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BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

In The Matter of	:	DOCKET NO. 891345-EI
Application of GULF POWER COMPANY for an increase in rates and charges.	:	HEARING FOURTH DAY MORNING SESSION

VOLUME - VII

Pages 998 through 1125

FPSC Hearing Room 106
Fletcher Building
101 E. Gaines Street
Tallahassee, Florida 32399

Thursday, June 14, 1990

Met pursuant to adjournment at 9:00 a.m.

BEFORE: COMMISSIONER MICHAEL McK. WILSON, CHAIRMAN
COMMISSIONER GERALD I. GUNTER
COMMISSIONER THOMAS M. BEARD
COMMISSIONER BETTY EASLEY

APPEARANCES:

(As heretofore noted.)

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I N D E X

WITNESSES

Index Continued:

EXHIBITS

Number:	Identified	Admitted
69 through 71 (Parsons)	1003	
579 (Late-Filed) (Parsons)	1081	
580 (Late-Filed) (Parsons)	1084	
581 (Late-Filed) (Parsons)	1124	

P R O C E E D I N G S

(Hearing reconvened at 9:07 a.m.)

CHAIRMAN WILSON: All right.

MR. HOLLAND: Mike, did you have --

MR. PALECKI: Commissioners, we have a matter of housekeeping we'd like to take up before we start.

We've reached an agreement with Gulf Power on the rate design witnesses. Gulf has gotten a matter of discovery to us, or they will be getting it to us today, and we may not have an opportunity to be able to sufficiently review it by the time the rate design witnesses are up for their direct testimony. Gulf has agreed to allow us to go beyond the scope of rebuttal at the time those witnesses will be called up a second time for their rebuttal testimony. I just wanted to put that agreement on the record.

CHAIRMAN WILSON: Okay. That's a correct representation.

MR. HOLLAND: That's correct.

MR. PALECKI: Those are witnesses Kilgore, O'Sheasy and Haskins.

CHAIRMAN WILSON: All right.

MR. HOLLAND: Call Mr. Parsons.

EARL B. PARSONS, JR.

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

DIRECT EXAMINATION

BY MR. HOLLAND:

Q Mr. Parsons, would you state your name, your business address and your position with Gulf Power Company?

A Yes. My name is Earl B. Parsons, Jr. I'm Vice President of Power Generation and Transmission. My address is 500 Bayfront Parkway, Pensacola, Florida 32501.

Q And Mr. Parsons, have you prefiled testimony in this docket entitled, "The Direct Testimony of Earl B. Parsons, Jr."?

A Yes, I have.

Q Do you have any corrections to make to that testimony?

A Yes, sir. I do. On Page 10 of my testimony, Line 24, change 1120 to 1163. On Page 11, Line 16, change 1120 to 1163.

Q Mr. Parsons, with respect to your schedules, I believe that we have passed out revised Schedules 6, 7 and 8 to your direct testimony, is that correct?

A Yes, sir, that's correct.

MR. HOLLAND: Mr. Chairman, those have been identified as Exhibit 69 through 71, and have been marked as revised Schedules 6, 7 and 8.

CHAIRMAN WILSON: All right.

Q (By Mr. Holland) And Mr. Parsons exhibits are numbered in the Prehearing Order as Exhibits 64 through 96. They have been stipulated to.

(Exhibit Nos. 64 through 96 previously stipulated into evidence.)

CHAIRMAN WILSON: All right.

Q (By Mr. Holland) Mr. Parsons, with those corrections, if I were to ask you those questions contained in your testimony today, would your answers be the same?

A Yes, sir.

MR. HOLLAND: Mr. Chairman, we'd ask Mr. Parsons' testimony be inserted into the record as though read.

CHAIRMAN WILSON: Without objection his testimony will be so inserted into the record.

GULF POWER COMPANY

Before the Florida Public Service Commission
Direct Testimony of
Earl B. Parsons, Jr.
In Support of Rate Relief
Docket No. 891345-EI
Date of Filing December 15, 1989

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

A. My name is Earl B. Parsons, Jr., and my business address is 500 Bayfront Parkway, Pensacola, Florida 32501. I am Vice President-Power Generation and Transmission of Gulf Power Company.

Q. **Please describe your educational and business background.**

A. I graduated from Auburn University, Auburn, Alabama, in 1960 with a Bachelor of Electrical Engineering degree. I joined Georgia Power Company in January of 1961 as a Distribution Engineer. I held various engineering positions, such as Test Engineer, District Engineer, Senior Distribution Engineer, Division Engineer, and Assistant Division Superintendent. In 1972, I became Assistant to the Executive Vice President. In 1975, I was promoted to Assistant to the President. In 1977, I became Division Manager-Athens and held that position until I was elected Vice President at Gulf Power Company in

April of 1978.

Q. Have you previously testified before this Commission?

A. Yes. I have testified in Gulf's last four retail rate cases and a number of other dockets related to my responsibility at Gulf Power Company.

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

A. Yes. Schedule 1 is an index to the subsequent schedules to which I will refer. Each schedule of this exhibit was prepared under my supervision and direction.

Counsel: We ask that Mr. Parsons' Exhibit, comprised of 15 Schedules, be marked for identification as Exhibits 64-____ (EBP-1).

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

A. Yes. Those which I am sponsoring, in part or in whole, are listed on Schedule 15 at the end of my Exhibit. To the best of my knowledge, the information in these Minimum Filing Requirements (MFRs) is true and correct as it pertains to my areas of responsibility.

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

A. I have responsibility for the Power Generation, Fuel and Environmental Affairs, and Transmission and System Control functions at Gulf Power Company. This includes the generation and transmission of electricity; fuel supply; environmental services; and intercompany interchange contract administration. I also have overall responsibility for requesting and directing the assistance which Southern Company Services, Inc. (SCS) provides Gulf Power in these areas.

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

A. As stated by Mr. Scarbrough, the major factor creating the need for rate relief is that now all of Gulf's share of Plant Daniel capacity and 63 megawatts (mw) of Plant Scherer Unit 3 capacity are committed for territorial service. Prior to February, 1989, the bulk of this capacity was committed to and supported by our Unit Power Sales (UPS) contracts. In my Schedule 2, I provide the Commission with a detailed description of the changes in capacity commitments to UPS and to territorial service between 1934 and the

1990 test year. Included in the amount added to rate base is 44 mw of Scherer Unit No. 3 which were previously committed to Gulf States Utilities until July 1, 1988. It is the addition of all of this generating capacity and the associated Operation and Maintenance (O & M) expenses which are creating the major need for immediate rate relief. Despite the bargain which this capacity represents for our ratepayers, a utility the size of Gulf cannot add such large increments of capacity without requesting revenues to cover the investment and expenses.

The primary emphasis of my testimony will be to provide this Commission with a description of the Unit Power Sales concept and associated benefits, a discussion of our territorial customers' requirements for the generating capacity previously sold under UPS contracts, the bargain which this capacity represents to our customers, and the effect of this capacity on our rate base and O & M expenses.

Q. **Mr. Parsons, have you reviewed the assumptions under your area of responsibility as listed in MFR F-17?**

A. Yes. I have reviewed these assumptions and am of the opinion that they are reasonable. I am prepared to address the primary assumptions and forecasts as they

pertain to my areas of responsibility. I believe these assumptions have originated from the best sources and fields of expertise available to Gulf.

Q. **Please explain the UPS concept.**

A. During the rapid growth period of the 1960s and early 1970s, Gulf and the Southern electric system began construction on a number of coal-fired generating units to serve their existing load as well as future loads projected for the coming year. At that time, these generating units were all required to serve forecasted territorial load. During the 1970s, actual load growth and forecasts for the future dropped significantly for the entire electric utility industry as well as within the Southern electric system. Significant unanticipated decreases in wholesale loads also impacted the forecasted load growth. Because of the long lead times involved in building large base load units, the entire industry was facing a dilemma. Many utilities were well into the construction stage for a large number of generating units which would not be needed until significantly later in time.

Some utilities simply cancelled their units, resulting in hundreds of millions of dollars in losses

suffered by their customers and stockholders.

Other utilities with units further along in the construction stage decided to complete the units, resulting in temporary surplus capacity which again resulted in significant costs to both customers and stockholders.

The Southern system was fortunate in that it did not incur the magnitude of cancellation and excess capacity costs that plagued many utilities. Instead, through the UPS contracts, the Southern system sold capacity off its system to oil and gas burning utilities. This resulted in significant benefits to the customers and the stockholders of both the selling and the buying companies.

The concept of UPS provides for the return of generating capacity to the various companies on a prearranged schedule as it is needed by our own territorial customers. As this capacity returns to the Southern system on a scheduled basis, it is replaced by capacity from newer, more expensive units when construction is completed. Eventually, the original UPS contracts ramp down and terminate, and the generation capacity will be utilized to serve our territorial loads.

When the capacity returns for territorial use, its

book value on which rates are based will not only be significantly depreciated but its book value will also be based on the lower construction commitment costs of the 1970s as opposed to those of the 1980s. Thus, our customers have the capacity available when it is needed to serve territorial loads at a significantly lower cost than otherwise would be possible. Newer UPS contracts which cover the period from 1993 to 2000 will be addressed by Mr. Howell.

Q. **Were either of the units at Plant Daniel part of the UPS concept?**

A. Yes. The units committed to UPS were New Source Performance Standard (NSPS) units being constructed on the Southern system. NSPS units are those on which construction started after 1970 when Environmental Protection Agency regulations required extremely low sulfur dioxide (SO_2) emissions, either through the burning of low sulfur coal or the use of flue gas desulfurization or scrubbers. The Daniel units were the first and third NSPS units in service and among the lowest in cost. Schedule 3 of my exhibit is a listing of all the NSPS Southern system units that became available for Unit Power Sales and their respective commercial operating dates. Gulf

Power acquired a 50 percent interest in both of the Daniel units at the time Unit 2 came on-line in 1981, for a total of 500 mw of nameplate capacity. Schedule 4 of my exhibit shows our expected reserves with and without our Daniel capacity expected on-line in 1981, as forecasted in March 1979.

During 1979-1980, the Organization of Petroleum Exporting Countries (OPEC) instituted the second series of oil price increases. This increase is illustrated in Schedule 5 of my exhibit, which clearly shows the sharp rise in oil prices that occurred starting in 1979. This caused a considerable slowing of economic growth throughout the United States, including the area served by the Southern electric system, and triggered among oil-burning utilities, such as those in Florida, a strong need to replace their oil-fired generation. We began negotiating UPS transactions with these companies in 1980 and were able to complete the contracts during 1981.

Q. Has the Florida Commission previously reviewed these contracts?

A. Yes. At the Conclusion of Gulf's 1982 rate case, in Order No. 11498 of Docket No. 820150-EU (CR), the

Commission stated that it had "...examined the UPS contract and the associated cost and allocation from all angles..." and concluded that our retail customers "...will benefit handsomely from the sales, in the sense that they will not have to support the capacity sold in a UPS transaction for the life of the contract but the capacity will be available to serve them when they need it in the future, at a relatively reduced price when compared with the cost of future construction." Also, at the conclusion of Gulf's 1981 rate case in Order No. 10557 of Docket No. 810136-EU, the Commission stated that "...the decisions involving the expansion of Gulf Power are based on the long-term best interests of Gulf's customers. The cost savings associated with Gulf's participation in Plant Daniel and Plant Scherer in lieu of Caryville are examples of Gulf's coordination with The Southern Company."

Q. What would Gulf's and Southern's reserves be in 1990 with and without the Unit Power Sales?

A. Shown on my Schedule 6 are both Gulf's and Southern's forecasted reserves in 1990 with and without the Unit Power Sales. I need to reemphasize that all of this capacity was planned and constructed to serve forecasted territorial load. If we had been unable

to temporarily sell this capacity off our system, our customers would have been called upon to support this investment and would now likely be paying much higher prices than the relatively low electricity cost which they currently experience. As you can see, with the Unit Power Sales, both Gulf and Southern are within a 20-25 percent reserve range used for planning purposes within the Southern electric system.

Q. **Was this same situation experienced in prior years?**

A. Yes. Schedule 7 shows the planned reserves for 1983 through 1990 for Gulf and Southern both with and without the Unit Power Sales. Also on this schedule are the peak month unit power sales which Gulf made in each of those years.

Q. **How does Daniel's book cost compare with a new coal unit brought on-line in 1990?**

A. Schedule 8 shows this relationship. Daniel will be utilized for territorial requirements during 1990 at an estimated depreciated cost of $265 per kilowatt (kw). Had we been required to construct new capacity with an initial in-service date of 1990, the estimated cost would have been ~~$1120~~ 1163 per kw. In other words, building this capacity today would have

resulted in costs to our customers of about four times the book cost of Daniel capacity. More than any other relationship, this illustrates the significant value to our customers, not only of the Daniel capacity, but also of our system pooling and Unit Power Sales arrangements.

Q. How does Plant Scherer's Unit 3 book cost compare with a new coal unit brought on-line in 1990?

A. Schedule 8 also shows this relationship. During 1990, 63 mw of Scherer Unit 3 capacity will be available for territorial use at an estimated depreciated cost of $760 per kw. Once again, had we been required to construct new capacity with an initial in-service date of 1990, the estimated cost would have been ~~$1120~~ 1163 per kw. Also, when the remainder of Plant Scherer's Unit 3 capacity is required for territorial use, it will be further depreciated for the same type of benefit relationship described earlier for Plant Daniel.

Once again, this illustrates the significant value to our customers not only of the Plant Scherer capacity, but also of our system pooling and Unit Power Sales arrangements.

Q. What is the effect of the inclusion of Daniel and Scherer capacity for territorial service?

A. The commitment of this capacity for Gulf's territorial service results in the inclusion of all of Gulf's portion of Daniel Units 1 and 2 and 63 mw of Scherer Unit 3 in our territorial rate base. This additional capacity will provide adequate reserves and is available to our territorial customers on an extremely economical basis. Unit Power Sales have been a major factor in delaying Gulf Power Company's request for rate relief since our 1984 filing. Schedule 9, which I am jointly sponsoring with Mr. Scarbrough, is a narrative explaining how the unit power sales have delayed the need for our territorial customers to support this capacity through additional revenue. As reflected on my Schedule 10, Gulf has been an active participant in the UPS agreements since they began in 1983 and our customers have reaped the benefits. In our previous rate case, Docket 840086-EI, we presented the Commission with the UPS schedule. That schedule indicated that eventually Gulf would have to return to the Commission to request rate relief to cover the costs associated with the capacity returning from UPS to territorial service. That time is now.

