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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

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

VOLUME - VIII

Pages 1126 through 1292

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JUN 14 1990

Florida Public Service Commission

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

Thursday, June 14, 1990

Met pursuant to Adjournment at 1:00 p.m.

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

APPEARANCES:

(As heretofore noted.)

REPORTED BY: JOY KELLY, CSR, RPR
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Tallahassee, Florida 32302

DOCUMENT NO 05288-90

I N D E XWITNESSES

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2	<u>Number:</u>	<u>Identified</u>	<u>Admitted</u>
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AFTERNOON SESSION

(Hearing reconvened at 1:00 p.m.)

EARL B. PARSONS, JR.

having been previously called and duly sworn as a witness on behalf of Gulf Power Company, resumed the stand and testified as follows:

CONTINUED CROSS EXAMINATION

BY MR. PALECKI:

Q Mr. Parsons, I just have a couple more questions about the fuel inventory matter. The last thing I had asked for was a late-filed concerning Georgia Power's last rate case.

My next question is whether or not you're aware of the inventory level that the Mississippi Commission allows at Plant Daniel?

A No, sir, I don't know specifically what that is.

MR. PALECKI: For the next late-filed, we would request the inventory level at Plant Daniel allowed by the Mississippi Commission.

COMMISSIONER GUNTER: That would be Late-Filed 582, is that right, Mr. Pruitt?

MR. PRUITT: 582.

(Late-Filed Exhibit No. 582 marked for

1 identification.)

2 BY MR. PALECKI:

3 Q Mr. Parsons, is Gulf obligated to sell power
4 to the Southern System if Gulf does not have enough
5 capacity to serve its own territorial load?

6 A Let me see if I understand your question.
7 There will be -- the intercompany/interchange contract
8 provides for the purchase and sale of capacity between
9 the system companies. There may be a situation where
10 on paper in one month Gulf is budgeted to sell to the
11 pool, but in effect, the actual capacity of that plant
12 is needed to serve our own load, and it would not flow
13 there. The dollars would flow, but the actual capacity
14 may not.

15 I don't know whether that addresses your
16 question or not. The equalization process identifies
17 the companies that have capacity to sell to the pool
18 during a year and those that should purchase. And that
19 may change on a month-by-month basis, depending -- and
20 that is scheduled ahead of time in the
21 intercompany/interchange contract, but there is a
22 formulary rate that is followed in the
23 intercompany/interchange contract that identifies the
24 purchases and sales by the companies, and then you'll
25 have a net for the entire year. We may be a net seller

1 or a net purchaser, but we may be during the year
2 selling and purchasing in various months.

3 Q I guess the question I'm asking is whether
4 Gulf's territorial customers always have priority over
5 interchange sales.

6 A Our first obligation is to serve our retail
7 customers, yes, sir.

8 Q But can there be circumstances under any of
9 the contingencies we've discussed where the interchange
10 sales will draw power away from Gulf to the rest of the
11 Southern System when you do not have enough capacity to
12 serve your territorial customers?

13 A We've talked about the UPS situation where
14 that is contracted for, and in the event a UPS customer
15 wants that capacity, it is not available to Gulf's
16 customers. There are Schedule E sales, which we may be
17 selling to the pool and the pool, in turn, sells
18 off-system to other customers. That is a recallable
19 capacity payment, and we can withdraw that. If our
20 customers are getting into a situation where we need
21 the capacity, we would not sell to the pool, which, in
22 turn, would sell other places.

23 On the territorial basis, if we don't have
24 capacity to sell to another company, if it, in fact, is
25 needed on our own territorial basis, we will not sell

1 to the pool.

2 MR. PALECKI: Commissioners, with regard to
3 this issue of fuel inventory --

4 COMMISSIONER BEARD: Let me stop you there.
5 Even if you had a UPS contract?

6 WITNESS PARSONS: Sir?

7 COMMISSIONER BEARD: Even if there was a UPS
8 contract associated with that?

9 WITNESS PARSONS: No, sir, I made that as my
10 first statement. The UPS is different because if it is
11 contracted, it goes. But we have a Schedule E, which
12 is recallable, that we sell off-system, if it's needed
13 by our customers.

14 Q (By Mr. Palecki) So it is conceivable that
15 with the UPS contract you could sell off Gulf Power, or
16 power from the Gulf system, when you do not have enough
17 capacity to serve your territorial load?

18 A In a situation where we were, for instance,
19 contracted to sell 100 megawatts of UPS capacity in a
20 certain time period, and Gulf's load was such that it
21 might need 50 megawatts above what it had for
22 territorial, that 100 megawatts would not be available
23 for Gulf. We would have to purchase from the pool,
24 from other capacity that was available to us from the
25 Southern System pool. But the UPS capacity is not

1 available if it's needed by the UPS customer at the
2 same time our customers need it.

3 COMMISSIONER BEARD: And worst case
4 hypothetical scenario might be, say, in '95, if you had
5 a UPS contract for the Scherer 3 megawatts and they
6 were gone and you had to purchase Miller 4 megawatts,
7 you would actually be purchasing at a price higher than
8 what you sold at, potentially?

9 WITNESS PARSONS: No, sir. Anything we
10 purchase from the pool, we purchase at an embedded
11 cost. It would not be the incremental cost. If we
12 were making sales out of Scherer 3, if they had been
13 included in the contract early on, and Alabama had a
14 portion of Miller that was not sold in UPS and was
15 available for either use by Alabama or by other system
16 companies, if Gulf had to purchase 50 megawatts from
17 Alabama, we would buy that 50 megawatts at the embedded
18 cost. It may all come from Miller, a portion of it may
19 come from Miller, but we would only pay them the total
20 embedded cost of their generation capacity.

21 COMMISSIONER BEARD: System?

22 WITNESS PARSON: Not system, the coal-fired
23 or -- not coal-fired, but fossil-fired plants.

24 COMMISSIONER BEARD: Okay. So if for some
25 reason the likelihood of you selling Scherer 3 and

1 buying quote/unquote, "Miller 4 embedded," the
2 likelihood would be that embedded fossil cost would be
3 below Scherer 3?

4 WITNESS PARSONS: Yes, sir.

5 COMMISSIONER BEARD: However, if for some
6 reason you happened to, for whatever illogical reason,
7 sell Daniel, there is a greater degree of likelihood
8 that embedded would be higher than the Daniel 1 and 2
9 costs, would it not?

10 WITNESS PARSONS: The embedded that we would
11 purchase from Alabama would probably be higher than the
12 book value of Daniel.

13 COMMISSIONER BEARD: Okay.

14 MR. PALECKI: Commissioners, with regard to
15 the fuel inventory question, we would ask the
16 Commission to take notice of its previous Orders No.
17 12645 in Docket 830001-EU, which is the Order
18 concerning generic inventory policy; and also Order No.
19 14000, Docket No. 840086-EI, which is the 1984 Gulf
20 rate case.

21 CHAIRMAN WILSON: All right.

22 MR. PALECKI: These next questions will
23 relate to --

24 WITNESS PARSONS: Excuse me, I have one --
25 Commissioner Gunter had asked for some information on

1 Daniel prior to the rate, and I have that if you would
2 like to have it before you move into another subject.

3 MR. PALECKI: Yes, we would like to have
4 that.

5 WITNESS PARSON: I believe you asked me if
6 Daniel had -- what years they had ever gone over a
7 million tons in inventory. 1980, '81 and '82; in '80
8 there were three months, April, May and June, they were
9 over a million tons; in '81, there was one month,
10 November; in '82, there were three months, April, May
11 and June, where they were just over a million.

12 And I believe that you said that you had
13 talked, or had read a deposition from one of the plant
14 managers, and I believe that probably was Mr. Robert
15 Moore, who now is manager of Plant Daniel. He came to
16 Mississippi from Alabama Power Company, and in his
17 deposition last year he said he had been an employee of
18 Mississippi Power Company for six years, which would
19 make this after '82. So I think probably he did not
20 know that probably from the time he has been at Plant
21 Daniel, it has never been above, it looks like, maybe
22 600,000 tons. So I think that preceded Mr. Moore.

23 COMMISSIONER GUNTER: Okay.

24 Q (By Mr. Palecki) The next questions I have
25 concern Issue 26, which is whether 63 megawatts of

1 Plant Scherer 3 should be included in Gulf Power's rate
2 base. When did Southern start negotiations with
3 Florida Utilities for the old UPS contract?

4 A The UPS discussions took place probably late
5 '79, early '80.

6 Q And those were finalized in 1981, correct?

7 A Yes, sir.

8 Q And when did Southern start negotiation with
9 Gulf States Utilities for their UPS contract?

10 A It was either late '80 or early '81. I
11 believe it was maybe '81.

12 Q And Southern finally signed the contract with
13 Gulf States Utilities in 1982, correct?

14 A The original agreement was in February of
15 '82.

16 Q How much of Daniel and Scherer is committed
17 to unit power sales under the old UPS contract with
18 Florida Utilities, specifically during the year 1990?

19 A In which year, 1990?

20 Q 1990.

21 A And you're asking how much capacity was
22 committed from Daniel and Scherer in the UPS contracts
23 in 1990 under the old agreement?

24 Q Yes. (Pause)

25 A We had zero of Daniel. Daniel came out of

1 the contract in January of '89, and it appears to be
2 184 megawatts of Scherer 3 in the old contract.

3 Q When did Gulf start negotiations for the
4 purchase of Scherer 3? (Pause)

5 A We first received -- Gulf Power first
6 received a letter in August of '79 from Mr. R. W.
7 Scherer, President of Georgia Power Company, indicating
8 that Scherer capacity was available or may be
9 available, and we began talking with them in 1979.

10 Q When did Gulf finalize the purchase of
11 Scherer 3?

12 A I believe it was in March of 1984.

13 Q Did Gulf purchase their portion of Scherer 3
14 expecting to sell most of its capacity to Florida
15 Utilities and Gulf State Utilities in the early 1990s?

16 A We purchased the Scherer capacity because we
17 felt it was needed for use by retail customers. As our
18 load projections continued to decline, from the time we
19 first started talking to Georgia until we actually
20 consummated the deal, we were working to make the UPS
21 sales, and we maximized what we could sell out of
22 there. But the units were not purchased based on UPS
23 sales. They were purchased based on serving our
24 territorial customers, and then in the period of time
25 that they might not be needed on our system, we

1 attempted to make UPS sales.

2 Q Let me get this straight. Didn't you start
3 your negotiations for UPS sales before you ever started
4 your negotiations to purchase the plant?

5 A Yes.

6 Q And you completed your negotiations and sale
7 of UPS before you ever completed your negotiations to
8 purchase the plant as well, correct?

9 A Yes, sir. But the UPS sales contracts
10 initially to Florida Power and Light and Jacksonville
11 Electric were made strictly out of Plant Daniel and
12 Georgia's portion of Scherer. Scherer 3 was not a part
13 of the original contract. We were doing negotiations
14 on UPS based on the Plant Daniel capacity that we owned
15 at that time.

16 Q At the time Gulf finalized their purchase of
17 Scherer 3 in 1984, when did Gulf forecast that Scherer
18 3 would be needed for Gulf's territorial customers to
19 maintain the reserve margin of 20%?

20 A Does your question concern the time that we
21 initially entered into the negotiations with Georgia or
22 when we actually signed the contract?

23 Q Signed the contract.

24 At the time you actually finalized the
25 purchase.

1 A We were looking at that capacity, the
2 significant part of it coming back to us in 1993. We
3 had, you know, the contracts indicated a ramp-down
4 which began in 1992, '93, '94 and '95. And when we
5 signed the contract with Georgia, at that time the need
6 for new capacity I believe was in the 1993, '92 or '93
7 time frame.

8 Q When did Georgia Power start the construction
9 of Scherer 3? You can refer to Exhibit 456, Page 1.
10 (Pause)

11 A I believe the construction commenced in
12 January of '79.

13 Q When was Scherer 3 brought on line?

14 A Commercial operation was January of 1987.

15 Q When and why did Gulf modify its
16 participation in the Scherer units to exclude the
17 planned purchase of 25% of Scherer 4?

18 A I think I need to give you a little history.
19 Initially, we had planned to purchase a portion of
20 Units 1, 2, 3 and 4. When we came to this Commission
21 in a workshop in 1979, we were looking to purchase 25%
22 of Scherer 3 and 4. The decision was made in 1983 to
23 purchase only 25% of Scherer 3.

24 COMMISSIONER BEARD: Can I ask a question?

25 WITNESS PARSONS: Yes, sir.

1 COMMISSIONER BEARD: I've seen reference to
2 Scherer 1 and 2 and Scherer 1, I think it says "B B,"
3 "2-B B." What does that mean?

4 WITNESS PARSONS: That's buy back.

5 When Georgia sold to other partners, other
6 owners outside Georgia such as Oglethorpe Power
7 Corporation, Municipal Electric Authority of Georgia
8 and the City of Dalton, they initially had sold a
9 portion of all four units to these entities. They
10 renegotiated those agreements and so that these
11 co-owners were only in Units 1 and 2. What that said
12 was that initially when they entered into the contract,
13 that was going to be spread over a longer period of
14 time. When they got in the front end, one of the
15 negotiated items was that in the front end, when that
16 capacity was not needed by the co-owners, Georgia would
17 buy it back and then it would revert back to the
18 co-owners through the years, kind of like the UPS.
19 Then Georgia actually had use of that buy-back capacity
20 as though they owned it.

21 COMMISSIONER BEARD: So for calculation
22 purposes, it's as though there are two different owners
23 although it's the same person and the same plant, it's
24 just --

25 WITNESS PARSONS: Well, Georgia owns their

1 portion of one, OPC, MEAG, Dalton own a portion of one,
2 and then Georgia owns a portion of theirs in a buy-back
3 contract, which eventually will go away. It's a
4 ramp-down type of situation.

5 COMMISSIONER BEARD: Okay.

6 Q (By Mr. Palecki) Why did Gulf drop its
7 participation in Scherer Unit 4 to exclude the plant
8 purchase of 25% of that plant?

9 A If I could, I would like to read a letter
10 into the record. It's a letter from Mr. D. L. McCrary
11 to Mr. R. W. Scherer, President of Georgia Power
12 Company, and it gives the reasons for getting or asking
13 to get out of the 25% interest in Scherer 4.

14 MR. HOLLAND: Mr. Parsons, before you begin
15 let me point out to the Commissioners, I handed out
16 earlier this morning a composite exhibit that's sitting
17 on the front of your desk right there, handed it out to
18 the Staff and to Public Counsel. I was going to wait
19 until Public Counsel got back to bring it up, but --

20 COMMISSIONER BEARD: He's right back there.

21 MR. HOLLAND: Oh.

22 CHAIRMAN WILSON: Go ahead.

23 MR. HOLLAND: The letter to which Mr. Parsons
24 is referring is contained in that package. And I think
25 it's dated --

1 WITNESS PARSONS: December 9th, 1983.

2 MR. HOLLAND: It's an attachment to the one
3 that's got letter "I" on it. I'd like to go ahead and
4 have this marked and I'll let Mr. Burgess speak to.

5 COMMISSIONER BEARD: What's the date?

6 MR. HOLLAND: The date on letter "I" is
7 December 13, 1983, and there's a letter behind it
8 that's dated December 9th, 1983.

9 COMMISSIONER EASLEY: I thought these were in
10 alphabetical order.

11 CHAIRMAN WILSON: What sort of composite
12 exhibit is this?

13 MR. HOLLAND: Okay, let me explain that.

14 We got a request from Staff for
15 interrogatories and requests for production. I think
16 it was Staff's fourth set, if I'm not mistaken, that
17 was due sometime last week. We produced those
18 documents that they had asked for. One of the
19 requests, Item 8 or Item 9 was for all correspondence,
20 memorandum, et cetera, relative to our consideration of
21 purchase of an interest in Scherer 3. We produced
22 those to Ms. Harvey last week and we were waiting to
23 see what she was going to put into the record so that
24 we didn't duplicate what we have done.

25 This is a chronological exhibit that ties to

1 chronologically document the decision-making process
2 that Gulf Power went through in its decisions relative
3 to Scherer 3 and Scherer 4. But it's in response to a
4 request for documents that Staff put out.

5 MR. BURGESS: Commissioner, I take no
6 exception with Mr. Holland's characterization. I would
7 add a little bit to that. As I understand it, the
8 Utility brought over a large box or two large boxes of
9 documents that applied to both Plant Scherer and Daniel
10 for the same question; that is, all documents
11 associated with the negotiation or with the intention
12 of buying it. And from that, Mr. Holland has pulled
13 these documents that I think he would characterize as
14 most all or all of those relevant to Plant Scherer.
15 But there are some other documents. He has agreed to
16 allow us to view the box of all of the documents, and
17 so what I would like to do is reserve the right to
18 object upon the opportunity to reviewing this set of
19 documents that Mr. Holland has pulled out, as well as
20 the whole box, so that I could see whether there's a
21 context problem or whether there's additional documents
22 or something of that nature.

23 CHAIRMAN WILSON: All right. You have or
24 have not looked at these?

25 MR. BURGESS: I've looked at it, but not in

1 any great detail. In addition to that, I wanted to see
2 what the other documents from which these were pulled
3 looked like also. And I think we has the box over here
4 in Tallahassee, or in this hearing room.

5 CHAIRMAN WILSON: Mr. Holland, what is your
6 intent with respect to this pile of documents here?

7 MR. HOLLAND: Mr. Parsons will be referring
8 to a lot of that as he goes through the chronology.
9 And I thought for the benefit of the Commission, that
10 we would simply produce many of those that he will
11 refer to.

12 It's a composite exhibit. Again, to the
13 extent that we were able to do so, we put it in
14 chronological order so that the decision-making process
15 that we went through in terms of deciding about our
16 participation could be a part of the record.

17 CHAIRMAN WILSON: Has this been marked as an
18 exhibit?

19 MR. HOLLAND: Not yet. That's what I'm
20 asking that it be marked.

21 CHAIRMAN WILSON: The entire stack of
22 documents or just what?

23 MR. HOLLAND: No, the entire stack as a
24 composite. We have numbered in order all the pages of
25 that composite.

1 MR. BURGESS: If Staff has no problem, for
2 the purpose of responding to their cross examination, I
3 don't have any problem with using it, and my only
4 concern is I'd like to see the box of all inclusive
5 documents so that I could see whether --

6 CHAIRMAN WILSON: When are you going to look
7 at that, because there's going to be a point at which
8 they may seek to move this into evidence. At that
9 point is when I would want to deal with the objection,
10 if any.

11 MR. BURGESS: Right. I was hoping to do it
12 today or tonight or something like that.

13 CHAIRMAN WILSON: I don't believe we're going
14 to be finished with Mr. Parsons today anyway, so that
15 would be a good opportunity. All right. We can mark
16 this as Exhibit No. 583, is that correct?

17 COMMISSIONER EASLEY: Composite.

18 CHAIRMAN WILSON: Composite Exhibit 583.

19 (Composite Exhibit No. 583 identified.)

20 Q (By Mr. Palecki) Mr. Parsons, since it
21 appears that your counsel is going to seek to introduce
22 this into evidence, I would ask that you not read the
23 letter on the record in order to save some time. But I
24 would ask that you refer to Exhibit 468 -- excuse me,
25 I'm sorry, Exhibit 456, Interrogatory 159.

1 A Before you ask the next question, could I --
2 in response to your last question, at least give this
3 Commission reference back to information that I think
4 would be beneficial to them to get to the 1983
5 decision, and I'll summarize it without reading.

6 Q Yes. If you could summarize it in your own
7 words, that would save some time.

8 A All right. In this packet that you have
9 before you, you will find a letter dated August 14th,
10 which is from Mr. R. W. Scherer to Mr. E. L. Addison,
11 President of the Gulf Power, and Mr. Vic Daniel,
12 President of Mississippi Power, offering this Scherer
13 capacity.

14 On October 19th there was a Commission
15 workshop whereby Gulf Power came over and talked with
16 the Commission in an informal workshop concerning our
17 desire to cancel Caryville, which was then scheduled
18 for 1985, and get into an agreement with Georgia Power
19 to purchase portions of Scherer units.

20 As a result of the favorable impression we
21 got out of the Commission workshop, even though they
22 indicated that we could not rely on that absent a
23 formal hearing, on January the 22nd, 1980, you will
24 find a letter from Mr. E. L. Addison, President of
25 Gulf, to Mr. Scherer of Georgia, informing of Gulf's

1 intent to purchase 25% of Units 3 and 4 scheduled for
2 commercial operation in 1987 and '89. This was in
3 January of 1980.

4 Then in '81, we had another workshop with the
5 Commission, which was on Monday, February 16th, 1981,
6 and out of that workshop again we got favorable
7 handling from the Commission to the extent that the
8 Chairman of the Commission at that time indicated that
9 we should go forward with the deal, with Scherer; that
10 they felt like we, in earlier rate cases, had been
11 asked to try to sell any excess capacity that we had.
12 And we based, to some extent, our decision on, and I'd
13 like to read three lines out of a quote from the
14 Chairman of the Commission at that time, and this is on
15 Page 47 of the transcript of an undocketed issue dated
16 February 16th, 1981.

17 "I hope we're never guilty of discriminating
18 against a company that uses a little long-range
19 planning and long-range thought processes in providing
20 the most economical service to our customers." And
21 that has been the intent all along with the Scherer
22 situation, that we have been trying to provide that
23 service for our customers.

24 As a result of that workshop and the attached
25 transcript, two days later, Mr. Addison wrote a memo to

1 me, which is also in the packet. And it, in effect,
2 says, "Based on the, what we had learned from the
3 Commission, to go forward with the negotiations with
4 Georgia toward fruition of a contract."

5 And then the next item of interest will be
6 this letter that I just referred you to, on December
7 the 9th, '83. And you had asked me why we got out of
8 Scherer 4, and this letter explains that. It asks for
9 approval from Georgia that we be allowed to get out of
10 the Scherer 4 portion of it; and they, with a letter
11 attached December 13th, '83, they did allow that.

12 Q I would ask that you please be more
13 responsive to the question that I asked you. Your
14 counsel can bring out these matters on redirect. The
15 question I asked, and would I like a short answer,
16 please, is: Why did Gulf get out of Scherer 4? And if
17 you could just give me a couple sentences to briefly
18 explain why they dropped their plans to purchase 25% of
19 Scherer 4.

