

ORIGINAL
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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO 891345-EI

REBUTTAL TESTIMONY
AND EXHIBITS
OF
C. R. LEE


Gulf Power

DOCUMENT NUMBER-DATE
04462 MAY 21 1990
FPSC-RECORDS/REPORTING

GULF POWER COMPANY

Before the Florida Public Service Commission
Rebuttal Testimony of
Colen R. Lee
In Support of Rate Relief
Docket No. 891345-EI
Date of Filing May 21, 1990

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5
6 **Q. Please state your name, business address and**
7 **occupation.**

8 A. My name is Colen R. Lee and my business address is 500
9 Bayfront Parkway, Pensacola, Florida 32501. I am
10 General Manager of Power Generation for Gulf Power
11 Company.

12
13 **Q. Are you the same Colen R. Lee who testified previously**
14 **in this proceeding?**

15 A. Yes.

16
17 **Q. What is the purpose of your testimony?**

18 A. My purpose is to rebut the testimony of Mr. Helmuth W.
19 Schultz, and Ms. Roberta S. Bass and the positions
20 taken by them with respect to issues raised in this
21 case within the production function.

22
23 **Q. Have you prepared an exhibit that contains information**
24 **to which you will refer in you testimony?**

25 A. Yes.

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1 Counsel: We ask that Mr. Lee's Exhibit, comprised
2 of 3 schedules, be marked for identification as
3 Exhibit ____ (CRL-2).
4

5 Q. Beginning on Page 18 of his testimony, Mr. Schultz
6 talks about turbine and boiler inspections. Mr. Lee,
7 do you agree with Mr. Schultz's testimony?

8 A. No. Mr. Schultz makes a conclusory statement that the
9 \$5.34 million budgeted in 1990 for turbine and boiler
10 inspections is not reasonable. His analysis does not
11 even attempt to review the work that has been budgeted.
12 Mr. Schultz has no experience in the construction,
13 operation or maintenance of power generation
14 facilities. I have been employed in some area of
15 generating plant engineering, maintenance and
16 supervision for twenty five years. My Department
17 Management Staff collectively, has 1,793 years of
18 generating plant experience which averages
19 approximately 20 years per person.
20

21 Q. Mr. Lee, what should the Commission allow for turbine
22 and boiler inspections?

23 A. As I stated in my direct testimony, since 1984 Gulf has
24 performed cur turbine and boiler inspections
25 essentially as scheduled and all necessary work was

1 performed. Gulf budgeted \$5.34 million for turbine and
2 boiler inspections for 1990. The 1990 budgeted amount
3 is reasonable and should be the amount allowed by the
4 Commission. We estimate that Gulf's actual territorial
5 turbine and boiler inspection expense for 1990 will be
6 over the 1990 budget of \$5.34 million. These expenses
7 are for turbine and boiler work that is necessary in
8 1990. Therefore, I can assure the Commission that the
9 \$5.34 million that was budgeted for turbine and boiler
10 inspections is not unreasonably or unrealistically
11 high.

12
13 **Q. Beginning on Page 19, of his testimony, Mr. Schultz**
14 **addresses Plant Daniel. Mr. Schultz testifies that**
15 **Gulf does not have any control over the Plant Daniel**
16 **expenses. Mr. Lee, do you agree?**

17 **A. Absolutely not. Mr. Schultz has taken the discussion**
18 **of Plant Daniel contained in Mr. Gilbert's deposition,**
19 **taken in Docket 881167-EI, out of context. Mr. Gilbert**
20 **was explaining the difference in documentation produced**
21 **in the 1989 budget process for "Corporate Controlled"**
22 **items; that is, expenses controlled external to Gulf's**
23 **normal budget process. Mr. Schultz's misapplication of**
24 **this discussion to the reasonableness of the Plant**
25 **Daniel expenses results in a distorted and misleading**

1 picture of the interaction between Gulf and Mississippi
2 Power concerning the operation and maintenance of this
3 jointly owned facility.

4 As an active participant on the Supervisory
5 Committee that reviews all of the operating aspects of
6 Plant Daniel, I can unequivocally tell the Commission
7 that we review the budgets submitted to Gulf from
8 Mississippi Power for reasonableness. Throughout the
9 year, we review the budget comparison report regarding
10 Plant Daniel expenditures versus budget.