Q. Please briefly review Gulf's generation expansion planning process.

A. The need for generating capacity is driven by the electrical requirements of our customers after due consideration of demand-side alternatives. The principal factor we consider in determining the need for new generation facilities is the peak hour demand forecast. Utilities typically consider the demand forecast over a fifteen-year period or longer in planning new generation.

Gulf's long-range goal is to have economical, reliable generating capacity available for our territorial customers' needs. In order to meet the anticipated demand that often develops irregularly and in increments much smaller than the capacity of a large, efficient generating unit, and to realize the economies of scale inherent in large units, most electric utilities will construct "blocks" of generating capacity which are temporarily in excess of the requirements anticipated at the time the unit is initially brought on line. If the utility were to construct a block of generating capacity each year to satisfy only the annual increase in demand, these small blocks would be much higher in cost on a per unit basis and much lower in efficiency. Further,

the capacity must be planned years in advance and the planning must consider a multitude of technological and economic factors that are constantly changing.

In planning generating capacity additions, Gulf has certain advantages that greatly benefit its customers. Gulf, Alabama, Georgia, and Mississippi Power Companies, and Savannah Electric and Power Company comprise the Southern electric system, which operates as an integrated generation and transmission network over a four-state area. Coordinated planning with our Southern system affiliates along with the capacity equalization process of the Intercompany Interchange Contract (IIC) allows for the staggered construction of larger, more efficient generating units spread throughout the Southern electric system.

Q. **Has the Commission previously recognized the savings associated with the purchase of the Scherer capacity?**

A. Yes. In Gulf's 1980 rate case, Docket No. 800001-EU, and again in subsequent rate cases in Dockets No. 810136-EU, 820150-EU, and 840086-EI, the Commission allowed recovery and amortization of the Caryville cancellation charges on the basis of the savings to be realized through the purchase of Plant Scherer generating capacity.

Q. Would you please summarize the events leading to the cancellation of the plant at Caryville and the subsequent purchase of Scherer Unit 3 capacity?

A. Our October 1974 load forecast indicated Caryville Unit 1 could be deferred from 1979 to 1980. In October 1975, Gulf deferred Caryville Unit 1 for two additional years because of the availability of 500 mw of generating capacity at Plant Daniel. The purchase of Plant Daniel capacity was an excellent opportunity for Gulf Power Company to add generating capacity at considerable savings for its customers as was noted by the Commission in Docket No. 840086-EI.

Subsequently, Georgia Power Company determined that, due to declining load growth, it would have capacity available for sale at its Plant Scherer in the mid-1980s. Plant Scherer would consist of four 818 mw nameplate units. After informing the Commission of its intentions, Gulf Power Company began discussions with Georgia in 1978 regarding the possible purchase of capacity at Scherer. The potential for purchase enabled Gulf to evaluate the possibility of canceling Caryville Unit 1 because of the significant savings to be realized. Subsequently, the decision was made to cancel Caryville Unit 1 and to purchase a portion of the available Scherer

capacity.

Q. What amount of Plant Scherer capacity did Gulf Power Company originally plan to purchase from Georgia Power Company?

A. Scherer capacity from Units 1 through 4 was originally included in our budget prepared in late 1978. At that time, we planned to buy a total of 432 mw of capacity from 1985 to 1987.

Scherer Units 3 and 4 were subsequently deferred from 1985 and 1987, to 1987 and 1989, respectively, and Gulf slightly modified its planned participation from 13.3 percent of all four units to 25 percent each of only Scherer Units 3 and 4, representing a total of 404 mw of net generating capability.

Q. Did Gulf further revise its participation in Scherer?

A. Yes. Gulf Power Company revised its participation in Scherer in 1983 to exclude participation in Unit 4. The decision not to participate in Unit 4 was a result of continuing uncertainty with respect to future demand and the anticipated opportunity to meet demand increases through other supply options as well as demand side options. Changes in estimated future generation costs since that time have confirmed that

Gulf's next capacity needs could be better served by constructing additional peaking capacity as opposed to the purchase of additional base load capacity. Load growth has also been met by the extension of the estimated retirement dates of our existing units. Based on the study completed in early 1987, Gulf determined that it was more economical to extend the expected retirement date of its existing units rather than construct or purchase additional generation.

Q. How much Scherer capacity is Gulf requesting be included in its rate base?

A. Gulf's share of Plant Scherer Unit 3 is 25 percent, or 212 mw. Of this amount, 149 mw is presently dedicated to UPS; and we request that the remaining 63 mw be approved by the Commission as an addition to Gulf's rate base.

Q. Why should the 63 MW of Scherer capacity be included in the rate base?

A. When Gulf first came before this Commission in 1978 to review its proposal to share in Plant Scherer, the Commission agreed with us that there were significant benefits to be gained for our customers by our participation in Scherer rather than constructing

Caryville at that time. In addition to construction costs savings, our participation in UPS benefitted our own territorial customers, as well as customers of other utilities in Florida purchasing "coal-by-wire" as a substitute for oil-fired generation. The Commission encouraged us to proceed. We have reviewed with this Commission our plans to share in Plant Scherer in our last four rate cases, and in numerous other proceedings. Without exception, the Commission has agreed with us that investing in Plant Scherer was the prudent course. The Commission also continued to encourage us to make off-system sales to the maximum extent possible. We have done this. Despite these efforts, we have been unable to market 63 mw of Plant Scherer capacity that we are requesting be supported by our territorial customers for whom this capacity was built.

Q. Now that Plant Caryville has been cancelled, what will become of the Caryville site?

A Caryville is certified under the Power Plant Siting Act and remains one of the few suitable sites in Northwest Florida for a steam electric generating plant that is a viable location for future generation needs for Gulf Power and the Southern electric

system. Even though the two 500 mw units, certified in 1976 under Florida's Power Plant Siting Act, have been cancelled, the site remains certified for 3000 mw of capacity. With supplemental applications to state environmental agencies, the site can be utilized for coal-fired generation in the future. Gulf's customers will benefit by having a certified site ready for use when new generation is needed. The geological and other site work which was previously completed will be utilized when a unit is built in the future.

Therefore, Caryville is still a viable, certified site for future base load coal capacity in the Southern system. 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. 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 as plant held for future use is still a prudent decision by the Company and should be approved by this Commission. We feel that it is extremely important for this Commission to

continue to recognize the future value of this site to our customers. It is for this reason that we are holding this site in plant held for future use.

Q. **Is the present property owned by Gulf Power Company at Caryville of a sufficient size to accommodate these long-range plans?**

A. No. Changes in environmental regulations now require flue gas desulfurization (FGD) systems or scrubbers to be installed on any generating units constructed at the site. Additional space will be required for the scrubbers and also for disposal of the scrubber sludge. In addition, present plans would call for more economical 800 mw units with scrubbers to be utilized at the Caryville site, rather than 500 mw units. Because of the increased size of future base load coal units and the additional land required for scrubbers and their by-products, it is necessary that Gulf purchase additional land as it becomes available.

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

A. Since the units are not needed immediately, Gulf can secure the available property as it comes on the market at a much lower price. If we were to wait

until the commencement of construction, condemnation proceedings may be necessary and the value of the land will probably be significantly higher. The extreme difficulty we would face in acquiring and certifying sites in the future makes it prudent to proceed with the purchase of additional property at Caryville as it comes on the market. Without the inclusion of the funds in our budget for buying the additional land, our customers will be subjected to expected higher costs of acquisition in the future. We feel the purchase of land for this site as it becomes available is a prudent action.

Q. You indicated that your areas of responsibility include Production and Transmission. How do Gulf's O & M expenses budgeted for 1990 in these areas compare to prior year 1989?

A. Within the Production area, Gulf's O & M expenses are projected to decrease by $26,098, or 0.05 percent, from 1989 to 1990. Transmission expenses increase by $1.0 million, or 17.0 percent, for this same period. An explanation for these variances can be found on Mr. Scarbrough's Schedule 1. This comparison and the explanation provided indicate that the overall variance for these areas for 1990 O & M expenses over

1989 is reasonable.

Q. Please summarize the 1990 O & M budget as it pertains to your areas of responsibility.

A. The total 1990 O & M budget, less fuel and purchased power, is $129.7 million. Of this amount, those functions under my responsibility have $60 million budgeted.

When Gulf came before this Commission in Docket No. 840086-EI, we stated that our 1984 budgeted projections were the level required for normal operations. In Order No. 14030, the Commission reduced the amount requested based on actual expenditures through July 1984 being under the budgeted level needed for normal operations, as well as other adjustments made relating to benchmark justifications. This further reduced the allowed O & M below the level needed for normal operations. Therefore, we do not believe that the level of O & M allowed in Order No. 14030 is an appropriate level to use for a base year. Using the more realistic 1983 O & M level allowed in Commission Order No. 11498 as the base, the Production and Transmission functions are under the benchmark by $2.8 million. This indicates that the use of the 1984 allowed O & M.

which we consider to be less than normal operations requires a special justification of a larger portion of our 1990 O & M than would have been necessary had a normal level of O & M been used as the base year

Q. **Notwithstanding your expressed concerns, please compare Gulf's O & M expenses for 1990 to the benchmark level for each of your areas.**

A. Shown on my Schedule 11 is the O & M Benchmark Comparison for those functions in my area of responsibility. The justifications for the variances are located in MFR C-57; however, I would like to provide further explanation for the Environmental and Southern Company Services Research and Development (R&D) and fuel related expenses of those variances. As noted on my Schedule 11, Mr. Colen Lee will address the remaining "Steam Production" and "Other Production" expenses, and Mr. Bill Howell will address "Transmission" and "Other Power Supply" expenses.

In the Production area, we are over the benchmark for research and development projects by $210,000. Each of the projects listed in MFR C-57 has been undertaken in an effort to maintain the lowest cost of service to our customers while striving to minimize our impact on the environment and to meet increasingly

stringent environmental regulations in the most efficient manner possible. These research and development projects reflect Gulf's commitment to continue developing and testing new technologies to meet that goal.

The costs related to the Electric Power Research Institute (EPRI) have also increased by $242,000 for the Production function. The 1990 budget includes payments to EPRI amounting to $1.6 million. Schedule 12 shows the 1990 budget for EPRI by its various divisions. EPRI is a non-profit organization dedicated to conducting research and development on behalf of the nation's electric utility industry. It is voluntarily funded by more than 600 utilities throughout the U.S. and includes investor-owned and publicly owned utilities and rural electric cooperatives. The benefits of EPRI projects are much greater at less cost from these national efforts than if Gulf privately funded its own research.

All members of the various EPRI committees, drawn from the operating companies of the Southern system, represent not only the individual operating companies but the entire Southern system. Gulf, if it were an isolated company, would not be able to receive the benefits of participation in the large number of EPRI

projects due to the commitment in funds and time required to serve on EPRI committees. Because it is a unit of the Southern electric system, Gulf receives the benefit of system monetary and time commitments made by the other operating companies and has its views made known to EPRI in a fashion that otherwise would not be possible.

Q. Is Gulf a host utility for any ongoing EPRI sponsored programs?

A. Yes. Gulf, in conjunction with Southern Company Services (SCS), is evaluating a 10 mw, high sulfur coal fabric filter baghouse for ash collection at Plant Scholz. The baghouse is an alternative to electrostatic precipitators which may be needed to comply with increasingly stringent particulate emission standards. The results of this research effort will be useful for future applications of baghouses nationwide.

Q. Are there any projects in which EPRI and Gulf or Southern are joint participants?

A. Yes. Gulf Power and The Southern Company have been awarded co-funding by the Federal Department of Energy (DOE) for demonstration projects under the

DOE's Innovative Clean Coal Technology Development Program. This program is designed to conduct research and pilot scale testing of new emission control technologies and other systems to improve the efficiencies of burning coal to generate electricity. Two of the four projects awarded to Southern are located at Gulf's facilities. These projects are co-funded by DOE, Southern, and EPRI. Southern will provide the technical expertise and leadership for the clean coal projects through its design, leadership, program development, and project management. EPRI, as a partner, will provide technical expertise, co-funding, and report distribution. Gulf, as a sponsor, will allow the projects to be implemented on existing boilers at Plant Crist and Plant Smith during the 1989-1992 time frame. In addition, Gulf will provide operations support for both projects, and construction management on the Crist project. Gulf, EPRI, and SCS have a definite role to play with no duplication of effort among the three partners.

EPRI's proposed research and development program includes expenditures which are spread over approximately 60 different strategic programs. Gulf Power Company or Southern Company Services could not

duplicate either the range of expenses of EPRI or the number of programs.

Q. Is there research that Gulf undertakes independent of EPRI?

A. Yes. Gulf, through the Florida Electric Power Coordinating Group (FCG) and Southern Company Services (SCS), conducts or sponsors research independent of EPRI that may be of more regional or local significance. Also, some projects may require a smaller scale than EPRI can efficiently undertake.

For example, Gulf Power Company, as a member of the FCG, participates in the funding of an acid deposition monitoring network in Florida. This program continues the monitoring of the Florida Acid Deposition Study which was completed in 1986. These efforts are designed to continually determine the impacts from acid rain, if any, on the environment of Florida. The monitoring network is in operation to determine any trends in the acidity of Florida's rainfall. The data obtained also complements the National Acid Precipitation Assessment Program (NAPAP) which is an assessment of the effect of acid deposition in the United States.

The FCG concentrates its efforts solely on the

State of Florida, its citizens, and its climate and has projected the effect of Florida's emissions on the northeastern area of the United States. The work accomplished by the FCG has been instrumental in demonstrating that Florida does not have an acid deposition problem. These efforts were isolated to Florida only, whereas, EPRI's work is nationwide.

Another example would be the Florida Seepage Lake Study. It has been widely known since the 1960s that Florida has a number of highly acidic lakes. That fact was supported by a 1986 survey of lake quality by the Environmental Protection Agency (EPA) that found Florida had the highest number of acidic lakes in the United States.

