GULF POWER COMPANY

Before the Florida Public Service Commission

Prepared Direct Testimony of

James I. Thompson

Docket No. 110138-EI

In Support of Rate Relief

Date of Filing: July 8, 2011

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

A. My name is Jim Thompson, and my business address is One Energy Place, Pensacola, Florida 32520. I am employed by Gulf Power Company (Gulf or the Company) as Supervisor of Pricing and Load Research.

Q. What are your responsibilities as Gulf’s Supervisor of Pricing and Load Research?

A. My pricing responsibilities include planning, implementation and evaluation of retail electric prices for Gulf. This includes development and design of new rates and the administration of current rates. I also supervise the planning, collection, analysis and reporting of load research information for Gulf.

Q. Please describe your educational and professional background.

A. In December 1977 I graduated from The Georgia Institute of Technology, earning a Bachelor of Science in Industrial Management with honor. In early 1978, I joined the NCR Corporation as a sales representative out of that company’s Atlanta office. I joined Gulf in 1980 as an analyst in Gulf’s Rate Department. In 1988 I became a member of Gulf’s marketing organization. In 1997 I assumed the duties of Corporate Accounts

 Manager within Southern Company’s Corporate Accounts organization. I moved into my current position in 2000. Throughout, I have been involved with various functional activities including program development and evaluation, market research, economic development, load research and market planning. For most of my career, I have been involved in the pricing of Gulf’s energy services.

Q. Have you previously testified before the Florida Public Service Commission (FPSC or the Commission)?

A. Yes. I testified on behalf of Gulf in support of its Standby Service rate, Docket No. 931044-EI, and in support of Gulf’s request for approval of its Commercial/Industrial Service Rider, Docket No. 951161-EI. I also testified as the rate design witness in Gulf’s last base rate case proceeding, Docket No. 010949-EI.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present the rates that Gulf has developed to recover the increased revenue requirement in a way that is fair and equitable to our customers. I also explain and support other non-revenue related tariff changes proposed by Gulf to improve our overall tariff offerings.

Q. Do you have an exhibit to which you will refer in your testimony?

A. Yes. Exhibit JIT-1, Schedules 1 through 3, was prepared under my supervision and direction, and the information contained therein is true and correct to the best of my knowledge and belief.

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

A. Yes. These are listed in Schedule 1 of my Exhibit JIT-1. To the best of my knowledge, the information contained in these MFRs is true and correct.

**I. RATE DESIGN PRINCIPLES AND METHODOLOGY**

Q. Are there any overall goals that Gulf seeks to achieve through its rate design and proposed pricing?

A. Yes. Gulf’s pricing package represents a continuation of our strategy of simplicity in our rates and recognition of the need to use pricing as a tool to improve customer satisfaction by offering options to customers to manage their electric usage. Gulf’s rate design and proposed pricing provides equity, or fairness, among customers and enhances Gulf’s conservation efforts. It also provides for administration of the rates in an objective and non-discriminatory manner.

Q. Please provide an overview of Gulf’s retail rates.

A. Gulf’s Tariff for Retail Electric Service contains rate schedules for the various types of customers served by Gulf. These include residential customers; small, medium, and large business customers; and outdoor service such as street lighting. Each of these types of customers is served through separate rate schedules, which are designed to reflect the differences in the usage characteristics of each customer type and the differences in cost incurred by Gulf in supplying service to each customer type.

Q. Please describe, in general, these rate schedules.

A. Rate schedules generally contain specific prices that are to be applied to each customer’s electric usage amount. Most rate schedules also include a Customer Charge, or Base Charge, which is a fixed amount each month to reflect the costs of supplying service that do not vary with usage. Another price component is the Energy Charge, which reflects costs associated with providing the amount of electricity consumed throughout the month. Rate schedules for medium and large business customers may also include a Demand Charge component, which reflects the Company’s cost of supplying service at the highest level of consumption required by those customers. Finally, in addition to the specific prices, rate schedules contain terms and conditions. Together, the prices, terms, and conditions describe the way customers’ monthly bills are determined.

