 attached to your testimony consisting of five schedules, do you not?

A That's correct.

Q Are you also as part of your testimony and your exhibit sponsoring a section of the MFRs, those that are identified on Schedule 5 of your exhibit?

A That's correct.

Q Do you have any changes to your exhibits or to your portion of the MFRs?

A I have one correction to Schedule 4, Page 7 of 11. Once again, change the word "arching" to "arcing," A-R-C-I-N-G.

CHAIRMAN JABER: Okay. Schedule 4, Page 4?

THE WITNESS: Excuse me, Schedule 4, Page 7 of 11.

CHAIRMAN JABER: Page 7 of 11, you would change the word "arching" to "arcing"?

THE WITNESS: Yes, ma'am. It's three lines from the bottom.

BY MR. STONE:

Q With that, do you have any other changes to your exhibits or to your portion of the MFRs?

A No, I do not.

MR. STONE: We ask that his Exhibit FMF-1 be identified with an exhibit number.

CHAIRMAN JABER: Yes. FMF-1 will be Exhibit 33.

(Exhibit 33 marked for identification.)

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony and Exhibit of
Francis M. Fisher, Jr.
Docket No. 010949-EI
In Support of Rate Relief
Date of Filing: September 10, 2001

Q. Please state your name, address, and occupation.

A. My name is Francis M. Fisher, Jr., and my business address is One Energy Place, Pensacola, Florida 32520. I am Gulf Power Company's Vice President of Power Delivery and Customer Operations.

Q. Please summarize your educational and professional background.

A. I graduated from Troy State University in 1970 with a Bachelor's degree in Business Administration. I have been employed at Gulf since 1973 and have held various positions including: Manager of Residential Sales, Manager of Power Sales, Director of Marketing and Load Management, General Manager of Central Division, Vice President of Employee and External Relations, and currently serve as Vice President of Power Delivery and Customer Operations.

Q. What are your areas of responsibility within Gulf Power?

A. I have responsibility for Power Delivery, Customer Services, Customer Operations Support, Corporate Real Estate and Quality, and Corporate Security. These areas include: System Protection, Distribution Planning, Distribution Reliability, Line Equipment Service Center, Project Services, Distribution, Distribution Operations Center, Forestry Services, Meter

Shop, Customer Service Center, Collections and Support Services, Dispatch Center, Fleet Services, and Field Services. I am also Gulf Power Company's Concerns and Compliance Officer.

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

A. Yes. Schedule 1 is an index to the subsequent schedules to which I will refer. Exhibit (FMF-1) was prepared under my supervision and direction.

Counsel: We ask that Mr. Fisher's Exhibit (FMF-1) consisting of five schedules, be marked for identification as Exhibit ___.

Q. Are you the sponsor of certain minimum filing requirements (MFRs)?

A. Yes. The MFRs that I am sponsoring, in part or in whole, are listed on Schedule 5 of my exhibit. To the best of my knowledge, the information in these MFRs is true and correct.

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

A. The purpose of my testimony is to justify test year Operation & Maintenance (O & M) expenses of $33.0 million associated with our Distribution functions. In doing so, I will compare Gulf's expenses for the projected test year period of June 2002 through May 2003 with calendar year 2000 expenses as well as the Benchmark. I will then summarize Gulf's need for capital additions of $95.4 million for Distribution and $7.7 million for General Plant in my area of responsibility for the period from January 2001 through the end of the test year. I will also provide

information regarding specific productivity improvements within my area of responsibility and provide evidence that these initiatives have enabled us to deliver superior service to our customers.

Q. Mr. Fisher, what are the major causes for increased distribution O & M expenses in the projected test year as it compares to the 2000 expenses?

A. Overall the distribution expenses for the test year are approximately $8.2 million over year 2000 actual expenses as shown on Mr. Saxon's Schedule 3. The major causes for these increased distribution expenses are in the following areas: pole inspections, substation maintenance, distribution tree trim, facility expenses, depreciation study adjustment, underground cable injection, and customer growth and inflation.

Q. Please explain the increase in pole inspection expenses in the projected test year as it compares to the 2000 expense levels.

A. In 1991, Gulf began a ground-line inspection program to inspect and, as necessary, treat, repair or replace the Creosote and Penta treated poles the Company has in service. Gulf's distribution poles are located in the worst of five wood decay zones (zone 5 "Severe") as defined in the American Wood Preservers Association Standard C-4-99. Prior to 1980, Gulf installed Southern Pine Creosote and Penta treated wood poles. Since the early 1980s, Gulf has installed Chromated Copper Arsenate (CCA) treated wood poles with superior decay resistance. To date, approximately 48,000 poles have been inspected. Based on these inspections, it was determined that 82 percent of the poles could be

retreated without additional repairs, four percent needed to be reinforced to remain in service, and 14 percent required replacement. Due to the condition of its aging poles, Gulf has determined it is necessary to speed up this program. We will inspect and, as necessary, treat, repair or replace the remaining 60,000 Creosote and Penta poles over the next five years. Proceeding with this program in a planned, organized manner allows repairs to be made without prolonged outages under emergency conditions. This will result in better customer satisfaction and greater safety. The pole inspection program accounts for $734,000 of the increase in the test year budget for Distribution.

Q. Please discuss the major reasons for the increase in substation maintenance in the projected test year as it compares to the 2000 expense levels.

A. At year-end 2000, Gulf had distribution substation equipment plant in service of approximately $110 million. Based on diagnostic procedures such as ~~Dobel~~ Doble and dielectric testing, an increase in maintenance of $555,000 annually is required to adhere to Gulf's Substation Maintenance Program and prevent increased failures of this aging substation equipment.

During the 2001 to 2003 time period, Gulf will install an additional seven substation transformer banks, 32 breakers, and six capacitor banks. Maintenance associated with this equipment will cost an additional $200,000 annually. Also, we have experienced insulator ~~arching~~ arcing and outages at one of our distribution substations due to salt

contamination. In order to prevent reoccurrence of this, approximately $60,000 will be expended each year to clean the insulators in this substation. The combination of these three factors accounts for the additional $815,000 of O & M expense needed each year to properly maintain our substation equipment, reduce failures and maintain reliable service to our customers.

Q. Please explain the increase in distribution tree trim expenses in the projected test year as it compares to the 2000 expense levels.

A. Based on the analysis of tree growth in Gulf's service territory, the optimum tree trim cycle is three years. Gulf's attempts to control cost in this area resulted in increased dependence upon less efficient spot trimming, which has led to an increase in the minutes of interruption to our customers. This increase in the number of tree related outages on Gulf's distribution system indicated a need to implement a more proactive tree-trimming program. In addition, today's customers require a higher level of reliability with respect to momentary outages due to increased use of computers and electronic appliances and equipment. The distribution tree trim request of $4,123,000 for the test year and corresponding amounts in the future periods will allow Gulf to transition to a more effective cycle and reduce tree related outages. This request, which is $2,488,000 above 2000 actual expense, will also enable the company to better meet our customers' changing expectations for power quality.

Q. Why did your facility expenses increase in Distribution during the test year as it compares to the 2000 expense levels?

A. The $695,000 increase is due to a change in allocation of the maintenance costs related to corporate and district offices. This will result in a more accurate allocation of expenses to the business unit and less cost being charged to Administrative and General (A & G).