The FCG, EPA, and EPRI have joined with the United States Geological Survey (USGS) and the Florida Department of Environmental Regulation (DER) to address that concern. Three lakes are being studied: Lake Lucerne in Central Florida, Lake Barco in North Florida and Lake Five-O in Northwest Florida. Field work has begun and preliminary findings should be completed in time to contribute data to NAPAP.

Q. Mr. Parsons, do you feel that Gulf's level of

participation in research projects is appropriate and prudent?

A. Yes.

Q. How do budgeted expenses for Southern Company Services compare to the benchmark?

A. Southern Company Services (SCS) expenses are over the benchmark by $907,000 primarily because of new environmental and research programs which have been established since our 1984 filing. The Commission's first adjustment was based on annualizing the 1984 actual expenditures through July and comparing this level to the 1984 budget. The difference of $1.9 million was removed from the requested O & M level. On Schedule 13, a comparison has been made of the 1984 budget to the 1984 actual expenses. SCS charges were under budget by $1.1 million versus the $1.9 million reduction assessed by the Commission in Order No. 14030. Thus, the actual expenses in 1984 were $786,129 over the allowed amount. Approximately $339,000 of this amount was in the Production function. The remaining adjustment made by the Commission in Order No. 14030 was for production engineering expenses. MFR C-57 provides a detailed justification for the total variance in the

Production function.

Q. Why does Gulf utilize SCS for support services?

A. SCS provides Gulf with the most economical means of obtaining a portion of the expertise and manpower needed to fulfill our obligation of service to our customers. SCS staff members are available as an extension of Gulf's staff, on call as needed, and responsive to our needs. SCS is an in-house service organization within the Southern electric system that provides, at cost, a multitude of technical, scientific, financial, and advisory services to the operating members of The Southern Company. SCS staff members maintain complete files of work performed for the operating companies and may be contacted on a daily basis essentially as a part of our staff. The load ratio share of much of the expertise provided through SCS allows Gulf to minimize its costs through fewer employments of outside consultants who would require extensive briefing on the background of many issues; whereas, SCS, through its daily contact with Gulf, is familiar with these issues and our needs.

Q. You have stated that you utilize SCS for staff functions. Do you participate in their budget

development?

A. Yes. Each area of SCS submits copies of its preliminary budgets to Gulf for review and comment. If there are certain items or manpower requirements that do not appear reasonable, they are discussed with SCS and the other operating companies for clarification and adjustment to the budgets.

Q. Mr. Parsons, how do you determine and control the work of SCS?

A. Gulf prepares a written request to SCS for specific items that are needed. The Accounting Department of SCS then establishes a work order number. All costs of SCS relating to this work are charged to this work order number. The charges are transmitted to Gulf on a monthly basis and reviewed by the individual responsible for initiating the first request for this work. It is then reviewed and approved by the Director of that department prior to returning the voucher to Gulf's Accounting Department.

Mr. Lee and Mr. Howell will address the role of SCS as it relates to each of their departments.

Q. What coal stockpile level has Gulf been maintaining for its coal-fired generation?

A. Prior to 1984, our policy was to maintain a coal inventory level equal to a 60-day burn at full nameplate capacity. This meant that we planned to have enough coal on hand so that, in an emergency, our coal-fueled units could run the equivalent of 60 days loaded to full nameplate generating capacity. We periodically reviewed that policy and determined that 60 days nameplate burn was a prudent and necessary level.

During the 1980s, computer technology advanced to the point that coal stockpile models could be utilized to predict a desired inventory level. Gulf utilized an outside consultant during 1984 to perform a comprehensive study using these new analytical techniques. The study supported Gulf's coal inventory proposal in Docket 840086-EU. The Commission staff used outputs from the consultant's model with different inputs to evaluate our proposal. The result, which was explained in the Commission's Order No. 14030, resulted in an inventory level and equivalent working capital allowance for 108 days projected burn or 57 days nameplate. We accepted this lower inventory level as reasonable and adopted it as our policy.

Q. Has Gulf Power revised its policy relative to inventory level?

A. Yes. Gulf Power does an annual review of appropriate inventory levels. This review is conducted prior to beginning the budget process so that any change in desired inventory levels can be factored into the fuel budget.

Q. What resources were utilized in developing the inventory level?

A. The Electric Power Research Institute (EPRI) and the electric utility industry have been working on an acceptable computer inventory model to utilize in optimizing fuel inventories. The Utility Fuel Inventory Model (UFIM) was tested by a number of utilities, including Southern, and now is generally accepted by both the electric utility industry and many public service commissions as the state-of-the-art model in determining appropriate inventory levels.

The purpose of UFIM is to balance the cost of carrying a fuel stockpile against the probabilistic cost of load not being served should a utility run out of fuel. The cost of carrying a particular level of coal inventory is simply the carrying charges

associated with the investment in the coal pile. The model internally compares that cost with the estimated costs of running out of fuel and having to purchase emergency energy from some source outside the Southern electric system. The risk of running out of coal is related to the probabilities of supply disruptions or burn uncertainties.

UFIM considers such inputs as the fuel heating value, the plant heat rate, territorial energy supply uncertainty, supply constraints, and disruptions in supply or burn. These disruptions include probabilities associated with lock outages, frozen rivers, drought, other transportation risks, coal unloader failure, etc.

Q. **Was a study of Gulf Power's coal inventory performed for the 1990 Fuel Budget?**

A. Yes. The UFIM was run using the latest available burn forecast and updated assumptions. After reviewing the results of the study, a decision was made on a new inventory level policy.

Q. **What is the new inventory level?**

A. The new desired inventory level is 53 days at nameplate capacity burn or 105 days projected burn on

a system weighted average basis. Schedule 14 reflects the old and new inventory policy for each of Gulf's generating plants for the system.

Q. **Based on this new policy, what is Gulf's forecasted 1990 inventory?**

A. Our 13-month average coal inventory for 1990 is forecasted to be $57.4 million, representing approximately 1.0 million tons. A detailed calculation of the inventory is contained in MFR B-17a.

Q. **What price was used to calculate the average inventory level for the 1990 Fuel Budget?**

A. The prices used were compiled by the 1990 Fuel Budget. The Fuel Budget is developed using the Southern electric system Fuel Optimization and Evaluation System (FOES) model. The details and assumptions used in this model are described in MFRs F-9 and F-17. The model does an individual calculation of price for each contract using the actual escalation clauses and projected indexes. Prices of spot market coals are forecast from information developed at fuel price scenario seminars.

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

A. Yes. Under Gulf's coal procurement program, payment is required prior to receipt. Title and responsibility for the coal is Gulf's once the coal is loaded into the barge; therefore, Gulf has capital invested in coal which it has not received and is not included in its inventory. A calculation of the amount requested is included in MFR B-17a. Since a major portion of Gulf's coal supply is delivered by barge, considerable time is involved in transporting the coal to the plant sites. This investment in coal that is in transit has a significant effect on the Company's cash flow determination at any given time. For this reason, the in-transit coal amount should be included in the working capital component of Gulf's rate base.

Q. Please summarize your testimony.

A. The commitment of the Daniel and Scherer capacity for territorial service is the major factor creating Gulf's need for rate relief. Participation in off-system sales by Gulf provided revenues from temporarily surplus energy and capacity and the opportunity to purchase this low cost generation at a

savings to our customers. As provided by the UPS contracts, this capacity is now available to support our own territorial requirements. By returning this capacity to our rate base, we must also return all associated costs.

I have explained the variance between our 1989 and 1990 O & M expenses. I have provided additional justification on the O & M Benchmark variances for those areas under my responsibility.

Finally, I have presented to the Commission the basis for our desired coal stockpile level of 53 days at nameplate capacity burn or 105 days projected burn on a system average basis. Before I conclude, I would like to add that I am extremely proud of the effort which our employees have put forth to operate our system in an effective and efficient manner. We have demonstrated again that we are doing a good job in keeping our costs at the lowest reasonable level possible in providing reliable service to our retail customers. We will continue to operate our areas of responsibility in this manner.

Q. Does this conclude your testimony?

A. Yes.

Q (By Mr. Holland) Mr. Parsons, would you summarize your testimony?

A Yes, sir. It is in the best interest of the ratepayers of Gulf Power Company for the Plant Daniel and Plant Scherer generating capacity as requested, to be included in the territorial rate base. My testimony supports the fact that the major factor creating the need for rate relief is a commitment to territorial service of 515 megawatts of Daniel and 63 megawatts of Scherer generating capacity.

A portion of this capacity has previously been sold off-system through unit power sales. In addition, the operating and maintenance expenses associated with this capacity must be included. I will explain the variance from the 1984 benchmark and other O&M expenses. Finally, I will discuss our request for a reduction in the coal stockpile level.

During the 1960's and early 1970's, Gulf and the Southern Electric system began construction on a number of coal-fired generating units to serve their existing load, as well as future loads projected for coming years. At that time, all these generating units were required to serve forecasted territorial load.

During the 1970's, actual load growth and forecast for the future dropped significantly. Many utilities

had to cancel their units under construction or complete them early, resulting in temporary surplus capacity which caused significant costs to both customers and stockholders.

The Southern System was uniquely fortunate in that it did not incur the magnitude of cancellation and excess capacity costs that plagued many utilities. Through the unit power sales, or UPS concept, the Southern System sold capacity off its system to oil and gas-burning utilities. This resulted in significant benefits to the customers and the stockholders of both the selling and the buying companies.

The concept of unit power sales is simple: Since the generating capacity will ultimately be needed by our own territorial customers, the UPS contracts ramp down and eventually terminate, and the generating capacity is utilized to serve our own territorial loads.

When the capacity returns for territorial use, its book value on which rates are based will not only be significantly depreciated, but its book value will also be based on the lower commitment costs of the 1970's, as opposed to those of the 1990s. Thus, our customers have the capacity available, when it is needed, to serve territorial loads at a signif cantly

lower cost than would otherwise be possible.

Unit power sales contracts were negotiated with oil and gas-burning utilities in the early 1980s. Gulf Power Company was, and is, an integral part of those UPS contracts. In our 1982 retail rate case, the Commission stated, quote, "We have examined the UPS contract and the associated cost allocation from all angles and concluded that our retail customers will, quote, 'benefit handsomely' from the sales in a sense that they will not have for support the capacity sold in a UPS transaction for the life of the contract but the capacity will be available to serve them, when they need it in the future at a relatively reduced price when compared to the cost of future construction," unquote.

Also in our 1981 retail rate case order, the Commission stated that, quote, "The record demonstrates that the decisions involving the expansion of Gulf Power Company are based on the long-term best interests of Gulf's customers," unquote.

With the capacity additions requested in this case, Gulf's generation reserve level will fall within the desired 20 to 25% range. Contrary to that, our actual reserves in 1988 were only 3.1%.

The depreciated value of the Daniel and

Scherer capacity is approximately $265 per kilowatt and $760 per kilowatt, respectively, compared to an estimated cost of $1,163 per kilowatt for the new capacity constructed for an initial in-service date of 1990.

We believe that the inclusion of the requested Daniel and Scherer generating capacity should be included in our territorial rate base and available for use by our customers.

When Gulf came before this Commission in 1984, we requested a level of expenditures required for normal operation. In its order, the Commission reduced the amount requested based on the actual expenditures through July of 1984 and projected to year-end.

Other adjustments were made which further reduced the allowed O&M level below that needed for normal operations. Therefore, we do not believe the benchmark level of O&M expenditures allowed in our last rate case, escalated by customer growth and inflation, is sufficient to provide the service deserved or expected by our customers in 1990.

In the area of fuel, we have reduced our requested coal stockpile level to a system average of 105 days based on the 1990 projected burn. This level was determined by utilizing an EPRI computer inventory

model, which is generally accepted by many Public Service Commissions and the electric utility industry. The name of the program is the Utility Fuel Inventory Model.

In summary, I have explained the need for including the requested Daniel and Scherer generating capacity in the territorial rate base and discussed the basis for any overrun of the 1984 benchmark. Also, I have discussed our decision to request a reduction in our coal inventory level. All the issues discussed and supported by my testimony are in the overall best interest of our customers.

This concludes my summary.

MR. HOLLAND: Tender Mr. Parsons for cross examination.

CROSS EXAMINATION

BY MR. BURGESS:

Q Mr. Parsons, if I could get you to look at Page 3 of your testimony, beginning with the answer on Line 16?

A All right, sir.

Q And this goes to something that you brought up in your summary. As I understand it, then, both you and Mr. Scarbrough have stated that the major factor in creating the need for rate relief is the need to get

Daniel capacity and Scherer capacity into territorial rate base, is that right?

A Yes, sir.

Q Okay. And so that I could interpret that, couldn't I, to mean that they have a positive revenue requirement; that is, they require additional rates to bring them into territorial service, is that right?

A Yes, sir

Q In looking at the revised schedule, the percent generation reserves.

A Which number is that, Mr. Burgess?

Q I'm sorry, this that was just passed out, it would be your revised Schedule 6, Exhibit 69.

A All right.

Q Now, as I understand it, the situation with the Southern Company pool, generation pool, is such that the average -- the total of the averages of the generation reserves of each of the operating companies is lower than the average for Southern Company. Is that correct?

A I'm not sure I'm following your question.

Q Okay.

A Talking about the peak load?

Q I'm not surprised.

A The peak load percentage -- you're looking at

-- let me -- go ahead and ask your question. I'm sorry.

Q All I'm getting at is, let's say, let me give a hypothetical. Let's say, for example, Gulf's, as well as Georgia, Alabama and Mississippi Power all have generation reserves of 20% individually. Now, in that case, Southern Company would have generation reserves exceeding 20%, wouldn't it?

A Yes, sir, I think I can explain that to you just a minute. Let me look at this. You probably are looking at a summary sheet which indicates the individual company reserves for various years.

Q Well, I really wasn't looking at anything particular, but I just want -- if you could just explain that phenomenon.

