BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of : **DOCKET NO. 980001-EI**

Fuel and purchased power cost recovery clause and generating performance incentive factor.

PROCEEDINGS: **HEARING**

BEFORE: COMMISSIONER SUSAN F. CLARK
COMMISSIONER JOE GARCIA
Videoconferencing from Miami, Florida
COMMISSIONER E. LEON JACOBS, JR.

DATE: **Wednesday, August 26, 1998**

TIME: Commenced at 9:30 a.m.
Concluded at 9:35 a.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: JOY KELLY, CSR, RPR
Chief, Bureau of Reporting

APPEARANCES:

KENNETH A. HOFFMAN, Rutledge, Ecenia, Underwood, Purnell and Hoffman, P. O. Box 511, 215 South Monroe Street, Suite 420, Tallahassee, Florida 32302-0551, appearing on behalf of **Florida Public Utilities Company (FPUC).**

JAMES A. McGEE, Post Office Box 14042, 3201 34th Street South, St. Petersburg, Florida 33733, appearing on behalf of **Florida Power Corporation.**

JAMES D. BEASLEY, Ausley & McMullen, Post Office Box 391, Tallahassee, Florida 32302, appearing on behalf of **Tampa Electric Company (TECO).**

JOHN ROGER HOWE, Deputy Public Counsel, Office of Public Counsel, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400, appearing on behalf of the **Citizens of the State of Florida.**

LESLIE J. PAUGH, Florida Public Service Commission, Division of Legal Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0870, appearing on behalf of the **Commission Staff.**

I N D E X

WITNESSES

I N D E X

EXHIBITS

P R O C E E D I N G S

(Hearing convened at 9:30 a.m.)

COMMISSIONER CLARK: We'll call the hearing to order. Will you please read the notice.

MS. PAUGH: Pursuant to notice issued July 14th, 1998, this time and place have been set for hearing in Docket 980001-EI, fuel and purchased power cost recovery clause and generating performance incentive factor and Docket No. 980007-EI, environmental cost recovery clause.

COMMISSIONER CLARK: Thank you. We'll take appearances.

MR. BEASLEY: James D. Beasley with the law firm of Ausley & McMullen, in Tallahassee. I'm representing Tampa Electric Company in both the 01 and 07 dockets.

MR. McGEE: James McGee, P. O. Box 14042, St. Petersburg, 33733, appearing on behalf of Florida Power Corporation in the 01 docket.

MR. HOFFMAN: Kenneth A. Hoffman. My address is P. O. Box 551, Tallahassee, Florida 32302. I'm here this morning on behalf of Florida Public Utilities Company in the 01 docket. And Florida Public Utilities is not in the 07 docket.

MR. HOWE: I'm Roger Howe with the Office of

Public Counsel appearing on behalf of the Citizens of the State of Florida in the 01 and 07 dockets.

MS. PAUGH: Leslie Paugh on behalf of Staff in the 01 and 07 dockets.

COMMISSIONER CLARK: I would note for the record that Jeffry Stone and Vicki Gordon Kaufman were excused from attending this hearing.

MS. PAUGH: That's correct.

COMMISSIONER CLARK: Any preliminary matters we need to take up?

MS. PAUGH: Just one, Commissioners. The question has been raised with respect to Paragraph 4 of both prehearing orders, whether the language is appropriate in this proceeding.

I have spoken with the -- I'm sorry, not Paragraph 4 but Section 4. I have spoken with the attorney who has asked the question, and indicated to him that that section is intended for proceedings in which there is not a bench vote. In this proceeding I anticipate that there will be a bench vote and that this section would, therefore, be negated.

COMMISSIONER CLARK: Paragraph 4?

MS. PAUGH: Section 4, posthearing procedures. It calls for filing posthearing statements that will not be necessary in the event of a bench vote.

COMMISSIONER CLARK: Okay. And how do you suggest we proceed?

MS. PAUGH: In both dockets all issues, with the exception of Issue 10 in the 07 docket, have been stipulated.

I propose that we insert the testimony into the record as though read in the 01 docket. You will find that testimony on Page 5.

COMMISSIONER CLARK: Ms. Kelly, let me ask you a question. If we stipulate into the record the testimony of the witnesses listed on Page 5 of the Prehearing Order, and then give the proffered exhibits exhibit numbers in this proceeding, can we do it in bulk, so to speak?

THE REPORTER: What you can do is put in all of the prefiled testimony first, and then you can identify the exhibits and give them numbers.

MS. PAUGH: We'll have to mark the exhibits, Commissioner.

COMMISSIONER CLARK: Is it your recommendation that we proceed with stipulating the testimony and evidence exhibits into the record?

MS. PAUGH: The testimony, yes. We'll move the exhibits into the record as soon as we have them marked, which we'll do next.

COMMISSIONER CLARK: All right. Then the prefiled -- it's all direct testimony. Is there no rebuttal?

MS. PAUGH: No.

COMMISSIONER CLARK: All right. The prefiled direct testimony of Mr. George M. Bachman, Mr. John Scardino, Jr., Mr. Karl Wieland -- is it Mr. Dario B. Zuloago, M.F. Oaks, Mr. M. W. Howell, Ms. S. D. Cranmer. I assume tha Mr. G. D. Fontaine, Ms. Karen Zwolak, Mr. G. A. Keselowsky, and Mr. Rod Burkhardt will be stipulated into the record without objection.

MS. PAUGH: Thank you, Commissioner. On Page 20 of the Prehearing Order you will find the exhibits. I propose that they be marked as follows: JS-1, Exhibit 1. JS-2, Exhibit 2. KHW-1, Exhibit 3. KHW-2, Exhibit 4. DBZ-1, Exhibit 5. DBZ-2, Exhibit 6. GMB-1, Exhibit 7. MFO-1, Exhibit 8. MFO-2, Exhibit 9. MWH-1, Exhibit 10. SDC-1, Exhibit 11. SDC-2, Exhibit 12. GDF-1, Exhibit 13. GDF-2, Exhibit 14. KOZ-1, Exhibit 15. KOZ-2, Exhibit 16. KOZ-3, Exhibit 17.

Staff recommends that the exhibits as marked be moved into the record and cross examination be waived.

COMMISSIONER CLARK: There's another page.

MS. PAUGH: I'm sorry, Commissioner.

KOZ-4, Exhibit 18. KOZ-5, Exhibit 19. GAK-1, Exhibit 20. RB-1, Exhibit 21.

Staff now recommends that the exhibits as marked be moved into the record and cross examination be waived.

COMMISSIONER CLARK: They will be moved into the record and it's noted that cross examination has been waived.

MS. PAUGH: Staff recommends that the Commissioners vote to approve all of the stipulations contained in the 01 Prehearing Order.

COMMISSIONER CLARK: Is there a motion?

COMMISSIONER GARCIA: So moved.

COMMISSION JACOBS: I second.

COMMISSIONER CLARK: Show the stipulation unanimously approved.

MS. PAUGH: Thank you Commissioners.

(Exhibits 1 through 21 marked for identification and received in evidence.)

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 980001-EI
CONTINUING SURVEILLANCE AND REVIEW OF
FUEL COST RECOVERY CLAUSES OF ELECTRIC UTILITIES

Direct Testimony of
George M. Bachman
On Behalf of
Florida Public Utilities Company

Q. Please state your name and business address.

A. George M. Bachman, 401 South Dixie Highway, West Palm Beach, FL 33401.

Q. By whom are you employed?

A. I am employed by Florida Public Utilities Company.

Q. Have you previously testified in this Docket?

A. Yes.

Q. What is the purpose of your testimony at this ..me?

A. I will briefly describe the basis for the computations that were made in th. preparation of the various Schedules that we have submitted in support of the October 1998 - December 1998 fuel cost recovery adjustments for our two electric divisions. In addition, I will advise the Commission of the projected differences between the revenues collected under the levelized fuel adjustment and the purchased power costs allowed in developing the levelized fuel adjustment for the period April 1998 - September 1998 and to establish a "true-up" amount to be collected or refunded during October 1998 - December 1998.

Q. Were the schedules filed by your Company completed under your direction?

A. Yes.

Q. Which of the Staff's set of schedules has your company completed and filed?

A. We have filed Schedules E1, E1A, E1-B, E1B-1, E2, E7, and E10 for Marianna and E1, E1A, E1-B, E1B-1, E2, E7, E8, and E10 for Fernandina Beach. They are included in Composite Prehearing Identification Number GMB-1.

These schedules support the calculation of the levelized fuel adjustment factor for October 1998 - December 1998. Schedule E1-B shows the Calculation of Purchased Power Costs and Calculation of True-Up and Interest Provision for the period April 1998 - September 1998 based on 2 Months Actual and 4 Months Estimated data.

Q. In derivation of the projected cost factor for the October 1998 - December 1998, period, did you follow the same procedures that were used in the prior period filings?

A. Yes, with the exception of a shorter period of time. The period covered has been changed to three months.

Q Why has the GSLD rate class for Fernandina Beach been excluded from these computations?

A. Demand and other purchased power costs are assigned to the GSLD rate class directly based on their actual CP KW and their actual KWH consumption. That procedure for the GSLD class has been in use for several years and has not been changed herein. Costs to be recovered from all other classes is determined after deducting from total purchased power costs those costs directly assigned to GSLD.

Q. How will the demand cost recovery factors for the other rate classes be used?

A. The demand cost recovery factors for each of the RS, GS, GSD and OL-SL rate classes will become one element of the total cost recovery factor for those classes. All other costs of purchased power will be recovered by the use of the levelized factor that is the same for all those rate classes. Thus the total factor for each class will be the sum of the respective demand cost factor and the levelized factor for all other costs.

Q. Please address the calculation of the total true-up amount to be collected or refunded during the October 1998 - December 1998.

A. We have determined that at the end of September 1998 based on two months actual and four months estimated, we will have over-recovered $172,930 in purchased power costs in our Marianna division. Based on estimated sales for the period October 1998 - December 1998, it will be necessary to subtract .27422¢ per KWH to refund this over-recovery.

In Fernandina Beach we will have over-recovered $247,128 in purchased power costs. This amount will be refunded at .42695¢ per KWH during the October 1998 - December 1998 period (excludes GSLD customers). Page 3 and 12 of Composite Prehearing Identification Number GMB-1 provides a detail of the calculation of the true-up amounts.

Q. Looking back upon the October 1997 - March 1998 period, what were the actual End of Period - True-Up amounts for Marianna and Fernandina Beach, and their significance, if any?

A. The Marianna Division experienced an over-recovery of $256,324 and Fernandina Beach Division over-recovered $390,750. The amounts both represent fluctuations of less than 10% from the total fuel charges for the period and are not considered significant variances from projections.

Q. What are the final remaining true-up amounts for the period October 1997 - March 1998 for both divisions?

A. In Marianna the final remaining true-up amount was an over-recovery of $125,045. The final remaining true-up amount for Fernandina

Beach was an over-recovery of $121,303.

Q. What are the estimated true-up amounts for the period of April 1998 - September 1998?

A. In Marianna, there is an estimated over-recovery of $47,885. Fernandina Beach has an estimated over-recovery of $125,825.

Q. What will the total fuel adjustment factor, excluding demand cost recovery, be for both divisions for the period October 1998 - December 1998.

A. In Marianna the total fuel adjustment factor as shown on Line 33, Schedule E1, is 2.112¢ per KWH. In Fernandina Beach the total fuel adjustment factor for "other classes", as shown on Line 43, Schedule E1, amounts to 2.006¢ per KWH.

Q. Please advise what a residential customer using 1,000 KWH will pay for the period October 1998 - December 1998 including base rates (which include revised conservation cost recovery factors) and fuel adjustment factor and after application of a line loss multiplier.