11 I assure this Commission that through my
12 participation in the oversight of Plant Daniel, Gulf
13 does have input and control over the expenses budgeted
14 by Mississippi Power for Plant Daniel. Our control is
15 not exclusive, nor should it be, since Mississippi's
16 ownership in the Plant is equal to ours. I would also
17 point out that Mississippi answers to both Gulf and to
18 their own commission with regard to the reasonableness
19 and appropriateness of the expenses related to Plant
20 Daniel. Mississippi Power has every incentive to
21 control these expenses. It is unreasonable to assume
22 or imply that the operation and maintenance activities
23 at Plant Daniel have been conducted on anything but
24 the most professional and prudent basis. Based on my
25 experience in this area of electric operations, and my

1 participation in the oversight process for Plant
2 Daniel, I can assure this Commission that this is the
3 case.

4 Mr. Schultz's proposed adjustment for these
5 expenses is nothing more than treating the benchmark as
6 an absolute limit on spending. He makes no attempt to
7 analyze the justifications provided for the benchmark
8 variance of \$646,000 which he seeks to exclude. Thus
9 Mr. Schultz ignores the Commission's characterization
10 of the benchmark as an analytical tool.

11 As shown in MFR C-57, on page 44 of 94, Plant
12 Daniel has three benchmark variances listed that total
13 \$877,000. These variances are \$231,000 more than the
14 overall Plant Daniel total benchmark variance of
15 \$646,000. Two of the three benchmark variances for
16 Plant Daniel are items which are necessary due to
17 regulatory requirements. The ash landfill is necessary
18 due to new environmental regulations that make adding
19 ash pond capacity virtually impossible. The sodium
20 fuel additive is utilized to meet environmental
21 regulations concerning particulate emissions.

22 The third item discussed in the Company's
23 justification for the Plant Daniel variance, turbine
24 and boiler, is over the benchmark because the amount of
25 work planned on Unit 1 at Plant Daniel is much more

1 extensive than the work budgeted in 1984. The 1984
2 amount formed the base for the benchmark calculation.
3 As stated in MFR C-57, the 1984 allowed figure included
4 only a turbine valve inspection for Daniel Unit 1. As
5 also stated in MFR C-57, the 1990 budget for Daniel
6 turbine and boiler work includes work on the Unit 1 low
7 pressure turbine, boiler feedpump turbine and
8 generator, all in addition to the turbine valve
9 inspection. From a review of the material, it is
10 apparent that the overall benchmark variance for Plant
11 Daniel is more than justified.

12
13 Q. Mr. Schultz implies that Gulf does not have the right
14 to audit Plant Daniel expenses or billings. Is this
15 implication correct?

16 A. Again, absolutely not. We certainly have the right to
17 conduct an audit, or to have one conducted. For
18 manpower efficiency purposes, we have relied on the
19 audits performed on our behalf by Southern Company
20 Services. The results of these audits and our own
21 direct involvement in the oversight process have not
22 given us any reason to question the appropriateness of
23 Plant Daniel expenses from any standpoint. Certainly,
24 with this background, it would be unwarranted on our
25 part to duplicate the audit performed by SCS.

1 Mr. Schultz does not challenge any of the expenses
2 at Plant Daniel. He criticizes the process as he
3 understands it; an understanding which is clearly
4 wrong. The expenses at Plant Daniel are reasonable,
5 justified, and should be allowed in this rate case.

6
7 Q. At page 26 of his testimony, Mr. Schultz questions
8 whether the Company has taken the appropriate steps to
9 determine the propriety of the budget for Plant Scherer
10 steam production expenses. Has the Company taken the
11 "appropriate steps"?

12 A. Yes. Each year Gulf reviews the budget for Plant
13 Scherer, that was prepared by Georgia Power, for
14 reasonableness. Not only was the first year's budget
15 reasonable, but as shown in my attached Schedule 3
16 (CRL-2), the budgeted expenditures for Plant Scherer
17 have decreased each year since the unit started up in
18 1987.

