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ORIGINAL
FILE COPY

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

the southern electric system

July 6, 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 Prehearing Statement of Gulf Power Company to be filed in the above docket.

Also enclosed is a 3.5 inch double sided, high density diskette containing the Statement in WordPerfect 5.1 format as prepared on a MS-DOS based computer.

ACK

Sincerely,

AFA

APP

CAF

CMU lw

CTR

Enclosures

EAG Berg

LEG Estabrook

LIN H

OPC

RCH

SEC L

WAS

OTH

cc: Beggs and Lane
Jeffrey A. Stone, Esquire

RECEIVED & FILED

FPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE

06698 JUL-7 94

FPSC-RECORDS/REPORTING

"Our business is customer satisfaction"

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Gulf Power Company's petition)
for authority to implement a)
replacement rate schedule for the)
standby electric service provided by)
the Company.)

) Docket No. 931044-EI
) Date filed: 07/07/94

PREHEARING STATEMENT OF GULF POWER COMPANY

Gulf Power Company, ("Gulf Power", "Gulf", or "the Company"), by and through its undersigned attorneys, and pursuant to Commission Order No. PSC-94-0727-PCO-EI, issued June 13, 1994, and Rule 25-22.038(3), Florida Administrative Code, files this prehearing statement, saying:

A. APPEARANCES:

G. EDISON HOLLAND, JR., Esquire, JEFFREY A. STONE, Esquire, and TERESA E. LILES, Esquire, of Beggs & Lane, 700 Blount Building, 3 West Garden Street, P.O. Box 12950, Pensacola, FL 32576-2950
On behalf of Gulf Power Company.

DOCUMENT NUMBER-DATE
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B. WITNESSES: All witnesses known at this time, who may be called by Gulf Power Company, along with the subject matter and issue numbers which will be covered by the witness' testimony, are as follows:

<u>Witness</u>	<u>Subject Matter</u>	<u>Issues</u>
(Direct)		
1. M. W. Howell (Gulf)	Gulf's resource planning considerations	1
2. J. I. Thompson (Gulf)	Standby service rate design considerations	1, 2, 4

(Rebuttal)

At the time this prehearing statement is being prepared for filing, Gulf has not received any testimony from the Staff and therefore is unable to identify its rebuttal witnesses, if any.

C. EXHIBITS:

Gulf Power does not presently plan to introduce any exhibits as part of its direct case in this proceeding.

D. STATEMENT OF BASIC POSITION

Gulf Power Company's Statement of Basic Position:

It is the basic position of Gulf Power Company that it should be allowed to keep its rate schedule SBS as the appropriate rate schedule for application to the service received by customers eligible for and taking standby electric service from the Company.

Gulf proposed to implement a replacement rate schedule for the standby electric service provided by the Company back in October 1993. Gulf Power has been offering standby electric service under a separate and distinct rate schedule (rate schedule SS) since 1988. For most of the period since that time, Gulf has been providing standby service to four of its customers. A fifth customer began taking service from the Company under rate schedule SS in August 1993. Essentially the pricing arrangement for the Company's standby service¹ had remained unchanged from 1988 until July 1994 when Gulf's modified rate schedule SBS was allowed by Commission order to go into effect pending a future determination following a hearing.

Through the concerns expressed to Gulf Power by its affected customers based on their experience with rate schedule SS, as well as the Company's own experience with the previous arrangement, Gulf determined that the previous arrangement for standby electric service had several major weaknesses that made the old arrangement under rate schedule SS inadequate to serve the needs of Gulf's customers. Through a collaborative effort between the Gulf and its affected standby service customers, a replacement rate schedule (rate schedule SBS) was developed.

Although not perfect, Gulf's rate schedule SBS, which was arrived at through a collaborative effort between Gulf and its self-generating customers, is a significant improvement over the previous arrangement. Although the new rate schedule SBS is still very complex, it successfully addresses most of the areas of weakness that existed in the previous arrangement. In addition, the new rate schedule results in a more appropriate price signal to the standby customers with regard to the timing of their scheduled maintenance activities. Recognizing the fact that all of the proposed changes, if approved, would be taking place outside the context of a rate case proceeding, Gulf was

¹As used in this statement and Gulf's petition, "pricing arrangement" or "pricing" refers to the entire transaction of determining customer bills. This includes the rates for service, the terms and conditions under which rates apply, and the process by which rates are applied to the customer's service.

careful to structure its proposal so that (1) it would not result in a revenue increase to the Company for the same level of service; and (2) it would not result in increased charges to any affected customer for the same level of service. The new arrangement for standby service is an example of Gulf Power's commitment to effectively utilize pricing in a timely and responsive manner to achieve marketing objectives, including the Company's conservation and load management objectives.

E. STATEMENT OF ISSUES AND POSITIONS

ISSUE 1: Is the Coordinated Maintenance Month (CMM) provision on the Standby and Supplemental rate schedule appropriate?

