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July 6, 1990 1542

Mr. Steven Tribble, Director
Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, FL 32399-0870

Re: Docket No. 891345-EI
Gulf Power Company

Dear Mr. Tribble:

Enclosed are an original and fifteen copies of the Initial Brief of the Federal Executive Agencies in the above-referenced docket. Copies have been sent to the parties on the attached service list on this date.

Respectfully submitted

Gary A. Enders eog

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Certificate of Service
Docket No. 891345-EI

I HEREBY CERTIFY that a true copy of the FEA's Initial Brief has been furnished by Federal Express to Gulf Power Company and by U.S. Mail to the remaining parties below on this 6th day of July 1990.

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BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

IN RE:	PETITION OF GULF POWER COMPANY FOR A RATE INCREASE	)))	DOCKET NO. 891345-EI FILED JULY 6, 1990

INITIAL BRIEF

of the

UNITED STATES FEDERAL EXECUTIVE AGENCIES

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INTRODUCTION

In this brief, the Federal Executive Agencies (FEA) address only a limited number of the issues that the Florida Public Service Commission (FPSC or the Commission) has set for argument in FPSC Docket NO. 891345-EI, the Gulf Power Company (Gulf or the Company) rate proceeding. The FEA has taken positions on only eight of the issues identified in the Commission's Pre-Hearing Order, and presented testimony on only three issues:

- 115 -- The appropriate cost-of-service method,
- 121 -- The appropriate class revenue spread, and
- 130 -- Voltage and transformer ownership discounts.

This Commission has been moving toward more equitable rates for all customers and the FEA requests that the Commission continue to move in this direction. Toward that end, the FEA has addressed equity between rate classes in issues 115 and 121 and equity between customers within a rate class but taking service at different voltage levels in issue 130. These issues are the heart of the FEA brief, and the Commission is respectfully requested to consider the arguments presented herein.

ISSUE NO. 1: Gulf Power has proposed a rate base of $923,562,000 ($1,192,516,000 System) for the test year. What is the appropriate level of rate base for 1990?

FEA POSITION:

The FEA takes the same position as the Office of the Public Counsel.

DISCUSSION:

None.

ISSUE NO. 26: Should 63 MW of Plant Scherer 3 be included in Gulf Power's rate base?

FEA POSITION:

No.

DISCUSSION:

Gulf Power has a reserve margin of 20.5 percent in test year 1990 without the addition of the Scherer and Daniel Plants.

ISSUE NO. 37: What is the appropriate cost of common equity capital for Gulf Power?

FEA POSITION:

The FEA takes the same position as the Office of the Public Counsel.

DISCUSSION:

None.

ISSUE NO. 38: Should the newly authorized return on common equity be reduced if it is determined that Gulf has been mismanaged?

FEA POSITION:

Yes. The FEA takes the same position as the Office of the Public Counsel.

DISCUSSION:

None.

ISSUE NO. 115: What is the appropriate cost of service methodology to be used in designing the rates of Gulf Power Company?

FEA POSITION:

The FEA supports use of the Gulf Power Company study based on the 12 MCP and 1/13 energy for allocation of production costs, with the exception that the costs are not accurately distinguished for the LP/LPT and PXT classes. The appropriate costs of serving these two classes combined can be ascertained from the Company's study.

DISCUSSION:

Gulf Power Company's class cost-of-service study utilized the 12 monthly coincident peak (12 MCP) and one-thirteenth energy for the allocation of generating plant costs [Direct Testimony of Michael O'Sheasy, page 10, lines 21-25]. This method has been deemed appropriate by the Florida Public Service Commission previously. The 12 MCP method is used extensively by the Federal Energy Regulatory Commission (FERC) for determining wholesale jurisdictional cost responsibility because the concept incorporates the fact that Gulf's system is planned and operated for the purposes of meeting these demands for electricity every month of the year. It also reflects a consideration for scheduled maintenance, unscheduled outings, firm sales and purchase commitments and reliance on interconnection [Direct Testimony of Michael T. O'Sheasy, page 10]. Combining the 12 MCP responsibility with one-thirteenth energy incorporates the energy intensity of the various rate classes. This method has been found an appropriate method of determining class cost responsibility in the past and should be found appropriate in this proceeding.