19
20 Q. Beginning on Page 35 of his testimony, Mr. Schultz
21 proposes an adjustment related to the Southern Company
22 Services benchmark variance for Generating Plant
23 Electrical System Application. Mr. Schultz suggests
24 disallowance of the \$44,000 related to this work.
25 Mr. Lee, do you agree?

1 A. No. As stated in MFR C-57 and the Company's response
2 to Public Counsel Interrogatory 231, attached as
3 Schedule 2 (CRL-2), this type of work is specialized
4 and Gulf cannot justify directly employing personnel
5 for this type of specialized work. Our engineering
6 staff is well educated, well trained, experienced and
7 dedicated to their profession. They are knowledgeable
8 in most areas of power plant work. This is a unique
9 area in which our otherwise qualified engineers are not
10 well trained and, therefore, specialists are needed.
11 Gulf, due to our size, cannot cost justify employing
12 personnel to perform this specialized work. Through
13 the economies of scale available to SCS by virtue of
14 its work throughout the Southern Electric System, the
15 expertise of these specialists is made available at a
16 much lower cost than would otherwise be possible, to
17 the ultimate benefit of our customers.

18
19 **Q. Beginning on Page 52 of his testimony, Mr. Schultz**
20 **begins addressing ash hauling and storage at Plant**
21 **Smith. Mr. Schultz states that the ash hauling at**
22 **Plant Smith is excessive. Mr. Lee, do you agree?**

23 A. No. We budgeted in 1990 for the amount of ash that we
24 expect to dig from the ash pond and haul to the ash
25 landfill. In the past we had a contract to dig, haul,

1 spread and compact ash at a cost of approximately \$2.48
2 per cubic yard of ash. We utilized this amount with an
3 inflation factor times the amount of ash to be hauled.
4 For 1990 budgeting purposes, Gulf estimated roughly
5 \$2.65 per cubic yard since the previous hauling
6 contract was ending and a new contract would be bid.
7 Therefore, in reviewing our past expenses and present
8 budget I strongly believe that these expenses are
9 justified, not excessive and should be allowed by the
10 Commission.

11
12 Q. On page 59 of his testimony, Mr. Schultz lists an
13 amount of disallowance for fan and duct repair.
14 Mr. Lee, do you agree?

15 A. No. The amount budgeted of \$1,109,000 is the amount
16 Gulf needs to properly maintain our equipment. The
17 full justification for the increased spending in this
18 area is set forth in MFR C-57, pages 54 through 56 of
19 94. I do not believe that the Commission should make
20 any disallowances to the expenses budgeted for fan and
21 duct repair. Mr. Schultz's practice of using a
22 historical average analysis ignores the fact that, as
23 our plants age, the need for this type of work
24 increases. This practice should be rejected by the
25 Commission. These expenses are reasonable, justified,

1 not excessive and should be allowed by the Commission.

2

3 Q. Beginning on page 78 of his testimony, Mr. Schultz
4 addresses condenser and cooling tower corrosion at
5 Plant Crist. Mr. Lee, should any disallowances be made
6 to this item?

7 A. No. Mr. Schultz in his testimony could not reconcile
8 the difference between the 1989 and 1990 budget for
9 this work. The method used to calculate the reduction
10 between 1989 and 1990 is shown in Schedule 1 of my
11 exhibit (CRL-2). Also shown in this schedule are the
12 actual expenditures for this work by year for the
13 period 1984 through 1989. As can be seen in this
14 schedule, since 1984, we have consistently made these
15 necessary expenditures. Our budget for 1990 is
16 justified, not excessive and should be allowed by the
17 Commission.

18

19 Q. Ms. Bass questions Gulf's doing business with Stock
20 Equipment Company while its President is a member of
21 Gulf's Board of Directors. Ms. Bass acknowledges that
22 such business should not be prohibited, but suggests
23 that any transactions be at arms length. Does Gulf
24 Power maintain an arms length position in its
25 transactions with Stock Equipment?

1 A. Yes. For various reasons, many items of major
2 equipment are best maintained with parts and service
3 supplied by the original equipment manufacturer (OEM).
4 Stock Equipment is the OEM for several pieces of major
5 equipment installed at Gulf's plants.

6
7 Q. Has Gulf purchased any new major equipment from Stock
8 Equipment since Mr. Tannehill became a member of Gulf's
9 board?