GULF: Yes. The seasonal differentiation in the daily demand charges for standby service associated with scheduled maintenance of the self-generating customer's generation allows the Company to provide a reasonable and appropriate incentive to its self-generating customers to perform their scheduled maintenance activities at a time when the impact of increased demand on Gulf's system is not likely to contribute to a need to procure additional long-term supply-side or demand-side generation capacity resources. The seasonal differentiation in prices sends an appropriate price signal to Gulf's standby service customers based on the incremental cost of additional supply-side generating capacity to serve the Company's annual peak demand. (Howell, Thompson)

ISSUE 2: Is the annual review of the Option A daily demand charge found on the Standby and Supplemental rate schedule appropriate?

GULF: Yes. The Option A provision itself allows the Company to provide its standby service customers with access to an optional service that is the same as the service offered to Gulf's full-service customers through the optional SE rate rider. The annual review provision, along with the associated possible adjustment to the accumulation of charges previously collected, is necessary in order to minimize the possible mismatch between the actual circumstances experienced by the Company and its standby service customers and the assumed circumstances from which the daily demand charges set forth in the rate schedule are derived. The charges themselves have been appropriately set based on expected conditions.

It is the intention of the Company in its design of this provision that downward adjustments will not prove to be necessary. Nevertheless, the opportunity to review and adjust the charges annually should not be eliminated simply because the only possible result of the review and adjustment provision is either no adjustment or a downward adjustment for affected customers. If the provision operates to mandate a downward adjustment, such adjustment is appropriate in order to prevent the Company from having charged more for its service than would have been appropriate under the actual circumstances experienced by the Company and its affected standby service customers. An attempt to create symmetry in the adjustment provision by allowing for the possibility of an upward adjustment as well as a downward adjustment by operation of the provision raises the question of retroactive ratemaking. An attempt to set the charges at a level high enough to ensure that a downward adjustment will necessarily result from operation of the review and adjustment provision causes the wrong price signal to be sent to the affected customers throughout the year. (Thompson)

ISSUE 3: Is the applicability of rate charges for the above 7,499 KW demand range customers appropriate?

GULF: Gulf objects to this issue and requests that it be stricken from the list of issues to be addressed by the Commission in this proceeding. Based on the discussion of the Commissioners at the June 7, 1994, agenda conference, it is the Company's understanding that the Commission decided to set this matter for hearing in order to gain further understanding with the matters addressed under Issues 1 and 2 above. The Commission, in setting the SBS rate schedule for formal hearing, did not make any mention of a concern over the matters raised by this issue and in fact specifically identified Issues 1 and 2 as the only issues to be addressed at the hearing. The addition of this issue diverts the focus of testimony and attention from the particular issues about which the Commission expressed a need for additional information. Furthermore, it is not clear whether this issue is intended to refer to an actual application of the SBS rate schedule to one of Gulf's existing customers, or to a hypothetical customer that may be restricted from receiving service under the SBS rate schedule in the future due to the applicability restrictions set forth in the present tariff.

ISSUE 4:

Should the Commission approve Gulf Power's Standby and Supplemental rate schedule?

GULF:

Yes. Rate schedule SBS is the result of a collaborative effort by Gulf and its existing standby service customers to use their collective experience since 1988 under former rate schedule SS to address the most vexing concerns that existed under the previous pricing arrangement. The new arrangement is a major improvement over the old in that it successfully addresses two major areas of weakness in the previous arrangement: subjectivity and administrative burden. The new rate schedule is based on sound ratemaking principles and sends an appropriate price signal to Gulf's self-generating customers, for the ultimate benefit of the Company's general body of ratepayers. The new arrangement for standby service is an example of Gulf Power's commitment to effectively utilize pricing in a timely and responsive manner to achieve marketing objectives, including the Company's conservation and load management objectives. (Thompson)

F. STIPULATED ISSUES

GULF:

Yet to be determined.

G. PENDING MOTIONS:

GULF:

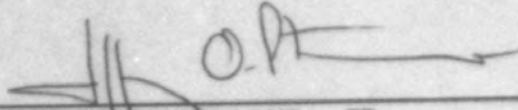
None.

H. OTHER MATTERS:

GULF: To the best knowledge of counsel, Gulf has complied, or is able to comply, with all requirements set forth in Commission Order No. PSC-94-0727-PCO-EI.

Dated this 6th day of July, 1994.

Respectfully submitted,



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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)
_____)

Docket No. 931044-EI

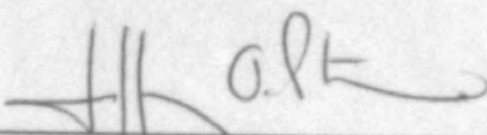
Certificate of Service

I HEREBY CERTIFY that a copy of the foregoing has been furnished this 6th day of July 1994 by U.S. Mail or hand delivery to the following:

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