Q. Please explain the increase in the Depreciation Study Adjustment in the projected test year as it compares to the 2000 expense levels.

A. This represents the Distribution O & M portion of Adjustment 17 made by Mr. Labrato on his Schedule 8. This adjustment represents the change of $414,000 in depreciation of transportation equipment, which is charged to a clearing account and then allocated to the appropriate O & M accounts. This is a Net Operating Income (NOI) adjustment which reflects the Company's new proposed depreciation rates and dismantlement accruals, which have been filed in Docket No. 010789-EI with the Commission on May 29, 2001, through the Company's 2001 Depreciation and Dismantling Study.

Q. Please explain the increase in underground cable injection in the projected test year as it compares to the 2000 expense levels.

A. Gulf had over 600 trench miles of underground primary cable installed before 1990. The cable injection process involves injecting underground primary cables with a silicone fluid to remove water and fill voids. This process has proven to retard the deterioration of the cable insulation. The

life of a selected group of these aging cables can be greatly extended by this cable injection process. Injecting these cables in a planned manner will reduce the likelihood of outages caused by premature failures and is less expensive than cable replacement, which incurs cost associated with boring under or trenching through established yards and commercial sites. The projected cost of this program is $166,000.

Q. Mr. Fisher, other than the programs mentioned above, what accounts for the remaining increase in the test year compared to 2000 expenses?

A. The remaining increase is primarily related to the normal increases in programs due to inflation and customer growth.

Q. How does the test year O & M for Distribution compare to the FPSC Benchmark calculation included in Mr. McMillan's testimony?

A. As shown on Mr. McMillan's Schedule 1, the total company O & M expenses are under the Benchmark by $3.7 million. The O & M expenses related to Distribution are over the Benchmark by $5.2 million. The major reasons for this variance are: Information Technology (IT) Products & Services; Outdoor Light Maintenance, Street Light Maintenance & Relamping; Pole Line Inspection Program; and the allocation of Facility Expenses.

Q. Please discuss the major changes that have caused the increase in IT products and services expenses for the Distribution area.

A. In 1990, the majority of all IT costs were in the A & G function. These IT

costs are now charged directly to the functional area incurring the costs wherever it is feasible to do so. With the evolution of computer technology use within the workforce over the past 10 - 12 years, there has been a decrease in the need for support personnel to handle correspondence, presentations, reports, etc., for other professional job classifications. Computer technology has enabled the general workforce to do more with automated processes, thus increasing total productivity. The combination of products, equipment, and labor reallocated to the Distribution function accounts for the $1,826,000 increase over the Benchmark.

Q. Please discuss the major reasons for the increase in street light maintenance, outdoor light maintenance and relamping expenses over the Benchmark levels.

A. In 1990, a total of 47,413 high-pressure sodium street and outdoor lights were in service. At the end of 2000, the total had grown to 124,891 lights, which equates to a growth rate of 263%. The actual growth in the number of street and outdoor lights applied to the 1990 allowed expenses equates to $1,328,000 of the $1,438,000 request. The remaining $110,000 requested is due to the additional lights that are included in the test year, and to the group street light relamping that is scheduled during the test year. The group relamping program reduces inefficiencies of individually rebulbing street lights as they fail.

Q. Please explain the increase in pole inspection expenses over the Benchmark levels.

A. The pole inspection program has previously been explained in my testimony. Since this program began in 1991 after the Benchmark was established, the entire $734,000 is shown as a variance.

Q. Why did your facility expenses for ground and building maintenance increase in Distribution?

A. The Company implemented cost-saving measures to manage facility expenses resulting in the overall corporate and district facility expenses being $1.0 million under the Benchmark. As part of the effort to keep costs down, the Company centralized the operation and maintenance of the corporate and district facilities and revised the functional accounts being charged to more accurately allocate facility expenses to the business functions. Although total corporate and district facility expenses are below the Benchmark, a change in allocation of these expenses accounts for approximately $746,000 of the Distribution variance. This offset in A & G expenses is discussed by Mr. McMillan in his testimony.

Q. Are there any other items that are part of your Distribution Benchmark variance?

A. Yes. Justifications for the following items, which are of smaller magnitude, are included in Schedule 4 of my exhibit: Energy Management System (EMS), Southern Electric Geographic Information System (GIS), distribution substation maintenance, depreciation study

adjustment, and underground cable injection.

Q. Is this the appropriate level of O & M expenses to use in setting Gulf's base rates?

A. Yes. The $33.0 million level of O & M for Distribution in the test year is reasonable and necessary. We have made prudent decisions to hold down our costs, and the requested level of expenses is needed for Gulf to continue to provide reliable service to our customers. The test year O & M for Distribution is representative of levels that will continue to be incurred in the future when new rates will be in effect.

Q. What process is used to determine the need for new distribution capital expenditures?

A. Expenditures for items such as meters, transformers, and line extensions to cover customer growth are based on customer forecasts as well as an allocation to serve existing customers' increasing demands. In addition, area load studies are conducted periodically by the Distribution Planning Department. The frequency of these studies is based on the measured load growth and planned load additions. Based on the results of these load studies, specific plant expenditures are budgeted and reviewed by management. Mr. Saxon has a more extensive discussion of the Company's overall capital budgeting process in his prefiled testimony.

Q. Please give a summary of your distribution capital expenditures from January 2001 through May 2002.

A Gulf will spend approximately $57.1 million for new distribution facilities during this 17 month period. These distribution expenditures are necessary to serve new customers, meet additional load growth from existing customers, and replace deteriorating facilities. The funds will be used to purchase and install poles, wire, cable, transformers, capacitors and other distribution equipment and materials. Expenditures during this time period are consistent with the year 2000 actual capital expenditures of $35.6 million when considering the 17 month period includes two major construction periods. These are the major construction periods necessary to meet peak summer load conditions.

Q. Please give a summary of your distribution capital expenditures during the June 2002 through May 2003 test year.

A. Gulf will spend approximately $38.3 million during this time period. This compares favorably with the $35.6 million of actual expenditures for calendar year 2000 when inflation and customer growth are considered. It is necessary to fund these capital additions to serve new customers and meet the needs of our existing customers.

Q. Please give a summary of the general plant expenditures for your area of responsibility from January 2001 through May 2002.

A. Gulf will spend approximately $3.3 million during this 17 month period for general plant in my area of responsibility. The majority of these

expenditures are to provide for improvements to buildings and land as well as the purchase of automotive equipment including mechanized line and service trucks. Expenditures during this period are below the $3.7 million of actual expenditures for calendar year 2000.

Q. Please summarize the general plant expenditures for your area of responsibility during the June 2002 through May 2003 test year.

A. Gulf will spend approximately $4.4 million during this period of time. Replacement of mechanized line and service trucks that are approaching the end of their service life accounts for the increase of approximately $1.0 million over the previous 17 month period. This $4.4 million is reasonable and necessary when the new rates are in effect.

Q. Mr. Fisher, would you briefly describe Gulf Power's commitment to providing superior service to customers?

A. One of our primary corporate goals is to be an industry leader in service and customer satisfaction. We have undertaken a number of initiatives to ensure that we understand and are responsive to our customer's needs and expectations. These initiatives focus on improvements to the processes that touch our customers. For example, Gulf adopted customer service standards to ensure consistent, reliable, high quality customer service across Northwest Florida. These standards apply to areas involving direct contact with customers on a routine basis.

