

FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building
101 East Gaines Street
Tallahassee, Florida 32399-0850

MEMORANDUM

May 26, 1994

TO : DIRECTOR, DIVISION OF RECORDS & REPORTING
FROM : DIVISION OF ELECTRIC & GAS (BERG, MEETER) *WBB*
DIVISION OF LEGAL SERVICES (ERSTLING) *MMO*
RE : DOCKET NO. 931044-EI - PETITION FOR AUTHORITY TO
IMPLEMENT A REPLACEMENT RATE SCHEDULE FOR STANDBY
ELECTRIC SERVICE BY GULF POWER *KLT*
AGENDA: JUNE 7, 1994 - REGULAR AGENDA TARIFF FILING/ INTERESTED
PERSONS MAY PARTICIPATE

CRITICAL DATES: EIGHT-MONTH CLOCK EXPIRES JUNE 27, 1994.

SPECIAL INSTRUCTIONS: I:\PSC\EAG\WP\931044.RCM

CASE BACKGROUND

On October 28, 1993 Gulf Power Company (Gulf) filed a petition requesting Commission approval of its replacement Standby and Supplemental Service (SBS) rate schedule. The SBS rate schedule, if approved, will replace the existing Standby Service (SS) rate schedule. On December 21, 1993, Monsanto Company, Stone Container Corporation, and Champion International Corporation filed a Petition to Intervene. Intervention was granted by Order No. PSC 94-0019-PSO-EI, issued January 5, 1994.

The governing language and rate design in the current SS rate schedule is consistent with the provisions established in PSC Order No. 17159, issued February 6, 1987, in Docket No. 850673-EU - Generic Investigation of Standby Rates for Electric Utilities. This order prescribes the cost allocation and rate design methodology to be used by Florida's investor-owned electric utilities for standby and supplemental service rates.

Gulf Power has provided standby electric service under the SS rate schedule to four customers since approximately 1988. A fifth customer began taking service under the SS rate schedule in August 1993. Based on its experience with the SS rate schedule and concerns expressed by its standby customers, Gulf believes the current standby billing arrangement is inadequate to serve the needs of its customers. In its petition, Gulf summarized what it

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considers to be the weaknesses of the current arrangement into three categories: 1) the subjectivity involved with "sorting" electricity consumed into standby and supplemental billing determinants, 2) the unnecessary administrative costs placed on both the company and the customer in the form of communications and reporting requirements, and 3) the overall complexity of the rate schedule. The proposed SBS rate schedule represents a collaborative effort between Gulf and its standby service customers.

The Commission suspended the SBS tariff sheets on December 20, 1993. To investigate this tariff filing, Staff has conducted discovery in the form of interrogatories, data requests, a deposition and meetings involving the Company and some of the SS customers, who are also intervenors.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve Gulf Power's proposed Standby and Supplemental Service (SBS) rate schedule?

RECOMMENDATION: No. There are four aspects of Gulf's proposal that are unacceptable.

STAFF ANALYSIS:

"Standby Electric Service" is defined as electric energy or capacity supplied by the utility to replace energy or capacity ordinarily generated by the customer's generating equipment during a scheduled or unscheduled outage of the customer's equipment. These outages are due to equipment failure or other conditions beyond the control of the customer or are due to maintenance activities of the customer's generation system. "Supplemental Service" means electric energy or capacity supplied by the company in addition to that which is ordinarily provided by the customer's generating equipment. Gulf's SS rate schedule is currently governed by these definitions.

Gulf maintains that for customers who take both standby and supplemental power sorting the monthly billing determinants into standby and supplementary service is subjective and administratively burdensome. The customers' monthly billing determinants must be sorted into standby and supplemental service because different charges apply to the two types of service.