A. In Marianna a residential customer using 1,000 KWH will pay $63.91, an decrease of $.94 from the previous period. In Fernandina Beach a customer will pay $55.96, a decrease of $4.34 from the previous period.

Q. Does this conclude your testimony?

A. Yes.

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FLORIDA POWER CORPORATION

DOCKET NO. 980001-EI

**Re: Fuel and Capacity Cost Recovery
Final True-up Amounts for
October 1997 through March 1998**

DIRECT TESTIMONY OF
JOHN SCARDINO, JR.

Q. Please state your name and business address.

A. My name is John Scardino, Jr. My business address is P. O. Box 14042, St. Petersburg, Florida 33733.

Q. By whom are you employed and in what capacity?

A. I am employed by Florida Power Corporation (FPC) in the capacity of Vice President and Controller. In addition, I also hold the position of Vice President and Controller of Florida Progress Corporation, the holding company of Florida Power Corporation.

Q. Have your duties and responsibilities with FPC remained the same since you last testified in this proceeding?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe the Company's Fuel Cost Recovery final true-up amount for the period of October 1997 through

March 1998, and the Company's Capacity Cost Recovery final true-up amount for the same period.

Q. Have you prepared exhibits to your testimony?

A. Yes, I have prepared a four-page true-up variance analysis which examines the difference between the estimated fuel true-up and the actual period-end fuel true-up. This variance analysis is attached to my prepared testimony and designated Exhibit No. 1 (JS-1). Also attached to my prepared testimony and designated Exhibit No. 2 (JS-2) are the Capacity Cost Recovery Clause true-up calculations for the October 1997 through March 1998 period. My third exhibit will present the revenues and expenses associated with the purchase of the Tiger Bay facility approved in Docket 970096-EQ and the corresponding amortization. This presentation is also attached to my prepared testimony and designated Exhibit No. ____ (JS-3). Also, I will sponsor the applicable Schedules A1 through A9 for the period to date through March 1998, which have been previously filed with the Commission, and are also attached to my prepared testimony for ease of reference and designated as Exhibit No. ____ (JS-4). The "A" Schedules contained in my exhibit include a revision to those previously filed which excludes a true-up of CR3 replacement fuel costs for the month of September 1997 that was booked in October 1997. The amount of this September true-up was included in my prior true-up testimony for the April - September 1997 period.

Q. What is the source of the data that you will present by way of testimony or exhibits in this proceeding?

A. Unless otherwise indicated, the actual data is taken from the books and records of the Company. The books and records are kept in the regular course of business in accordance with generally accepted accounting principles and practices, and provisions of the Uniform System of Accounts as prescribed by this Commission.

FUEL COST RECOVERY

Q. What is the Company's jurisdictional ending balance as of March 31, 1998 for fuel cost recovery?

A. The actual ending balance as of March 31, 1998 for true-up purposes is an underrecovery of $27,189,765.

Q. How does this amount compare to the Company's estimated ending balance included in the April 1998 through September 1998 period?

A. When the estimated overrecovery of $2,007,311 to be collected during the period of April 1998 through September 1998 along with half of the estimated recoverable CR3 replacement fuel from September through November 1996 is taken into account, the final true-up attributable to the six-month period ended March 31, 1998 is an underrecovery of $10,825,869.

Q. How was the final true-up ending balance determined?

A. The amount was determined in the manner set forth on Schedule A2 of the Commission's standard forms previously submitted by the Company on a monthly basis but revised to exclude a true-up of estimated September 1997 CR3 replacement fuel booked in October 1997, but reflected in my prior testimony in accordance with the conditions set forth and approved in Docket 970261-EI.

Q. What factors contributed to the period-ending jurisdictional under-recovery of $27.2 million as shown on your Exhibit No. __1__ (JS-1)?

A. The factors contributing to the underrecovery are summarized on Sheet 1 of 4. The actual jurisdictional KWH sales were lower than the original estimate by 101,550,433 KWH. This decrease in KWH sales, attributable to abnormally mild weather, resulted in lower jurisdictional fuel revenues of $3.9 million. The $11.2 million favorable variance in jurisdictional fuel and purchased power expense was primarily attributable to $8.0 million of CR3 non-recoverable replacement fuel, and lower oil and gas costs during the period.

When the differences in jurisdictional revenues and jurisdictional fuel expenses are combined, the net result is an overrecovery of $7.3 million related to the October 1997 through March 1998 time period. Other factors not directly related to the period include a $33.6 million recovery of previously deferred CR3 replacement fuel related to September 1996 through November 1996 and $.9 million in interest. This results in the actual ending underrecovery balance of $27.2 million, as of March 31, 1998.

The replacement fuel costs associated with the CR3 outage were excluded from fuel, as presented on schedule A2 page 3 of 4 line D12A, and absorbed by FPC or recorded as a regulatory asset in accordance with the terms and conditions set forth in Docket 970261-EI. Going forward the replacement fuel costs for CR3 will no longer require exclusion since Florida Power Corporation satisfied the operational requirements on March 1, 1998 pursuant to the stipulation approved by the Commission in Docket No. 970261-EI. Florida Power under the stipulation is entitled to recover certain replacement fuel costs from September 1996 through November 1996 and related interest specified in the stipulation over a 12-month period, which will begin with the first billing cycle for April, 1998.

Q. Please explain the components shown on Exhibit No. 1 (JS-1), Sheet 2 of 4 which produced the $1.6 million favorable system variance from the projected cost of fuel and net purchased power transactions.

A. Sheet 2 of 4 shows an analysis of the system variance for each energy source in terms of three interrelated components: (1) changes in the <u>amount</u> (MWH's) of energy required; (2) changes in the <u>heat rate</u>, or efficiency, of generated energy (BTU's per KWH); and (3) changes in the <u>unit price</u> of either fuel consumed for generation ($ per million BTU) or energy purchases and sales (cents per KWH).

Q. What effect did these components have on the system fuel and net power variance for the true-up period?

A. As can be seen from Sheet 2 of 4, variances in the amount of MWH requirements from each energy source (column B) combined to produce a cost increase of $17.7 million. I will discuss this component of the variance analysis in greater detail below.

The heat rate variance for each source of generated energy (column C) reflected a favorable variance of $1.0 million. This variance was the direct result of using higher amounts of efficient fuel sources such as gas to make up for the nuclear unit's unavailability for dispatch.

A cost decrease of $18.3 million resulted from the price variance (column D), which was caused by a number of sources detailed on lines 1 through 19 of Sheet 2 of 4, of exhibit(JS-1). The most significant factors contributing to the favorable variance were the larger than expected decrease in winter heavy oil prices of $9.5 million and the decrease in QF energy costs due to lower as available pricing which is influenced by lower oil prices.

Q. What were the major contributors to the $17.7 million cost increase associated with the variance in MWH requirements?

A. The effect that generation mix has on total net system fuel and purchased power cost as a result of the Crystal River Unit 3 outage is the primary reason for the unfavorable variance in MWH requirements. Although this interrelationship is generally understood to exist, it is not readily apparent from the individual variances contained in the Commission's "A" Schedules or in the analysis presented on Sheet 2 of 4. For example, a decrease in the MWH requirements of nuclear generation shows up on Schedule A3 and on Sheet 2 of my exhibit as a cost decrease of $2.3 million. While this may be correct in isolation, the true effect of decreased nuclear generation is obviously a corresponding increase in the MWH requirements of a number of other more costly energy sources, as can be seen on Sheet 3 of 4, Columns C through G. Sheet 3 of 4, Column B, also identifies the higher net system cost of $37.4 million which results from the change in generation mix, even if total system MWH requirements had remained unchanged.

Q. Please explain the analysis shown on Sheet 3 of 4 of your Exhibit No. __1__ (JS-1).

A. This analysis quantifies the replacement fuel cost of CR3, computed using the production cost program PROMOD. Actual data for load, fuel and purchased power prices, and unit availability were used in the calculations. PROMOD computes the difference in system costs with and without the nuclear unit. Crystal River 3 was assumed to operate at originally projected GPIF targets. The procedure used to compute replacement cost is the same as has been used in previous replacement cost determinations before this Commission.

Q. Does the true-up period's ending balance include any noteworthy adjustments to fuel expense, as shown on Exhibit JS-4, Schedule A2, page 1 of 4, footnote to line 6b?

A. Yes, the exhibit shows other jurisdictional adjustments to fuel expense. Noteworthy adjustments include recovery of the Company's Intercession City P7-10, Debary P7 and P9, Bartow P2 and P4, and Suwannee P1 gas conversion projects previously approved by the Commission.

Q. Did FPC's ratepayers benefit from the investment in these gas conversion projects?

A. Yes. For this true-up period, the estimated system fuel savings related to the gas conversion projects was $3,106,128. The total system depreciation and return was $1,668,770, resulting in a net system benefit to ratepayers of $1,437,358. A schedule of depreciation and return by gas conversion unit relating to the aforementioned system totals is included in Exhibit No. 1 (JS - 1), Sheet 4 of 4.

Q. Has the Company passed any sulfur dioxide emission allowance transactions through the current or prior periods fuel adjustment clause?

A. Yes. In prior fuel adjustment periods, the Company has passed through $956,804 in proceeds from the mandated EPA Sulfur Dioxide Emission Allowance Auction as a credit to fuel expense. This amount represents the auction proceeds for the years 1993 through 1997. Additionally, the Company has incurred $951,350 of expense for the purchase of 10,900 SO_2 allowances. Under the provisions of the Clean Air Act Amendments of 1990, a percentage of FPC's allowances are withheld each year to populate a pool of allowances which EPA offers for sale at auction. Anyone can purchase but the real intent of the allowance pool was to ensure that allowances would be available for new units or new entrants to the energy market. Once these allowances are sold, proceeds are returned to the company which provided the allowances.

In the current true-up period, the Company did not purchase or sell any EPA Sulfur Dioxide Emission Allowances. In the future, FPC may purchase additional allowances depending on market conditions and the Company's SO_2 compliance status.

Q. Were there any other unusual costs included in the current true-up period?

A. Yes. On January 20, 1997, FPC entered into an agreement with Tiger Bay Limited Partnership to purchase the Tiger Bay cogeneration facility and terminate the five related purchase power agreements. The purchase agreement approved in Docket No. 970096-EQ was closed on July 15, 1997, at which time Tiger Bay became one of FPC's generating facilities. Pursuant with the terms and conditions of the approved stipulation, FPC will continue to collect revenues from its ratepayer's as if the five related purchase power agreements were still in effect. The revenues collected would then be used to offset all fuel expenses relating to the Tiger Bay facility and interest applicable to the unamortized balance of the retail portion of the Tiger Bay regulatory asset, with any remaining balance used to amortize the regulatory asset. Approximately $75 million of the purchase price was included in the existing rate base. The remaining amount was set up as a regulatory asset for both the wholesale and retail jurisdictions, according to FPC's jurisdictional separation at that time.

The method approved in the stipulation for amortizing the Tiger Bay regulatory asset, using PPA revenues minus fuel expense and interest, results in the retail regulatory asset being fully amortized by January 2008. For the period ending March 31, 1998, the Tiger Bay retail regulatory asset balance, as computed in accordance with the approved stipulation and presented on Exhibit (JS-3), stands at $344,691,567.

CAPACITY COST RECOVERY

Q. What is the Company's jurisdictional ending balance as of March 31, 1998 for capacity cost recovery?

A. The actual ending balance as of March 31, 1998 for true-up purposes is an overrecovery of $1,695,400.

Q. How does this amount compare to the Company's estimated ending balance included in the April 1998 through September 1998 period?

