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BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

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

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JUN 15 1990

Florida Public Service Commission

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

Friday, June 15, 1990

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

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

APPEARANCES:

(As heretofore noted.)

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DOCUMENT # 05317-90
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I N D E X

WITNESSES

Name:

Page No.

ROBERT G. DAWSON (Adverse Witness)

Direct Examination by Mr. Palecki

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EXHIBITS

2

Number:Identified Admitted

3

587 (Dawson)

1364

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588 (Late-Filed) (Dawson)

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589 (Late-Filed) (Dawson)

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(Hearing commenced at 9:10)

4

COMMISSIONER GUNTER: All right. It's come to our attention that one witness, that his window -- and it was overlooked by all of us, that his window to be available to be able to testify runs out today, and I think because we have one Commissioner that's going to have to be absent for a while today, that it would be appropriate to go ahead and start with that witness, unless there is an objection from anybody. And that would be --

10

COMMISSIONER BEARD: I want to ask a question before we do that. Did we talk about the fact that that window existed at the prehearing?

16

MR. STONE: Yes, we did, Commissioner. Both prehearings.

18

COMMISSIONER BEARD: Okay. Then that's my problem. I missed it somewhere in the shuffle, and forgot about it, so you all are right on the money.

21

COMMISSIONER GUNTER: And that was Staff's adverse witness, Mr. Dawson, and I understand, is it correct that he was only available yesterday and today?

24

MR. STONE: That's correct.

25

COMMISSIONER GUNTER: All right.



1           MR. STONE: Commissioner Beard, I do need to  
2 point one thing out. At the prehearing conference I  
3 believe we indicated that there was a different two-day  
4 window, but when I got back to Pensacola. I was  
5 informed that I had gotten the window wrong, and I  
6 immediately called Mr. Vandiver and corrected that on  
7 the date of the first prehearing.

8           COMMISSIONER BEARD: Okay.

9           MR. STONE: And I believe we stated the  
10 second.

11          COMMISSIONER BEARD: Well, I just --

12          MR. STONE: Stated it correctly the second  
13 time around.

14          COMMISSIONER BEARD: Well, we made a mistake  
15 on not picking up on this yesterday morning, and I  
16 understand that was supposed to come on right after  
17 lunch. Whatever.

18          COMMISSIONER GUNTER: Well, we're where we  
19 are, and in order to facilitate the process, probably  
20 the only thing we can do is to go ahead and start with  
21 Mr. Dawson. Commissioner Beard only has about 20  
22 minutes before he must leave, and we can go from there.  
23 Say on the front end we appreciate the willingness of  
24 the Company to not run us through all of that subpoena  
25 process of having Mr. Dawson be here.

1 MR. PALECKI: I think, Mr. Dawson, have you  
2 been placed under oath?

3 WITNESS DAWSON: No, sir.

4 MR. PALECKI: Please place the witness under  
5 oath. (Witness Dawson Sworn)

6 ROBERT G. DAWSON

7 was called as an adverse witness by the Staff of the  
8 Florida Public Service Commission, and having been  
9 first duly sworn, testified as follows:

10 DIRECT EXAMINATION

11 BY MR. PALECKI:

12 Q State your name, please?

13 A My name is Robert G. Dawson.

14 Q And what is your occupation?

15 A I'm currently Vice President of Fuel Services  
16 with Southern Company Services.

17 Q How long have you been so employed?

18 A With Southern Company Services? Or as Vice  
19 President of the --

20 Q As vice president.

21 A A little over one year.

22 Q And what are your responsibilities in that?

23 A Currently responsible for the procurement of  
24 all fossil fuels for the Southern Electric system, as  
25 agent for the operating companies.

1 Q And how long have you been employed with the  
2 Southern system?

3 A 25 years.

4 Q And what have your duties included in your  
5 employment with Southern?

6 A Well, I was hired in 1964 as a co-op student,  
7 and by 1970 I finished my education and was hired as an  
8 system engineer in System Planning with the Service  
9 Company. Stayed in System Planning until about 1972,  
10 '73. When I transferred to the Rate Department in the  
11 Atlanta office of the Service Company, in the Rate  
12 Department I was involved in load research analysis.

13 Later on I changed some of my duties. My  
14 duties had been changed, and I was responsible for the  
15 capacity pricing for the intercompany interchange  
16 contract and for off-system sales. And by 1982 I had  
17 transferred to Operating Services in Birmingham, where  
18 I was responsible for the Power Coordination center, a  
19 technical group that supported the development of  
20 algorithms and computer capabilities of the Power  
21 Coordination Center. I was also responsible for our  
22 Bulk Power Marketing efforts.

23 In about 1986, '87, I also picked up the  
24 System Planning Activities and they reported to me and  
25 I dropped off the Power Coordination Center. I was

1 still responsible for Bulk Power Marketing. And in  
2 June of 1989 was made Vice President of Fuel Services.

3 Q Are you in charge of unit power sales with  
4 the Southern System?

5 A I was, but I am not today.

6 Q Who is today?

7 A Bill Marshall would be most directly involved  
8 in it.

9 Q For how long were you in charge of unit power  
10 sales?

11 A Approximately six years.

12 Q And what was the length of time that you were  
13 in charge of that? From when to when?

14 A From about '82 up until sometime in '89.

15 Q What was your position at that time?

16 A At one point, I was General Manager,  
17 Interconnected Operations and Contracts, from '82 to  
18 about maybe '86, '87; and then I was Director of Bulk  
19 Power Marketing and Planning.

20 COMMISSIONER BEARD: Mr. Palecki, if I can,  
21 because I have a time constraint. Let me ask you a few  
22 questions that I have, if I can?

23 WITNESS DAWSON: Yes, sir.

24 COMMISSIONER BEARD: I'm referencing  
25 primarily your deposition and more importantly and

1 specifically the Late-filed Exhibit No. 5.

2 WITNESS DAWSON: I do not have a Late-filed  
3 Exhibit 5. I do have my deposition.

4 COMMISSIONER GUNTER: You all got his  
5 exhibit? You can use mine.

6 COMMISSIONER BEARD: Here, just use  
7 Commissioner Gunter's real quick.

8 COMMISSIONER GUNTER: He can use mine.

9 COMMISSIONER BEARD: And then I'll give mine  
10 to Commissioner Gunter as I depart. (Witness provided  
11 a copy of the exhibit.)

12 COMMISSIONER BEARD: Okay. Basically there's  
13 two tables, Table I, and Table II. One's labeled  
14 "Minimum New Source Capacity Available for '89 to '92,"  
15 and the other one is labeled, "Maximum New Source  
16 Available for '89 to '95."

17 WITNESS DAWSON: Yes, sir.

18 COMMISSIONER BEARD: Okay. Tell me what the  
19 Table I, "Minimum New Source Capacity," those thousand  
20 megawatts sitting out there in right-hand column, what  
21 is that telling me?

22 WITNESS DAWSON: It represents the amount of  
23 capacity that was under contract to Gulf States  
24 Utilities until they breached the contract and the  
25 contract was suspended by the FERC.

1           COMMISSIONER BEARD: Okay. So through '92,  
2 there's no question that basically Southern Services  
3 felt that that much capacity existed that they had  
4 available for UPS without exceeding reserve  
5 requirements, et cetera?

6           WITNESS DAWSON: It's my understanding about  
7 the thousand megawatts that we were obligated under the  
8 breach of contract and the lawsuit that was going on  
9 between the Southern Companies, the four operating  
10 companies, and Gulf States, to mitigate damages, and we  
11 had the clear direction from the Operating Committee of  
12 those four operating companies to find and make the  
13 efforts to sell that capacity if we could find a  
14 market.

15           So we had clear instructions from the people  
16 we report to, which are the operating companies and the  
17 Operating Committee, to sell it.

18           Q     Okay. And what does Table II, "Maximum New  
19 Source Capacity Available for '89 to '95," represent?

20           A     If you read the deposition, I got, was asked  
21 a very fairly open-ended question in terms of a  
22 hypothetical and the maximum. At that time, in the  
23 deposition, I tried to state all the factors that had  
24 to be considered in making a sale.

25           And we talked about reserves but I never was

1 given any kind of clue as to what the questioner was  
2 really after. And so, in order to be responsive, what  
3 I listed was all of the NSPS capacity --

4 COMMISSIONER BEARD: On the system?

5 WITNESS DAWSON: -- on the system, less UPS  
6 sales in effect.

7 COMMISSIONER BEARD: Okay. Go to, if you  
8 would, the column, Miller 4, under Alabama Power.

9 WITNESS DAWSON: Yes, sir.

10 COMMISSIONER BEARD: Go down to the year  
11 1992. Based on your last response, does that mean,  
12 then, that during 1992 and '93 that 196 megawatts is  
13 being committed for UPS somewhere else? Is that why it  
14 disappears off the chart?

15 WITNESS DAWSON: Yes, sir.

16 COMMISSIONER BEARD: Okay. And then in '94  
17 and '95 it comes back at 169 and 366 megawatts  
18 respectively?

19 WITNESS DAWSON: Yes, sir.

20 COMMISSIONER BEARD: Conversely, then, over  
21 in Gulf Power, that tells me that 212 megawatts is  
22 committed to UPS in 1995.

23 WITNESS DAWSON: Yes, sir.

24 COMMISSIONER BEARD: Okay. And that marries  
25 up, I think, with the chart that Mr. Parsons has, that

1 tracks fairly closely?

2 WITNESS DAWSON: It should be  
3 megawatt-to-megawatt.

4 COMMISSIONER BEARD: Yeah. It looks like it  
5 is. I very clearly understood the caveats that you put  
6 on. For example, all the factors that you would have  
7 to look at, okay? And I think Mr. Parsons represented  
8 that yesterday that you need, there's multiple factors  
9 you would look at before you would commit to a UPS  
10 contract and I understand that.

11 WITNESS DAWSON: Yes, sir.

12 COMMISSIONER BEARD: Okay. Given that you've  
13 looked at all those caveats and gone through that, am I  
14 to understand from this chart that there is some degree  
15 of possibility that some Plant Daniel capacity might,  
16 under a given set of circumstances, be available in  
17 future years for UPS sales?

18 WITNESS DAWSON: Well, you've asked me a very  
19 broad question and any possibility, and I --

20 COMMISSIONER BEARD: Well, yeah.

21 WITNESS DAWSON: If you could sell one  
22 megawatt of Daniel and a whole lot of megawatts of  
23 Scherer 3 and Miller 4, I suspect that you would see  
24 that happen. If it were in the best interest of the  
25 customers of these companies.



1           COMMISSIONER BEARD: In a blended environment  
2 is what you're saying, if that's what it took to close  
3 the deal.

4           WITNESS DAWSON: If that's what it took to  
5 close the deal and if the Operating Committee of each  
6 of these companies, and particularly the Mississippi  
7 and Gulf Power Company, if they agreed that was good  
8 for their customers, then there's the possibility it  
9 would be sold. But this page was not laid out to say  
10 that we're out trying to sell Daniel.

11           COMMISSIONER BEARD: I understand that. I  
12 understand that. These are the new source units that  
13 are available; and in some mix or blend, some part of  
14 that might be available for sell for UPS in future  
15 years?

16           WITNESS DAWSON: If it met all the conditions  
17 and probably more that I listed in the deposition.

18           COMMISSIONER BEARD: Obviously in '95,  
19 Scherer 3, Scherer 2 buyback, Scherer 1 buyback are  
20 available because they've been sold. They disappeared  
21 off this chart, so I'm assuming they've gone to UPS  
22 sales.

23           WITNESS DAWSON: Scherer 1 buyback and  
24 Scherer 2 buyback?

25           COMMISSIONER BEARD: Yeah.

1           WITNESS DAWSON: I believe they go away  
2 because the buyback --

3           COMMISSIONER BEARD: You're right.

4           WITNESS DAWSON: -- goes away and OPC, MEAG  
5 and Dalton retain all of that capacity.

6           COMMISSIONER BEARD: So in 1995 then, if I  
7 read this -- you're right, I forgot about that. If I  
8 read this, the only UPS sales that you currently have  
9 planned is Scherer 3, 212 megawatts?

10          WITNESS DAWSON: No, sir.

11          COMMISSIONER BEARD: Okay.

12          WITNESS DAWSON: You would have to take the  
13 difference between the numbers on the line labeled  
14 "1995" under each of these units and subtract those  
15 numbers from the total capability of the units.

16          COMMISSIONER BEARD: You're right, and I had  
17 not done that.

18          WITNESS DAWSON: 1995 you have 1500 megawatts  
19 of UPS sold -- we do, the operating companies do.

20          COMMISSIONER BEARD: Okay.

21          WITNESS DAWSON: And 212 of the Scherer 3 is  
22 part of that.

23          COMMISSIONER BEARD: All of Scherer 3 goes  
24 and the others are parts and pieces.

25          WITNESS DAWSON: Yes, sir.

1           COMMISSIONER BEARD: Okay. Do you have some  
2 number for, say, '91 through '95, you'll have some  
3 working number that you're looking at of megawatts that  
4 you would be willing to commit in some mix/match  
5 fashion to UPS sales?

6           WITNESS DAWSON: I would say that there's  
7 probably not just a hard number laying around. Once  
8 again, it goes back to how much of the sale would start  
9 in 1991. The people that were negotiating sales will  
10 be trying to sell it today, starting in 1990.

11           COMMISSIONER BEARD: I know you'd sell 700  
12 megawatts because you tried to stop the deposition long  
13 enough to sell Ms. Brownless 700 megawatts.

14           WITNESS DAWSON: I know. She didn't have the  
15 money. (Laughter)

16           COMMISSIONER BEARD: Right. She worked for  
17 the State government, therefore, she really couldn't  
18 afford it. I understand that very well.

19           WITNESS DAWSON: But if you've got a buyer,  
20 we're ready, and it's 1000.

21           COMMISSIONER BEARD: I know the 1000  
22 megawatts is there because that much you all already  
23 had, we knew we were willing to put out.

24           WITNESS DAWSON: Yes, sir.

25           COMMISSIONER BEARD: What I'm trying to get

1 at is beyond that, is there some general number? I  
2 know it's a broad question. I understand that, because  
3 you have to look at mix of units, you have to look at  
4 all the other factors related to that, and I know there  
5 were a large number delineated by you and Mr. Parsons.  
6 No number?