A When we do our generation planning, there are five operating companies in the southern system. Each of those companies may have a peak demand to occur on a different date. We budget for that. For instance, Gulf's reserve may be calculated on a budgeted peak load demand in August. Georgia may have a July or vice versa. And so the individual company reserves that are shown in our generation expansion plan, since each company is responsible for building and supplying the generation to service on load, we make our

determination based on the individual company's period when the peak demand will occur.

However, the system demand can be higher than that because of diversity. The system demand on the day that the Southern System reserve level is reached, which may be in August, you may have three of the operating companies that peak on a day, the same day in August. The other two operating companies, because of the geographical location or weather conditions that are occurring, could not be peaking on that day, but could have peaked either the month before or the month afterwards. So that the total capability available to serve the system load, say in August, would be greater than the load for an -- or the reserve for an individual company that might occur during that same month. Because of the diversity, the Southern System load can be greater than a combination of all of the others.

Q So if one were looking at some type of projection or planning document that displayed the percentage of generation reserves, it would not be surprising to see a particular number planned or expected for Southern Company as a whole and then each of the parts that make that up to be a lower percentage generation reserves?

A That's correct, because of the diversity that I've just tried to explain.

Q Are you familiar with the method used for pricing unit power sales?

A I have a general knowledge of it.

Q Is the price actually calculated through a rate base and return computation, the price for the capacity?

A There's a formula. Those contracts are filed with FERC. They are two documents: the contract itself and then there is a manual attached which gives a formulary rate for calculating all of the various items that go into the billing figure for UPS. And it is a part of the file document. And it changes each year. It is updated at the end of each year, refiled with the Federal Energy Regulatory Commission near the first of the year.

Q And generally, is it a rate base times rate of return type of calculation in computing the capacity charge?

A Well, there are a lot of components. I don't think we can answer it that simply, Mr. Burgess. There are a lot of components that go into the final figure that comes out as the cost per kilowatt in that, and I would think that probably Mr. Howell could better

address that for you, if you wanted to get into the individual billing of the UPS contracts. He has the responsibility for the off-system sales and could discuss that better with you on the components of it.

Q So you don't know whether within the calculation for the capacity that's made available, whether the calculation involves a determination of the amount of the investment in that particular plant or that portion of the plant?

A Oh, yes, sir, it will have that in there. The value of the capacity that is available for sale is one of the components that go into the calculation.

Q Okay, so do you know whether another component that goes into the calculation of that value is a rate of return that's used?

A Yes, it is a component.

Q Do you know whether the rate of return that's used for calculating the capacity factor for Scherer and Daniel is a Southern Company rate of return or whether it would be a Gulf rate of return for Gulf --

A It is a rate of return that is filed with the Federal Energy Regulatory Commission that is part of that contract. So it is spelled out in the contract as to what that return is.

Q Does that mean you don't know for certain

what it is, or that it is a rate of return that is neither Southern Company nor Gulf?

A It's a rate of return that is a part of the contract. I would characterize it, as you're asking the question, as a Southern Company rate of return that is filed with the UPS contract. It's a negotiated return that both the purchaser and the seller agree on when they initially sign the contract.

Q Do you know within that rate of return, then, whether it's a weighted average type of thing so that it includes a number of components, including the equity component and a debt cost for Southern Company?

A If you want to get into that detail, I would prefer deferring that to Mr. Howell.

Q Are you familiar with the background of Gulf States' decision or determination not to honor the contract that they had entered into with Southern Company for the purchase of capacity from the Scherer Plant?

A Yes, sir, to some extent.

Q Was a determination made by the Texas Utilities Commission to disallow the capacity payments to Southern Company, or are you familiar with any of that type of background information?

A Mr. Burgess, I'm familiar with it. I would

like to give you maybe a little history, if I could, of the UPS sale to Gulf States, which I think would better address, I think, what you're asking as far as the history of just that one issue.

Q Okay.

A And this is going to --

Q This isn't going to be a real long history, is it?

A I'll try to keep it as short as I can to make the point. When I talked earlier about the UPS sales, initially the UPS contracts involved just Florida Power and Light and JEA, Jacksonville Electric Authority. The contracts initially were for 1400 megawatts total from Southern to these two utilities. Those UPS sales were going to be made up out of capacity from Plant Daniel owned by Gulf and Plant Scherer owned by Georgia and Gulf.

The original contract was signed -- (Pause)

The contracts with the two Florida companies were signed in 1981. Shortly thereafter, Southern identified more capacity that was available for sale through UPS-type sales. The Florida Power and Light and JEA contracts were amended to a total of 2400 megawatts. Florida Power and Light took an additional 1000 megawatts. The original called for JEA and

Florida Power and Light beginning at 650, going up to 1400 through the year 1992. With the amended contract, Florida Power and Light picked up an additional 1000 megawatts. JEA remained the same, but they extended those contracts with a ramp-down provision through '95.

During this period of time --

CHAIRMAN WILSON: When was that revision?

WITNESS PARSONS: That revision was in 1982, February of 1982.

During that period of time, we had been talking with Gulf States Utilities, Houston Power and Light and other utilities to the west of us about the possibility of these same types of sales.

Originally Gulf States Utilities indicated an interest in 1000 megawatts of UPS capacity, and Houston Power and Light wanted 500.

Well, as we continued to do our planning process and continued to show a decline on load growth on the Southern System, it indicated more capacity that was available for sale through UPS contracts.

There was a provision in the original Florida Power and Light and JEA contracts which gave them a right of first refusal, so that any additional capacity that was sold through UPS, they would get the benefits of any lower rates, or rates that were sold through

those contracts.

Well, Gulf States, when we made an additional 500 megawatts of capacity available to Gulf States, we had a letter of intent from them and signed a contract with them for 500 megawatts. We further identified additional capacity available, and they stepped up and took an additional 500. So that the contract, original contract with Gulf States Utilities was for 1,000 megawatts, which had not been approved by FERC. It was an agreement for both parties. We carried it before FERC for approval.

During that time, prior to approval, there was an intervention by several parties. I think Dow Chemical was a party that intervened; I think the City of Lafayette or Lafayette, Louisiana intervened; I think the Louisiana Public Service Commission intervened, to say that they were questioning the load projections and the fuel price projections that Gulf States were making at that time.

And they intervened in the proceedings, which resulted in negotiating an agreement with Gulf States Utilities, and with all of the intervening parties, which eventually resulted in the agreement with Gulf States Utilities, the settlement agreement, which was dated December 6th, 1983. So they essentially were

taking, instead of 1,000 megawatts of UPS, the settlement substituted some of the UPS with Schedule E, and it was a ramp-up effect. So that they began taking 500 megawatts of UPS, 400 megawatts of UPS and 600 of E, and I think it eventually was to ramp up to a total of 700 UPS, 300 E, and it was to run out in 1992.

So that is the history of how we got into the Gulf States Utilities' UPS sale.

Now, I don't know whether that addresses your question.

Q No, that provides good background, but we need to proceed a little bit further.

So, at that point, as I understand it -- well, let me ask, then, how much Schedule E sales were then being sold to Gulf States by Southern Company?

A In what period of time?

Q In 1983.

A None in '83.

Q I thought you said that's when the agreement was. Did I misunderstand?

A Let me give you the date when the first sale -- we were making sales to the Florida companies prior to Gulf States, and I'll tell you in just a minute.

Q Okay. (Pause)

A The first UPS sales to Gulf States began in

January 1985. They were taking 400 megawatts of UPS in January of '85 from the Southern System.

Q Okay. They had agreed to pay for capacity at that point?

A They paid for 400 megawatts of UPS, and then they were taking 600 megawatts of Schedule E.

Q Okay.

A Or had agreed to take that much, eventually.

Q Okay. When the breach took place, "the breach" at least as Gulf Power would put it, or Southern Company would put it, at that point what was the -- let me say, when Gulf States stopped making payments for the capacity that they had agreed to, how much capacity were they contracted to purchase?

A In UPS?

Q Yes.

A For that year?

Q Yes.

A '86. 500 megawatts.

Q Okay. They were scheduled to purchase 500 megawatts from Southern Company in UPS, in '86?

A Yes, sir.

Q Okay. And in '86, sometime during the 1986 they stopped making the capacity payments, is that correct?

A Yes, sir, that's correct.

Q Okay. How much of the 500 megawatts was calculated for sale, or for availability, out of Plant Scherer?

A Gulf's portion of Plant Scherer?

Q Yes.

A None, because Scherer 3 did not come on line until 1987.

Q All right. And has any of the Scherer 3 capacity been dedicated for sale to Gulf States?

A Yes.

Q At what point did that take place?

A In January of '87 we were scheduled to sell 38 megawatts of Scherer 3 capacity.

Q And that was per the contract that was initiated prior to the breach?

A Yes, sir.

Q So that was the agreement?

A That was part of the settlement agreement, part of the contract that was on file with the Federal Energy Regulatory Commission.

Q And did that 38 megawatts then ramp up to -- what did the 38 megawatts ramp up to?

A From Gulf's portion of the UPS sales it eventually went up to 44 megawatts. The original

contract called for 42 top, but as the unit demonstrated higher capability, 44 megawatts was the max that Gulf would have sold through UPS to Gulf States Utility.

Q And that similar demonstration, or that demonstration is also what raised what was Gulf's portion of the capacity of Scherer from 202 to 212 megawatts?

A Yes, sir. (Pause)

Q In 1986, preceding the time at which Gulf States determined to cease making capacity payments to Southern Company, was there any proclamation issued by the Utilities Commission in the State of Texas, regarding Gulf States payments for capacity?

A Yes, sir. Just a minute, let me see if I can find that wording. (Pause)

Q By the way, Gulf States operates in Texas, correct?

A Texas and Louisiana, yes. Your question concerned Texas?

Q Yes (Pause).

A I believe that the Texas Commission, at one point, disallowed the pass-through of capacity payments to the customer, from capacity payments to Southern, to the UPS contract.

Q And that, at least in part, precipitated Gulf States' decision to cease making the payments to Southern Company, is that correct?

A Yes, sir.

Q Was there any similar decision out of the Louisiana Utilities Commission, that you're aware of?

A No, sir, not that I'm aware of.

Q And then because they stopped making those payments, that capacity that was going to be dedicated to Gulf States then became available for Gulf's jurisdictional ratepayers?

A Well, there was a period of time that Gulf States made payments into the registry of the court for, I think, a period from July, if my memory serves me correctly, to maybe October of that year. And then from that point on they ceased making payments either into the registry of the court or to the Southern System.

Southern's position was that we had a contract that was on file with the Federal Energy Regulatory Commission, that we should abide by that contract, and, in fact, did abide by the contract until 1988, when it was suspended by the Federal Regulatory Energy Commission.

Q But to take it from the time at which the

contract was breached or where -- for 1990 had Gulf States not breached the contract they would be purchasing 44 megawatts of Gulf's share of Plant Scherer, is that correct?

A That's correct. At the time -- I think your question earlier was, at the time the contract was suspended by the Federal Energy Regulatory Commission, then that capacity then was put into the intercompany interchange contract.

Q That's right, it was. And so Gulf States decision to cease making the capacity payments for Plant Scherer then freed that capacity for availability to Gulf Power Company's retail ratepayers, ultimately; at least for 1990?

A The contract was suspended by FERC in '88. That does mean that the capacity is available for use by the customer, retail customer, for which it was built.

Q In 1990?

A In 1990.

Q Whereas if Gulf States had not breached, that 44 megawatts would not be available for jurisdictional ratepayers in 1990?

A Well, to stick strictly to your question, no, it would not be available from the standpoint of the

fact that UPS customers would be paying for that. But there would be times where it would be available, just like other capacity is available for use by our customers, our retail customers, if it's not being utilized by the UPS customers, even though it's under contract.

Q Right, but in the extremest of circumstances, if --

A If Gulf States -- excuse me -- required that capacity and called for it, they would have the 44 megawatts in 1990; it would not be available.

Q Regardless of Gulf's or Southern's own needs, it would, nevertheless, be Gulf States' capacity?

A That's correct.

Q And as I understand it, even now in 1990, if you can find a buyer for that capacity off-system, it would be Gulf's decision to make that sale, is that correct?

A I would say yes, under circumstances -- to say, you know, you just sell that under any circumstances, I think you have to look at the individual circumstances. But, in my opinion, that capacity is available for use by a retail customer, but if it would be in the benefit of our retail customer to sell that capacity through UPS during 1990, and there

was a market there, then we would make our efforts to try -- we are making efforts and would make efforts to try to sell that.

Q You are currently making efforts to try to sell that capacity?

A Well, to make UPS sales off the Southern System, yes.

Q And the 63 megawatts of Gulf's ownership in Plant Scherer would be available, as part of the capacity for sales off-system, if you got the right price?

A If the circumstances were right that could be made available, along with other capacity that would be available from the system.

Q Doesn't that ultimately mean that for 1990, anyway, the Texas Commission's decision would be dictating to Florida what the retail ratepayers will pay?

A No, sir, I don't think so.

Q Okay.

A Our position is that the contract was made by two responsible entities, Gulf States Utilities and the Southern Company, and they have a responsibility to the contracts, just like we have a responsibility to the contracts, and we feel that the contracts should have

been honored by both parties.

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

CHAIRMAN WILSON: Mr. Palecki? Major, do you have any questions of this witness?

MAJOR ENDERS: No, sir.

CHAIRMAN WILSON: Mr. Palecki?

CROSS EXAMINATION

BY MR. PALECKI:

Q Mr. Parsons, following up on Mr. Burgess' last questions, isn't the previous sale of unit power sales to Gulf States Utilities an indicator that the power was not needed by the Company's territorial customers? If you just use common horse sense, isn't that an indicator that the territorial customers didn't need the power? I mean, you had sold it, right?

A The territorial customers, at the time the contracts were entered into, it was determined that it would be a benefit to our territorial customers to make these UPS sales because it gave someone else an opportunity to pay for this capacity when it was not needed for our customers.

But if you look in 1990, where we have used a planning level of 20 to 25%, I think information that has been filed with my testimony indicates that, with

the 63 megawatts of the Scherer capacity or with the 44 megawatts that has previously been sold off-system, we still fall within the 20 to 25% reserve margin and it is available for use by our customers. And is, in fact, can be used today, as it was used in the cold weather in December of 1989. I'm sure our customers were pleased that it was available for their use during that period of time. It is available for use as needed by our customers.