A. When the estimated overrecovery of $4,007,164 to be collected during the period of April 1998 through September 1998 is taken into account the final true-up attributable to the six month period ended March 1998 period is an underrecovery of $2,311,764

Q. Is this true-up calculation consistent with the true-up methodology used for the other cost recovery clauses?

A. Yes. The calculation of the final net true-up amount follows the procedures established by this Commission as set forth on FPSC Schedule A2 "Calculation of True-Up and Interest Provision" for the Fuel Cost Recovery Clause but adjusted to remove the costs incurred by FPC related to the change in capacity rates and the buyout payments to Lake Cogen Limited that amounted to $1.1 million. Also excluded were the costs incurred by FPC for the buyout payments to Orlando Cogen, Ltd. In the amount of $5.0 million, based on the Commission's decision in Docket No. 961184-EQ to deny approval of the buyout.

Q. What factors contributed to the actual period-end overrecovery of $1.7 million?

A. Exhibit No. 2 (JS-2), sheet 1 of 3, entitled "Capacity Cost Recovery Clause Summary of Actual True-Up Amount," compares the summary items from sheet 2 of 3 to the original forecast for the period. As can be seen from sheet 1, the actual jurisdictional capacity cost revenues were in line with forecasted revenues, and net capacity expenses were $1.7 million lower due to the failure of several cogenerators to meet their contractual capacity factors.

Q. Does this conclude your testimony?

A. Yes, it does.

FLORIDA POWER CORPORATION
DOCKET NO. 980001-EI

Levelized Fuel and Capacity Cost Factors
October 1998 through December 1998

DIRECT TESTIMONY OF
KARL H. WIELAND

Q. Please state your name and business address.

A. My name is Karl H. Wieland. My business address is Post Office Box 14042, St. Petersburg, Florida 33733. I am employed by Florida Power Corporation as Manager of Financial Analysis.

Q. Have you previously testified in this proceeding?

A. Yes, I have.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present for Commission approval the Company's levelized fuel and capacity cost factors for the period of October 1998 through December 1998. In accordance with Commission Order No. PSC-98-0691-FOF-PU, fuel adjustment filings will be prepared on a 12-month calendar year basis for submission in October 1998, with the approved factors effective in January 1999. To bridge the transition period between the expiration of the currently approved factors for the April - September 1998 period and the effectiveness of the new 12-month factors in January 1999, Florida Power proposes that the Commission approve a continuation of the current April - September factors through December 1998. In support of this proposal, my testimony provides a full projection of costs for the entire October 1998 - March 1999 period. I also project true-up balances for fuel and capacity costs at the end of the three-month transition period under the proposed continuation of the current factors and compare them with the December ending balances that would result if factors based on the full October - March projections were adopted.

Q. Why is the Company proposing to continue the currently effective factors rather than adopting factors based on projected cost as is normally the case?

A. The Company is proposing this course of action in order to reduce the number of rate changes that customers experience. As shown below, continuing current factors leads to an over-recovery of fuel costs, but a nearly equal under-recovery of capacity costs, with the total true-up balance remaining substantially the same. This indicates that the current factors, in combination, closely match total costs for the three-month transition period from October through December 1998.

Q. What are the projected December-ending true-up balances under Florida Power's proposal?

A. As shown in Part E, Sheet 1 of 2, of my exhibit, continuing the existing factors will result in a combined true-up over-recovery for fuel and capacity costs of $4,361,745 at the end of December 1998. Using factors based on full October 1998 - March 1999 projections would result in a combined December ending over-recovery of $3,023,869. The difference of $1,337,876 represents only 0.3% of combined fuel and capacity costs for the six-month projection period. The difference is so small because of the fact that fuel factors tend to be lower in the winter period than in the summer, whereas capacity cost factors act in the opposite manner. As a result, while rate components differ from season to season, total costs and the combined factors remain fairly constant.

Q. Do you have an exhibit to your testimony?

A. Yes. I have prepared an exhibit attached to my prepared testimony consisting of Parts A through E and the Commission's minimum filing requirements for these proceedings, Schedules E1 through E10 and H1, which contain levelized fuel cost factors and the supporting data derived from cost projections for the October 1998 - March 1999 period. Parts A through C contain the assumptions which support these projections, Part D contains capacity cost recovery factors and supporting data for the same period. Part E compares projected true-up balances at the end of December, 1998 under the Company's proposal to continue the current factors, with projected December ending true-up balances using factors based on costs for the six-month October - March projection period.

FUEL COST RECOVERY

Q. Please describe the levelized fuel cost factors based on cost projections for the full six-month October 1998 through March 1999 period.

A. Schedule E1, page 1, of the "E" Schedules section of my exhibit, shows the calculation of the basic fuel cost factor of 1.782 ¢/kWh (before line loss adjustment). The basic factor consists of a fuel cost for the projection period of 1.76147 ¢/kWh (adjusted for jurisdictional losses), a GPIF penalty of 0.00288 ¢/kWh, nuclear replacement cost of 0.11028 ¢/kWh, and an estimated prior period true-up credit of (0.08883) ¢/kWh.

Factors for secondary, primary, and transmission metering tariffs as well as time of use factors are shown on Schedules E1-D and E1-E.

Q. How does this factor compare with the factor currently in effect?

A. The fuel factor in effect for the current April - September period is 2.122 ¢/kWh. This reduction from the current factor is normal, since fuel costs are typically lower during the winter period than they are in the summer.

Q. Would you give a brief overview of the procedure used in developing the projected fuel cost data from which the October 1988 through March 1999 fuel cost recovery factor was calculated?

A. Yes. The methodology employed to produce the forecast for the projection period is the same methodology used in all of the Company's previous filings. The process begins with the fuel price forecast and the system sales forecast. These forecasts are input into PROMOD, along with purchased power information, generating unit operating characteristics, maintenance schedules, and other pertinent data. PROMOD then computes system fuel consumption, replacement fuel costs, and energy purchases and costs. This data is input into a fuel inventory model, which calculates average inventory fuel costs. This information is the basis for the calculation of the Company's levelized fuel cost factors and supporting schedules.

Q. What is the estimated true-up balance at the end of December 1998 if the reduced fuel factor based on the October - March projections were to be implemented?

A. As shown on my Exhibit E, the projected balance is an over-recovery of $3,675,827. This balance was calculated using an actual May, 1998 under-recovery balance of $18,850,757, and projecting it to the end of December 1998, including interest estimated at the May ending rate of 0.460% per month. The development of the estimated true-up amount for the current April through September 1998 period is shown on Schedule E1B, Sheet 1, and the projection for October through December 1998 is on Sheet 1a.

Q. What is the projected December ending true-up balance if the current fuel factor of 2.122 ¢/kWh is used during the October - December transition period?

A. Continuation of the higher current factor produced additional fuel revenues of $17,870,419. When interest is added, the true-up balance at the end of December is projected to be an over-recovery of $21,674,632.

CAPACITY COST RECOVERY

Q. How was the Capacity Cost Recovery factor for the October 1998 - March 1999 period developed?

A. The calculation of the capacity cost recovery factor is based on projected costs for the October 1998 through March 1999 period and was developed in the same manner as in previous six-month projections. The calculation of the factor is shown in Part D of my exhibit. The capacity cost recovery factor for residential customers increases from the current 1.004 ¢/kWh to 1.275 ¢/kWh. This increase is normal for the winter period because there is an annual increase in capacity payments. Furthermore, kWh sales are lower during that period, which increases the factor even if total costs remain the same.

Q. What is the estimated true-up balance for the end of December 1998 if the increased capacity cost factors based on the October - March projections were to be implemented?

A. As shown on Part E of my exhibit, the projected balance is an under-recovery of $(651,958).

Q. What is the estimated December-ending true-up balance if the current capacity cost factors are used during the October - December transition period?

A. The current factors reduce capacity revenues by $16,527,834. When interest is added, the true-up balance at the end of December is projected to be an under-recovery of $(17,312,887).

Q. Does this conclude your testimony?

A. Yes.

Florida Power Corporation

Docket No. 980001-EI

Re: GPIF Reward/Penalty Amount for October 1997 through March 1998

DIRECT TESTIMONY OF DARIO B. ZULOAGA

Q. Please state your name and business address.

A. My name is Dario B. Zuloaga. My business address is P. O. Box 14042, St. Petersburg, Florida 33733.

Q. By whom are you employed and in what capacity?

A. I am employed by Florida Power Corporation as a Principal Engineer in Energy Supply, Performance Services.

Q. What are your responsibilities as Principal Engineer?

A. As a Principal Engineer, I am responsible for compiling and reporting various operational statistics regarding the Company's generating system. In particular, my duties include the preparation of the information and material required by the Commission's GPIF mechanism.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe the calculation of the Company's Generation Performance Incentive Factor (GPIF) reward/penalty amount for the period of October 1997 through March 1998. This was developed by comparing the actual performance of the Company's seven GPIF generating units to the approved targets set for these units prior to the period.

Q. Do you have an exhibit to your testimony in this proceeding?

A. Yes, under my direction an exhibit (DBZ-1) has been prepared consisting of the numbered sheets which are attached to my prepared testimony. The exhibit contains the schedules required by the GPIF Implementation Manual, which support the development of the incentive amount. I have also included other data forms to supplement the required schedules.

Q. What GPIF incentive amount have you calculated for this period?

A. I have calculated the Company's GPIF incentive amount to be a penalty of $436,639. This amount was developed in a manner consistent with the GPIF Implementation Manual. Sheet 1 of my exhibit shows the calculation of system GPIF points and the corresponding reward. The summary of weighted incentive points earned by each individual unit can be found on Sheet 3.

Q. How were the incentive points for equivalent availability and heat rate calculated for the individual GPIF units?

A. The calculation of incentive points is made by comparing the adjusted actual performance data for equivalent availability and heat rate to the target performance indicators for each unit. This comparison is shown on the Generating Performance Incentive Points Table found on Sheets 8 through 14 of my exhibit.

In performing this calculation, an adjustment was made to correct an error that was discovered in the equivalent availability and heat rate targets for Crystal River 3 (CR3). When our GPIF targets were filed last July, CR3 was projected to return to service from its extended outage on January 1, 1998 and operate for the last three months of the October 1997 - March 1998 period with an equivalent availability of 91.37%. By mistake, however, this three-month availability figure was entered as CR3's equivalent availability for the entire six-month period, rather than the correct figure of 45.77%. The error in CR3's heat rate target resulted from the erroneous entry of 20,115,295 MMBtu for the October 1997 - March 1998 projection period, instead of 15,989,348 MMBtu, the correct figure for three months of operations. Correcting this error produces a heat rate target for CR3 of 10,267 Btu/kWh, rather than the erroneous target of 12,917 Btu/kWh.

Q. Why is it necessary to make adjustments to the actual performance data for comparison with the targets?

A. Adjustments to the actual equivalent availability and heat rate data are necessary to allow their comparison with the "target" Point Tables exactly as approved by the Commission prior to the period. These adjustments are described in the Implementation Manual and are further explained by a Staff memorandum, dated October 23, 1981, directed to the GPIF utilities. The adjustments to actual equivalent availability concern primarily the differences between target and actual planned outage hours, and are shown on Sheet 6 of my exhibit. The heat rate adjustments concern the differences between the target and actual Net Output Factor (NOF), and are shown on Sheet 7. The methodology for both the equivalent availability and heat rate adjustments are explained in the Staff memorandum.

Q. Have you provided the as-worked planned outage schedules for the Company's GPIF units to support your adjustments to actual equivalent availability?