7 WITNESS DAWSON: There's several hundred  
8 megawatts if the conditions are right, maybe 1000  
9 megawatts, but there is just not a number laying  
10 around. It's all conditioned on the deal that you can  
11 strike at the time. If you started the sale today and  
12 you've got the right mix of capacity in there, there's  
13 probably a lot of megawatts because you're going to  
14 replace this capacity that you sell, if you sell for  
15 any length of time, with new capacity, and newer,  
16 cheaper capacity than what would be sold.

17 If you wait too long in this '90-95 time  
18 period, the economic benefits of that begin to dwindle  
19 away. And when you replace it, then the economic  
20 studies, the net present value comparison of the two  
21 alternatives, gets to be very close.

22 So once again, it's deal-dependent and our  
23 people are out trying to strike the best deal that they  
24 can for the customers, for the operating companies.

25 COMMISSIONER BEARD: Daniel 1 and 2, looking

1 at the numbers, would probably, in theory at least, if  
2 you could sell from most expensive to cheapest, with  
3 the exception of Miller 1, probably Daniel 1 or 2 would  
4 probably the last two that you would sell from, UPS?

5 WITNESS DAWSON: They'd be the last one I  
6 would sell from, yes, sir.

7 COMMISSIONER BEARD: Okay. Did Southern  
8 Services participate in the Seminole RFP?

9 WITNESS DAWSON: Not to my knowledge. If  
10 they did, they did it after I was out of the area.

11 COMMISSIONER BEARD: Are you aware of  
12 Seminole contacting Gulf or Southern Services at any  
13 point in time to talk about the purchase of power?

14 WITNESS DAWSON: Yes, sir. We had several  
15 contacts. I believe in the deposition to Jim Tullis,  
16 exhibit to Jim Tullis' deposition, he listed out all  
17 the contacts of everybody that had been made over a  
18 period of time. Seminole shows up a couple of times.  
19 I can remember sitting in a room at times with Seminole  
20 representatives, talking about power sales. I was told  
21 of conversations that we were having with Seminole and  
22 questions being asked by Seminole.

23 COMMISSIONER BEARD: But nothing came of  
24 that?

25 WITNESS DAWSON: Nothing came of that. And

1 you've got to remember where Seminole is, and you've  
2 got to remember the interface between the Southern  
3 Companies and the Florida peninsula. And there's only  
4 a certain amount of capacity that can flow over that  
5 and maintain reliability. Seminole is not  
6 interconnected directly to any of the operating  
7 companies of the Southern Electric System, and you have  
8 to find a path to get to somebody in order to sell it.  
9 And at the same time that was going on, I believe there  
10 were negotiations going on to sell this 1500 megawatts.

11           If you get to a period in 1993, and if the  
12 early option is exercised by Florida Power Corporation,  
13 Jacksonville Electric Authority and Florida Power and  
14 Light, then there's more capacity under that early  
15 option in all the other sales than there is capability  
16 in the transmission system to deliver it to Florida.

17           The contract contemplates that so that  
18 interface would be full force some period of time in  
19 1993, and you've got to take that into account when  
20 you're trying to structure a number as to what you'd  
21 sell, and can you get those megawatts to the person  
22 that would want to buy them.

23           COMMISSIONER BEARD: Power Corp is directly  
24 connected to an operating company?

25           WITNESS DAWSON: Florida Power Corporation?

1 They are directly interconnected with Gulf Power  
2 Company and Georgia Power Company.

3 COMMISSIONER BEARD: Okay. Okay. How about  
4 the Florida Power and Light RFP?

5 WITNESS DAWSON: It's my understanding that  
6 we did respond to that RFP.

7 COMMISSIONER BEARD: And that's basically all  
8 of Scherer 4?

9 WITNESS DAWSON: That's my understanding.

10 COMMISSIONER BEARD: That will take my  
11 questions now back to some others.

12 Q (By Mr. Palecki) So the procedure Southern  
13 uses in selling unit power is they try to market their  
14 most expensive units first and then their least  
15 expensive units?

16 A Generally speaking, that would be true.

17 Q Is there ever any exception to that?

18 A Well, I think, as Commissioner Beard pointed  
19 out, if you had to mix in order to strike the deal,  
20 that you might not be able to sell just all of the most  
21 expensive capacity, you might have to blend in some of  
22 the lower cost capacity in order to get to the price  
23 that the buyer is willing to pay.

24 I think we've got to remember that as we  
25 sell, particularly the people in Florida, one of the

1 things that they've got in their mind is what will this  
2 Commission do to them and will they deem the purchase  
3 to be prudent. So they've got to strike a good deal  
4 for them and we've got to strike a good deal for the  
5 operating companies, and you have to have a meeting of  
6 the minds on that.

7 My obvious intent, and I believe the people  
8 that are out selling the power today, want to sell the  
9 most expensive capacity off our system because that is  
10 the best deal for our customers, the territorial  
11 customers. But that's not always in the -- have the  
12 same interest for the buyer.

13 Q So would it be correct to say that Scherer 3  
14 is less expensive than most other units Southern has to  
15 market?

16 A I'm not sure -- would you repeat the  
17 question?

18 Q Would it be safe to say that Scherer 3 is  
19 less expensive than most other units, the power from  
20 Scherer 3, that Southern has to market?

21 A It would not be safe to say that Scherer 3 is  
22 less expensive than the other capacity out there.

23 Q Where does it fit in?

24 A In just looking at the second block on Table  
25 Two of the Late-Filed Exhibit 2 that Commissioner Beard



1 was asking questions from, you can see that Gulf's  
2 portion of Scherer 3 has a capacity charge associated  
3 with it that ranges from \$12.25 up to \$14.40, puts them  
4 well above the Daniel units. It puts them just a  
5 little below, or some below, the Scherer 4 unit; a  
6 little higher than Scherer 2 buy-back and Scherer 2  
7 owned; puts it below the Miller 4 units, below Miller 3  
8 and above Miller 2 and Miller 1. So it's in the middle  
9 or above middle in terms of capacity prices.

10 Q Now, let me rephrase that.

11 Would it be safe to say that you have plenty  
12 of more expensive power that you would like to sell  
13 prior to selling Scherer 3?

14 A Would it be safe to say that? Is that your  
15 question?

16 Q Yes.

17 A And you've got the caveat in there "plenty of  
18 power"? That's a little too loose for me to say yes or  
19 no to. There's capacity out there.

20 Q Well, how much capacity do you have out there  
21 that is more expensive than the Scherer 3 power?

22 A Well, the sum of whatever is left in Scherer  
23 4, Miller 4, Miller 3.

24 Q Do you know how many megawatts you're talking  
25 about, an estimate?

1           A     I'm trying to add one up here on the fly.  
2 (Pause) Depending on what year you pick, 700, maybe  
3 1500 megawatts, but that's in 1995. When you get to  
4 1995 and you don't have any of Scherer 3 to sell from  
5 Gulf Power's point of view.

6           Q     Now, you've testified that Southern could  
7 have up to 1000 megawatts to sell in the early 1990s?

8           A     Yes, sir.

9           Q     And you said this would be replaced by  
10 cheaper capacity, newer, cheaper capacity, I believe is  
11 your testimony?

12          A     I think there may be a misunderstanding in  
13 that testimony. If we are talking '91 to '95 and you  
14 could get somebody to buy beginning in 1991 and have  
15 the sale end in 1995, capacity would come back on the  
16 system, you would not replace that capacity. People  
17 buying capacity are not willing, generally speaking, to  
18 make a purchase that begins in '91 and stops in '95.  
19 There is no economics in it for them.

20          Q     I believe I wrote down your testimony as you  
21 stated it. And I believe you referred to that newer,  
22 cheaper capacity would replace the 1000 megawatts. Is  
23 that generally your previous testimony?

24          A     Well, I'd have to go back and read it exactly  
25 to see what I said. My intent when I was talking about

1 that was for sales that would begin now and go out  
2 beyond 1995. When I think about marketing the  
3 capacity, I think of how marketing it today and  
4 marketing it for a period of time. I think that way  
5 because the buyers are very clear that they want the  
6 capacity that they buy to go out into at least the late  
7 1990s and generally '92, the 2000s.

8           And that's the reason you have the deal with  
9 Florida Power and Light Corp and JEA that ends in the  
10 year 2010. Under a deal like that -- and I think of  
11 that as a 1988 UPS sale -- under those conditions, you  
12 make that sale with the expectation that in the mid to  
13 late '90s, after you've made that sale, you will  
14 replace all or some of that capacity.

15           Q     Well, my question to you is what is the  
16 newer, cheaper capacity that you were referring to that  
17 will replace the 1000 megawatts that you testified to?

18           A     I never intended to say that in the period  
19 '91 to '95 if I sold 1000 -- or if the operating  
20 company sold 1000 megawatts that we would replace it  
21 with newer, cheaper capacity. As I tried to explain,  
22 whether I said it or not, what's in my head is the sale  
23 would be after '95.

24                     We could sell the capacity at least until  
25 June of '92 and that's what's represented on Table I of

1 the late-filed exhibit, sell the 1000 megawatts and not  
2 replace any of it. That would be the deal that was  
3 structured with Gulf States.

4 Q What has Southern done to try to market power  
5 from Scherer 3?

6 A We signed a contract in 1988 that sold all of  
7 the 212 megawatts of Scherer 3 owned by Gulf Power and  
8 we did that at the clear, direct insistence, and very  
9 persistent attitude of Mr. Parsons that we sell it off.  
10 And the deal that we could structure, when you put all  
11 the parties together, was that by 1995 we were able to  
12 sell all of Gulf's interest, unit power sales for the  
13 period in '95 to 2010.

14 Q What are you doing to try to market it in the  
15 early '90s?

16 A We are looking for buyers. The problem with  
17 selling in the early '90s is that there is not a market  
18 for the period of time which Scherer 3 by itself is  
19 available. Nobody that I know of, nobody that I've  
20 heard of is willing to buy Scherer 3 or any other UPS  
21 capacity for such a limited term.

22 Q When you say "looking for buyers," what does  
23 that consist of?

24 A It consists of keeping up with what's going  
25 on in the market. See, one of the things that, as I

1 explained my job history at the Power Coordination  
2 Center, and the people that I work with and that  
3 currently work in Gulf Power Marketing, are associated  
4 with and in the same organization that the Power  
5 Control Center works in. So we have an understanding  
6 of how the system operates and how you make interchange  
7 transactions with our neighbors. Through those people  
8 you get a clear understanding of what's going on in the  
9 marketplace, who's got the capacity, who's got the  
10 energy, how much, when they might run out. And you  
11 just get a feel for it.

12           Through our system planning efforts, when we  
13 do joint studies with the Carolinas, with TVA, with the  
14 Energy or Middle South, choose a name, or the Florida  
15 companies, we'd look at the future transmission needs  
16 and we'd look at load flow studies to see that we've  
17 got a reliable interconnected system. You pick up the  
18 intelligence about who is going to be short of capacity  
19 and when, through the contacts that we have through EEI  
20 Interchange Arrangement Committee. You just know the  
21 people, you can read the inside FERC, you can read the  
22 press. You just get a feel for where there's a need  
23 for additional capacity.

24           In addition to that, we have Mr. Tullis, who  
25 makes routine visits around with our interconnected

1 neighbors, both directly interconnected and one system  
2 beyond at a minimum, our direct interconnections to  
3 establish the contacts, to know the people, to be able  
4 to receive the phone calls, to know the people to be  
5 able to pick up the phone and call them and ask them  
6 what's going on, what do they need. There is  
7 continuous day-to-day, week-to-week attempt to find a  
8 market, whether it's energy for an hour, energy for a  
9 day or capacity in the form of Schedule E or short-term  
10 capacity or longer term UPS arrangements. There is  
11 just a continuous, intense, aggressive effort on our  
12 part on behalf of the operating companies to sell this  
13 capacity. The problem is you can be as intense and  
14 aggressive as you want to be but if there are not  
15 buyers out there, it doesn't do you a lot of good.

16           Today there are not many buyers. You have  
17 too much energy floating around at a very reasonable  
18 price. The buyers know it's there. They know they can  
19 count on it. And unless they have a severe capacity  
20 problem where they've got to meet certain regulations  
21 or requirements to have a certain reserve level, they  
22 are probably not going to buy capacity in the short  
23 run. If they do, they will buy capacity.

24           But when you get to unit power sales and the  
25 price associated with that, the buyer has to be very

1 careful with the economic analysis they make in order  
2 to make sure they strike a deal that their commission,  
3 wherever that commission is, does not come back,  
4 second-guess them, or just find them imprudent and not  
5 allow pass-through, or recognition of that cost. So  
6 that you've got very careful buyers out there and  
7 you've got very smart buyers. It's not just us wanting  
8 to sell, you've got to have the buyer.

9 Q How does the Southern Company determine the  
10 level of reserves that it keeps for itself and the  
11 level of reserves it allocates to its companies?

12 A It determines that through, in the most  
13 general of terms, looking at system planning studies  
14 and looking at percent level reserves. And that's in  
15 terms of the long-run, long-range planning. You can  
16 have the Operating Committee, or through the Operating  
17 Committee, make shorter term decisions that would allow  
18 reserves on our system to dip below the normal 20 to  
19 25% margin that's planned to allow those reserves to go  
20 below that, be willing to take a calculated and  
21 reasonable risk with that level of reserves, say for  
22 this summer, to make an additional sale of capacity to  
23 the benefit of the customers.

24 So there's not, in my mind, a hard number. I  
25 think, once again, you've got to go back and look at

1 the economics and the benefits you derived for your  
2 customers, the status of your system, the status of  
3 otherwise available energy on the interconnected system  
4 that you might buy. If you were to make such a sale  
5 that would tend to reduce your reserves.

6 Q Is there any model that's used by the Company  
7 to determine reserve levels?

8 A Well, if you just want to calculate what  
9 reserves are, you don't need a model. If you want to  
10 project, to forecast for capacity in the future, there  
11 are models, system planning models, that would produce  
12 outputs like LOLP or EUE, which is expected unserved  
13 energy.

14 Generally, what I think of reserves, or what  
15 the guideline is, I generally think of the 20 to 25%  
16 range, for planning reserves. That's why I think I  
17 explained in this deposition or another one, if you  
18 look back to 1989, when you're standing in 1990 and the  
19 actual reserves on the system at the hour of the peak  
20 turned out to be zero actual reserves, you would have  
21 done a great job in planning.