Notwithstanding the general propriety of this method for allocating generating costs, Gulf Power's implementation in this docket is flawed. The cost-of-service study filed in Section E of the Minimum Filing Requirements (MFR) contained an error in the load data, which was corrected in testimony. The major difference between these two studies was a reduction in the calculated rate of return under present rates for the PXT class from 8.92 percent [MFR E-1, page 1] to 7.78 percent [Exhibit___(MTO-1), Schedule 8, page 1], a difference of 1.14 percent in the shown rate of return. Rate SS had a slightly lower rate of return in the corrected study; all other rate classes had higher rates of return in the corrected study.

Another revised study was provided by Gulf Power prior to the hearings. This revision was necessitated because one customer on the PXT rate was expected to transfer to the LPT rate, but had not done so. Ordinarily, one customer would make little difference in the cost of service for either class, but associated with this customer was over $2,000,000 in distribution facilities and there is no revenue offsetting the cost. By incorrectly including this customer in the LP/LPT class, Gulf Power's study overstated the cost of service the LP/LPT class and understated the return. [Direct Testimony of Charles E. Johnson, page 10.]

Other projected changes in sales for the LP/LPT and PXT rate classes, have the effect of overstating the costs to the LP/LPT class and understating

the costs to the PXT class. These changes include a projected decrease of 11 percent in PXT sales from 1989 to 1990 and a projected increase of 12 percent in LPT sales from 1989 to 1990; a projected 50 percent drop in PXT-SE sales; and a projection of LPT-SE sales increasing severalfold. [Direct Testimony of Charles E. Johnson, pages 9-10.]

In its previous filing [later withdrawn], the Gulf Power cost-of-service study showed about the same rate of return for the LP/LPT and PXT rate classes. Since that time, no changes in rates have occurred. [Tr. 2642.] Several problems with the data used in the study have been identified and revised studies have been submitted, but flaws remain in the data for the LP/LPT and PXT classes. For this reason, the classes should be treated as one in determining any rate increase in this docket.

ISSUE NO. 121: If a revenue increase is granted, how should it be allocated among customer classes?

FEA POSITION:

Class increases should be calculated to move all classes toward cost of service as established by the Gulf Power Company class cost-of-service study, with the LP/LPT and PXT classes combined. This would result in a lower than average increase for these classes.

DISCUSSION:

In the class cost-of-service study filed a year ago, the rates of return for the LP/LPT and PXT rate classes were about the same. The major change affecting the rates of return for those two classes since that time is the difference in projected sales levels. Because of the questionable nature of the projected data (discussed supra), the accuracy of the costs associated with these two classes is in doubt and little reliance can be placed on the validity of the rates of return calculated in the Company's class cost-of-service study.

Further, the rate of return for both the LP/LPT and PXT classes is understated by inclusion of Plant Sherer as used and useful production plant. If Plant Sherer investment were disallowed, rates of return for the LP/LPT and PXT classes would increase by a greater amount than for other rate classes. [Tr. 2642.] Therefore, if the 63 MW of Plant Sherer were disallowed, the increase in revenue required of these classes should be reduced by a greater than average amount to maintain revenues at cost of service. Even if this investment were allowed in rate base, the associated costs should be considered as a surcharge to all customers and not allocated based on the production plant allocator.

All of the foregoing supports the position of combining the LP/LPT and PXT rate classes and increasing rates to the classes by a lower than average percentage.

ISSUE NO. 130: The Company currently gives transformer ownership discounts of $.25 per kW for customers taking service at primary voltage and $.70 per kW for customers taking service at transmission levels. Is the current level of discounts appropriate?

FEA POSITION:

The current transformer ownership discounts do not reflect the full difference in cost of taking service at different voltage levels. Transformer ownership credits and metering credits should be based on the full difference in cost of service at different voltage levels. Voltage discounts for the LP/LPT class should be set at the levels determined in Exhibit___(CEJ-3), page 3.