A. Yes. Sheet 22 of my exhibit summarizes every planned outage experienced by the Company's GPIF units during the period. Sheets 23 through 28 present an as-worked critical path chart for each individual planned outage.

Q. Does this conclude your testimony?

A. Yes.

FLORIDA POWER CORPORATION
DOCKET NO. 980001-EI

GPIF Targets and Ranges for
October 1998 through December 1998
and for
October 1998 through March 1999

DIRECT TESTIMONY OF
DARIO B. ZULOAGA

Q. Please state your name and business address.

A. My name is Daric B. Zuloaga. My business address is Post Office Box 14042, St. Petersburg, Florida 33733.

Q. By whom are you employed and in what capacity?

A. I am employed by Florida Power Corporation as a Principal Engineer in Energy Supply, Performance Services.

Q. Have the duties and responsibilities of your position with the Company remained the same since you last testified in this proceeding?

A. Yes, they have.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present the development of the Company's Generating Performance Incentive Factor (GPIF) targets and ranges for the period of October through December 1998. In accordance with Commission Order No. PSC-98-0691-FOF-PU, fuel adjustment filings, including the GPIF, will be prepared on a 12-month calendar year basis beginning in January 1999. While the order did not specify how the transition to a calendar year GPIF was to be made, my testimony offers a transition alternative that could implemented at the August hearings if the Commission desires to consider the GPIF transition issue at that time. My testimony also includes the "traditional" GPIF targets and ranges for the full six-month October 1998 - March 1999 period, from which the transition targets and ranges for the October - December period were developed.

Q. Do you have an exhibit to your testimony?

A. Yes, I will sponsor the exhibit attached to my prepared testimony which consists of the GPIF standard form schedules prescribed in the Implementation Manual and supporting data, including unplanned outage rates, net operating heat rates, and computer analyses and graphs for each of the individual GPIF units for the full October 1998 - March 1999 period. In addition, my exhibit includes a more abbreviated set of transition schedules for the three-month October - December 1998 period corresponding with each of the six-month schedules that reflect differences in the resulting GPIF targets, ranges and incentive points for the two periods.

Transition Targets and Ranges for October - December 1998

Q. How did you develop your proposed transition targets and ranges for the October - December 1998 period?

A. The transition targets and ranges were developed from the same historical equivalent availability and heat rate data used in developing the targets and ranges for the full October 1998 - March 1999 period described later in my testimony. The only differences between the two are (a) the effect of planned outages during the six-month period that fall disproportionately in or out of the three-month transition period, and (b) the development of the weighting factors used to determine the GPIF incentive points for the transition period, which are based on fuel savings derived from a separate series of PROMOD simulations for only the three-month period.

Q. Did you consider any other alternatives for the transition of the GPIF to a calendar year basis?

A. Generally speaking, there appear to be three alternatives for dealing with the October - December 1998 transition period: (1) Suspending the GPIF for the October - December 1998 period; (2) establishing three-month targets and ranges for the October - December 1998 period, as described in my testimony above; and (3) establishing 15-month targets and ranges for the October 1998 - December 1999 period.

Clearly, the first alternative has simplicity in its favor and needs no specially crafted transition filing by a utility for it to be considered and implemented by the Commission. The third alternative, on the other hand, is the most complicated of the three. We did not attempt to develop the 15-month alternative for this filing because of the limited time available and because, if this transition alternative were to be selected by the Commission, it would be more appropriately filed for the November hearings so that the 15-month projections could be developed in closer proximity to the projection period. We elected to include the three-month transition alternative in this filing because of its relative simplicity and because the October - December 1998 period is sufficiently close to the August hearings to give the Commission the option of either considering this alternative at that time if it so desired, or deferring the transition issue to the November hearings.

<u>Targets and Ranges for October 1998 - March 1999</u>

Q. Which of the Company's generating units have you included in the GPIF program for the upcoming projection period?

A. We have included the same units as were included for the current period, Crystal River Units 1 through 5 and Anclote Units 1 and 2.

Q. Have you determined the equivalent availability targets and improvement/degradation ranges for the Company's GPIF units?

A. Yes, I have. This information is included in the Target and Range Summary on page 3 of the portion of my exhibit for the October - March period.

Q. How were the equivalent availability targets developed?

A. The equivalent availability targets were developed using the methodology established for the Company's GPIF units, as set forth in Section 4 of the Implementation Manual. This method describes the formulation of graphs based on each unit's historic performance data for the four individual unplanned outage rates (i.e. forced, partial forced, maintenance and partial maintenance outage rates), which in combination constitute the unit's equivalent unplanned outage rate (EUOR). From operational data and these graphs, the individual target rates are determined by inspecting two years of twelve-month rolling averages and the scatter of monthly data points during the two-year period. The unit's four target rates are then used to calculate its unplanned outage hours for the projection period. When the unit's projected planned outage hours are taken into account, the hours calculated from these individual unplanned outage rates can then be converted into an overall equivalent unplanned outage factor (EUOF). Because factors are additive (unlike rates), the unplanned and planned outage factors (EUOF and POF) when added to the equivalent availability factor (EAF) will always equal 100%. For example, an EUOF of 15% and a POF of 10% results in an EAF of 75%.

The supporting graphs and a summary table of all target and range rates are contained in the section of my exhibit entitled "Unplanned Outage Rate Tables and Graphs".

Q. What is the target equivalent availability factor for Crystal River 3?

A. The EAF target for Crystal River 3 is 90.71%. Since no planned outages are scheduled for the upcoming winter period, the unit's EUOR and EUOF targets are both 9.29%.

The availability targets for the current period were developed after removing from the historical data base, all forced outage hours associated with the voluntary shutdown of the unit to address several design issues related to backup safety systems, including the emergency diesel generator.

Q. Please describe the method utilized in the development of the improvement/degradation ranges for each GPIF unit's availability targets.

A. In general, the methodology described in the implementation manual was used. Ranges were first established for each of the four unplanned outage rates associated with each unit. From an analysis of the unplanned outage graphs, units with small historical variations in outage rates were assigned narrow ranges and units with large variations were assigned wider ranges. These individual ranges, expressed in terms of rates, were then converted into a single unit availability range, expressed in terms of a factor, using the same procedure described above for converting the availability targets from rates to factors.

Q. Have you determined the net operating heat rate targets and ranges for the Company's GPIF units?

A. Yes, I have. This information is also included in the Target and Range Summary on Page 3 of my exhibit for the October - March period.

Q. How were these heat rate targets and ranges developed?

A. The development of the heat rate targets and ranges for the upcoming period utilized historical data from the past three comparable GPIF periods, as described in the Implementation Manual. A "least squares" computer program was used to curve-fit the heat rate data within ranges having a 90% confidence level of including all data. The computer analyses and data plots used to develop the heat rate targets and ranges for each of the GPIF units are contained in the section of my exhibit entitled "Average Net Operating Heat Rate Curves".

Q. How were the GPIF incentive points developed for the unit availability and heat rate ranges?

A. GPIF incentive points for availability and heat rate were developed by evenly spreading the positive and negative point values from the target to the maximum and minimum values in case of availability, and from the neutral band to the maximum and minimum values in the case of heat rate. The fuel savings (loss) dollars were evenly spread over the range in the same manner as described for the incentive points. The maximum savings (loss) dollars are the same as those used in the calculation of weighting factors.

Q. How were the GPIF weighting factors determined?

A. To determine the weighting factors for availability, a series of PROMOD simulations were made in which each unit's maximum equivalent availability was substituted for the target value to obtain a new system fuel cost. The differences in fuel costs between these cases and the target case determines the contribution of each unit's availability to fuel savings. The heat rate contribution of each unit to fuel savings was determined by multiplying the BTU savings between the minimum and target heat rates (at constant generation) by the average cost per BTU for that unit. Weighting factors were then calculated by dividing each individual unit's fuel savings by total system fuel savings.

Q. What was the basis for determining the estimated maximum incentive amount?

A. The determination of the maximum reward or penalty was based upon monthly common equity projections obtained from a detailed financial simulation performed by the Company's Corporate Model.

Q. Does this conclude your testimony?

A. Yes.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony and Exhibit of
Michael F. Oaks
Docket No. 980001-EI
Date of Filing: May 20, 1998

Q. Please state your name and business address.

A. My name is Michael F. Oaks and my business address is One Energy Place, Pensacola, Florida 32520-0328.

Q. What is your occupation?

A. I am the Compliance and Fuel Supply Supervisor at Gulf Power Company.

Q. Mr. Oaks, will you please describe your education and experience?

A. I graduated from Belhaven College in Jackson, Mississippi, in 1977 with a Bachelor of Science Degree in Chemistry. I joined Gulf Power Company in 1977 as a Chemist. Since then, I have held various positions with the Company, including Water Chemistry Specialist, Water Quality Specialist, Environmental Affairs Specialist, Environmental Audit Administrator, and Compliance Administrator. I was promoted to my present position in May 1996.

Q. What are your duties as Fuel Supply Supervisor?

A. I supervise and administer the Company's fuel procurement, transportation, budgeting, contract administration, and quality control to ensure the generating plants are provided a high quality fuel supply at the lowest practical cost.

Q. Mr. Oaks, have you previously testified before this Commission?

A. Yes. I have presented testimony to this Commission.

Q. Mr. Oaks, what is the purpose of your testimony in this docket?

A. The purpose of my testimony is to summarize Gulf Power Company's fuel expenses and to certify that these expenses were properly incurred during the period October 1997 through March 1998. Also, it is my intent to be available to answer any questions that may arise among the parties to this docket concerning Gulf Power Company's fuel expenses.

Q. Have you prepared an exhibit that contains information to which you will refer in your testimony?

A. Yes. I have prepared an exhibit consisting of one schedule.

Counsel: We ask that Mr Oaks' exhibit consisting of one schedule be marked as Exhibit No. 8 (MFO-1).

Q. During the period October 1, 1997, through March 31, 1998, how did Gulf's recoverable fuel expenses compare with the budget or projected expenses?

A. Gulf's recoverable fuel expense was $91,912,127 as compared with the projected amount of $90,767,914, or over our estimate by 1.26%. Gulf's total net system generation was 4,929,095 MWH compared to the projected generation of 4,845,120 MWH or 1.73% more than predicted.

The resulting total fuel cost per KWH generated was 1.8647¢/KWH or 0.46% under the projected amount of 1.8734¢/KWH.

Q. How much spot coal did Gulf Power Company purchase during the period ending March 31, 1998?

A. Gulf purchased 972,355.89 tons or 42% of its supply from the spot coal market. My Schedule 1 of Exhibit No. 8 (MFO-1) consists of a list of contract and spot coal suppliers for the period ending March 31, 1998.

Q. How did the total projected cost of coal purchased compare with the actual cost?

A. Gulf purchased more coal during the period than projected. Consequently, the total cost of coal purchased was higher than projected. These additional purchases allowed the Company to increase inventory which was unusually low at the beginning of the period. The actual cost of coal burned for the period was only 1.2% higher than expected.

Q. Were there any other significant developments in Gulf's fuel procurement program during the period?

A. Yes, for the first time, Gulf engaged in a natural gas storage strategy to ensure a reliable supply at a reasonable cost during the winter months. Typically, natural gas prices rise during the winter in response to demand, and can also be subject to restricted availability during periods of peak demand. Gas storage protects customers from this price risk, and assures availability. Although cost savings from our storage plan did not materialize due to unusually mild weather conditions this past winter, Gulf successfully ensured a firm supply of stored gas, thereby increasing reliability.