20 A There were several reasons. One of which,
21 well, we were concerned with the level of earnings that
22 had been granted in a recent rate case, whether or not
23 we would have the funds to carry out a construction
24 program for both Scherer 3 and 4.

25 We also had continued to have low growth

1 projections indicating that our load was declining
2 significantly and we did some economical analysis at
3 that time. It showed that Scherer capacity was still
4 the overwhelmingly lowest cost alternative for
5 providing our future requirements.

6 And because of those cost savings, we felt
7 like that we should go forward with the purchase of
8 Scherer 3. But we did not have the financial integrity
9 for 4 and our load growth projections did not support
10 going forward with 4, so that primarily was the reason
11 we asked to be relieved of the responsibility of No. 4.

12 Q Would it be fair to say that the principal
13 reason was because the load growth forecasts had
14 dropped?

15 A Well, if we look at the long-term need of our
16 customer and we determine that the Scherer capacity is
17 the most economical capacity available for our
18 customers -- whether it be in '87, '89, '93 or whatever
19 -- we would like to continue to move down that path.
20 But if you can't finance it, then you can't put your
21 company in that position where you cannot afford to
22 finance the capacity.

23 The load growth projections had a major part
24 in it, because they had continued to decline and it did
25 appear that the need for the capacity in the time frame

1 that we originally anticipated, it did not materialize.

2 Q At the time Gulf dropped its participation in
3 Scherer 4, did they request to drop their participation
4 in Scherer 3?

5 A No.

6 Q Why?

7 A Because we needed the capacity to serve our
8 retail customers. We felt like it was the best
9 capacity available to serve our customers, be more
10 beneficial to them.

11 Q When did they need service?

12 A I believe in 1984, we were looking at the
13 need for capacity in '92 or '93 time frame.

14 Q Did Southern continue with the construction
15 of Scherer 3, rather than delaying or cancelling
16 construction of this unit because of the old unit power
17 sales?

18 A That was one of the issues that would have
19 been considered. That was considered in their decision
20 for construction. As I stated earlier, when we agreed
21 to get into Scherer, when we asked to get into Scherer
22 3 and 4, Scherer 3 was on a construction schedule of
23 1987 and that's when it came on line. So, from the
24 time we were involved in Scherer, it was never delayed,
25 it was on schedule the entire time.

1 And it's my opinion that Georgia built that
2 unit, essentially, to serve their retail customers.
3 And then we tried to sell UPS capacity out of the units
4 during the time that it were not needed by our retail
5 customers.

6 Q I refer you to Exhibit No. 468, specifically
7 Page 5 of 15. I'm referring to the Southern
8 counterclaim on the Gulf States' lawsuit. Would it be
9 accurate to say that the management of The Southern
10 Companies felt that such an arrangement would allow for
11 continuation of construction of coal-fired units
12 belonging to Alabama Power Company, Georgia Power, and
13 Gulf Power?

14 A Yes. UPS sales would be an issue that we,
15 that would help us in continuing on a construction
16 program of units that were essential to serve our
17 territorial customers. But in the period of time where
18 that capacity was not needed for our territorial
19 customers, unit power sales gave us a method to receive
20 some revenue, and at the same time relieve that
21 obligation from our retail customers.

22 Q Well, according to the counterclaim that we
23 have here, would it be accurate to say that Southern
24 continued with this construction of Scherer 3, rather
25 than delaying or cancelling construction because of the

1 old unit power sales?

2 A That was one item that was considered to go
3 along with the construction schedule. It was not the
4 only issue, though. There are a lot of things
5 involved. That was one thing that would have been
6 considered as an input into the decision-making
7 process.

8 We did not build those units for unit power
9 sales, we built them to serve our retail customers and
10 attempted to make UPS sales out of them when they were
11 not needed by our retail customers. That's the whole
12 concept of the UPS off-system sales.

13 Q Please describe the role that Southern plays
14 in marketing power from Gulf's units.

15 A We will have a bulk power marketing sales
16 organization that's a part of Southern Company
17 Services. They are the agent for all of our operating
18 companies; they continually collect data; they
19 continually are aware of the marketplace, what's
20 available; what the needs are; units of other system
21 companies that are coming on line; they'll look at the
22 fuel situation. They are in continuous contact with
23 other companies outside our system, trying to determine
24 if a market exists, and, if so, what size of the market
25 and what the needs of the market are.

1 In the event that they get a favorable
2 contact, then they will notify the operating companies.
3 They have a feel for the capacity that's available. It
4 may be UPS, it may be Schedule E, it may be short-term
5 capacity, a lot of different types of capacity that
6 would be available.

7 And in the event we're talking about UPS
8 sales, they will negotiate with the potential purchaser
9 to try to focus in on the needs of that purchaser and
10 then try to match the capacity that's available during
11 the time frame at a price that is acceptable for both
12 parties, so that's --

13 Q So, in a nutshell, would it be fair to say
14 that Southern does almost all of the marketing and
15 negotiating in marketing power for Gulf --

16 A They do a significant amount of it. However,
17 they do keep the operating companies informed and
18 up-to-date on what is going on, and the operating
19 companies are signators to the contract, so Southern
20 does not sign for the Company.

21 Q And I would like to refer you to Exhibit 456,
22 specifically Interrogatory 176. These are
23 interrogatories that were referred to you,
24 specifically. The question is, "Please describe the
25 role that Southern plays in marketing power from Gulf's

1 units?"

2 Answer, "Southern does almost all of the
3 marketing and negotiations --" I'm sorry, that is not
4 -- I'm not reading directly from the interrogatory.

5 MR. HOLLAND: What interrogatory were you
6 referring to?

7 MR. PALECKI: I will withdraw that question.

8 Q (By Mr. Palecki) What role does Gulf play in
9 the marketing of power from Gulf's units?

10 A As I've tried to explain earlier, we have an
11 advisory and approval role in negotiating this
12 contract. We indicate to them, to Southern Services,
13 our desire to have capacity for sale, and will act with
14 them. As I said earlier, we are responsible for
15 signing the contracts and, if necessary, on a
16 day-to-day basis or week-to-week basis, or however,
17 when your negotiations are going on, then we may or may
18 not be involved with a representative. It just depends
19 on the circumstances.

20 Q How does Gulf decide whether or not to
21 participate in the unit power sales?

22 A We'll look at our situation, our reserve
23 situation, to determine if we have capacity that would
24 be beneficial to our retail ratepayer, for us to try to
25 make UPS sales off-system. Our first priority, of

1 course, is to provide reliable service to our retail
2 customer.

3 And in the event we can do that and still
4 benefit them by making unit power sales off our system
5 and relieving them of the responsibility of carrying
6 that capacity, then we'll do so, and we'll so inform
7 Southern Services of that.

8 Q Are you aware of a single incidence where
9 Southern has determined that Gulf should make unit
10 power sales and they have been overruled by the Gulf
11 Company?

12 A Not that I can recall.

13 Q Is Mr. Dawson the best person to talk to
14 regarding Southern's marketing of unit power sales, or
15 would you have the same information that he has?

16 A Mr. Dawson may be able to help you in that
17 area. He headed that area up for a good long period of
18 time. He now is in the fuel area of the Company, but
19 he could possibly be able to talk about those with you.

20 MR. PALECKI: Because we would like to refer
21 these questions specifically regarding Southern's
22 participation in the unit power sales to Mr. Dawson, I
23 would like to ask if we would have the opportunity to
24 recall Mr. Parsons on this matter, if Mr. Dawson is
25 unable to answer those questions?

1 MR. HOLLAND: Sure.

2 MR. PALECKI: We'll go ahead and take, we
3 have specific questions regarding Southern's
4 participation that we'll refer to Mr. Dawson.

5 Q (By Mr. Palecki) Mr. Parsons, if Gulf were to
6 recover in base rates the 42 megawatt of Scherer that
7 was previously dedicated to Gulf States Utilities,
8 would that mitigate the damages that are being suffered
9 by Gulf?

10 A I think you would have to tell me what period
11 of time you're talking about, what the dollar amount
12 would be; there are a lot of things. I think you'd
13 have to look at the particular settlement, if there
14 were to be one. I may not fully understand your
15 question.

16 Q Well, let me, then, for background purposes,
17 what is the total amount of the lawsuit against Gulf
18 States? And are there more than one lawsuit?

19 A It's my recollection that we have one
20 countersuit against Gulf States that attempts to
21 collect amounts owed for a period of time from the
22 beginning of the contract up until they were suspended
23 in July 1988.

24 Q Is that brought by Gulf or by The Southern
25 Company?

1 A That would be The Southern Company with Gulf
2 as a party --

3 Q And --

4 A Let me finish, I didn't quite finish there.
5 There is another part that would take it from July of
6 '88, where the contracts were suspended. Because up
7 until that time, up until July of 1988, we were
8 continuing to furnish capacity and energy to Gulf
9 States under the provisions of the contract, even
10 though for a period of time we were not being paid for
11 that.

12 In the contract, from the time of suspension
13 in July of '88 to the end of the contract in '92, the
14 countersuit addresses the revenues that would have been
15 collected during that period of time. And then there
16 is a item of fraud as part of that which would have
17 some monetary value.

18 So I don't know of any one particular dollar
19 figure that I could give you that would indicate what
20 the countersuit is requesting.

21 Q Would it be fair to say that this is a
22 massive lawsuit that concerns not only Gulf Power and
23 the Southern Company, but Alabama Power and several
24 other of Southern's -- would they be subsidiaries or
25 sister companies, as well as Gulf Power?

1 A Yes, sir.

2 Q And the 43 megawatts that we're referring to
3 from Scherer is just a very small percentage of this
4 lawsuit, is that correct?

5 A The 43 megawatts is a portion of the total
6 sales to Gulf States. If you'll hold just a minute,
7 let me check. Now, we're talking about in what time
8 frame? That 44 megawatts changes during the period.
9 Let me see what amount the total sales to Gulf States
10 were.

11 if you're talking about 1990, we were
12 scheduled to sell 44 megawatts of UPS from Scherer 3,
13 our portion of it. The total sales from Southern's
14 system was 724 megawatts. So that's the ratio that we
15 would be involved in that --

16 Q Let me ask you, what motivation will Gulf
17 have to continue pursuing the 44 megawatt portion of
18 the default against Gulf States if the Commission
19 places the 44 megawatts in rate base, and any recovery
20 you get is subject to refund to Gulf's ratepayers?

21 A Well, there's a period of time that I've
22 mentioned earlier, from the inception of the contract
23 with Gulf States to the period of July 1st, 1988, which
24 was not covered. That was capacity that was furnished.
25 That is money owed to us from the period of July 1988

1 until the test year period. That is another period of
2 time that we would have damages that we're not asking
3 to recover.

4 The period of time that would be in conflict,
5 it appears to me would be the test year period. And in
6 any portion of any settlement that is reached, if ever,
7 would have to be designated for a test year period to
8 have any effect on this particular case.

9 Q So you're saying that we can trust the
10 Southern Company to designate this particular portion
11 of the massive lawsuit to Gulf in the event there's a
12 settlement with the Gulf States Company?

13 A We'd sure expect to get our fair share of any
14 settlement based on a logical reasoning why, based on
15 the projective sales, our portion of the total sales.

16 Q Why would Southern do that if this Commission
17 had already awarded you the amount in rate base? Would
18 that make financial sense?

19 A You're talking about just one year, the test
20 year? I think the question --

21 Q I was talking about any of the years. It's
22 still a small percentage of this total lawsuit,
23 correct?

24 A It is, but I'm not the financial witness. I
25 have a problem in seeing how we can talk about anything

1 other than the test year. If we were to get Scherer
2 capacity in the rate base in 1990, and then through
3 settlement have some portion of the settlement to be
4 allocated to '90, that would be one situation. But
5 anything prior to 1990, I don't think the retail
6 customer has been harmed, in effect.

7 Q Now, Mr. Parsons, Mr. Scarborough testified,
8 and I'm just going to paraphrase his testimony, that if
9 there were a recovery of this 44 megawatts from Gulf
10 States Utilities, that Gulf Power's treatment of that
11 would be to come back before this Commission with the
12 settlement award and make that amount subject to refund
13 to the customers. If that amount was subject to refund
14 by the customers, what financial motivation would
15 Southern Company have to allocate that 44 megawatts to
16 Gulf, rather than to allocate it to Alabama or one of
17 the many other parties to this lawsuit?

18 A It would be done the peoper way that it
19 should be done. It would be based on a logical
20 reasoning for doing that based on the percent of sales
21 or percent of revenues owed Gulf. I mean, I can't see
22 how anyone would play any games in doing that. It
23 would have to be done the right way, and then whatever
24 effect that has on the retail jurisdiction would be
25 addressed based on that particular figure.

1 Q But there's no legally binding obligation to
2 that effect. We would have to trust the Southern
3 Company on this one, correct?

4 A I think, contractually, we would have a
5 pretty good argument about what the situation should be
6 from Gulf's standpoint. As I've said earlier, the UPS
7 sales have been made in the past, in our opinion, for
8 the benefit of the retail ratepayer, and there would be
9 no reason not to address it any other way.

10 COMMISSIONER BEARD: Let me ask a question
11 here, or actually two. I followed you right up to test
12 year, and I understand what you're saying about test
13 year. Can I interpret what you're saying there to mean
14 test year forward. Because doesn't the Scherer
15 contract, as it originally existed, didn't it run into
16 what, '92?

17 WITNESS PARSONS: For Gulf States?

18 COMMISSIONER BEARD: Yes.

19 WITNESS PARSONS: Yes, sir.

20 COMMISSIONER BEARD: So it would actually be
21 test year forward?

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

23 COMMISSIONER BEARD: Any funds associated
24 with, for example, '91, '92, would also be subject to
25 refund?

1 WITNESS PARSONS: That's correct. That's
2 correct.

3 COMMISSIONER BEARD: But then would it follow
4 that following this line of questioning, since you work
5 with Southern Services, that if in Gulf's perception
6 Southern Services did not do it properly, they would be
7 -- how should I say this nicely? Would they take
8 Southern Services to court?

9 WITNESS PARSONS: Commissioner, I have --

10 COMMISSIONER BEARD: He said that falls under
11 the "fat chance" docket.

12 WITNESS PARSONS: You know, I really have
13 trouble understanding why it can't be perceived that it
14 would just be done the correct way. I mean, there are
15 reasons, there would be reasons for doing it, reasons
16 for allocating the settlement, and I know I cannot
17 foresee any other situation that would not exist based
18 on a logical reason on the contractual requirements
19 that we have with Gulf States.

20 COMMISSIONER BEARD: I just was pursuing the
21 hypothetical. It struck me as funny, but just curious.

22 Q (By Mr. Palecki) Mr. Parsons, it's my
23 understanding that as more and more of the capacity of
24 Schreer 3 is dedicated to unit power sales, that less
25 will be available to serve the territorial customers in

1 the future years, is that correct?

2 A Of the existing capacity, if more capacity is
3 included in the UPS sales, less of that capacity will
4 be available for our retail customer?

5 Q Yes, that's the question.

6 A Yes, that's correct.

7 Q Could you please provide us with a late-filed
8 exhibit, which shows the appropriate rate base and NOI
9 adjustments to phase out 30 megawatts of Scherer in
10 rate base in 1992, leaving 33 megawatts in rate base;
11 38 megawatts in 1993, leaving 25 megawatts in rate
12 base; 36 megawatts in 1994, leaving 27 megawatts in
13 rate base; 48 megawatts in 1995, leaving 15 megawatts
14 in rate base; and 63 megawatts in 1996.

15 In your analysis, please assume that 63
16 megawatts of Scherer was included in rate base in 1990,
17 and the items listed in Staff's position to Issue 27
18 are adjusted. Also, please include the appropriate
19 adjustment to reflect the difference in revenues from
20 the IIC. And we'd like to refer to that as, in a short
21 title as "A Scherer Phase-Out Schedule."

22 COMMISSIONER BEARD: For my curiosity, read
23 me back those numbers per year on Scherer 3.

24 CHAIRMAN WILSON: Do you have it in the form
25 of some sort of chart that you could just give

1 Commissioner Beard? Is it written down?

2 MR. PALECKI: We have it in the form of a
3 narrative.

4 CHAIRMAN WILSON: That's fine.

5 MR. PALECKI: We'll just make a copy of that.

6 CHAIRMAN WILSON: Late-Filed Exhibit 584.

7 (Late-Filed Exhibit No. 584 identified.)

8 WITNESS PARSONS: Could we get a copy, also?

9 COMMISSIONER EASLEY: I was going to suggest
10 you give a copy to the witness so he'll know what you
11 asked for, for sure.

12 CHAIRMAN WILSON: Why don't you give the
13 witness, too? If you need to clean it up, or anything
14 like that, do so, but at some point give it to him
15 before he needs to respond.

16 COMMISSIONER BEARD: Mine can be sloppy. I
17 just want to look at the numbers and the years.

18 MR. PALECKI: Do you need those items that
19 are listed in Staff's Issue 27? I think your counsel
20 could provide you with those. There's about ten
21 different adjustments.

22 Q (By Mr. Palecki) Mr. Parsons, what was the
23 total system burn for coal in the 1984 test year --
24 excuse me, let me rephrase that.

25 Was the total system burn for coal for the

1 1984 test year in Docket 840086 based on the number of
2 kilowatt hours to be generated in the test year?

3 COMMISSIONER EASLEY: Was that docket the
4 last rate case?

5 MR. PALECKI: Yes, that's the last Gulf rate
6 case.

7 A I'm sorry, would you restate your question?
8 I lost about half of it.

9 Q Was the total system burn for coal for the
10 1984 test year in the last Gulf rate case based on the
11 number of kilowatt hours to be generated in the test
12 year?

13 A Yes, I think that's correct.

14 Q So the average daily burn of coal is based on
15 the expected average daily number of kilowatt hours to
16 be generated, correct?

17 A I think you would take your average fuel
18 usage during the year and divide it by 365 days to give
19 you the average daily burn.

20 Q Are you familiar with the level of fuel
21 inventory that was approved by the Commission in that
22 case? Specifically, are you familiar with the portion
23 of Order No. 14030 which indicates that the Commission-
24 approved methodology resulted in a level of fuel
25 inventory to provide for 107.5 days burn?

1 A Yes, sir, I'm familiar. (Pause)

2 Q I have another question. I'd like to get
3 back to the Scherer 3 issue. If the Commission was to
4 include the 42 or 44 megawatts of Scherer that was
5 previously dedicated to Gulf States, could that be
6 considered to mitigate the damages suffered by Gulf,
7 and wouldn't that jeopardize Southern's chances of
8 recovery of damages?

9 A I think that would have to be a legal
10 question.

11 MR. HOLLAND: I think that is a legal
12 question and the answer to that question, I think,
13 could be extremely prejudicial to our position in the
14 Gulf States' litigation, and ultimately to Florida's
15 ratepayer.

16 CHAIRMAN WILSON: Why don't you move to the
17 next question?

18 MR. PALECKI: All right.

19 Q (By Mr. Palecki) The final issue I'd like to
20 refer to is Issue 78, and that is has there been any
21 double counting of expenses for services rendered by
22 Southern Company Services or EPRI? To me, it looks
23 like there is double counting.

24 Apart from our trusting your representation
25 that there has not been double counting, can you point

1 to any proof that there hasn't been any double counting
2 on this issue?

3 MR. HOLLAND: Commissioner, let me object to
4 the characterization made there. And I don't think
5 that the burden is on Gulf Power Company to prove that
6 there has been no double counting. If there is
7 evidence to show that there has been double counting, I
8 think it's incumbent upon Staff, or whoever the party
9 is who is raising the issue of a potential double
10 count, to point that out so that it can be dealt with.
11 And, to my knowledge, there has been none in this rate
12 case.

13 MR. PALECKI: I think it would clearly be
14 Gulf's burden of proof to show there hasn't been double
15 counting. There is an appearance of double counting;
16 the issue has been brought because it is there, and we
17 would just like to see if there is any documentation,
18 apart from representations that there simply isn't
19 double counting.

20 MR. HOLLAND: Commissioners, you can't prove
21 a negative. And I don't know -- if someone will point
22 to instances where they think there might have been a
23 double count, we can deal with that, and, in fact, have
24 dealt with it. We did deal with it in the tax rule and
25 we dealt with it in other places.

1 To the extent there has been a double count,
2 there ought to be an adjustment. But unless somebody
3 points to a specific area, I think it's not our burden
4 to come forward and prove the negative; that there has
5 been no double count.

6 CHAIRMAN WILSON: Let me hear what your
7 question was.

8 MR. PALECKI: I think I'd have to ask the
9 court reporter to read it back, because it's not a
10 question I had written down.

11 CHAIRMAN WILSON: Basically, what you asked
12 is can you prove that there has been no double
13 counting?

14 Q (By Mr. Palecki) Can you point to any proof
15 or documentation, apart from your own representations
16 that there hasn't been?

17 And I don't see that there would be any
18 prejudice whatsoever in allowing the witness to answer
19 that question. It's open-ended; we've given him every
20 opportunity.

21 CHAIRMAN WILSON: Is there a document that
22 suggests there's been double counting?

23 MR. PALECKI: That's been an issue.

24 CHAIRMAN WILSON: I understand it's an issue.

25 MR. HOLLAND: Mr. Chairmar, let me point you

1 to the positions of the parties. OPC takes the
2 position that they cannot identify any double counts at
3 this time, and Staff agrees with that.

4 CHAIRMAN WILSON: What issue number is that?

5 MR. HOLLAND: Issue No. 78.

6 MR. PALECKI: I don't think that our issue
7 statements or our Staff positions are carved in stone.
8 The reason we asked the question is to see what
9 information that the witness can provide us with. And
10 certainly it wouldn't prejudice Gulf in any way to
11 allow the witness to answer that question.

12 Our purpose here is to obtain more
13 information, and we're giving Gulf the opportunity to
14 give us more information.