DISCUSSION:

There are two reasons that customers taking service at higher voltage impose lower costs on the utility than a customer with similar loads but at secondary distribution voltage. First, losses are lower for higher voltage service, and second, fewer facilities are required. [Direct testimony of Dr. Charles E. Johnson, page 13] Each of these components must be fully accounted for. The current tariff includes inadequate compensation for the reduction in facilities required by customers at higher voltage levels, and the difference in losses is not completely reflected in the metering discount.

The current Gulf Power metering discount is one percent for both energy and demand at primary voltage and two percent for both energy and demand at transmission voltage. The losses for energy and demand differ, being greater for demand. Based on Company loss data, Dr. Johnson determined that losses alone justify the following discounts:

	Demand	Energy
Primary	6%	4%
Transmission	9%	6%

[Exhibit___(CEJ-3), page 3]

Gulf Power has proposed to adopt the metering discounts calculated in Exhibit 269 (Gulf Power Company response to Staff's Eighth Set of Interrogatories, Number 1130). The discount calculated therein is described as "Percentage Losses for Distribution Line Transformers." [emphasis added] This loss is only a portion of the losses that occur in taking the electric power from primary voltage to secondary distribution voltage. [Tr. 1856] The distribution line transformer losses do not account for the full difference in cost for customer taking service at primary and at secondary voltage levels. Thus, the losses for line transformers are not the proper basis for setting the metering discount for primary voltage service, because these losses understate the difference in cost to serve. Similarly, the "Percentage Losses for Substations Making Transformation from Transmission to Primary" [Exhibit 269] do not reflect the full metering difference between customers at transmission and primary levels. Line and other losses are not included so the full difference in cost is not captured by Gulf Power's proposed metering discounts. The metering discounts should include the full difference in cost of

serving customers at transmission, primary, and secondary distribution levels that are calculated in Dr. Johnson's testimony.

Gulf Power has proposed the adoption of transformer ownership credits based on the calculations performed in Exhibits 266 and 267 (Gulf Power Company's responses to Staff's Eighth Set of Interrogatories, Items Number 110 and 111). These calculations are flawed and unsupportable for this purpose. In responding to questions about what his proposed discounts include and exclude, Company witness Haskins replied:

> I really can't respond to which costs go into these determinants. If I tried to guess at it, I might be wrong and I prefer not to do that.
>
> [TR 1957]

In other words, the witness supporting the Company's proposed metering discounts and transformer ownership credit has no idea how his proposed discounts have been calculated.

In fact, the calculations are internally inconsistent and even if one accepts Staff's position that the voltage discount should only include the cost of the transformer and related expenses, the calculations described in Exhibits 266 and 267 do not accurately do that. For example, in Exhibit 266, the calculations purport to represent the revenue requirement for account 368 (line transformer) by adding relevant portions of the following:

(a) Account 368 times the proposed rate of return;

(b) Transformation-related operation expense and materials and supplies in Account 584 (underground line expenses);

(c) Account 595 (maintenance of line transformers); and

(d) Income taxes and depreciation expenses associated with Account 368.

This calculation does not represent all of the revenue requirement associated with line transformers. At least two major components are missing.

First, transformation-related operations expense and materials and supplies in Account 583 is not included and contains substantial such expense. The Uniform System of Accounts identifies Account 583 as "Overhead line expenses" and Account 584 as "Underground lines expenses," and lists the items below to be included in each:

Items

Line Labor:

1. Supervising line operation.

2. Changing line transformer taps.

3. Inspecting and testing lightning arresters, line circuit breakers, switches and grounds.

4. Inspecting and testing line transformers for the purpose of determining load, temperature or operating performance.

5. Patrolling lines.

6. Load tests and voltages surveys of feeders, circuits and line transformers.

7. Removing line transformers and voltage regulators with or without replacements.

8. Installing line transformers or voltage regulators with or without change in capacity provided that the first installation of these items is included in account 368, line transformers.