Gulf's proposed billing arrangement would eliminate this sorting process. Under the proposed billing arrangement, a customer's billing determinants are determined on the basis of contract demands. While staff does not believe this is the methodology outlined in Order No. 17159, the Commission has approved similar billing arrangements in the past for other utilities. If approved, the proposed billing arrangement would remedy the concerns expressed by Gulf in its petition that made the

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present standby arrangement "inadequate".

There are, however, four features of Gulf's petition that staff believes are unacceptable. The remaining portion of the staff analysis addresses these problems: 1) Coordinated Maintenance Months, 2) Option A and the Annual Review of "Option A" Daily Demand Charge, 3) Possible Manipulation of Contract Demands, and 4) Applicability of Rate Charges.

Coordinated Maintenance Months

The proposed SBS rate schedule incorporates a new provision that allows a standby customer to designate a maximum of four (4) billing months per year as "Coordinated Maintenance Months" (CMM). According to Gulf, the intent of the CMM provision is to encourage standby customers to schedule maintenance outages during months when reserve capacity is not at a premium. A CMM can be designated during the months of September through May. Customers will ordinarily request designation of a particular month as a CMM six months in advance. Customers receive an incentive to schedule maintenance in the off-peak months through a waiver of the otherwise applicable daily demand charge. In addition, if the customer's actual standby demand during an approved CMM exceeds the customer's contracted amount of standby demand, the customer would be excused from paying the reservation charge on the higher standby demand in future months.

Order No. 17159, page 14, recognizes that it is appropriate to encourage standby customers to schedule maintenance outages in the months when a utility has higher capacity reserve margins after considering the utility's own scheduled outages. To encourage such behavior, the Commission authorized a utility to weight the daily demand charge in a manner that raised the charge during the peak months and lowered the daily demand charge during the valley months. Order No. 17159, page 13, specifies that the daily demand charge is to be the utility's system coincident peak (CP) production and transmission unit cost divided by 21. Gulf currently has seasonally weighted daily demand charges that are weighted such that over the course of a twelve month period, the average of the daily demand charge was set equal to the CP production and transmission unit cost divided by 21. This is consistent with the example on page 14 of Order No. 17159.

The CMM provision as proposed by Gulf is inappropriate because Gulf has proposed to waive the daily demand charge for up to four of the nine nonsummer months but has not made the corresponding upward adjustment to the daily demand charge for the three peak months. Thus, due to the CMM provision, Gulf's daily demand charge will not recover the average daily demand charge as specified by

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Order No. 17159.

The methodology used by Gulf to calculate the daily demand charge in the SBS tariff filing results in a revenue reduction for the entire class of standby customers. Gulf's response to Staff Interrogatory Number 13 shows that in 1992 one particular standby customer would have gotten over a 20% reduction in the base rate cost of standby power. The standby class would have gotten approximately a five percent reduction in 1992. Staff does not believe it is proper to lower a class's revenue requirement between rate cases or allow an individual class of customers to escape costs assigned to them in the last rate case. A daily demand charge calculated in accordance with the provisions outlined in Order No. 17159 would virtually eliminate the reduction in base rate revenues in 1992.

Any seasonal adjustment such as the CMM provision for Gulf is inappropriate because of the Southern Company's Intercompany Interchange Contract (IIC) for two reasons. First, the monthly capacity charges per kw under the IIC are virtually the same for all months, the high charge for 1992 being \$6.59/kw for March and the low being \$6.48/kw for June (Interrogatory No. 33 of Staff's First Set). Each utility pays IIC charges or receives IIC payments based on its monthly equalized reserve margins. Hence, sending the price signal that Gulf's production and transmission costs are minimal or nonexistent in the nonsummer months is totally inconsistent with the IIC.

Second, the waiver of the daily demand charge does not reflect that Gulf may incur additional costs to serve the standby class due to the CMM provision. The waiver may encourage customers to use power extensively in the four CMM months, thus increasing the probability that a customer will be using power during the monthly Southern Company system peak hour. Any power used by an SBS customer during a monthly Southern System peak hour will result in Gulf losing approximately \$6.50 per kw or paying an additional \$6.50 per kw pursuant to the IIC. Any costs above the 1989 base rate IIC amount will be recovered through the capacity cost recovery clause from all customer classes on a per kwh basis.

