

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for authority) DOCKET NO. 931044-EI
to implement replacement rate) ORDER NO. PSC-94-1333-FOF-EI
schedule for standby electric) ISSUED: October 28, 1994
service by GULF POWER COMPANY.)
_____)

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
SUSAN F. CLARK
DIANE K. KIESLING

APPEARANCES:

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On behalf of Gulf Power Company

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On behalf of Monsanto Company, Stone Container Corporation,
and Champion International Corporation (Industrial
Intervenors)

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Service Commission, 101 East Gaines Street, Tallahassee,
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On behalf of Commission Staff

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On behalf of the Commissioners

**FINAL ORDER APPROVING STANDBY AND SUPPLEMENTAL RATE SCHEDULE
WITH MODIFICATIONS**

BY THE COMMISSION:

On October 28, 1993, Gulf Power Company (Gulf) filed a petition requesting Commission approval of a Standby and Supplemental Service (SBS) rate schedule that would replace the Standby Service (SS) rate schedule in effect at that time. On

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FPSC-RECORDS/REPORTING

December 21, 1993, Monsanto Company, Stone Container Corporation, and Champion International Corporation filed a Petition to Intervene. Intervention was granted by Order No. PSC 94-0019-PSO-EI, issued January 5, 1994. The Commission suspended the SBS rate schedule on December 20, 1993.

At the June 7, 1994, agenda conference Staff presented a recommendation that the Commission deny Gulf's proposed SBS rate schedule. The Commission declined to act on Staff's recommendation. Instead, the Commission allowed the SBS rate schedule, as modified at the agenda conference, to go into effect by operation of law; and on its own motion, the Commission set Gulf's Petition for formal administrative hearing on August 1 and 2, 1994. A hearing was held on the aforesaid dates.

Participating in this proceeding were Gulf Power Company (Gulf or the utility) and Monsanto Company (Monsanto), Stone Container Corporation (Stone), and Champion International Corporation (Champion), known collectively as the Industrial Intervenors. Post-hearing filings were submitted by all parties. Industrial Intervenors also submitted proposed findings of fact.

Gulf Power has provided standby electric service under the SS rate schedule to four customers since approximately 1988. A fifth customer began taking service under the SS rate schedule in August 1993. In Order No. 17159, issued February 5, 1987, in Docket No. 850673-EU - Generic investigation of Standby Rates for Electric Utilities, the Commission set out certain provisions which prescribe the cost allocation and rate design methodology to be used by Florida's investor-owned electric utilities for standby and supplemental service rates. The governing language and rate design that had been in Gulf's SS rate schedule was consistent with the guidelines established in Order No. 17159. In that Order, however, we recognized that after the accumulation of additional load research data refinements to the standby tariff may be warranted.

As proposed, the SBS rate schedule represents an eighteen-month long collaborative effort between Gulf and its standby service customers to find a solution to problems related to the administrative inefficiencies and complexities of the SS rate schedule. (Thompson, Tr. 373) The main weaknesses which the utility and its customers found in the SS rate schedule relate to: 1) the subjectivity involved with "sorting" electricity consumed into standby and supplemental billing determinants; 2) the unnecessary administrative costs placed on both the company and the customer in the form of communications and reporting requirements; and 3) the overall complexity of the rate design.

The complexity fostered by the SS rate schedule is primarily an outcome of the method used to classify customer usage as standby service and supplementary service. Standby service is electric energy or capacity supplied by the utility to replace energy or capacity ordinarily generated by the customer's own generation during a scheduled or unscheduled outage. Supplementary service is electric energy or capacity supplied by the utility in excess of that which is normally provided by the customer's own generation equipment. Witnesses testified that it was possible for a customer to be charged for more capacity than it was physically able to receive from the utility. (Tr. 20-21, 125) This was a consequence of being billed for the customer's firm rate supplementary contract demand and, if the customer had a forced outage, it might also be billed a significant amount of standby power. (Pollack, Tr. 125) The SS rate schedule allowed for standby service billing to be reduced by any on-peak load reduction that could be attributed to a current generating outage. However, the customer often had to make complex spot decisions as to whether it was more cost-effective to shut down its plant or take standby service. (Kisla, TR. 20-21)

By contrast, under the SBS rate schedule, the customer first would contract for a level of supplementary service (NC) and a level of standby service (BC). But, any usage in excess of the contracted level of supplementary service (NC) is automatically billed as standby service (BC). This simplifies the customer's decision as whether to use standby power during a forced outage.