15 CHAIRMAN WILSON: And you've asked whether
16 there is a document?

17 MR. PALECKI: Whether there is any
18 documentation that there hasn't been any double
19 counting.

20 CHAIRMAN WILSON: That would demonstrate that
21 the services rendered by SCS or EPR1 are not
22 duplicative.

23 MR. PALECKI: Correct. It appeared that
24 before the objection the witness was ready to provide
25 us with an answer.

1 CHAIRMAN WILSON: I think it's a fair
2 question. I'm going to overrule the objection.

3 WITNESS PARSONS: Well, there's only a couple
4 of ways that I can approach the answer to that
5 question. One would be in the charges of Southern
6 Company Services, when we receive those charges, the
7 charges that flow to Gulf Power Company come to us
8 based on a work order that has been set up.

9 When we decide that we need work performed by
10 Southern Company Services, we send them a letter in
11 writing explaining the need for those services and a
12 work order is set up for those charges.

13 The person at Gulf Power Company that is
14 responsible for that type of work, monthly, when these
15 bills come in from Southern Services, we will review
16 those bills, check for the accuracy to be sure that
17 they are doing what we want, and that we're getting
18 paid for what they're doing.

19 If you were to suspect that the work is being
20 done for EPRI, and being reimbursed by EPRI, there is
21 another work order system that is set up that
22 identifies to the Southern Company Services employee
23 those tasks that will be reimbursed by EPRI and those
24 tasks that will be performed for an operating company.
25 And when they keep their time, they, through the

1 billing process, determine what can be reimbursed by
2 EPRI and what goes to the operating companies in
3 Southern.

4 If you're addressing the point of perhaps
5 work being done by EPRI that might also be done by
6 Southern Services, I think that you have to look at a
7 subject, such as advanced power plant enhancements.
8 Let's say that the EPRI budget, or work, for 1990
9 indicates an advanced power plant enhancement category.
10 We might have those charges from Southern under the
11 same category. You may feel that there would be double
12 counting there, but the type of work done by EPRI and
13 by Southern Services people will be completely
14 different in that situation. Unless a Southern
15 Services person is working for EPRI in this area, then
16 they will be reimbursed.

17 But, for instance, let me give you just this
18 one example for advance power plant enhancements: If
19 Southern Services were to charge work or time to that,
20 that may be for assisting -- well, the object of those
21 activities would be to develop monitoring and testing
22 programs to optimize boiler combustion efficiency and
23 reduce overall heat rates at our plants. This will
24 help us to generate in a more efficient manner.

25 Southern Services' duties in those areas

1 would be to assist operating company personnel in
2 conducting boiler and air heater evaluations; they
3 would assist in the installation and testing of on-line
4 coal flow, and other measurement techniques; they may
5 do research projects on a individual plant in the
6 Southern System, and they may evaluate various fuels at
7 the plants to determine the effect on combustion and
8 boiler efficiency. All of those would come under the
9 category of that.

10 EPRI, in that same category, it has 12
11 different programs under this particular type of
12 research, and it ranges anywhere from overhead and
13 underground transmission and distribution systems to
14 plant electrical terms and equipment and electrical and
15 magnetic fields.

16 Examples of the work that EPRI might be doing
17 in this area would be the development of new conductor
18 for low-loss transformer windings; the development of
19 power system operator training simulators; the
20 development of combined generation and transmission
21 system reliability calculations; work to develop
22 equipment and techniques to reduce the cost of handling
23 underground distribution cable, and installing this
24 cable. And then you help to develop hardware for
25 digital protection and control systems for distribution

1 substations.

2 The point I'm trying to make is, if you were
3 to look at a category that we may be contributing to
4 EPRI, at the same time paying Southern under the same
5 category, if we have people at Southern that are doing
6 work for EPRI in those categories, they will be being
7 reimbursed through the work order procedure from EPRI
8 and we would not be paying for it.

9 If they are doing work for us under those
10 categories, we would pay for it. And the type of work
11 that EPRI does is focused more toward total utility
12 national situations. They do have projects on the
13 individual company properties, but primarily they are
14 focused toward the big picture, where Southern
15 Services' involvement would be for the Southern System
16 and individual operating companies.

17 I don't know whether that helps or not.
18 That's the best answer I've got unless we look at
19 something more definitive.

20 Q (By Mr. Palecki) Is there a specific
21 individual in charge with cross-checking that?

22 A Every individual -- Mr. Colen Lee may have 50
23 or 75 work orders in his area. Some may be
24 engineering, some may be plant-related. The person
25 that requested that that work be done from Southern

1 Services writes Southern through Mr. Lee. We will
2 request the work be done. Then every monthly billing
3 that comes to us will come to Gulf, to Mr. Lee, to the
4 person who's closest to that particular work for
5 hands-on observation and approval of the work to be
6 done. And then we either approve it or, if there is a
7 discrepancy, we get with Southern and get it
8 straightened out.

9 But there is no one person, other than the
10 person that receives the total bill from Southern,
11 other than the people in all areas of the Company, that
12 are responsible for approving their particular portion
13 of the work from Southern Services.

14 Q Well, with that many accounts as you've
15 referred to, how is it possibly cross-checked or
16 verified by either Gulf or Southern?

17 A Every account that Southern charges to is
18 assigned to one person. And that one person has the
19 responsibility to check any charges from Southern to
20 that one account.

21 Q But there is no one person, or one
22 department, that will take all of them and determine
23 whether or not there has been any double counting or
24 any irregularities?

25 A I think it would be more accurate to let the

1 person closest to the work being performed to do that.
2 I don't think we have one person, other than someone
3 who can check the accuracy of the calculations and all,
4 there is no one person that has knowledge of all of the
5 work that Southern would perform for Gulf Power
6 Company, and would have an ability to verify that that
7 work has been done and is properly accounted for.

8 COMMISSIONER EASLEY: Is that all subject
9 ultimately to the audit procedure?

10 WITNESS PARSONS: Yes, sir.

11 MR. PALECKI: Staff has no further questions.

12 CHAIRMAN WILSON: Why don't we take about a
13 ten-minute break.

14 MR. BURGESS: Commissioner, could I ask a
15 question before we take a break?

16 CHAIRMAN WILSON: It has to be asked before
17 we take a break, Mr. Burgess.

18 MR. BURGESS: Ask whether I can ask the
19 question before we take a break?

20 CHAIRMAN WILSON: Yes.

21 I have a situation, I've brought Mr. Rosen
22 down; he's currently at our office waiting to testify.
23 In the interest of the economics, I was hoping to get
24 an idea of the likelihood of his being needed before
25 Monday. If he's not needed this week, I'd like to go

1 ahead and send him home on a plane this afternoon.

2 CHAIRMAN WILSON: I can't imagine anybody
3 wanting to miss the opportunity to spend a weekend in
4 Tallahassee. But --

5 MR. BURGESS: I'm sure he does, but we don't
6 want to pay him to do it.

7 CHAIRMAN WILSON: I can't see any reasonable
8 possibility of getting to him prior to Monday.

9 MR. BURGESS: Okay, and we have the other
10 witnesses, too.

11 CHAIRMAN WILSON: So I think that would be
12 fine.

13 MR. BURGESS: Thanks. I'll bring him back on
14 Monday.

15 CHAIRMAN WILSON: If we get to him, we'll
16 stop.

17 MR. BURGESS: There is an incentive. Thanks
18 very much.

19 CHAIRMAN WILSON: All right. We'll take a
20 ten-minute break.

21 (Brief recess.)

22

- - - - -

23 COMMISSIONER GUNTER: Let's get started. Mr.
24 Palecki, you were through, were you not?

25 MR. PALECKI: Yes, I have no further

1 questions.

2 COMMISSIONER GUNTER: All right,
3 Commissioner?

4 COMMISSIONER BEARD: Okay. Help me out. You
5 all purchase power from Southern Company, sometimes;
6 sometimes you sell it.

7 WITNESS PARSONS: Yes, sir.

8 COMMISSIONER BEARD: Okay. When you sell
9 power to Southern Company, how are you paid? In other
10 words, are you paid based on the cost to produce that
11 power?

12 WITNESS PARSONS: There are two components of
13 that. One is a capacity payment. In a month where we
14 are long and we're selling to the system, we will sell
15 the amount of megawatts that we need to to equalize the
16 system reserves. For that, we receive a capacity
17 payment that is based on the imbedded costs of all of
18 our fossil units.

19 COMMISSIONER BEARD: Okay.

20 WITNESS PARSONS: Absent any UPS. It's just
21 the capacity that's available on our system. That's
22 the capacity part of it.

23 COMMISSIONER BEARD: And you sell that to
24 Southern Company Services?

25 WITNESS PARSONS: It just goes to the pool --

1 COMMISSIONER BEARD: Okay.

2 WITNESS PARSONS: -- and the Company that is
3 short, you may have two companies that are long, three
4 companies that are short. It goes, the long companies
5 sell into the pool at their imbedded cost. It's sold
6 to the purchasing companies and then you are
7 reimbursed, if you're a selling company, you receive
8 your imbedded cost for it. It goes to the pool at the
9 end of the month. Somebody has to pay, somebody has to
10 receive. So it's handled by the pool.

11 COMMISSIONER BEARD: And if you're short and
12 you're buying, it's based on the imbedded cost of the
13 pool?

14 WITNESS PARSONS: The average of what has
15 been sold to the pool. If we sell 100 megawatts at our
16 imbedded cost and Alabama sells 100 megawatts at their
17 imbedded cost, and you have three companies buying,
18 they will buy at an average that they buy from the
19 pool, at that cost. We will be reimbursed our full
20 imbedded cost on sales to the pool. That's the
21 capacity side of it.

22 COMMISSIONER BEARD: That includes a
23 calculation for reserve? In other words, what I'm
24 trying to get at, let's say that you -- well, I'm
25 trying to keep this in my terms. Let's say that 20%

1 reserve is the system norm, if you will.

2 WITNESS PARSONS: All right.

3 COMMISSIONER BEARD: That's exactly equal.

4 And let's say that, maybe, you only have 15% reserves.
5 But it's a light month. In other words, it's April,
6 for example. And you not only -- you don't need any
7 power other than what you've got. What you're telling
8 me is that you're still going to be in and out of the
9 system, short and long, based on system dispatch,
10 right?

11 WITNESS PARSONS: Yes, sir. Let me see if I
12 can help you. The intercompany/interchange contract
13 has a manual attached to it that's filed every year,
14 updates all of the items that the pricing goes into.
15 And on a month-by-month basis, the contract will tell
16 who the short companies would be and who the long
17 companies will be.

18 Maintenance schedules have something to do
19 with it; loads have something to do with it; and in
20 effect, we could possibly be net for the year, a seller
21 to the pool, but we may be selling 10 months out of the
22 year and purchasing two months out of the year. But
23 what we purchase is a lot less than what we sell. So
24 for the year, net, we'll be a net purchase -- net
25 seller to the pool.

1 This is done on a month-by-month basis. Now,
2 in a month where we may have 10 megawatts too much
3 above the system average, we would sell the 10
4 megawatts to the pool. The other companies that were
5 shot, that needed 10 megawatts -- maybe one company,
6 maybe three, four companies -- they would purchase
7 those 10 megawatts in that month from the pool. And if
8 we were the only seller, they would purchase at our
9 imbedded cost.

10 COMMISSIONER BEARD: Now, changing the
11 subject a little bit, but I'll come back because I want
12 to try to understand a relationship. You're a member
13 of what they call the Operating Committee?

14 WITNESS PARSONS: Yes, sir.

15 COMMISSIONER BEARD: You're Gulf Power's
16 representative --

17 WITNESS PARSONS: Yes, sir.

18 COMMISSIONER BEARD: -- on that. When you
19 sit on that committee, do you sit as a representative
20 of Gulf Power whose first priority is interest in UPS
21 sales, where you have capacity available from your
22 units, or do you -- for example, you sit down and you
23 say, "Well, I've got some capacity from Scherer 3 and
24 Daniels 1 and 2, and that's my first priority."

25 And the Alabama guy sits down and says,

1 "Hell, I want to sell mine from Miller," and
2 Mississippi says Daniels 1 and 2, and Georgia says
3 Scherers 1 thru 4.

4 Or do you all sit as a quote/unquote,
5 "looking from the system," and kind of divorced from
6 your role in Gulf Power? Am I making some sense?

7 WITNESS PARSONS: Let me, I think there may
8 be some confusion relative to the UPS sales and the
9 intercompany interchange contract. They are two
10 different concepts.

11 COMMISSIONER BEARD: I understand that.

12 WITNESS PARSONS: The Operating Committee --
13 my responsibility as a Gulf Power representative is to
14 ensure we have sufficient capacity to serve our load in
15 the Gulf Power Company. We go through a planning
16 process, all the companies do, to assure that they all
17 have the capacity to serve the loads on their
18 territorial systems.

19 Then our planning departments come together
20 as a group, and try to maximize the efficiency of that
21 capacity that's available, total system capacity,
22 taking into consideration the individual company needs,
23 their construction plans, and so forth. We will make a
24 decision to build generation based on our own
25 customers' needs.

1 All right. The Operating Committee
2 administers the contracts, the intercompany interchange
3 contract. And depending on what you have on your
4 system determines what flows back and forth. And we
5 will look at provisions of the contract, make any
6 changes -- which are very infrequent -- in that.

7 That's the IIC, the intercompany interchange
8 contract that operates absent any UPS, that is just the
9 way it operates in trying to equalize reserves and do
10 long-term planning. We also, one of our
11 responsibilities is to look at the total generation
12 expansion plan for the entire system, so that we can
13 kind of look at the reserve levels. And if a company
14 is saying, "I don't need capacity until the year 2000,"
15 yet they're dragging pretty much on reserves, from now
16 until then, we have to talk about that to be sure that
17 all of us carry our responsibilities because there are
18 some times when we lean on the pool, some times when
19 other companies lean on the pool.

20 All right. To look then beyond the
21 responsibilities of the Operating Committee to the UPS
22 situation --

23 COMMISSIONER BEARD: Don't you all have to
24 approve UPS contracts?

25 WITNESS PARSONS: Yes, sir, we do.

1 COMMISSIONER BEARD: Okay, go ahead.

2 WITNESS PARSONS: Each of the operating
3 companies will sign the UPS contract.

4 To address that situation, I will have some
5 feel for the capacity -- and this is looking at the
6 entire system reserves, knowing which units, if we have
7 some high-priced capacity and there are some UPS sales
8 out there, then I'm going to be trying to sell my high
9 priced capacity through the UPS concept, which relieves
10 my retail customers of that responsibility. And
11 vice-versa, everybody is doing the same thing.

12 What we try to do, as a system, is to sell
13 the highest priced capacity off our system, through
14 UPS, and still maintain the proper reliability to our
15 retail customers.

16 And absent anything else, if you could always
17 sell the highest priced capacity off the system, that's
18 what you would do. But you've got other factors
19 involved. You've got what the purchaser is willing to
20 buy; you've got reserve situations that you have to be
21 concerned with. Are we, depending on the circumstances
22 one company may not be allowed -- even though they've
23 got all of the high-priced stuff, they may not be
24 allowed to sell all of their capacity while the others
25 have to support them, unless the circumstances are such

1 that it's in the best interests of the customers.

2 So, it's kind of a negotiated thing.

3 The first intent -- two intents. One, to
4 take care of our retail customer, first. Second, to
5 try to maximize -- or minimize the cost to them while
6 maximizing the revenues that come into the system. So,
7 it's kind of a combination deal where you look at it
8 and just try to do the best you can in deciding which
9 units are going to be sold.

10 And you don't do this in a vacuum. Because
11 the purchasers pretty well know what your situation is,
12 they know the capacity available, and they may not be
13 willing to just take the high-priced megawatts off your
14 system. They may want a little piece of your high
15 price, but they may want a little piece of your next
16 highest price, and so forth. That's why you see some
17 of these units coming in and out of contract during the
18 period of time.

19 COMMISSIONER BEARD: If you, let's say in
20 your specific case, you've got Daniel and you've got
21 Scherer out there. And in the past, at least, there's
22 been some megawatts sold both of them UPS. Let's say
23 -- I guess I got the impression that if I am Gulf
24 States and I contract for 63 megawatts of Scherer, as
25 an example, okay? And at that same time, perhaps in

1 this particular scenario, I'm long in the pool, I'm a
2 net seller, okay? Now, Gulf States is going to be
3 purchasing 63 megawatts of Plant Scherer at Plant
4 Scherer's capacity cost, correct?

5 WITNESS PARSONS: Yes, sir.

6 COMMISSIONER BEARD: And you're going to be
7 getting paid for the Daniel capacity that you're
8 putting into the pool at your total average fossil fuel
9 imbedded cost, correct?

10 WITNESS PARSONS: If, if I'm long and have
11 both Daniel and Scherer capacity available?

12 COMMISSIONER BEARD: Well, let's, yeah, let's
13 take a specific example. Let me dig back, I think we
14 can probably find it here.

15 WITNESS PARSONS: Let me say one thing, to
16 see if this clears out. If you make a Scherer sale to
17 Gulf States, through UPS, 63 megawatts only, that 63
18 megawatts comes out of our capacity equalization, we
19 don't have that ability to equalize. Gulf States pays
20 us the incremental cost of that 63 megawatts.

21 COMMISSIONER BEARD: So they're going to pay
22 you exactly what they're being paid?

23 WITNESS PARSONS: Are we talking about Gulf
24 States and a UPS sale?

25 COMMISSIONER BEARD: Gulf States -- well,

1 Southern Company Services is actually doing the sale,
2 the deal with Gulf States?

3 WITNESS PARSONS: Well, the contract has all
4 the operating companies in Southern Services as
5 signatories to that. So, if we make a sale this month;
6 if Gulf States is buying 100 megawatts from the
7 Southern System, 60 megawatts is coming from Gulf and
8 40 is coming from somebody else, the 60 megawatts would
9 be reimbursed to us at the incremental rate. The other
10 40 megawatts Gulf States would pay for their
11 incremental rate.

12 And if we had some additional Scherer that we
13 were selling to the pool, as part of being long, that
14 would go into our total. That incremental cost would
15 go in and average with the Daniel, with the Crist, with
16 the Smith and the Scholz, and we would come up with an
17 imbedded cost per kilowatt month that we would sell to
18 our operating company members, that they would buy from
19 us at an imbedded cost, rather than the incremental
20 cost for Scherer.

21 COMMISSIONER BEARD: But the UPS portion of
22 that, you're telling me, if I understand it correctly,
23 Gulf States would be purchasing that at the incremental
24 capacity cost from Southern Services --

25 (Simultaneous conversation.)

1 WITNESS PARSONS: They pay Southern; Southern
2 pays us.

3 COMMISSIONER BEARD: With you all as
4 signatories, and they pay you the exact same amount?

5 WITNESS PARSONS: Yes, sir.

6 COMMISSIONER BEARD: It flows straight
7 through?

8 WITNESS PARSONS: Yes, sir. (Pause)

9 COMMISSIONER BEARD: Okay. Then in the '84
10 rate case we had 270 megawatts of Plant Daniel
11 approved, is that right, I think, and that left 245 --

12 WITNESS PARSONS: Approved for --

13 COMMISSIONER BEARD: -- for rate base.

14 WITNESS PARSONS: Let me check just a minute,
15 Commissioner.

16 COMMISSIONER BEARD: Okay. (Pause)

17 WITNESS PARSONS: Okay. Your question
18 addresses the amount of capacity that we had sold
19 through UPS?

20 COMMISSIONER BEARD: No. I think originally
21 stated in the '84 rate case, this Commission approved
22 270 megawatts of Plant Daniel to be included in the
23 rate base, and that netted out and left 245 megawatts
24 for something else. In this case, I think UPS is what
25 was going on.

1 WITNESS PARSONS: Yes, sir.

2 COMMISSIONER BEARD: Okay.

3 WITNESS PARSONS: Approximately, it's
4 between 242 and 245, its depends on what the capability
5 to the unit was.

6 COMMISSIONER BEARD: Yeah. And then in this
7 rate case you're asking to move that remaining 245
8 megawatts into rate base. In other words, to move all
9 of the Plant Daniel into rate base for this rate case.

10 WITNESS PARSONS: Yes, sir. Let me correct
11 one thing. The sales we were making off-system at that
12 time were 239 megawatts. We had 270 in our rate base
13 in 1984.

14 COMMISSIONER: Right. Okay.

15 WITNESS PARSONS: 270 was in the rate base.
16 Now, what was your next question, I'm sorry?

17 COMMISSIONER BEARD: Then you're moving all,
18 if approved, you wou'd move the rest of Plant Daniel,
19 your part of Plant Daniel, into rate base?

20 WITNESS PARSONS: Yes.

21 COMMISSIONER BEARD: Okay. When you move all
22 of Plant Daniel into rate base, let's assume that
23 occurred effective 1-1-90; in 1982, you run a contract
24 and you were to sell 200 megawatts of Plant Daniel UPS,
25 how is that treated? How does that work?

1 WITNESS PARSONS: Probably not be treated
2 very favorably by my other operating companies, because
3 they would probably have some capacity that was at a
4 much higher price than the Daniel capacity. But
5 assuming that, taking your assumption that the Daniel
6 capacity was the capacity to be sold in 1992. What
7 level did you say? 200?

8 COMMISSIONER BEARD: Oh, it doesn't matter.
9 One, 10, 20, 100. I'm more interested in the theory of
10 how you treat that, how the dollars flow.

11 WITNESS PARSONS: The Daniel capacity would
12 be sold to a purchaser off-system, 100 megawatts at the
13 then incremental cost of Daniel. They would be billed
14 by Southern Services. They pay Southern Services.
15 Southern Services flows the money back to Gulf for that
16 100 megawatts of Daniel UPS capacity in that year.

17 COMMISSIONER BEARD: In this instance, the
18 revenues would flow above the line because all of it is
19 in rate base?

20 WITNESS PARSONS: No, sir. That is in a
21 different jurisdiction, the FERC jurisdiction. And
22 maybe I'm getting into an area now that Mr. Scarbrough
23 needs to address. But the revenues, when you say
24 "above the line," it would not be the retail
25 jurisdiction.

1 COMMISSIONER BEARD: Well, now, if you have
2 got all of Plant Daniel in rate base, and Plant Daniel
3 is being -- that's in the rates that we've approved,
4 okay? But then you sell some X number of megawatts
5 off-system through UPS sales, and those revenues are
6 received back, you're telling me they wouldn't go back
7 to compensate the ratepayers for what they've already
8 paid for?

9 WITNESS PARSONS: I really think that Mr
10 Scarbrough needs to discuss the surveillance report and
11 how that is handled on a month-by-month basis, with a
12 transaction like that.

