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BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO 891345-EI

REBUTTAL TESTIMONY
OF
E. B. PARSONS, JR.

Gulf Power

GULF POWER COMPANY

Before the Florida Public Service Commission
Rebuttal of
Earl B. Parsons, Jr.
In Support of Rate Relief
Docket No. 891345-EI
Date of Filing May 21, 1990

Q. Are you the same Earl B. Parsons, Jr. who testified earlier in the proceeding?

A. Yes, I am.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to rebut the testimony of Mr. Schultz, Mr. Larkin, and Mr. Rosen and the positions taken by them with respect to issues raised in this proceeding.

Q. Mr. Parsons, the Commission Staff and Office of Public Counsel have taken the position that Plant Scherer Unit 3 capacity should not be included in rate base. What is your response?

A. Gulf is deeply disturbed by the position taken by the Staff regarding exclusion of Scherer 3 capacity in the rate base. Also related to Scherer, Mr. Rosen has filed testimony for the Office of Public Counsel that, if followed by this Commission, will prove extremely detrimental and harmful to the long-term best interests of the customers which we serve in Northwest Florida.

I have been at Gulf Power Company since early 1978, when the Scherer capacity was first considered as a cost-effective alternative to continuing construction at the Caryville site. I personally participated in the October 1978 workshop before the Florida Public Service Commission at which time we presented our proposal for cancelling Caryville and acquiring the capacity at Scherer.

I have presented extensive testimony to this Commission in four rate cases and attended a number of Planning Workshops and Planning Hearings at which our plans have been fully discussed with the Commission. In every one of these instances, there has never been any concern expressed on the part of the Commission regarding the prudence of acquiring Scherer. If there was a concern, it was that we might not be able to acquire the Scherer capacity. The Commission felt so strongly that we should make this purchase that it held, subject to refund, our write-off of the Caryville cancellation costs approved in Order No. 9628, pending completion of a contract with Georgia to acquire Scherer. Order No. 9628, Docket No. 800001-EU, Order No. 10557, Docket No. 810136-EU, Order No. 11498, Docket No. 820150-EU and a follow-up order issued on May 15, 1984 address these issues.

We have on any number of occasions, both formally and informally, presented our plans regarding our capacity expansion and our off-system sales before the Commission. It has been shown from the beginning that Scherer capacity would eventually come back to our territorial customers. Some of that capacity is available for use by our territorial customers now.

The Scherer capacity was acquired for the long-term benefit of our territorial customers. It was not purchased for purposes of unit power sales. All of our actions regarding this acquisition have been prudent. If the Commission follows the prehearing recommendation of its own Staff or that of Mr. Rosen in his prefiled testimony and disallows cost recovery for capacity which the Commission itself has agreed was prudent to acquire, it will break the regulatory compact which has been established with Gulf. While Mr. Howell will fully review the details of our concern in his testimony, I simply want to emphasize how strongly the Company feels that disallowance of the Scherer capacity in rate base would be a detriment to our customers and send an extremely negative signal to the Company regarding what constitutes prudence in its decisions.

The long-term benefits of the Scherer capacity were valid when we made the decision to invest, and are still valid today. The new unit power sales, for which Gulf contracted in 1988, will allow us to capture even more savings for our territorial customers in the long term.

As Mr. Howell will cover in his testimony, Gulf had two choices - either participate in Scherer or not. Participation requires at least a 40 year commitment to the capacity and, therefore, cost-effectiveness must be viewed over the long term. If the Company were to follow the philosophy suggested by the Staff and Mr. Rosen, it would cease making decisions based on long-term cost benefits and make decisions based on one-year, short-term analysis. This would create an extremely unreliable and costly electric system for our customers. Mr. Howell will cover in detail how the Scherer decision is a long-term benefit to our customers, and how we have done everything reasonable to minimize the impact of the Scherer capacity in the test year. I ask the Commission to approach this issue with an open mind, carefully consider the strong evidence which we will present, and allow cost recovery of the Scherer capacity.