With our continued focus on customer satisfaction and customer loyalty as our top priority, we have reduced customer complaints and

avoided FPSC rules infractions. In the past three years, Gulf has had zero infractions and the complaint activity, as reflected in the FPSC Consumer Activity Report, has remained at very low levels as well. In addition, Gulf has consistently achieved superior results in independent customer surveys gauging customer value and satisfaction in our industry. These superior results include the number one composite ranking among major utilities just last year as reflected in survey results shown on Schedule 2 of my exhibit.

Q. In what manner do you measure the effectiveness of providing superior value to customers?

A. We rely on two annual surveys conducted by independent market research firms. In the "Customer Value Survey," Gulf's performance is compared against the performance of peer utilities that are considered to be industry leaders. We ranked among the very best in the industry for residential, general business, and large business customers as shown in Schedule 3 of my exhibit. Gulf takes great pride in being ranked as an industry leader for delivering value to our customers as reflected in Schedule 2 of my exhibit.

With the information provided by these surveys, we are also able to review different areas of our business for process improvements as identified by our customers. This is another example of Gulf's commitment to provide our customer superior value.

The second survey, "The Public Confidence Survey," measures customers' opinions on various facets of our business. Gulf's customers

recently gave the Company its highest satisfaction ratings in more than five years. ~~Eighty-five~~ Eighty-eight percent of our customers surveyed in May and June 2001 had an overall positive opinion of Gulf. Gulf uses the survey information to gauge public perceptions and to help the Company know where to put more emphasis. Customer service is important to us, and we appreciate the high marks from our customers.

Q. What programs have been instituted in your area of responsibility in recent years that seek to improve productivity and customer satisfaction?

A. Some of the major programs implemented to improve productivity and customer satisfaction are: Trouble Call Management System (TCMS), Automated Resource Management (ARMS), and the Customer Service System (CSS).

Q. Please describe TCMS and its efficiencies.

A. In 1998, Gulf transitioned from using Distribution Trouble Reporting (DTR), which was a reporting application only, to TCMS, which is a distribution management system. TCMS is designed to aid Distribution Operations Center (DOC) personnel in the analysis of distribution system outages by predicting the device that operated to isolate the trouble based on customer calls. TCMS also provides an extensive event history for customer interruptions, operational actions, and crew actions.

Major benefits of TCMS realized thus far are: increased productivity of Distribution Coordinators through decreased trouble analysis time; decreased time to initiate crew dispatch; and better

communications with the customer. The results have been improved customer satisfaction and increased productivity of field personnel.

Since TCMS went into service in 1998, data relative to customer interruptions has been accumulated. This data includes system and customer information related to trouble events and is automatically stored in a relational database when a Distribution Coordinator completes a trouble event.

Analysis of the data through both tabular and graphical means has resulted in the ability to address recurring trouble on a continuous basis. Reports from the trouble event data are generated as often as needed and are accessible via the corporate Intranet.

According to our customers, Gulf's performance in response to trouble events is among the best in the industry. In the residential segment of the customer value surveys referenced earlier, Gulf ranks second in handling emergencies and third in responding quickly to problems. In the general business segment, Gulf ranks third in restoring service quickly after an outage.

Q. Please describe ARMS and its efficiencies.

A. During the last quarter of 1999, Gulf began full-scale implementation of an automated dispatch system for its field service personnel. ARMS was implemented after a two-year pilot in the Pensacola District at Gulf and the Birmingham District of Alabama Power.

ARMS consists of three major components: dispatcher workstations, a digital wireless communications network, and field

computers. These components provide the dispatcher with the tools to manage and electronically dispatch orders to field personnel. Orders are dispatched to field personnel based on their ability to perform the work, the equipment required to do the work, the proximity to the work, the current workload, and our customer commitment date. The dispatcher knows the current status of field personnel and orders and is able to balance the work, ensure that our customer commitments are met, and adjust to changes requested by customers while the order is in the field, all in real time. Through the use of ARMS, we have improved field productivity, streamlined the management and tracking of field orders, and enhanced communication of information on the status of customer requests.

Again, the customer value surveys reflect that Gulf is among the best in the industry in responding to customer requests. We rank third among residential customers and sixth among general business customers in satisfaction with the way service requests are handled.

Q. How has the implementation of CSS enhanced customer service?

A. CSS was implemented at Gulf in October 1997. This initiative was a very significant undertaking. Our goal was to fundamentally improve the way we do business in order to better meet the needs and expectations of our customers. We worked hard to learn from the experience of other utilities that had recently upgraded their customer information systems. We took many proactive steps to ensure effective and efficient implementation of CSS.

Gulf viewed implementation of CSS as an opportunity to review and improve our business processes within customer service, marketing, power delivery, and customer accounting. Prior to CSS implementation, many of our business processes were designed to accommodate the limitations of our old customer accounting system. Changes in the business had necessitated extensive modifications to the customer accounting system, which was over 25 years old and increasingly difficult and costly to modify. It was important that a new customer information system be developed to better serve our customers.

In addition to the difficulty, risks, and high costs associated with routine changes to the old customer accounting system, a number of significant and even more costly changes would have been required in the existing system if CSS had not been implemented. Interfaces to newly developed distribution systems such as mapping systems, TCMS, and ARMS would have required substantial development costs. The old system would have required significant programming changes in order to correctly process dates at the turn of the century, routinely referred to as the "Y2K Problem." This was an opportune time to make the conversion. Implementing the CSS eliminated the risk of continuing to rely on such an outdated platform for our customer service and billing activities.

Q. What other efficiencies result from the implementation of CSS?

A. With the implementation of CSS, Gulf now has all necessary information about customers located within one database. CSS includes extensive information about each customer, each location or premise where service

is provided, and each account. Many of the enhancements included in CSS were for the purpose of increasing flexibility of the billing process. Our ability to implement changes to electric rates has been significantly improved. CSS puts in place a foundation that allows us to be more responsive to our customers and meet future business needs. The technical architecture of CSS has allowed us to easily extend the reach of our customer contacts to the Internet. Much of the same information used by our customer service representatives can now also be accessed directly by our customers. CSS meets the needs of a growing population of customers who prefer to transact business electronically via the Web, doing business in a way that is not restricted to company business hours or locations.

Q. Are there other benefits from CSS?

A. Yes. We have recently completed the interface of ARMS with CSS. When a customer's request is completed in the field, the customer's account in our billing system is automatically updated to reflect the changes made by the field personnel. This paperless transaction has ensured that our customer service representatives in our Customer Service Center (CSC) have real-time information on the status of orders and has dramatically reduced the number of customer requests that must be manually completed by a clerical employee in the office.

Just as our business continues to change, so will the need to change and enhance CSS. Our intent was not only to implement a new system that met our current needs but to also position us for the future.

We have achieved successful implementation and are now focused on using the system to its fullest potential.

As in other areas, our performance regarding the handling of service requests and billing processes is strong. Gulf was ranked number one by residential customers and seventh by general business customers on handling customer service requests right the first time. We rank fourth in the residential segment and third in the general business segment on overall satisfaction with the billing statement and payment process.

Q. Are there any other major economies and efficiencies of a general nature that have affected your area of responsibility?