Q So are you saying you made a mistake when you sold it as unit power sales the first time?

A No, sir. We didn't make a mistake with the UPS contracts. I think it has been demonstrated time and time again that they are in the benefit of our retail customers. It does delay the time that they are required to pay for this.

But the units were built primarily to serve our retail customers. In the event that that capacity is not needed in the time frame that the units are built, then we can enter or have been able to enter into UPS contracts to relieve them of that responsibility. But the capacity is needed, in my opinion, in 1990 by our customers.

Q Well, I don't understand how the capacity is needed -- how you could sell that as unit power sales

if it was needed by your customers today. It doesn't make sense.

A If it were sold off the system in 1990, it would mean the reserve level to back up our customers is less than it would be with that capacity there. But if you look at the projected reliability that we're looking at and the underlying value to the customer for making those sales, then if the conditions are such that it would be beneficial to our retail customers, then we would attempt to sell it in '90, although it is available for use and has been used by our customers during 1989 and during 1990.

Q But the bottom line is that power would not have been available to the territorial customers if the default hadn't, by Gulf State, hadn't occurred. Isn't that correct?

A If the capacity had been called for by Gulf States at the same time we were utilizing it for our own retail customers, then it would not have been available for our retail customers, that's correct.

Q And isn't it very likely that that would have been called for in a peak period where Gulf State's peak period would have coincided with Florida's Coastal --

A I don't know that, I don't think that's an

assumption that I can make.

Q Wouldn't you say that's customarily the case?

A That their needs would be coinciding with the -- if the Gulf States --

Q That a very high percentage of the time their needs will coincide with the peak needs in this state.

A I don't know. There are a lot of circumstances that would make that true. I think you would have to look at the cost of energy that would be available to them either with that unit or without that unit. You have to look at the weather situation. You'd would have to look at the loads that they're seeing in their territory inventories versus what we're seeing. I can't agree wholly with you. I will say that generally I would say that that is true, but I think you would have to look at the specific instance and the specific period of time.

Q And if Gulf States had paid for it, they would have had first access to it and could have taken the power to the detriment of your territorial customers?

A They would have had the first call on the power if they were paying for it under UPS, yes.

Q I would like to switch to some questions on Issue 22 you have been listed as a witness for. That's

the heavy oil in inventory for which Gulf has requested in excess of $1 million.

A All right, sir.

Q Why does Gulf Power maintain heavy oil inventory for Plant Crist Units 1, 2 and 3?

A Our Plant Crist Units 1, 2 and 3 can burn dual fuel. They can burn either natural gas or oil. This is a backup fuel. Our primary fuel for those three units is natural gas. Those contracts are not firm contracts; they are subject to interruption on occasion, and the No. 2 fuel oil is a backup fuel to these two units -- to these three units.

Q And is it true that Gulf is asking the Commission to include 77,538 barrels of heavy oil valued at in excess of $1 million in ratebase?

COMMISSIONER GUNTER: Let me -- excuse me just for a second.

Are you all talking about the same issue? Are you talking about Issue 23 and you talking about Issue 22? Because you started talking about light oil and gas?

WITNESS PARSONS: I was talking about heavy oil as the backup fuel to the gas --

COMMISSIONER GUNTER: All right.

WITNESS PARSONS: -- primary fuel in Units 1,

2 and 3.

COMMISSIONER GUNTER: Okay, I thought I heard you say "light oil." I apologize.

Q (By Mr. Palecki) Now, correct me if I'm wrong, but 1, 2, and 3 burn heavy oil; 4, 5, 6 and 7 are coal units, correct?

A Yes, sir.

Commissioner Gunter, I think I said No. 2 oil. I meant No. 6 oil.

COMMISSIONER GUNTER: Okay. I thought I was listening.

WITNESS PARSONS: Yes, sir. I had in my mind No. 6 oil, I'm sorry.

COMMISSIONER GUNTER: Okay.

Q (By Mr. Palecki) So are those figures correct, 77,538 barrels to the tune of $1,042,000? I refer you to MFR Schedule B-17-A, Page 10 of 10?

A Yes, sir.

Q What are the nameplate ratings for these units? And I'd refer you to Staff's Fifth Set of Interrogatories, Item No. 84, Page 2 of 2, subject to check --

A We've got nameplate ratings and we've also got capability, demonstrated capability. Which would you prefer?

Q Well, I would like both, if you have them available.

A The nameplate rating on Crist 1 is 22.5 megawatts. Crist 2 is 22.5. Crist 3 is 30 megawatts. (Pause)

The capability has been demonstrated to be 23 megawatts for Unit 1; 23 megawatts for Unit 2; and 39.4 megawatts for Unit 3.

Q What are the capacity factors of these three units in 1990? And I would refer you to Exhibit 448, Page 19 of 20, which you should have before you. (Pause)

A I believe the capacity factor as indicated on Crist 1 is .04%. Crist 2 is .04, and Crist 3 is 14%. 4%, 4%, and 14%.

Q And those figures mean that these plants -- that's .04%, correct? For the first two, Crist 1 and 2? Not .4 but .04?

A Yes, sir, that's correct.

Q And those figures indicate that these plants run very little. You hardly ever run these, correct?

A They're peaking units, that is correct.

Q Are these true peaking units?

A Yes, sir, we'll use them for peak periods of time when we need them.

Q These are steam units. They're really not peakers as we, as are most of Gulf's -- well, what's the difference between these units and most of Gulf's peakers? There is a big difference here, is there not?

A We have a combustion turbine that would also be considered a peaking unit. These units -- when I say "peaking," it means that we would not normally use them for baseloads; they are normally used for peak periods of time, either in the winter or summer or other times when we may have units off for maintenance that they're needed. Yes, sir.

Q And when these plants run, 1, 2, and 3, the primary fuels are heavy oil and natural gas, correct?

A Yes. Primarily natural gas in more recent years.

Q When was the last time heavy oil was burned at Plant Crist 1, 2 or 3?

I'd like to refer you to Exhibit 449, Page 13.

A All right. I believe it was July 1989.

Q How much heavy oil was burned at Plant Crist in July of 1989?

A 995 barrels.

Q Why was heavy oil burned at Plant Crist in July of 1989?

A Needed it to run the unit.

Q You ran the unit on 995 barrels?

A It was on a test burn to make sure that the unit would come up on oil and that we could -- that the oil, you know we could burn the oil during that period of time. It was just a test to get the unit ready in the event it was needed to run on oil during the peak, what I call the peak period, when it would be brought back up for non-baseload run.

Q Prior to July of 1989, when was heavy oil last burned at Plant Crist?

A I believe it was in 1986.

Q Prior to 1986, when was the last time prior to that heavy oil was burned at Plant Crist?

A (Pause) I don't believe we have that information with us.

Q It was quite some time before 1986, isn't that correct?

A Yes.

Q Why didn't you burn heavy oil during the December 1989 Christmas freeze?

A It was not needed. There was more economical capacity available to us from the Southern System during that period of time and we did not need it to carry our load.

Q Isn't it true that heavy oil couldn't be

burned, that there was a problem at that time?

A No, sir. We had a problem. When we began to see the cold weather coming in, the units were called to come on line on Thursday, December the 21st, and they were called to come on line based on burning natural gas. The natural gas was not available to us, so the system made a decision that it was more economical not to bring the units up on oil but to furnish that capacity from some other units on the system.

Then when they called for the units the second day to come up on -- to come up, the natural gas was burned in the unit on emergency for a short period of time and we did not get the units up on oil at that time. We did not bring them up on oil.

The decision was made by the system on the first day not to bring them up on oil. Then the second day, when they asked to bring them up, we burned natural gas.

Q So it would be accurate to say that even during times of extreme peak need, these units just are not brought up.

A Again, I think you have to look at the circumstances and the circumstances surrounding the events that occurred. On these two days we did not

bring the unit up. There would be other circumstances where we would bring the units up on oil. We had enough reserves from the Southern System that we did not need those units on those days. If you recall, we had conditions in Florida that were -- it was cold everywhere, but the relative weather situation in other parts of the southeast were not as severe as what Florida was experiencing at that time. So we were able to draw on the Southern System reserves for our own needs at that time.

Q Would it be accurate to say that these are antiquated units?

A They're old units. They're not antiquated. They're able to carry load and their megawatt hour of generation is just as valuable to us when it's on line as our newest unit when it's needed to serve our load.

Q These units keep up Gulf's rate base, don't they?

A Sir?

Q Do you agree that these units, although they're not used -- is it once or twice in the last ten years they've actually been used?

A You asked about burning oil, they've been used other than burning oil more than these periods of time.

We use gas normally to run these units.

Q Is it important to maintain Crist Units 1, 2 and 3 on 24-hour standby because of Gulf's interchange agreement with Southern?

A You question was: Is it important to maintain them on 24-hour standby?

Q Yes. They are on 24-hour standby, is that correct?

A Yes, sir, that's correct. We do get credit for those units in the intercompany interchange contract, yes, sir.

Q Could you explain how Gulf's interchange payment depend on the megawatts available to the Southern System?

A Well, this gets back to the equalization of capacity on the system. When we project what our loads would be, both from a Company and a system standpoint, it's determined which companies, operating companies, will have either excess or deficit reserves to carry the load. And if we happen to have in one year more capacity than is necessary to meet our peak load, and other companies have less capacity to make their peak load, this is equalized across the system.

And let's assume that the system has 22% reserves; if there are companies that have more than

22% reserves to meet their load needs, they would sell to the pool. Companies that have less than the 22% would purchase from the pool, so that essentially all companies have the 22% average, or the 20% average, or whatever the system average is. And so in any year there will be companies that have more than system average capacity and others that will have less. And through the equalization process, essentially all companies have the same reserve level.

Q But the bottom line is if Gulf were to remove these three units from operation, their interchange payments to Southern would go up, correct?

A If we're in a selling position, our receipts would go down. If we're in a purchasing position, our payments would go up. So if we're in an above-average situation, then we are being paid for these 84, 85, megawatts of Crist 1, 2 and 3 through the intercompany interchange contract.

Q Well, either going down or coming up, what would the difference, the dollar difference, be if Crist 1, 2 or 3 -- 1, 2 and 3 -- were not available?

A You're wanting to know what the payment for those three units are in the intercompany interchange contract?

Q Right.

A I believe a net result would be about $6 million that we are receiving for that capacity.

Q Does Gulf need to keep heavy oil at the Crist plant so that the units can be brought on line using heavy oil if natural gas isn't available?

A Yes, sir.

Q How is the heavy oil delivered?

A It's delivered by truck. And let me say that we are not the only company in the system that maintains heavy oil as a backup fuel to gas and oil-fired units. Each of the other companies have units that are similar situations. So it is acceptable by the Southern System that we have the backup fuel for these primarily gas-fired units.

Your question concerned how to get the fuel to the plants. We re eive the No. 6 oil by truck only, and each truck is approximately 150 barrels.

Q How long would it take to reorder heavy oil? And I'll refer you to Exhibit 450, Page 5 of 6, Lines 21 through 23. (Pause)

A It would take just a few days to get the oil coming in. Some information that might be helpful to you, that if at full load the plant would require about 29 truckloads per day for those three units.

Q But the answer is it would take just a few

days to order and receive that oil, correct?

A Yes, sir. In my opinion, again, you would have to look at the circumstances of the availability of fuel and what is taking place at that time.

Q What is the Btu content of the heavy oil at the Crist Plant per barrel?

A I'm sorry, would you reask that question?

Q What is the Btu content per barrel of the heavy oil at the Crist Plant?

A I believe it's about 150,000 Btu per gallon.

Q And, subject to check, would that work out to 6,200,000 Btu per barrel?

A I'll take that subject to check, yes, sir.

Q Please turn to MFR B-17-A, Page 10 of 10. Does this indicate that no heavy fuel oil is projected to be burned in the 1990 test year?

A Yes, sir.

Q What is the ending inventory balance in December, 1989, as shown on this schedule?

A I believe 78,533 barrels.

Q And that works out to $1,042,000?

A Yes, sir.

Q Isn't it true that the heavy oil inventory remains constant throughout the test year?

A Yes, sir.

Q What is the per-unit price of heavy oil in inventory, as shown on this schedule, per barrel?

A $13.60.

Q Please turn to Page 12 of 12 of Gulf's response to Item No. 264, which is Exhibit 449, Page 13. What do the figures on this schedule represent?

A You're referring to Page 15 of 24?

Q Page 13, which is --

A I guess your Page 9 --

Q "Fuel Inventory By Plant" on the top.

A This is Exhibit 449, Page 9?

Q Exhibit 449, which is marked for the exhibit purposes, Page 13. On the top of the exhibit, for Gulf's purposes, it was marked "Page 23 of 24."

A All right, sir, I have it.

Q What do those figures represent?

A These were the actuals for 1989 for Plant Crist.

Q And what is the ending heavy oil inventory balance?

A 78,874 barrels.

Q In December of '89 -- would that be 77?

A 77,538.

Q Why is this different from the MFR ScheduleB-17 figure of 78,533 barrels? (Pause)

Is that because you didn't know you were going to burn 995 barrels? (Pause)

We reflect that you burned 995 barrels in July of 1989 when you test-fired that with oil?

A Yes, sir, that's correct.

Q Is that the difference between the two figures?

A We're looking at that right now.

Q The value of the December 1989 heavy oil inventory is shown as $1,054,000 on Item 264, which is Exhibit 449, and is $1,042,000 on the MFR B-17-A. Since no heavy oil has been purchased, I don't understand how the 77,538 barrels can be valued higher than the 78,533 barrels. Do you have an answer for that?

A No, sir, I don't have a reconciliation for that.

Q It's the same oil we are talking about, correct? There hasn't been a purchase of any additional oil at a higher cost? Have you revalued the oil at a higher figure?

A Excuse me just a minute, sir.

CHAIRMAN WILSON: Would this be a good time to take a break, or do you want to go ahead and get the answer to your question first?

MR. PALECKI: That's the last question in this group.

CHAIRMAN WILSON: Let's get the answer then.