Q. **Mr. Parsons, do you agree with Mr. Rosen's recommendation of an 18 percent reserve margin for Gulf?**

A. No. The 20-25 percent range for planning reserve margin guideline utilized by Gulf and Southern has been adopted by the Commission as reasonable. Since the criteria was last established, there has been no need to commit to additional capacity on the system. As indicated in Mr. Howell's testimony, the criteria was last reviewed and deemed appropriate by the Commission's consultant in Docket 860004-EU. As the time approaches when there will be a need to commit to new capacity, we believe it is appropriate to review this criteria. Such a study is now under way. Although the operating companies of Southern have determined to maintain a minimum 20 percent planning reserve margin guideline, commitments for capital expenditures in 1990 for capacity additions have been limited based on a 16 percent reserve margin until the detailed study is completed, hopefully, later this year. The consequences of committing these large capital expenditures which may be later deemed to be imprudent, with 20/20 hindsight, are too great to justify moving forward without this additional detailed examination of capacity requirements.

Short lead time demand side options and short term capacity purchases will be utilized, if necessary, to provide adequate reserves during the test year.

Q. On page 17 of his testimony, Mr. Larkin suggests that the Caryville site should be excluded from rate base because there is no plan to build a generating unit on the Caryville site. Is he correct?

A. No. Caryville is still a viable, certified site for future base load coal capacity in Gulf's system. As I have previously stated, the Commission agreed with Caryville's inclusion in rate base as plant held for future use in Docket Nos. 800001-EI, 810136-EU, 820150-EU and 840086-EI. For example, in Order No. 9628, the Commission supports this decision by stating, "We agree with the Company that its plans for the site are sufficiently definite to warrant its inclusion, and that to deny the request would be to the disadvantage of ratepayers in the long run." Inclusion of the Caryville site in rate base for plant held for future use is still a prudent decision by the Commission.

Q. What is the value of this site to the customers of Gulf Power?

A. An extensive site selection study was undertaken in the late 1960's and early 1970's when Gulf projected the need for a new generating plant site. Caryville was determined to be the most viable of all the sites analyzed. Because of the extreme difficulty in certifying new sites due to stringent environmental requirements, Caryville may well be the only available site on which to locate future generation in Northwest Florida; future generation which will be required as our customers' needs grow.

Q. Is the present property owned by Gulf Power Company at Caryville of a sufficient sise to accommodate its future generation needs?

A. No. The Caryville site was originally certified during 1976 for the initial construction of two 500 mw low sulfur coal units. Again, as I have stated in my direct testimony, changes in environmental regulations since that time now require that flue gas desulfurization equipment or scrubbers be installed on any base load generating units constructed at the site. Additional space will be required for the scrubbers, limestone storage and the waste by-product. Additional space will also be required for 500 kv transmission lines and substations rather that the 230 kv systems certified.

Q. **Why is the additional land purchase important at this time?**

A. Again, as I have previously stated in my direct testimony, since the units are not needed immediately, Gulf can secure property adjacent to the Caryville site as it comes on the market at a much lower price than if we were to wait until construction begins. The extreme difficulty anticipated in acquiring and certifying sites in the future makes it necessary and prudent to proceed with the purchase of additional property as it comes on the market in order to enhance and protect the viability of the site for future generation needs.

Q. **What action will Gulf take if the Commission excludes the site from the rate base?**

A. This would indicate that the Commission does not believe that this site has future value to Gulf's customers. We would have to consider possibly selling the property. A Commission decision such as this would have a significant negative impact on Gulf's ability to meet long-range generating capacity needs at a reasonable cost. We are simply attempting, as the Commission has encouraged us to do on many occasions, to project future needs and, using sound reasoning, act in advance so that we can save our customers' money. We feel the purchase of additional land for this site as it becomes available is a prudent action.

Q. On page 28, Mr. Larkin recommends excluding the Caryville subsurface study from working capital. Do you agree?

A. No. The subsurface investigation of the Caryville site is still valid relative to the geological conditions. This information will be utilized in the design of foundations and placement of structures for future generating capacity.

Q. Do you agree with Mr. Schultz's recommendation beginning on page 28 of an adjustment of $617,595 for SCS expenses?

A. No. Mr. Schultz references OPC Interrogatory No. 53 and places undue emphasis on isolated items without including the entire text of Gulf's response. For example, Gulf does state that Southern Company Services (SCS) "prepares estimates of its billings to Gulf"; however, that same paragraph goes on to detail how this interaction takes place. As shown in this interrogatory, this is a very detailed process in which Gulf interacts with SCS personnel on a continuous basis in the development and monitoring of the SCS budget and actual expenses.