22 So it depends on how far forward you're  
23 looking as to what you're talking about. If you're  
24 talking about next year or this summer, 20 to 25%  
25 reserves, or 18 or 30, don't mean anything because you



1 planned to be at a certain point. Life may have done  
2 something strange to you and you are not at 20 to 25.  
3 You may be above, you may below. In the longer run,  
4 you're planning to some target. Currently that target  
5 is 20 to 25. Targets may change over time.

6 Q So that would be a judgment call?

7 A That's what the Operating Committee is paid  
8 to do, make those kind of judgment calls.

9 Q If the Commission was to put the 63 megawatts  
10 from Scherer 3 in rate base, what motivation would  
11 Southern have to sell this power as unit power sales?

12 A The motivation to bring about customer  
13 satisfaction with their customers, to keep their  
14 customers happy, to keep the Commission happy with them  
15 and just to do the job that they're paid to do. And  
16 that's to make the best deals for their customers that  
17 they can possibly make and provide reliable, economic  
18 service.

19 Q How would the customers know that you're  
20 selling unit power?

21 A Sir?

22 Q How would the customers know that you're  
23 selling unit power?

24 A It seems like a lot of these things show up  
25 in the newspaper. I would assume that they read it.

1 In my dealings with customers, like my nextdoor  
2 neighbors, I don't think they give a whole lot of  
3 thought to what's behind the light switch. They don't  
4 give a whole lot of thought as to what's behind the  
5 electric bill they receive. They just know whether  
6 they got the service and they know whether they're  
7 happy with the bill that got paid.

8 Q (By Mr. Palecki) How would it show up on  
9 their bills?

10 A Well, I guess that's the great thing about  
11 the UPS sale. If it's sold, it doesn't show up on  
12 their bill.

13 Q Wouldn't it be more likely to show up in the  
14 dividends paid to the stockholders?

15 A I'm not sure I understand the question.

16 Q The savings that would be incurred, or the  
17 additional revenues that would come into the Southern  
18 Company, as a result of sale of unit power after the 63  
19 megawatts are already in rate base, wouldn't that be  
20 additional revenues that would show up in the  
21 stockholders dividends?

22 You testified that the sale of unit power  
23 sales would benefit the customers. I'm contesting  
24 that. I'm asking you whether or not it would actually  
25 benefit the stockholders?

1           A     Well, when you started your question, about  
2 if the Commission would put the 63 megawatts in there,  
3 what I thought of is that everybody ought to stand up  
4 and cheer because it would be clear recognition that  
5 this Commission was giving this operating company, Gulf  
6 Power Company, and the other operating companies that  
7 participate in the unit power sales, of the magnificent  
8 job that those companies did when faced with a severe  
9 problem in the early 1980s, and they turned that  
10 problem into a real opportunity for the ratepayers, the  
11 customers of each of the operating companies.

12                     Those customers are benefiting today, and  
13 they will benefit in the future by the fact that these  
14 units, particularly Scherer 3, since it's part of this  
15 discussion, was completed on the schedule that it was  
16 and it went in service in 1987, and that it will be  
17 available for service today, and will come back after  
18 the new UPS sales in the Year 2011. It will be just a  
19 wonderful thing to have happen for the customers. They  
20 will get a great unit. They will get a super 212  
21 megawatts in the Year 2011. They are getting use of  
22 that capacity today.

23                     I'm sure that if you could isolate it, they'd  
24 tell you how tickled they were that their lights stayed  
25 on in Gulf during Christmas, but they are not going

1 through the situation that other people in Florida are  
2 having to go through as early as May of 1990, whether  
3 it be for early hot weather, construction or whatever,  
4 that they are getting the service they pay for, the  
5 lights stay on and they don't have to wonder about what  
6 the social costs of electricity is \$8.00 a kilowatt  
7 hour or \$1.00 a kilowatt hour. It's on when they flip  
8 the switch.

9 Q So your testimony is, if the 63 megawatts  
10 from Scherer 3 is put in rate base, that Southern  
11 Company will still actively pursue the sale of this  
12 power as unit power sales?

13 A Yes, sir. And I've tried to make it very  
14 clear that if you were the buyer, or if the  
15 Commissioners were the buyers, if they were a utility,  
16 and they knew that they could buy this 63 megawatts for  
17 the limited period, '91 to '95, and with the potential  
18 that some of that 63 megawatts would be sold in '93  
19 under the early option of the '88 UPS agreement,  
20 they're probably not going to be too inclined and too  
21 excited about that because their economic analysis  
22 would say they can't use it for that period of time and  
23 make things work out for them, so they are going to be  
24 looking for something else.

25 But, if the operating companies, together

1 with Gulf Power, could find a deal where they could mix  
2 in part of Scherer 3 with some other capacity today and  
3 Scherer 3 go out of the transaction, and other capacity  
4 pick it up, like Miller 4, Scherer 4, in '95, it would  
5 be sold, if you had the buyer.

6 Q So, it would follow from that, wouldn't it,  
7 that that 63 megawatts isn't needed for Gulf's  
8 territorial customers?

9 A I think the testimony yesterday, by Mr.  
10 Parsons, made it very clear that it's used and useful  
11 to the customers of Gulf Power Company today.

12 Q How can you sell power, 63 megawatts of  
13 power, in unit power sales if it's needed by Gulf's  
14 customers?

15 A Well, you keep trying to throw in the word,  
16 "needed," and I keep throwing in the word, "used and  
17 useful." It is used, it was used. It was a great  
18 thing in December of '89. It was a great thing in May  
19 of 1990. It will probably be a great thing in June,  
20 July and August of 1990.

21 COMMISSIONER EASLEY: Mr. Chairman, I'm  
22 having a little problem. I don't know whether the  
23 questions are sideways or the answers are more  
24 sideways, but I'm not following this. I get the  
25 distinct impression that one question is being asked

1 and another question is being answered, and I need some  
2 help. Either that, or I just don't understand a word  
3 that's being said.

4 CHAIRMAN WILSON: Well, I think there is an  
5 attempt to use the word "needed" in it's common English  
6 meaning, and the word "used and useful" is a legal  
7 regulatory term that carries a lot of history behind it  
8 and implications behind it.

9 I think the question that you asked, Mr.  
10 Palecki, is that if the statement that this power is  
11 needed by Gulf's territorial customers is inconsistent,  
12 in that plain meaning, with the idea that it's also  
13 available for sale through 1995.

14 MR. PALECKI: That's correct.

15 COMMISSIONER EASLEY: And perhaps I'd like an  
16 answer to that question.

17 CHAIRMAN WILSON: I think that's the question  
18 that we're looking for the response to, other than  
19 saying it's used and useful.

20 COMMISSIONER EASLEY: Could you try that one  
21 again?

22 MR. PALECKI: Very simply, is the 63  
23 megawatts at Scherer 3 needed by Gulf's customers from  
24 -- let's say, from today's date until January 1st of  
25 1995?

1 COMMISSIONER EASLEY: And that's territorial  
2 customers.

3 Q Territorial customers.

4 A I guess, Commissioner Easley, you'll accuse  
5 me of continuing to be sideways.

6 I think of the Scherer 3 capacity and I think  
7 of all the capacity we have is something that the  
8 customers, because they use it, they must deem that  
9 they need it. And the kind of twist -- and I believe  
10 it's a twist -- and I don't suspect the questioner  
11 believes it's a twist -- and I think he used the  
12 phrase, "common horse sense" yesterday, in the way he  
13 wants to phrase the question. And what you want me to  
14 say is, "if we can sell it, they don't need it."

15 COMMISSIONER EASLEY: Let me ask it a  
16 different way.

17 WITNESS DAWSON: Thank you.

18 COMMISSIONER EASLEY: Territorial customers  
19 use the 63 megawatts.

20 WITNESS DAWSON: Yes, ma'am.

21 COMMISSIONER EASLEY: Why would you sell it  
22 UPS?

23 WITNESS We can make a better economic deal  
24 for the customer.

25 COMMISSIONER EASLEY: Is that good for the

1 territorial customers or good for the stockholders to  
2 make that better deal?

3 WITNESS DAWSON: Both.

4 COMMISSIONER EASLEY: How is it good for the  
5 territorial customers if they will use the 63 and you  
6 sell it on UPS and they don't have it?

7 WITNESS DAWSON: Our obligation -- Gulf's  
8 obligation is to supply capacity and energy at the best  
9 prices that they can, and they will make a deal if they  
10 can sell Scherer 3 off to replace that with a better  
11 set of energy.

12 COMMISSIONER EASLEY: Is that your obligation  
13 over and above the service of your territorial  
14 customers?

15 WITNESS DAWSON: I'm not sure I understand  
16 the question.

17 In my history with this company, is that they  
18 view supplying reliable electricity as very high on  
19 their priority.

20 COMMISSIONER EASLEY: Reliable to whom? The  
21 territorial customer or the UPS customer?

22 WITNESS DAWSON: In the first case, the  
23 territorial customer.

24 COMMISSIONER EASLEY: Okay.

25 WITNESS DAWSON: Once they've entered into an



1 agreement to sell UPS, and one of the reasons we have  
2 been so successful in selling is our credibility in the  
3 marketplace, that we stand behind our deals. So we  
4 want to reliable to both.

5 COMMISSIONER EASLEY: Well, I think that's  
6 the bottom line question, how are you being reliable to  
7 both, if the territorial customer will use the 63 and  
8 you're selling it unit power, how is that being  
9 reliable to both? You're being reliable to UPS, what  
10 are you doing to the territorial customer?

11 WITNESS DAWSON: If Gulf Power is able to  
12 sell the 63 megawatts, they will do it in such a way is  
13 that they replace that capacity with something cheaper,  
14 or they will buy energy and they will make it better  
15 for the customer.

16 COMMISSIONER EASLEY: All right. Mr.  
17 Palecki, does that get closer to where you were going?

18 MR. PALECKI: I think it does.

19 COMMISSIONER EASLEY: Okay. Thank you.

20 COMMISSIONER GUNTER: Mr. Dawson, if I can,  
21 on that line of questioning, one of the things that's  
22 of great concern to regulators is money flow.

23 WITNESS DAWSON: Is what?

24 COMMISSIONER GUNTER: Money flow, cash flow.

25 WITNESS DAWSON: It's of great concern to us

1 to.

2 COMMISSIONER GUNTER: I understand that, and  
3 I certainly don't find fault in that.

4 WITNESS DAWSON: Thank you.

5 COMMISSIONER GUNTER: But in this proceeding  
6 -- and I'm going to try and lay a predicate, that I  
7 think most of the questioning that comes in this  
8 proceeding is Gulf is asking that this 63 megawatts be  
9 included in the rate base, on which the customers were  
10 paid a return on that investment, and you get into a  
11 real question of if the customers are paying the return  
12 to support that investment of used and useful plant,  
13 that there is a big question mark.

14 If that 63 megawatts is sold on unit power  
15 sales, one, does it affect the capacity of Gulf Power,  
16 in which you have a cash flow through the levelization  
17 process of various companies, you know; whose has got  
18 the most capacity, they get money from the other  
19 company.

20 Secondly, what happens to the revenue from  
21 that 63 megawatts of UPS sales during that time period?  
22 And you have to understand the way the calendar works  
23 on rate cases.

24 We establish rates for prospective  
25 application, and during the time period that those

1 rates are in effect, which that investment is in the  
2 customers' rates, but at 63 megawatts. If there is  
3 additional revenues that comes from that UPS sale,  
4 there is no way that that gets back to the customers in  
5 the form of lower rates. Do you understand what I'm  
6 saying?

7           Because the only time you change rates is in  
8 the revenue requirements proceeding, unless there is a  
9 severe overearnings or something, so the question is --  
10 and it's an underlying, it's a basic regulatory  
11 question. If you've got the 63 megawatts in the rate  
12 base, and assume this company doesn't come in for 2 or  
13 3 years, and you were successful or your successor was  
14 successful in selling that tomorrow, that additional  
15 revenue would inure to the benefit of the stockholders,  
16 not the ratepayers, because the ratepayers are already  
17 paying for that investment. Do you understand what I'm  
18 saying?

19           WITNESS DAWSON: Yes, sir, I understand.

20           COMMISSIONER GUNTER: And I can find no  
21 benefit, no benefit to the customers in that  
22 circumstance that I just laid out. And I think that's  
23 the concern that Mr. Palecki was going around through  
24 the regulatory principles that we have to address, is  
25 trying to make a determination if tomorrow you sold

1 that UPS, the customer is paying a return on it, the  
2 Company didn't come back for three years. For that  
3 three-year time period, there's only one place that  
4 money can go. Do you understand my concern or the  
5 concern that is being -- I think it was just sort of  
6 being chewed around and I just wanted to lay it out on  
7 the table so we can quit wasting a lot of time?.

8 WITNESS DAWSON: Could I address that  
9 concern?

10 COMMISSIONER GUNTER: Yes.

11 WITNESS DAWSON: In laying what I think you  
12 called the predicate for that, your indication, or what  
13 I heard was that if you put in the rate base, Gulf  
14 earns on it, the territorial ratepayer is paying. And  
15 if the day after you did that we were successful in  
16 selling the 63 megawatts you're concerned that Gulf's  
17 earnings would go up.

18 COMMISSIONER GUNTER: I'm not really -- that's  
19 not really my concern. My concern is that the ratepayers  
20 are still paying for that investment and there's no way  
21 that their rates are offset to recognize that additional  
22 revenue that comes in. That's the hooker. I'm not  
23 talking about the profitability, or what have you, I'm  
24 talking about the individual ratepayer that's paying for  
25 that investment. There is not a way to have, you know,

1 currently, there's not a way to have an automatic  
2 adjustment for recognizing that that asset which they're  
3 paying a return on is being used elsewhere that it is  
4 producing a revenue. It was not included in this rate  
5 case. Do you understand what I'm saying?

6 WITNESS DAWSON: Yes, sir.

7 COMMISSIONER GUNTER: You're welcome to  
8 address that comment. What I'm trying to do is get  
9 this field level so that we can get on to the heart of  
10 some issues that we need to discuss.

11 WITNESS DAWSON: I'd love to find a level  
12 playing field.

13 One part in the predicate you were laying was  
14 if they couldn't -- if there wasn't a mechanism to  
15 reduce rates or do something less than they were  
16 earning well above their returns, is sort of the way I  
17 remember you characterizing it. If, as I understand  
18 what you do in setting return on equity, in setting  
19 rate levels and revenue requirements, you at least look  
20 at a bandwidth of allowable returns. It would strike  
21 me that if, even if the 63 megawatts were in rate base,  
22 and if it were sold off, and if Gulf's returns were  
23 still in that allowable range, you would have benefit  
24 flowing to some stockholders, the stockholders, because  
25 they were earning the kind of returns that they

1 invested and hoping to get.