A The only explanation I have, and we can give you something late-filed if you need it, is that it's an inventory adjustment that is made when we go through the year with actuals, and then when we do a budget, we will go from the budget to actual with an inventory adjustment. But I cannot explain this without a little further look today.

Q (By Mr. Palecki) So just one further question. You will sometimes adjust a figure up for existing oil that you've purchased at a lower price, to a higher price? (Pause)

A No, sir. We would just do that to adjust it to get to the fuel budget, to get to the correct inventory level for the fuel budget. We do not -- would not adjust upward in the prices.

Q Well, the bottom line is the price per barrel is nigher in the more current figure, correct? If you could give us a late-filed justifying the difference in the cost per barrel between the Exhibit 449 and the figure in the MFR B-17-A.

A All right, sir, we'll do that.

CHAIRMAN WILSON: That will be Late-Filed

Exhibit No. 579?

MR. PRUITT: That's correct.

MR. PALECKI: A short title will be "Difference in Heavy Oil Inventory."

(Late-Filed Exhibxit No. 579 identified.)

CHAIRMAN WILSON: All right, let's take about a ten-minute break.

(Brief recess.)

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COMMISSIONER GUNTER: All right. Let's get started.

Q (By Mr. Palecki) This next set of questions refers to Issue 23, which is the light oil inventory.

I believe the issue is misstated, Mr. Parsons, and correct me if I'm wrong, but shouldn't the figure there be -- well, let me ask you, how much light oil inventory, net of unit power sales, is Gulf requesting?

A Just a moment, please, sir. (Pause) We can provide that; I think Mr. Scarbrough and Mr. McMillan would need to give that. We have figures just on total system and do not have it broken down for jurisdictional.

Q What's your total system request? (Pause)

A I belie.e for the No. 2 oil request will be

692,121 gallons.

Q And why does Gulf Power maintain light oil inventory?

A I will talk to you generally about it. I would like to defer the operational aspects to Mr. Colen Lee, who will come on after me, but the inventory of No. 2, or lighter oil, includes CT requirements for our Smith A unit, which is our combustion turbine at Plant Smith.

But the lighter oil is used primarily to bring units on line, coal-fired units, and to stablize them either at minimum loads or as they are coming off line, and Mr. Lee can address that further.

But we do use the lighter oil as a primary fuel, as the only fuel for our combustion turbine, and then we have lighter oil at all three of our plants -- all five of them, including Scherer and Daniel.

Q With reference to use of oil as a start-up fuel, excuse me, strike that.

Isn't it true that the peakers can consume a lot of light oil in a very short period of time?

A Yes, sir.

Q How much light oil was consumed by peakers in December 1989, and I refer you to Exhibit 449, Page 12.

A Let me explain. While we are looking for

this, as a followup to the question you asked about the use of lighter oil in our operational plant. Under normal operation where we got gas and can use No.2 oil with it for start-up on our plants, we'll use 1000 gallons of oil for Crist 4 and 5 for start-up, 2400 gallons for start-up on Crist 6, and 2800 gallons for start-up on Crist 7.

Without gas, if you were just starting up on oil alone, we would use 7,000 gallons for Crist 4 and 5, 14,000 gallons for Crist 6, 18,000 gallons for Crist 7. That just gives you an example of the use of this oil on start-up on the units.

Now, we'll get back to the question you asked.

Q Is it used for flame stabilization as well?

A Yes, sir.

Q With reference, you mentioned two figures, one with gas and one without gas. We would like to ask for a late-filed exhibit which shows for the prior year for each coal plant the following information: That is, the monthly consumption of natural gas in MCF, that's 1000 cubic feet for, start-up and flame stabilization. Short title would be, "Consumption of Natural Gas by Plant."

COMMISSIONER GUNTER: That would be

Late-filed Exhibit 580?

MR. PRUITT: 580.

COMMISSIONER GUNTER: Right.

(Late-filed Exhibit No. 580 identified.)

Q (By Mr. Palecki) I previously asked how much light oil was consumed by peakers in December 1989, which is referred to in Exhibit 449 at Page 12.

A I believe it would be 101,222 gallons. This is for the peaker for December, that was your question.

Q And was that due to the unexpected demand created by the Christmas freeze?

A That would be a part of it. There are a lot of things that can affect the operation of a peaking unit. And I would assume that the cold weather situation had a great deal to do with it. It could have been the maintenance either on our system or other systems at the same time that was ongoing.

Q Well, it would be pretty safe to assume that the Christmas freeze was a primary cause, wouldn't it?

A Yes, sir. That would be a large part of it.

Q Isn't it also true that the amount of light oil used for flame stabilization and start-up is not as volatile as the amount of light oil used in peakers?

A Talking about the inventory level?

Q The burn itself.

A When you say "volatile," I assume you're talking about the variations in the inventory level?

Q Yes. And we're talking about the amount, actually, the amount used.

A Well, it's really unpredictable because it's really used for forced outages. You don't know exactly when you're going to use it. To some extent, we can budget for it, but it is, varies a great deal on circumstances that require its use.

Q Well, as a general proposition, would it be safe to say that the peakers use a lot more light oil?

A A lot more than -- a lot more than the other units?

Q Yes, than the other units which -- where light oil is used for flame stabilization and start-up.

A Well, it would depend. If you look at the inventory, you know, if you don't use a CT during the year, you would have no usage and you might -- you would use your lighter oil for flame stabilization and start-up in your other units. It would just depend on the amount of relative time that your CT would run versus the use of oil in your other units.

Now, if you're talking about the amount of oil that would be used for our CT operating 24 hours a day versus the lighter oil that would be used for flame

stabilization or bringing a unit on line at a, say Unit No. 2 at Smith, I think it would be a substantial difference. I think Mr. Lee, again, could address that for you from an operational standpoint.

Q Does Gulf Power have an inventory study to justify the level of light oil requested in this rate case, such as the UFIM used for coal inventory?

A No, sir, we do not. That's determined by experience from our operating people and previous needs.

Q So you're asking us to trust you on this one?

A Yes, sir. We've got people that are dedicated to providing the very best service possible and they know what's needed to provide that service.

Q How long would it take to reorder light oil?

A Again, it's depends on the circumstances. If nobody else is calling for lighter oil, I think the period of time would be much shorter than if you're in an extreme condition where not only the Utility but other customers are requiring the use of that oil. It could, it could be received the same day you order it, or it could be some time later. Again, Mr. Lee could talk to you about the actual experiences that they've had at Plant Smith and other plants.

Q It would always be within a week, correct?

A I would think so, yes, sir.

Q And usually in a few days?

A Yes, sir.

Q I would like to ask a few questions about Issue 24, which is the 57.5 million coal inventory that's been stated.

Mr. Parsons, in your direct testimony on Page 33, starting on Line 11, you state that Gulf Power Company used a computer model called the Utility Fuel Inventory Model, or UFIM, to justify the inventory levels during the test year and that model was developed by EPRI, is that correct?

A Well, it was developed by EPRI in conjunction with other utility companies and other interested parties that worked with them in the testing and utilization. But it was primarily an EPRI model, yes, sir.

Q And why do you think UFIM is an appropriate modeling tool to use to evaluate Gulf's inventory levels?

A Well, I think it's proven to have been used by various utilities. Another utility here in the State of Florida was instrumental in the testing of it. This Staff, I think, has utilized it in past years for studies that they're making. And it's just a model

that we feel like, with the amount of time and effort that's gone into the development of it and the results that we've seen from the use of this model, that it is the best model that we have available to us.

Q So you think that UFIM is generally regarded as a good modeling tool, correct?

A Yes, sir.

Q On Page 34, starting on Line 8 of your direct testimony, you state that UFIM considers inputs such as fuel heating value, plant heat rate, energy supply uncertainty, supply constraints and disruption in supplier burn. You must also input factors relating to fuel price, replacement power cost, inventory holding cost, and cost of capital, isn't that correct?

A Yes, sir.

Q Please refer to Page 69 of Exhibit 451, the line titled "Average Monthly Policy," represents Gulf's present inventory policy as shown on Exhibit 77, which is Gulf's Exhibit EBP-1.

A Did you say Exhibit 451 or 61?

Q 451.

MR. HOLLAND: What page?

MR. PALECKI: Page 59.

MR. HOLLAND: Okay.

A All right. I have it.

Q This represents Gulf's present inventory, is that correct?

A That's the one that we have filed for this, that's our policy 53 days nameplate or about 105 days average burn, yes, sir.

Q Is it correct that the model run of Exhibit 451 used the 1989 fuel budget as input data?

A Yes, sir.

Q Please refer to Page 33 of Exhibit 556. Aren't these the results of a UFIM analysis with inputs exactly the same as those contained in Exhibit 451, except that in Exhibit 556 the 1990 fuel budget is used?

A Let me get this exhibit. Did you say 556 or 456?

Q 556, which is the supplemental exhibit that was introduced the day before yesterday.

A Just a moment, let us check. (Pause)

Q It's Staff's Exhibit 156. It may be in that packet that has a sheet of colored paper that says, "Supplemental Exhibits."

A All right, sir, I have 156. Now, what page did you refer me to, please?

Q Page 33.

A Okay, I have it.

Q And my question is: Isn't this the results of the UFIM analysis with exactly the same inputs as Exhibit 451, the only difference being that this uses the 1990 fuel budget, 451 uses the 1989 fuel budget?

A That's correct.

Q What inventory targets are indicated on Page 33 of Exhibit 556?

A You want the total for the -- for Gulf's system, or by plant?

Q Total system, basically. We want to know how many days burns are -- days burn is provided for.

A 53 days nameplate.

Q Is that a 105-day run -- burn, excuse me?

A Just a moment, we'll have that. (Pause) 105.

Q So the inventory target is a 105-day burn of coal?

A Average burn, yes, sir.

Q Isn't it true that one of the important inputs to UFIM is the disruption assumption or the disruption assumptions?

A That's correct.

Q Could you please explain how the burn reduction cost curve works in UFIM. Specifically, does the burn reduction cost curve define the cost of replacement energy or purchase power in the event of an

outage?

A Yes, sir, it does that.

Q Please turn to Page 58 of Exhibit 451. Specifically, I'm referring to the figures on the bottom half of Table 10. Do these figures represent the normal times replacement power costs?

A Yes, sir.

Q So, for example, these figures show that for Plant Crist, replacement power can be purchased for an average of $24.97 per MWH for a burn reduction of 50%?

A That's correct.

Q And for a burn reduction of between 50 and 100% at Plant Crist, replacement power would cost an average of $25.62 per megawatt, correct?

A That's at a 100% reduction.

Q Excuse me?

A You said between 50 and 100. That would be at 100% reduction that figure would be correct, $25.62.

Q Isn't that for 75%, or what would it be for 75%?

A I believe we would have to run a separate PROMOD input for that and we don't have that.

Q How did Gulf Power calculate these figures?

A These were results of a PROMOD study which dispatches our units on the system, and this was the

output of that program that utilized in this model.

Q So for Plant Crist, Gulf calculated the total variable costs with no reduction using PROMOD, then burn was reduced at Crist by 50% and another PROMOD run, and then the increased costs were expressed in megawatts to arrive at the 24.97 figure?

A Yes. That's correct.

Q And the same type calculation was done to indicate the 100% burn reduction cost?

A Yes, sir.

Q Turning to Page 26 of Exhibit 451. This page summarizes one of the disruptions which can occur at Plant Crist, Scholz and Smith, correct?

A Yes, sir.

Q Please describe Disruption Number Two.

A This one, are you talking about the nameplate-minus-one step?

Q No, I'm referring to the Disruption Number Two, "Generic Equipment Failure."

A Okay, Page 26, I don't believe is the right page. Would you refer me to another page?

Q This is Exhibit 451?

A Yes, sir.

Q I'm sorry. I believe that's Page 27 of 59.

A Okay. (Pause) This would be a plant-unique

disruption which models a failure such as an unloader breakdown, which could occur in any month; and this, it would be plant-specific.

Q And this is referred to as "Generic Equipment Failure"?

A Yes, sir. And it would have modeled the frequency expected and the duration of the disruption.

Q At the Plants Crist, Scholz and Smith, the frequency listed is once every five years, is that correct?

A Yes, sir.

Q Maximum duration, five weeks?

A Yes, sir.

Q And this is with coal deliveries of zero, coal cost normal and replacement power costs is normal, correct?

A Yes, sir.

Q This would be a relatively minor disruption?

A Yes, sir.

Q If replacement power is purchaesd during Disruption No. 2, it is purchased at the normal replacement power cost that we referred to earlier, correct?

A That's correct.

Q And is the plant burn normal during this

disruption?

A Yes, sir.

Q Turning to the next page of Exhibit 451, which is 28 of 59, please describe Disruption No. 3.

A This would be a disruption in supply due to a generic transportation-related problem, and these would be such as a frozen river, low water problems, hurricane related problems or rail trestle failure or washout. And this also could occur in any month.

Q And the frequency listed is once every ten years, correct?

A Yes, sir.

Q Maximum duration at Crist, Smith, Scholz and Scherer would be 8 weeks, and at Daniel 12 weeks, correct?

A That's correct.

Q And this is listed with coal deliveries none, coal costs normal, replacement power costs normal and burn normal, correct?

A That's correct.

Q And, once again, this is a relatively minor disruption?

A Yes, sir.

Q Doesn't UFIM consider a week to be seven and a half days long and a month to be 30 days long?

A Yes, sir.

Q That one month contains exactly four weeks?

A That's correct.

Q Turning to Page 29 of Exhibit 451, describe Disruption No. 4.

A Disruption No. 4 is a disruption in supply due to frozen coal at the load-out points. We have this occurring only in December, January or February.

Q And this --

A This is for Plant Scherer.

Q For Plant Scherer only?

A Yes.

Q Frequency once every two years?

A Yes.

Q Maximum duration four weeks?

A Yes, sir.

Q And this is with coal deliveries none, coal costs normal, replacement power costs normal and burn normal, correct?

A Yes, sir.

Q And this is, once again, a minor, a relatively minor disruption, correct?

A Relatively, yes, sir.

Q Turning to Page 25 of Exhibit 64, please describe Disrpution No. 1, and describe this disruption

in as much detial as you can.

