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Jack L. Haskins
Manager of Rates and Regulatory Matters
and Assistant Secretary

ORIGINAL
FILE COPY

the southern electric system

June 30, 1994

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee FL 32399-0870

Dear Ms. Bayo:

RE: Docket No. 931044-EI

Enclosed are an original and fifteen copies of the testimony of James I. Thompson and M. W. Howell on the behalf of Gulf Power Company to be filed in the above docket.

Sincerely,

Jack L. Haskins

lw

ACK _____

AFA _____ Enclosures

APP _____ cc: Beggs & Lane

CAF _____ Jeffrey A. Stone, Esquire

CMU _____

CTR _____

EAG *Berg* _____

LEG *Ernstling* _____

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OPC _____

RCH _____

SEC *Thompson* _____

WAS _____ DOCUMENT NUMBER-DATE

OTH _____ 06498 JUL-1 1994

Howell

DOCUMENT NUMBER-DATE

06499 JUL-1 1994

FPSC-RECORDS/REPORTING

FPSC-RECORDS/REPORTING

"Our business is customer satisfaction"

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Authority to
Implement a Replacement Rate
Schedule for Standby Electric
Service by Gulf Power Company)
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Docket No. 931044-EI

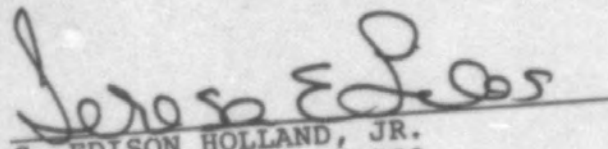
Certificate of Service

I HEREBY CERTIFY that a copy of the foregoing has been
furnished this 1st day of July 1994 by U.S. Mail or hand
delivery to the following:

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Gulf Power Company

Before the Florida Public Service Commission
Prepared Direct Testimony of

James I. Thompson
Docket No. 931044-EI
July 1, 1994

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Q. Please state your name, business address, employer and position.

A. My name is James I. Thompson and my business address is 500 Bayfront Parkway, Pensacola, Florida 32501. I am employed by Gulf Power as a Pricing Specialist.

Q. Please describe your educational and professional background.

A. In 1977, I earned a Bachelor of Science degree in Industrial Management from Georgia Tech. I joined Gulf Power in 1980, as an analyst in the company's Rate Department. In 1988, I became a member of the company's marketing organization, and currently serve as a Pricing Specialist in that organization. Throughout my career, I have been involved in the pricing of Gulf Power's energy services.

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

3 A. I will present and explain two specific components
4 of Gulf Power's new rate for Standby electric
5 service. These components are the Coordinated
6 Maintenance Months provision and the "Option A"
7 version along with its Annual Review provision. My
8 testimony is limited to these components because it
9 is my understanding that these are the specific
10 areas of Gulf's new pricing arrangement for standby
11 electric service about which the Commission has
12 expressed a need for additional information to be
13 presented through this hearing.

14
15 Q. What is the purpose of the "Coordinated Maintenance
16 Months" feature in Rate SBS?

17 A. In order to understand the purpose of this feature,
18 it is important to remember that our standby service
19 customers, by definition, have the capability to
20 serve all or part of their electric requirements
21 through their own generation. The Coordinated
22 Maintenance Months feature provides an economic
23 incentive for our standby service customers to
24 perform maintenance on their generation equipment at
25 certain times of the year and not to do so at other

1 times of the year. This customer incentive comes in
2 the form of a reduced price for the standby service
3 they would purchase from Gulf Power while performing
4 maintenance on their generating equipment during the
5 coordinated maintenance months.

6
7 Q. Is there a similar provision in Gulf Power's
8 previous Standby Service rate?

9 A. Yes. The Coordinated Maintenance Months provision
10 in the new rate is an enhancement of a similar
11 provision in the old rate. The new version results
12 in a stronger incentive for our customers to avoid
13 purchasing standby service during our summer months
14 when Gulf's annual peaks are likely to occur, and
15 offers the customers a more useful opportunity to
16 perform maintenance, from a planning perspective.
17 Seasonal price distinction is found in both the old
18 and the new standby service rates.

19
20 Q. Please compare the seasonal price distinction in
21 Gulf's previous standby service rate to the seasonal
22 price distinction in Gulf's new standby service
23 rate.

24 A. The seasonal price distinction in the old standby
25 service rate was found in the Daily Demand Charge

1 component. Likewise, the seasonal price distinction
2 in the new rate is found in the Daily Demand Charge
3 component.