There are some provisions in the SBS rate schedule unrelated to the changes in determining standby and supplementary usage which need our consideration.

I. Coordinated Maintenance Month (CMM)

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

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

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

contracted amount of standby demand, the customer would be excused from paying the reservation charge on the higher standby demand in future months. (Exhibit 3, Sheet No. 6.31) The customer would not be excused from paying the local facilities charge on the higher standby demand in future months. Gulf provided a modification of the language in the CMM provision to clarify the company's intent with respect to the local facilities charge and said language was accepted by the parties and entered into the record as Exhibit 9, Sheet No. 631, Provision for Coordinated Maintenance Months (CMMs). (Tr. 225-229) The modified tariff provision now reads:

If the highest standby demand occurring during an approved CMM exceeds the Customer's BC, then this new higher BC will be used in the determination of the Reservation Charge for only the current month. For future billing periods, this new higher BC will be waived for purposes of the calculation of the Reservation Charge and the previous lower BC will be applicable. However, this new higher BC will be used in the determination of the Local Facilities Charge for the current month as well as future billing periods, except as provided under the paragraph entitled "Provision for Lowering Standby Service Capacity (BC)"

Based on the record, as the SBS tariff is designed it is not revenue neutral. Pursuant to Rule 25-9.005(1)(b), Florida Administrative Code, Gulf advised this Commission that there would be an estimated decrease in annual revenues resulting from this tariff filing. Gulf forecasted, that based on the adoption of this tariff, an annual revenue reduction of approximately \$300,000 would occur. Neither Gulf nor the Industrial Intervenors refuted testimony that the decrease in base rate revenues is largely due to the CMM provision. (Berg, Tr. 273) Ordinarily a modified rate design that is not revenue neutral and that may cause a revenue shift to other classes of customers would present a significant problem. However, in this instance we find that the net effect is inconsequential. It is our firm belief that the cost-causers need to bear the cost of their demand on the system. However, the estimated amount of the reduced revenues is relatively small in relation to the total revenues of the utility. Besides, the utility's stockholders shall bear the burden of any losses actually sustained until the utility comes in for a rate case. When the utility comes in for a rate case we shall have an opportunity to look at the effects of this tariff and whether it recovers full cost.

A. Daily Demand Charge

Order No. 17159 recognizes that it is appropriate to encourage standby customers to schedule maintenance outages in the months when a utility has higher capacity reserve margins after considering the utility's own scheduled outages. To encourage such behavior, the Commission authorized a utility to weight the daily demand charge in a manner that raises the charge during the peak months and lowers the daily demand charge during the valley months. However, witnesses for the utility testified at length that the weighted daily demand charge in the SS tariff did not effectively signal the customers to use less energy in the summer. (Howell, Tr. 147) Under the SBS tariff, Gulf has now effectively set the daily demand charge at zero for four months and Gulf is charging only the average daily unit cost for the other eight months. Gulf contends that because the daily demand charge during the coordinated maintenance month is zero the seasonal differential is greater and this presents a stronger incentive than the former SS rate schedule. (TR.205-206)

Gulf further argues that the need to plan and meet Gulf's summer peak load is of far greater cost significance to all its customers than any actions that may influence load changes from month to month. (Howell, Tr. 165) Gulf firmly believes that this rate design fosters its intention to use pricing as a major conservation promoting tool. (Thompson, TR. 194 - 195) We have considered the counter-argument that because the daily demand charge is not higher than the average cost for 12 months it does not send customers the appropriate price signal that it is more expensive to consume standby power in the summer months. However, we are persuaded by the parties' arguments that the former SS tariff did not have the desired effect of reducing customers standby power usage during the summer peak demand. Perhaps the CMM provision may provide the long-term benefit of shifting capacity needs and demands off peak periods.