A Disruption No. 1 is a generic disaster type demand/ supply disruption, such as a nuclear moratorium which could occur in any month. It's modeled for frequency once in every four years; the duration is 16 weeks; coal deliveries would be one-half of normal; coal costs one and one half times normal.

And let me say that from the Southern System, this would have a tremendous effect. Our capacity on the Southern System, about 11 to 12% of our total generating capacity is made up by nuclear capacity. But the generation on the System is about 21 to 22% in 1990. So a nuclear moratorium tnat occurred on the Southern System that eliminated all of our nuclear capacity would have a tremendous effect on the Southern System and on the inventory situation. You would not be able to generate the 22% of our capacity needs from nuclear.

Q And one of the assumptions in this particular disruption is that there be no warning, correct?

A Yes, sir.

Q The frequency listed, or predicted, for this type of disaster would be once every four years, correct?

A Yes, sir.

Q Mr. Parsons, earlier --

COMMISSIONER BEARD: Whoa, time out a second. Let me ask a question to try to understand. Hypothetically, a nuclear moratorium occurs, okay? That plant belongs, at least from the Southern System, to Georgia Power?

WITNESS PARSONS: Well, on the System, Southern System, we have three nuclear plants. There are two in Georgia and one in Alabama, six units total.

COMMISSIONER BEARD: Okay. The two in Georgia belong to Georgia, like Oglethorpe, or somebody else?

WITNESS PARSONS: Yes, they have partners in that.

COMMISSIONER BEARD: And the Alabama unit belongs to --

WITNESS PARSONS: Just Alabama.

COMMISSIONER BEARD: Okay. So in the event that one or all of those ceased to operate, would that affect the ability of those operating companies to produce reserve capacities, therefore changing the relationship of the reserves available from each of the operating companies, therefore making you a much greater net seller? Are you understanding what I'm asking?

WITNESS PARSONS: Yes, sir, that's correct.

The model addresses a nuclear moratorium that affects the entire nuclear industry in the United States. It's not just one plant, but it is for the entire industry and that, in effect, says in the Southern System a nuclear unit generation is kept on its system. They do not sell through the interchange. So if Georgia, say, has 2000 megawatts of nuclear capacity, that 2000 megawatts serves its territorial load, then any additional capacity, coal, oil, gas-fired, will either be utilized to serve the remainder of their load or it's sold through the System.

What this says is if you have a nuclear moratorium nationwide, all the nuclear units are shut down, then you have to replace that with the remaining units. And if that were to happen, of course, at Gulf all of our coal units would be running full load, trying to pick up the additional load for the System, with 22% of our capability on the Southern System gone.

I don't know whether that answers your question. That's --

COMMISSIONER BEARD: Well, it partially does. My point is then you are, regardless of whether you were a net buyer or a net seller prior to that occurrence, when it occurs, you obviously become a net seller, to a large degree?

WITNESS PARSONS: Probably so. It would have an effect on us, because we either have less to purchase from the pool or we will have to sell more to the pool to maintain the Southern load.

COMMISSIONER BEARD: Well, if you removed the nuclear megawatts -- I mean, how many is there between the three plants?

WITNESS PARSONS: I believe we have about 3600 megawatts of nuclear capacity.

CHAIRMAN WILSON: How many?

WITNESS PARSONS: Just a moment, let me check. (Pause) I think we've got approximately 3600 megawatts of nuclear capacity.

COMMISSIONER BEARD: Roughly, how many total megawatts have you got in the System? (Pause) A ballpark figure. (Pause)

WITNESS PARSONS: Was your question concerning nuclear or total capacity?

COMMISSIONER BEARD: Total. I think the 3600 you gave me, roughly, is the megawatts associated with nuclear on the System.

WITNESS PARSONS: Yes, sir, that's correct. And you want to know the total capacity on the Southern System, nuclear, coal, gas, oil?

COMMISSIONER BEARD: Lock, stock and barrel.

(Pause)

WITNESS PARSONS: We've got about approximately 30,000 megawatts.

CHAIRMAN WILSON: What is that you're reading from?

WITNESS PARSONS: This is a Southern Electric System Power Plant Directory that indicates all of the units on the Southern System.

CHAIRMAN WILSON: Have you got anymore of those?

WITNESS PARSONS: We could probably find one more.

CHAIRMAN WILSON: Would you find at least four of them?

COMMISSIONER BEARD: About 10% ballpark figure, 11%, is nuclear?

WITNESS PARTONS: Yes, sir.

COMMISSIONER BEARD: What happens in that scenario, for example, if that were to occur? Does your requirement, your UPS contracts, do they disappear?

WITNESS PARSONS: We're not making any sales out of nuclear. That would not affect that. The UPS --

COMMISSIONER BEARD: I'm talking about --

WITNESS PARSONS: No, sir, the UPS contracts --

COMMISSIONER BEARD: You'd have to net out from that 33,000 UPS contracts, wouldn't you?

WITNESS PARSONS: Yes, sir.

COMMISSIONER BEARD: So -- I forget what today your current -- wait a minute, I can tell you. Right now your total -- well, that's UPS available, that's not sales. Whatever, you'd have to net that out anyway?

WITNESS PARSONS: Yes, sir.

COMMISSIONER BEARD: Okay. I'm sorry. Go ahead.

Q (By Mr. Palecki) Now, I just want to make sure we have this right. This is a national moratorium of all nulcear plants that occurs witn absolutely no warning whatsoever?

A Yes, sir.

Q And the assumption is that because this -- this is fairly unlikely to occur, would you say? Is one of the reasons this is predicted once every 40 years because it's not something that's extremely likely?

A Once every 40 years was developed as a result of testimony in the past before the NRC by experts in

the field, and this is a figure that we determined was he most likely to happen, and it is something that -- this was a hearing before the Subcommittee on Energy Conservation and Power of the Committee on Energy and Commerce, House of Representatives, in April of 1985. Testimony from experts there indicated the possibility of something like this happening, and that went into the decision to use the 40 years. That is a decision that Gulf made, and most of the Southern Systems.

Q Mr. Parsons, let's take a look at what the effect of this assumption would have on fuel cost. Earlier we established that normal replacement power cost for Plant Crist averaged $24.97 per megawatt for a 50% burn reduction, and $25.62 per megawatt for a 100% burn reduction. What is the replacement power cost for a 50% burn reduction in this generic nuclear moratorium that you've programmed into your assumptions?

A Just a moment, please, sir. (Pause)

Q And I refer you specifically to Page 25 of Exhibit 451. If you could, give us the figures for 40%, 60% and 80% reduction in the replacement power cost per megawatt.

A All right, sir. For a percent reduction at 40%, the replacement power cost would be $393.94 per megawatt hour. For a 60% reduction it would be

$1,986.60 per megawatt hour, and an 80% reduction, $8,054.80 per megawatt hour. This essentially says that probably would not be available because other utilities are experiencing the same thing.

Q So this would make it extremely expensive to run out of fuel when you compare it to the normal cost of $25-some-odd per megawatt, correct?

A Yes, sir.

Q How are these costs calculated? And I refer you to Pages 54 through 56 of Exhibit 451 -- 53 through 55, I believe.

A 54 through 56?

Q Yes, correct. (Pause) Aren't these replacement costs that you've referred to previously ranging in the thousands, up to $8,000-plus, aren't they pretty much based on an assumption that the replacement power cannot be purchased?

A Yes, sir, that's correct. And, of course, we use the best method that we can to determine what these costs would be. And on this Page 54 of 59, Item 3 indicates some of the considerations that were put into coming up with the assumptions that went into the study.

But to answer your question, yes, it, in effect, says that under certain conditions there would

not be any replacement power.

Q Turn to Page 55 of Exhibit 451. Doesn't this say that the average residential customer would be willing to pay $8.50 per kilowatt-hour for 8 to 16 weeks, rather than lose power? (Pause)

A You say Page 55?

Q It's Page 55.

A I'm sorry, I don't see the figure that you referred, the cost on the customer. (Pause)

Q I'm referring, specifically, to residential under Phase 6, where the figure of $8,500 per megawatt hours is given, wouldn't that translate to $8.50 per kilowatt-hour?

A Yes, sir, that's correct.

Q So, basically, what this says is that the average residential customer would be willing to pay 850 per kilowatt-hour for 8 to 16 weeks rather than lose power.

A We think that's what the worth to the customer is. We don't know what he would be willing to pay, but we think that's the worth of the replacement power.

Q Now, costs of this nature would cause a lot of conservation, wouldn't they?

A Conservation?

COMMISSIONER GUNTER: $8.50 per kilowatt-hour.

WITNESS PARSONS: Yes, sir. Based on the study, the model output.

COMMISSIONER GUNTER: Okay. I just imagine there will be a hell of a lot of kerosene sales in the country, wood stoves and that kind of stuff.

WITNESS PARSONS: I think that agrees with the conservation effort.

Q (By Mr. Palecki) So, would you agree this would cause quit a bit of conservation by the customers?

A Yes, sir.

Q Isn't it true Gulf assumes plants will be running at close to 100% capacity under this nuclear disruption?

A Yes, sir

Q In calculating their fuel reserves.

A Yes, sir.

Q Please refer to Exhibit 448, and referring specifically to Page 1 of 20.

My question is, what capacity factors are indicated for Gulf's plants during the test year? And that's Exhibit 448, Page 19 of 20.

COMMISSIONER EASLEY: Give me a page on that.

A All right, sir. You would like the capacity factors for all of the individual units?

Q Yes, starting with Crist 1 through 3.

A All right. Crist 1 is .04% capacity factor. Crist 2, .04; Crist 3, .14; Crist 4, 56.38; Crist 5, 55.31; Crist 6, 42.56; Crist 7, 50.7; Scholz 1, 65.59; Scholz 2, 51.25; Smith 1, 72.66.

CHAIRMAN WILSON: Why are we reading these?

MR. PALECKI: I have a follow-up question.

Q That is, the nuclear moratorium that you've put into your computer model, you assume that it causes a significant increase in plant utilization, is that correct?

A Yes, sir.

Q This is a very severe disruption, isn't it?

A Yes, sir.

Q Now, we've established that you modeled using the 1990 fuel budget. That your model, using the 1990 fuel budget, produces a fuel inventory target policy of 105 days burn, correct?

A Yes, sir.

Q Please refer to Exhibit 556, Page 37 of 38. 36 of 38. Doesn't this show what would happen if we eliminated the nuclear moratorium disruption and left all other assumptions the same?

A Could you refer us to No. 156, Page 19 of 38?

Q That would be Page 36 of 38.

A Okay. What was your question again, Mr. Palecki?

Q This shows what would happen if we eliminated the nuclear moratorium disruption and left all the other assumptions the same, correct?

A Yes, sir, that's correct.

Q What coal inventory target is suggested without the nuclear moratorium?

A Four days. Which is totally unrealistic.

Q So the nuclear moratorium adds over hundred days burn to the target, doesn't it?

A You're talking about budget burn days?

Q Yes.

A On this assumption --

Q Calculating your coal reserves.

A On the assumptions that were made where this run was made, where we removed the nuclear moratorium but held the burn at normal, this is the output that is shown, which I think is totally unrealistic in the assumptions.

Q These are your figures, correct?

A Yes, sir, based on the assumptions that we were asked to run, these were run at the request of

Staff, and holding all other inputs the same, we just removed the nuclear moratorium, and this is the output of the model.

Q Well, in determining whether your coal inventory is reasonable, what the Commission must do is decide whether the assumptions associated with the nuclear moratorium are reasonable, is that correct?

A Yes, sir.

Q And if they determine them to be reasonable, then they should accept Gulf's proposed coal inventory policy as reasonable, correct?

A Yes, sir.

Q If they determine that they are not reasonable, then they should reject the proposed coal inventory, correct?

A Yes, sir. But we think they will agree with our reasonableness of our proposal.

Q If Staff requested a UFIM run, using the 1990 fuel budget, would you --

COMMISSIONER BEARD: Are you leaving nuclear, the scenario? Let me ask a question. I'm trying to drag out of my pea brain, back up for a minute and explain to me this $8.50 figure again, is that an outage hour?

WITNESS PARSONS: That would include the

social cost of an outage, the replacement power cost, everything that would be necessary to replace the power to that residential customer that would be lost because of a nuclear moratorium.

COMMISSIONER BEARD: Okay. See if you can help me. I may be apples to oranges in this, but it serves me correct, and it may not be the same figures, that back in the underground docket, when a figure of roughly $4.00 was proposed, people went to hollering and screaming and said, "My God no, it's not even quite a buck; it's something less than a dollar." Now I'm ranging from a $1.00 to $4.00 to 8.50 on a outage hour impacted by social costs, et cetera, et cetera. Have I got the wrong comparison? We're talking about all the costs associated with those outages.

WITNESS PARSONS: I don't know whether we'll be comparing apples to apples or apples to oranges, either. I'd have to look at how those costs were developed in the other dockets that you refer to and compare them to this one. I don't know that today.

COMMISSIONER BEARD: Well, you can try but what I probably ought to look at is I'd like to look at the social cost in a nuclear moratorium versus the social costs in a underground docket.

CHAIRMAN WILSON: I think what the -- as I

recall, what it was in the underground was what was the cost to customers of an outage due to a hurricane or other weather related, severe weather. And it used a Florida Coordinating Council average number of $4.00 and something, which was like a $1.50 for residential and $2.00 and something for commercial, and $7.00 for industrial, and the average was, I don't know, $4.00, $4.25.

WITNESS PARSONS: Let me make a comment.

One of the things Chairman Wilson mentioned, you know, the other disruptions that we have addressed here are more either plant or company-specific, and with the majority of our coal being delivered by barge, we could have a problem with a hurricane on the intercoastal waterway, frozen rivers, Mississippi and so forth, that would cause a problem there and that would be much less severe to Gulf Power than the nuclear moratorium, which affects the entire industry and replacement cost.

If we cannot get coal under a disruption of a hurricane, frozen water or something, we still would have the ability to get, we hope, power from -- replacement power relatively inexpensive.

But in a nuclear moratorium, where not only Southern but all utilities are faced with the same

supply problem, supply/demand problem, the cost would go up, in my mind, much more significantly in that than it would in a hurricane or weather related.