13 COMMISSIONER BEARD: Okay, that's fine.
14 Okay.

15 Have you had a chance, by any chance, to look
16 at all at the Dalton deposition?

17 WITNESS PARSONS: Dawson deposition?

18 COMMISSIONER BEARD: Is it Dawson? Dawson?
19 I'm sorry. Dawson, yes. Are you familiar with it at
20 all?

21 WITNESS PARSONS: I've looked at some pages.
22 I don't think I've looked at the entire deposition.

23 COMMISSIONER BEARD: Okay. Well, I may be
24 asking the wrong person the wrong question on part of
25 this anyway. To the extent that Mr. Scarbrough would

1 talk about how the dollars flow, this may or may not be
2 your question.

3 He had in his deposition, I think it's on
4 Page -- somewhere around Page 80, 79 to 81, he referred
5 to a Late-filed Deposition Exhibit No. five, which
6 Counsel for Gulf Power was kind enough to supply me.
7 And in there were two sheets of paper, actually, that
8 were referred to as -- let me find it, I got the stack
9 somewhere here -- referred to as "Minimum new source
10 capacity available for '89 through '92." And the next
11 sheet was, "Maximum new source capacity available for
12 '89 to '95."

13 Would you be the person to talk to from the
14 Company on that? Obviously, Mr. Dawson is who I would
15 talk to from Southern Company Services, but I just need
16 to know who I'd talk to about that document?

17 WITNESS PARSONS: I'll try to answer your
18 questions.

19 COMMISSIONER BEARD: Have you got a copy of
20 that late-filed?

21 WITNESS PARSONS: Yes, sir, I have that in
22 front of me.

23 COMMISSIONER BEARD: Let's go to the maximum
24 available, if we can, first.

25 MR. PARSONS: Yes, sir.

1 COMMISSIONER BEARD: If I understand this, in
2 reading the testimony associated with that, there's the
3 possibility in the upcoming years that, for example,
4 and let's take the year '92, that if Mr. Dawson could
5 get you all's agreement he would be susceptible to
6 selling as much as 257, plus 257 megawatts of Daniel 1
7 and Daniel 2? What's that, 514 megawatts; i.e.,
8 potentially he would sell all of Daniels 1 and 2 UPS?

9 WITNESS PARSONS: I think this is a
10 mischaracterization. I think what this shows is the
11 NSPS, the new source performance standard capacity,
12 that is not, during this time period, sold under UPS.
13 But this doesn't mean that we've got this much NSPS
14 capacity that we would be willing to sell in the unit
15 power sales concept.

16 COMMISSIONER BEARD: Well, let's back up then.

17 WITNESS PARSONS: I don't believe.

18 COMMISSIONER BEARD: Let's go to the page
19 before that, because I tried to relate these two. That
20 says "Minimum new source capacity available for '89 to
21 '92." I just happened to choose '92 because there was
22 an overlap there. And that is, in fairness, January to
23 May.

24 Daniel -- hang on a second. We'd better back
25 up to Page 1 that's attached to that. You've got that.

1 The first sentence says -- this titled "UPS Available
2 to Potential Purchasers '89 to '95." "The attached
3 tables show new source performance standard generating
4 units available to Southern Companies for sale to
5 third-party utilities, including estimated capacity
6 charge and energy charge associated with each of such
7 units."

8 Table 1 displays 1000 megawatts of capacity
9 that is available for sale during '92, or through '92,
10 and, obviously, the other one shows ranging from just
11 short of 3000 to short of 4000 megawatts. That's the
12 maximum. What I'm trying to -- I guess we can do this
13 one of two ways. If you think that that's not what
14 this says -- and perhaps I should wait on Mr. Dawson,
15 let him tell me, and then I can come back to you on
16 rebuttal and ask you Gulf's position.

17 WITNESS PARSONS: Let me address that, and
18 then if it doesn't satisfy you, we'll go further. What
19 I see from this table, and Mr. Dawson can tell you what
20 it is, our primary concept of UPS initially was that
21 all of these units that were brought on beginning in
22 the early -- in the late '70s and going through Miller
23 4, which would be '91, are what we consider NSPS units,
24 high capital cost units, the newest units on our
25 system. And as our load projections continue to

1 decline, these might have been beneficial to our retail
2 customers to be able to make these sales.

3 I think what this table says is there are
4 contracts out there that cover certain amounts of the
5 NSPS or new source performance standard units. Those
6 units not under contract are listed here.

7 Now, if you were to come to Gulf Power and say
8 to me, "Are you willing to sell all 515 megawatts of
9 your Plant Scherer capacity in 1992," I would have to
10 say, "What does the market look like?" What is the --
11 "What is the alternative capacity available for me to
12 meet my territorial loads?" I think this just
13 identifies that special category of capacity, and he,
14 or Southern Services marketing group would not have
15 carte blanche authority to go out and make these sales
16 without looking at the situation, looking at the
17 amount, looking at the replacement power and all.

18 COMMISSIONER BEARD: I think he makes that
19 point.

20 MR. HOLLAND Excuse me, Commissioner. Just
21 for the record, he said 515 megawatts of Plant Scherer.

22 COMMISSIONER BEARD: Scherer? It's Daniel.

23 WITNESS PARSONS: Daniel.

24 COMMISSIONER BEARD: He and I are
25 communicating.

1 MR. HOLLAND: I know, but just -- for the
2 record.

3 COMMISSIONER BEARD: I guess what this says to
4 me is it says that based on projections of needs,
5 you're willing to sell -- if I read this correctly, and
6 Mr. Dawson can correct me, Southern Services is willing
7 to sell on-system somewhere between 1000 and -- in '92
8 it would be about 3000 megawatts UPS. That's your
9 estimate on the ranges. And that kind of marries up
10 with his testimony where he said to our attorney, as a
11 matter of fact, when she was about to contract with him
12 for 700 megawatts, and he was going to stop the
13 deposition then and go write the contract. So it
14 sounds to me like he was fairly confident that he could
15 convince you all on 1000 megawatts without even
16 blinking, type thing.

17 WITNESS PARSONS: Again, it would all depend,
18 bottom line, on the benefit to the retail customer and
19 whether or not -- whether a replacement capacity is
20 available, at what price, what the reliability of it is
21 and whether or not it would be beneficial for our
22 customers. That would be the decision tree we would go
23 through to determine whether or not we would allow any
24 of our capacity to sell, and they do not do that unless
25 it is approved by the individual operating company.

1 COMMISSIONER BEARD: Are you aware of whether
2 or not Southern Company would be, at least from their
3 perspective, might be willing to sell some of this
4 capacity in the '95-plus time frame and then replace it
5 by building peaking capacity?

6 WITNESS PARSONS: Yes, sir, I think, again,
7 you'd have to look at the length of the sales and
8 location of the sales, the price that you could get,
9 and what the replacement cost of capacity would be.
10 All of those are issues that we address every time, and
11 under favorable circumstances for all parties, our
12 customers, our stockholders, we would possibly do that.

13 COMMISSIONER BEARD: Okay. If I can get you to
14 look just briefly at Exhibit No. 70, that's that
15 revised one, I think you all handed out this morning.
16 It's the one that shows Gulf, Southern, with UPS,
17 without UPS.

18 WITNESS PARSONS: No. 7?

19 COMMISSIONER BEARD: Yes, sir, it's the
20 revised No. 7. You had the 7 in your testimony and you
21 handed out the revised copy, I think this morning.

22 (Pause)

23 I'd say we're having a power surge off UPS
24 sales into that clock.

25 First, let me ask you just out of curiosity,

1 what has caused this revision? Is it -- you've got the
2 same -- at least you've got the same 149 megawatts of
3 peak month UPS sales. I'm looking at 1990 as a
4 comparison, for example.

5 WITNESS PARSONS: The rate case filing had a
6 previous generation expansion plan. When we filed in
7 December we were operating under '89 -- whatever the
8 number is. On January the 15th, we approved a new
9 generation expansion plan which updated the system load
10 throughout the entire system, as well as Gulf, which
11 caused -- our demand went down a little bit, our
12 projected demand for '90, and that's what caused our
13 reserves to go up from what they were.

14 COMMISSIONER BEARD: Okay, now, the Gulf 1990
15 column, 25.5% with UPS. I'm assuming that means with
16 the 149 megawatts of UPS?

17 WITNESS PARSONS: That's correct.

18 COMMISSIONER BEARD: If that were to go away
19 for whatever reason, then your reserves would be 34.1?

20 WITNESS PARSONS: Yes, sir.

21 COMMISSIONER BEARD: Okay. And as long as you
22 stay in the 20 to 25% range you're considered to be a
23 target?

24 WITNESS PARSONS: Yes, sir, that is a range
25 that the Commission Staff has agreed with us in the

1 past that is acceptable for planning purposes, and one
2 in which we have used up to that point.

3 COMMISSIONER BEARD: If you're at the very --
4 actually, I guess a half percent out of that range,
5 which is not necessarily relevant, if you're at the top
6 end of that, that means that somebody is -- although I
7 understand you all are the smaller company, with the
8 exception of Savannah, that means that somebody has got
9 to be below Southern Company's 20%.

10 WITNESS PARSONS: Yes, sir.

11 COMMISSIONER BEARD: Does that mean the other
12 states generally don't use a 20 to 25% range?

13 WITNESS PARSONS: No, sir, this just means
14 that the planning process is working there. This is
15 the first year in several years that we've been above
16 the system reserves with the planning process the way
17 it is, where you cannot build just the block of load
18 that you need to stay around the 20 to 25%.

19 I think in my summary this morning, I
20 indicated in 1988 our reserves were, I think, 3.8%.
21 You will -- during the period of time when you add new
22 generation, usually you will go above the system
23 average, and then as your load continues to grow, you
24 will drop below the system average, and someone else
25 will install generation, and it's just an ongoing

1 process, and that is the -- one of the benefits of the
2 joint planning that we do with the system, in that we
3 minimize, hopefully, construction costs and still
4 maintain an adequate reliability.

5 COMMISSIONER BEARD: Movement upward is
6 stairstep, while movement downward is more of a gradual
7 curve?

8 WITNESS PARSONS Yes, sir. Especially if
9 you've got a company as small as Gulf where to get into
10 an efficient unit such as a Scherer unit or such as a
11 Daniel unit, if we were just to match our load growth
12 to a block of load, you'd be looking at a 50,
13 75-megawatt unit, but by getting into an efficient,
14 larger unit, long-run it saves the customer money,
15 long-run it's more efficient, but you do jump above the
16 system reserves.

17 COMMISSIONER BEARD: That 25.5%, at Gulf, you
18 have in 1990, that includes the additional 245
19 megawatts of Daniel and the additional 63 megawatts of
20 Scherer?

21 WITNESS PARSONS: Yes, sir.

22 COMMISSIONER BEARD: If you didn't have the 63
23 megawatts of Scherer in there, what does that do to
24 that percentage?

25 WITNESS PARSONS: In 1990?

1 COMMISSIONER BEARD: Yes, sir.

2 WITNESS PARSONS: The 25.5% would go to 21.9%
3 without the 63 megawatts of Scherer, 21.9%.

4 COMMISSIONER BEARD: Which is getting you more
5 towards the bottom end of the range that you would be
6 feeling is appropriate?

7 WITNESS PARSONS: Yes, sir. Well, when you
8 say "appropriate," you know, it's hard to focus in on
9 just any one year. And because of all of the things
10 that can happen in a year, long-term, that's why we use
11 a 20 to 25%. Sometimes the Southern System reserves
12 will be up near 24, 25%. This year they just happen to
13 be down near 20. They will vary also. We don't always
14 just maintain the 20% low end. The range is 20 to 25%.

15 COMMISSIONER BEARD: Is Mr. Scarbrough on
16 before or after you on rebuttal? Do you know?

17 WITNESS PARSONS: After me.

18 COMMISSIONER BEARD: But you're not going to
19 leave?

20 WITNESS PARSONS: I may need to go out and buy
21 a ticket it sounds like. No, sir, I'll be here if you
22 need me.

23 COMMISSIONER BEARD: Because I think he's got
24 to answer some questions before I can get everywhere I
25 want to go. Let me just switch then. On that same

1 exhibit, when you say, "excludes purchased power."
2 What do you mean specifically? Purchased from the
3 system or what?

4 WITNESS PARSONS: The purchased power that
5 this is referring to is what I've called Schedule E,
6 some in the past where we're making recallable sales
7 off the system. We use that capacity to calculate our
8 reserve level because it is available if we need it
9 during peak periods of time.

10 COMMISSIONER BEARD: Okay.

11 WITNESS PARSONS: It should probably say,
12 "excludes purchased power sold off-system."

13 COMMISSIONER BEARD: Okay. I think on the
14 Hearing Exhibit 85, if I can find it, you all handed
15 that out, I think, in that stack today. I've got it
16 somewhere in this desk. Okay, that's the one that
17 refers to the Living Lakes allocation for 1990. I
18 think it's in someone's testimony you talk about Living
19 Lakes. And you all's case that's just actually the
20 substation associated with that. Is that you that
21 talked about that?

22 WITNESS PARSONS: No, sir. Living Lakes is an
23 organization.

24 COMMISSIONER BEARD: There's cost associated
25 and allocated as a result --

1 WITNESS PARSONS: You're thinking about maybe
2 Leisure Lakes?

3 COMMISSIONER BEARD: Leisure Lakes, I'm sorry.
4 You're right, I messed up. Never mind. Not like
5 Paradise Lakes, no. I saw "living" and thought
6 "leisure." I'm sorry.

7 But the Leisure Lakes Subdivision, there was a
8 question in there about the dollars associated with
9 that, and my understanding was that was supposedly with
10 just the substation, Green-something substation? Is
11 that somebody else's testimony?

12 WITNESS PARSONS: Green Head, I believe that's
13 Charlie Jordon. Mr. Jordon is prepared to address
14 that.

15 COMMISSIONER BEARD: Leisure Lakes, Jordon,
16 okay. We're getting there.

17 Okay. And the one that clearly got dropped to
18 you by somebody else was that Audit Disclosure No. 7
19 dealing with the Caryville site?

20 WITNESS PARSONS: All right, sir.

21 COMMISSIONER BEARD: And I've actually got
22 both of them, and I'm going to try to use the right
23 one, which is the one that's in this rate case. We
24 originally approved, in the last rate case, 1500 acres
25 for Caryville, is that correct, rate base treatment?

1 WITNESS PARSONS: 1500 acres?

2 COMMISSIONER BEARD: 1500 acres. Plant held
3 for future use?

4 WITNESS PARSONS: Let me check that, please.

5 COMMISSIONER BEARD: Or that's what was sited.
6 The site was certified to include 1500 acres, I believe
7 is the way it is.

8 WITNESS PARSONS: The site currently includes,
9 I think, 2,058 acres. I'm having trouble with the
10 1500.

11 COMMISSIONER BEARD: What I'm saying here, and
12 this is from last year's Audit Disclosure No. 7. I say
13 "last year's," the rate case that was filed and not
14 finished. It says, and this is you all's comment,
15 "This site was initially certified to include 1500
16 acres." Am I to understand there's been another
17 certification that has added acreage to that?

18 WITNESS PARSONS: No, sir. I think probably
19 at the time the certification took place we had 1,500
20 acres, but that now, the acreage there is a little over
21 2,000 I think, 2,058.

22 COMMISSIONER BEARD: So the fact you had
23 certification of 1,500 acres if you add another
24 thousand acres, did that automatically become certified
25 as well?

1 WITNESS PARSONS: The certification actually
2 covers the megawatt capacity on the site, and the site
3 was certified for 3,000 megawatts of generating
4 capacity, and I don't think it was limited to 1,500
5 acres in land area.

6 COMMISSIONER GUNTER: Commissioner, before
7 you leave that area -- go ahead.

8 COMMISSIONER EASLEY: Just for information,
9 am I to gather that as long as you've gotten
10 certification for the megawatts, you could go up in
11 acreage, you probably could not go down? Would that be
12 kind of a minimum consideration?

13 WITNESS PARSONS: I really couldn't see a
14 situation where we would go down. But --

15 COMMISSIONER EASLEY: No, I mean as far as
16 having to go back to recertification, the assumption is
17 you're not going to have any less than what was
18 certified?

19 WITNESS PARSONS: Right.

20 COMMISSIONER EASLEY: Thank you.

21 COMMISSIONER GUNTER: Mr. Parsons, just in a
22 clarification, in the last case didn't we find -- there
23 were two elements about Caryville, if I recall
24 correctly. The site was about 2,000 acres --

25 WITNESS PARSONS: Yes, sir.

1 COMMISSIONER GUNTER: -- and there was a
2 request in the last rate case for -- as I recall, about
3 \$2 million to expand the site by 1,000 acres. Wasn't
4 it about 2,000 acres? You had about an additional
5 thousand acres.

6 WITNESS PARSONS: Yes, sir. We felt like we
7 needed 3,000 acres because the original certification,
8 even though it was for 3,000 megawatts on the site, we
9 had planned for two 500-megawatt units. With the new
10 design we were anticipating 800-megawatt units with
11 scrubbers, and we felt that we would need additional
12 land. Engineering Staff indicated that, and so the
13 request was to allow us to, as land came on the market
14 at a good price, purchase that up to 3,000 acres, and I
15 think we had some budgeted amounts in there total,
16 about a million, but so much per year.

17 COMMISSIONER GUNTER: As I recall, and you
18 all could help me, but as I recall, you had asked for
19 about \$2 million to add 1,000 acres, if I recall in the
20 last case. But the Commission said because your
21 Generation Expansion Plan -- as I recall now, it's been
22 awhile ago and there's been one or two cases we've sat
23 on since then. But as I recall, the decision of the
24 Commission at that time was because your Generation
25 Expansion Plan had not identified a plant to utilize

1 that site, we did not allow that expense, is that
2 correct?

3 WITNESS PARSONS: I think that's correct.

4 COMMISSIONER GUNTER: Okay. I was trying to
5 clarify that.

6 WITNESS PARSONS: That was the additional
7 purchase. Your comments were about the additional
8 purchase. You did not allow that additional purchase,
9 which we still think we need for the benefit of the
10 customers.

11 COMMISSIONER BEARD: The subservice
12 investigation at the Caryville site, that was performed
13 when?

14 WITNESS PARSONS: That was done prior to
15 certification of the site. It's a geological study
16 that you have to perform to assure that the land will
17 support the weight and the facilities that would be
18 installed there. And those -- the output from those
19 studies are still good, they will be utilized in the
20 design of foundation and machines there. So that is
21 just a part of the certification process and the study
22 that went on to determine that the Caryville site was a
23 good site for a generating plant.

24 COMMISSIONER GUNTER: What issue was that?

25 COMMISSIONER BEARD: 35.

1 COMMISSIONER GUNTER: 35. Okay, thank you.

2 COMMISSIONER BEARD: And that subsurface
3 study was performed on 1500 acres, 3,000 acres? Is it
4 good for the southeastern United States? You know,
5 where does it stop?

6 WITNESS PARSONS: Be 1500 acres.

7 COMMISSIONER BEARD: So the addition of
8 another approximately 1500 acres doesn't impact that
9 subsurface study.

10 WITNESS PARSONS: Well, this would be in the
11 area where -- the initial 1500 acres would be in the
12 area where the original plant would be installed, all
13 of the heavy equipment, but because of the fact that we
14 have moved from a nonscrub unit to a scrub unit, you've
15 got additional limestone storage; you've got sludge
16 storage; you've got larger units. When we went to the
17 800 megawatt units, you're probably going to have a
18 larger coal pile. So the additional land would be not
19 affected by the subsurface study because it's still
20 good for the area where you are. You probably would
21 have to do some additional studies to determine the
22 exact location that you would use for the additional
23 storage facilities and all, but it is still good for
24 the original site.

25 COMMISSIONER BEARD: You wouldn't have to

1 have environmental impact associated with the
2 additional 1500 acres? I know that's not part of
3 subsurface study, but I guess I had assumed the
4 subsurface study would do more than just weight and
5 compact and those things. It would be looking at the
6 potential examination of the aquifer, those kind of
7 things. That doesn't do that?

8 WITNESS PARSONS: If we substantially change
9 anything that's included in our certification approval,
10 we would have to go back through an environmental
11 process. The site is certified. With any additional
12 usage of the land, I suspect the environmental people
13 would be involved to some extent.

14 COMMISSIONER BEARD: The addition of 1500
15 acres to that site might be one factor that would cause
16 them to want to go back and look at it again?

17 WITNESS PARSONS: Could possibly do so, yes.

18 COMMISSIONER BEARD: Certification is good
19 for your and my lifetime?

20 WITNESS PARSONS: Certification was good
21 initially for 15 years from the time the site was
22 certified, which would have been up through 1991. We
23 had conversation with DER last year -- if you'll wait
24 just a minute I'll get you the specific dates. (Pause)

25 We began in September of last year talking

1 with DER about the site at Caryville and have just
2 recently received a letter from them that's from Mr.
3 Oven, who is the Administrator of Siting Coordination
4 Section that indicates that the site will be utilized
5 there. Unless someone petitions for an abandonment of
6 the site, they have no intention to do that. I mean,
7 DER has certified the site and say that it will be
8 good, although if there are any additional changes,
9 significant changes, that we would need to be in
10 contact with them and, of course, they indicate that
11 any regulatory requirements would have to be met at the
12 time also.

13 COMMISSIONER BEARD: If anyone petitions to
14 the abandonment of the site, is that "anyone" anyone
15 besides Gulf Power? In other words, the Okefenokee
16 environmental group petitions, does that raise the
17 issue?

18 WITNESS PARSONS: Yes, sir.

19 COMMISSIONER BEARD: The reason I ask that,
20 over in my neck of the woods, they tried to put a
21 hazardous waste -- a unit that would burn hazardous
22 waste, and I never realized there were that many
23 environmentalists in downtown Raiford as I saw when
24 they tried to do that. I was just curious.

25 WITNESS PARSONS: There are provisions for

1 third-party intervention.