Q. Is the overall construct of Gulf’s rate schedules like that of most other electric utilities?

A. Yes. Gulf’s tariff is similar in terms of having separate rates for different customer classes, and using the most common components of rates, as described above. However, there is an element of Gulf’s overall tariff that is perhaps different from many other retail electric suppliers. Many utilities determine the applicability of rates − that is, what class or type of customer the rate is applied to − according to the nature of the customer’s use of electricity. For example, some utilities have rates that apply only to commercial customers, or only to industrial customers. It is also common for electric utilities to have rates applicable for specific end-uses of electricity, such as “farm rates” or “school rates.” In contrast, Gulf’s retail rate applicability is generally determined by objective criteria that do not include consideration of how the customer is using the service. Rather, determination of the applicability of rates is made based on the size of the electric service needed, the time that service is supplied, and the voltage level of the service provided. These are all objective characteristics that are measured or determined by a meter.

Q. Please identify the major steps necessary to translate an increased revenue requirement into a specific set of rates.

A. There are two basic steps in this process. First, the total amount of the increased revenue sought is allocated, or spread, across the various customer classes. In making this allocation, consideration is given to the relative costs of service for each rate class, as well as fairness, equity, and value of service. The second step is to design the specific rate components for each rate class. In developing these rate components − Base Charges, Energy Charges, and Demand Charges − we again consider the costs associated with providing service, as well as fairness and equity. Other considerations at this step include rate stability, customer acceptance and understanding, effects on conservation and energy efficiency, and objectivity in administration of the rates.

Q. Before getting into the details of how you developed the specific rates in this case, is Gulf proposing any non-revenue change to its Tariff that would affect all rate classes?

A. Yes. We are proposing to change the name of the rate component that has been called the Customer Charge by relabeling it as a Base Charge. This change in terminology better reflects the purpose of this monthly, fixed charge. This charge exists to reflect the fact that a certain base level of costs is incurred by Gulf to provide electricity independent of the amount of service consumed.

**II. ALLOCATION OF RATE INCREASE TO RATE CLASSES**

Q. Turning to the first step of the rate design process, how did you allocate the revenue increase across the customer classes?

A. The proposed rates are designed to achieve Gulf’s requested overall revenue requirement, including the requested base rate increase of $93,504,000. The increase to base rate revenue has been allocated across the various rate classes as shown in MFR E-8. The results of the cost-of-service study prepared and presented by Gulf Witness O’Sheasy serve as an important guide. The overall base rate increase of 20.7 percent has been allocated across rate classes in order to move the rate of return for each class toward the overall retail average rate of return. In doing so, we have respected certain customary limits. First, because an overall rate increase is requested, no rate class is assigned a rate decrease. Second, the base rate percentage increase for each class is limited to no more than 1.5 times the overall retail average percentage increase to base rates. As shown in MFR E-8 and summarized on Schedule 2 of my exhibit, the increases allocated to each rate class represent base rate increases of 13.8 percent to 28.0 percent.

Q. Please explain why the percentage increase proposed for the residential class is larger than the overall average increase.

A. The present rate summary in Mr. O’Sheasy’s cost-of-service study reveals a rate of return for Gulf’s residential class that is significantly below the overall retail average rate of return. A larger increase is needed to bring the return on investment for this class closer to the overall retail average at the new proposed revenue level.

Q. Please explain the information labeled “Indexed” on Schedule 2 of your exhibit.

A. These index figures show how the rate of return for a rate class compares to the Company’s overall retail rate of return. For example, without rate relief, the return provided by the residential class is only 93 percent of the Company’s overall retail rate of return. After the rate increase, the return for the residential class would be 102 percent of the Company’s retail average.

**III. RESIDENTIAL RATES**

Q. What changes to residential rates does Gulf propose in order to recover the allocated share of revenue requirements from that rate class?

A. In developing residential rates which achieve the overall proposed revenue level for that rate class, we have included an increase to the Customer Charge rate component and renamed that component the Base Charge. We also propose an increase to the energy charge components of residential rates.