A. Yes. Gulf has centralized the Dispatch Center and the CSC in an effort to streamline these business processes and improve customer service.

Q. How has Gulf's centralization of the Dispatch Center improved service to customers?

A. Gulf centralized its Dispatch Center operations from eight separate locations into one to improve customer service by offering expanded dispatch hours, establishing one point of contact and improving the ability to move crews across our service territory to get the work done efficiently.

This centralized operation offers the advantage of having one entity with oversight for all field order work, providing the ability to balance the workload, establish priorities, and ensure that the appropriate resources are available. Centralized dispatch is the one point of contact for order information required by customers and company personnel. This entity is

responsible for follow-up with the customer and appropriate company personnel when events prevent successful completion of a customer request. This ensures corrective action can be taken as quickly as possible.

To further emphasize our commitment to customer satisfaction, goals were established for meeting customer appointments and completing lighting and service orders as scheduled. The goal for being on time to appointments with our customers is 95 percent. As of July 2001, Gulf has exceeded this goal and is currently making more than 99 percent of its appointments on time. Our goal for completing lighting and service orders within their committed service dates is 95 percent. As of July 2001, we are at 97 percent for service orders and at ~~94~~ 98 percent for lighting orders.

Q. Has Gulf's centralization of the CSC improved service to customers?

A. Yes. Gulf centralized its customer service calls from three locations to one CSC in 1994. The call volume, along with our initiatives on cost reduction, posed a challenge to our commitment for customer care as an exceptional service provider.

To address this challenge, Gulf reevaluated the call handling process. It was clear that the existing Automated Call Distributor (ACD), which was nearly 10 years old, would not allow us to keep pace with call volume. Replacement of this technology in conjunction with the centralization of the call handling process was a solution to provide better customer service and increased operational efficiencies.

Benefits of this strategic direction include: expanded customer service coverage to 24 hours a day, seven days a week; improved call handling; reduced customer wait time; and fewer abandoned calls. In addition, the centralized CSC improves consistency, simplifies our business processes and provides one point of contact for our customers. Technology provides for setting call priorities; routing more difficult calls to more experienced agents; and automating call handling. Using the system helps to control personnel costs and provides the benefit of networking possibilities with sister companies.

The performance of our employees in the CSC is largely responsible for our industry leader rankings in the customer value surveys, because this is where the vast majority of our contacts with customers take place. Gulf ranks first in the residential segment and second in the general business segment on overall satisfaction with the knowledge and skills of our employees. We ranked second in both the residential and general business categories for ease in doing business and received a number one ranking on treating our customers with respect. In addition, since the centralization of the CSC, we have consistently achieved our service level goal, which is at least 80 percent of all calls answered within 30 seconds or less. Gulf has also maintained an abandoned call rate of less than 3 percent.

Q. Have any new major training initiatives been instituted in your area of responsibility in recent years?

A. Yes. In 1998, earned progression programs were established for the

classification of Apprentice, Line Technician and Service Technician personnel in Gulf's Power Delivery Department. We have also established comprehensive training programs for Field Service Representatives and Customer Service Representatives who have day-to-day contact with our customers. We educate our employees on the specific skills, tools, and values needed to understand and exceed customer expectations.

Q. Please describe the earned progression training program.

A. In earned progression, the knowledge and skills necessary to successfully complete each job task for each job classification are defined. Employees are trained in the classroom, in a simulated training facility, through self-study, and on the job. On the job training is a structured program conducted under the guidance of a technically qualified person. At prescribed intervals for each classification, the employee must successfully complete written and demonstrated skill assessments on these job tasks in order to progress. Earned progression has proven to be so successful in developing job competency that it has been expanded to cover substation electricians.

The major benefit of earned progression programs is that it provides a thoroughly planned approach to training that is specific to the knowledge and skills required of each job classification. This training provides consistent work methods across the Company and improves adherence to construction and safety standards. Earned progression also provides the incentive to learn by allowing employees that demonstrate

mastery of job knowledge and skills to be promoted once minimum time requirements to gain experience have been met.

Q. How has Gulf worked to improve productivity and efficiency in Distribution related construction and maintenance activities?

A. In 1991, a task force was put together to analyze how to improve the productivity and effectiveness of line and service crews. The goal was to evaluate all factors that influence productivity for line and service crews in order to cost effectively achieve construction and maintenance goals that meet customer satisfaction expectations.

The task force recommendations included: two-man line crew standardization, utilization of one-man line crews for routine maintenance, one-man service crew standardization, improved job planning and scheduling, and better equipment selection such as the use of material handling trucks and one-man crew service trucks.

In 1993, Gulf began transitioning from three-man line crews to two-man line crews and from two-man service crews to one-man service crews throughout the company. Through the use of two-man line crews and one-man service crews, we have improved field productivity and shifted personnel to reduce the need for overhead line construction contractors. This allowed us to meet or exceed customer commitments, and also keep costs at a reasonable level.

In order to utilize the one and two-man crew concept, improved equipment and communication devices were required. The radio repeater concept served as the communication device until the installation of the

new 800 megahertz radio system. Based on specifications that best met the work requirements for line and service crews, decisions were made to provide line crews with 55 foot material handling trucks and service crews with trucks equipped with 38 foot squirt booms and torsion bar suspension. The material handling trucks are equipped with a winch and jib combination, which allows a two-man crew to do work that otherwise would require additional personnel on the job site. The torsion bar suspension on the service trucks eliminates the use of outriggers and reduces the time associated with setting up the truck at the job site. The service trucks include remote engine start up and emergency lowering of the boom if the system fails. The safety and security of all employees assigned to perform line and service activities continues to be a top priority at Gulf Power.

Q. Please describe the 800 megahertz radio system.

A. Gulf's new radio system was added in 1995, allowing multiple call groups and improving the ability to communicate during high traffic times. This radio system has proven to be critical in storm situations allowing the Company to form individual communication teams, which can talk to each other without interfering with other workers in an effort to speed up the restoration process. These handheld units improve communications between work crews, the DOC and support personnel. Improved communications associated with the use of these radios is also one of the reasons that electric service to Gulf's customers is restored so quickly after hurricanes and other emergencies.

Q. What other efficiency changes have been implemented in the line service area?

A. After a successful pilot program in 1993, the Company implemented a company-wide distribution line work planning and scheduling system. This included a planner/scheduler concept, which was implemented. Through improved scheduling of construction projects, we have increased customer satisfaction, reduced unnecessary travel and non-productive time for crews, and increased overall efficiencies in the engineering design and support process.

Q. Please summarize your testimony.

A. The adjusted requested level of $33,048,000 in distribution expenses and the $42,663,000 in capital expenditures for my area of responsibility in the test year are reasonable, prudent, and are necessary for Gulf to continue to provide superior customer service and high reliability to our customers. These levels of O & M expenses and capital expenditures are representative of future levels required in the period the new rates will be in effect. Gulf's customer service standards and applications ensure consistent, reliable, high quality customer service across Northwest Florida. One of our primary business goals is to be an industry leader in customer service and customer satisfaction. Over the past few years, we have added new technologies and changed our work methods to keep up with the growth in our service territory and the changing expectations of our customers. We take great pride in being ranked at the very top of our industry in delivering value to our customers. Our business results and

commitment to continued improvement demonstrate our past, present, and future commitment to providing electric service of superior value.