2           You would also give benefits, in my mind, to  
3 customers, because they then have a financially strong  
4 operating company that they get service from. In my  
5 mind and my estimation the stocks or the bonds would  
6 have better ratings. They would lower future debt cost  
7 for the Company. You would move things in a better  
8 way. I think that's the reason you set, hopefully, a  
9 reasonable rate of return on this and you set a  
10 reasonable rate base in order to make sure that the  
11 operating company has the opportunity to be that kind  
12 of company. And that kind of company does provide  
13 benefits to the customer.

14           COMMISSIONER GUNTER: Well, let me just say I  
15 have been here a long time and Gulf's bond rating has  
16 not decreased, they're an A-rated Company. I would  
17 share with you, I happen to have a Standard and Poor's  
18 credit review of May 11, 1990, which it continues to be  
19 A-rated. It has been A-rated for at least 10 or 11  
20 years.

21           So I guess what I'm saying is, as I  
22 understand, I have heard the words that you just  
23 espoused probably not over 1,000 times in the last  
24 11-and-a-half years. And as long as you have stability  
25 in credit rating, if the Company earns more, the only

1 way they could go would be up in their credit rating.  
2 And that's terrible expensive for the ratepayers. If  
3 you go through and evaluate and talk to these folks,  
4 it's terrible expensive to prolong the earnings to the  
5 point that you can increase the credit worthiness of  
6 any company. So I've heard those.

7 COMMISSIONER EASLEY: I realize this horse is  
8 getting wounded but let me follow up a little bit  
9 because the response you gave me that other capacity  
10 would be made available to the territorial customers I  
11 believe at a less expensive rate or the word "cheaper"  
12 got in there someplace. Am I paraphrasing that fairly  
13 correctly?

14 WITNESS DAWSON: I believe you are.

15 COMMISSIONER EASLEY: And then in response to  
16 Commissioner Gunter we got into the almost  
17 philosophical discussion of the benefit of stability  
18 and stronger plant, in a way.

19 Marry those two up for me. How are they  
20 going to get cheaper when the benefit is in stability  
21 and there's not another rate case to bring it down?  
22 I'm having trouble putting the two answers together to  
23 find the benefit for the territorial ratepayer.

24 COMMISSIONER GUNTER: Me, too.

25 WITNESS DAWSON: Oh, I got the implication

1 from Commissioner Gunter that if he found that Gulf had  
2 excessive returns, he'd bring them in here.

3 COMMISSIONER EASLEY: No, I think what I  
4 heard was he was looking for the benefit to the  
5 territorial ratepayer as being nonexistent. Your  
6 response to him, I heard a slightly different benefit  
7 to the ratepayer from what I heard. And I was trying  
8 to figure out if I'm missing an actual financial  
9 benefit to the ratepayer under either scenario.

10 WITNESS DAWSON: It's my belief that Gulf  
11 Power Company is not going to sell the 63 megawatts at  
12 any point in time, that it's to the detriment of their  
13 customers.

14 CHAIRMAN WILSON: But the benefit you stated  
15 to their customers was if it allowed the Company to  
16 earn within its rate of return, that produces a strong  
17 utility and that's good for the customers. And that is  
18 the benefit.

19 WITNESS DAWSON: I was just saying that that  
20 would be an outcome that in the predicate that I heard  
21 did not seem to be a terrible thing to have happen.  
22 That if they maintained the earnings within the range  
23 that you set, you all would have been successful in  
24 what you set out to do. So --

25 CHAIRMAN WILSON: I think that sort of avoids



1 the question that's been asked.

2 COMMISSIONER EASLEY: Uh-huh.

3 CHAIRMAN WILSON: And if I've heard what you  
4 said correctly -- and if I'm wrong, please tell me --  
5 is that Gulf's territorial ratepayers need 63  
6 megawatts, they just don't need the 63 megawatts of  
7 Scherer. I mean, you can't both need it and sell it at  
8 the same time.

9 COMMISSIONER EASLEY: Not the same 63 --

10 CHAIRMAN WILSON: Those two things are  
11 inconsistent, not the same 63 megawatts. You can't say  
12 that Gulf Power territorial ratepayers need 63  
13 megawatts of Scherer when you're, in fact, willing to  
14 sell this 63 megawatts of Scherer. What you're saying  
15 is -- because you said that you would replace it with  
16 less expensive, less expensively generated power. You  
17 would replace that 63 megawatts of Scherer?

18 WITNESS DAWSON: Would replace it at the time  
19 the customers would use it.

20 COMMISSIONER EASLEY: Which may be 20  
21 megawatts, which might be 50 megawatts, is that what  
22 you're saying? It could be all over the 63 from  
23 various sources?

24 WITNESS DAWSON: It could be. You all are  
25 still trying to stay with the word "need," --

1           COMMISSIONER EASLEY: "Use," I'm willing to  
2 use the word "use."

3           WITNESS DAWSON: And I'm saying that when the  
4 customers use it, and they do, it's a benefit to them  
5 to have it. Gulf would make the decision to sell it,  
6 having looked at the market to see if they could, at  
7 the time that they would otherwise use the Scherer 3  
8 capacity, would have other capacity or energy, or both,  
9 available to them.

10           COMMISSIONER EASLEY: Is the sale of the 63  
11 on UPS, for lack of a better term, a "firm contract"?  
12 Are you obligated to furnish that 63 megawatts, no  
13 more, no less, for a specific period of time?

14           WITNESS DAWSON: You make the 63 megawatts  
15 sale under a UPS sale; you'd have to make it available  
16 when the unit is available to run. If the unit's not  
17 available under the UPS contract, you make some efforts  
18 and I think it says "best efforts," to supply other  
19 forms of energy.

20           COMMISSIONER EASLEY: All right. If it's not  
21 available to run, does that mean the ratepayer is using  
22 that 63, or somebody else is using that 63?

23           WITNESS DAWSON: No, ma'am, it means the unit's  
24 broken and it cannot run.

25           CHAIRMAN WILSON: If the plant is up and

1 running you have to fulfill your contract?

2 WITNESS DAWSON: If it's up and running or  
3 available to run. If it were on load cut, it means  
4 it's available.

5 COMMISSIONER EASLEY: The first obligation of  
6 the Company then, under that contract is to provide the  
7 63 megawatts to the unit power buyer?

8 WITNESS DAWSON: Under that contract, yes,  
9 ma'am.

10 COMMISSIONER EASLEY: Okay. So if the  
11 ratepayer uses any part or all of it, that it isn't  
12 really that 63 megawatts, it's the equivalent of that  
13 63 megawatts? You are saying you have enough capacity  
14 to do both?

15 WITNESS DAWSON: What I'm saying, or trying  
16 to say is that Gulf Power, because they're  
17 interconnected with a lot of folks and they're part of  
18 the Southern Electric System, have access to  
19 hour-to-hour economy energy that they could replace  
20 those megawatts with. If you take the sale out long  
21 enough in the 63 megawatts that are sold, or the 212 by  
22 1995, that are sold between '95 and 2010, high  
23 likelihood that sometime in the late '90s that Gulf  
24 Power Company, or the other operating companies, will  
25 install new capacity. The planning process would say

1 combustion --

2           COMMISSIONER EASLEY: Don't take me out into  
3 the "what ifs." I want to deal as closely as I can  
4 with 63 megawatts assuming your capacity does not  
5 change. But I understand your capability to buy  
6 off-system affects that, right, all things being equal?

7           WITNESS DAWSON: All things being equal.

8           COMMISSIONER EASLEY: You have available to  
9 you either that 63, or to pull in part of that 63, or  
10 part of a 63 from someplace else on the system.

11           WITNESS DAWSON: Well, if the UPS customer is  
12 buying the 63 megawatts in this, I guess, hypothetical  
13 example, is not calling on it and the unit's available  
14 to run, then the Gulf Power customers can use it.

15           COMMISSIONER EASLEY: What if both of them  
16 want it at the same time?

17           WITNESS DAWSON: The UPS customer gets it.

18           COMMISSIONER EASLEY: Does the territorial  
19 ratepayer get what he uses? Because now needs does  
20 have to come if it's -- is it available to him? If he  
21 turns on the light switch, it's on?

22           WITNESS DAWSON: Capacity and energy is  
23 available. It just would not be out of that unit. It  
24 would not be out of that 63 megawatts if it were sold  
25 in UPS and the UPS customer would take it.

1           COMMISSIONER EASLEY: Is that where the  
2 cheaper benefit comes to the territorial ratepayer, or  
3 is that more expensive to the territorial ratepayer  
4 when you have to provide it in that manner? The 63 is  
5 being used by the unit power user?

6           WITNESS DAWSON: It would be my belief that  
7 you could replace it with purchases, either off the  
8 Southern Electric System pool or from outside the pool,  
9 cheaper on an energy basis.

10          CHAIRMAN WILSON: All right. Now, what does  
11 the ratepayer see in that event? What he's got is he's  
12 got 63 megawatts of Scherer that's been put in the rate  
13 base that he's paying a return on, right?

14          WITNESS DAWSON: Yes, sir.

15          CHAIRMAN WILSON: Right? Depreciation and  
16 all associated costs. And then he's also going to be  
17 paying the purchased power cost for the 63 megawatts  
18 that you buy off-system?

19          WITNESS DAWSON: Yes, sir.

20          CHAIRMAN WILSON: Explain to me where the  
21 benefit is to the ratepayers.

22          WITNESS DAWSON: We're back, I guess, to my  
23 philosophical.

24          COMMISSIONER EASLEY: No, you said energy,  
25 not capacity.

1           CHAIRMAN WILSON: No, don't go to that  
2 philosophical. Give me dollars and cents in that  
3 transaction where that benefit is to the ratepayers of  
4 Gulf Power, the territorial ratepayers.

5           The ratepayer is paying -- he's paying a  
6 return on that investment, 63 megawatts, associated  
7 depreciation, and O&M, or whatever's built into the  
8 rates. And when he gets his bill, he's also paying for  
9 that off-system purchase, which I assume it included a  
10 capacity payment as well as energy?

11          WITNESS DAWSON: I wouldn't assume that.

12          CHAIRMAN WILSON: It may or may not include a  
13 capacity payment.

14          WITNESS DAWSON: Right.

15          CHAIRMAN WILSON: All right. Tell me what  
16 the benefit is to the territorial ratepayer.

17          WITNESS DAWSON: The customer is getting the  
18 service that he's paying for.

19          COMMISSIONER EASLEY: You know --

20          CHAIRMAN WILSON: Well, what I'm trying to  
21 figure out is, is the customer getting the service that  
22 he's paid for, and paid for, or is he getting the  
23 service that he's paid for?

24          All right. Now, he's paid for service out of  
25 Scherer, 63 megawatts, but he's not getting that

1 because he's selling it to somebody else. Okay. So  
2 he's paying for that. Now he's also paying for  
3 purchase power off-system. Now, is he paying and  
4 paying, or is he just paying? Is he paying once or is  
5 he paying twice? If he's not paying twice, explain to  
6 me why not.

7 WITNESS DAWSON: You're going to set, as I  
8 understand it, you're going to set rates that you're  
9 going to find just and reasonable. And if the customer  
10 takes service, then that's the rate that they're paying  
11 -- the just and reasonable rate. And the customer is  
12 getting exactly what he paid for, she paid for, and  
13 wanted to use at the time.

14 COMMISSIONER EASLEY: So you're saying  
15 because the rate does not change, it is immaterial  
16 where the 63 comes from and immaterial that you're  
17 selling the 63 on unit power sales, is that the bottom  
18 line?

19 WITNESS DAWSON: For this discussion, that's  
20 the way I would see it, yes, ma'am.

21 CHAIRMAN WILSON: Let's assume that there was  
22 no such thing as fuel adjustment or purchased power  
23 clause, that it wasn't passed through on a monthly  
24 basis to customers.

25 WITNESS DAWSON: Okay.

1           CHAIRMAN WILSON:  Would a customer -- and we  
2 set rates right now, and by golly, those are the rates  
3 that somebody pays and that's it.  There's no  
4 variation, there's no true-up, there's no levelization,  
5 nothing.  Is what a ratepayer pays under that scenario  
6 going to be the same thing that they would pay if you  
7 do have the ability to pass through purchased power?  
8 Are they going to pay more or --

9           WITNESS DAWSON:  I guess the answer is that  
10 they, in the situation, they may pay more, they may pay  
11 less.  I guess it depends a lot on how you set the  
12 fixed rate.

13           CHAIRMAN WILSON:  Well, if I set the fixed  
14 rate that says for that 63 megawatts of power it would  
15 be provided out of Scherer, and you go ahead and make  
16 those unit power sales and the day comes when that 63  
17 megawatts of power is needed by territorial customers.  
18 All right, currently the customers would be paying a  
19 return on that 63 megawatts, depreciation, fuel  
20 expense, operating and maintenance associated with  
21 that.  But you sell that someplace else.  So now that  
22 customer, the customer still needs 63 megawatts.  So  
23 you've got to go out someplace and buy 63 megawatts of  
24 power.

25           WITNESS DAWSON:  And this is under the fixed



1 rate?

2 CHAIRMAN WILSON: Uh-huh. The only thing  
3 I've included in fixed rates is the 63 megawatts of  
4 Scherer.

5 WITNESS DAWSON: And your question is, what  
6 is the customer going to pay?

7 CHAIRMAN WILSON: Uh-huh.

8 WITNESS DAWSON: The customer's going to pay --

9 CHAIRMAN WILSON: I'm trying to see if  
10 there's going to be a difference between what he would  
11 pay under that scenario and under what currently  
12 exists, which is you pay fixed rates under your monthly  
13 rate and then you get to pay under monthly cost  
14 recovery you pay for purchased power, fuel, and other  
15 things. (Pause) You do not understand?