Q. Why are you proposing to increase the residential Base Charge?

A. The customer-related costs from the cost-of-service study are significantly higher than our current residential Base Charge of $10 per customer, per month. There are important reasons for ensuring that, to the extent practical, the costs of providing service to customers that do not vary with the amount of consumption are recovered from fixed Base Charges rather than from energy or demand charges. If these costs are included in the unit prices of energy consumed, then otherwise successful conservation efforts could result in revenue decreases for Gulf which exceed the associated cost savings. This would, in turn, increase or accelerate Gulf’s need for future base rate increases.

 Also, each month Gulf has thousands of residential customer accounts whose monthly electric usage is zero. Customer-related costs that are included in energy charges are not recovered at all from those customers. Thus, intra-class equity, or fairness, is better served by having Base Charges that cover those costs which are unrelated to amounts consumed.

 We have proposed to increase the Base Charge for Gulf’s standard residential rate, Rate Schedule RS, from its current $10.00 per customer per month to $15.00. The cost-of-service study shows that customer-related costs could support an even higher Base Charge. However, we have limited the increase in the Base Charge to 50 percent above the current level in order to maintain rate stability.

The Base Charges are important rate components which recover those costs that are not related to the amount of electricity consumed. The increased residential Base Charge is reasonable and represents an improvement in our pricing structure.

Q. What other changes are proposed to residential rates?

A. Rate Schedule RSVP is the rate that accompanies Gulf’s residential critical peak pricing program called Energy Select ®. It includes a Base Charge and a four-tiered energy charge. The four energy charges differ based on time of day and season. Three of the price tiers are applicable to known time periods which are referred to as high, medium, and low price periods. The fourth price tier is the critical price which is invoked with as little as an hour’s notice based on certain conditions. Critical price periods are limited, however, to not more than two hours in duration. Critical price periods are designated when conditions, typically weather, cause peak demand to reach very high levels. The critical peak price serves, through customer load response, as a critical peak demand management tool.

 Because the base rate component of all four price tiers has remained fixed since Gulf’s last rate case, while the cost recovery factors applicable to those prices have changed, we have experienced a detrimental change in the relationships among those price tiers. The price relationships now do not provide for customer savings opportunities that they should. Therefore, we are proposing in this case to improve these price tier relationships.

Q. What changes do you propose to improve the Rate RSVP price tier relationships?

A. Gulf proposes to use the Energy Conservation Cost Recovery (ECCR) Clause to achieve the price differentials among the four price tiers. This is in contrast with the previous approach for Gulf. Until now, the price differentials among the tiers were achieved by setting different base rate energy charges. In the proposed method, the base rate energy charges for all four price tiers are set equal to the base rate energy charge in Gulf’s standard residential rate, Rate Schedule RS. The differentiation in the overall prices for each of the tiers will be achieved through applying different ECCR charges to each tier, with those ECCR charges determined in the ECCR docket on an annual basis.

Q. Please explain how the differentiation in the prices would be achieved through application of the ECCR charges to each tier.

A. First, the base rate energy charge for all four price tiers would be set, in this rate case, the same as the Rate Schedule RS base rate energy charge. Then, each time the ECCR charges are set or modified for Gulf, those cost recovery charges would be established for each of the four price tiers of Rate Schedule RSVP. We could expect the ECCR factors for the lowest price tiers to be small or even negative amounts. Conversely, we could expect the ECCR factors for the higher price tiers, P3 and P4, to be significantly higher. The result of this ECCR-driven approach toward setting and maintaining the relative energy prices for the four-tiered Rate RSVP is the ability to offer Energy Select ® program participants a rate which complements the program’s objectives.

Q. Has the FPSC previously approved such an approach?

A. Yes. The methodology we propose was approved by this Commission for Tampa Electric Company in Docket No. 070056-EG, Order No. PSC-07-0740-TRF-EG, issued September 17, 2007.