Q. Should Gulf's fuel purchases for the period be accepted as reasonable and prudent?

A. Yes. Gulf's coal purchases were either from long term contracts or the competitive spot market. Coal vendors are selected by procedures designed to assure a deliverable quantity of acceptable quality coal for a specific term at the lowest available delivered cost. Gulf has administered the provisions of these contracts and purchase orders appropriately. Natural gas was purchased from the spot market on an as-needed basis or purchased and placed into storage to ensure a reliable supply. All of Gulf's oil purchases were from oil vendors selected by open bids to ensure the most economical price of oil.

Q. Mr. Oaks, does this conclude your testimony?

A. Yes.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony and Exhibit of
Michael F. Oaks
Docket No. 980001-EI
Date of Filing: June 19, 1998

Q. Please state your name and business address.
A. My name is Michael F. Oaks and my business address is One Energy Place, Pensacola, Florida 32520-0328.

Q. What is your occupation?
A. I am the Compliance and Fuel Supply Supervisor at Gulf Power Company.

Q. Mr. Oaks, will you please describe your education and experience?
A. I graduated from Belhaven College in Jackson, Mississippi, in 1977 with a Bachelor of Science Degree in Chemistry. I joined Gulf Power Company in 1977 as a Chemist. Since then, I have held various positions with the Company, including Water Chemistry Specialist, Water Quality Specialist, Environmental Affairs Specialist, Environmental Audit Administrator, and Compliance Administrator. I was promoted to my present position in May 1996.

Q. What are your duties as Fuel Supply Supervisor?
A. I supervise and administer the Company's fuel procurement, transportation, budgeting, contract administration, and quality control to ensure the generating plants are provided an adequate low cost fuel

supply with minimal operational problems.

Q. Are you the same Michael F. Oaks who has previously submitted testimony in this proceeding.
A. Yes.

Q. Mr. Oaks, what is the purpose of your testimony in this docket?
A. The purpose of my testimony is to support Gulf Power Company's projection of fuel expenses for the period October 1, 1998 to December 31, 1998 and to be available to answer any questions that may occur concerning the Company's fuel procurement procedures.

Q. Have you prepared an exhibit that contains information to which you will refer in your testimony?
A. Yes. I have prepared an exhibit consisting of one schedule. Schedule 1 of my exhibit is a tabulation of projected and actual fuel cost for the past ten years. The purpose of this schedule is to illustrate the accuracy of our short-term projections of fuel expenses.

Counsel: We ask that Mr. Oaks' exhibit consisting of one schedule be marked as Exhibit No. ___9___ (MFO-2).

Q. Has Gulf Power Company made any changes to its methods in this period for projecting fuel cost?
A. No.

Q. Will there be any major changes in Gulf's fuel purchasing program during this period?

A. No.

Q. How much spot market coal does Gulf Power project it will purchase during the October 1998 through December 1998 period.

A. We are projecting the purchase of approximately 281,576 tons on the spot market. This represents approximately 24% of our projected purchase requirements.

Q. Mr. Oaks, does this conclude your testimony?

A. Yes.

GULF POWER COMPANY

Before the Florida Public Service Commission
Direct Testimony of
M. W. Howell
Docket No. 980001-EI
Date of Filing: May 20, 1998

Q. Please state your name, business address and occupation.

A. My name is M. W. Howell, and my business address is One Energy Place, Pensacola, Florida 32520. I am Transmission and System Control Manager for Gulf Power Company.

Q. Have you previously testified before this Commission?

A. Yes. I have testified in various rate case, cogeneration, territorial dispute, planning hearing, fuel clause adjustment, and purchased power capacity cost recovery dockets.

Q. Please summarize your educational and professional background.

A. I graduated from the University of Florida in 1966 with a Bachelor of Science Degree in Electrical Engineering. I received my Masters Degree in Electrical Engineering from the University of Florida in 1967, and then joined Gulf Power Company as a Distribution Engineer. I have since served as Relay Engineer, Manager of Transmission, Manager of System Planning, Manager of Fuel and System Planning, and Transmission and System Control Manager. My experience with the Company has included all areas of distribution operation, maintenance, and construction; transmission operation, maintenance, and construction; relaying and protection of the generation, transmission, and distribution systems; planning the generation, transmission, and distribution systems; bulk power interchange administration; overall management of fuel planning and procurement; and operation of the system dispatch center.

I am a member of the Engineering Committees and the Operating Committees of the Southeastern Electric Reliability Council and the Florida Reliability Coordinating Council, and have served as chairman of the Generation Subcommittee of the Edison Electric Institute System Planning Committee. I have served as chairman or member of many technical committees and task forces within the Southern electric system, the Florida Electric Power Coordinating Group, and the North American Electric Reliability Council. These have dealt with a variety of technical issues including bulk power security, system operations, bulk power contracts, generation expansion, transmission expansion, transmission interconnection requirements, central dispatch, transmission system operation, transient stability, underfrequency operation, generator underfrequency protection, and system production costing.

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

A. I will summarize Gulf Power Company's purchased power recoverable costs for energy purchases and sales that were incurred during the October 1, 1997 through March 31, 1998 recovery period. I will then compare these actual costs to their projected levels for the period and discuss the primary reasons for the differences.

I will also summarize the actual capacity expenses and revenues that were incurred during the October 1, 1996 through September 30, 1997 recovery period, compare these figures to their projected levels, and discuss the reasons for the differences.

Q. During the period October 1, 1997 through March 31, 1998, what was Gulf's actual purchased power recoverable cost for energy purchases and how did it compare with the projected amount?

A. Gulf's actual total purchased power recoverable cost for energy purchases, as shown on line 12 of Schedule A-1, was $9,427,206 for 600,652,515 KWH as compared to the projected amount of $6,609,297 for 442,280,000 KWH. The actual cost per KWH purchased was 1.5695 ¢/KWH as compared to the projected 1.4944 ¢/KWH, or 5% above the projection. Although the actual unit price was higher than projected, it was lower than Gulf's 1.8647 ¢/KWH generation cost. Therefore, Gulf purchased 36% more KWH than projected.

Q. What were the events that influenced Gulf's purchase of energy?

A. During October, November, and December of the recovery period, Gulf's higher than projected territorial and off-system loads required it to purchase more economy power through the Southern electric system power pool at a higher unit price than was forecasted in order to meet its load obligations. However, Gulf was able to purchase this energy at a unit price lower than its generation cost to meet its territorial needs due to lower cost pool energy from higher than budgeted system nuclear and hydro generation.

Q. During the period October 1, 1997 through March 31, 1998, what was Gulf's actual purchased power fuel cost for energy sales and how did it compare with the projected amount?

A. Gulf's actual total purchased power fuel cost for energy sales, as shown on line 18 of Schedule A-1, was \$17,583,382 for 1,081,188,734 KWH as compared to the projected amount of \$13,588,600 for 839,460,000 KWH. This resulted in a variance above budget of \$3,994,782, or 29%. The actual fuel cost per KWH sold was 1.6263 ¢/KWH as compared to 1.6187 ¢/KWH, or less than 1% above the projection.

Q. What were the events that influenced Gulf's sale of energy?

A. Gulf's energy sales were over the projection due to the Southern electric system's higher territorial and off-system load requirements. Because of this higher demand, Gulf was able to sell more of its higher cost energy to other pool members in order for them to meet their load.

Q. How are Gulf's net purchased power fuel costs affected by Southern electric system energy sales?

A. As a member of the Southern electric system power pool, Gulf Power participates in these sales. Gulf's generating units are economically dispatched to meet the needs of its territorial customers, the system, and off-system customers.

Therefore, Southern system energy sales provide a market for Gulf's surplus energy and generally improve unit load factors. The cost of fuel used to make these sales is credited against, and therefore reduces, Gulf's fuel and purchased power costs. Overall, Gulf's Total Fuel and Net Power Transactions for the recovery period, as shown on line 20 of Schedule A-1, were slightly below budget.

Q. During the period October 1, 1996 through September 30, 1997, how did Gulf's actual net purchased power capacity transactions compare with the net projected transactions?

A. My direct testimony during the August 1996 hearings in Docket No. 960001-EI stated that Gulf's net projected purchased power capacity cost for the October 1, 1996 through September 30, 1997 recovery period was $11,481,953. However, as I discussed in my testimony, this projected capacity cost did not include the positive effects of the revision to Southern Companies' Intercompany Interchange Contract (IIC) due to Amendment No. 6.

On November 22, 1996, Gulf Power Company filed a petition for a mid-course correction to the original capacity cost recovery factors for the recovery period in order to reflect Gulf's substantial projected capacity cost savings produced by the implementation of IIC Amendment No. 6. The mid-course correction resulted in revised projected capacity costs for the October 1, 1996 through September 30, 1997 recovery period of \$6,129,818. The new mid-course factors became effective beginning January 1997.

The actual net capacity cost for the October 1, 1995 through September 30, 1997 recovery period was \$4,899,142. This represents a further decrease in cost of \$1,230,676, or 20% less than the <u>revised</u> projection.

Q. Please explain the reasons for this capacity cost difference.

A. The \$1,230,676 capacity cost decrease is attributable to lower than expected IIC transaction costs in the months of January through September 1997, and is due to a slight decrease in actual owned capacity on the Alabama and Georgia Power systems. Under the capacity reserve equalization mechanism of the IIC, this lower owned capacity caused these companies to pick up a greater proportion of higher system reserves that resulted from lower system loads. During this time, Gulf's owned capacity was near projected levels and Gulf's IIC cost was lower than projected. In summary, the lower reserves of other system operating companies due to lower owned capacity caused Gulf to have substantially lower capacity costs during the recovery period.

Q. Did Gulf Power Company participate in any other capacity transactions that impacted its recoverable capacity costs during the October 1, 1996 through September 30, 1997 recovery period?

A. Yes. The forecast of capacity costs for the recovery period only included transactions under Gulf's long-term capacity agreements. However, Gulf also participated in several short-term capacity purchases and sales from June through September 1997. These short-term capacity transactions were included in the actual IIC capacity equalization calculations, but they were not a factor in the overall capacity cost decrease for the recovery period.

Q. Does this conclude your testimony?

A. Yes.

GULF POWER COMPANY

Before the Florida Public Service Commission
Direct Testimony of
M. W. Howell
Docket No. 980001-EI
Date of Filing: June 22, 1998

Q. Please state your name, business address and occupation.

A. My name is M. W. Howell, and my business address is One Energy Place, Pensacola, Florida 32520. I am Transmission and System Control Manager for Gulf Power Company.

Q. Have you previously testified before this Commission?

A. Yes. I have testified in various rate case, cogeneration, territorial dispute, planning hearing, fuel clause adjustment, and purchased power capacity cost recovery dockets.

Q. Please summarize your educational and professional background.

A. I graduated from the University of Florida in 1966 with a Bachelor of Science Degree in Electrical Engineering. I received my Masters Degree in Electrical Engineering from the University of Florida in 1967, and then joined Gulf Power Company as a Distribution Engineer. I have since served as Relay Engineer, Manager of Transmission, Manager of System Planning, Manager of Fuel and System Planning, and Transmission and System Control Manager. My experience with the Company has included all areas of distribution operation, maintenance, and construction; transmission operation, maintenance, and construction; relaying and protection of the generation, transmission, and distribution systems; planning the generation, transmission, and distribution systems; bulk power interchange administration; overall management of fuel planning and procurement; and operation of the system dispatch center.

I am a member of the Engineering Committees and the Operating Committees of the Southeastern Electric Reliability Council and the Florida Reliability Coordinating Council, and have served as chairman of the Generation Subcommittee of the Edison Electric Institute System Planning Committee. I have served as chairman or member of many technical committees and task forces within the Southern electric system, the Florida Electric Power Coordinating Group, and the North American Electric Reliability Council. These have dealt with a variety of technical issues including bulk power security, system operations, bulk power contracts, generation expansion, transmission expansion, transmission interconnection requirements, central dispatch, transmission system operation, transient stability, underfrequency operation, generator underfrequency protection, and system production costing.