Gulf participates in the Southern Operating Company's (Southern System) Intercompany Interchange Contract (IIC), which is a vehicle that allows all of the operating companies of the system to participate in pool operations. (Howell, Tr. 143) There is a considered concern that while the CMM provision may not increase IIC capacity equalization payments, the waiver of the daily demand charge will increase the likelihood of under-recovery of the IIC payments. Gulf asserts that it receives numerous benefits and advantages from this association by equalizing its reserves and avoiding the need to put in very large-scale sized units. (Howell, Tr. 199-200) While we find that the evidence supports the position that there are significant benefits to Gulf's participation in the

Southern System's IIC, we reserve the right in future fuel hearings to examine whether the SBS tariff has any negative effect upon the IIC capacity equalization payments or causes an under-recovery of the IIC payments from standby service customers.

Another concern is whether the assessment of an average charge (average unit cost) for non- Coordinated Maintenance Months and a zero charge for Coordinated Maintenance Months may not recover the annual total costs the daily demand charge is intended to recover. (Berg, Tr.272) The Intervenors' witness, stated that the reservation charge fully recovers the annual total production and transmission demand-related cost of serving the standby customers. (Pollack Tr. 105, 342) The record reflects a lengthy explanation as to how these costs are recovered in the reservation charge. However, no cost of service analysis was introduced into evidence that showed that the reservation charge recovers the SBS class' total production and transmission costs. (Tr. 353-354) We believe a complete cost of service study for all classes, based on actual customer usage patterns, would be necessary to make this determination. However, when Gulf comes in for its next rate case we will be able to more closely examine the cost of service issue and whether this class of customers is paying its appropriate cost of service revenue requirement.

B. Application

The language of the CMM provision requires only that a customer obtain Gulf's approval for the designation of a month(s) as a CMM(s). The customer is required to submit its request for designation of a particular month as a CMM in writing generally six months in advance. (Exhibit 3. Sheet No. 6.31) The tariff does not set forth particular criteria by which the utility will evaluate a request for a CMM nor does it require the customer to actually have maintenance scheduled for a month(s) which has been designated as a CMM(s). (TR 188-192)) The Industrial Intervenors maintain, however, that it is far cheaper for the cogenerators to generate electricity than to purchase it, even under the CMM provision. (Tr. 326-328, 337-338) Therefore, there is a presumption that they would not tend to use more standby power in a CMM than they need. There is legitimate concern that the effect of this provision may be to provide the customer up to four months of the year when he pays no demand charge for his full standby load (BC) regardless of whether the usage is for a forced or unforced outage. But, based on the record and our previous comments, we wish to allow this tariff sufficient time to show whether it will produce the benefits anticipated.

II. Option A

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

Order No. 17159 specifies that the daily on-peak demand charge is to be calculated using the average number of days that contain on-peak hours in a month. The actual number of days with non-SE on-peak hours varies by month and year and therefore, so will the average. (Exhibit 10) Gulf has made an assumption that the average number of days to which the daily demand charge will apply is seven days per month. This was based on both Gulf's experience over the last few years and Gulf's expectation for the future. (Thompson, TR.156) There is some concern as to whether the use of seven days rather than the actual average for the calendar year will result in an expected over- or under-recovery of production and transmission costs. (Tr. 274)

The annual review of the Option A provides for recalculation of the charge based on a greater number of non-SE on-peak days. Any customer billed daily demand charges for that year will be credited on the December bill for the difference between the original charges that were based on seven days and the adjusted lower charge based on the year's actual monthly average number of days. (Exhibit 3, Original Sheet No. 6.31.1) The Option A tariff does not allow for a corresponding adjustment when the average number of days per month with non-SE on-peak hours is less than seven.

Gulf's position on the annual review provision is that it is necessary to ensure that the Option A customer's total exposure to daily demand charges is no higher than it would be if the customer were not an SE participant and that an upward adjustment is not necessary since Gulf's role is to designate those periods in which the SE price is invoked (Thompson, Tr. 156, 157). We recognize that in the years when the actual number of days is less than seven, the Option A customer's total potential exposure to daily demand charges will be lower than if the customer did not take Option A. However, the record reflects that the base load units that generate SE power will be less available in the future to

generate SE power due to the rapid growth of the Southern System. (Pollack, Tr. 72) Based on this belief that SE power will be less available in the future, Gulf and the Intervenor do not consider the annual review provision to be of any major import. We find this argument persuasive.