Q. **On page 29, Mr. Schultz implies that indirect expenses which are allocated to the operating companies based on a set percentage "are not subjected to the same scrutiny by the Company as that of the costs of a specifically requested item." Do you agree with this statement?**

A. No. There is no statement in OPC Interrogatory No. 53 which indicates that only direct charges are handled in the manner described. On the contrary, work orders exist for the allocation of these indirect charges and are monitored in the same method as direct charges. The generic allocated work orders remain a standing authorization of work to be performed, unless termination of these work orders is recommended by the various committees and/or operating companies.

Q. **On page 2 of 3, line numbers 1 - 9 of Mr. Schultz's Schedule HWS - 7, he recommends that the Commission disallow SCS expenses related to a variety of research**

projects and studies undertaken on behalf of Gulf Power Company. Is this a duplication of work between Gulf, SCS, and EPRI?

A. No. The recommended disallowance is based on the incorrect presumption that these services are duplicative of research managed by the Electric Power Research Institute (EPRI). These services are, in fact, complimentary and not duplicative. Some 600 member utilities fund EPRI's large-scale, cooperative research and development programs. As a result, EPRI undertakes research programs that are responsive to the needs of the electric utility industry as a whole. EPRI does not undertake individual utility specific research nor does it apply its research only to individual utility specific problems.

SCS assists Gulf Power Company in attaining maximum benefit from EPRI's research. These research and research management activities include:

a) participating in the EPRI advisory system to ensure that EPRI's research meets the needs of Gulf Power Company;

b) reviewing, summarizing, evaluating, and communicating the results of EPRI research to Gulf Power in order to ensure maximum benefit from its investment in EPRI research (Technology Transfer); and

c) conducting local, company-specific studies in order to apply the results of key EPRI research to specific Gulf Power Company issues. In some cases this can include co-funding EPRI projects conducted at Gulf facilities or within Gulf's service territory.

SCS also conducts site specific research at Gulf's facilities on areas of concern not addressed by EPRI. The majority of the research performed by SCS for Gulf is specific to the needs of Gulf and the system.

Q. **On page 34, Mr. Schultz recommends an adjustment removing "the cost of SCS services which have been budgeted at amounts substantially in excess of actual average costs for such services." Do you agree?**

A. No. We do not agree that excess costs have been budgeted for SCS. Any budget approved by Gulf for SCS work has been thoroughly reviewed by Gulf personnel responsible for that activity. When the budget is approved, it is our best estimate for required manpower. That is the case in 1990. The budget is reflective of conditions and work loads faced by our Company under present circumstances.

Q. Why do SCS expenses for System Planning exceed the benchmark?

A. The 1984 benchmark of allowed charges from SCS of $57,000 was developed from seven months of actual charges (January through July of 1984) extrapolated to the end of the year.

Although the actual charges were below the budget for the first seven months, this relationship did not hold true for the remainder of 1984 due to workload and resource usage fluctuations. The actual charges for 1984 were $157,000. Therefore, considering the entire year of 1984, the base was lower than it should have been.

A compound inflation multiplier of 1.2468 was used to calculate a 1990 benchmark from the 1984 base. Applying this same multiplier to the 1984 SCS actual charges of $157,000 would result in a 1990 adjusted benchmark of $196,000. The 1990 SCS budget for this work order is $167,000, which is 14.8 percent below the adjusted benchmark.

These charges are for valuable services which SCS delivers to Gulf in providing expert engineering assistance for the planning of reliable, economical, and flexible resources to meet the energy requirements of Gulf Power. If SCS were not providing these services, then, in order to perform these tasks, the Company would either retain outside consultants, who have less understanding of Gulf Power and the Southern system, or have to increase the number of employees in Gulf's System Planning Department.

Q. At page 37 of his testimony, Mr. Schultz argues that expenses related to Atmospheric Fluidized Bed Combustion and Living Lakes, Inc., are duplicative or unnecessary. Is there any validity to his contention?

A. No. Mr. Schultz makes this statement but provides no support for his recommendation. The research and development charges as noted on MFR Schedule C-57, page 3, are fully justified.

Future legislation requiring significant reductions of sulfur dioxide emissions from coal-fired utilities mandates the development of new, cleaner combustion techniques. Atmospheric fluidized bed combustion is such a technology and the TVA/Duke Power project is a full scale development project for this important new clean combustion system. The knowledge gained in working with the TVA/Duke project will allow the SCS engineers to evaluate future designs of the system.

Living Lakes Inc. is a not-for-profit corporation whose primary purpose is to demonstrate effective technologies for the neutralization of acidified surface water. Living Lakes, Inc., has developed mitigation and investigative techniques for lowering the acidity of lakes that become acidified, either from natural or man induced causes. Living Lakes, Inc., has successfully treated numerous lakes in the country and restored them to a healthy condition at a fraction of the cost of emission control projects currently being debated in Congress.