10 A. No.

11
12 Q. Can you give me the names of a few of the other OEM
13 from which Gulf Power purchases material and/or labor?

14 A. Gulf purchases material and/or labor from Westinghouse,
15 General Electric, Allis Chalmers, Allen Sherman Hoff,
16 Foster Wheeler, Combustion Engineering, and Babcock and
17 Wilcox.

18
19 Q. Do you obtain competitive bids on all purchases from
20 these vendors?

21 A. No. In many cases the parts or services are only
22 available from the OEM.

23
24 Q. Does this mean you do not obtain bids from these
25 vendors?

1 A. No. Competitive bids are obtained when other vendors
2 can supply the parts and/or services.

3
4 Q. How long has Gulf Power been purchasing material from
5 Stock Equipment?

6 A. Stock Equipment has been supplying material, equipment
7 and services to Gulf Power for more than 30 years.

8
9 Q. When Mr. J. H. Tannehill became a Director with Gulf
10 Power in 1985, did Gulf Power make any changes in any
11 way it transacts business with Stock Equipment?

12 A. No.

13
14 Q. Is there any difference in the way you transact
15 business with Stock Equipment as compared with other
16 OEM vendors such as Westinghouse?

17 A. No. We purchase material, equipment and service
18 available only from Westinghouse without competitive
19 bids. We also competitively bid material, equipment
20 and service that is available from other vendors.
21 Transactions with Stock Equipment are coordinated in
22 exactly the same manner.

23
24 Q. What about the three invoices reviewed by the FPSC
25 auditors in their review of Gulf's transactions with

1 **Stock Equipment?**

2 A. Two invoices were for material supplied only by Stock
3 Equipment for OEM equipment purchased before
4 Mr. Tannehill became a member of Gulf's Board. The
5 third invoice was for material and fabrication of a
6 coal hopper. Two local vendors were contacted by the
7 Smith Plant for bids on this item. The two bids were
8 for \$29,875.00 and \$45,070.20, respectively. In order
9 to save the difference of \$15,195.20, Gulf accepted
10 Stock Equipment's low bid.

11

12 **Q. Mr. Lee, how do Gulf's annual expenditures with Stock**
13 **Equipment compare before and after Mr. Tannehill became**
14 **a member of Gulf's board?**

15 A. Mr. Tannehill became a member of Gulf's Board of
16 Directors in 1985. Gulf's annual expenditures to Stock
17 Equipment for the three years before Mr. Tannehill
18 became a member of the Board of Directors were
19 \$267,000. Gulf's annual expenditures to Stock
20 Equipment for the four years since Mr. Tannehill became
21 a member of the Board of Directors have been \$226,000.

22

23 **Q. Mr. Lee, please summarize your testimony.**

24 A. My testimony continues to demonstrate that the Power
25 Generation Department efficiently and effectively

1 manages its O&M expenditures. I have defended the O&M
2 test year budget for areas within my responsibility. I
3 have also demonstrated that Gulf's management carefully
4 considers and evaluates all O&M expense related
5 decisions. The decisions ultimately made by the
6 Company are prudent, justified and necessary for
7 optimal efficiency and production in utility
8 operations.

9

10 Q. Mr. Lee, does this conclude your testimony?

11 A. Yes.

12

13

14

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AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 891345-EI

Before me the undersigned authority, personally appeared
Colen R. Lee, who being first duly sworn,
deposes and says that he/she is the General Manager of
Power Generation of Gulf Power Company and that the foregoing
is true and correct to the best of his/her knowledge, information
and belief.

Colen R. Lee

Sworn to and subscribed before me this 11 day of
May, 1990.