Q. What other improvements to Rate Schedule RSVP are proposed?

A. We propose to make a change to the Applicability section of Rate Schedule RSVP. The rate schedule subtitle will now include the phrase “Electric Vehicle Charging,” and the Applicability section of the rate will specifically refer to electric vehicle charging. This new labeling indicates that the Energy Select ® program and Rate Schedule RSVP are well suited to at-home electric vehicle charging. Adding this information to the label on the rate schedule will help inform customers and others of the suitability of this rate for electric vehicle charging.

**IV. SMALL AND MEDIUM BUSINESS RATES**

Q. What changes are you proposing to the rates serving small and medium size business customers to implement the rate increase?

A. First, we have proposed changes to the Base Charge components of these rates. The customer-related unit costs from Mr. O’Sheasy’s cost-of-service study support the proposed Base Charge levels. Also, the proposed Base Charges are set at not more than a 50 percent increase above the current Customer Charges. Second, the overall base rate levels have been designed to achieve the requested revenue increase for these rate classes. Third, for the rates with distinct demand charges, the proposed rate design preserves the relationships between demand and energy charges of the present rates and includes demand charges that are reasonably based on demand-related costs.

Q. Are there other changes proposed to the rates for small and medium size business customers that are aimed at improving customer satisfaction?

A. Yes. We have proposed to increase the breakpoint between Rate GS and GSD from 20 kilowatts (kW) to 25 kW. Currently, only those non-residential customers who have demands less than 20 kW are eligible for service under Gulf’s Rate Schedule GS. We propose to increase this to 25 kW. Customers with demands at or above the breakpoint are not eligible for service under Rate Schedule GS. Instead, they are served under a choice of standard or time-of-use rate schedules for medium size business customers.

 Our data indicates that about 12 percent of Gulf’s customers who are currently served on one of these rate schedules for medium size business customers have billing demands that are greater than 20 kW but less than 25 kW. Under the proposed rates, these smaller customers would be eligible for, and have the opportunity to choose, Rate GS, which does not include a demand charge component. This increased choice should improve customer satisfaction.

Q. Are you proposing to add any other rate options for business customers?

A. Yes. We are proposing a new critical peak rate option for medium and large size business customers who are served on time-of-use rates. This critical peak option will allow business customers to participate in a form of critical peak pricing. Structurally, this new option introduces a third demand charge for customers on the General Service Demand Time-of-Use (GSDT) and Large Power Time-of-Use (LPT) rates. This third tier demand change is in addition to the Maximum Demand Charge and On-Peak Demand Charge rate components currently found in these rates.

Q. Why is this new rate option proposed?

A. The on-peak pricing periods for Gulf’s GSDT and LPT time-of-use rates are very broad. During the months of April through October, the on-peak period is from noon until 9:00 PM, Monday through Friday. The new option provides a narrowly defined critical peak period. Critical peak periods will be either one or two hours in duration and will be designated one business day prior to that critical peak period. The demand charge applicable to that critical peak period is higher than the On-Peak demand charge, but customers with load management abilities may be able to avoid, or substantially reduce, their demand during these short periods.

**V. LARGE BUSINESS RATES**

Q. Please describe the changes proposed to rates serving large business customers in order to implement the base rate increase.

A. The proposed rates for large business customers are designed to achieve the total test year base rate revenue requirement allocated to these rate classes. Rates with distinct demand charges have been developed preserving the basic relationships between demand and energy charges found in the current rates.

 The companion time-of-use rates, Rates GSDT and LPT, have been designed following a technique established in Gulf’s last rate case. This approach uses energy prices that are the same for both the standard rates and their respective time-of-use counterparts, with the time differentiation in the demand charge component. The rate design also preserves, to the extent practical, respective class On-Peak and Maximum demand charge relationships.

 As with residential rates and rates for small business customers, the Base Charges for these rate schedules are set mindful of the customer-related costs determined in the cost-of-service study sponsored by Mr. O’Sheasy.

**VI. OTHER TARIFF CHANGES**

Q. Are you proposing any other tariff changes that do not have revenue impacts?

A. Yes, five types of changes are proposed. These changes are proposed to better serve customers, simplify rates, and to improve the forms used to transact business. Included are a change to the applicability threshold for Gulf’s Real Time Pricing rate, simplification of the size requirement associated with Rate Schedule CIS (Commercial/Industrial Service) rate rider, simplification of some of the forms used with the outdoor service rate, elimination of Rate Schedule ISS and a number of ministerial changes which are intended to update portions of the tariff which have either become stale over time or are in need of clarification.