2 COMMISSIONER GUNTER: Okay

3 COMMISSIONER BEARD: Okay.

4 CHAIRMAN WILSON: That means that
5 certification continues until someone --

6 WITNESS PARSONS: It is my understanding
7 that it would continue unless someone petitions for a
8 hearing to --

9 CHAIRMAN WILSON: Decertify.

10 WITNESS PARSONS: -- decertify or cause
11 abandonment of the site. (Pause)

12 Let me add one thing to what I've said.

13 I think if we begin construction -- I mean,
14 we can't just automatically go out and start doing
15 something on the site. I think we get back in touch
16 with DER at that point to discuss it with them, but the
17 site is still certified for the plant. They just want
18 to be updated on what the plans are.

19 COMMISSIONER BEARD: Are there any areas of
20 this 3,000 acres that would be termed "wetlands"?

21 WITNESS PARSONS: Yes, sir.

22 COMMISSIONER BEARD: Were there wetlands in
23 the original 1500 acres?

24 WITNESS PARSONS: Well, at the time the site
25 was certified, I don't believe the wetlands'

1 regulations were in effect. In that 2,000 acres or
2 3,000 acres, part of the site would be used for
3 insulation purposes; that is a reason for getting the
4 acreage that we do. And whether it would be wetlands
5 or forests or anything else, there will be some areas
6 that would not be usable from a standpoint of storing
7 ash or coal, or something like that, but would be a
8 part of the necessary land of the site and insulation
9 from the public.

10 COMMISSIONER BEARD: Barrier or buffer.

11 WITNESS PARSONS: Yes, sir. That's the word
12 I was looking for. I appreciate it.

13 COMMISSIONER BEARD: Okay. Yeah. That's all
14 I've got for now.

15 CHAIRMAN WILSON: Questions, Commissioners?

16 COMMISSIONER GUNTER: I've got one or two.

17 I guess you're Leroy from yesterday, the day
18 before yesterday?

19 WITNESS PARSONS: Yes, sir, but I have to say
20 Leroy don't always want the ball. (Laughter)

21 COMMISSIONER GUNTER: All right. Mr.
22 Parsons, are you the right person to talk about the
23 construction costs of Plant Scherer?

24 WITNESS PARSONS: Yes, I'll answer all that I
25 can in that area.

1 COMMISSIONER GUNTER: All right. Now I want
2 to lay aside the value or your costs or whatever. I'm
3 interested -- not like Mr. Scarborough, and I
4 understand, you know, he gets very vociferous. With
5 his past heart problem, I wouldn't push it because I
6 wouldn't want him to have a heart attack up here.

7 I'm not questioning the cost that you all had
8 at this time. I'm not questioning the value of the
9 plant today. My questions have to do with the
10 construction cost of the facility. I want to keep it
11 in that context.

12 WITNESS PARSONS: All right, sir.

13 COMMISSIONER GUNTER: In an abundance of
14 fairness to everybody when we had the tax savings
15 docket, I want to build a little scenario how we got
16 there.

17 When the Generation Expansion Plan came to
18 light of when plants -- an exhibit that was provided by
19 Gulf in that proceeding, there was an exhibit which
20 showed the construction time, begin construction and on
21 line of plants primarily out of the state, it was a
22 Southern Company deal, where you all kind of have our
23 generation expansion plan together. And I saw how long
24 it had taken to build some of those plants on that
25 exhibit. If anybody is interested in it, I can run

1 down to my office and get a copy of it -- of the
2 Generation Expansion Plan that was provided in that
3 annual planning hearing docket where you all had a
4 docket and everybody else had one.

5 I called Georgia and got a copy of a
6 Retrospective Audit Report that was done for the
7 Georgia Commission. And in that tax docket provided a
8 copy to your counsel, Public Counsel and the Staff, and
9 my fellow colleagues. And as I run down through -- and
10 I'm going to limit my conversation to Exhibit 1-2,
11 Pages 1, 2 and 3, just a chronological history of the
12 major decisions that took place in the construction of
13 Scherer 3.

14 At what point -- do you have any exceptions
15 -- to begin with, do you have any exceptions to Page 1,
16 2 and 3 of the chronology that's put forth?

17 WITNESS PARSONS: No, sir, I don't think so.

18 COMMISSIONER GUNTER: Mr. Chairman, can we
19 give this an exhibit number?

20 CHAIRMAN WILSON: Sure. It would be Exhibit
21 No. 585.

22 COMMISSIONER GUNTER: All right. We'll
23 identify this as Exhibit 585, because it may have some
24 further discussion.

25 (Exhibit No. 585 marked for identification.)

1 COMMISSIONER GUNTER: Do you have any
2 objections or do you find anything glaringly wrong with
3 Page 1, 2, or 3 as far as the chronology?

4 WITNESS PARSONS: No, sir.

5 COMMISSIONER GUNTER: Would it be correct
6 that the first plant expenditure report was issued in
7 October of 1975?

8 WITNESS PARSONS: Yes, sir.

9 COMMISSIONER GUNTER: Now, what do you think
10 that would include? Would that be all the capitalized
11 labor that went in the activities from '74 through
12 October of '75?

13 WITNESS PARSONS: That would be a budget item
14 that would describe the project, describe the estimated
15 cost of the project, and that would be approved by the
16 management of Georgia Power.

17 COMMISSIONER GUNTER: Well, let me ask you.
18 So that's sort of a planning document in October of
19 '75, is that right?

20 WITNESS PARSONS: Yes, sir.

21 MR. PALECKI: Commissioner, I believe that
22 the exhibit that just was introduced is already in the
23 record at 465.

24 COMMISSIONER GUNTER: 465. That's this
25 audit?

1 MR. PALECKI: The Retrospective Audit Report
2 for Plant Scherer Units 3 and 4 by O'Brien-Kreizberg
3 and Associates.

4 COMMISSIONER GUNTER: Okay, fine.

5 CHAIRMAN WILSON: What is that exhibit
6 number?

7 MR. PALECKI: 465.

8 CHAIRMAN WILSON: All right. So we'll
9 withdraw 585 as an exhibit.

10 COMMISSIONER GUNTER: And just make sure we
11 have it as Exhibit 465.

12 (Exhibit No. 585 withdrawn.)

13 COMMISSIONER GUNTER: So that October '75 is
14 -- I've got to get my thinking back again. That's sort
15 of a planning document for approval about what they are
16 going to do, right?

17 WITNESS PARSONS: Yes, sir, that would be my
18 understanding. It's for budget purposes to go forward
19 with.

20 COMMISSIONER GUNTER: Okay. It seems rather
21 odd, and I'm just trying to understand now the
22 chronology that took place. It seems rather odd that
23 you would begin to sell partial ownership in a plant
24 that you didn't have approval to go forward on. It
25 would seem rather odd to issue purchase orders with

1 Combustion Engineering for boilers in General Electric
2 for turbines that you didn't have approval for the
3 project to go forward with. I don't understand your
4 understanding of what the first plant expenditure
5 report is.

6 Because 10 months prior to that, you had
7 begun to sell partial ownership of something, if your
8 understanding is correct, you would have begun to sell
9 something which you didn't have approval to do. And I
10 would think that would violate some law somewhere, if
11 you're selling something you don't have and don't even
12 have approval to do.

13 In addition, in 1974, they had already
14 initiated use of computerized scheduling to do the
15 task. Do you understand my concern?

16 WITNESS PARSONS: Yes, sir, I think I do.

17 COMMISSIONER GUNTER: Well, could it be
18 possibly that this planned expenditure report would be
19 a document which would, in fact, do what it sounds like
20 it does, to say, "To date, this is how much money we
21 have spent on this project, how much we have obligated"?

22 WITNESS PARSONS: Well, the need for the
23 plant was identified earl'er, and land had been
24 purchased for the units. One thing that may have come
25 into this situation was the fact that Plant Scherer

1 Unit 1 was originally a part of Plant Wansley. There
2 were four units planned for construction at Plant
3 Wansley. Units 1 and 2 were constructed; but because
4 of the environmental concerns, it was found that the
5 environment around Wansley could not stand two more
6 units. So Plant Wansley 3 and 4 then became Scherer 1
7 and 2, with 3 and 4 to come on later.

8 You have a good question; but my response
9 would be that, in my mind, trying to rationalize your
10 question, I would think that perhaps the approval for
11 Wansley 3 and 4 may have already preceded this, and
12 this became the official document in October of '75
13 that identified it as Scherer at this location. And
14 that document would have the cost of the unit and
15 substation and associated equipment at that time.

16 COMMISSIONER GUNTER: All right. Would you
17 agree with me, though, that there had been money spent
18 by somebody as early as 1984 at the beginning of the
19 construction of this plant?

20 WITNESS PARSONS: 1974?

21 COMMISSIONER GUNTER: Yeah.

22 WITNESS PARSONS: Well, from the standpoint
23 of land and the standpoint of engineering cost, I would
24 have to agree that probably some money has been spent.

25 COMMISSIONER GUNTER: All right. So you

1 begin -- you capitalize all that engineering, don't
2 you? All the design work and whatever?

3 WITNESS PARSONS: Yes, sir.

4 COMMISSIONER GUNTER: That's all capitalized?

5 WITNESS PARSONS: Yes, sir.

6 COMMISSIONER GUNTER: And the effort going to
7 sell pieces of it, and the people that are putting --
8 obligating money to issue purchase orders. Purchase
9 orders are kind of contracts, are they not?

10 WITNESS PARSONS: Yes, sir.

11 COMMISSIONER GUNTER: When you're buying
12 boilers, it's not like one of those boilers down from
13 Walmart.

14 WITNESS PARSONS: That's true.

15 COMMISSIONER GUNTER: And the generators. So
16 you're obligating money, and you're spending money, and
17 all that money is capitalized, is it not?

18 WITNESS PARSONS: Yes, sir.

19 COMMISSIONER GUNTER: All right. So, then
20 you move down to November the 4th -- auspicious day,
21 happens to be the day of my birth, certainly not in
22 1975, though. Georgia Power placed a hold on the
23 contract and the holds were to be in effect until mid
24 to late '76. Is that what that says?

25 WITNESS PARSONS: Yes, sir.

1 COMMISSIONER GUNTER: All right. And then
2 there was a planning and cost organization created in
3 '76. And then '77, there was a purchase order placed
4 with somebody to erect a chimney and metal liner.

5 And as you go through this, I'm not going to
6 take the time to go through each one of these
7 individual items, but can you tell at what point was
8 ground scratched? Do you know when you first began to
9 scratch the ground for Scherer 3?

10 WITNESS PARSONS: As far as scratching the
11 ground, I would say there were construction permits
12 issued, I think, in 1977, by the Environmental
13 Protection Division. I think the date that you would
14 have started boiler house caisson construction was in
15 1979, maybe January of 1979.

16 COMMISSIONER GUNTER: What does that mean?
17 Does that mean if I go out here and I get my
18 bulldozers, and I level the ground, and they start
19 forming up and they might pour the little building
20 that's going to be the construction building, pour the
21 slab for that and go forward, is that the point that
22 you're talking about?

23 WITNESS PARSONS: Well, this was a major, the
24 boiler house caisson is a major piece of construction;
25 and that's when they began to dig into the ground and

1 to get the construction started for the unit.

2 COMMISSIONER GUNTER: Is that the first
3 piece?

4 WITNESS PARSONS: Yes, sir, I think so.

5 COMMISSIONER GUNTER: All right. So they
6 would have been signing contracts, with your
7 representation, they would have been signing contracts
8 two years in advance for chimney construction, for
9 labor, those other things, two years in advance of
10 actual beginning construction, is that right?

11 WITNESS PARSONS: Yes, sir, they could have
12 been.

13 COMMISSIONER GUNTER: Is that a standard
14 construction methodology, that you go have those kinds
15 of time delays?

16 WITNESS PARSONS: Mr. Gunter, I think you
17 have to look in the time frame that we were talking
18 about there. We, I think, earlier testimony I've
19 indicated that we had two Daniel units, four Scherer
20 units, and four Miller units. Our load growth on the
21 system and at Gulf Power Company was somewhere between
22 7 and 11% in the early '70s, when we were looking to
23 the future --

24 COMMISSIONER GUNTER: I understand. That's
25 the reason I said on the front end, Mr. Parsons. I'm

1 not -- the only thing I'm trying to do, is to find out
2 what happened. Not why, not talking about the cost,
3 not talking about value, nothing else. Just want to
4 understand what happened.

5 You know, I read through, extensively, an
6 evaluation of why Vogtle ended up costing \$8,000,
7 \$8,800 a kW or something like that, 8,500.

8 WITNESS PARSONS: But let me make one other
9 point.

10 COMMISSIONER GUNTER: And there was a lot of
11 that same rationale.

12 WITNESS PARSONS: I don't want to delay you,
13 let me make one other point. But at that period of
14 time, generators and boilers were being constructed
15 very fast, and you had to get in line with the
16 manufacturers to be sure that you had the equipment
17 when necessary. And so that may be some of the reasons
18 that these dates, as far as the -- we may have made a
19 contract with a boiler vendor at a site unspecified,
20 but just to get into the construction cycle of trying
21 to get the boiler out the front end. That could be
22 done.

23 COMMISSIONER GUNTER: Well, and one of the
24 things -- I wish you had read this very carefully
25 before you just made that last piece, because the first

1 indication on boilers, for instance, that there was any
2 activity since November of 1975 was in 1983, when the
3 contract was renegotiated to furnish and erect the
4 boilers. And it came on in 1987. You know, that's --
5 they were on commercial in 1987.

6 So, there was a several-year hiatus that, if
7 you take this and you can't find anything terribly
8 wrong with it, it would indicate that from November of
9 '75 until November of '83, which is an eight-year time
10 period, that you weren't in a pecking order, you
11 weren't in a queue to get boilers, because you had a
12 renegotiation. I'm going to give you an opportunity on
13 a late-filed exhibit to demonstrate what, in effect,
14 occurred. But I'm trying to understand.

15 And let's just kind of ease on down through
16 here. Because in 1977 you had a purchase order to
17 erect a cooling tower, but we didn't start construction
18 until '79. Originally, at least in '78 -- prior to
19 '78, it had an operational date, a commercial date, of
20 '84. And in '78, it was to be '85.

21 WITNESS PARSONS: Yes, sir.

22 COMMISSIONER GUNTER: And I understand that's
23 a danger that happened around the country, you delayed
24 plants because the demand didn't come on. All of a
25 sudden the Arlan Scarbroughs of the world were telling

1 you, "Oh, my God, the carrying cost of that money is
2 killing us." You know, finish the thing so that you
3 wouldn't have ultimately come up with the horror
4 stories that we have around the country.

5 We go into December of '78, and we are still
6 looking at a commercial operation date of January of
7 '85.

8 WITNESS PARSONS: Yes, sir.

9 COMMISSIONER GUNTER: One of the things I'd
10 like to see, and whether you're the right guy or not, I
11 would like to see dollars put, cumulative dollars, put
12 with each one of the dates on an annual basis, what the
13 AFUDC rate was and whether -- whose AFUDC rate that was
14 that was used to capitalize those.

15 Or if it was CWIP, if you've got CWIP from
16 Georgia, whatever the amount was. If it was CWIP, it's
17 one treatment; if it's AFUDC, it's another. From 1974,
18 which is shown in this chronological history, so that
19 we can get some idea of the cost to construct this
20 facility as shown on this chronology, Exhibit 1-2 of
21 465, on Pages 1, 2 and 3.

22 Can you all do that for me?

23 WITNESS PARSONS: Yes, sir. But when you say
24 the cost of this facility, we have that. We know what
25 we spent on --

1 COMMISSIONER GUNTER: No, you know what you
2 spent, but I need to find out the carrying cost of
3 money for a facility that's identified on a chronology,
4 as shown here by an outside audit agency, that took 13
5 years from the first place they picked it up until it
6 was constructed. When normal, you know, I'm going to
7 ask you for another item or two.

8 WITNESS PARSONS: Can I make a general
9 comment on this?

10 CHAIRMAN WILSON: Do you want a late-filed?

11 COMMISSIONER GUNTER: I need a late-filed
12 exhibit on this.

13 WITNESS PARSONS: Can I make a general
14 comment on that last statement?

15 COMMISSIONER GUNTER: Yes.

16 WITNESS PARSONS: As I stated earlier, the
17 Scherer 1, 2, 3 and 4 were what is called slide-along
18 units. They were units that were going to be designed
19 the same. Under the Clean Air Act of 1970, which
20 changed drastically what was required by utilities in
21 building and constructing generating units relative to
22 the environment, we had the choice of either building
23 low sulfur coal units or units requiring scrubbers.

24 Because of the technology of the scrubbers
25 and the evaluation, we felt that -- the system felt

1 that the low sulfur coal units would be more efficient
2 and, in the long run, cheaper for our customers.

3 At the same time, this law required that, to
4 meet the standards so that you did not have to install
5 scrubbers, you had to maintain construction in a
6 certain period.

7 We had two things happening to us. We were
8 trying to maintain a construction schedule that would
9 meet the requirements of the federal law that would let
10 us build these units without scrubbers, because we felt
11 like that was the best for our customers. At the same
12 time, we were looking at a tremendous load decline and
13 trying to balance those two so that we did not build
14 them ahead of schedule before our customers needed
15 them.

16 So we had two things that we were trying to
17 balance. And some of these delays were based,
18 primarily, on the fact that we were trying to maintain
19 a schedule that would keep them qualified to be
20 nonscrub units.

21 The last point I want to make in that
22 argument is that when we got involved in the project,
23 they were -- as I quoted a letter earlier this morning
24 -- when Mr. Addison wrote the letter to Georgia
25 indicating that we were interested in Scherer 3 and 4,

1 they were on an '87-'89 time frame. So that it did
2 come on line from the time we got involved in it; it
3 came on line on schedule when we thought it would from
4 the time we got into the project.

5 COMMISSIONER GUNTER: Again, I said I wasn't
6 looking at value. I just want to know what happened
7 and what the cost was. For instance, you get -- you
8 know, if you go through here, like we talked about
9 1977, to begin construction at some point in time, you
10 issued a purchase order to construct a natural draft
11 cooling tower. That was in September of '77.

12 In 1980, sometime in 1980, you got a hold put
13 on that purchase order. In September of 1982, you
14 renegotiated that contract.

15 There's a whole lot about here that leaves
16 some questions. Like, for instance, in that late-filed
17 exhibit, anyplace that you had a renegotiation, I want
18 to know what the cost of renegotiating that contract
19 was, because that figures into the cost of Scherer 3's
20 construction, because all those costs were capitalized.

21 And there are three that I can identify: One,
22 the cooling towers; two, the boilers; three, the
23 generators, and that was Research Cottrell, Combustion
24 Engineering, who was it, General Electric. And I don't
25 know if there were others, but if there were, what I

1 need to understand -- and I'm just trying to understand
2 what happened. Because if you scratched the ground in
3 1979 for a 1987 in-service date, you had put the
4 cooling tower on hold after you had begun construction,
5 and a two-to three-year time period you negotiated and
6 got them going again.

7 There are things about here I don't
8 understand, Mr. Parsons, I just don't understand. And
9 I need to understand what the costs, whatever, what the
10 those delays costs and carrying costs and what
11 renegotiation of those contracts were.

12 WITNESS PARSONS: We can give you that. I
13 still have to go back to my point. I don't mean to be
14 argumentative, but when we got into the project, this
15 was a schedule that was ongoing, and the bottom line,
16 we, I think, testified before this Commission that we
17 were -- would save some \$350 million with the
18 comparison of the Scherer capacity versus the Caryville
19 capacity, and then attempt to build these units still
20 maintaining that we could meet a schedule that would
21 not require scrubbers. These changes were necessary so
22 that the units were not brought on line prior to being
23 needed -- what the load forecast indicated were needed
24 by our -- by Georgia and Gulf's customers. But we can
25 furnish that to you, but, you know, when we got into

1 the project as far as Gulf's concerned, everything was
2 met the way we felt it would be from the time we got
3 in.

4 COMMISSIONER GUNTER: I haven't said a word
5 about knocking Gulf. In here where you said "\$350
6 million," if they had just gone and built it -- you
7 know, we got a company in this state that built a
8 nuclear plant in 59 months. They were horribly
9 overbudgeted. It wasn't a catastrophic budget. They
10 built it for something less than \$1,800 a kW. We got
11 experience around the state, St. Johns, Big Bend, some
12 of the other ones, built in 60 months, from the date of
13 start of construction. And I'm not finding fault. I'm
14 just saying you have to understand where I'm from is
15 I've got to understand what that cost is, and the cost
16 that -- you know, you brought it in, hell, that's --
17 I'm not discussing that right now. I have to
18 understand how the costs were arrived at for Scherer 3.
19 And that's the only thing I'm asking you to help me
20 with.

21 WITNESS PARSONS All right, sir, we can do
22 that for you. And my last point I'd like to make is
23 that we still --

24 COMMISSIONER GUNTER: It's not falling on
25 deaf ears. I know what you're saying. What you're

1 talking about, the dilemma that occurred in the early
2 '80s where capacity in this country was in an
3 overcapacity situation and everybody was saying, "Oh,
4 Jesus Christ, what are we going to do now?" But still,
5 I've got to understand what these delays cost.

6 Let me ask you one other thing.

7 CHAIRMAN WILSON: Do you want a late-filed
8 exhibit on that?

9 COMMISSIONER GUNTER: Yeah, that was 585.

10 (Late-Filed Exhibit No 585 identified.)

11 WITNESS PARSONS: Before you leave that, can
12 I refer you to one other point?

13 COMMISSIONER GUNTER: Sure.

14 WITNESS PARSONS: In Section 12 of that audit
15 that you have, which involves the Kennedy & Associates
16 review of the Georgia Power planning process, if I
17 could refer you to Page 7.

18 COMMISSIONER GUNTER: I don't have it all.
19 I pulled off -- when I made a -- so your Counsel
20 yesterday would get some idea where we were, I told him
21 I was going to limit my questioning to Page 1, 2, and
22 3, and pulled off the rest of it and threw it away.

23 WITNESS PARSONS: All right, sir.

24 COMMISSIONER GUNTER: Let me ask you one
25 other question about Scherer 3 and then we're going to

1 take a little break, I think.

2 I thought -- let me just run through the
3 chronology because a lot of discussion has come up.

4 I thought Scherer 3 came -- Scherer 3 and 4,
5 at the time, came -- you all were under -- not under
6 construction, but you committed a lot of bucks. And it
7 was going to cost you somewhere in the neighborhood,
8 the first time we heard about it, you all thought
9 somewhere in the neighborhood of \$30 million to get out
10 of that construction, and demonstrated to us that you
11 could buy into Scherer 3 and 4 cheaper.