4 The seasonality in the old rate was found in
5 the Daily Demand Charges that were slightly higher
6 in summer than the Daily Demand Charges applicable
7 the rest of the year. The lower Daily Demand Charge
8 was thus applicable during eight months of the year.
9 The seasonality in the new rate is in the form of no
10 Daily Demand Charge during the Coordinated
11 Maintenance Months, which are limited to a maximum
12 of four months and must not be during the summer. A
13 Daily Demand Charge is applicable to all other
14 months. Under this approach, the lower Daily Demand
15 Charge (zero) is applicable during, at most, four
16 months of the year.

17
18 Q. In those four Coordinated Maintenance Months during
19 which there is no daily demand charge, what other
20 components of the new standby service rate are still
21 applicable?

22 A. The Customer Charge, Local Facilities Charge, On-
23 Peak Demand Charge, Reservation Charge, and Energy
24 Charge are applicable, along with the fuel cost
25 recovery factor, energy conservation cost recovery

1 factor, environmental cost recovery factor, and
2 purchased power capacity cost recovery factor.

3
4 Q. Will the Coordinated Maintenance Months provision in
5 the new rate result in reduced summer peak demands
6 for Gulf Power?

7 A. That is one of the intended results of this feature
8 in our new pricing arrangement. Based on
9 indications we have received from our affected
10 customers, we believe this is a likely result. This
11 can create benefits for all of our customers by
12 delaying our need for additional investment.

13
14 Q. Is the Coordinated Maintenance Months provision an
15 appropriate component of Gulf Power's new rate for
16 standby electric service?

17 A. Yes. That provision is an important component of
18 our new pricing plan. It is structured as a result
19 of discussions with our cogeneration customers, is
20 born out of our experience over the last six years,
21 and provides benefits to all of our customers.

22 Q. Please describe these potential benefits.

23 A. First, there is the opportunity to avoid investment
24 to meet summer peak demand. As Mr. Howell discusses
25

1 in his testimony, Gulf Power is a summer peaking
2 utility and it is our need to have resources to
3 serve the summer peaks that drives our resource
4 planning. Also, there is an opportunity for Gulf
5 Power to reduce its administrative costs associated
6 with this component.

7
8 Q. If a small portion of Gulf Power's cost of providing
9 service was not incurred on a seasonal basis, would
10 that necessarily mean that there should be no
11 seasonality in Gulf Power's prices?

12 A. No. It is easy to think of examples of costs
13 incurred which are not seasonal in nature, but which
14 represent a small portion of overall cost. We would
15 not necessarily conclude from this that there should
16 be no seasonality in Gulf's pricing.

17
18 Q. What is the purpose of the "Option A" portion of
19 rate SBS?

20 A. The "Option A" version of the new standby service
21 rate enables our cogeneration customers who purchase
22 standby service to avail themselves of our optional
23 Supplemental Energy (SE) rate rider. The SE rate
24 rider is also available to our full-requirements
25 (non-cogeneration) customers. Gulf Power has an

1 obligation, under Section 366.81 of the Florida
2 Statutes, not to discriminate against our
3 cogeneration customers who purchase standby service
4 with regard to their eligibility to participate in
5 our optional SE program. The "Option A" version
6 thus exists to handle the pricing of service for
7 those customers who purchase standby service and
8 wish to participate in our SE program.

9
10 Q. How does the "Option A" version differ from the
11 standard version in rate SBS?

12 A. There are two basic differences. The first is the
13 amount of the Daily Demand Charge. The second is
14 the provision for the Annual Review of this Daily
15 Demand Charge in "Option A".

16
17 Q. Why are the two differences necessary?

18 A. The SE rate rider designates certain periods in the
19 month during which the Daily Demand Charge is not
20 applicable. The Daily Demand Charge in the "Option
21 A" version is set at a higher amount to compensate
22 for the reduced number of days in the month on which
23 the Charge is applicable. The number of days on
24 which the Daily Demand Charge will be applied
25 differs from month to month through normal operation

1 of the SE program. As a result, the amount of this
2 charge is set based on some reasonable expectation
3 of the number of days on which it will be applied.
4 We have set the amount of this charge based on an
5 expectation that it would be applied to an average
6 of seven days each month. This amount was selected
7 based both on our experience over the last few years
8 and our expectation for the future.