III. Applicability of Rate Charges for the above 7,499 KW demand range customers.

At the hearing, the parties stipulated or agreed that, if the SBS tariff is approved the paragraph on Limitation of Above 7,499 KW Demand Range for Billing Purposes on Fourth Revised Sheet No. 6.29 would be modified as shown. (Exhibit 7)

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

This billing range will be available only to Customers: (1) which have a BC or NC that is above 7,499, and (2) which are required to take service under this rate schedule pursuant to the criteria contained in the section on Applicability set forth above.

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

After carefully examining the record and considering the issues presented in the recommendation, it is our decision to approve the Standby and Supplemental rate schedule as it is modified herein. The SBS tariff which is currently in effect by operation of law does not have the modifications which we have approved herein. The utility shall file a revised tariff reflecting these modifications within 15 days of the issuance of this order.

The most important benefit of this tariff is that it increases administrative efficiency by reducing the complexity of co-generator decisions. There is also the potential of the long-term benefit of shifting capacity needs off peak periods. While we recognize that there are some concerns regarding the effects of certain provisions, we believe that there are future opportunities

to review them should they prove to be a problem. When Gulf comes in for a rate case we will be able to determine whether the tariff has caused a shift in revenue requirements between rate classes. In the interim, the shareholders are absorbing any loss in revenues.

PROPOSED FINDINGS OF FACT

We have made specific rulings on all proposed findings of fact. Specific rulings on the Industrial Intervenor's proposed findings of fact are attached hereto as Attachment 1.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Gulf Power Company's Petition for authority to implement a replacement rate schedule for its standby electric service is hereby approved. It is further

ORDERED that the Standby and Supplemental tariff as modified in the body of this Order shall replace the Standby and Supplemental tariff which is now in effect by operation of law upon issuance of this Order. It is further

ORDERED that all findings of fact contained herein are hereby approved or rejected, as stated in Attachment 1. It is further

ORDERED that this docket shall be closed.

By ORDER of the Florida Public Service Commission, this 28th day of October, 1994.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

by: Kay Flynn
Chief, Bureau of Records

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Civil Procedure. The notice of appeal must be in the form specified in Rule 9.900 (a), Florida Rules of Appellate Procedure.

PROPOSED FINDINGS OF FACT

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

We accept with the insertion of the phrase "that used supplementary service" after the word "customers" and incorporate this finding.

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

We accept and incorporate this finding.

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

We accept with the insertion of the word "hypothetically" after "could" and replacement of the word "power" with the word "kilowatts" and incorporate this finding.

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

We accept with the word "usually" inserted before the word "experience" and incorporate this finding.

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

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

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

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

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

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

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

We reject in part and accept in part. We reject the first statement. This is not a finding of fact, but an opinion without supporting evidence. We accept the second statement with the replacement of the word "provided" with "used in the month" and incorporate this finding.

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

We accept and incorporate this finding.

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

We reject. (1) 1991 and 1992 billing determinants instead of the 1987 billing determinants from Gulf's last rate case were used by Gulf Power in the calculation of the \$300,000 in Exhibit B attached to its recommendation and referred to on page 255 of the hearing transcript. Further, the target revenue requirements established

for the standby class in the last rate case was not used in the calculation of the \$300,000. Gulf used the total annual charges to the standby service customers based on the standby service rates that were in effect in 1991 and 1992. (Petition, p. 3 and Exhibit B; Tr. 377) (2) Mr. Thompson testified that he had been told that the impact of the \$300,000 on company's rate of return was probably less than 0.1 percent. (Tr. 255)

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

We reject. This statement is incomplete. It does not take into account IIC capacity equalization payments which are another variable.

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

We accept and incorporate this finding.

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

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

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

We accept and incorporate this finding.

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

We accept and incorporate this finding.

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

We accept and incorporate this finding.

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

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

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

We reject. Not a finding of fact. Conclusory.

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

We accept and incorporate this finding.

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

We accept and incorporate this as Southern's plan. However, it is merely speculative until such time as Southern may act on it, and, therefore, the Commission shall not grant it much weight.

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ATTACHMENT 1

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

We reject as speculative. Prediction of a future event is not a fact.