12 WITNESS PARSONS: Caryville.

13 COMMISSIONER GUNTER: Caryville, could buy
14 into Scherer cheaper. Ultimately that cost came down
15 somewhere in the neighborhood of \$16 million or so.

16 WITNESS PARSONS: About 10.5.

17 COMMISSIONER GUNTER: Okay, so it came down
18 even further, those cancellation costs. But, during
19 that time period there was even a magazine article that
20 talked about the possibility of Scherer 3 and 4 not
21 being built. So we really held you all's feet in the
22 fire in order to -- held that \$10.5 million hammer over
23 your head saying, "If you back out of this, you're
24 going to 'eat it.'" Is that right?

25 WITNESS PARSONS: Yes, sir.

1 COMMISSIONER GUNTER: So when you all came to
2 us to talk to us about Scherer 4, wasn't there a
3 discussion at that time -- and I have not gone back and
4 reviewed that record, but I may have to. Wasn't there
5 a discussion at that time that Scherer 4 was going to
6 be canceled? Not that it was more economical or what
7 have you, but wasn't there discussion that Scherer 4
8 may, in fact, not be built? Is my memory wrong about
9 that?

10 WITNESS PARSONS: In a hearing before the
11 Commission?

12 COMMISSIONER GUNTER: When we let you all out
13 of Scherer 4. Wasn't there a thought at one time --
14 I'm not finding fault, I'm just trying to see if my
15 recollection is right or not.

16 WITNESS PARSONS: Let me see if I can go
17 through -- I think we had a hearing asking you to let
18 us cancel Caryville and get into the Scherer capacity.

19 COMMISSIONER GUNTER: Yeah.

20 WITNESS PARSONS: As a result of the good
21 vibes we got from that, we indicated to Georgia that we
22 were interested in purchasing into Scherer 3 and 4. In
23 this hearing you indicated to us that if we're going to
24 have to consummate the deal, you're going to hold these
25 cancellation costs for refund, subject to refund,

1 unless we got into the Scherer situation.

2 COMMISSIONER GUNTER: The FERC approval
3 delay. I recall that.

4 WITNESS PARSONS: Yes, sir. And we went
5 through two or three rate cases still not being able to
6 consummate the deal from the standpoint of things
7 changing. There was some delay in the SEC. And
8 eventually there was a hearing that went back to the
9 first order where you put the "subject to refund." The
10 Staff recommended that because of our decline in the
11 load growth, it appeared that it was a good decision,
12 they recommended to the Commission that the open docket
13 referencing the "subject to refund" provision can be
14 closed. And it was closed. But then in that same
15 year, we did close the deal on Scherer 3.

16 But I don't remember coming to you all and
17 talking about having to cancel Scherer 4. I think we
18 might have done it informally, but I don't remember --

19 COMMISSIONER GUNTER: We took action at an
20 Agenda Conference, if I recall.

21 WITNESS PARSONS: We can check and see. I
22 just don't recall.

23 CHAIRMAN WILSON: Let's take a ten-minute
24 break.

25 (Brief recess.)

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Tape 117, witness Parsons.

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

COMMISSIONER GUNTER: Mr. Parsons, in the Generation Expansion Plan, that's done Southern Company total.

WITNESS Initially done at the operating company to determine our own need and then go to the system and jointly plan from that point on.

COMMISSIONER GUNTER: In other words, you look at what your future demand will be, what your project demand will be and then you back up and all of you get together, is that right?

WITNESS Yes, sir.

COMMISSIONER GUNTER: Is that the point that you -- I don't quite know how to ask this. If your generation expansion plan stays on schedule, then you all -- that's when you get to this sharing, this equal I sags of where if you've got 30% and average is 20 or whatever, then you get paid that differential for your excess capacity you have on your system as it relates to the total Southern Company system, right?

1 WITNESS Yes, sir.

2 COMMISSIONER GUNTER: Now where in you always
3 generation expansion plan do cogenerations fit in the
4 Southern Company's system? As far as capacity goes?
5 How are they treated as far as capacity of that plant
6 in process?

7 WITNESS At the present time the system will
8 address the cogeneration from the standpoint that if we
9 have cogeneration on our system, and it affects the
10 load of our customers, then, of course, it benefits us
11 during peak period in the fact we don't have to serve
12 it.

13 We've taken a position that because we're not
14 in a generation requirement that we look at the
15 cogeneration situation, but until we get to the point
16 of having to need additional capacity, the cogeneration
17 is addressed through the load side of the business and
18 if a customer

19 COMMISSIONER GUNTER: How do you mean through
20 the load side of the business?

21 WITNESS It just reduces the load on peak,
22 so that we don't have to use capacity on our system to
23 serve that cogeneration load at peak period.

24 COMMISSIONER GUNTER: Well, does that mean
25 that in the capacity considerations, for instance, if

1 you had 2,000 megawatts and somebody came in and they
2 were [a/an] 200 megawatt cogenerator or 20 megawatt
3 cogenerator, either one, does that affect that capacity
4 equal I sags throughout the Southern Company?

5 WITNESS I don't believe at the present time
6 -- and this may be better addressed to Mr. Howell -- I
7 do 't believe at the present time we have any
8 cogeneration credits in the intercompany interchange
9 contract where we're actually given credit for
10 cogeneration being on one of the system Company's
11 sites. I may be wrong on that, and perhaps he would be
12 the better one to talk.

13 COMMISSIONER GUNTER: All right. But
14 philosophically what would be wrong? And I'm just
15 having to get philosophical now and theoretical a
16 little bit, but under standard offer contract that we
17 have in the state of Florida, which a cogenerator in
18 order to receive capacity and energy payments, they've
19 got to act like, smell like, feel like a baseload unit
20 they have to run 70% of the time, and most coal
21 baseload units don't run 70% of the time on a 13 month
22 rolling average. You look at the GPIF and see that the
23 majority of them don't.

24 What's wrong with counting that as capacity
25 on your system? I mean what would be wrong

1 theoretically or philosophically, what would be wrong
2 with counting them as capacity on your system?

3 WITNESS Well, that's one way to do it. You
4 could count it as capacity, but on the other hand if
5 that customer is a cogenerator and he carries his load
6 during peak period and you don't have to serve that
7 load during your peak period, then --

8 COMMISSIONER GUNTER: You're looking at the
9 cogenerator -- and I interrupted you and excuse me. but
10 you're looking at it as a self-service cogenerator and
11 I'm looking at it as net seller to your system. If they
12 are a net seller to your system you have more energy on
13 your system available for sale.

14 WITNESS Yes, sir.

15 COMMISSIONER GUNTER: Now that's where we're
16 talking by one another a little bit. You were looking
17 at an Air Products Monsanto or somebody but I was
18 saying Charlie Jones comes in here and he's going to
19 make -- assume you have a big bottling company big need
20 for that dry ice picks off the CO 2 off the back side
21 and goes into that business in your area so he uses
22 that excess capacity to sell under your system. In
23 those circumstance where he has the performance
24 criteria of a baseload unit on a 13 month rolling
25 average, what is wrong with counting that capacity in

1 your system as-available capacity I'm trying to
2 understand that.

3 WITNESS I believe the procedure would be
4 the operating company that has that <TEU-GS> would
5 carry that to the operating committee. We would
6 compare the characteristics of that capacity, whether
7 or not it can be dispatched or whether or not we know
8 it's going to be available during the period of time
9 when we need it, whether or not it can be considered
10 during the peak load period and it would be considered
11 by the operating committee. You ask what's wrong with
12 it. I don't know that anything is wrong it's just
13 something that at this point in time we're not doing
14 and something we probably need to address.

15 COMMISSIONER GUNTER: Well, you are required
16 by an amment to the federal power act, PURPA, 1978, to
17 buy power generated by cogenerators.

18 WITNESS Yes, sir.

19 COMMISSIONER BEARD: And here we are 12 years
20 later and I'm just trying to understand -- in other
21 words, the situation has not arisen in the Southern
22 Company where you have someone that is committed firm
23 energy sales to any of your utilities that would be
24 considered in the Generation Expansion Plan. Is that
25 right? Because you're on that big committee.

1 WITNESS Yes, sir. <KWRE-RL> the situation
2 that you just described.

3 COMMISSIONER GUNTER: Mr. Howell is fixing to
4 come advice you.

5 WITNESS Yes, sir. (Pause)

6 I believe that my statement is correct, and
7 the fact that at the present time we do not have or are
8 given credit for any cogeneration by the operating
9 committee or any of the operating companies.

10 Our avoided cost is such that the Southern
11 avoided cost is less than the Florida avoided cost. At
12 the present time we do not have any of the cogeneration
13 capacity in our interchange contract. It's not
14 something that we would not look at in the future when
15 the need is there.

16 COMMISSIONER GUNTER: Is there any
17 cogeneration to your knowledge on the Southern System
18 anywhere?

19 WITNESS The cogeneration you described as
20 being

21 COMMISSIONER GUNTER: Yeah.

22 WITNESS I can't recall, Mr. Gunter, I don't
23 know.

24 COMMISSIONER GUNTER: Okay. All right. Are
25 you the man to talk to about property associated with

1 power plants held for future use?

2 WITNESS Yes, sir. If it's not an
3 accounting entry.

4 COMMISSIONER GUNTER: It's not an accounting
5 issue.

6 How about Plant Daniel, hold on just a
7 minute.

8 How much of Plant Daniel, of the 26 <HU-P>
9 acres of Plant Daniel has been identified as wetland?

10 WITNESS I believe it's in the neighborhood
11 of about --

12 COMMISSIONER GUNTER: Subto check 1,400
13 acres.

14 WITNESS 1,400 acres, yes, sir.

15 COMMISSIONER GUNTER: Would that be an
16 appropriate item to have in property held to future
17 use?

18 WITNESS Well, if the we lands as I have
19 stated earlier to Mr. Beard, if the wetlands are a part
20 of a buffer zone or a part of the plant, in my opinion
21 it should be a part of the plant site.

22 COMMISSIONER GUNTER: Well with wetlands,
23 would you agree that under environmental laws that have
24 existed in the last few years and quite likely to exist
25 in the future it wouldn't really matter who owned them.

1 Because you're not going to do anything with them, they
2 are just going to hold the earth together.

3 WITNESS I think that's a fair statement.

4 COMMISSIONER GUNTER: Is that an appropriate
5 property value to be held for future use for
6 prospective ratepayers? You could probably do nature
7 it to deduction unlimit or somebody and it would stay
8 there as wetlands.

9 WITNESS Again we may be having problems
10 communicating there.

11 There is some property that is plant held for
12 future use in Daniel that is not identified as wetland.

13 COMMISSIONER GUNTER: Oh, I understand. I'm
14 not saying it all is I'm saying of the 2600 acres there
15 are at least two people, and we can -- I'd be willing
16 to share with you their deposition, at least two people
17 that have said there is 1,400 of the 2600 acres are
18 wetlands.

19 WITNESS Okay.

20 COMMISSIONER GUNTER: That leaves 1,200 acres
21 I have been to Plant Daniel and you're not going 2100
22 acres of the dry land, is that right? You have been to
23 Plant Daniel, haven't you?

24 WITNESS Yes, sir .

25 WITNESS I believe our half of the 1,400

1 acres it's my understanding is in nonutility property.

2 COMMISSIONER GUNTER: Is that where it's
3 held?

4 WITNESS Yes, sir. And I believe that is
5 below the line.

6 COMMISSIONER GUNTER: Well, I was going to
7 talk to Mr. Lee about that. You within the dollar man
8 I wanted to make sure how that was being treated.

9 WITNESS I think probably you need to pursue
10 it a little further with I am.

11 COMMISSIONER BEARD: Florida had all the dry
12 lands and Mississippi had all the wetlands.

13 COMMISSIONER EASLEY: That brings up a
14 curiosity question in that portion of the land
15 designated as the wetland that may still be held as
16 utility use as buffer or whatever, do you in putting a
17 value on that land, take into account the future actual
18 use? Is there any consideration given much like you do
19 with the tax law as to highest and best use, or in this
20 case lowest and least?

21 WITNESS I can't answer that. I don't know.

22 COMMISSIONER GUNTER: We will be able to talk
23 to the next witness about how that is treated for
24 accounting purposes of that's one thing I wanted to do.
25 The way you all have got this thing segmented it's

1 tough to make sure you have all the questions asked.
2 Heck I found one for Mr. Scarbrough I had to write to
3 the front of the deal to make sure it got back when he
4 came back on.

5 Let me ask you a question: Going on the
6 discussion we had of the time that planning through
7 actual commercial operation of Plant Scherer, I'm back
8 to issue 35 again, is there today is there a plan
9 underway for utilization of the Caryville site?

10 WITNESS In the present Generation Expansion
11 Plan we do not show an unit at the Caryville site. We
12 show some unlocated CTs, but the -- I think our
13 generation expansion plan runs up to 2010. At the
14 present time there is no plan for a baseload, you know,
15 at Caryville in that time frame. It is after that.

16 COMMISSIONER BEARD: When did Gulf star
17 acquisition of property all the Caryville?

18 WITNESS 1964, 67, middle 60 cents.

19 COMMISSIONER GUNTER: So by the time you
20 would begin to identify a place you would have had that
21 plant 40, 50 years?

22 WITNESS I'm sorry I didn't

23 COMMISSIONER GUNTER: After 2010 if you
24 hadn't identified anything by 2010 there, you know,
25 you're talking 20, 45 years.

1 WITNESS Well, it's been identified early on
2 as a need there but as the load growth has declined we
3 have been able to substitute the need of that capacity
4 with other capacity that became available, so, of
5 course, when the land was acquired we had plans to
6 build I think in the late '70s, early 1980 at the very
7 latest.

8 COMMISSIONER GUNTER: , You know, the question
9 comes up quite frequently with the utilities where they
10 have a plant site that is not being utilized as the
11 appropriateness of continued rate base. You know,
12 there is -- and that's I guess the point I'm trying to
13 get to. Rather than adding and providing money to add
14 to the site, that there is nothing -- no use being
15 determined for any reasonable future the cost keeps
16 being incurred by the ratepayers, and I understand up
17 until about 1977, 78, something like that, there was an
18 intended use. But we have a time period, you know,
19 running from then say 1980 through 2010, that's a
20 30-year people period. That would raise an interesting
21 question.

22 WITNESS Well, it gets back to my previous
23 comment I feel like the land initially was purchased
24 for use as a power generating site, and as we have
25 delayed, we've always been able to save the customer

1 money by alternative capacity. We've spent money on
2 the site. It's aproven and certified site and one that
3 we know we're going to need in the future, and I can
4 it's prudent that it stay in our rate base in plan held
5 for future use.

6 COMMISSIONER GUNTER: How much investment do
7 you have in Caryville, counting all the site work and
8 all that kind of stuff you have been doing?

9 WITNESS PARSONS: I believe it's about
10 \$3,600,000.

11 COMMISSIONER GUNTER: 3.6 million?

12 WITNESS PARSONS: Yes, sir.

13 COMMISSIONER GUNTER: And that's a direct
14 rate base item, isn't it? Plant held for future use?

15 WITNESS PARSONS: I believe that's right,
16 yes, sir.

17 COMMISSIONER GUNTER: And if you look at just
18 the overall cost of capital and assume it was 10%, that
19 would be \$360,000 a year, wouldn't it, just to support
20 that? And then you gross that up for taxes and the
21 rest of that, you're talking about something over a
22 half million dollars a year the ratepayers are paying
23 you just to hold that piece of ground.

24 It doesn't take a gerius to figure out that
25 if you had disposed of that in 1980 and put in excess

1 of half a million dollars a year, just stuck it in the
2 kitty, by the year 2010 you would have enough money to
3 buy everything around that area up there.

4 WITNESS PARSONS: But if you have to operate
5 that plant or operate a plant similar to that sometime
6 in the future, you would hope there would be some
7 property out there that would meet the requirements for
8 having a plant installed. And that is a proven site.
9 We think perhaps the only, if not one of the few, that
10 would be available for installation of a generating
11 plant there.

12 So we still feel that it's a prudent
13 investment and ought to be held for future use because
14 we eventually will build something there.

15 COMMISSIONER GUNTER: I understand. But at
16 what point in time? And I'm looking at it purely from
17 a regulator's standpoint. If you don't look from now
18 until the year 2010 -- and my half-million-dollar
19 figure is a low figure, I think. You know, you're
20 talking about the ratepayers over the next 20 years
21 paying you \$10 million to carry a \$3.5 million
22 investment.

23 Do you understand the math of that? And it
24 would have been, you know, 15 million since 1980. And
25 that's a relatively static investment. So if we were

1 to find that your sod farm, you know, was really the
2 use that it would be and just say, "Fine, you get to
3 operate it as a sod farm." Do you understand what I'm
4 saying?

5 WITNESS PARSONS: Yes, sir. But I still
6 think you have to consider what the alternative is to
7 that site in the event that site is not available when
8 we need it for construction; what is the cost to the
9 customer at that time when you have to replace this
10 acreage with like acreage, if it exists, in northwest
11 Florida.

12 COMMISSIONER GUNTER: Let me ask you a
13 question. What is really the purpose --

14 CHAIRMAN WILSON: Are you leaving Caryville?

15 COMMISSIONER GUNTER: No.

16 COMMISSIONER BEARD: Okay, go ahead.

17 COMMISSIONER GUNTER: What is the purpose --
18 well, we have changes in environmental regulations
19 continuously, don't we, in requirements for
20 construction of any large facilities?

21 WITNESS PARSONS: Yes, sir.

22 COMMISSIONER GUNTER: Isn't that right?

23 WITNESS PARSONS: Yes, sir.

24 COMMISSIONER GUNTER: If you don't have -- if
25 your generation expansion plan would show no use for

1 the facility for at least 20 years, prospectively from
2 today, what -- are we just keeping people working in
3 order to have a Caryville subsurface study taking
4 place?

5 If you know you're not going to use it for 20
6 years, why have we got subsurface studies -- and this
7 is not the first time we've seen studies. There was
8 one time you had a nuclear feasibility study, and what
9 have you, taking place.

10 I'm not finding fault with that, but I'm
11 saying 20 years hence is the nearest time -- no, we
12 don't even know when it will be. It's just not going
13 to be addressed for 20 years. What would be the
14 engineering basis of going doing this kind of study
15 when you don't know what the requirements may be some
16 point down the road?

17 WITNESS PARSONS: This is not a new study --
18 excuse me.

19 COMMISSIONER GUNTER: I'm trying to
20 understand in relation to -- you were very nearly in
21 the construction stage. In fact, you had already
22 ordered materials, and what have you, for building a
23 plant. And you had to have done a subsurface study and
24 a foundation study and all that when you were that
25 close to running, to doing a plant.

1 When I got to this issue, it sort of struck
2 me as the restudying geological data that you should
3 have had in the late '70s. Is this an update, or how
4 about explaining that to me?

5 WITNESS PARSONS: I believe the dollars that
6 are discussed as this, as an issue, are the original
7 dollars for the subsurface study. We may have a few
8 monitoring sites there, but as far as the big dollars,
9 they have already been spent, and I think the issue was
10 to disallow those dollars. But we have not, this is
11 not a --

12 COMMISSIONER GUNTER: In other words, these
13 were dollars for that are study that were capitalized?

14 WITNESS PARSONS: Yes, sir.

15 COMMISSIONER GUNTER: Is that right?

16 WITNESS PARSONS: That's my understanding,
17 yes, sir.

18 COMMISSIONER GUNTER: If they were
19 capitalized, you're still getting a return on that
20 \$692,000 for a study that was done 15 years ago?

21 WITNESS PARSONS: Yes, sir. Which will still
22 be good at the time the plant is built there.

23 COMMISSIONER GUNTER: So that if we had
24 expensed it, just looking at a 15-year payback, if we
25 had expensed it during the time period, rather than

1 having capitalized it -- and I realize that probably
2 violates some sort of accounting canon or something --
3 if we had expensed it, we would have been money ahead
4 today, is that right?

5 WITNESS PARSONS: Looking back from today,
6 that would probably be right. I don't know, you know,
7 that decision --

8 COMMISSIONER GUNTER: I understand.

9 COMMISSIONER BEARD: Let me ask a quick
10 question here, if I can.

11 Your Audit Disclosure No. 7 for this docket,
12 the second paragraph, last sentence, says, "According
13 to Schedule B-8a of Gulf's filing, they don't expect
14 this site to be in service until sometime between 1995
15 and 2001."

16 COMMISSIONER GUNTER: Okay. That ain't no
17 problem.

18 WITNESS PARSONS: Well, I think I mentioned
19 earlier that the Generation Expansion Plan had some
20 unlocated CTs. This was a possibility, but we feel
21 like that it is, at this point, if you're looking at a
22 location of Crist, Smith, Scholz or Caryville, it is a
23 low priority. And as we move through the generation,
24 expansion planning process and move these units out in
25 time, during this time frame we had the consideration

1 of perhaps those CTs, a CT there or two CTs there. But
2 as I just stated, with the new revised Generation
3 Expansion Plan, it does show it beyond 2010.

4 COMMISSIONER BEARD: Okay, I'm sorry. I
5 missed that.

6 COMMISSIONER GUNTER: Do you have any nuclear
7 capacity in Gulf?

8 WITNESS PARSONS: No, sir.

9 COMMISSIONER GUNTER: Do you have any
10 proposed nuclear capacity in Gulf?

11 WITNESS PARSONS: No, sir.

12 COMMISSIONER GUNTER: I'm trying to
13 understand, from a regulator's standpoint now, why
14 would I allow EPRI expenses for nuclear research?
15 That's Issue 94 on Page 47 of the Prehearing Order.

16 WITNESS PARSONS: The nuclear power research
17 concerns a lot of things other than just the fuel cycle
18 of a nuclear plant.

19 When you get -- this is being relatively
20 simple -- when you get beyond the fuel cycle, you still
21 got turbines, feed water heaters, controls, condensers,
22 cooling towers, valves, fans, all of these things we
23 have at our coal-fired plants as well as our nuclear
24 plant.