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

A. The purpose of my testimony is to support Gulf Power Company's projection of purchased power recoverable costs for energy purchases and sales for the period October, 1998 - December, 1998. Also, as part of the estimated true-up for the current recovery period (October 1997 - September 1998), I will support Gulf Power Company's updated projection of purchased power capacity costs for the months June 1998 through September 1998. Finally, I will support the Company's projection of purchased power capacity costs for the October, 1998 - December, 1998 recovery period. The projection data I support is used by Gulf's witness Susan Cranmer to calculate the estimated capacity cost true-up for the October 1997 - September 1998 recovery period and the total recoverable capacity cost for the period October 1998 - December 1998.

Q. Have you prepared an exhibit that contains information to which you will refer in your testimony?

A. Yes. My exhibit consists of one schedule to which I will refer. This schedule was prepared under my supervision and direction.

Counsel: We ask that Mr. Howell's Exhibit, comprised of one Schedule, be marked for identification as Exhibit 10 (MWH-1).

Q. What is Gulf's projected purchased power recoverable cost for energy purchases for the October, 1998 - December, 1998 recovery period?

A. Gulf's projected recoverable cost for energy purchases, shown on line 12 of Schedule E-1 of the fuel filing, is $2,594,610. These purchases result from Gulf's participation in the coordinated operation of the Southern electric system power pool. This amount is used by Ms. Cranmer as an input in the calculation of the fuel and purchased power cost adjustment factor.

Q. What is Gulf's projected purchased power fuel cost for energy sales for the October, 1998 - December, 1998 recovery period?

A. The projected fuel cost for energy sales, shown on line

18 of Schedule E-1, is $ 8,215,600. These sales also result from Gulf's participation in the coordinated operation of the Southern electric system power pool. This amount is used by Ms. Cranmer as an input in the calculation of the fuel and purchased power cost adjustment factor.

Q. What information is contained in your exhibit?
A. Schedule 1 of my exhibit lists the power contracts that are included for capacity cost recovery, their associated megawatt amounts, and the resulting capacity dollar amounts.

Q. Which power contracts produce capacity transactions that are recovered through Gulf's purchased power capacity cost recovery factors?
A. The two primary power contracts that produce recoverable capacity transactions through Gulf's purchased power capacity recovery factors are the Southern electric system's Intercompany Interchange Contract (IIC) and Gulf's cogeneration capacity purchase contract with Monsanto Company. The Commission has authorized the Company to include capacity transactions under the IIC for recovery through the purchased power capacity cost recovery factors. Gulf will continue to have IIC

capacity transactions during the October, 1998 - December, 1998 recovery period. The energy transactions under this contract for these periods are handled for cost recovery purposes through the fuel cost recovery factors.

The Gulf Power/Monsanto cogeneration capacity contract enables Gulf to purchase 19 megawatts of firm capacity from June 1, 1996 until June 1, 2005. Gulf has included these costs for recovery during the October, 1998 - December, 1998 recovery period. The energy transactions under this contract have also been approved by the Commission for recovery, and these costs are handled for cost recovery purposes through the fuel cost recovery factors.

Q. Are there any other arrangements that produce capacity transactions that are recovered through Gulf's purchased power capacity cost recovery factors?

A. Yes. Gulf and other Southern electric system operating companies have purchased market capacity for 1998, and these purchases will continue through 2001. Gulf will have monthly costs associated with these market purchases for the October 1998 - December 1998 recovery period.

Q. Has Southern made any changes to the IIC that were used in the most recent recovery factor adjustment proceedings?

A. No. However, on November 1, 1997, in accordance with both the contract and the requirements of the FERC, the Southern electric system made its annual IIC informational filing with the FERC. The informational filing reflects updated historical load responsibility ratios, expected system load, and the capacity resource amounts for the 1998 budget cycle that are used in the IIC capacity equalization calculation to determine the capacity transactions and costs for each operating company. All of these changes are reflected in the projection of capacity transactions among the Southern electric system's operating companies for the October, 1998 - December, 1998 recovery period.

Q. Earlier in your testimony, you indicated that you would support Gulf Power Company's updated projection of purchased power capacity costs for the months June 1998 through September 1998 as part of the estimated capacity cost true-up for the October 1997 - September 1998 recovery period. Please discuss the Company's updated capacity cost projection.

A. Gulf's capacity costs for these months of the October

1997 - September 1998 recovery period are projected to increase due to revised system load and capacity information used in our IIC equalization calculation, as well as revised costs related to the Southern electric system market capacity purchases.

Gulf's IIC costs during June 1998 through September 1998 have been impacted by the removal of Municipal Electric Association of Georgia (MEAG) load from system load projections and by an increase in Georgia Power's owned capacity. Both of these changes have increased available reserves on the Southern electric system. Therefore, Gulf will purchase its share of these increased reserves and its IIC capacity costs are projected to increase accordingly.

Gulf's projected costs of market capacity purchases in the Summer of 1998 have increased due to additional market purchases. As I stated in my June 23, 1997 testimony, these additional purchases were to be included in a future true-up filing. Rather than wait until the final true-up filing for the October 1997 - September 1998 recovery period, Gulf is including the updated amounts for market capacity purchases in its estimated true-up for the October 1997 - September 1998 recovery period because the information is now available.

Q. What is the cost impact due to the changes in Gulf's IIC capacity transactions that were originally projected for June, 1998 through September, 1998?

A. IIC capacity transactions originally projected for June 1998 through September 1998 produced revenues of $1,110,098. Gulf now projects that its IIC capacity transactions will produce a $681,926 capacity cost for June 1998 through September 1998. Therefore, the net IIC cost impact to Gulf is $1,792,024.

Q. What is the cost impact due to the Gulf's additional market capacity purchases for June, 1998 through September, 1998?

A. The originally projected costs of June 1998 through September 1998 market capacity purchases were $288,353. Gulf's market capacity purchases are now projected to be $1,075,801. Therefore, the impact of these additional market capacity purchases is $787,448.

Q. What are Gulf's IIC capacity transactions that are projected for the October, 1998 - December, 1998 recovery period?

A. As shown on Schedule 1 of my exhibit, capacity transactions under the IIC vary during each month of the recovery period. IIC capacity purchases in the amount of $89,299 are projected for the period. IIC capacity sales during the same period are projected to be $23,303. Therefore, the Company's net capacity transactions under the IIC for the period are net purchases amounting to $65,996.

Q. What is the cost of Gulf's capacity purchase from Monsanto that is projected for the October, 1998 - December, 1998 recovery period?

A. As shown on Schedule 1 of my exhibit, Gulf is projected to pay $186,606, or $62,202 per month, to Monsanto for the firm capacity purchase made pursuant to the Commission approved contract.

Q. What is the cost of Gulf's market capacity purchases that is projected for the October, 1998 - December, 1998 recovery period?

A. As shown on Schedule 1 of my exhibit, Gulf is projected to pay a total of $566,286 for the committed market capacity purchases. Capacity in varying amounts will be purchased during the months of October through December of 1998. The individual suppliers and megawatt amounts are not shown, since this is highly sensitive and confidential information. Public availability of this information would seriously undermine our competitive position and cause our customers increased cost.

Q. What are Gulf's total projected net capacity transactions for the October, 1998 - December, 1998 recovery period?

A. As shown on Schedule 1 of my exhibit, the net purchases under the IIC, the Monsanto contract, and the committed market capacity purchases will result in a projected net capacity cost of $818,888. This figure is used by Ms. Cranmer as an input into the calculation of the total capacity transactions to be recovered through the purchased power capacity cost recovery factors for this three month recovery period.

Q. Does this conclude your testimony?

A. Yes.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony of
Susan D. Cranmer
Docket No. 980001-EI
Fuel and Purchased Power Capacity Cost Recovery
Date of Filing: May 20, 1998

Q. Please state your name, business address and occupation.

A. My name is Susan Cranmer. My business address is One Energy Place, Pensacola, Florida 32520-0780. I hold the position of Assistant Secretary and Assistant Treasurer of Gulf Power Company. In this position, I am responsible for supervising the Rates and Regulatory Matters Department.

Q. Please briefly describe your educational background and business experience.

A. I graduated from Wake Forest University in Winston-Salem, North Carolina in 1981 with a Bachelor of Science Degree in Business and from the University of West Florida in 1982 with a Bachelor of Arts Degree in Accounting. I am also a Certified Public Accountant licensed in the State of Florida. I joined Gulf Power Company in 1983 as a Financial Analyst. Prior to assuming my current position, I have held various positions with Gulf including Computer Modeling Analyst, Senior Financial Analyst, and Supervisor of Rate Services.

My responsibilities include supervision of: tariff administration, cost of service activities, calculation of cost recovery factors, the regulatory filing function of the Rates and Regulatory Matters Department, and various treasury activities.

Q. Have you prepared an exhibit that contains information to which you will refer in your testimony?

A. Yes, I have.

Counsel: We ask that Ms. Cranmer's Exhibit consisting of four schedules be marked as Exhibit No. 11 (SDC-1).

Q. Are you familiar with the Fuel and Purchased Power (Energy) True-up Calculation for the period of October 1997 through March 1998 and the Purchased Power Capacity Cost True-up Calculation for the period of October 1996 through September 1997 set forth in your exhibit?

A. Yes. These documents were prepared under my supervision.

Q. Have you verified that to the best of your knowledge and belief, the information contained in these documents is correct?

A. Yes, I have.

Q. What is the amount to be refunded or collected through the fuel cost recovery factor in the period October 1998 through December 1998?

A. An amount to be collected of $225,379 was calculated as shown in Schedule 1 of my exhibit.

Q. How was this amount calculated?

A. The $225,379 was calculated by taking the difference in the estimated October 1997 through March 1998 under-recovery of $1,127,041 as approved in Order No. PSC-98-0412-FOF-EI, dated March 20, 1998 and the actual under-recovery of $1,352,420 which is the sum of lines 7 and 8 shown on Schedule A-2, page 2 of 3, Period-to-date of the monthly filing for March 1998.

Q. Ms. Cranmer, you stated earlier that you are responsible for the Purchased Power Capacity Cost True-up Calculation. Which schedules of your exhibit relate to the calculation of these factors?

A. Schedules CCA-1, CCA-2, and CCA-3 of my exhibit relate to the Purchased Power Capacity Cost True-up Calculation for the period October 1996 through September 1997.

Q. What is the amount to be refunded or collected in the period October 1998 through December 1998?

A. An amount to be refunded of $1,478,455 was calculated as shown in Schedule CCA-1 of my exhibit.

Q. How was this amount calculated?

A. The $1,478,455 was calculated by taking the difference in the net estimated October 1996 through September 1997 over-recovery of $2,791,701 as approved in Order No. PSC-97-1045-FOF-EI, dated September 15, 1997 and the actual over-recovery of $4,270,156 which is the sum of lines 11 and 12 under the total column of Schedule CCA-2.

Q. Please describe Schedules CCA-2 and CCA-3 of your exhibit.

A. Schedule CCA-2 shows the calculation of the actual over-recovery of purchased power capacity costs for the period October 1996 through September 1997. Schedule CCA-3 of my exhibit is the calculation of the interest provision on the over-recovery. This is the same method of calculating interest that is used in the Fuel and

Purchased Power (Energy) Cost Recovery Clause and the
Environmental Cost Recovery Clause.