Q. Mr. Fisher does this conclude your testimony?

A. Yes.

BY MR. STONE:

Q Mr. Fisher, would you please summarize your testimony.

A Yes. Thank you. Good afternoon, Commissioners. Gulf Power Company through its employees and management has worked very hard to meet our customers' expectations by keeping rates low, maintaining very reliable electric service, and providing superior customer care. This has been accomplished without requesting a rate increase from this Commission for 12 years.

During this 12 years, the distribution resources of Gulf Power have been managed in a fashion that has allowed for investments in new programs and technologies to improve reliability, improve customer service, and improve workforce productivity and efficiency. Such programs and technologies are the pole line inspection and maintenance program, underground cable injection process, the trouble call management system, the automated resource management system, and our earned progression training program. This has been accomplished by controlling costs and certain basic distribution programs without sacrificing reliability. However, this pattern cannot continue, in particular, considering the growth of the distribution system due to customer and load additions and the fact that the majority of our system is now 12 years older. The point has been reached

that the funding levels of these fundamental programs must be increased in order to keep from deteriorating our system reliability.

While Gulf has moved forward with innovation, there is still a great need to increase or restore the funding and traditional reliability programs such as tree-trimming and substation maintenance. These programs are fundamental to providing adequate and reliable service to our customers. These programs are more important than ever because our customers' expectations have risen.

The increased use of personal computers, electronic processed controllers, computerized cash registers, and digital clocks has changed the definition of power quality in our society. Today, our customers desire an uninterrupted supply of power 24 hours a day, 7 days a week, 365 days a year. That means no outages and no blinking clocks. That's a tough standard to live up to.

In recent years, warning signs clearly indicating the need for increased distribution funding have begun to appear. The customer minutes of interruption associated with tree-related outages has increased significantly. The maintenance and testing of substation equipment has fallen behind schedule. We still have 60,000 creosote and penta treated poles remaining to be inspected and assessed.

At Gulf Power, we are particularly proud of our

achievements in being an industry leader and providing superior customer care. We are proud that survey data indicates that we're at the very top among our peer group, that our complaint activity as reported by this Commission is low with no infractions in almost four years, and that during the customer service hearings in Pensacola and Panama City, not one customer had a negative comment about our electric service or our customer care.

Being an industry leader in customer satisfaction is important to us and is a primary business goal. In order for us to maintain this performance, we must adequately fund our distribution programs. The amount for distribution expenses requested in this case are reasonable. They are prudent and they are necessary for us to maintain a level of reliability that is acceptable to our customers. Thank you.

CHAIRMAN JABER: Thank you.

MR. STONE: We tender Mr. Fisher for cross-examination.

CHAIRMAN JABER: FEA.

MR. ERICKSON: No questions.

CHAIRMAN JABER: Mr. Gross.

MR. GROSS: No questions.

CHAIRMAN JABER: Okay. Mr. Gross, it just occurred to me, you would have gotten up there if you had any questions, so I'm going to just wait for to you to tell me.

MR. GROSS: Okay.

CHAIRMAN JABER: Okay. FIPUG.

MR. PERRY: No questions.

CHAIRMAN JABER: I didn't mean to leave you out, Mr. Gross.

Public counsel.

CROSS EXAMINATION

BY MR. BURGESS:

Q Mr. Fisher, you are listed as one of the witnesses to respond to Issue 34. And in that response, one of the things said is that achieving a high level of performance is a fundamental and vital element in providing electric service to customers. I assume that's consistent with your testimony in your own words that one of the primary corporate goals is to be an industry leader in service and customer satisfaction; is that correct?

A Yes, sir.

Q Now, is this a corporate goal that has just begun, or is this a corporate goal that Gulf has adhered to for some time?

A It's a corporate goal that we have adhered to for a number of years.

Q Okay. So this is a corporate goal that you've had through the 1990s; is that correct?

A That's correct.

Q I have some questions on some of the specific items that you have attached as Exhibit FMF-1, Schedule 4 to your testimony, and I guess that's been identified as Exhibit 32 for the hearing -- or 33. Specifically -- you have a copy of that; correct?

A My Schedule 4?

Q Yes, sir.

A Yes.

Q May I get you to look first at Page 5 of that? This indicates that previously there was a task that had been -- that, D-O-S, DOS-based mapping system had been used; is that correct?

A That's correct.

Q Now, I understand this to indicate that that DOS-based mapping system is no longer being used; is that correct?

A We're in the process of transitioning to this new GIS system.

Q Okay. So at this point, there are some expenses associated with that, but you expect them to dwindle?

A That's correct.

Q Now, where is the DOS system accounted for in your expenses in the accounts?

A I believe that would be in FERC Account Number 588190.

Q Okay. What is the account for this electric geographic information system? Is that the same account?

A I believe that would be the same account, yes.

Q Okay. So while we would look at this as a $172,000 justification as an increase of the GIS system, we would also anticipate a reduction of the DOS-based mapping system at some point in the future; is that correct?

A This would be an incremental cost above the DOS mapping system.

Q I see. So this is not the total adjustment for the GIS system?

A That's correct.

Q Okay. Can I get you to look at Page 7, please. This indicates the need to -- in Paragraph 2 of the described justification, indicates a need to install additional seven substation transformer banks and a number of other items. Can you tell me what these items are for? What is the purpose of this? Is this replacement -- are these replacement items?

A These are basically capital additions due to -- to meet the needs of our customer additions and load growth.

Q The expanded customer and load growth?

A Yes, sir, that's correct.

Q Okay. And in the -- is this incremental above the amount of anticipated customer growth that's included in the benchmarking?

A These are projects that have been identified for specific areas that load is growing with respect to customer additions for specific projects. It's not a blanket. We're going to need seven new substation transformer banks. They're specifically identified projects.

Q To specific customers or to areas that you anticipate additional customers as well as expanding needs for existing customers?

A It would be to specific areas where we have done load studies and expect load growth and customer growth to occur.

Q And isn't one of the benchmark -- one of the benchmark elements a customer growth element?

A That is correct. But the reason for the additional increment in the expenses is that we're going -- we have been doing our own construction program with respect to using our own employees versus a contractor. And what we're beginning to do is, we're beginning to transition our employees back away from construction in order to put them on maintenance because we have fallen behind on our maintenance schedule, and that's what this schedule is portraying, our distribution substation maintenance.

Q For the load growth that you're anticipating?

A For all of our substation maintenance. Not just the load growth, the entire system.

Q Would you look at Page 10, please, of the same

schedule. This is the injection of the silicon fluid for the underground cable. And you anticipate that this will reduce -- in this explanation reduce the likelihood of outages caused by premature failure?

A That's right, for specific cables.

Q Do you have -- where would you look to see where the expense -- determine whether this is justified to see where the expense is reduced for the outages?

A The cable injection process is designed for specific cable application on cable that was installed prior to 1985. A cable after 1985 is a jacketed cable. And the cable that we are looking to inject would be a cable that would be less costly to inject that cable versus replace that cable.

Q So in the cost analysis -- cost-benefit analysis, that's what you would look at to determine whether this is a less expensive program than replacement; is that correct?

A That's correct.

Q And where would the costs associated with -- where would the avoided costs associated with not needing to deal with repairing the outages be found?

A The associated costs could be that we would have less capital cost because we would have injected the cable versus replace the cable.