Q. Beginning on page 49, Mr. Schultz recommends an adjustment to disallow Gulf's nuclear power research expenses associated with EPRI. Do you agree with this adjustment?

A. No. Much of the costs incurred by EPRI relative to nuclear power production research are also inherent to steam production (turbines, feedwater heaters, controls, condenser fouling, cooling towers, valves, fans, etc.) and, therefore, advantageous directly to Gulf. However, Gulf also benefits from the remainder of the nuclear research because of its participation in the Southern system pool. Benefits received directly by other sister operating companies also indirectly benefit Gulf through increased efficiency of units and lower costs of purchased power. Future generation requirements by Gulf's customers dictate that new sources of power be evaluated to determine which are most economical and efficient. Nuclear projects should be a part of that evaluation. It is essential that nuclear power research be funded as we look forward to the future.

Q. Mr. Schults questions the fact that some research expenses were zero during the benchmark period. Was this a correct entry on Gulf's part?

A. Yes. Gulf prepared its benchmark based on the Commission's instructions. Gulf summarized the total variance on page 3 of MFR C-57 showing a variance of $210,000 for specific research and development expenses in the Steam Production function. These expenses could have been listed individually on page 3 but, because they were related, they were grouped under this heading just as we grouped all of Plant Daniel's expenses. As shown on pages 4-9 of MFR C-57, there were no dollars budgeted in 1984 for any of these expenses and therefore, the base for calculation of the benchmark is zero.

Q. Are any of Gulf's research and development costs a duplication of research undertaken by EPRI?

A. No. Approximately 1700 different projects are undertaken by EPRI annually. These projects are spread over 60 different strategic programs. There is no way Gulf or Southern could duplicate either the depth of EPRI's research or the number of EPRI projects. Gulf conducts research through SCS for site specific needs at Gulf's system or through the FCG for Florida specific issues. These projects are long term and designed for meeting our customers' needs for continued low cost power.

Q. On page 85 of his testimony, Mr. Schultz discusses research expenses. Mr. Schultz seems to be suggesting that the Company has merely shifted the focus of research since 1984, and then used the new focus as the justification for research variances over the benchmark. Is this a fair characterization of what Gulf has done?

A. Absolutely not. Again, the benchmark presented for this docket was developed according to Commission guidelines from prior rate cases and as instructed in

MFR C-57. What is reflected in our benchmark is not a shift in focus but rather an increased scope. For example, the electric magnetic fields (EMF) study is a new project added since 1984.

Q. **Was the EMF project undertaken by Gulf through the Florida Electric Coordinating Group a duplication of research done through either Southern Company Services or the Electric Power Research Institute?**

A. No. This was not a duplication of effort. EPRI's research encompasses human health effects of exposure to electric and magnetic fields. The goal of EPRI is to provide measurement methods and equipment to assess possible effects resulting from the exposure of workers and the public to EMF. SCS acts as a coordinator, interfacing with EPRI, to distribute information to the operating companies. There was no further research undertaken by SCS regarding the EMF issue.

At the state level, the Florida Department of Environmental Regulation (DER) was mandated by the legislature to investigate, develop, and adopt a standard for EMF from new transmission lines for the state of Florida. Since the standard for EMF was to be common to all utilities within the state, the FCG joined with the DER in providing expert testimony.

Gulf was actively involved in this process. In 1989, as directed by the legislature, DER adopted a rule and numerical standards and the utilities have begun to implement this rule.

Q. On page 86 of Mr. Schultz' testimony, he infers that $47,452 was approved in Gulf's 1984 rate case for acid rain monitoring. Is this a true assumption?

A. No. Gulf's 1984 rate case was based upon our 1984 budget. There were no dollars budgeted in 1984 for this project. The expenses shown on Gulf's response to Staff Interrogatory No. 101 from Docket No. 881167-EI are the <u>actual</u> <u>dollars</u> spent for the Acid Rain Study for the years 1981-1988. As Gulf specifically states in MFR C-57, the acid rain monitoring costs are a result of a request by the Florida Department of Environmental Regulation and an independent scientific review panel to continue this monitoring in order to complement a growing data base on the acidity of wet and dry deposition. This data base will provide information which could be very critical to measuring the success of new federal Clean Air Legislation.

