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Date Filed: July 11, 1994

Before the  
Florida Public Service Commission  
Docket No. 931044-EI

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**GULF POWER COMPANY**

Rebuttal Testimony  
of  
**JEFFRY POLLOCK**

- ACK  \_\_\_\_\_
- AFA \_\_\_\_\_
- APP \_\_\_\_\_
- CAF \_\_\_\_\_
- CMU \_\_\_\_\_
- CTR \_\_\_\_\_
- LEG  *Berg* \_\_\_\_\_
- LIN *Erathony* \_\_\_\_\_
- OPC \_\_\_\_\_
- RCH \_\_\_\_\_
- SEC *1* \_\_\_\_\_
- WAS \_\_\_\_\_
- QTH \_\_\_\_\_

On Behalf of

*Berg* Champion International Corporation  
*Erathony* Monsanto Company  
*orig 9/1* Stone Container Corporation

July 1994  
Project 5298

*EDD* *Erathony*

Drzen-Brubaker & Associates, Inc.  
St. Louis, Missouri 63105-1819

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**GULF POWER COMPANY**

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Rebuttal Testimony  
of  
**JEFFRY POLLOCK**

On Behalf of  
Champion International Corporation  
Monsanto Company  
Stone Container Corporation

July 1994  
Project 5098

Drazen-Brubaker & Associates, Inc.  
St. Louis, Missouri 63105-1819

# GULF POWER COMPANY

Before the

Florida Public Service Commission

Docket No. 931044-EI

Date of Filing - July 11, 1994

## Rebuttal Testimony of Jeffry Pollock

1 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A Jeffry Pollock, 7730 Forsyth Boulevard, St. Louis, Missouri 63105.

3 Q ARE YOU THE SAME JEFFRY POLLOCK WHO HAS FILED DIRECT TESTIMONY IN THIS  
4 PROCEEDING ON BEHALF OF CHAMPION INTERNATIONAL CORPORATION, MONSANTO  
5 COMPANY AND STONE CONTAINER CORPORATION?

6 A Yes.

7 Q WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

8 A I shall respond to three contentions raised in the direct testimony of  
9 William B. Berg, on behalf of the Florida Public Service Commission  
10 Staff. First, Mr. Berg contends on Page 3, Lines 13-17 that waiving the  
11 daily demand charge during a Coordinated Maintenance Month (CMM) may  
12 encourage standby customers to use standby power that they otherwise  
13 would not have used. Second, he further disagrees with the CMM  
14 provision because Gulf has not justified why standby customers need four  
15 months to take a generating unit off-line for scheduled maintenance



1 (Page 3, Lines 2-4). Third, he claims that waiving the Rate SBS daily  
2 demand charge during the Coordinated Maintenance Months would result "in  
3 a charge that does not recover the annual total costs it is intended to  
4 recover." (Page 4, Lines 13-22)

5 The fact that I am not addressing other issues raised by Mr. Berg  
6 should not be interpreted as an endorsement of his position or  
7 recommendations concerning the issues not addressed herein.

8 Q IS MR. BERG CORRECT THAT WAIVING THE DAILY DEMAND CHARGE DURING A CMM  
9 WOULD CAUSE STANDBY CUSTOMERS TO CONTINUE PURCHASING ELECTRICITY FROM  
10 GULF POWER RATHER THAN BRING THEIR GENERATION BACK ON-LINE?

11 A No. Mr. Berg assumes, without providing any factual evidence, that a  
12 self-generating customer (SGC) would behave irrationally. Implicit in  
13 his statement is the assumption that the energy cost of purchasing  
14 additional standby power from Gulf would be cheaper than the energy cost  
15 associated with cogenerated electricity. This is a highly unlikely  
16 scenario, given the inherent advantages of cogeneration over utility  
17 generation. The inherent advantage is that cogeneration is  
18 substantially more efficient. Whereas a typical utility may consume  
19 10,000 Btus to produce 1 kilowatt-hour, the corresponding "heat rate" for  
20 a cogenerator may range from 5,000 Btu/kWh to 8,000 Btu/kWh. Also, in  
21 the case of paper companies, much of the fuel used to produce  
22 electricity is a byproduct of the papermaking process itself and  
23 therefore has zero cost. Finally, to the extent that an electrical  
24 outage does not impair a customer's steam production capability, the  
25 manufacturing process will continue as long as the SGC can purchase

1 standby electricity. Under these circumstances, the steam produced is  
2 at a very high pressure. Therefore, it must be flowed through a  
3 pressure reducing valve in order to be used in the manufacturing  
4 process. This is highly inefficient.