16 WITNESS DAWSON: I think I understand the  
17 question. I may not.

18 COMMISSIONER GUNTER: Mr. Chairman, could I  
19 ask it a different way?

20 CHAIRMAN WILSON: Sure, go ahead.

21 COMMISSIONER GUNTER: Let me ask it a  
22 different way because again -- and, Lord knows, I'm  
23 groping to try and understand. Because when you  
24 slipped up here and fell off the turnip truck, it's  
25 hard to understand these complex items. I've been to

1 Birmingham and tried to understand that process you all  
2 have got of swapping power around, and what have you.

3 WITNESS DAWSON: Now, you know that when you  
4 say that it makes me worry what how much you really do  
5 know.

6 COMMISSIONER GUNTER: No. I went up there to  
7 Mr. Usery, you know, and every individual word he said,  
8 I understood. The way he put them together when we  
9 went in that room and tried to explain, and it has a  
10 guy's name that started that back in the twenties,  
11 doesn't it?

12 WITNESS DAWSON: Mr. Early.

13 COMMISSIONER GUNTER: Yeah. Anyway, if we  
14 allow -- and let's run down the process. Scherer is  
15 one of the most modern pulverized coal plants in the  
16 country, isn't that right?

17 WITNESS DAWSON: Yes, sir.

18 COMMISSIONER GUNTER: Heat rate is one of the  
19 most efficient -- that's one of the most efficient  
20 plants in the country. Do you agree with that?

21 WITNESS DAWSON: Yes, sir.

22 COMMISSIONER GUNTER: Something less than  
23 9,000 BTUs -- I mean, something less than 10,000 BTUs,  
24 somewhere in the 9,600 range, right?

25 WITNESS DAWSON: About that, yes, sir.

1           COMMISSIONER GUNTER: Now, we allow, as the  
2 Chairman says, and I'm trying to ask it a different  
3 way. Where the Chairman asked -- we allow coal  
4 inventory as a working capital item, and let's say you  
5 get a return on that coal inventory. And you allow  
6 depreciation and there is a piece built in for fixed  
7 and variable O&M, the plant itself, the whole shooting  
8 match, the whole thing.

9           Now, that's allowed in the customers' rates,  
10 the return on the investment made for the inventory  
11 not the coal burned. But in order for it to be a  
12 break-even to the customer, you would have to be able  
13 to buy power at the heat rate and pay only -- fuel  
14 only, you would pay fuel only at a heat rate comparable  
15 to Scherer 3 in order for the customers to break even.  
16 Isn't that correct?

17           WITNESS DAWSON: I believe I followed all  
18 that, and I'd say that that's probably right, and I  
19 would tell you that in the situation that exists, many  
20 hours in the bulk power market, interconnected  
21 operations today, that there is cheap stuff out there  
22 to buy.

23           COMMISSIONER GUNTER: Cheaper than the fuel  
24 cost, cheaper than the fuel cost from Plant Scherer,  
25 many hours of the day, there's electricity out there

1 cheaper than that? Because that leads into another  
2 round. If, in fact, that's true, we'd direct Gulf  
3 Power to shut down their generators, except for  
4 transmission constraints, and, by God, those hours in  
5 the day don't want to see you generating from them old  
6 plants that are not more efficient than that. If you  
7 can buy that; if, in fact, that's true, that you can  
8 buy fuel costs only cheaper, at a heat rate better than  
9 you can get at Scherer. Do you understand what I'm  
10 saying? Because then if, in fact, that's true, and  
11 that's correct, the Company is not operating as  
12 efficiently as it should. Because if you can buy power  
13 cheaper than you can generate it, you ought to buy all  
14 you can get and just have everybody stand down there  
15 and play cards during the day.

16 WITNESS DAWSON: Well, I've got good news for  
17 you. We buy all the economical energy that we can buy.

18 COMMISSIONER GUNTER: Cheaper than the heat  
19 rate at Scherer?

20 WITNESS DAWSON: Well, cheaper than a lot of  
21 units, and that's what economic --

22 COMMISSIONER GUNTER: We're talking about  
23 Scherer, though.

24 WITNESS DAWSON: I understand.

25 COMMISSIONER GUNTER: And we're trying to

1 understand, and my understanding, in response to my  
2 question, that you can buy power -- and that's a simple  
3 yes or no -- that you can buy power, energy only, equal  
4 to or less than the heat rate -- I mean, equal to the  
5 heat rate of Plant Scherer?

6 WITNESS DAWSON: And my answer was yes, but  
7 I'm afraid that you're taking the answer much further  
8 than it can be taken.

9 COMMISSIONER GUNTER: I'll just stop with  
10 Plant Scherer. I won't get under Gulf's --

11 WITNESS DAWSON: But even staying with  
12 Scherer, or staying with any other unit, what you're  
13 talking about is interconnected operation of the  
14 Southern Electric System in the grid, and if you've  
15 tracked gas and oil prices and how they fluctuate, if  
16 you find somebody in the summer who has access to very  
17 cheap gas and will generate it at this point in time  
18 because of the way the world is today, you might buy  
19 that gas-fired energy from the west, or from somebody  
20 else very cheap.

21 You can go to Duke Power Company in the spring  
22 and the fall of the year, when they may have excess  
23 nuclear energy, and if they do, they sell it real cheap  
24 because it's cheaper for them to sell it for a little  
25 bit of margin above absolute fuel cost, rather than to

1 bring that unit down.

2           Southern Electric System buys that energy.  
3 That benefit of the cheaper energy from generating from  
4 there and buying it from there, as opposed to running  
5 our own resource, flows directly to the customer  
6 through the fuel adjustment.

7           COMMISSIONER GUNTER: We should see on  
8 purchased power then, following that analogy, we should  
9 see in purchased power that what is the -- in today's  
10 prices generally per kilowatt hour of fuel cost out of  
11 Scherer, 1.3, a penny and a half -- I mean 1.8 cents?  
12 Does that sound reasonable?

13           WITNESS DAWSON: I have not looked at that  
14 number, and I wouldn't give you an answer until I  
15 looked at something for fear of being wrong.

16           COMMISSIONER GUNTER: Okay. The reason I  
17 asked that is that we've got some testimony in this and  
18 other dockets that Gulf's annual fuel cost is less than  
19 1.9 cents, I believe, somewhere in that neighborhood.

20           WITNESS DAWSON: See, the problem I've got  
21 with where I think you are right now is that in the one  
22 case you're talking about with Gulf's fuel adjustment  
23 and their costs, you're talking about the average over  
24 some period, like a year. You're talking about the  
25 Company standing there ready to supply out of their own

1 capacity, which is their obligation to do. And what  
2 Gulf Power Company, and the other operating companies,  
3 do through the pooling mechanism, and with other  
4 interconnected neighbors, is to take advantage of the  
5 opportunities that occur from time to time. You could  
6 not, nor would you want to if you were having prudent  
7 operations, shut down some, or all, these units on the  
8 bet that all that energy is going to be out there when  
9 you want it.

10 COMMISSIONER GUNTER: Oh, I didn't say -- I  
11 just said at those hours of the day you can get it  
12 cheaper, just everybody play cards.

13 WITNESS DAWSON: That was the other good news,  
14 we don't do the play-card thing.

15 COMMISSIONER EASLEY: Let me ask one question  
16 and maybe we need to take a break before we get back.  
17 See if I understand it. Can I bring it down to I am  
18 the little old lady in tennis shoes getting my utility  
19 bill?

20 WITNESS DAWSON: As long as that's your  
21 characterization and not mine.

22 COMMISSIONER EASLEY: Don't mind a bit I  
23 even own two pairs of tennis shoes and a pair of cowboy  
24 boots, so take your choice. You're saying that under  
25 the UPS sale of the 63 megawatts, my utility bill is

1 going to be at my residential rate, regardless of the  
2 UPS sale, and I will have energy available to me, as I  
3 use it or need it, either way, but it will be available  
4 to me at my residential rate.

5 WITNESS DAWSON: Even if Gulf makes the sale?

6 COMMISSIONER EASLEY: Even if Gulf makes the  
7 sale.

8 WITNESS DAWSON: I would believe that, yes.

9 COMMISSIONER EASLEY: All right. The only  
10 variation then, if I'm right, is in the added-on fuel  
11 adjustment charge that would appear on my bill, is that  
12 right? No? Yes?

13 WITNESS DAWSON: If I understand how your fuel  
14 adjustment works, and that's clearly subject to check,  
15 but it would strike me that as the Scherer 3 energy  
16 were sold off, that energy being sold off would affect  
17 the fuel adjustment. And let's assume for a minute  
18 that the Scherer energy were two and a half cents and  
19 we bought energy for two cents. So we're selling two  
20 and a half, buying two. What you would see the effect  
21 of is the two cents.

22 COMMISSIONER EASLEY: So my fuel adjustment  
23 charge, theoretically, could be less if you were buying  
24 it at two.

25 WITNESS DAWSON: Sure.



1           COMMISSIONER EASLEY: If you were buying it at  
2 three, my fuel adjustment charge could be more.

3           WITNESS DAWSON: That's right.

4           COMMISSIONER EASLEY: And I'm trying to get to  
5 a bottom line. So the effect on the ratepayer depends  
6 upon what you're able to do if you have to purchase  
7 other capacity for me to use.

8           WITNESS DAWSON: And what I'm trying to stress  
9 is that in this year. Gulf Power Company would not go  
10 buy capacity because they would probably just go buy  
11 energy.

12           COMMISSIONER EASLEY: That's part of the  
13 problem; I'm using the wrong words interchangeably.

14           CHAIRMAN WILSON: Well, no, I think you made a  
15 good point here. If there's a difference between the  
16 fuel that would have been burned in Scherer and passed  
17 through the fuel adjustment clause and just the energy  
18 charge that you would be paying for purchased power,  
19 two, two and a half cents, there's that half-cent  
20 difference, all right?

21           WITNESS DAWSON: Yes, sir.

22           CHAIRMAN WILSON: So ratepayers might see a  
23 half-cent savings, or see a half-cent that wouldn't be  
24 passed through fuel adjustment that might otherwise  
25 have been passed through fuel adjustment.



1 Q If you could purchase energy at a cost below  
2 your incremental cost, would you purchase this energy  
3 and back down your units?

4 A Yes, sir. And we do.

5 Q If Plant Scherer was not sold as unit power  
6 sales and cheaper energy were available, would you  
7 purchase this energy and back down Scherer?

8 A Yes. But you've got to go the next step.

9 Q We're going to take it step by step.

10 MR. HOLLAND: Let him answer the question.

11 MR. PALECKI: Well, he answered, "yes."

12 MR. HOLLAND: I think he was going to explain  
13 his answer, too, and I think he's entitled to do that.

14 MR. PALECKI: Well, I think you can bring  
15 that out on redirect.

16 CHAIRMAN WILSON: Just a minute. Just a  
17 minute. What was the -- had you completed your answer?

18 WITNESS DAWSON: No, sir. All right, go  
19 ahead and complete your answer.

20 WITNESS DAWSON: The distinction that I was  
21 trying to make prior to the break, and the  
22 responsibility I was trying to make was that under the  
23 UPS agreement that you were able to sell the UPS  
24 capacity and the energy associated with it, to the  
25 extent you generate the energy out of that unit and

1 send it off-system, and in the hypothetical I gave of  
2 2-1/2 cents would replace it with two, you got the  
3 benefit of buying the cheaper energy, and you got the  
4 benefit of moving that coal pile, burning it, and  
5 sending it off system.

6           Where you were in your question that I  
7 answered, "yes," and was trying to go on, that if you  
8 just kept the capacity on the system, and we do the  
9 standard thing that we do and that's produce the  
10 cheapest energy, buy from somebody else on a economy  
11 basis as we can and back down, say, Scherer 3, then  
12 that coal pile stays on the system, and so you miss  
13 that piece of the benefit. And I didn't want you to  
14 overlook the fact that in the UPS sale you were also  
15 moving that coal off system.

16           Q     And if cheaper energy were available, whether  
17 or not Scherer was sold as unit power sales, the  
18 customers would benefit from this cheaper energy,  
19 either way, whether it was sold as unit power sales or  
20 not, correct?

21           A     They would benefit more as I described it  
22 with the UPS sale.

23           Q     Because your coal pile would get smaller?

24           A     That's right.

25           Q     But if you burn coal, don't you have to

1 replace it with more coal?

2 A That's right. And to the extent that in the  
3 coal market that exists today, if you can go out and  
4 buy cheaper coal than you burn you get another benefit  
5 to the customers; that you move off the higher priced  
6 coal, you replace it with less expensive coal, to the  
7 extent that you can do that.

8 Q So, the example that Commissioner Easley gave  
9 where there would be a 1/2-cent savings, there was a  
10 2-1/2 cent power from Scherer, and then you were able  
11 to purchase it for 2 cents, and you said, "Well, there  
12 would be a 1/2-cent savings." That 1/2-cent savings  
13 could occur whether or not Scherer was sold as unit  
14 power sales, correct?

15 A It could. Yes.

16 Q It would, correct?

17 A If you don't dispatch the Scherer unit and  
18 you replace it with the 2-cent energy, assuming Scherer  
19 3's 2-1/2-cent energy, you would pick up that benefit  
20 but you would not pick up the other benefits that I  
21 tried to describe to you that go along with the UPS  
22 sale.

23 Q No, I'm referring to the 1/2-cent benefit  
24 that was given in the earlier example before the break  
25 by Commissioner Easley.

1           A     And I agreed you would get that, to the  
2 extent you could buy the energy for the 2 cents,  
3 replace the 2-1/2-cent energy, you would get the 1/2  
4 cent benefit we described.

5           Q     When there is a -- for example, in this case  
6 we have of 63 megawatts that you've asked to place or  
7 Gulf has asked to place in rate base. Is it a custom,  
8 or does it happen frequently that Southern will sell as  
9 unit power sales power that is placed in rate base?

10          A     I missed the last couple of words of your  
11 question.

12          Q     Historically, does it happen frequently that  
13 you, Gulf will sell -- or not Gulf, let's say the  
14 Southern System will sell off power that is placed in  
15 rate base by the commissions of the respective  
16 utilities under the Southern System?

17          A     I'm not sure what you mean by "history. "The  
18 unit power sales began in January 1, '83, so you're  
19 talking about the last 6, 6-1/2 years, I guess.

20                 To the extent that the units, the earlier  
21 units, perhaps Miller 1 was in rate base to begin with,  
22 it got taken out of rate base in a rate case, but there  
23 is not this history of 20, 30, 50 years that that  
24 question seems to imply. The unit power sales have  
25 only gone on since '83.

1 Q I mean since '83; I'm not talking ancient  
2 history, just historically since you've started unit  
3 power sales. You've customarily sold power that's  
4 already in rate base?