Q. Ms. Cranmer, does this complete your testimony?
A. Yes, it does.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony of
Susan D. Cranmer
Docket No. 980001-EI
Fuel and Purchased Power Cost Recovery
Date of Filing: June 22, 1998

Q. Please state your name, business address and occupation.

A. My name is Susan Cranmer. My business address is One Energy Place, Pensacola, Florida 32520-0780. I hold the position of Assistant Secretary and Assistant Treasurer for Gulf Power Company.

Q. Please briefly describe your educational background and business experience.

A. I graduated from Wake Forest University in Winston-Salem, North Carolina in 1981 with a Bachelor of Science Degree in Business and from the University of West Florida in 1982 with a Bachelor of Arts Degree in Accounting. I am also a Certified Public Accountant licensed in the State of Florida. I joined Gulf Power Company in 1983 as a Financial Analyst. Prior to assuming my current position, I have held various positions with Gulf including Computer Modeling Analyst, Senior Financial Analyst, and Supervisor of Rate Services.

My responsibilities include supervision of: tariff administration, cost of service activities, calculation of cost recovery factors, the regulatory filing function of the Rates and Regulatory Matters Department, and various treasury activities.

Q. Have you previously filed testimony before this Commission in Docket No. 980001-EI?
A. Yes, I have.

Q. What is the purpose of your testimony?
A. The purpose of this testimony is to discuss the calculation of Gulf Power's fuel cost recovery factors for the period October 1998 through December 1998. I will also discuss the calculation of the purchased power capacity cost recovery factors for the period October 1998 through December 1998. In addition to this direct testimony, I am submitting separate supplemental testimony in support of Gulf's request that new factors not be implemented until February 1999.

Q. Are you familiar with the Fuel and Purchased Power Cost Recovery Clause Calculation for the period of October 1998 through December 1998?
A. Yes, these documents were prepared under my supervision.

Q. Have you verified that to the best of your knowledge and belief, the information contained in these documents is correct?

A. Yes, I have.

Counsel: We ask that Ms. Cranmer's Exhibit consisting of fourteen schedules, be marked as Exhibit No. 12 (SDC-2).

Q. Ms. Cranmer, what has Gulf calculated as the fuel cost recovery true-up to normally be applied in the period October 1998 through December 1998?

A. The fuel cost recovery true-up for this period is a decrease of .0423¢/kwh. This includes a final true-up under-recovery for the October 1997 through March 1998 period of $225,379. As shown on Schedule E-1A, it also includes an estimated true-up over-recovery of $1,097,022 for the current period. The resulting over-recovery is $871,643.

Q. What has been included in this filing to reflect the GPIF reward/penalty for the period of October 1997 through March 1998?

A. This is shown on Line 32b of Schedule E-1 as an increase of .0030¢/kwh, thereby rewarding Gulf by $62,632.

Q. Ms. Cranmer, what is the levelized projected fuel factor for the period October 1998 through December 1998?

A. Gulf has calculated a levelized fuel factor of 1.604¢/kwh. It includes projected fuel and purchased power energy exper ·s for October 1998 through December 1998 and projected kwh sales for the same period, as well as the true-up and GPIF amount. The calculated levelized fuel factor also includes the special recovery amount associated with the Air Products special contract. The calculation of the special recovery amount is presented on Schedule E-12 of my exhibit. The levelized fuel factor has not been adjusted for line losses.

Q. Ms. Cranmer, how were the line loss multipliers used on Schedule E-1E calculated?

A. They were calculated in accordance with procedures approved in prior filings and were based on Gulf's latest mwh Load Flow Allocators.

Q. Ms. Cranmer, what fuel factor has Gulf calculated for its largest group of customers (Group A), those on Rate Schedules RS, GS, GSD, OSIII, and OSIV?

A. Gulf has calculated a standard fuel factor, adjusted for line losses, of 1.624¢/kwh for Group A. Fuel factors for Groups A, B, C, and D are shown on Schedule E-1E. These factors have also been adjusted for line losses.

Q. Ms. Cranmer, how were the time-of-use fuel factors calculated?

A. These were calculated based on projected loads and system lambdas for the period October 1998 through December 1998. These factors included the GPIF, true-up, and special contract recovery cost amounts and were adjusted for line losses. These time-of-use fuel factors are also shown on Schedule E-1E.

Q. How does the calculated fuel factor for Rate Schedule RS compare with the factor applicable to September and how would the change affect the cost of 1000 kwh on Gulf's residential rate RS?

A. The current fuel factor for Rate Schedule RS applicable to September 1998 is 1.646¢/kwh compared with the calculated factor of 1.624¢/kwh. For a residential customer who uses 1000 kwh in October 1998, the fuel portion of the bill would decrease from $16.46 to $16.24.

Q. Ms. Cranmer, has Gulf updated its estimates of the as-available avoided energy costs to be shown on COG1 as required by Order No. 13247 issued May 1, 1984, in Docket No. 830377-EI and Order No. 19548 issued June 21, 1988, in Docket No. 880001-EI?
A. Yes. A tabulation of these costs is set forth in Schedule E-11 of my Exhibit SDC-2. These costs represent the estimated averages for the period from October 1998 through September 2000.

Q. Ms. Cranmer, you stated earlier that you are responsible for the calculation of the purchased power capacity cost (PPCC) recovery factors. Which schedules of your exhibit relate to the calculation of these factors?
A. Schedule CCE-1, including CCE-1a and CCE-1b, and Schedule CCE-2 of my exhibit relate to the calculation of the PPCC recovery factors for the period October 1998 through December 1998.

Q. Please describe Schedule CCE-1 of your exhibit.
A. Schedule CCE-1 shows the calculation of the amount of capacity payments to be recovered through the PPCC Recovery Clause. Mr. Howell has provided me with Gulf's projected purchased power capacity transactions under the Southern Company Intercompany Interchange Contract

(IIC), Gulf's contract with Monsanto Chemical Company, and certain market capacity transactions. Gulf's total projected capacity payments for the period October 1998 through December 1998 are purchases of $818,888. The jurisdictional amount is $790,086. For the period, Gulf's requested recovery before true-up is the difference between the jurisdictional projected purchased power capacity costs and the approved adjustment for former capacity transactions embedded in current base rates. This adjustment amount was fixed in Order No. PSC-93-0047-FOF-EI, dated January 12, 1993, as an annual embedded credit of $1,678,580, or $1,652,000 net of revenue taxes. Thus, the projected recovery amount that would be collected through the PPCC recovery factors in the period October 1998 through December 1998 is $1,203,086. This amount is added to the total true-up amount to determine the total purchased power capacity transactions that would be recovered in the period.

Q. What has Gulf calculated as the purchased power capacity factor true-up to be applied in the period October 1998 through December 1998?

A. The true-up for this period is an increase of $911,323 as shown on Schedule CCE-1a. This includes a final capacity cost true-up amount for October 1996 through September 1997 of $1,478,455 over-recovery. It also includes an estimated under-recovery of $2,389,778 for the period October 1997 through September 1998 based on eight months of actual data and four months of estimated data. As discussed in his testimony, Mr. Howell has provided me with updated amounts for net capacity transactions for June through September 1998. Based on this latest projection, the under-recovery of capacity costs is expected to exceed 10% of the capacity costs originally projected for the period October 1997 through September 1998. Pursuant to Order No. 13694 in Docket No. 840001-EI, Gulf is hereby notifying the Commission that this situation is expected to occur. Rather than making a mid-course correction to the factors for the last two months of the current period, Gulf's calculated factors for the October through December 1998 period reflect the under-recovery.

Q. What methodology was used to allocate the capacity payments to rate class?

A. As required by Commission Order No. 25773 in Docket No. 910794-EQ, the revenue requirements have been allocated using the cost of service methodology used in Gulf's last full requirements rate case and approved by the Commission in Order No. 23573 issued October 3, 1990, in Docket No. 891345-EI. Although the capacity payments in that cost of service study were allocated to rate class using the demand allocator based on the twelve monthly coincident peaks projected for the test year, for purposes of the PPCC Recovery Clause, Gulf has allocated the net purchased power capacity costs to rate class with 12/13th on demand and 1/13th on energy. This allocation is consistent with the treatment accorded to production plant in the cost of service study used in Gulf's last rate case.

Q. How were the allocation factors calculated for use in the PPCC Recovery Clause?

A. The allocation factors used in the Purchased Power Capacity Cost Recovery Clause have been calculated using the 1997 load data filed with the Commission in accordance with FPSC Rule 25-6.0437. The calculations of the allocation factors are shown in columns A through I on Page 1 of Schedule CCE-2.

Q. Please describe the calculation of the cents/kwh factors by rate class used to recover purchased power capacity costs.

A. As shown in columns A through D on page 2 of Schedule CCE-2, the 12/13th of the jurisdictional capacity cost to be recovered is allocated to rate class based on the demand allocator, with the remaining 1/13th allocated based on energy. The total revenue requirement assigned to each rate class shown in column E is then divided by that class's projected kwh sales for the twelve-month period to calculate the PPCC recovery factor. This factor would be applied to each customer's total kwh to calculate the amount to be billed each month.

Q. What is the amount related to purchased power capacity costs recovered through this factor that would be included on a residential customer's bill for 1000 kwh?

A. The purchased power capacity costs recovered through the clause for a residential customer who uses 1000 kwh would be $1.26.

Q. When does Gulf propose to collect its fuel charges and purchased power capacity charges?

A. The fuel and capacity factors will apply to October 1998 through December 1998 billings beginning with Bill Group 1 meter readings scheduled on September 30, 1998 and ending with meter readings scheduled on December 30, 1998.

Q. Ms. Cranmer, does this complete your testimony?
A. Yes, it does.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Supplemental Direct Testimony of
Susan D. Cranmer
Docket Nos. 980001-EI and 980007-EI

Date of Filing: June 22, 1998

Q. Please state your name, business address and occupation.

A. My name is Susan Cranmer. My business address is One Energy Place, Pensacola, Florida 32520-0780. I hold the position of Assistant Secretary and Assistant Treasurer for Gulf Power Company.

Q. Are you the same Susan D. Cranmer who has filed direct testimony in Dockets 980001-EI and 980007-EI?

A. Yes, I am. My direct testimony in those dockets supports the calculation of the fuel, capacity, and environmental cost recovery factors that would normally be applicable to the period October through December 1998.

Q. What is the purpose of your supplemental direct testimony?

A. The purpose of this supplemental direct testimony is to support Gulf Power's proposal not to implement new cost recovery factors for the period October 1998 through

December 1998, which transitions the cost recovery process to an annual, calendar-year basis.

Q. What factors does Gulf propose for the October through December 1998 period and why?

A. Gulf proposes that the fuel, capacity, and environmental factors currently in effect for the recovery period ending September 1998 remain in effect for the period October through December 1998. This provides stability for our customers over a relatively short period of time by changing the cost recovery factors once (in January 1999) rather than twice (in October 1998 and January 1999) in a three-month period. In total, Gulf's overall fuel, capacity and environmental factors for the October through December 1998 period would increase only about 1%. Leaving the factors the same for the three-month period would eliminate customer confusion related to a change in each factor, while leaving the overall bill essentially the same.

In addition, the administrative activities required to implement a change in cost recovery factors in October 1998 would be eliminated.

Q. In your direct testimony in Docket 980001-EI, you stated that the under-recovery of capacity costs is expected to exceed 10% of the capacity costs originally projected for the period October 1997 through September 1998. Based on Gulf's proposal not to implement revised capacity factors in October 1998, will a mid-course correction be appropriate?

A. No, a mid-course correction would not be necessary. As I stated above, the sum of the fuel, capacity and environmental factors would remain fairly constant in the October through December 1998 period, with increases in capacity cost recovery amounts (including the expected under-recovery true-up amount) offset by decreases in fuel and environmental cost recovery amounts. Therefore, in order to stabilize the transition to annual, calendar-year factors, a mid-course correction to capacity factors should not be made.