5 Further corroboration of these points may be found in Mr.  
6 Brueggemeier's rebuttal testimony, on behalf of Champion International  
7 Corporation. The bottom line is that Mr. Berg is simply misinformed.  
8 Waiving the daily demand charge during a CMM will not encourage SGCs to  
9 consume more standby power.

10 Q MR. BERG COMPLAINS THAT GULF HAS NOT JUSTIFIED WHY STANDBY CUSTOMERS  
11 WILL NEED TO TAKE A GENERATING UNIT OFF-LINE FOR FOUR MONTHS OF  
12 SCHEDULED MAINTENANCE. DO YOU HAVE A RESPONSE?

13 A Yes. Mr. Berg has overlooked several factors. First, four months is  
14 the maximum time allotted for scheduled maintenance. It is unlikely  
15 that any SGC would require four months to perform annual scheduled  
16 maintenance on a single generating unit. I am informed that a typical  
17 annual maintenance cycle may last anywhere from three days to two weeks.  
18 Major overhauls may require between 21 and 45 days per generating unit.  
19 However, my understanding is that such major overhauls may only occur  
20 every five to seven years.

21 Mr. Berg also overlooks the fact that at least two of Gulf's  
22 standby customers have multiple generating units. Because of labor  
23 constraints, it is impractical to take all of a customer's generating  
24 units down simultaneously. It is not uncommon to stagger unit

1 maintenance to make the most efficient use of the available contract  
2 labor.

3 Finally, a four-month period will allow customers to schedule  
4 maintenance which may overlap two or more billing periods. This  
5 provides the customer with greater flexibility. Further, it doesn't  
6 cost any more to provide two consecutive weeks of standby service  
7 irrespective of whether the service is provided in one or two billing  
8 months.

9 Q WHAT INCENTIVES DO SELF-GENERATING CUSTOMERS HAVE TO MINIMIZE  
10 MAINTENANCE OUTAGES?

11 A The strongest incentive is the need to remain competitive. This  
12 requires a customer to maximize production and to minimize all costs,  
13 including the cost of electricity. An SGC that sustains a maintenance  
14 outage is either producing steam at a higher cost or is unable to  
15 maintain full production. Either outcome would have a detrimental  
16 effect on the customer's competitive position.

17 Q IS MR. BERG CORRECT IN CONTENDING THAT THE STRUCTURE OF THE DAILY DEMAND  
18 CHARGES IN RATE SBS RESULTS IN A CHARGE THAT DOES NOT RECOVER THE ANNUAL  
19 TOTAL COSTS IT IS INTENDED TO RECOVER?

20 A No. What Mr. Berg overlooks is the fact that the annual total cost  
21 associated with standby service is recovered in the reservation charge.  
22 The reservation charge applies each month irrespective of how much  
23 standby service is actually taken and irrespective of whether that month  
24 would happen to be a CMM.



1 Q IS THE RESERVATION CHARGE IN RATE SBS ANY DIFFERENT FROM THE  
2 CORRESPONDING CHARGE IN THE PREDECESSOR STANDBY RATE, RATE SS?

3 A No. The same reservation charge is being used in Rate SBS as the  
4 Commission approved for Rate SS in Gulf Power Company's last base rate  
5 case (Docket No. 891345-EI).

6 Q WHAT WAS THE BASIS FOR THE RESERVATION CHARGE IN RATE SS?

7 A It was based on a class cost of service study under the assumption that  
8 SGCs' generators would have an assumed 10% forced outage rate. The  
9 Commission found that Gulf's production and transmission unit cost of  
10 service was \$10.10 per kW-month. Multiplying this charge by 10% yielded  
11 the \$1.01 per kW per month reservation charge. Thus, the Rate SBS  
12 reservation charge recovers all production/transmission demand-related  
13 costs, which the Commission previously found to be appropriate.

14 Given that the reservation charge will equitably recover the cost  
15 incurred by Gulf in standing continuously ready to serve the backup and  
16 maintenance power needs of SGCs, it is wrong to contend, as does Mr.  
17 Berg, that the daily demand charge does not recover the annual total  
18 costs it is intended to recover.