CHAIRMAN JABER: Mr. Burgess, is your question as simple as, where in the MFRs would we be able to see the cost?

MR. BURGESS: First, I just want to understand conceptually what I would look for to determine what the avoided costs are as a result of engaging in this program. And I understood from his last answer that I wouldn't look to any expenses, I would look to capital costs.

BY MR. BURGESS:

Q Is that right?

A You would possibly have reductions in some overtime because of the outages that would occur after normal working hours, we would have injected the cable versus working an outage on overtime.

Q If I could direct you to the last page of this exhibit, Page 11, please. And this is the pole line inspection program. I think that you referenced this in your summary. Can you tell me just quickly -- this is a program that's been going on for some time, since 1991; is that correct?

A Yes, that is correct.

Q And do I understand correctly that the decision has been made to accelerate this program; is that correct?

A The program as we started it in 1991, we had originally planned for it to be on a ten-year program cycle. We have not been able to achieve that ten-year program cycle. So what we would like to do is to be able to inspect and assess and either repair or replace the remaining 60,000 creosote and penta treated poles on our system within this five-year

program, and then restart the process again with the poles that we had originally inspected and treated.

Q Now, had you been able to achieve your initial goal of a ten-year plan, it would have been completed in the year 2001. Was that the initial thing?

A That's correct. And then we would have started over again with the inspection program.

Q Now, is it -- as I understand it from this, that you intend to treat, repair, or replace the remaining 60,000 poles in the next five years; is that right?

A Yes, sir, that's correct.

Q So it's 12,000 poles a year?

A That's correct.

Q And up to this point, it's been 48,000 poles in the first 10 years of the effort; is that right?

A That's correct.

MR. BURGESS: Okay. Thank you very much, Mr. Fisher. That's all I have.

CHAIRMAN JABER: Okay. Staff, go ahead.

MR. HARRIS: Thank you, Chairman.

CROSS EXAMINATION

BY MR. HARRIS:

Q Following OPC's questions, I have a couple for you regarding distribution expenses, specifically Issues 64 through 68, more or less. And the first question I'd like to ask you

is, regarding the substation maintenance, tree-trimming, and streetlights and outdoor lighting expense, would it be fair to say that these expenses are similar in that they are ongoing rather than a certain number with a fixed ending date?

A Yes. All of our preventive maintenance programs would be ongoing.

Q Okay. Well, then, you would say that cable injection and the pole line -- I'm sorry, the line pole inspection program are ongoing also?

A That is correct.

Q Okay. Can you explain to me why you believe the cable injection program would be an ongoing expense?

A It would be ongoing in the sense that at some point in time you would have to go back and reevaluate the number of outages that you were having on all your cables, including those that would be those that had been injected or would be injected.

Q It's my understanding that at this point, Gulf has identified some 28 miles of cable that needs to be injected; is that correct?

A That's correct. We've identified 28 miles of cable that's a good prospect for being injected.

Q And you anticipate doing approximately four and a half miles per year of injection; is that correct?

A That's correct. And it would take us a little over

6 years to get through with the remaining 28 miles.

Q But is it your testimony today then that at the end of that six years, you anticipate there will be some continuing expense regarding cable injection?

A We would have continuing expense with respect to our cable inspection process, that would be correct.

Q Would it be the same level of expense that the -- that you're asking for in your test year which involves not only inspection but also the treatment of the cables through the injection process?

A No, it would not.

Q So would it be fair to say that at some point after those six years the amount of expense associated with cable would decrease?

A Yes, that would be very fair to say.

Q Okay. And with respect to the line pole inspection, is that of a similar nature to the cable, wherein after you get through the 60,000 poles, the amount of expense will decrease, or will that amount stay constant?

A With -- the pole inspection program is a little different because we've got -- with the cable injection, we've got a finite number of miles and feet of cable that we're dealing with. With our pole plant, our pole plant is continuing to grow. And we've got those 60,000 that we would look at over the five-year period; plus we would start over

with all the other poles that have already been done; plus with the new poles that have been installed, the CCA poles, at some point in time, we're going to have to begin the same process with them.

Q It's my understanding from your previous deposition that you at this point have no idea what the life span for those CCA poles is; is that correct?

A At this point in time we do not, you're correct.

Q So your testimony today is, you're anticipating a fairly level amount of cost for line pole inspections, although you don't know what the CCA costs are going to be; is that correct?

A That's correct. But part of that is tempered with the fact that we've added so many additional poles during this last 12 years that are CCA and we still need to do an inspection program on them at some point in time. And at the end of the five-year period, the poles that we install, the new CCA poles, will be in excess of 20 years old.

Q So would you say that the amount that Gulf Power is asking for in base rates for line pole inspection expense will remain constant past the years budgeted for replacement -- for inspection of the 60,000 poles at this time?

A My best estimate would be that based on the fact that we would have to start over with the cycle and the poles that have been added to our system, just the sheer volume would

dictate that the expenses would need to be increased over what we have been doing previously.

Q And then regarding your street and outdoor lighting, would it be fair to say that the number of bulbs replaced in previous years would be a good indicator of the number of bulbs that would need to be replaced in the test year and beyond?

A That would be fair to say if the number of streetlights remained constant, but we've seen a phenomenal growth in the number of streetlights that we have installed on our system primarily due to inner city redevelopment and the establishment of MBSUs and those kind of taxing units where they add hundreds of lights at the time. But if the number of lights remain constant, then, yes, representative of previous years it would stay the same, but you've got to factor in your growth in lights in there also.

CHAIRMAN JABER: What percentage increase would you say in streetlights you've had from year to year if we were to find a way to factor in the growth in the streetlights?

THE WITNESS: From 1990 until the present day, we've had a growth in streetlighting of about 263 percent. So, I mean, that's -- it's far out grow (sic) the number of -- our average number of customers that we grew on a percentage basis. I mean, it's grown dramatically.

MR. HARRIS: Thank you, Commissioner -- thank you, Chairman.

BY MR. HARRIS:

Q I wanted to go on with the line pole issue. Would it be fair to say that going forward from the test year and beyond that the proportion of poles that either need to be retreated, reenforced, or replaced will be relatively constant as the 48,000 which have already been inspected and retreated, reenforced or replaced by Gulf Power in the past?

A Let me attempt to answer your question. I'm not sure that -- the 48,000 that has been done when we complete the 60,000, we will go back and reinspect them, and as we finish those, we will go back and reinspect the 60,000. And in the short term, we will do some spot testing of the CCA poles that you referred to that we really don't know yet what their life is.

Thus far, the experience we've had has been pretty good with them, but we will have added so many more poles that I can't tell you with a great deal of certainty because I don't know the life of the CCA poles, what the rate of rejection would be on those, say, after 20 or 25 years. We didn't begin installing those until 1980. They're just now 20 years old, and by the time we finish with 60,000, some of them will be 25 years old. So I see this as an ongoing program.

Q I'm sorry, I'm afraid I didn't ask my question very clearly. I'm assuming that in the past your experience with the line pole inspection program has resulted in a certain

percentage of poles needing retreatment, a certain percentage of poles needing replacement, and a certain percentage needing reenforcement. My question is, given your experience in the past 10 years covering 48,000 poles, do you expect that those percentages will remain constant with the 60,000 poles that you're going to do in the next 5 years?