25 I think we mentioned earlier, talked about

1 the large impact that nuclear has on the Southern
2 System; so any research that either improves the
3 technology of any of these items that could be adapted
4 to coal-fired plants or that will improve the
5 availability and efficiency of a nuclear plant will
6 benefit Gulf Power Company --

7 COMMISSIONER GUNTER: Let me ask you a
8 question right there.

9 WITNESS PARSONS: Okay.

10 COMMISSIONER GUNTER: Are you to say that
11 EPRI does not look at those same items on coal plants
12 that you just talked about?

13 WITNESS PARSONS: Yes, sir.

14 COMMISSIONER GUNTER: The generators and all
15 the rest of that? They do that anyway?

16 WITNESS PARSONS: They do.

17 COMMISSIONER GUNTER: EPRI has projects they
18 manage for folks, do they not?

19 WITNESS PARSONS: Yes, sir, they do that.

20 COMMISSIONER GUNTER: Provide all that
21 information?

22 WITNESS PARSONS: Yes, sir. But I also feel,
23 again, as I stated earlier, that anything that improves
24 the availability or efficiency of a nuclear unit on the
25 Southern System benefits Gulf Power Company directly

1 because of the fact that, when load is carried by those
2 units, we have the option to have probably less costly
3 generation available to us to serve our load.

4 To go one step further, some point in time in
5 the future, you're aware of the environmental impact
6 and what we're faced in the future, nuclear probably is
7 going to be the way to go for future generation. And I
8 think research in the area of nuclear generation is
9 something that will benefit long-term also.

10 So it's two things: An operations,
11 day-by-day operations situation, versus, plus looking
12 at the nuclear capability in the future. Those two
13 things Gulf can benefit from today.

14 COMMISSIONER GUNTER: All right. Mr.
15 Parsons, are you the guy to give me a historical last
16 two or three years volume of Schedule E sales?

17 WITNESS PARSONS: I believe Mr. Howell could
18 talk to you about that.

19 COMMISSIONER GUNTER: Mr. Howell? Okay.

20 WITNESS PARSONS: Yes, sir.

21 COMMISSIONER GUNTER: Most of the items,
22 remaining items I have, Mr. Chairman, have been
23 discussed, I think. I thought I forgot something, but
24 you're coming back.

25 COMMISSIONER BEARD: I've got one or two

1 things I'd like to ask.

2 CHAIRMAN WILSON: All right, Commissioner
3 Beard.

4 COMMISSIONER BEARD: Let me ask you. You may
5 not be the person, and if not, tell me.

6 Did anyone from Gulf, or that you're aware of
7 from Southern Services, participate in the Seminole
8 RFP? And primarily from Gulf.

9 Excuse me, Commissioner Gunter, "Guf."

10 COMMISSIONER GUNTER: "Guf, Guf Power."

11 WITNESS PARSONS: You say "participate," make
12 an offer to Seminole?

13 COMMISSIONER BEARD: Yeah.

14 WITNESS PARSONS: Just a moment, let me check
15 something. (Pause)

16 I guess. I believe Southern did provide some
17 information to Seminole.

18 COMMISSIONER BEARD: They did not make a
19 proposal in the RFP? (Pause)

20 WITNESS PARSONS: I don't have any
21 information that indicates that. Mr. Howell may be
22 able to help you with that.

23 COMMISSIONER BEARD: Or Dawson, maybe?

24 WITNESS PARSONS: Or Dawson, yes.

25 COMMISSIONER BEARD: It would not be normal

1 for Seminole to directly contact Gulf and Gulf to deal
2 with them on the purchases of power?

3 WITNESS PARSONS: That would not normally be
4 the --

5 COMMISSIONER BEARD: They would refer them to
6 Southern Services?

7 WITNESS PARSONS: Yes, that would normally be
8 the way to go. If I got a contact, or someone at Gulf,
9 we would direct that to the Bulk Power Sales Marketing
10 at Southern.

11 COMMISSIONER BEARD: Okay. You would not be
12 the one to discuss the FP&L RFP, either, would you?

13 WITNESS PARSONS: No, sir.

14 COMMISSIONER BEARD: Okay.

15 COMMISSIONER GUNTER: Who would be? And the
16 reason I ask, is part of that -- and that's, you know,
17 public record. Part of that bid was all of Scherer 4,
18 full capacity out of Scherer 4. Now, who would be, who
19 could we talk to about that? Because that could have
20 some significant changes -- as I understand, from
21 documentation that's been provided to us, that could
22 have some significant changes to the overall picture if
23 all of a sudden they were successful in that.

24 Now, part of my problem is, I understand
25 there's a witness coming through that's an expert in

1 this area, but he can't really do anything until you
2 all tell him what to do. And then that's sort of
3 circle management, you know, as far as we're concerned,
4 because they always point to somebody else.

5 And who could talk to us about that? Because
6 the picture does change that quick. (Snaps fingers)
7 Because if you look at the committed capacity and where
8 it's coming from and what the demand would be on the
9 spreadsheet that Commissioner Beard was talking about
10 previously, it all goes catawampus, if that were to
11 happen.

12 COMMISSIONER BEARD: If I look at this right,
13 by '95, it looks like there's at least 848 megawatts
14 out there that that would decrease Georgia Power's
15 reserves, which inversely would increase yours. Might
16 be interesting to see how that works.

17 COMMISSIONER GUNTER: And the UPS.

18 COMMISSIONER BEARD: I'll look at the map
19 tonight and see how that works out, maybe.

20 COMMISSIONER GUNTER: I don't have anything
21 further.

22 MR. PALECKI: Commissioners, we have just one
23 question that we would like to follow up. Something
24 that was brought up by Commissioner Gunter.

25 CHAIRMAN WILSON: Go ahead, Mr. Palecki.

1 Q Mr. Parsons, does having a cogenerator on
2 your system affect the ICC contract?

3 A IIC contract?

4 Q Yes.

5 A It would affect it from the standpoint that I
6 mentioned earlier in that if the cogenerator is serving
7 his own load and we do not experience serving that
8 load, then we have more capacity to either sell to the
9 pool or less capacity to purchase from the pool.

10 COMMISSIONER GUNTER: Look at the other side
11 of that, though, where I think from the Commission's
12 standpoint you're thinking Air Products and Monsanto,
13 we're thinking about net -- I'm thinking about, and I'm
14 taking that question as a net seller to your system,
15 where you have increased availability of energy on your
16 system, regardless of whether you generate it or
17 somebody else generates it. What happens to that IIC
18 contract, if they're not dispatchable?

19 WITNESS PARSONS: If they're not
20 dispatchable?

21 COMMISSIONER GUNTER: If your cogenerator is
22 not dispatchable. Under standard offer contract,
23 that's not a requirement. It may be something you all
24 could negotiate with somebody, but that's not a
25 requirement under a standard offering. What does that

1 do to you, whether they are dispatchable or whether
2 they are not? There's two different scenarios.

3 WITNESS PARSONS: That's something I've
4 talked about earlier we would have to discuss in our
5 Operating Committee to determine how that would be
6 handled. We do not have a situation like that, that
7 I'm aware of.

8 MR. PALECKI: Thank you.

9 CHAIRMAN WILSON: Redirect?

10 REDIRECT EXAMINATION

11 BY MF. HOLLAND:

12 Q Mr. Parsons, while we're on it, would Mr.
13 Dawson maybe be the person that -- where questions
14 regarding the FP&L RFP be directed?

15 A Yes, sir, I think so.

16 Q Changed my mind. (Pause)

17 Mr. Parsons, very early on you were asked
18 some questions by Mr. Burgess relative to the default
19 of Gulf States Utilities and he asked you specifically
20 about the dates of the default compared to the
21 disallowances that were made by the Texas Public
22 Service Commission. Have you had an occasion to go
23 back and look at those specific dates?

24 A Yes, I have.

25 Q Did the default -- and by "default," I mean

1 the date that GSU began to put money into the bank in
2 Texas rather than to pay the operating companies of the
3 Southern System; did that occur before or after action
4 was taken by the Texas Commission?

5 A I believe that was before action by the Texas
6 Commission.

7 Q Do you know the date that the -- that Gulf
8 States began to put it in the bank in Texas, put the
9 money?

10 A I believe it was July of '86.

11 Q And do you know when the Texas Commission
12 disallowed the capacity payments -- passed through the
13 capacity payments?

14 A I think it was October.

15 Q The lawsuit that has been filed in Texas, in
16 the Federal District Court in Texas, who are the named
17 parties in that lawsuit?

18 A I believe it's the four operating companies,
19 Alabama, Georgia Gulf and Mississippi and Southern
20 Company Services.

21 Q Is Southern Company a party to that lawsuit?

22 A I don't believe they are.

23 Q You were asked some questions by the Staff
24 relative to the availability of the capacity out of
25 Plant Scherer, the 63 megawatts, or specifically the

1 44, had the Gulf States contracts not -- or had Gulf
2 States not defaulted. Would the diversity of the peak
3 have some impact on availability? And I'm saying the
4 peak of Gulf States versus the peak of the Southern
5 System.

6 A Yes, sir, I think it would. From the same
7 description I made earlier where there is diversity
8 even between Georgia Power Company and Gulf Power
9 Company, I think you would recognize some diversity
10 between either Texas or Louisiana and Northwest
11 Florida.

12 Q Did an excess of capacity on Gulf States'
13 system impact their decision to break the contract?

14 A Yes, sir.

15 Q Mr. Parsons, in your opinion, is the 63
16 megawatts of Scherer capacity used and useful on Gulf
17 System for the purposes of the test year and beyond?

18 A Yes, sir, it is available, used and useful
19 for our customers.

20 Q How does the fact that you are willing to
21 sell these 63 megawatts in unit power sales impact your
22 determination that it is used and useful?

23 A I stated earlier something as simple as the
24 cold weather we had in December, we utilized the
25 capacity to serve our own customers, but if it can be

1 shown to be beneficial to our retail customers and
2 replacement capacity to assure reliable service to them
3 is available, then we would consider the sale of that
4 capacity off our system.

5 Q You were asked some questions about the
6 capacity factors of Crist Plants 1, 2, and 3. Do you
7 have the capacity factors of those units for 1990 thus
8 far?

9 A Yes, for year to date, the figures we gave
10 this morning were budget figures, but we have exceeded
11 those significantly from January 1st, 1990 through June
12 13th. The capacity factor for Crist Unit 1 is .156%;
13 Crist Unit 2, 1.16%; and Crist 3, 1.579%.

14 COMMISSIONER GUNTER: Am I to understand that
15 response is less than 1% to -- as something over 1%?

16 I'm trying to understand what those figures
17 mean.

18 WITNESS PARSONS: Yes, sir, we were comparing
19 -- I was asked to read this morning the capacity factor
20 that's in the budget for 1990.

21 COMMISSIONER GUNTER: This is a deviation
22 from the budget? Or is this actual --

23 WITNESS PARSONS: This is above the budget.
24 This is actual that we've had year to date.

25 COMMISSIONER GUNTER: And your actual is less

1 than for the first two -- 1 and 2 is less than 1%
2 capacity factor?

3 WITNESS PARSONS: The budget had them as .04%
4 for 1 and 2, and I think point --

5 COMMISSIONER GUNTER: Still, what I'm saying,
6 it's less than 1% capacity factor?

7 WITNESS PARSONS: For Crist Unit 1.

8 COMMISSIONER GUNTER: And Crist Unit 2 was
9 less than 1?

10 WITNESS PARSONS: Crist 2 is 1.16%, and Crist
11 3 is 1.579%.

12 COMMISSIONER GUNTER: What's Crist 6?

13 WITNESS PARSONS: Year to date, I don't have
14 that.

15 COMMISSIONER GUNTER: But less than 1% would
16 be not considered baseload, is that right?

17 WITNESS PARSONS: That's correct, and the
18 point we're trying to make is that these units, we were
19 looking at the No. 6 oil situation as backup, and these
20 units, I think the comment was made that they were
21 antiquated units. And I think the point I need to make
22 is that these units are available, they are being
23 utilized today for carrying our load on Gulf Power
24 Company's system, and we do get capacity payments out
25 of the pool for those 85 megawatts.

1 COMMISSIONER GUNTER: Okay.

2 COMMISSIONER BEARD: Let me ask a question.

3 You start working those math figures, I get a
4 little spooky. Typically you would run those three
5 units in more of a winter-peak scenario as opposed to
6 probably a summer-peak scenario?

7 WITNESS PARSONS: Not necessarily, just be
8 whenever they are needed. It could be -- we are a
9 summer peaking --

10 COMMISSIONER BEARD: I know, but your winter
11 peak is probably spiked and actually, probably, the
12 highest?

13 WITNESS PARSONS: No, our summer --

14 COMMISSIONER BEARD: Shorter duration, but --

15 WITNESS PARSONS: Last Christmas was the
16 second time, I think since 1960s, that we had a winter
17 peak. We are a summer peaking system, and our peak,
18 usually the summer peak is greater than the previous
19 winter peak. So we've only had two winter peaks that
20 exceeded the summer peak for the same year, I think
21 twice since the late 50s.

22 COMMISSIONER BEARD: Well, I guess the
23 neighborhood I used to come from, they considered
24 themselves a summer peaking unit in general, although
25 -- well, I can't say that. It's hard to compare summer

1 and winters in reality because of duration and length
2 and what, really, demand on your system is. But, you
3 actual -- the actual top of the peak in the summer is
4 higher than the preceding winter's spiked peak?

5 WITNESS PARSONS: Yes, sir, that is normally
6 the case. There have been two exceptions, I think.

7 COMMISSIONER BEARD: Okay.

8 Q (By Mr. Holland) Mr. Parsons, did those
9 units run, or any of those units run yesterday, and are
10 any of them running today?

11 A Yes, sir, all of them are on line today.

12 Q Do you know what the current embedded cost
13 per kW is for those three units?

14 A Yes, sir, the embedded cost of Crist Unit 1
15 is \$31.08 per kilowatt; for Unit 2 it's \$43.60 per
16 kilowatt; and for Unit 3 it's \$49.17 per kilowatt.

17 Q And what are the revenue requirements
18 associated with the three units?

19 A Information I've been furnished indicate that
20 the revenue requirements are about \$418,000 for test
21 year 1990 for all three units, total.

22 COMMISSIONER BEARD: You ought to be running
23 them baseload.

24 Q (By Mr. Holland) What does get in the
25 interchange?

1 A I think a little over \$6 million.

2 Q If Gulf did not maintain sufficient
3 inventories of fuel, would that impact the inclusion of
4 those units in the interchange calculation?

5 A My opinion it would. We have to have those
6 units available for service, and without sufficient
7 fuel, as I've indicated earlier, with the gas
8 contracts, interruptible contracts, I believe it would
9 be affected in the intercompany/interchange contract.

10 Q Mr. Parsons, I want to ask you a few
11 questions about the inventory analysis that Gulf has
12 provided the UFIM, and if you would get out Exhibits
13 451 and 556.

14 CHAIRMAN WILSON: 451 and --

15 Q (By Mr. Holland) 556.

16 A Okay, I have those.

17 Q Could you turn to Page 55 of 59 of Exhibit
18 451?

19 A Yes, sir.

20 Q There were a number of questions asked you
21 with respect to the \$8500 per megawatt hour under Phase
22 5, or \$8.50 a kilowatt hour. Could you explain what
23 that means in terms of the study?

24 A Yes, sir, I'll try.

25 The nuclear disruption cost curve reflects

1 social or economic costs due to reducing generation at
2 a coal-fired plant during the nuclear moratorium
3 generation. Although the residential customers' value
4 or cost of reduced generation at 100% reduction is the
5 \$8.50 -- or per kilowatt hour that shows here. If
6 you'll notice, it's only about 10 cents at the 40%
7 reduction. So the reduction cost curve reflects a
8 range of cost from inconvenience to extreme hardship.
9 And if you lose coal-fired generation during the
10 nuclear moratorium disruption, the burn reduction is
11 allowed to anticipate the need to stretch the
12 inventories during this disruption.

13 Q Under Phase 5 scenario, would very many of
14 Gulf's residential customers be taking power?

15 A Well, it would just be determined by the
16 situation. We may be into load cuts at that particular
17 situation because of the unavailability of fuel.

18 Q Now, with respect to --

19 COMMISSIONER EASLEY: Mr. Holland, could I
20 interrupt you -- I'm sorry, my reaction time is a
21 little slow. I need to go back to that fuel inventory
22 issue one more time.

23 You said it would be necessary to maintain
24 the inventories. It is necessary to maintain both the
25 heavy oil and the light oil inventory in the light of

1 historic nonusage of heavy oil? What would happen if
2 you only maintained one instead of the other?

3 WITNESS PARSONS: Well, they're used for two
4 different situations.

5 COMMISSIONER EASLEY: I understand. But, the
6 result apparently was the same.

7 WITNESS PARSONS: I'm sorry, the result?

8 COMMISSIONER EASLEY: Well, I'm not saying
9 that well, I guess.

10 MR. HOLLAND: Commissioner, I don't think you
11 can burn one in --

12 COMMISSIONER EASLEY: I know you can't burn
13 heavy oil in a light oil situation, but does the
14 reserve in one allow you to take up the slack at all?

15 WITNESS PARSONS: No, in my opinion it does
16 not. The No. 6 heavy oil is primarily the second
17 source of fuel for Crist Units 1, 2 and 3, which
18 primarily burn gas. So you can either bring the units
19 up on gas and No. 2 oil or gas by itself and then put
20 in the No. 6 oil in as a fuel, or the No. 2 oil can be
21 used for flame stabilization, lighter oil to get the
22 unit started, or it's used in combustion turbine as a
23 primary fuel or peaking unit at Plant Smith. So there
24 are two different usages for the two oils.

25 COMMISSIONER EASLEY: And you can't rely on

1 Plant Crist exclusive of Plant Smith, or Plant Smith
2 exclusive of Plant Crist, to take up the slack in any
3 outage?

4 WITNESS PARSONS: No, you cannot. They are,
5 of course, at different locations. I hope I'm
6 following what your question is.

7 COMMISSIONER EASLEY: I hope I'm saying it
8 right.

9 WITNESS PARSONS: The storage capacity at the
10 plants are different. You have storage of the --
11 you've got lighter oil at Crist.

12 COMMISSIONER EASLEY: The inventories cannot
13 be considered independently as a solution to a
14 potential outage or shortage or whatever it is I'm
15 looking for.

16 WITNESS PARSONS: No. You should consider
17 the No. 6 inventory request separately from the No. 2
18 inventory request. They are two different fuels and
19 are used for two different purposes.

20 COMMISSIONER EASLEY: Okay.

21 CHAIRMAN WILSON: What page were you on when
22 you were talking about Exhibit 451?

23 MR. HOLLAND: Page 55, I believe. Yes, 55 of
24 59.

25 MR. HOLLAND: Let me ask a question back on

1 Commissioner Easley's, just to see if I can clarify it.

2 Q (By Mr. Holland) Mr. Parsons, what's the No.
3 6 oil used for?

4 A It's the back-up oil to Crist; it's the
5 secondary fuel to Crist Units 1, 2 and 3.

6 Q And what's the No. 2 oil used for?

7 A It is lighter oil for flame stabilization or
8 starting the Units 1 through 7 at Plant Crist.

9 Q The Crist 4, 5, 6 and 7 burn what type of
10 primary fuel?

11 A They are coal-fired units. But to start them
12 you have to have lighter oil.

13 COMMISSIONER EASLEY: I hate to use this
14 expression but the light just dawned.

15 CHAIRMAN WILSON: Just a kind of a curious
16 question.

17 I'm looking at Page 53 of Exhibit 451, which
18 talks about the assumptions made in the "state of the
19 world disaster", and the second indented paragraph says
20 "Due to increased demand, the price of oil, gas and
21 spot coal is one and a half times normal costs."

22 And in the next paragraph it says that
23 "Previously reliable suppliers of fuel are now only
24 shipping about one-half their normal deliveries." Am I
25 to assume that you're getting half the supply of fuel

1 and the price only goes up 50%?

2 WITNESS PARSONS: The contract coal that we
3 are receiving, the price will be stable because that's
4 tied into a contract, but if you're on the spot market,
5 you've got more demand on the spot market and,
6 therefore, the cost in the spot market would be seen to
7 go up significantly at that point.

8 CHAIRMAN WILSON: I still don't understand.
9 You're saying in one paragraph that you're only going
10 to be able to receive half the amount; shippers are
11 only going to ship half the amount that they were
12 shipping, but the price is only going to go up 50%.
13 Does that seem reasonable to you? I mean it doesn't
14 seem reasonable to me. I mean, I would think we're
15 going to be talking in multiples of four and five
16 figure increases. I mean if you cut the supply in half
17 and everybody is after that same amount, I guarantee
18 it's not going to go up just 50%.

19 WITNESS PARSONS: If 75 or 80% of your coal
20 supplies are under long-term contract, those prices are
21 not going up. The 20 to 25% spot coal contracts would
22 probably escalate significantly at that point.

23 CHAIRMAN WILSON: But what this paragraph
24 says is that spot coal is one and a half times normal
25 costs, and the next paragraph it says "previously

1 reliable suppliers of fuel are only shipping about half
2 the normal deliveries."

3 WITNESS PARSONS: It's just a conservative
4 approach to the input to the model.

5 CHAIRMAN WILSON: Well, no, that doesn't
6 sound conservative to me. It sounds just like exactly
7 the opposite of conservative. If somebody told me you
8 were only going to have half the amount of spot coal
9 available on the market and the demand is going up
10 significantly, that the price is only going to go up
11 50%, I wouldn't call that a conservative estimate at
12 all, unless you just consider conservative being small
13 rather than large, which I don't think is the way you
14 would.

15 WITNESS PARSONS: Well, it would raise the
16 inventory level, if you change this assumption based on
17 the theory that you just proposed, it would make it --

18 CHAIRMAN WILSON: I'm looking at the
19 assumptions to see if, in fact, they are reasonable and
20 that doesn't sound reasonable to me, that you would
21 have half as much shipped and the price would only go
22 up 1.5 times.

23 WITNESS PARSONS: You can take any assumption
24 that you want. This is the best estimate that our
25 people had that ran the model, but you could use your

1 assumptions, if you want to have fivefold, and it would
2 change the output, so it's just a matter of which
3 assumptions you choose. What level.

4 COMMISSIONER EASLEY: We came out off the
5 wall with 8,500.

6 CHAIRMAN WILSON: Well, if you can accept
7 that as a reasonable scenario, I think at least the
8 assumptions you make internally have to be consistent,
9 and I don't think cutting the supply in half is going
10 to result in only a 50% increase in cost.