19 Q WHAT COSTS WAS THE DAILY DEMAND CHARGE INTENDED TO RECOVER?

20 A The daily demand charge becomes a factor in determining the cost of  
21 standby service whenever an SGC requires service for more than two on-  
22 peak days per month. In other words, it applies only in those months  
23 when an SGC's forced outage rate exceeds 10%. The daily demand charge  
24 thus compensates the utility for the use of production and transmission

1 facilities beyond the level assumed in the reservation charge. The  
2 combination of reservation and daily demand charges has the desirable  
3 effect of making standby service more expensive for less reliable SGCs  
4 and less expensive for more reliable SGCs.

5 Q DOES THE FACT THAT A STANDBY CUSTOMER REQUIRES SERVICE FOR MORE THAN TWO  
6 ON-PEAK DAYS IN A PARTICULAR MONTH NECESSARILY CAUSE THE UTILITY TO  
7 INCUR HIGHER ANNUAL COSTS TO PROVIDE THAT SERVICE?

8 A No. The annual production and transmission demand-related cost to serve  
9 the standby customers depends upon (1) how much service is required on  
10 average over time and (2) when and under what conditions standby service  
11 is provided. The assumption underlying Rate SBS is that standby service  
12 will be required on two on-peak days per month, on average. The fact  
13 that service may be required for more than two days in any particular  
14 month would be irrelevant because, by definition, there would be months  
15 when little or no standby service is required. Should a subsequent  
16 analysis of standby requirements determine that the class is  
17 consistently using standby service more than two days per month, then  
18 the Commission may have to reexamine the 10% forced outage rate  
19 assumption underlying the reservation charge. That examination can be  
20 properly made in a base rate case.

21 Q HOW DOES THE TIMING OF STANDBY USE AFFECT THE ANNUAL COST TO PROVIDING  
22 STANDBY SERVICE?

23 A Standby service is less costly to provide when the utility is not under  
24 a continuing obligation to provide that service and when the service is



1 provided only when the utility expects to have sufficient capacity  
2 resources available to accommodate an SGC outage. It is much less  
3 costly to provide standby service when that service must be pre-  
4 scheduled well in advance and when such service will be provided at  
5 times when the utility expects to have sufficient capacity resources  
6 available. This is the case during a CMM.

7 By contrast, it would be more costly to provide standby service  
8 immediately upon request or during the more critical times of the year  
9 when increase demand might cause the utility to expand its capacity  
10 resources. For Gulf Power, these critical times clearly occur during  
11 its summer peak period. This conclusion is confirmed by the analysis  
12 presented in my direct testimony and in the testimony of Gulf's Witness,  
13 Mr. M. W. Howell, who states that: "to the extent that there is a  
14 growth in the Company's summer peak load, there is a need for additional  
15 capacity resources." (Howell testimony at Page 4)

16 Q IN YOUR OPINION, WOULD WAIVING THE DAILY DEMAND CHARGE DURING A CMM  
17 CAUSE GULF TO UNDER-RECOVER THE ANNUAL TOTAL COST OF PROVIDING STANDBY  
18 SERVICE?

19 A Absolutely not. The annual total production and transmission demand-  
20 related cost of serving the standby customers is fully recovered in the  
21 reservation charge. Further, the fact that standby customers may  
22 require service more than two on-peak days per month does not mean that  
23 Gulf would incur additional annual costs, especially if this service  
24 were provided during a CMM. Because the CMMs are designated in the non-  
25 summer peak months and given the requirement to schedule a CMM well in

1 advance, Mr. Berg is simply mistaken to assert that the Rate SBS daily  
2 demand charge does not recover the annual total cost it is intended to  
3 recover.

4 Q DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

5 A Yes, it does.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the Rebuttal Testimony of Jeffry Pollock has been furnished by U.S. Mail or by hand delivery\* to the following parties of record, this 11th day of July, 1994.

Sheila Erstling\*  
Division of Legal Services  
Florida Public Service  
Commission  
101 E. Gaines Street  
Rm. 212, Fletcher Building  
Tallahassee, FL 32399

G. Edison Holland, Jr.  
Jeffrey A. Stone  
Teresa E. Liles  
Beggs and Lane  
Post Office Box 12950  
Pensacola, FL 32576-2950

Jack L. Haskins  
Manager of Rates and  
Regulatory Matters  
Gulf Power Company  
Post Office Box 13470  
Pensacola, FL 32591-3470

*Vivian Gordon Kaufman for*  
Joseph A. McGlothlin