Q. Mr. Parsons, an issue has also been raised regarding Gulf's heavy oil inventory level. Would you please

discuss the basis for the Company's request?

A. Yes, the Company's inventory request of $1,042,000 serves to protect Gulf's ratepayers from having three of Gulf's generating units unavailable for use due to an interruption in fuel supply. Without a supply of heavy oil in inventory on the plant site, these units could be considered non-firm generating capacity, thereby not receiving full credit in the Intercompany Interchange Contract (IIC). The primary fuel for these units is pipeline natural gas, which is subject to interruption or curtailment.

The plant receives oil only by truck. If an emergency fuel situation developed and Units 1, 2, and 3 were required to run at full capacity, procurement and delivery problems could prevent sustained operation. The present oil in storage provides adequate oil to allow the units to run for an emergency period and simultaneously procure replacement oil.

Q. **If Crist Units 1,2, and 3 are considered non-firm capacity due to not having a sufficient quantity of standby fuel available, does that affect Gulf Power's IIC capacity payments?**

A. Yes. The loss of 84.4 MW of fossil generating capacity in the Intercompany Interchange Contract would result in a net loss of over $6 million in capacity payments for 1990.

Q. Mr. Parsons, an issue has been raised as to whether the Company's proposed inventory for No. 2 oil should be adjusted. Would you please discuss this proposal?

A. Yes. Gulf is requesting a total of $359,000 of No. 2 oil inventory to serve as fuel for the combustion turbine and as lighter fuel at all five plants. The inventory level advocated by Staff in their preliminary position equates to a 68 percent reduction from the Company's proposed level. No. 2 oil is not consumed at a constant rate, but varies on a relatively unpredictable basis from day to day. The usage depends on peaking requirements, unit start-ups, and load changes. This oil is delivered by trucks which restricts the amount a plant can receive at any one time. The requested oil inventory is necessary to allow for variations in plant consumption and procurement and to guard against market volatility and supply disruptions.

Gulf has recognized the decreased likelihood of supply disruptions and the minimal operation of the combustion turbine. The requested combustion turbine oil inventory is only 50 percent of available tank capacity.

Q. **Mr. Parsons, will you please summarize your testimony?**

A. I have provided additional testimony supporting the inclusion of Plant Scherer Unit 3 capacity in Gulf's rate base. Again, this capacity was acquired for the long-term benefit of our territorial customers and has been deemed by the Commission in past dockets as a prudent acquisition. In addition, I have addressed the planning reserve margin guideline used by Gulf and adopted by the Commission in prior dockets versus that level proposed by Mr. Rosen. Also, I have supported the continued inclusion of the current Caryville site and future land purchases in plant held for future use based on its value to territorial customers for future generation needs at a reasonable cost. Next, I have attempted to address several O & M issues raised by Mr. Schultz. Testimony has been provided disputing the incorrect presumption on the part of Mr. Schultz in his prefiled testimony relative to a duplication of work between Gulf, SCS and EPRI for various O & M costs and research expenses. As I have stated earlier in my testimony, these services are not duplicative. Gulf, SCS and EPRI have taken great care to ensure all programs compliment one another in order to attain the maximum benefit from these projects. Finally, I have addressed the issues relative to Gulf's oil inventory. Without the requested inventory for heavy oil, Crist Units 1, 2, and 3 could be considered non-firm generating capacity and would result in a net loss of over $6 million in capacity payments through the IIC for 1990. The No. 2 oil inventory is critical at all five of Gulf's plants as lighter fuel and serves as a primary fuel for the combustion turbine.

In conclusion, I would like to assure the Commission that Gulf's Power Generation and Transmission Department is manned with a highly qualified and competent staff who take great pride to ensure that every expenditure approved and every decision made are in the long-term best interest of Gulf's customers.

Q. Does this conclude your testimony?

A. Yes, it does.

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 891345-EI

Before me the undersigned authority, personally appeared E. B. Parsons, Jr., who being first duly sworn, deposes and says that he/she is the Vice President-Power Generation and Transmission of Gulf Power Company and that the foregoing is true and correct to the best of his/her knowledge, information and belief.

Earl B. Parsons Jr.

Sworn to and subscribed before me this 9th day of May, 1990.

Peggy W. Lurritter
Notary Public, State of Florida at Large

My Commission Expires:
Notary Public, State of Florida
My Commission Expires March 23, 1991
Bonded Thru Troy Fain - Insurance Inc.