Option A and the Annual Review of "Option A" Daily Demand Charge

The proposed SBS rate schedule Gulf includes "Option A" which allows customers to use the Supplemental Energy (SE) Rider in combination with standby and supplemental service. The Supplemental Energy Rider is a time-of-use rate schedule with flexible on-peak and off-peak periods. Gulf notifies customers in advance when extended off-peak periods (SE periods) will be in effect. The differences between taking standby service under

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Option A and under standard (nonOption A) SBS rates are the size of the daily demand charge, the provision for annual review of Option A daily on-peak standby demand charge and the applicable time periods for determining on-peak demand.

Order No. 17159, page 13, specifies that the daily on-peak demand charge is to be calculated using the average number of days that contain on-peak hours in a month. One of the problems with combining the SE Rider with standby and supplemental service is that the number of days with non-SE hours varies by month and year. Hence, the average number of days with nonSE on-peak hours will vary by year. The variability in the average number of days with non-SE on-peak hours is a problem because the use of a number different from the actual average number of non-SE days in a calendar year results in an over- or under-recovery of production and transmission costs. This result is contrary to what the charge was designed to recover.

Gulf used seven days in calculating its Option A daily demand charge. According to Gulf, it used seven because the average number of days with non-SE on-peak hours for the eight months of 1991, excluding March, April, October and November, was seven. In its proposed rate schedule Gulf has included a provision for the annual review of the Option A daily non-SE on-peak standby demand charge. Under this provision, if the monthly average of the non-SE on-peak days for the non-CMM months for a calendar year is greater than seven, the daily demand charge will be recalculated using the monthly average number of non-SE on-peak days for the customer's non-CMM months for that year. Any customer billed daily demand charges for that year will be credited on the December bill for the difference in the original charges billed using the rate schedule charge of \$1.41 for primary service and \$1.42 for secondary service and the new charge.

This provision is problematic to staff because it is one-sided. It does not provide for an additional charge when the average number of days with non-SE on-peak hours in a year is less than seven and the customer has been underbilled. For the 12 months of 1992, the average number of days with non-SE on-peak hours was five according to the company response to a staff data request (Deposition Exhibit four). Approval of the proposed Option A daily demand charge and the proposed annual review provision would have resulted in an underbilling of 28 percent of daily demand charge costs in 1992. Gulf's calculation of the revenue impact in Exhibit B of the petition and Interrogatory No. 13 of Staff's First Set does not include any revenue reduction for the annual review provision. However, there would have been an additional revenue reduction in two of years 1990 through 1993 due to the provision.

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For Option A to be acceptable to staff, the daily demand charge should be calculated using the minimum number of average days with non-SE on-peak hours in the last four years. This does mean that Option A customers would in most years receive a credit because they overpaid. Staff believes this is reasonable because Option A is an alternative to the standard SBS option. The credit could include interest similar to the way interest is included in the fuel clause true-up. A second acceptable version of Option A would be to calculate the daily demand charge using an average number of days with non-SE on-peak hours for a number of years, say the last four years, and simply eliminating the provision for the annual review. Under both of these alternatives, the average number of days would be based on twelve-months data instead of eight months.

Possible Manipulation of Contract Demands

Approval of the proposed billing arrangement may also result in manipulation of the contract demands used to determine the standby and supplemental service billing determinants. This is an important consideration because there are different charges for each type of service.

Under the current billing arrangement customers are billed under standby rates only when the customer's generation equipment has either a scheduled or unscheduled outage due to equipment failures or other conditions beyond the customers' control or needed maintenance activities on the customer's generating system. The customer must submit a company-verified report detailing all of the generation outages that occurred during a billing month. As mentioned, the proposed billing arrangement determines standby power simply by established standby and supplemental contract demands. Consequently, customers could conceivably minimize their total monthly electric bills by contracting the higher load factor electric consumption for the month as Supplemental Power and contracting the lower load factor usage as Standby Power. This could be a problem because there are no terms or conditions in the proposed tariffs that preclude the customer and the company from agreeing to new contract demands each month.