A I'm sorry, I didn't understand your question before, but the answer to your question is yes.

Q And just to be sure that I'm clear in my mind, what I'm understanding you to say is, you envision a circular process where when you finish the 60,000, you will return to the 48, then you'll go on to the 60, back to what's left of the 48, and it will be a decreasing circle, but the CCA portion of that will be factored in and start to increase. Is that essentially what you're trying to say?

A Yes, that's accurate.

Q Okay. And your testimony is that the cost you're requesting in the test year and beyond will be accurate on a going-forward basis due to the circular nature and also the fact that the CCA poles are coming into the mix; is that correct?

A Yes, that's correct.

MR. HARRIS: May I have a moment, Chairman?

CHAIRMAN JABER: (Nodding head affirmatively.)

MR. HARRIS: Thank you, Chairman.

BY MR. HARRIS:

Q I have a few more questions for you. If you have a copy of your deposition transcript which was introduced as, I believe, Staff's Exhibit Number 12, I'd like to refer you to Page 16, Lines 20 -- or Lines 18 through 23.

A Would you repeat the page and line number, please.

Q It's Page 16, Lines 18 through 23.

A Okay.

Q And the question dealt with the objective measurement -- the performance of objective measurements versus those of the surveys that Gulf Power conducts. And my question to you now is, in your experience, do the objective performance measurements generally correlate with what your surveys are telling you as far as customer satisfaction, distribution, reliability, those types of issues?

A I think at this point in time they have correlated.

Q Okay. I also understand from your prefiled testimony and also your deposition that in 1998 there was a fairly large jump in your SAIDI numbers, which is system average duration of interruption -- or system average interruption duration index, and that you attribute that to the changeover to the TCMS system; is that correct?

A That's correct. Prior to the implementation of TCMS, we used a process that relied more on a manual process versus an automated process.

Q And once your automated process kicked in, your numbers went up, but they have been coming down since then; is that correct?

A Yes, that's correct.

Q And you said that the new system, the TCMS, is an automated system versus a manual system before?

A Yes, that's correct.

Q Okay. So would it be fair to say that the numbers captured before 1998, before the TCMS system, were not as accurate as the numbers captured after 1998 when the automated system went in?

A That would be fair to say, but an important temperament to that would be that while we knew that they were not completely accurate, one of the things that we monitored very closely was the trend. And the trend in those numbers were generally downward.

Q Okay. Would you say -- would it be fair to say that the reliability and accuracy of your SAIDI numbers and your trend in SAIDI numbers after 1998 is more accurate now that the system is automated?

A I would certainly say that the number itself is much more accurate, and the trend is still beginning to turn downward.

Q In your direct testimony in your deposition, you testify that your customer surveys are very important to Gulf

Power; is that correct?

A Yes, that's correct.

Q Okay. In your deposition, you testify that -- or you admit that customer surveys may -- the answers may be based on a number of factors, including customer perception, at the time the survey is taken. Would you agree with that?

A Yes. There are a number of inputs into what would determine the customer's perception of the company and how they would rate the company. I think Mr. Bowden alluded to them in terms of being low rates, reliability. Other factors would be how they're treated by our employees when they have contact with them. So there are a number of things, yes.

Q Would it be fair to say that the survey methods are taken manually as opposed to an automated method?

A Yes. The surveys are taken via telephone interviews.

Q So given that, would you agree that the survey results which Gulf Power uses may have a higher degree of inaccuracy or be less accurate than a method that was taken automatically by some measurable device or machine?

A I would say that the surveys meet certain statistical parameters which I believe that Ms. Neyman can better address. They meet certain guidelines as provided by oversight bodies in surveying that do their best to mitigate the process not being fully automated. But in terms of which number is much more accurate, almost by definition, the new way we do SAIDI would

be more accurate because you are relying on customers' perceptions through a survey.

Q Would you agree that a different method of taking the surveys could yield a dramatic difference in the results similar to Gulf Power's difference in collecting SAIDI numbers pre-TCMS and post-TCMS?

A If the survey methodology continued to utilize the statistical parameters, the same statistical parameters, and met the same requirements as the appropriate oversight bodies would have, then I would say that the survey results may differ somewhat, but I wouldn't expect it to be a great difference.

Q But if those methods or parameters changed, then the results could change dramatically; is that correct?

A If the methodology changed dramatically, I would imagine so.

Q Okay. And I believe your testimony from the deposition was that the survey methods and their processes and their results are proprietary information from the company that take those surveys; is that correct?

A That's correct.

Q And that Gulf is allowed access to basically only the results; is that correct?

A Yes, that's correct.

Q Okay. And you had --

A But once again, to get into much detail on the

surveying process, Ms. Neyman would be the more appropriate witness.

Q But you have attached to your Exhibit FMF-1 the results from some customer surveys; is that correct?

A Yes, sir, that's correct.

Q Okay. And you're relying on those surveys in order to request your adder for exceptional customer service as an adder to return on equity; is that correct?

A Yes, that's correct.

Q So would you characterize these surveys which you attached as being the equivalent of minimum filing requirements or some such?

A I didn't hear the last part of your question.

Q Would you characterize the survey results which you've attached as an exhibit to be the equivalent of minimum filing requirements or some such?

A With respect to the adder?

Q Yes.

A Yes, I would.

Q Okay. Are you aware that the minimum filing requirements are verifiable by Staff as to not only the numbers themselves but also the ways those numbers are calculated, the inputs for those numbers and those type of things?

A Yes.

Q Are you testifying that you believe that the survey

results which you provided as a part of your Exhibit FMF-1 are the equivalent of those MFRs for purpose of Staff verification?

A I'm relying on the fact that the consulting firms that do these surveys for us utilize appropriate statistical methodologies and they meet certain oversight requirements. And we would certainly be willing to work with Staff and the Commission with respect to gaining as much access to that information as we could.

Q But you don't personally know the process by which that information is gained, do you?

A No. Ms. Neyman may could shed more light on that for you.

Q But you don't know the methods that's proprietary information?

A I personally don't know. But once again, she could probably be more assistance to you.

Q Okay. Do you know whether the intent of those customer surveys was to assist Gulf Power in justifying an adder to return on equity?

A No, it was not. We had been utilizing those surveys for a number of years. One of the major benefits that we get out of those surveys is diagnostic in nature to help us understand the expectations that our customers have, and we have changed programs and processes to accommodate that. As I earlier mentioned about e-bill, that was one of the direct

results of our customer survey. We've allowed credit card billing. We've changed our call center operation to a 24/7 operation based on those surveys.

Q Do you know if the persons who conducted the surveys were informed that Gulf Power was going to request an adder to return on equity as a result of the surveys?

A No, I don't know that. I would not imagine that they would have been.

Q So you would not know then whether the persons who responded to the survey were aware that their comments might be used by Gulf Power to justify a higher return on equity?

A I believe I stated earlier that we've used these surveys for a number of years prior to anticipating even having to be in this forum today, and that our primary reason for using those surveys is for understanding what our customers' needs and expectations are.

Q I'd like to shift a little bit away from the surveys and get back to the TCMS, or the trouble call management system, itself. And I understand that was a fairly significant investment for Gulf Power; is that correct?

A Yes, that's correct.

Q And that the shift, while expensive, has provided a great deal of information or data to Gulf; is that correct?