11 Q (By Mr. Holland) Mr. Parsons, are the
12 suppliers that you're cutting in half the spot coal
13 suppliers?

14 A Yes, sir.

15 Q How much of Gulf's coal supply is under
16 long-term contract?

17 A Somewhere between 75 and 80%. I would think
18 probably maybe this year 80%.

19 COMMISSIONER EASLEY: I've got to get back
20 into this. Because if the assumption is correct that
21 only half of the supply is available, you are not going
22 to have available all of your long-term coal. You're
23 going to have to go to more -- all of your contract
24 coal, you're going to have to go to spot coal whether
25 you want to or not. It wouldn't make any difference

1 what your percentage is on your contract, would it?

2 COMMISSIONER BEARD: Or you can force your
3 contract and get your 80%.

4 COMMISSIONER EASLEY: You can what?

5 COMMISSIONER BEARD: They could -- I guess in
6 theory, if the world hadn't collapsed, they could
7 enforce their contracts and actually get the 80%
8 purchased contract coal that's due, and I imagine those
9 contracts actually run on up quite a ways. They are
10 not normally fixed at one place but they'll run on up
11 to maybe 90% sometimes.

12 WITNESS PARSONS: Are you talking about the
13 option to buy additional coal?

14 COMMISSIONER BEARD: You've got to buy X
15 amount per year and you can buy up to X amount per
16 year. There is usually a range on an annual basis,
17 isn't there, in your contracts?

18 COMMISSIONER EASLEY: But the assumption says
19 it isn't being shipped.

20 MR. HOLLAND: That's my question

21 COMMISSIONER BEARD: You can't have your cake
22 and eat it to.

23 Q (By Mr. Holland) My question is what is not
24 being shipped all coal, or is it just spot coal?

25 A It's all coal. It's delivery constraints

1 because of the pressure on the market for all coal.

2 Q (By Mr. Holland) Okay, but the price of
3 long-term coal that is being delivered --

4 COMMISSIONER BEARD: The price of the
5 long-term coal that isn't delivered.

6 MR. HOLLAND: The half that is, the price
7 would be at the contract price.

8 WITNESS PARSONS: Yes.

9 COMMISSIONER EASLEY: My biggest problem with
10 this whole thing, Mr. Parsons, and I hope you agree
11 with me, is I can't imagine even a once-in-40-year
12 occurrence of this kind of thing, and it skews the
13 whole scenario in my mind to even have it in there.

14 MR. HOLLAND: I want to ask about the
15 moratorium.

16 COMMISSIONER EASLEY: All right.

17 Q (By Mr. Holland) Mr. Parsons, the "state of
18 the world disaster" that is described on Page 53, would
19 that be a moratorium affecting nuclear power plants in
20 the United States?

21 A Yes.

22 Q And is the assumption that they would be
23 shutdown for a particular period of time?

24 A Yes.

25 Q In your opinion is it unreasonable to assume

1 that sometime --

2 CHAIRMAN WILSON: Mr. Holland, you'll have to
3 excuse us, but it's like we've gone into a time warp
4 here. I looked up at that clock a few minutes ago and
5 it was two minutes until five.

6 MR. HOLLAND: I just looked at it and I
7 thought time was flying, I could get through by six.

8 COMMISSIONER BEARD: I told him, "I don't
9 think we're in Kansas, Toto."

10 CHAIRMAN WILSON: I did a heck of a repair
11 job on that clock this morning, I'll tell you what.
12 (Laughter)

13 MR. HOLLAND: Do you need to take a break and
14 reset it or --

15 COMMISSIONER BEARD: We did that the last
16 break.

17 CHAIRMAN WILSON: I'm comforting myself with
18 the thought that I have a fall-back skill: Clock
19 repair. (Laughter)

20 Q Mr. Parsons, in your opinion is it
21 unreasonable to assume and include in the study an
22 assumption that there might be such a moratorium on
23 nuclear plants?

24 A You asked is it reasonable?

25 Q Yes.

1 A Yes, it's reasonable.

2 Q Could a defect in a particular component of a
3 nuclear power plant cause the NRC or some other
4 regulatory body to, in fact, impose such a moratorium?

5 A Yes, in my opinion it would be possible.

6 Q Was the assumption that is contained in the
7 study based upon expert testimony before Congress with
8 respect to the likelihood of such an event?

9 A Yes, sir.

10 Q Turn to Exhibit 556, if you would. Do you
11 have that?

12 A Uh-huh.

13 Q Let me find it.

14 Turn to Page 36 of 38, please.

15 A Okay.

16 Q Is it correct that what you were asked to do
17 here is to run the UFIM Study with the nuclear
18 moratorium removed and all other assumptions kept the
19 same?

20 A Yes, sir.

21 Q In your opinion, is that a reasonable
22 assumption to make overall?

23 A No, sir. If you're trying to determine what
24 would happen, I think you have to go back and look at
25 the other assumptions and how the nuclear moratorium

1 would affect all other assumptions under this scenario.

2 Q On Page 37 of 38, you were asked to assume --
3 or were you asked to assume that a nuclear moritorium
4 would occur every four years and that Gulf would have a
5 normal burn?

6 A Yes.

7 Q Is it reasonable to assume that if a nuclear
8 moritorium occurred that you would have a normal burn?

9 A No.

10 COMMISSIONER EASLEY: Are you leaving
11 nuclear?

12 MR. HOLLAND: Yes. I wanted to, let me ask
13 one more question about that.

14 Q (By Mr. Holland) Would a nuclear moritorium
15 impact the burn?

16 A Yes, sir.

17 Q Significantly?

18 A In my opinion, it would.

19 COMMISSIONER EASLEY: Are all nuclear plants
20 alike?

21 WITNESS PARSONS: No, ma'am.

22 CHAIRMAN WILSON: Are any nuclear plants
23 alike?

24 COMMISSIONER EASLEY: Are any nuclear plants
25 alike?

1 WITNESS PARSONS: Very few.

2 COMMISSIONER EASLEY: If a moritorium
3 occurred for anything other than literally nuclear
4 disaster -- I'm talking about a fuel explosion or
5 something that is common to every nuclear plant. If it
6 were a component failure in one plant, do you believe
7 that the NRC would shut down every plant or every like
8 plant?

9 WITNESS PARSONS: More likely, every like
10 plant.

11 COMMISSIONER EASLEY: Okay.

12 WITNESS PARSONS: There possibly could be
13 something that would shut them all down, but the most
14 likely scenario would be that plants with like design
15 or like components would be affected.

16 COMMISSIONER EASLEY: Would the impact then
17 be similar to that described in the study, or would it
18 be somewhere between "no disaster" scenario and the one
19 called the "state of the world disaster"?

20 WITNESS PARSONS: Well, I have to go back to
21 the reason for the 40 years being in the study and the
22 fact that this was based on expert testimony that has
23 been given before the NRC and other data that has been
24 made available from EPRI. And it is the best estimate
25 of the assumption that should go into the model to

1 achieve the results of determining what the stock pile
2 should be.

3 So it is, it's not just a "Reach up in the
4 air and grasp a figure," it's based on testimony and
5 documentation.

6 COMMISSIONER EASLEY: Well, if the program
7 were adapted to where you could put in the
8 considerations, the parameters that said only like
9 plants, and only like plants meant six of them would go
10 down, and we cranked out the results based on the
11 model, would that also be appropriate?

12 WITNESS PARSONS: I think you could make, you
13 know, any assumption that you feel is logical to make
14 and then it will give you an output. I don't think you
15 can change just the one assumption of the like plants.
16 I think you would probably have to look at the entire
17 model to determine if there are other assumptions that
18 would be affected by that scenario and --

19 COMMISSIONER EASLEY: But having done that,
20 would that give you the same degree of comfort as
21 having the full study in as being appropriate? I'm not
22 sure that's the word counsel used, but it's the only
23 one I can remember. (Pause)

24 WITNESS PARSONS: I think, to get back to one
25 of your earlier questions, you know, you can use any

1 assumption if you've got a reason to change from the 40
2 once-in-40-years total to something else, that could be
3 done.

4 Again, I'll have to go back and say that the
5 people who have been involved in the development of
6 this from EPRI, from the Utility side of it and from
7 the various regulatory commissions that have been
8 involved in it, this is an acceptable method of going
9 about determining the stock pile and this is an
10 assumption that, again, based on the information
11 available, was chosen to do that.

12 You asked me if I would have more comfort
13 doing something else, I would have to, you know, be
14 convinced that some other assumption was just as
15 accurate or had enough background information to feel
16 comfortable in using that rather than the
17 once-in-40-year.

18 You can run any assumption. I mean, you
19 know, if you change the assumption, you can run any
20 program and it will give you an answer, but you just
21 have to be comfortable with the inputs into it.

22 COMMISSIONER EASLEY: Okay. Thank you.
23 Thank you, counselor.

24 Q (By Mr. Holland) I want to ask you some
25 questions now relative to Gulf's commitment to Scherer

1 Unit 3, its 25% interest in Unit 3. When did Gulf
2 Power Company initially come to this Commission
3 indicating the possibility of cancelling Caryville and
4 getting into Unit 3?

5 A I believe it was in October of 1978.

6 Q When did Gulf commit to Georgia to purchase a
7 25% interest in Units 3 and 4?

8 A I believe it was in January of 1980.

9 COMMISSIONER GUNTER: Mr. Holland, I have a
10 question.

11 MR. HOLLAND: Yes, sir.

12 COMMISSIONER GUNTER: I guess I'm just trying
13 to understand your answer to not the last question but
14 the one before that, when he said, "When did you come
15 to the Commission about getting out of Caryville and
16 buying into Scherer 3?" And you answered, "October of
17 '78"?

18 I wasn't here in '78, but I was here when you
19 all came and asked about moving out and having a
20 cancellation expense. And I believe a review of the
21 orders would indicate that, at least for recovery of
22 cancellation expenses and going forward, was maybe in a
23 rate case -- wasn't there a case in 79?

24 WITNESS PARSONS: I believe 1980.

25 COMMISSIONER GUNTER: Was 1980 -- there

1 wasn't one in '79?

2 WITNESS PARSONS: I don't believe so.

3 COMMISSIONER GUNTER: Okay. But I was here
4 when that first came up.

5 I'm just questioning the October '78 date.
6 That may have been the first time --

7 MR. HOLLAND: Commissioner, maybe it would
8 help --

9 WITNESS PARSONS: We had a special document
10 -- docket, a special docket, I believe, in 1978 which
11 concerned the amortization of the Caryville
12 cancellation charges.

13 COMMISSIONER GUNTER: May have been.

14 MR. HOLLAND: It was.

15 Q (By Mr. Holland) Mr. Parsons, would you
16 refer to sub part K of Exhibit 583? Specifically to
17 attachment 4-A to that document? It's Page 211.

18 A I don't believe we have that. (Pause)

19 COMMISSIONER GUNTER: It doesn't matter,
20 that's just been a long time ago.

21 Q Okay. Let me just ask it this way, Mr.
22 Parsons. Did the Company in fact write a letter to the
23 Public Service Commission in August of 1978 indicating
24 a desire to consider the amortization of the Caryville
25 cancellation charges and purchasing Scherer capacity in

1 lieu of building Caryville?

2 A Yes, sir.

3 Q Did Gulf Power Company execute an operating
4 agreement relative to Scherer Units 3 and 4?

5 A Yes, sir.

6 Q When did that occur?

7 A I believe that was in 1981.

8 Q Okay. Was that prior to the commencement of
9 negotiations relative to unit power sales?

10 A Yes, sir.

11 Q In your opinion, did Gulf at that point have
12 a commitment with Georgia Power Company to purchase 25%
13 interest in Units 3 and 4?

14 A Yes, sir.

15 Q Can you describe for me the process and the
16 events that occurred that in fact lead Gulf to, or
17 enabled Gulf to, get out of a 25% interest in Unit 4?

18 A We had, as I've stated earlier in testimony
19 today, our load projections continued to decline. We
20 made an economic study to look at the alternatives of
21 staying in both 3 and 4 or remaining in only 3; and we
22 felt like it was in the best interest, the studies
23 showed it was in the best interest of our customers for
24 us to participate in Scherer 3. And we made that
25 decision and asked Georgia to release us from the

1 agreement for both 3 and 4.

2 Q Did certain of the studies show that it was
3 in Gulf's long-term -- Gulf's customers' long-term best
4 interest for them to remain in Scherer 4?

5 A No, sir.

6 Q You were asked some questions relative to
7 Gulf's role in the unit power sales. Does Southern
8 Company dictate to Gulf how much it will sell in unit
9 power sales?

10 A No, sir.

11 Q Does Gulf identify for Southern how much UPS
12 capacity it would have available to be sold?

13 A Yes, sir.

14 Q Is the decision as to the allocation of the
15 unit power sales to be sold out of the system a
16 decision that's made by the Operating Committee?

17 A Yes, sir.

18 Q Mr. Parsons, with respect to the Gulf States
19 litigation, would Gulf's incentive vary in any way
20 whether the 44 megawatts associated with the Gulf
21 States default were in or out of Gulf's rate base?

22 A No, sir. I think we'd work just as hard to
23 get what is owed us, whether it be to the benefit of
24 our stockholders or our ratepayers, either one.

25 Q Mr. Parsons, with respect to the late-filed

1 Exhibit 5 to Mr. Dawson's deposition, Daniel capacity
2 was identified as NSPS capacity on Gulf's system.
3 Would it be in Gulf's or Gulf's customers' best
4 interest to sell any of Plant Daniel in unit power
5 sales?

6 A In my opinion, at this point in time, it
7 would not.

8 Q Is the average cost of capacity out of Plant
9 Daniel less than or more than the system cost, average
10 cost?

11 A Gulf's average cost?

12 Q Yes.

13 A In my opinion, it would be less than the
14 imbedded cost of the total unit.

15 Q Would a CT, construction of a new CT, be more
16 expensive or less expensive than the current Daniel
17 cost?

18 A I believe it would be more. More expensive.
19 The CT would be more expensive than the Daniel cost.

20 Q Mr. Parsons, if Mr. Lee is the better witness
21 to direct this question to, please tell me. But do you
22 know when the Daniel property was purchased? And I'm
23 specifically referring to the wetlands that was
24 discussed earlier?

25 A No, sir, I do not. I would prefer you ask

1 Mr. Lee.

2 MR. HOLLAND: Okay.

3 COMMISSIONER GUNTER: While you're looking,
4 let me ask him a question that will have some bearing
5 for future regulation.

6 Does Gulf, doing a -- you all are going to be
7 hammering pretty good in Phase I and Phase II of
8 federal acid rain legislation. Do you all have, is the
9 planning process underway within Southern Company --
10 well, within Gulf -- as to how you're going to comply?
11 Because you know pretty well, the House Bill and the
12 Senate Bill, if you get a side-by-side comparison,
13 there are a lot of places that are going to impact your
14 area of responsibility in the Company rather heavily.
15 Have you all begun planning compliance planning --

16 WITNESS PARSONS: Yes, sir.

17 COMMISSIONER GUNTER: -- of what alternatives
18 you might have available to you?

19 WITNESS PARSONS: We have a task force that's
20 been put together trying to monitor. We now have the
21 Senate and the House Bills, we have the Conference
22 Committee that eventually will result in something.
23 But we are presently looking at the situation and
24 trying to come up with the best method of meeting those
25 requirements, the revised Act.

1 COMMISSIONER GUNTER: Looking at some of the
2 target plants that are on that hit list?

3 WITNESS PARSONS: Yes, sir.

4 COMMISSIONER GUNTER: I refer to it as a hit
5 list, but some of those plants that are on there and
6 making determinations of how best to get down to Phase
7 I requirements and then ultimately Phase II?

8 WITNESS PARSONS: Yes, sir.

9 COMMISSIONER GUNTER: When's that going to be
10 far enough down the road that you could kind of share
11 with us what that thinking is? Even sort of a
12 preliminary kind of thing. Are we talking about this
13 year?

14 WITNESS PARSONS: I would think that toward
15 the end of this year we would have a feel for what
16 we're going to do. Of course, there will be, as you
17 know, a lot of negotiations back and forth, a lot of
18 evaluations of just what the law means. Even if the
19 law comes into being, the interpretations of the law,
20 and so forth, will have an impact on what we can and
21 can't do. There will be a lot of negotiations. So
22 we'll have some feel, I would think, by the end of this
23 year as to what direction we might take. It may have
24 to be revised one way or another.

25 COMMISSIONER GUNTER: Okay. Because there are

1 some specific dates in there. We've been through those
2 bills and there are certain things there will be some
3 negotiation and what have you on, but there are some
4 very discrete numbers and dates in there.

5 WITNESS PARSONS: Yes, sir.

6 COMMISSIONER GUNTER: But I don't think
7 anybody finds any authority to slip those dates, those
8 compliance dates. Maybe there is. You all got a
9 better feel for that than I do. But when you all get
10 to a preliminary situation -- it has a -- the reason I
11 ask you that question is in light of the last question
12 that you asked, what you're forecasting for 1990 may, in
13 fact, be there for 1990, but if the '95 date doesn't
14 change at a conference, you're projections are going to
15 go to hell in hand basket if you have to meet a '95
16 time period. And I guess my concern is I was very
17 reluctant to even mention that, but we're supposed to
18 establish rates prospectively, and you start talking
19 about cost of combustion turbines and one thing or
20 another, I think the scenario that you may have some
21 old plants that would be on that hit list that somebody
22 would look real hard at whether you would replace them
23 or not. If, in fact, you replaced them, rather than
24 add scrubbers and catalytic removal for knocks and
25 those kinds of things, the question, a logical question

1 comes to mind is then do you build a like-sized plant,
2 or do you up-size them? Those kinds of things would be
3 very valuable for the regulators to know so we don't
4 get any surprises coming down the road. And in you
5 all's situation, there could be a possibility of
6 surprises, because operating within the Southern
7 system, it may be that someone would come in and we
8 would be confronted with a situation we have never
9 become confronted with before, is somebody else owning
10 a piece of a plant in Florida, constructed in a Florida
11 utility's service territory. And that would be a
12 difficult one, I think, for at least me to say, "How
13 does our law fit that kind of situation?" That's the
14 reason I asked those questions. But as soon as -- and
15 it's outside this case, but as soon as you all get a
16 preliminary feel -- I understand you can stamp "draft"
17 on letters that high (indicating) on preliminary, but
18 I'd be interested in seeing that.

19 WITNESS PARSONS: It's not going to be an easy
20 time for any of us, I don't think, in that time period.

21 COMMISSIONER GUNTLE: All right, sir. It just
22 fit with what you were asking.

23 MR. HOLLAND: I agree with you.

24 Q (By Mr. Holland) Mr. Parsons, is Mr. Howell
25 the person to address the treatment of cogeneration

1 under the IIC? Would he be the better witness?

2 A Yes, sir.

3 MR. HOLLAND: That's all I have.

4 MR. PALECKI: Commissioners, we have one
5 follow-up question we'd like regarding the cogeneration
6 under the IIC.

7 CHAIRMAN WILSON: Go ahead.

8 RE CROSS EXAMINATION

9 BY MR. PALECKI:

10 Q Mr. Parsons, are you aware whether the
11 Operating Committee has agreed to exclude the effect of
12 cogenerators from the IIC contract?

13 A Whether we have agreed to exclude them?

14 Q Exclude the effect of the cogenerator?

15 A No, sir, I think -- I hope I've addressed that
16 by saying that at this point in time it is not a part
17 of the Intercompany Interchange Contract. We will
18 evaluate those cogenerators on a case-by-case basis,
19 and in the future would be handled in that manner.

20 Q Are you certain of that answer?

21 COMMISSIONER GUNTER: That didn't answer his
22 question.

23 WITNESS PARSONS: Maybe I misunderstood.

24 COMMISSIONER GUNTER: Could you restate your
25 question? And listen to the question very carefully.

1 Q (By Mr. Palecki) My question is whether the
2 IIC Operating Committee has agreed to exclude the
3 effect of the cogenerators from the IIC contract?

4 A I think my answer would be yes in the 1990s,
5 because it is not in there.

6 Q And is it something that was discussed by the
7 Committee? (Pause)

8 CHAIRMAN WILSON: Wrong witness.

9 COMMISSIONER BEARD: You know, when he said
10 IIC cogeneration, I thought that, but then who's a
11 member of the Committee?

12 COMMISSIONER GUNTER: That's my next question.

13 MR. PALECKI: He is.

14 COMMISSIONER BEARD: So if the Committee
15 discussed it, it can't be Mr. Scarbrough that can
16 answer the question, or Mr. Howell.

17 WITNESS PARSONS: It has been discussed and it
18 is excluded in the existing contract.

19 MR. PALECKI: We'd like a late-filed exhibit
20 based on a hypothetical 10-megawatt cogenerator on the
21 Gulf system, and we'd like to know what the effect of
22 that cogenerator on the IIC payments would be, and we'd
23 like it worked under both a hypothetical self-service
24 cogenerator and a hypothetical firm sale cogenerator,
25 and we'll, for a short label of that, we'll call it,

1 "Effect of Cogenerator on IIC payments." Thank you.

2 CHAIRMAN WILSON: That will be Exhibit No.
3 586.

4 (Late-Filed Exhibit No. 586 identified.)

5 CHAIRMAN WILSON: Any further questions?

6 COMMISSIONER BEARD: That's in 1990. The easy
7 answer is zero.

8 MR. HOLLAND: It will have an impact.

9 COMMISSIONER BEARD: Not, if they've agreed to
10 exclude it in 1990.

11 MR. HOLLAND: It still will have an impact.

12 CHAIRMAN WILSON: Any other questions? Do we
13 have any exhibits we need to -- are they all late-filed
14 or stipulated?

15 COMMISSIONER EASLEY: Well, that one
16 composite.

17 MR. BURGESS: 583.

18 CHAIRMAN WILSON: Have you decided on it?

19 MR. BURGESS: I'd like to look at it tonight.
20 This is the other stack of those that were removed.

21 CHAIRMAN WILSON: We'll wait on that. Is that
22 the only one?

23 (No response.)

24 CHAIRMAN WILSON: Well, averaging, it's ten
25 minutes to 6:00. So --