5 A No, going back, I guess one of your very  
6 earliest questions.

7 Q Give me a "yes" or "no", and then explain  
8 your answer, please.

9 A Does that mean that when I say "yes" you are  
10 not going to stop me?

11 Q I'll let you explain your answer.

12 A Thank you. No. Since '83, and if you go  
13 back to one of your earlier questions about our  
14 philosophy, and that's selling the more expensive  
15 capacity first, and then the cheaper after the more  
16 expensive was sold, you will see, if you look at that,  
17 that what we were selling was the new units as they  
18 came on line. So as they came in the commercial  
19 operation, they were included in the unit power sales  
20 and they were kept out in the case of every company  
21 except Mississippi. They never went into a rate base  
22 as they came on line.

23 You also have to focus on the point that  
24 these were sales, that in the capacity additions they  
25 were part of a planning process, that looked beyond one

1 year or two years. They looked at the life of the  
2 capacity.

3 Q Now, one exception to your answer would be  
4 Plant Daniel, wouldn't it? Wasn't power from Plant  
5 Daniel that was placed in rate base sold on unit power  
6 sales?

7 A Are we talking about in Gulf?

8 Q In Gulf.

9 A Subject to check, it maybe was in rate base,  
10 but if it was, in the Gulf case, then it was taken out  
11 of rate base and treated as a separate class is my  
12 understanding.

13 Q Are you familiar with any other sales of unit  
14 power where you had the power in rate base at the time  
15 of the sale?

16 A I think I described, very briefly, the  
17 Mississippi case, their ownership in Daniel was in rate  
18 base, it stayed in the base. During the unit power  
19 sale, and the revenues in the unit power sale was  
20 treated as a revenue credit in their rate cases.

21 Q Do you know of any other circumstances?

22 A I think I mentioned Miller 1 and I'd have to  
23 go back and do some research, it may have been in rate  
24 base at one time.

25 Q (By Mr. Palecki) We asked for a late-filed



1 which is a list of all unit power sales by the Southern  
2 System of power that has been placed in rate base by  
3 any of the commissions which regulate the Southern  
4 companies. We'll call it, as short title, "Unit Power  
5 Sales of Rate Base Power."

6 CHAIRMAN WILSON: Are you asking for all  
7 instances of unit power sales from units that have been  
8 placed in rate base?

9 MR. PALECKI: Yes. Where the same megawatts  
10 are sold in unit power sales that have been placed in  
11 rate base.

12 WITNESS DAWSON: And I understand your  
13 question to be that they were, in the first instance,  
14 in the operating Company's retail rate base. Then  
15 there was a UPS sale, and because there are UPS sales  
16 that took place, and as the capacity came back on the  
17 system, then that capacity, as I understand it, went  
18 into rate base.

19 CHAIRMAN WILSON: Let me ask a couple of  
20 questions. Do you have any unit power sales out of  
21 plants that are not in somebody's rate base?

22 WITNESS DAWSON: Do we have UPS --

23 CHAIRMAN WILSON: Or have you had?

24 WITNESS DAWSON: Had UPS sales out of units  
25 that were not in a operating Company's rate base?

1 CHAIRMAN WILSON: Right.

2 WITNESS DAWSON: Yes, sir.

3 COMMISSIONER BEARD: Well, who -- where were  
4 they?

5 WITNESS DAWSON: In Alabama, in Georgia,  
6 Dalton.

7 CHAIRMAN WILSON: I think what you probably  
8 want to do, is what has been the rate base treatment of  
9 units from which unit power sales have been made.

10 MR. PALECKI: That's correct. That would  
11 probably be a more graceful way of putting it

12 COMMISSIONER EASLEY: Which would include  
13 what happened to the revenue from those unit power  
14 sales when it involves rate base power.

15 MR. PALECKI: Yes, we would like to include  
16 that in the late-filed as well, what happens to the  
17 revenues.

18 COMMISSIONER EASLEY: Do you understand what  
19 I'm asking for?

20 WITNESS DAWSON: I think I can give you the  
21 example out of Mississippi.

22 COMMISSIONER EASLEY: Precisely, the example  
23 you gave.

24 WITNESS DAWSON: Mississippi had all that  
25 capacity -- the rate base and the expenses associated

1 with their portion of Daniel that was sold in UPS. The  
2 revenues they have received from that, I understand,  
3 they just treated that as a revenue credit.

4 COMMISSIONER EASLEY: Fine.

5 WITNESS DAWSON: Now, theoretically --

6 CHAIRMAN WILSON: Was the plant in rate base?

7 WITNESS DAWSON: Yes. Yes, sir. What you  
8 get is the same effect. If you had the same return on  
9 equity granted in the retail jurisdiction as you did in  
10 the UPS agreement, and you -- in the one case you left  
11 all that in rate base in the retail jurisdiction and  
12 you treated the revenues from the sales of revenue  
13 credit, or if you separate out the UPS capacity, the  
14 rate base, expenses and put in a separate class of  
15 service, and the revenues go to that class of service,  
16 you end up with the same revenue requirement in retail,  
17 in either case.

18 COMMISSIONER EASLEY: But do you end up with  
19 the same bill to the customer? What happens to that  
20 fuel adjustment charge?

21 WITNESS DAWSON: Yes, ma'am. Same --

22 COMMISSIONER EASLEY: Same thing?

23 WITNESS DAWSON: As I understand, yes.

24 COMMISSIONER EASLEY: Still need to see it on  
25 paper. That may help identify what I'm looking at.

1           CHAIRMAN WILSON: I think, Commissioner  
2 Easley, that may be what -- and I don't think that this  
3 situation certainly is not limited to just Scherer, it  
4 would have to do with any plant that were in the  
5 Company's rate base.

6           COMMISSIONER GUNTER: Sure.

7           COMMISSIONER EASLEY: That's right.

8           CHAIRMAN WILSON: Not just Scherer. Where  
9 you have customers paying bills that include a plant in  
10 rate base and it's a part of a bill that they're paying  
11 on their fixed bill every month, and if that plant  
12 doesn't run and you're supplying power from off-system,  
13 you have exactly the situation you would with the  
14 Scherer coming in.

15           I think what you're looking for is a,  
16 probably just a -- not necessarily using real numbers,  
17 but have an example that would trace what the effect  
18 that would be on a customer.

19           COMMISSIONER EASLEY: That would be fine.

20           CHAIRMAN WILSON: Or you could do it  
21 specifically with Scherer, it really wouldn't make any  
22 difference.

23           MR. PALECKI: Could we get a number for that?

24           CHAIRMAN WILSON: Yeah, that would be 587.

25           (Late-Filed Exhibit No. 587 identified.)

1 WITNESS DAWSON: Is Commissioner Easley's  
2 question, though, different?

3 CHAIRMAN WILSON: Is different.

4 WITNESS DAWSON: Her question is a fuel  
5 adjustment clause question.

6 COMMISSIONER EASLEY: Mine is taking it the  
7 other step. And that is not only what happens to the  
8 revenue within the Company but what is the effect of  
9 that revenue on the fuel adjustment charge or whatever  
10 else the retail customer sees?

11 CHAIRMAN WILSON: I think you can probably  
12 demonstrate that with a hypothetical.

13 WITNESS DAWSON: I believe so.

14 COMMISSIONER EASLEY: That will be fine. You  
15 can you call that customer a little old lady in tennis  
16 shoes, that's all right with me.

17 CHAIRMAN WILSON: Make that 588.

18 (Late-Filed Exhibit No. 588 identified.)

19 CHAIRMAN WILSON: You have plants, though,  
20 that have made unit power sales out of, from which  
21 you've made unit power sales that weren't in the rate  
22 base?

23 WITNESS DAWSON: That's right.

24 CHAIRMAN WILSON: Does that make you an  
25 independent power producer? I mean, what have you got?

1 You've got a plant sitting out there that's not in  
2 anybody's rate base but you're making sales to  
3 operating companies from it. Have you got, in fact, or  
4 defacto, independent power producer?

5 WITNESS DAWSON: It's been alleged we're an  
6 independent power producer. What we don't get is that  
7 level playing field where we get to earn a market  
8 return.

9 CHAIRMAN WILSON: I understand.

10 WITNESS DAWSON: So what we are is a FERC  
11 regulated wholesale seller of power, cost base rates.  
12 Look a lot like an IPP but don't get the same treatment  
13 as an IPP.

14 CHAIRMAN WILSON: You sure do.

15 COMMISSIONER EASLEY: Quacks loud enough.

16 WITNESS DAWSON: Well, it doesn't quack loud  
17 enough with the money. But there are people that  
18 accuse us of being one of the largest independent power  
19 producers in the country.

20 CHAIRMAN WILSON: Where have they accused you  
21 of this, in the press? Have you got anything?

22 WITNESS DAWSON: Mostly when we sit around --

23 CHAIRMAN WILSON: Has anybody filed a  
24 complaint against you or something?

25 WITNESS DAWSON: No, just in the talks we've

1 had, as we looked at the FERC NOPRS and as we tried to  
2 structure the level playing field there, and we wanted  
3 to same benefits that an IPP would get, or at least the  
4 IPPs would play under the same rules that we would be  
5 required to play under those that found us or that  
6 assumed we were against the independent power producers  
7 wanted to know why we could be against it, why we were  
8 one. And it's just a different set of rules that we  
9 play under. To that extent, given the rules, we're not  
10 an independent power producer.

11 COMMISSIONER EASLEY: That's the same reason  
12 an independent power producer is not a regulated  
13 utility.

14 WITNESS DAWSON: That's right.

15 CHAIRMAN WILSON: That's real interesting.

16 MR. HOLLAND: Let me point one thing out and  
17 refer back.

18 I believe it was in the '82 or '83 rate case;  
19 the Commission looked at the treatment of the unit  
20 power sales and considered what he described is being  
21 done in Mississippi and made the determination that,  
22 because that it was a separate jurisdiction, separate  
23 FERC contracts, that it should be treated totally  
24 separate and apart. And just for the benefit of the  
25 Commissioners, I mean, it has been looked at.

1 CHAIRMAN WILSON: Was that in the order?

2 MR. HOLLAND: I think so, yes, sir.

3 CHAIRMAN WILSON: If you would, when we get  
4 to the briefing part of this, just point that out at  
5 some point, I would appreciate it.

6 MR. HOLLAND: I'm sorry. I missed totally  
7 what Commissioner Easley wanted in exhibit Late-Filed  
8 588.

9 COMMISSIONER EASLEY: Well, I really thought  
10 it was part of the first one but the Chairman has given  
11 it a second number.

12 CHAIRMAN WILSON: I think it's a little  
13 different.

14 COMMISSIONER EASLEY: It is and it isn't.

15 I want a hypothetical example of what happens  
16 to that revenue from the UPS sales, including the  
17 impact on the fuel adjustment charge, or wherever else  
18 it would show up on the bill.

19 CHAIRMAN WILSON: Just something that would  
20 demonstrate the interaction between --

21 COMMISSIONER EASLEY: I want to see what that  
22 savings is, how it's manifested.

23 MR. HOLLAND: Right.

24 MR. PALECKI: Commissioners, we're not  
25 certain if Late-filed Exhibit No. 5, which is the unit



1 power sales available to potential purchasers with the  
2 two attached schedules -- if this hasn't been  
3 introduced into evidence, we would like to have --

4 CHAIRMAN WILSON: 5?

5 MR. PALECKI: It's what was referred to as  
6 Late-Filed 5, it was referred to by Commissioner Beard  
7 when we started.

8 MR. HOLLAND: To the deposition.

9 COMMISSIONER GUNTER: Okay. It was a  
10 Late-Filed Exhibit No. 5 to the deposition?

11 MR. HOLLAND: Yes.

12 MR. PALECKI: I don't know if --

13 MR. HOLLAND: If this is something that's not  
14 been marked, then I think it should be. We've referred  
15 to it so many times.

16 MR. PALECKI: We would like to have it marked  
17 since we have referred to it numerous times.

18 COMMISSIONER EASLEY: And you're going to  
19 give us copies.

20 CHAIRMAN WILSON: That would be 589. What is  
21 that now?

22 MR. PALECKI: "Unit Power Sales Available to  
23 Potential Purchasers, 1989 to 1995."

24 COMMISSIONER EASLEY: 589?

25 CHAIRMAN WILSON: Yes, 589.

1 (Exhibit No. 589 marked for identification)  
2 MR. HOLLAND: Commissioners, just for  
3 clarification of the record, that is depo. Exhibit No.  
4 5 to Mr. Dawson's deposition of April, I believe it was  
5 April 14, 1989, in Docket 881167.

6 Q (By Mr. Palecki) Mr. Dawson, referring back  
7 to the benefits that you said customers would receive  
8 under unit power sales, you said that if you were to  
9 purchase energy at a cost below your incremental cost  
10 that customers would see an additional savings because  
11 your coal pile would go down and you could purchase  
12 coal at a lower price, is that correct?

13 WITNESS DAWSON: There was a potential for  
14 that, yes, sir.

15 Q Could spot coal prices exceed contract coal  
16 prices, making it more expensive to replace the coal?

17 COMMISSIONER EASLEY: Is that a "what if"  
18 that happens?

19 MR. PALECKI: Yes.

20 Q (By Mr. Palecki) The question is could spot  
21 coal prices exceed contract coal prices, thus making it  
22 more expensive to replace the coal and making the cost  
23 for the customer greater under that example that you  
24 gave earlier?

25 A It could.

1 Q You said if the coal pile went down, you  
2 would save money and it would help the customer?

3 A That's right.

4 Q That's under today's prices.

5 A That's right.

6 Q But it would not be totally out of the  
7 ordinary for spot coal prices to exceed contract coal  
8 prices under certain circumstances and at certain  
9 times, correct?

10 A Certain times, certain conditions, spot coal  
11 prices could be above contract prices. Depends on what  
12 your contract price level is; depends on what's going  
13 on in the market, the perception of what's going on in  
14 the coal market, as to what the spot price coal would  
15 be.

16 Q So under those circumstances you wouldn't  
17 want your coal pile getting smaller, correct?

18 A This gives you a better opportunity to manage  
19 your stockpile. You've got, with the flexibility with  
20 the stockpile that you have, if you have an adequate  
21 stockpile, you might be able to ride through the period  
22 when spot coal prices are higher and not buy. That's  
23 one of the things going on in the industry right now is  
24 that there's so much coal on the ground, both at the  
25 generating plants and back at the mines, that the coal

1 market is depressed for the time being, because we had  
2 a mild winter, we're having a mild spring, we haven't  
3 gotten the hot weather; and you see very depressed  
4 market conditions. As we go into the Clean Air Act,  
5 you're apt to see -- could see a major shift in the  
6 markets.