Q. What change is proposed for Rate Schedule RTP?

A. Rate Schedule RTP, Real Time Pricing, is currently available only to retail customers with demands of 2,000 kW or greater. We are proposing to lower this demand threshold to 500 kW.

Q. Why is such a change needed?

A. The 2,000 kW applicability threshold has been in place since the initial implementation of Real Time Pricing at Gulf in 1995. We have seen a steady increase in the number and type of customers purchasing from us under RTP since that time. More than half of Gulf’s customers who meet the 2,000 kW threshold are now choosing to avail themselves of Real Time Pricing. Our experience, metering and billing abilities, and the diversity of customers who like this option, indicate that it is time to open it up to more, and smaller, customers. Gulf presently has about 300 to 350 customers who meet the 500 kW threshold. Giving these additional customers the ability to use RTP to manage their electric usage should improve customer satisfaction.

Q. Moving to the Commercial/Industrial Service rate, Rate Schedule CIS, what change is proposed there and why?

A. One change is proposed. It is to simplify the minimum size requirement for “Qualifying Load” to make it 500 kW in all cases. This is a simpler size requirement than currently exists. The current size requirement treats new load and retained load differently. Under the current provisions, new Qualifying Load must be at least 1,000 kW of installed, connected demand, while retained Qualifying Load can be as small as 500 kW of metered demand. This simplification will make the rate easier for customers to understand and easier for Gulf to administer.

Q. Please describe the changes you propose to the Outdoor Services rate.

A. Rate Schedule OS covers outdoor lighting, facilities associated with outdoor lighting, and other unmetered non-lighting outdoor services. Similar to all other classes, we first update the OS rates to recover the portion of the total revenue requirement allocated to that class. In addition, we propose to modify Forms 4, 5, 19, 20 and 24, which are the “Lighting Pricing Methodology,” the “Contract for Street and General Area Lighting Service,” the “Optional Relamping Service Agreement,” the “Optional Up-Front Payment of Fixtures,” and the “Customer-owned Lighting Agreement Without Relamping Service Provisions,” respectively.

Q. Why are these modifications proposed?

A. We are proposing these modifications to accommodate Light Emitting Diode (LED) fixtures, to update the labor rate, and to simplify and reduce the number of forms necessary to transact lighting business.

Q. Do the changes just described affect the prices charged?

A. Only the change to the labor rate would affect prices charged. The other changes mentioned are intended to make it more efficient for our customers and employees to transact lighting business and specifically to accommodate LED fixtures.

Q. Are you also proposing a change to how Form 4 is used?

A. Yes. Form 4 is a template for lighting charges. It is a formula-based approach by which Gulf Power prices new lighting fixtures or associated facilities. Use of Form 4 for this purpose was approved in Gulf Power’s last rate case.

It is our understanding, however, that Form 4 currently cannot be used to re-price existing fixtures or associated facilities. As discussed by Gulf Witness Neyman, we request approval in this case to use the Form 4 formulary methodology for this additional purpose. Lighting technology changes, vendor changes, and material cost changes frequently render prices of existing fixtures stale. The ability to re-price existing fixtures − up or down − as costs change would benefit lighting customers.

Q. Why are you proposing to eliminate Rate Schedule ISS?

A. Rate Schedule ISS is an interruptible standby service rate. Gulf has no customers on this rate; we have never had any customers on this rate; there are no customers on this rate in the test year; and we do not expect to have any customers on this rate in the foreseeable future. Further, Gulf has no FPSC approved maximum level of cost-effective non-firm load, which would be a pre-requisite for application of this rate. For all these reasons, Rate Schedule ISS should be deleted from Gulf’s Tariff for Retail Electric Service. Doing so would remove an undue administrative burden associated with continuing to have such a rate in Gulf’s tariff.