COMMISSIONER EASLEY: Mr. Parsons, let me ask you --

CHAIRMAN WILSON: Let me ask one question, real quick, before you go to that. Your percentage of nuclear generation is just about the same percentage as it is nationwide, isn't it? Just in excess of 20%?

WITNESS PARSONS: Yes, sir, I think so. That's correct.

CHAIRMAN WILSON: 20, 22, 23%

WITNESS PARSONS: I think that's correct.

COMMISSIONER BEARD: Wait a minute. Awhile ago it was 11%.

WITNESS PARSONS: The capacity, the amount of capacity is about 11% of total capacity.

COMMISSIONER BEARD: Okay.

WITNESS PARSONS: But the kilowatt hours generation or the load supplied from those units, they just run flat out all the time, is about 22%.

COMMISSIONER EASLEY: Now you're getting close to where I wanted to be. Back on Exhibit 451 --

WITNESS PARSONS: Okay. 451.

COMMISSIONER EASLEY: Yeah, which got us into

this mess.

CHAIRMAN WILSON: What page are you on?

COMMISSIONER EASLEY: Starting with Page 53 of 59. This appears to be a description of the EPRI study model that was used to develop that $8.50 kWh cost, right?

WITNESS PARSONS: Yes.

COMMISSIONER EASLEY: This says, "state of the world disaster." Does it mean, literally, "state of the world disaster?" In the second paragraph.

WITNESS PARSONS: It's an expression which I think just means the utility industry in the United States. Those would be the ones that we would be concerned with being affected.

COMMISSIONER EASLEY: All right. Were the parameters for state of the nation, I guess, disaster then, developed by EPRI or by Gulf?

WITNESS PARSONS: EPRI.

COMMISSIONER EASLEY: And Gulf plugged their figures into the EPRI study to develop whatever costs fall out of that?

WITNESS PARSONS: That's correct.

COMMISSIONER EASLEY: So the nuclear disaster example is about the worst case scenario in the EPRI study?

WITNESS PARSONS: By far, I think it would be.

COMMISSIONER EASLEY: Yeah, I think that's an understatement. And the $8.50 is presented as the cost under that worse case scenario for 16 weeks, I believe it was, Phase 6, just as a fallout, again, of the EPRI formula?

WITNESS PARSONS: That's correct.

COMMISSIONER BEARD: This could be termed "The world as we know it would cease to exist"?

WITNESS PARSONS: Would be significantly changed.

COMMISSIONER BEARD: Electricity might be the least of our problems.

COMMISSIONER EASLEY: Yeah. As a matter of fact, I got tickled when I heard Staff ask if this was the cost the customer was willing to pay? I have a sneaking suspicion he won't have the opportunity. He can't get his money out of the bank.

Q (By Mr. Palecki) Well, the point is that Gulf has used this assumption in determining the value of coal inventory that they must maintain on hand, correct?

A Yes.

Q And this assumption has substantially

increased the amount of that coal inventory, correct?

A Yes.

COMMISSIONER EASLEY: But, now, let me ask again. I can't find the exhibit that you were going to the second time. There is a figure without this worse case scenario in it, is that correct?

WITNESS PARSONS: Yes, ma'am.

COMMISSIONER EASLEY: What is that figure? Compare to it the 850 per kilowatt hour.

MR. PALECKI: Staff requested a UFIM run using the 1990 fuel budget which altered this assumption of world disaster substantially; and this is Exhibit 556, Page 37. There, we asked Gulf to assume a disruption occurred once every four years instead of once every 40 years, and burn during the disruption was normal instead of near 100% capacity. And the result of that model run is Page 37.

COMMISSIONER EASLEY: Could I ask the witness to read me that result? Because I can't find it in this Twelve Mile Island pile of paper back here.

WITNESS PARSONS: Okay. The run that has just been referred to, the nuclear moritorium disruption every four years?

COMMISSIONER EASLEY: Right.

WITNESS PARSONS: And normal burn is 37 days

nameplate. And, again, that's --

Q (By Mr. Palecki) And that assumes the expense of replacement power cost as well, though, does it not?

A Yes.

Q So we're still talking about those outrageous power costs that we were talking about.

COMMISSIONER EASLEY: Does this have the equivalent of the 8.50 in there? Is that what you're saying by those costs?

WITNESS PARSONS: Yes.

COMMISSIONER EASLEY: How would I figure out what it looks like without it?

WITNESS PARSONS: What the cost would look like?

COMMISSIONER EASLEY: Yeah.

WITNESS PARSONS: Without?

COMMISSIONER EASLEY: What the -- is there a percentage or is there an extrapolation that I could do to give me an idea of what it would look like if you took out that effect of the 8.50, or can it be done that way?

WITNESS PARSONS: I'm not sure that I understand the question you're asking. If we --

COMMISSIONER EASLEY: I'm not sure I do, either. To come up with a realistic figure, or at

least to me a realistic figure, you take out this 8.50 effect -- okay, Commissioner Gunter says he thinks he can help. Maybe I don't --

COMMISSIONER GUNTER: Let me ask you a question, Mr. Parsons. The reason I have sat back and I haven't said anything about this is these assumptions are so that they're probably not ever going to occur. I'm just wondering the value of them, you know, for inclusion. It's sort of like a great deal of heifer dust.

We had a serious problem at TMI, and we didn't have the kind of situation with the national moratorium, and I think that you and I are not going to live long enough to see that occur. So I have just said, " That's heifer dust," and I didn't pay any attention to it.

I think the thing that Commissioner Easley is getting to is to, using the historical perspective, such as coal inventory, fuel inventory, in order to generate electricity, where is that reasonable figure? And not, you know -- hell, if we were going to get to Superman days, we'd say to Krypton to do something, and we're going to get in here and, you know, you could have a neutron bomb explode and it would wipe out all of your --

CHAIRMAN WILSON: And reduce demands.

(Laughter)

COMMISSIONER GUNTER: Yes, it would certainly reduce demands. But if somebody came up with some sort of new weapon that destroyed all your circuit boards, all your computers, well, hell, you're out of business. And there's all sorts of things that may be. And I would look at some sort of a damned zap gun that would destroy silicon chips as much as I would all the nuclear plants in this country going down. That's the reason I haven't even participated.

But where are we with the normal, expected inventory requirements that Gulf would have to operate in 1990 for the test year?

Do you understand my problem?

WITNESS PARSONS: Yes, sir, and I have a problem responding, to some extent, because I think we've come full circle.

Since I have been involved in appearing before the Commission, initially when we tried to justify our fuel stockpiles, we did just that; we came in with the best experience that we could have, based on historical and projected problems. We considered labor contracts; we considered a lot of things that could happen and, historically, and we came in and

attempted to request a certain stockpile level.

The Commission did not accept that. They wanted some expert testimony and some studies run, and we moved to an interim period. I think in 1984, we actually had a consultant to appear, Mr. Vicentes appeared before this Commission in Docket 840086, and he had a proposal, and that still was not satisfactory. And the Commission Staff, I think, has been involved in the attempts to set up a computer model. And this is the best that we have at this point.

We've moved from historical to trying to model something with inputs determined by the best people that we've got involved in the fuel industry, both from the utility industry -- this is not just a utility industry model. We have had participation by various commissions and others in the development of it. So it's the best we have right now.

COMMISSIONER GUNTER: Well, let me ask you a question. And I take that as that Gulf is not satisfied, or was not satisfied with the level of inventory that we had. And to sort of check the reasonableness of that, would it be inappropriate to ask you what your, what was allowed in the last rate case, what your monthly inventory levels have been, and have you run out of coal at any of your facilities

during the time period?

That's sort of the sanity test, Mr. Parsons. Have you run out of coal at any facility --

WITNESS PARSONS: No, sir.

COMMISSIONER GUNTER: -- since 1984? Have you run down to the point that you had less than a week's burn at any facility?

WITNESS PARSONS: No, sir.

COMMISSIONER GUNTER: Okay.

CHAIRMAN WILSON: Let me ask you on Page 53 --

WITNESS PARSONS: Could I respond to one other thing?

CHAIRMAN WILSON: Sure, go ahead.

WITNESS PARSONS: We are asking for less stockpile now than we got in the '84 case.

COMMISSIONER GUNTER: Well, let me ask you one question on top of that.

Would it be appropriate, because there are other jurisdictions involved both in Mississippi and Georgia, would it be appropriate that we look at your fuel inventory within the boundaries of the State of Florida, and then we look at inventory policies that may apply with other jurisdictions? And, you know, since Georgia, for instance, is responsible for operation and maintenance of Scherer and you just send

them, you know, their expenses, and do the same thing in Mississippi, would it be appropriate to look at inventory levels that are maintained at those facilities?

WITNESS PARSONS: Yes, sir, we can do that.

COMMISSIONER GUNTER: Okay.

WITNESS PARSONS: But here, again, the one figure that we give you in this model, the nameplate or budget burn, is a system and it will be different for each plant, depending on the specifics of those plants.

COMMISSIONER GUNTER: Can you pull out from your model what you have applied? Is there a way that you've got the results as a sum of the parts? Do you understand what I'm saying? And each one of the facilities --

For instance, in Georgia, they run a different figure than they do in Mississippi.

WITNESS PARSONS: Yes, sir.

COMMISSIONER GUNTER: And we in Florida run a different figure than either Georgia or Mississippi. And if the folks that have the primary responsibility -- for instance, if we allowed you 100 days and some other jurisdiction allowed 40 days, it would appear, if you worked the math a little bit, and those go into working capital, the amount to support that -- it would

appear that Florida was allowing considerably more, and it would even be possible for another jurisdiction to have none and, according to their evaluation, they wouldn't have to have any and Florida would be picking up the tab for the coal inventory. Isn't that possible?

WITNESS PARSONS: Yes, sir, that's possible. But here, again, you have different situations, the stockpile levels that are approved by the various commissions in Georgia and Mississippi. But, again, I don't want to minimize the effect of the different locations. You've got Plant Daniel, who has -- we own railcars there. The coal is loaded in those cars. We've got fast turnaround to Daniel and back.

Scherer, there are some coal cars there that are available. Plant Scherer is closer to mine mouth than any of our territorial plants here.

The majority of our coal, all of it that goes to Smith and Crist in Florida, we get by barge, which has much more possibility of some type of interruptions than the railroads.

So all of these things are different for each of the locations. And that's why, even within the Florida jurisdiction, we will have different stockpile levels for plant Scholz, Crist and Smith, and then

there will be a different level for Daniel and Scherer based on the best information we have at that time to put into the model and what we feel is needed to keep from running out of fuel, which is what we never want to do.

COMMISSIONER BEARD: What was the requested figure for Daniel?

WITNESS PARSONS: Do you want the '89 budget or the '90 update?

COMMISSIONER GUNTER: What you requested in this rate case that we approved.

WITNESS PARSONS: Would you like the tonnage or the nameplate days?

COMMISSIONER BEARD: Days?

WITNESS PARSONS: 44 days at Plant Daniel.

COMMISSIONER BEARD: 44 days. Okay. So, in theory, that's one-half of what you would actually have stockpiled there?

WITNESS PARSONS: That's our half of it. It would just be 44 days total for Plant Daniel. Our half would be 44 days supply and their half would be 44 days supply.

COMMISSIONER BEARD: And, in effect, 44 days for one plant.

WITNESS PARSONS: Yes, sir.

COMMISSIONER BEARD: And they would be supplying 44 days FOR one plant, net effect?

WITNESS PARSONS: Yes, sir.

COMMISSIONER BEARD: Okay. What was allowed in the last rate case for Daniel? (Pause)

Better give me that 44 days in tons, too, now that I think about it.

WITNESS PARSONS: That would be -- our 44 days is 201,000 tons. The total stockpile would be 402,000 tons.

COMMISSIONER BEARD: Okay.

WITNESS PARSONS: Okay. Improved in the last case for Daniel was 49 days burned. Inventory tons, our part to compare to the 201 would be 226,000 instead of the 201,000.

COMMISSIONER BEARD: Is that nameplate or tons (Syd: unsure of this word)?

CHAIRMAN WILSON: That's nameplate?

WITNESS PARSONS: That's just inventory tons, that's not nameplate. Nameplate would be 47 days -- excuse me, 49 days. 49 days nameplate, 226,000 tons. That compares to what I gave you in this case of 44 days nameplate, 231,000 tons.

COMMISSIONER BEARD: Okay. What's the size -- what will Plant Daniel hold, stockpile hold? How

much can you physically put on the ground?

WITNESS PARSONS: They have had more than 1,100,000 tons at some time over there total -- not our part of it, but over a million tons. A million-one plus.

COMMISSIONER BEARD: That would equate to how many nameplate days? 49 times five?

WITNESS PARSONS: Approximately 10,000 tons per day, a little less than that, and a million-one; that's 100 and -- it would be more than 100 days nameplate.

COMMISSIONER BEARD: At 110?

WITNESS PARSONS: That's nameplate, now.

COMMISSIONER BEARD: Yeah. Okay.

Q (By Mr. Palecki) Mr. Parsons, in Georgia Power's last rate case, how many tons were allowed in inventory at Plant Scherer?

A We'll have to furnish that. I don't think I have that today. In Georgia's last rate case, their inventory level?

Q We'll have that as the next late-filed exhibit.

CHAIRMAN WILSON: 581.

(Late-filed Exhibit No. 581 identified.)

COMMISSIONER GUNTER: Let me ask a question

if I can. When was the day -- when -- have you got any idea when you had over a million tons on the ground at Daniel? The reason I have a problem with that is that, as I said when we got started, is I read all these depositions and I've got a deposition that said the maximum we have had was 850,000 tons, and that was by the Plant Manager at Plant Daniel in his deposition, Page 23. I thought I remembered that when you said over a million.

WITNESS PARSONS: We've got it if you'll give us just a minute.

COMMISSIONER GUNTER: I'm just trying to find out.

CHAIRMAN WILSON: Why don't we go ahead and break for lunch.

MR. PALECKI: Commissioner, we have two questions to finish this out if we could, or --

CHAIRMAN WILSON: Well, he's going to be looking for that number anyway, so we might as well break for lunch at this point anyway, come back at 1:00.

(Thereupon, lunch recess was taken at 11:49 a.m.)

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