7 MR. PALECKI: We have no further questions.

8 CHAIRMAN WILSON: Questions, Commissioners?

9 COMMISSIONER GUNTER: Mr. Dawson, on what has  
10 been identified as Exhibit 589, that was your  
11 Late-filed Deposition Exhibit No. 5?

12 WITNESS DAWSON: Yes, sir.

13 COMMISSIONER GUNTER: On Table II, I've tried  
14 to review this thing pretty carefully and I'm trying to  
15 understand, and I'm in the second block, "Estimated  
16 Capacity Charge."

17 WITNESS DAWSON: Yes, sir.

18 COMMISSIONER GUNTER: How were those figures  
19 calculated, do you know?

20 WITNESS DAWSON: How much detail would you  
21 like?

22 COMMISSIONER GUNTER: Well, let me tell you  
23 what my problem is, is I look at Georgia's portion,  
24 let's take 1989 of Scherer 3, and I see a difference in  
25 capacity charge for Georgia's portion that I do Gulf's

1 portion. And I'm trying to understand underlying  
2 assumptions that would have led me to virtually the  
3 same investment, if, in fact, Gulf paid the actual  
4 cost, which would have been a prorata share from  
5 Georgia or Gulf. And there are differences out of the  
6 same plant, and I don't think anybody took a chain saw  
7 out there, and cut out and said, "This is your piece  
8 and this is your piece." But I'm trying to understand  
9 the difference in the capacity for each one of those.

10 WITNESS DAWSON: I believe I can explain  
11 that.

12 COMMISSIONER GUNTER: All right.

13 WITNESS DAWSON: Both calculations use the  
14 same formula in the manual that was described yesterday  
15 by Mr. Parsons. That formula essentially sets out a  
16 rate base for the individual unit, and it sets out the  
17 expenses. Part of that rate base determination would  
18 be the investment in the unit. You would think, unless  
19 there's some accounting treatment because there's a  
20 transfer of property that I don't know anything about,  
21 essentially you are going to have the same dollar per  
22 kilowatt of original investment in the plant.

23 COMMISSIONER GUNTER: Right.

24 WITNESS DAWSON: You depreciate that, you get  
25 the accumulated depreciation, you calculate working

1 capital using the one-eighth formula. In the case of  
2 Georgia you'd use Georgia data; in the case of Gulf,  
3 you would use Gulf's data.

4 To the extent that you're allocating general  
5 plant to that rate base, which you do any formula, you  
6 would be allocating a depreciated general plant of Gulf  
7 Power to Gulf's piece; you would be allocating  
8 Georgia's general plant depreciated to Georgia's piece  
9 of the ownership. I would imagine those two numbers  
10 are different.

11 As you go down to the various categories,  
12 accumulated deferred income taxes may be different.  
13 When you get in the expense side, O&M expenses on the  
14 unit, in terms of a dollar per kilowatt, you would  
15 expect those to be essentially the same, if not exactly  
16 the same.

17 When you get into the depreciation expense,  
18 to the extent that you have an order saying how Scherer  
19 3 for Gulf is depreciated one way, and if that were  
20 different than what Georgia's Commission dictated or  
21 set forth they do, you would get a difference in  
22 depreciation.

23 A&G, Administrative and general expenses are  
24 allocated in the expense category. Once again, they  
25 are Gulf-specific for Scherer 3 Gulf, Georgia-specific

1 for Scherer 3 Georgia. So you start to build up a few  
2 differences like that.

3 In the calculation of the revenue require-  
4 ments against the rate base, the investment base in  
5 those units, you essentially look at the incremental  
6 costs, as best you can determine it, incremental costs  
7 that Gulf Power Company has in that unit. And you look  
8 at their bonds, the cost of the bonds that they issued  
9 during a construction period for Scherer. You look at  
10 Gulf's capital structure at the time that unit goes  
11 commercial. Those costs would be different than for  
12 Georgia Power Company because there you would be  
13 looking, in Georgia's case, looking at Georgia's cost  
14 of debt during construction. You would be looking at  
15 their capital structure.

16 The return on equity would be fixed for both  
17 of those. That piece would be the same. The capital  
18 structure would be different, the weighted cost of  
19 debt, the weighted cost of preferred, would probably be  
20 different. When you factor in all of those  
21 company-specific items in there, it would lead you to a  
22 slightly different rate.

23 COMMISSIONER GUNTER: Okay. Now, that's good  
24 for -- and I follow you for 1989, but as you run down  
25 that table, it changes; it changes back and forth, and

1 it changes back and forth on a yearly basis.

2 WITNESS DAWSON: Yes sir.

3 COMMISSIONER GUNTER: When all those factors  
4 wouldn't change, on a yearly basis. Depreciation  
5 doesn't change on a yearly basis. Original investment  
6 doesn't change on a yearly basis. And if it were  
7 constant, I could accept your response, and it did fit  
8 for 1989, you know, that response would fit. But they  
9 get catawampus. It starts off with Gulf being greater.

10 It closed the gap the next year. The  
11 following year you widen the gap. The next year you  
12 widen the gap. Then Georgia's cheaper. And I don't  
13 understand, if you have a standard set of methodology  
14 which you use which consider all those factors, on a  
15 year-by-year basis you should -- you should see, I  
16 would think, if you're trying projections, you should  
17 see that they would remain virtually constant. Am I  
18 being irrational in my reading those?

19 WITNESS DAWSON: No, sir, I don't think  
20 you're being irrational. I think what you've got to  
21 factor in is that once you go beyond actual booked  
22 data, that you're basically dealing with the forecasts  
23 of the different operating companies, and they will  
24 have, because they're in different states, different  
25 things are happening, they are adding different



1 investments in general plant, they're forecasting  
2 things different. These are estimated.

3 COMMISSIONER GUNTER: I understand. But  
4 we're talking about specific -- a specific plant.

5 WITNESS DAWSON: I understand.

6 COMMISSIONER GUNTER: We're talking about a  
7 specific plant. And the investments in the specific  
8 plant, as I understand, Georgia makes the investment  
9 and Gulf reimburses them on a prorata basis, operation  
10 and maintenance of that specific plant.

11 Now, I'm trying to understand that as hard as  
12 I can as to how those ratios -- you know, you can start  
13 off with a ratio being greater or less, taking into  
14 consideration the regulatory climate of the two states.  
15 I can understand that. But where I really get lost  
16 then is one of the two parties has responsibility for  
17 operating and maintaining that plant, and that makes --  
18 whether you capitalize expense, do all the rest of  
19 that, is that right?

20 WITNESS DAWSON: Yes, sir. And the reason I  
21 almost tried to, almost, go line-by-line in that rate  
22 base and expense determination is to try to make it  
23 fairly clear that what you're doing is allocating other  
24 costs to that unit, just like you do in a cost of  
25 service study when you try to allocate cost between

1 classes.

2           What you now have is essentially a UPS class  
3 for Scherer 3. And so you allocate things that aren't  
4 sitting right there at that plant. The administrative  
5 and general expenses would be on salaries and wages.

6           To the extent that salaries and wages are  
7 estimated to be one thing and the ratios change a  
8 little bit in one company versus another, as you  
9 forecast the rates, you're going to get some of these  
10 differences. The fact that the numbers are close, and  
11 even though they criss-cross is not, in my view, very  
12 important because what you do in the UPS agreement is  
13 you come back and look at book cost and true all of  
14 this up after the fact. So I could project, and just  
15 COULD put down here just round numbers and do it two  
16 decimal places or one decimal place to put out a  
17 reasonable estimate.

18           But what you're getting is the effect of the  
19 allocations of general plant, administrative and  
20 general expenses, and maybe a few other things. And  
21 deferred taxes is probably different in each company;  
22 accumulated depreciation, depending on when the  
23 in-service time and the depreciation date starts for  
24 one company versus another, might give you some  
25 differences. All I'm saying is there are a number of

1 allocations in here, including estimates of what those  
2 allocations may be in the future, that will cause this.

3           Now, if the units got to be widely divergent  
4 in cost, that would be a signal that we made a  
5 substantial error in the forecasting. But the fact  
6 that they are close and they weave around each other is  
7 not presented to us with a problem in terms of  
8 forecasting. And, essentially, you go back and true up  
9 all those costs to actual book costs after the fact.  
10 But I can see the point of confusion. You would think,  
11 same unit, 25¢ here, 75¢ somewhere else, it ought to be  
12 exactly the same.

13           COMMISSIONER GUNTER: Well, the ratios ought  
14 to be reasonably close. You know, if you start off  
15 with differences and you're forecasting those  
16 differences like, you know, it's not nearly the  
17 difference in 1989 as it is in 1983, and it reverses  
18 itself, and it's, you know, a significant difference,  
19 seven-and-a-half -- you know, 75 cents on a kilowatt  
20 hour monthly charge, roughly.

21           WITNESS DAWSON: One of the factors that  
22 would get into this is -- and I don't know the exact,  
23 -- all the pieces that went into these numbers -- but  
24 let's just say, that Gulf had a first mortgage bond  
25 that they retired during this estimated period, and

1 Georgia had one that didn't, then you would change the  
2 cost of money, maybe substantially, just looking at the  
3 increments of change in that calculation. And you  
4 could swing the rate right there by the mechanism of  
5 calculating the cost of money that goes in, the  
6 weighted cost of money that goes into calculating his  
7 estimated charges.

8 COMMISSIONER GUNTER: Okay. Let's look at  
9 Daniel for a minute, run up and down the Daniel list,  
10 Daniel 1 and 2, and then look at Alabama -- I mean  
11 Mississippi 1 and 2, and those pretty well track one  
12 another. And I guess -- the only thing that looks odd,  
13 and I'm just trying, again, to understand, because we  
14 are going to have some questions about how you really  
15 do this.

16 Daniel's capacity charge increases over the  
17 time period through '95, when during that time period  
18 you've got depreciation in a number of items. Their  
19 capacity charge decreases and -- I mean increases -- in  
20 Daniel 1, and decreases in Daniel 2, and Gulf Power's  
21 stays virtually the same with their percentage of  
22 ownership. And -- there's got to be something  
23 happening I don't understand when there are 6 years  
24 after -- 7 years, '89 to whatever that last one is, '95  
25 I guess. The capacity charge is greater on Daniel 1

1 for Gulf in '95 than it is in '89 if we're basing it on  
2 cost, because you've got depreciation during that time  
3 period, unless there's something I don't understand.  
4 Do you understand what I'm saying?

5 WITNESS DAWSON: Yes, sir.

6 COMMISSIONER GUNTER: Because I would imagine  
7 those plants are being depreciated on a remaining life  
8 of 30, 35 years?

9 WITNESS DAWSON: Yes, sir.

10 COMMISSIONER GUNTER: And yet Daniel 2 in  
11 both instances, you have a decrease, you have one, a  
12 slight increase over a seven-year time period, you've  
13 got another one, a substantial decrease, in plants at  
14 the same site. I'm trying to find some logic that  
15 would lead me to a conclusion that there's a  
16 discernible pattern that I could follow. And I don't  
17 find that from this exhibit. Maybe I'm just not smart  
18 enough to understand.

19 WITNESS DAWSON: Well, I believe you're smart  
20 enough. It's a complicated process to go through all  
21 the calculations. And one of the things that's easy to  
22 overlook, until you spend time going through all the  
23 calculations and do the forecasting, is that most  
24 people do exactly what you just did, and they think in  
25 terms of simply the investment in the plant and the

1 fact that it depreciates over time. You have built up  
2 accumulated depreciation, and you draw this mental  
3 picture that the charge on that unit is always going  
4 down. And that's true in the early part of the life.

5 But what happens to you is you begin, as the  
6 unit ages, to add, or fix parts, you do production  
7 modifications is what they are called in the budget  
8 process. So things wear out, you replace it with  
9 something new, you have estimates of what the O&M  
10 expenses are. And in the whole time, and I'd say in  
11 the last 14 years that I've been involved in estimating  
12 charges like this, the one thing you see very clearly  
13 come out in all these estimates is that there is a  
14 U-shaped curve for the embedded cost of a unit. And  
15 you get to the point where depreciation has taken you  
16 about as far as it will in a downward slope of these  
17 rate estimates and O&M expenses and other things, as  
18 they are escalated. Even if you jst pick 4% escalation  
19 for long enough, that gets to be a big number once they  
20 start back up.

21 COMMISSIONER GUNTER: Let me ask you a  
22 question. What's the difference in the age between  
23 Daniel 1 and 2? Two or three years?

24 WITNESS DAWSON: I think that's right. I  
25 would guess two.

1           COMMISSIONER GUNTER: One of them is  
2 following the path of a downward scale, and the other  
3 one is following the path of an upward scale, and there  
4 are only a couple of years difference in age.

5           See, that's the thing that messed me up  
6 pretty good. I looked at the right-hand column for  
7 Daniel and I looked at their Daniel 1, started at 5.9,  
8 seven years later it went to 6.29. Daniel 2, next  
9 door, and there's not but ten basis points there, or  
10 ten cents, but it started at 7.07 and goes 6.97.

11           The point that you were making about  
12 expensing and capitalizing increase in O&M, I  
13 understand very clearly, and I had Gulf Power provide  
14 me an exhibit in another docket which clearly  
15 demonstrated the problem. We started off with original  
16 investment of a plant, of two plants that are now 37  
17 years old, cost 14.5 million, depreciation has been  
18 19.17 million, and still on the books at 9.4 million.  
19 I can understand that phenomenon.

20           But again, where you've got plants that are  
21 right together, virtually the same vintage, the  
22 differences in the capacity charge just sort of -- I  
23 don't understand. I understand all the elements that  
24 you've talked about, but the results should give me  
25 some continuity somewhere that I'm just not able to

1 find.

2 WITNESS DAWSON: Well, in a brief look that I  
3 would give at this, I would see the continuity. You  
4 picked the two-year difference in the commercial dates.  
5 If I'm reading this right, it looks like the Daniel 1  
6 rate starts up again after 1993, so that in '94, '95,  
7 we are just projecting or estimating that the rates  
8 turned up. From Daniel 2 you still see the downward  
9 slope. I don't know what would happen if you projected  
10 the next year using the same data where the Daniel 2  
11 would then start showing the true-up. I suspect that  
12 you would see it there and the next year and the year  
13 following.