Q. You previously mentioned that Gulf is also proposing a number of ministerial types of changes to its tariff. What is the nature of these changes?

A. These changes are intended to update portions of the tariff which have either become stale over time or are in need of clarification. For example, Gulf is proposing to eliminate the 1970’s era map of its service area located in Section I of the tariff and the 1960’s era List of Communities Served in Section V of the tariff. In lieu of these provisions, Gulf is proposing to include a more general description of its service area on the title page of its tariff, in accordance with Rules 25-9.023 and 25-9.028, Florida Administrative Code. We are proposing to eliminate Form 11 titled “Contract for Time-of-Use Conservation Rate,” because Gulf no longer offers this rate. We are proposing to modify the signature blocks on a number of standard forms to conform with the Company’s current signature policies. We are proposing minor changes to sections of the tariff addressing underground electric distribution facilities to clarify that these provisions apply to both residential and commercial installations. There are a handful of additional minor changes, which should be self-explanatory.

Q. Has Gulf designed the proposed rates in this case recognizing and allowing for customer migration across rates?

A. Yes. The proposed rates are designed recognizing that customers may migrate, or move, to different rates for which they are eligible. This occurs when changes in rate levels, structure, or availability make alternative rates more economical. Recognition of this migration should be handled by allowing consideration of such migrations in the rate design process, as we have done, and as the Commission has approved in prior rate orders.

Q. Is Gulf proposing changes to any of its Miscellaneous Service Charges?

A. No. The costs incurred in providing those services are very close to the current fees charged, so no changes are proposed.

**VII. CONCLUSION**

Q. Are the rates and charges proposed in this case fair, just, and reasonable?

A. Yes. The rates, prices, and terms shown on the tariff sheets filed with this case will: achieve the requested revenue requirement; represent fair, just and reasonable pricing of Gulf’s retail electric services; improve our pricing as a customer service tool; provide customers with additional options to manage their electric usage; enhance conservation efforts; and provide opportunities to improve customer satisfaction with Gulf. I have included all of the revised final tariff sheets in Schedule 3 of my exhibit.

Q. Does this conclude your testimony?

A. Yes.

AFFIDAVIT

STATE OF FLORIDA ) Docket No. 110138-EI

 )

COUNTY OF ESCAMBIA )

 Before me the undersigned authority, personally appeared

James I. Thompson, who being first duly sworn, deposes, and says that he is the

Supervisor of Pricing and Load Research of Gulf Power Company,

a Florida corporation, and that the foregoing is true and correct to the best of his knowledge, information, and belief. He is personally known to me.

The signed original affidavit is attached to the original testimony on file with the FPSC.

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 James I. Thompson Supervisor of Pricing and Load Research

 Sworn to and subscribed before me this \_\_\_\_\_\_ day of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, 2011.

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Notary Public, State of Florida at Large

Commission No. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

My Commission Expires \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Florida Public Service Commission

Docket No. 110138-EI

GULF POWER COMPANY

Witness: James I. Thompson

Exhibit No. \_\_\_\_ (JIT-1)

Schedule 1

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**Responsibility for Minimum Filing Requirements**

Schedule Title

A – 2 Full Revenue Requirements Bill Comparison – Typical Monthly Bills

A – 3 Summary of Tariffs

A – 5 Interim Revenue Requirements Bill Comparison – Typical Monthly Bills

E – 8 Company-Proposed Allocation of the Rate Increase By Rate Class

E – 12 Adjustment To Test Year Unbilled Revenue

E – 13a Revenue From Sale of Electricity by Rate Schedule

E – 13b Revenues by Rate Schedule – Service Charges

E – 13c Base Revenue by Rate Schedule - Calculations

E – 13d Revenue by Rate Schedule – Lighting Schedule Calculation

E – 14 Proposed Tariff Sheets and Support For Charges

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 Schedule 2

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Allocation of Revenue Increase

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 GULF POWER COMPANY

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 Schedule 3

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**Proposed Final Tariff Sheets**

Proposed Tariff Sheets consisting of ( 62 ) pages, including this cover sheet.