Joseph J. Allin
Notary Public, State of Florida at Large

My Commission Expires: 5/14/93

Crist Condenser and Cooling Tower Corrosion

Reconciliation of 1989 Budget to 1990 Budget

	<u>1989 Budget</u>	<u>1989 Budget Escalated To 1990</u>	<u>1990 Reductions</u>	<u>1990 Budget</u>
Labor	131,868	135,048	0	135,048
Material	<u>1,236,000</u>	<u>1,290,000</u>	<u>(129,000)</u>	<u>1,161,000</u>
Total	<u>1,367,868</u>	<u>1,425,048</u>	<u>(129,000)</u>	<u>1,296,048</u>

Comparison of Actual Expenditures Since 1984

	<u>Actual</u>
1984	1,025,688
1985	1,159,772
1986	1,018,592
1987	1,714,515
1988	1,133,664
1989	1,244,642

Florida Public Service Commission
Docket No. 891345-EI
GULF POWER COMPANY
Witness: C. R. Lee
Exhibit No. ____ (CRL-2)
Schedule 2
Page 1 of 2

Public Counsel's Fourth Set
of Interrogatories
Docket No. 891345-EI
GULF POWER COMPANY
March 30, 1990
Item No. 231
Page 1 of 2

231. Refer to Schedule C-57, page 31 of 94. The Company's justification for this expense states: "Gulf's plant personnel and engineering personnel in the corporate office do not possess the expertise to meet these essential requirements."
- a. Provide a list of Gulf plant personnel and engineering personnel and their respective qualifications and identify to what extent Southern Company Services' personnel are more qualified.

Answer

See Attachment.

Public Counsel's Fourth Set
of Interrogatories
Docket No. 891345-EI
GULF POWER COMPANY
March 30, 1990
Item No. 231
Page 2 of 2

POWER GENERATION DEPARTMENT ENGINEERS
AS OF 02/16/90

<u>Employee Name</u>	<u>Job Title</u>	<u>Education Level</u>	<u>Year Obtained</u>
Babbitt, James A.	Mgr Plant Smith	B.S. - Elect. Eng	1964
Brown, Alvin C.	Project Engineer	B.S. - Elect. Eng	1979
Dixon, Olin L.	Mgr Pwr Gen Const	B.S. - Civil Eng	1956
		M.S. - Civil Eng	1964
Dobbs, Joseph H.	Coord Pwr Gen Plan	B.S. - Mech. Eng	1963
Dominey, John M.	Plant Engineer	B.S. - Mech. Eng	1981
Fontaine, George D.	Perf Test Specialist	B.S. - Mech. Eng	1980
Hansford, David W.	Supt Engr & Adm	B.S. - Mech. Eng	1975
Hardin, David C.	Sr Plant Engineer	B.S. - Civil Eng	1979
Haskew, Robert A.	Project Engineer	B.S. - Mech. Eng	1981
Kelly, C. J.	Supv Pwr Gen Eng	B.S. - Mech. Eng	1964
Kraynak, Carl R.	Supv Maintenance	B.S. - Mech. Eng	1980
Lee, Colen R.	Dir Power Generation	B.S. - Mech. Eng	1965
Lyford, William T.	Mgr Plant Crist	B.S. - Elect. Eng	1965
May, Craig A.	Associate Engineer	B.S. - Mech. Eng	1989
Parker, Patrick	Mgr Plant Scholz	B.S. - Mech. Eng	1975
Putnal, Ronald J.	Coord Pwr Gen Saf Trng	B.S. - Mech. Eng	1973
Richardson, Kenneth L.	Performance Engineer	B.S. - Chem. Eng	1981
Stapleton, Albert A.	Construction Eng	B.S. - Mech. Eng	1964
Talty, Thomas F.	Asst Plant Manager	B.S. - Mech. Eng	1971
Terry, Gregory N.	Performance Engineer	B.S. - Elect. Eng	1984
Tugwell, Charles A.	Asst Plant Manager	B.S. - Mech. Eng	1974
Witt, Herman L.	Mgr Pwr Gen Eng Const	B.S. - Mech. Eng	1961

Gulf cannot, due to its size, justify employing personnel in such a specialized area. Southern Company Services, by intent, is staffed to supply personnel who specialize in such areas to provide technical assistance to the entire Southern Company System, therefore reducing any duplication in the Southern Company System.

Florida Public Service Commission
Docket No. 891345-EI
GULF POWER COMPANY
Witness: C. R. Lee
Exhibit No. ____ (CRL-2)
Schedule 3
Page 1 of 1

Plant Scherer Unit 3 Production O&M Budget

<u>Year</u>	<u>Budget</u>
1987	2,203,004
1988	2,026,872
1989	2,003,232
1990	1,957,305