9. Voltage surveys, either routine or upon request of customers, including voltage tests at customers' main switch.

10. Transferring loads, switching and reconnecting circuits and equipment for operation purposes.

11. Electrolysis surveys.

12. Inspecting and adjusting line testing equipment.

Line Supplies and Expenses:

13. Tool expenses.

14. Transportation expenses.

15. Meals, traveling and incidental expense.

16. Operating supplies, such as instrument charts, rubber goods, etc.

Station Labor:

1. Supervising station operation.

Several of these items are related to operations of transformers. The two accounts possess identical descriptions, and both should be included in the calculation, if the result is to produce the revenue requirement associated with the transformers. Account 583 is nearly three times the amount of Account 584 and its exclusion has a major impact on the result. [Account 583 is $875,000, at Schedule E-1,page 29, line 93 and Account 584 is $294,000 at line 96.] Omitting this component understates the cost and understates the credit that should be given for transmission ownership.

A second omission consists of overheads that the Company incurs in the provision of any of its services. Taking one cost out of context (as is done in Exhibits 266, 267 and 269) excludes overheads such as pensions and benefits. Asked specifically if his calculation included employee pensions and benefits, the Company witness responsible for calculating the proposed discounts seemed to think they were:

> If the Operating Expense Account 584, one of the drivers in there would be the employees' salaries and wages, and if the pensions and benefits were included in those salaries and wages, yes, they would be included." [Tr 1853]

But, employee pensions and benefits are booked to Account 926, which is not included. Nor are administrative and general salaries, booked to Account 920, included in the Company's calculation. Numerous other costs appearing in the cost of service study are also excluded from this calculation. The calculations presented in Exhibit 266 are in no way comparable to those performed in the cost-of-service which serves as the basis for the demand charges. Discounts calculated as in Exhibit 266 systematically understate the cost of transformation to the Company, and thereby understate the value that should be used to set transformer ownership credits. The calculations in Exhibit 267 similarly are inappropriate for use in setting voltage discounts for transmission service.

An additional component is not considered in the Company's proposed voltage discounts, when taken as a whole. The primary and secondary distribution systems consist of poles, conductor, line transformers and other equipment necessary to provide service at voltage levels below transmission level. The cost of all of this investment, plus the expenses associated with maintaining it are allocated to rate classes based on their relative use at each voltage level. It is entirely improper to then recover these costs from all customers in the LP/LPT rate class without regard to voltage level. These costs should be included in rates for customers at the appropriate voltage level. Voltage discounts and transformation ownership credits are not a gift to customers taking service at higher voltages. They are a difference in the cost to serve and the full difference should be reflected in rates.

The voltage credits calculated by FEA witness Johnson have properly taken into account the difference in cost at each voltage level. His proposed credits reflect the ownership of the transformers and the differences in costs associated with other facilities not required with service at higher voltage

levels. Finally, his metering discounts represent the full difference in losses between service at different voltage levels, and consequently, the difference in cost at different voltage levels.

ISSUE NO. 131: All general service demand rate schedules (GSD, GSDT, LP, LPT, PX, and PXT) except Standby Service (SS) and Interruptible Standby Service (ISS) provide for transformer ownership and metering discounts. The company has proposed providing metering discounts only for standby service rate schedules. Should the SS and ISS rate schedules have provisions for both transformer ownership and metering voltage discounts? If so, should the level of the transformer ownership discount and metering voltage discount for SS and ISS be set equal to the otherwise applicable rate schedule?

FEA POSITION:

Yes and no.

DISCUSSION:

Customers who own and maintain their own transformers enable Gulf Power to avoid the cost of installing and maintaining this equipment. The discounts should be determined in the same manner as the voltage discounts for the otherwise applicable rate schedule, but may not be equal to that discount (e.g., Rate Schedule SS is a separate class in the cost study and the class would not necessarily have the same costs allocated as the otherwise applicable rate schedule. Therefore, a discount calculated for the SS LPT customers in the same manner as for the LPT class would not necessarily result in the same values).