A Yes. The availability of information is much greater today than it has been in the past.

Q And it's assisted Gulf with providing more reliable service to its customers; is that correct?

A We would provide more reliable service in respect to being able to predict the cause of the outage faster, being able to more accurately dispatch our crews to the location, and also to have more diagnostic data available to us with respect to what caused the outage and where the outages were located.

Q So the TCMS system was, in effect, an investment which has allowed Gulf Power to improve those systems you mentioned which was of value to Gulf Power; is that correct?

A Of value to Gulf and to our customers.

Q And to your customers.

A And I think to this Commission also in terms of being able to provide more information with respect to reliability.

Q Does that system allow for changes to its operating system or to its software that could allow Gulf Power to make changes to the data that it captures or the way it manipulates data that could be captured?

A I'm not aware of that. I haven't really thought about it.

Q I guess my question more simply put is, can you reprogram it to give you different information?

A I really don't know whether we have the ability ourselves to reprogram it or if we would have to go through the vendor to have it reprogrammed.

Q Would you of your own knowledge know if the TCMS system could be expanded or upgraded in some way that would allow you to meet the needs of your customers for increased reliability, increased performance from your power systems?

A I would imagine that the vendor is constantly looking to enhancements to the TCMS system that would improve our ability to gather data and analyze data.

Q Should the vendor be able to make those changes, would Gulf Power be interested in implementing those changes in order to benefit its customers and Gulf Power's reliability?

A Under those conditions, certainly we would be interested.

MR. HARRIS: Madam Chairman, may I have a moment?

CHAIRMAN JABER: Sure.

MR. HARRIS: Thank you, Madam Chairman. We have nothing further.

CHAIRMAN JABER: Thank you. Commission Bradley, you had questions, I think.

COMMISSIONER BRADLEY: Yes. I concur wholeheartedly that customer satisfaction is a very important component of a rate case. Mr. Fisher, I have just two brief questions. Can you tell me about a number of complaints that have been received by the Commission's Consumer Affairs Department for the last five to ten years? Is that information that you might have available?

THE WITNESS: Yes, Commissioner I can.

COMMISSIONER BRADLEY: Thank you. Would you give it to me, please, or give it to us.

THE WITNESS: Yes. I'm sure that we'd be happy to provide it.

CHAIRMAN JABER: Oh, you don't have it with you right now is what you're saying. Commissioner --

THE WITNESS: No, I have it. I have it.

COMMISSIONER BRADLEY: Would you --

CHAIRMAN JABER: Can you read it out?

COMMISSIONER BRADLEY: -- read it out?

CHAIRMAN JABER: No, I'm sorry. Can you read the number of complaints?

THE WITNESS: Oh, I'm sorry. I'll give you whatever you want, I just need to understand what that is.

With respect to, let's say, 1997 forward, we had 33 total inquiries with no infractions -- excuse me -- 33 inquiries with one infraction. 1998 we had 24 with 2 infractions. 1991 -- I mean, '99 we had 21 inquiries with no infractions. 2000 we had 24 inquiries with no infractions. And 2001 we had 39 inquiries with no infractions.

CHAIRMAN JABER: What are you reading from, Mr. Fisher?

THE WITNESS: I am reading from a document that's just a summary of Gulf's Commission complaints.

CHAIRMAN JABER: A PSC-produced document?

THE WITNESS: No, it's not a PSC-produced document, but the data is derived from the PSC-produced documents.

CHAIRMAN JABER: Thank you.

COMMISSIONER BRADLEY: One follow-up. How -- can you compare the number of complaints filed against Gulf with the number of complaints filed against other utilities in the last five or ten years within the same time frame? Is that something that's available -- that you have available that you can --

THE WITNESS: I don't have --

COMMISSIONER BRADLEY: -- address?

THE WITNESS: I don't have that with me, but I'm sure that the Consumer Affairs Department of the Commission would be happy to provide it to you.

CHAIRMAN JABER: Commissioner Bradley, we've got -- the reason I asked him what document that is, I know that there are -- Mr. Durbin on our Staff has actually -- has prefiled testimony --

MR. HARRIS: That's correct, Commissioner -- Chairman. Mr. Durbin has prefiled testimony, and I do believe it contained an exhibit which shows Gulf's performance related to the other three electric utilities in the State over the past, I believe, five years.

CHAIRMAN JABER: Okay. What we may do,

Commissioner Bradley, if you'd like, instead of stipulating Mr. Durbin's testimony into the record without his being here, we could address those questions to him and let him explain that exhibit.

COMMISSIONER BRADLEY: That's fine.

CHAIRMAN JABER: Any other questions, Commissioners?

COMMISSIONER PALECKI: Yes.

CHAIRMAN JABER: Go ahead, Commissioner Palecki.

COMMISSIONER PALECKI: Mr. Fisher, I want to commend Gulf Power on your excellent service record, both your lack of customer complaints here at the Commission and the response we heard at the customer service hearing, which was almost overwhelmingly positive, reflects that you and the people that work for you are doing a very good job.

My question is, you've testified that Gulf has fallen behind in several of your maintenance schedules. And my question to you is, when did you start falling behind in maintenance, and why is it not reflected in the level of customer complaints and the feedback that we receive here at the Commission?

THE WITNESS: With respect to when we began to fall behind, that's been within the last several years depending on the program that you are reviewing. Tree-trimming, for instance, we have begun to fall behind over the last five years. The reason that we have begun to fall behind is, we've

had to -- or we made the decision to fund new programs and new technologies that would add to our menu of reliability programs such as the cable injection program and such as the pole line inspection program. So we've been able thus far to maintain our reliability to a level that's satisfactory to our customers.

We also work very hard through our employees that have customer contact to resolve the customer's problems as expeditiously as possible. Unfortunately, we are at the point now in our basic fundamental reliability program such as tree-trimming and substation maintenance that we're beginning to see a dramatic rise in the number of outages caused by tree-related incidences. Our substation maintenance has fallen behind, and we see those as warning signs for the future. Thus far, we've been able to manage our way through it, but we don't see that we can continue to do that without funding those programs to a greater level unless we don't do some of the more innovative things that we've chosen to do because of the benefits to the customer.

COMMISSIONER PALECKI: So you've fallen behind in these areas because you've had to take people away from traditional maintenance schedules in order to do some of the new programs that you've initiated.

THE WITNESS: Not only people but dollars. We've taken dollars to fund TCMS. We've taken dollars to fund the

new ARMS system, the automated resource management system, that enables us to be more effective in dealing with customer service issues with respect to the electric service, to handling trouble faster, to our pole line inspection program which is vital to reliability, and our cable injection program which is vital to reliability.

COMMISSIONER PALECKI: So are you testifying that you would expect within the next -- within the immediate future that we would start hearing negative feedback if you don't increase your level of maintenance so that you can get back on schedule in some of these traditional areas?

THE WITNESS: I'm convinced of it, Commissioner.

COMMISSIONER PALECKI: Thank you.

CHAIRMAN JABER: Questions? Okay. Redirect.

(Transcript continues in sequence with Volume 6.)

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STATE OF FLORIDA)
: CERTIFICATE OF REPORTER
COUNTY OF LEON)

I, TRICIA DeMARTE, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 26th DAY OF FEBRUARY, 2002.

Tricia DeMarte

TRICIA DeMARTE
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