14 And I think you've got to remember the basis  
15 for what these estimates are used for. They are  
16 marketing tools. One of the things we clearly try to  
17 do when we go out and sell this power is if we err, we  
18 make a mistake, to tell the customer that we estimate  
19 it's going to cost a little bit more than it actually  
20 does. So that if a customer makes a decision to buy,  
21 he's made it on some conservative estimates, and we try  
22 to be conservative. As the marketing gets tougher, you  
23 try to get some of that conservatism out of it and get  
24 down to the absolute penny, but you can't do that for  
25 1995 guesses.



1           So we want to be a little higher, if  
2 anything, in the estimates. These don't have anything  
3 to do with what the actual payment by the UPS customer  
4 would be. It would be governed by the formula.

5           And I think it also points out something that  
6 troubles me with the hypothetical that Commissioner,  
7 Chairman Wilson, gave me, and that was if you put the  
8 63 megawatts in the rate base, and if you make the sale  
9 of UPS, then the customer somehow has paid for it once  
10 and they are paying for it again, and Gulf never comes  
11 in for a rate case.

12           It seems to me that these kind of questions  
13 that I have just had would clearly demonstrate that not  
14 only would you be adding investment in these units in  
15 the next two or three years, probably, but you're going  
16 to be adding investment to Gulf Power's system over the  
17 next two or three years.

18           One of the scenarios that I could draw from  
19 all of that is, that if you put the 63 megawatts in the  
20 rates, and whether they made a UPS sale the next day or  
21 the next year, that instead of worrying about the  
22 erosion and them coming back in for a rate case in one  
23 year or two years to pick up a fairly substantial  
24 investment they have in new transmission distribution  
25 and production modifications, to the extent that that

1 UPS sale and the UPS being in rate base kept you in the  
2 zone of reasonableness, and as you added more things to  
3 rate base, you didn't have a rate case which drives  
4 their earnings down and they still stay within the  
5 zone, you've given the customers a good steady signal  
6 for the price of electricity from Gulf Power Company.  
7 In my understanding it's a relatively competitive thing  
8 that's down in the lower quartile, or some number like  
9 that. So you're not talking about forever and ever  
10 this notion that there is some kind of double dipping.  
11 What you do is probably postpone the need to go back  
12 through another rate case.

13 COMMISSIONER GUNTER: Let me ask you about  
14 another item on Table II, if I can.

15 WITNESS DAWSON: All right, sir.

16 COMMISSIONER GUNTER: Just to try to  
17 understand. The last item we were talking about, "The  
18 estimated Schedule R price -- "

19 WITNESS DAWSON: Yes, sir.

20 COMMISSIONER GUNTER: "-- for the entire  
21 block of capacity."

22 WITNESS DAWSON: Yes, sir.

23 COMMISSIONER GUNTER: What does "the entire  
24 block of capacity" mean?

25 WITNESS DAWSON: It would mean if you went to

1 the top block on this page where it says, "Total UPS  
2 available," so that in 1995 there was a --

3 COMMISSIONER GUNTER: 3900 megawatts. Am I  
4 reading that right?

5 WITNESS DAWSON: You would look at the  
6 incremental average cost of that whole block would be  
7 2490.

8 COMMISSIONER GUNTER: All right. Now, the  
9 2490 in 1995 includes what?

10 WITNESS DAWSON: It would include the  
11 incremental cost of fuel, variable O&M and losses,  
12 incremental transmission losses.

13 COMMISSIONER GUNTER: Includes fuel and line  
14 loss --

15 WITNESS DAWSON: And the variable O&M  
16 expenses.

17 COMMISSIONER GUNTER: And variable O&M only.

18 WITNESS DAWSON: Yes, sir.

19 COMMISSIONER GUNTER: All right. Now, I  
20 realize -- I'm just staying on this sheet of paper now.

21 WITNESS DAWSON: All right.

22 COMMISSIONER GUNTER: And you get the  
23 estimated energy rates, and I tried to just mentally  
24 looking at them, of going at the energy rates of all --  
25 and I didn't do any weighting. You just have to

1 understand that.

2 I went across the energy rates, the estimated  
3 base energy rates in '95 and all the way across and it  
4 does not appear to me that the estimated energy rates  
5 for anybody is 2490 in 1995. Everybody is above 2490.

6 WITNESS DAWSON: Well, you've got sort of an  
7 apples and oranges when you try to make that  
8 comparison.

9 COMMISSIONER GUNTER: Well, see, I've got  
10 what's before me.

11 WITNESS DAWSON: Yes, sir.

12 COMMISSIONER GUNTER: And you've got an  
13 estimated base energy rates.

14 WITNESS DAWSON: Yes, sir.

15 COMMISSIONER GUNTER: The chart above that.  
16 And they run from a low of 2786, I believe is the  
17 lowest -- no 2548 out of Scherer 1. 2541 out of the  
18 Scherer 3. But the average of those is significantly  
19 above -- well, the lowest is above your estimated  
20 Schedule R price of capacity for Schedule R. Is that  
21 right? Am I reading that right of what's on this  
22 sheet?

23 WITNESS DAWSON: Yes, sir. Can I explain  
24 what those numbers are?

25 COMMISSIONER GUNTER: Okay. That's the

1 reason I asked. It included fuel, line loss and  
2 variable O&M.

3 WITNESS DAWSON: In the Schedule R, it  
4 includes the incremental cost of fuel of the units that  
5 the computer program that would be used to model the  
6 dispatch of the system in 1995 and the units available.  
7 It would pick up the incremental cost, and that would  
8 be an estimate, taking our territorial load for all the  
9 operating companies, plus any contract sales that fit  
10 right above that. And in looking at the block of  
11 energy that the units would dispatch into, this would  
12 make a Schedule R sale. And Schedule R, I think you  
13 understand, is just the incremental energy out of  
14 system dispatch. It's someplace in our dispatch stack.

15 That's what that number is. And that's  
16 looking at, assuming that you took the 3910, and,  
17 subject to check, assume you sold that 3910 every hour,  
18 8760 hours in 1995 and then average all those  
19 incremental costs together into one number. In some  
20 hours that numbers could be 40. In other hours that  
21 number could be 15, to just pull numbers out of the  
22 air. So those are incremental out of the dispatch of  
23 the system, average for the whole year.

24 If you go back to the other block that says,  
25 "Estimated base energy rates, 1995," what you're

1 looking at there is the average cost of the fuel at  
2 that unit, including variable O&M, and probably 3% for  
3 losses. So you're looking at an average fuel burn in a  
4 specific unit in the base energy block versus the  
5 dispatch out of the system at a particular point on the  
6 dispatch curve to cover a full 3910.

7 COMMISSIONER EASLEY: And it's also averaged?

8 WITNESS DAWSON: Averaged for the year, yes,  
9 ma'am.

10 COMMISSIONER GUNTER: Okay. So if I looked  
11 at '89, in order to arrive at the Schedule R rate, I  
12 could not, if I were a purchaser of Schedule R, I would  
13 not be able to get Schedule R 24 hours a day if it were  
14 available at the rate that you have there. Is that  
15 right? You're saying an average. Now, you know,  
16 you've got -- let me state again my confusion. I'm  
17 listening as carefully as I can.

18 The estimated base energy rates, you said,  
19 included fuel, variable O&M, and you thought maybe a 3%  
20 for line loss. Okay?

21 WITNESS DAWSON: Yes, sir.

22 COMMISSIONER GUNTER: But that was an average  
23 for the year.

24 WITNESS DAWSON: Yes, sir.

25 COMMISSIONER GUNTER: All right. So if I

1 want to take Schedule R from you and I go the cheapest  
2 plant that you've got on this sheet.

3 WITNESS DAWSON: Yes, sir.

4 COMMISSIONER GUNTER: And I want it, you  
5 know. Send me all that Schedule R you can get, 24  
6 hours a day, 365 days a year. I damn sure ain't going  
7 to get it for \$20.91 because averages for one has got  
8 to be averages for another one, and the cheapest that  
9 you've got on there is over \$24. You know --

10 WITNESS DAWSON: Could I draw you a picture?

11 COMMISSIONER GUNTER: Yeah, you can draw me a  
12 picture. Is it doing to be different than this  
13 picture?

14 WITNESS DAWSON: I think it will help you  
15 understand what's on here.

16 If you were a purchaser, one of the things  
17 that I'd want you to be knowledgeable about economic  
18 dispatch. And in a few minutes I'd like to make you a  
19 little more knowledgeable, and you may accuse me of  
20 doing the same thing as Bob Ussery does to you.

21 COMMISSIONER GUNTER: I understand what  
22 you're talking about, if you get beyond this and you go  
23 to other -- to the full system on economic dispatch.  
24 But if you're economically dispatching these folks and  
25 you were taking it all, and I guess, because you say

1 the whole capacity is available for 2898 in 1989. And  
2 2898, if I'm understanding your response previously, if  
3 you're restricted to the plants that are on this list,  
4 you can't get any lower than that. But now, if you're  
5 opening it up for the entire system of where you've got  
6 -- what do you all have, 2000 megawatts of hydro?

7 WITNESS DAWSON: Well, we're not selling the  
8 hydro energy.

9 COMMISSIONER GUNTER: Retain hydro for  
10 themselves.

11 WITNESS DAWSON: Retain nuclear for  
12 themselves.

13 COMMISSIONER EASLEY: Is that the problem, is  
14 the fact that the Schedule R price estimation here says  
15 entire block of capacity. But the base energy rates  
16 are plant specific, and that's only Alabama, Georgia  
17 and Gulf -- no, it's all four.

18 MR. HOLLAND: Commissioners, could I -- if I  
19 understand the "R" is not coming out of this block of  
20 capacity.

21 WITNESS DAWSON: It may.

22 MR. HOLLAND: It may, but it doesn't have to.  
23 It can come out all of the system's units, and I think  
24 that may be where the confusion is.

25 COMMISSIONER EASLEY: I think the problem



1 that I'm having is how you can take an average, the  
2 entire system, and isn't the entire -- is that the  
3 problem, the entire system is not shown?

4 MR. HOLLAND: That's right. It's not.

5 CHAIRMAN WILSON: Let the witness answer  
6 those questions.

7 COMMISSIONER EASLEY: The entire system is  
8 not shown on the capacity block?

9 WITNESS DAWSON: Well, it's not shown on the  
10 estimated base energy rate block. You're looking at  
11 the average energy rate out of that unit.

12 COMMISSIONER EASLEY: All right. Who is  
13 missing?

14 WITNESS DAWSON: Well, there is about 88  
15 fossil units -- yes, the other units in that book,  
16 besides the ones listed here. (Indicating) And what  
17 I've shown you here in the estimated base energy rate  
18 is an average energy --

19 COMMISSIONER EASLEY: All of these?

20 WITNESS DAWSON: All of those. The effect of  
21 all of them.

22 COMMISSIONER EASLEY: So someplace, if you  
23 put all of these, including the 88 fossil, or, would I  
24 see numbers in this estimated base energy rate  
25 schedule?

1 WITNESS DAWSON: No, ma'am. If I could draw  
2 you a picture, it might be a little bit clearer. And I  
3 don't know what that does to the record.

4 COMMISSIONER GUNTER: That's my problem of --  
5 that was my reluctance. I don't know how to get that  
6 drawn picture into the record.

7 COMMISSIONER EASLEY: Is there a verbal way  
8 to explain how you get an average that is under the  
9 lowest figure shown on a piece of paper?

10 WITNESS DAWSON: There is.

11 COMMISSIONER EASLEY: Okay, that's where the  
12 problem is.

13 MR. HOLLAND: I think, I think we can let him  
14 explain and if Commissioners need a late-filed, we  
15 could --

16 COMMISSIONER EASLEY: We can do a late-filed,  
17 if it doesn't help.

18 COMMISSIONER GUNTER: Go ahead.

19 WITNESS DAWSON: If you look at a generating  
20 unit's cost curve characteristics, you would be see  
21 that the incremental cost out of the unit is a line  
22 that slopes upward --

23 COMMISSIONER EASLEY: Okay.

24 WITNESS DAWSON: -- from low to high. And as  
25 this curve is sloping up, you might have to pick one --

1 and these are going to be hypothetical numbers.  
2 Assuming that it was Miller -- let's take Scherer 3.  
3 That the lowest incremental cost of Scherer 3 might be  
4 20 mills or \$20 a megawatt hour. Its highest  
5 incremental cost might be 26. So, as the more you  
6 generate with it, the more fuel that goes in there,  
7 it's a higher cost.

8           Compare that to the average energy cost of  
9 the unit, and it is a downward sloping curve that says  
10 if you run this unit a few times, that is, you start it  
11 up a lot, several times, once or twice, you've got all  
12 that fuel that we talked about yesterday -- or somebody  
13 talked about -- for flame stabilization, start-off, it  
14 doesn't produce really any energy for sale, but it gets  
15 the thing going.

16           You got all that cost in there, and you start  
17 producing power out of that unit. And as you put coal  
18 in there, the average cost of generation comes down.

19           In a picture, you would see that it is sort  
20 of at the maximum output of the unit, the incremental  
21 cost curve would come up, the average cost curve would  
22 come down, they intersect. So they would be about the  
23 same at the maximum output of the unit.

24           But you can see that at Miller, from my  
25 example, the incremental cost of Miller is cheaper than

1 the average cost of the unit. We dispatched the system  
2 on incremental cost. Schedule R is an incremental  
3 energy price, and it looks at the incremental fuel that  
4 went in to generate that portion of the 2898.

5           There may be 20 different units, there may be  
6 30 different units, contributing to that 2898 megawatts  
7 in 1989. Some of those units may be these Miller  
8 units, Scherer units, that would be the incremental  
9 cost of those units and not the average cost of those  
10 units. So you cannot go from this base energy rate and  
11 make any kind of assumption about what incremental  
12 Schedule R prices are.

13           COMMISSIONER EASLEY: Could we get the  
14 late-filed exhibit, Mr. Chairman?

15           CHAIRMAN WILSON: Which late-filed exhibit?

16           COMMISSIONER EASLEY: Whatever the chart is  
17 that he wanted to draw us a picture of.

18           CHAIRMAN WILSON: We may let him come back  
19 after lunch and draw that little chart over there on  
20 that piece of paper. Is that what you wanted to do?

21           WITNESS DAWSON: Yes, sir.

22           CHAIRMAN WILSON: Why don't we break now and  
23 come back at a quarter to 1:00.

24           (Lunch recess was taken at 11:50 a.m.)

25