Staff believes a simple solution to the potential problem is to limit the number of times the contract demands can be renegotiated to two times a year. In addition, the utility should send a report to the Commission detailing each change in the contract demands.

Applicability of Rate Charges

Even if the technical problems discussed above are resolved, there are still several issues on applicability of the rate charges. The proposed SBS rate schedule has three sets of charges based on a customer's size and voltage. The three categories are (1) Secondary - 100 to 499 KW, Secondary - 500 to 7,499 KW and Primary above 7,499 KW. The Local Facilities charges for the three categories were based on the local transmission and distribution costs from the Gulf's last rate case, Docket No. 891345-EI, for the GSD/GSDT, LP/LPT and PX/PXT rate classes, respectively. The proposed energy charges for the three categories are the energy charges of the three classes, respectively. Gulf's proposed SBS tariff has a provision that limits the applicability of the Above 7,499 KW charges to customers included in PX/PXT for final rate calculations in the aforementioned rate case. Staff believes this limitation is inappropriate because at least one of the customers no longer qualifies for the PX/PXT rate schedule that requires an annual load factor of at least 75 percent. It is unfair to allow this customer to pay the lower energy and local facilities charge for the over 7,499 KW category when its load characteristics are now extremely different from those of the other PXT customers, especially when the tariff provision precludes other customers of the same size and voltage level from being eligible for these charges.

An additional problem is that the three categories of rate charges do not allow for a standby customer to take service at primary voltage unless he was a PX/PXT customer (over 7499 KW) at the conclusion of the utility's last rate case. Staff believes that this is unfair and that the tariff should have charges for smaller primary voltage customers.

A problem of a different nature is the impact of the proposed SBS rate schedule on any GSD customer (100 to 499 KW) who wants to install self-generation in the future. The proposed rate schedule increases the energy charge for those KWH's that would previously have been billed as standby service KWH's from .462 cents to 1.3 cents. All other charges remain the same for customers of this size. No customers in the 100 to 499 KW category currently take standby service.

Conclusion

Staff has been sensitive to the concerns expressed by Gulf and its customers in the petition requesting the SBS replacement rate schedule. The proposed SBS tariffs must, however, be reasonable and comport sufficiently to the provisions outlined in Order No. 17159 and past Commission policy for staff to write a favorable

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recommendation.

Staff believes that all of Gulf's concerns, as expressed in their petition, would be remedied by approval of a billing arrangement that is based on established contract demands. The Commission has approved similar arrangements in the past for other utilities. The four major problems, however, previously outlined by staff are too significant for staff to recommend approval of the proposed SBS rate schedule as filed.

ISSUE 2: Should this filing be addressed by Proposed Agency Action (PAA) as requested by the company?

STAFF RECOMMENDATION: No. This is a tariff filing and should be handled in a manner consistent with other tariff filings.

STAFF ANALYSIS: Gulf in its initial pleading requested PAA action on this filing stating a desire to have a speedy resolution of the issues. Time is not a differentiating factor for a PAA or a Tariff process. Because this is in actuality a tariff filing, and Gulf has not shown why it should not be processed under our normal tariff procedures, staff believes that it would be best to be consistent in the manner in which the Commission handles tariff filings. The tariff process provides the same opportunity as PAA for a substantially affected person to file a protest within 21 days of the issuance of the order.

ISSUE 3: Should this docket be closed?

STAFF RECOMMENDATION: Yes, if no timely protest is filed within 21 days of the issuance of this order.

STAFF ANALYSIS: If no substantially affected person files a protest within 21 days of the issuance of this order, the docket should be closed.