9 The "Annual Review" provision of the Daily
10 Demand Charge in the "Option A" version serves to
11 ensure that the customer's total potential exposure
12 to Daily Demand Charges is no higher than it would
13 be if the customer were not a participant in the SE
14 program, and were instead being billed on the
15 standard version of the standby service rate. This
16 is accomplished by adjusting the Daily Demand Charge
17 downward if, over the course of the year, the
18 average number of days per month on which the
19 published Daily Demand Charge was applicable was
20 greater than seven. There is no provision for an
21 after-the-fact upward adjustment to the Daily Demand
22 charge if, at year's end, it turns out that the
23 opposite was true.
24
25

1 Q. Why is there no provision for an after-the-fact
2 upward adjustment?

3 A. First, Gulf Power determines the number of days on
4 which the Daily Demand Charge is applicable, since
5 Gulf designates those periods in which the SE price
6 is invoked. Also, it is not good customer service
7 to attempt to raise the price after the customer has
8 made the purchase. Finally, attempting to raise the
9 unit price after-the-fact raises concerns about
10 retroactive ratemaking.

11
12 Q. Would it be appropriate to set the Option A Daily
13 Demand Charge at a level high enough to ensure that
14 there would always be a downward adjustment at the
15 time of the annual review?

16 A. No. This would leave the customer in the position
17 of making operational decisions based on the higher,
18 unrealistic price. Though a credit would
19 essentially be issued at year-end, the credit would
20 only amount to the difference between the original
21 high price and the subsequent lower price applied to
22 the daily demand usage. This would not be the same
23 as if the "true" price had been in effect
24 originally, since the customer's daily demand usage
25 decisions were based on an inappropriate higher

1 price. The most obvious example of the shortcoming
2 of the approach would be the case where the customer
3 decided, due to the price in effect at the time, not
4 to purchase standby service at all. A credit which
5 was based on the difference between that original
6 price and a lower price determined later and which
7 is applied to the customer's daily demand usage,
8 zero in this scenario, would yield zero adjustment.
9 Obviously this result could be very different from
10 what might have occurred if the lower price had been
11 in effect at the time the customer was making the
12 operational decision.

13 That type of pricing scheme is especially
14 inappropriate in pricing standby service to
15 cogenerators, who need to be able to efficiently
16 evaluate their expected cost of purchasing standby
17 electric service against the value they expect to
18 receive from that purchase.

19
20 Q. Is the "Annual Review" feature an appropriate
21 component of Gulf's new standby service rate?

22 A. Yes, this mechanism, combined with the other
23 components of the "Option A" version, represents a
24 reasonable way to price our standby service for
25 those customers who participate in Gulf Power's SE

1 program. It is fair to all parties, recognizes Gulf
2 Power's role in the SE program, and affords us the
3 opportunity to achieve the benefits expected from
4 the new standby service pricing arrangement.
5

6 Q. Do you have any final comments with which you would
7 conclude your testimony?

8 A. Yes. Gulf Power's new standby service rate resolves
9 most of the weaknesses found in the old standby
10 service rate, including the most severe ones. Also,
11 the new arrangement is an example of Gulf Power's
12 commitment to effectively utilize pricing to achieve
13 marketing objectives, including our conservation
14 objectives.
15

16 Q. Does this conclude your testimony?

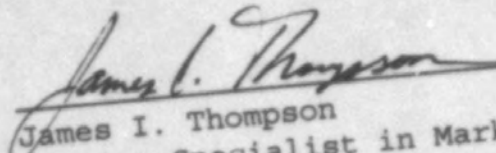
17 A. Yes.
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STATE OF FLORIDA)
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COUNTY OF ESCAMBIA)

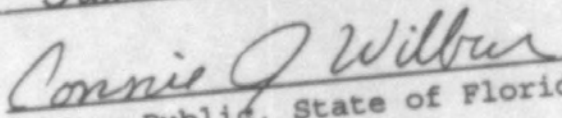
Docket No. 931044-EI

Before me the undersigned authority, personally appeared James I. Thompson, who being first duly sworn, deposes and says that he/she is a Pricing Specialist in Marketing and Load Management at Gulf Power Company and that the foregoing is true and correct to the best of his/her knowledge, information and belief.


James I. Thompson
Pricing Specialist in Marketing and
Load Management

Sworn to and subscribed before me this 30th day of

June, 1994.


Notary Public, State of Florida at Large
Commission No. CC059328

(Know Personally)

My Commission Expires:

Notary Public
State of Florida at Large
My Commission Expires
October 25, 1994