Q. Does this conclude your supplemental direct testimony?

A. Yes.

GULF POWER COMPANY
Before the Florida Public Service Commission
Direct Testimony of
G. D. Fontaine
Docket No. 980001-EI
Date of Filing May 20, 1998

Q. Please state your name, address and occupation.

A. My name is George D. Fontaine, my business address is One Energy Place, Pensacola, Florida 32520-0335, and my position is Performance Test Specialist for Gulf Power Company.

Q. Please describe your educational and business background.

A. I received my Bachelor of Mechanical Engineering Degree from Auburn University in 1980. Following graduation, I joined Gulf Power Company as an Associate Engineer at the Scholz Electric Generating Plant, and as I previously stated, my current position is Performance Test Specialist. I am also a registered Professional Engineer in the State of Florida.

Q. Mr. Fontaine, have you previously testified in this Docket?

A. Yes, sir.

Q. Mr. Fontaine, what is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to present GPIF results for Gulf Power Company for the period of October 1, 1997, through March 31, 1998.

Q. Mr. Fontaine, have you prepared an exhibit that contains information to which you will refer in your testimony?

A. Yes, Sir, I have prepared an exhibit consisting of five schedules.

Q. Mr. Fontaine, was this exhibit prepared by you or under your direction and supervision?

A. Yes, it was.

Counsel: We ask that Mr. Fontaine's exhibit be marked for identification as exhibit 13 (GDF-1).

Q. Mr. Fontaine, before reviewing the GPIF Results for Gulf's units, is there any information which has been supplied to the Commission pertaining to this GPIF period which requires amendment?

A. Yes, some corrections need to be made to the actual unit performance data which was submitted monthly to the Commission during this period. These corrections are based on discoveries made during our final review to determine the accuracy of this information prior to this proceeding. The Actual Unit Performance Data tables on pages 14 to 19 of Schedule 5 incorporate these changes. The data contained on these tables is the data upon which the GPIF calculation was made.

Q. Mr. Fontaine, would you now review the Company's equivalent availability results for the period?

A. Actual equivalent availability and adjusted actual equivalent availability figures for each of the Company's GPIF units are shown on page 13 of Schedule 5. Pages 3 through 8 of Schedule 2 contain the calculations for the adjusted actual equivalent availabilities.

A calculation of GPIF availability points based on these availabilities and the targets established by Commission Order PSC-97-1045-FOF-EI is on page 9 of Schedule 2. The results are: Crist 6, -1.36 points; Crist 7, -10.00 points; Smith 1, -5.83 points; Smith 2, -10.00 points; Daniel 1, +10.00 points, and Daniel 2, -10.00 points.

Q. Mr. Fontaine, what were the heat rate results for the period?

A. The detailed calculation of the actual average net operating heat rates for the Company's GPIF units is on pages 2 through 7 of Schedule 3. These heat rate figures have not at this point been adjusted in accordance with GPIF procedures for load and other factors to the bases of their targets.

As was done for the prior GPIF periods, and as indicated on pages 8 through 13 of Schedule 3, the target setting equations were used to adjust actual results to the target bases. These equations, submitted in June 1997, are shown on page 15 of Schedule 3.

As calculated on page 16 of Schedule 3, the adjusted actual average net operating heat rates correspond to GPIF unit heat rate points of: -2.24 for Crist 6, +2.66 for Crist 7, 0.00 for Smith 1, +7.49 for Smith 2, -0.63 for Daniel 1, and 0.00 for Daniel 2.

Q. Mr. Fontaine, what number of Company points were achieved during the period, and what reward or penalty is indicated by these points according to the GPIF procedure?

A. Using the unit equivalent availability and heat rate points previously mentioned, along with the adjusted weighting factors, the Company points would be +0.73 as indicated on page 2 of Schedule 4. This calculates to a reward in the amount of $62,632.

Q. Mr. Fontaine, would you please summarize your testimony?

A. Yes, Sir. In view of the adjusted actual equivalent availabilities, as shown on page 9 of Schedule 2, and the adjusted actual average net operating heat rates achieved, as shown on page 16 of Schedule 3, evidencing the Company's performance for the period, Gulf calculates a reward in the amount of $62,632 as provided for by the GPIF plan.

Q. Mr. Fontaine, does this conclude your testimony?

A. Yes, Sir.

GULF POWER COMPANY
Before the Florida Public Service Commission
Direct Testimony of
G. D. Fontaine
Docket No. 980001-EI
Date of Filing June 22, 1998

Q. Please state your name, address and occupation.

A. My name is George D. Fontaine, my business address is One Energy Place, Pensacola, Florida 32520-0335, and my position is Performance Test Specialist for Gulf Power Company.

Q. Please describe your educational and business background.

A. I received my Bachelor of Mechanical Engineering Degree from Auburn University in 1980. Following graduation, I joined Gulf Power Company as an Associate Engineer at the Scholz Electric Generating Plant, and as I previously stated, my current position is Performance Test Specialist. I am also a registered Professional Engineer in the State of Florida.

Q. Have you previously testified in this Docket?

A. Yes. I have presented testimony regarding the Generating Performance Incentive Factor (GPIF) periodically for the past several years.

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

A. The purpose of my testimony today is to present GPIF targets for Gulf Power Company for the period of October 1, 1998 through December 31, 1998.

Q. Have you prepared an exhibit that contains information to which you will refer in your testimony?

A. Yes, I have prepared an exhibit consisting of three schedules.

Q. Was this exhibit prepared by you or under your direction and supervision?

A. Yes, it was.

Counsel: We ask that Mr. Fontaine's exhibit be marked for identification as exhibit 14 (GDF-2).

Q. Which units does Gulf propose to include under the GPIF for the subject period?

A. We propose that Crist Units 6 and 7, Smith Units 1 and 2, and Daniel Units 1 and 2 continue to be the Company's GPIF units.

Q. What are the target heat rates Gulf proposes to use in the GPIF for these units for the performance period October 1, 1998 through December 31, 1998?

A. I would like to refer you to Page 32 of Schedule 1 of my exhibit where these targets are listed.

Q. How were these proposed target heat rates determined?

A. In every case they were determined according to the GPIF implementation manual procedures for Gulf. Page 2 of Schedule 1 shows the target average net operating heat rate equations for the proposed GPIF units, and pages 4 through 29 of Schedule 1 contain the weekly historical data used for the statistical development of these equations. Pages 30 and 31 of Schedule 1 present the calculations which provide the unit target heat rates from the target equations.

Q. Were the maximum and minimum attainable heat rates for each proposed GPIF unit, indicated on page 32 of Schedule 1, calculated according to the appropriate GPIF implementation manual procedures?

A. Yes.

Q. What are the proposed target, maximum and minimum, equivalent availabilities for Gulf's units?
A. The target equivalent availabilities and their ranges are listed on page 4 of Schedule 2.

Q. How are these target equivalent availabilities determined?
A. The target equivalent availabilities were determined according to the standard GPIF implementation manual procedures for Gulf, and are presented on page 2 of Schedule 2.

Q. How were the maximum and minimum attainable equivalent availabilities determined for each unit?
A. The maximum and minimum attainable equivalent availabilities, which are presented along with their respective target availabilities on page 4 of Schedule 2, were determined per GPIF manual procedures for Gulf.

Q. Mr. Fontaine, has Gulf completed the GPIF minimum filing requirements data package?
A. Yes, we have completed the required data. Schedule 3 of my exhibit contains this information.

Q. Mr. Fontaine, would you please summarize your testimony?

A. Yes. Gulf asks that the Commission accept:

1. Crist Units 6 and 7, Smith Units 1 and 2 and Daniel Units 1 and 2, for inclusion under the GPIF for the period of October 1, 1998 through December 31, 1998.

2. The target, maximum attainable, and minimum attainable average net operating heat rates, as proposed by the Company and as shown on page 32 of Schedule 1 and also page 5 of Schedule 3 of my exhibit.

3. The target, maximum attainable, and minimum attainable equivalent availabilities, as proposed by the Company and as shown on Page 4 of Schedule 2 and also page 5 of Schedule 3 of my exhibit.

4. The weekly average net operating heat rate least squares regression equations, shown on page 2 of Schedule 1 and also pages 18 through 23 of Schedule 3 of my exhibit, for use in adjusting the six-month actual unit heat rates to target conditions.

Q. Mr. Fontaine, does this conclude your testimony?
A. Yes, Sir.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

KAREN O. ZWOLAK

Q. Please state your name, address, occupation and employer.

A. My name is Karen O. Zwolak. My business address is 702 North Franklin Street, Tampa, Florida 33602. My position is Manager - Energy Issues in the Regulatory Affairs Department of Tampa Electric Company.

Q. Please provide a brief outline of your educational background and business experience.

A. I received a Bachelor of Arts Degree in Microbiology in 1977 and a Bachelor of Science degree in Chemical Engineering in 1985 from the University of South Florida. I began my engineering career in 1986 at the Florida Department of Environmental Regulation and was employed as a Permitting Engineer in the Industrial Wastewater Program. In 1990, I joined Tampa Electric Company as an engineer in the Environmental Planning Department and was responsible for permitting and compliance issues relating to wastewater treatment and disposal. In 1995, I transferred to TEC's

Energy Supply Department and assumed the duties of the plant chemical engineer at the F. J. Gannon Station. In this position, I was responsible for boiler chemistry, water management, and maintenance of environmental equipment and general engineering support. In 1997, I was promoted to Manager, Energy Issues in the Electric Regulatory Affairs Department. My present responsibilities include the areas of fuel adjustment, capacity cost recovery, environmental filings and rate design.

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

A. The purpose of my testimony is to present the net true-up amounts for October 1997 through March 1998 period for both the Fuel Cost Recovery and the Capacity Cost Recovery Clauses.

FUEL COST RECOVERY CLAUSE

Q. What is the net true-up amount for the fuel cost recovery clause for the period October 1997 through March 1998?

A. An over/(under) - recovery of $53,414. The actual fuel cost over/(under) - recovery, including interest, is $10,468,942 for the period October 1997 through March 1998

(Schedule A2, page 2 or 3, of March 1998 monthly filing, in Document No. 4, reflects an end of period total net true-up of $4,426,535. Subtracting the beginning of period deferred true-up of ($6,042,407) yields the $10,468,942. This $10,468,942 amount, less the actual/estimated over/(under) - recovery approved in the February 1998 fuel hearings of $10,415,528 results in a final over/(under) - recovery for the period of $53,414. This over/(under) - recovery amount of $53,414 will be carried over and applied in the calculation of the fuel recovery factor for the period January 1999 through December 1999.

Q. How much effect will this $53,414 over/(under) - recovery in the October 1997 through March 1998 period, have on the January 1999 through December 1999 period?

A. The $53,414 over/(under) - recovery will not affect a 1,000 KWH residential bill when spread over 12 months of energy.

Q. How are the fuel revenues associated with the Florida Municipal Power Agency and the City of Lakeland wholesale sales treated in this final true-up filing?

A. As per Order No. PSC-97-1273-FOF-EU, Tampa Electric shall credit its fuel clause with an amount equal to the system incremental fuel cost resulting from the Florida Municipal Power Agency and Lakeland Sales served from TEC generating units.

Q. Have you prepared an Exhibit in this proceeding?

A. Yes. Exhibit No. (KOZ-1, Fuel Cost Recovery and Capacity Cost Recovery) which contains four documents. Document No. 3 is used to explain the capacity cost recovery clause which is discussed later in my testimony. Document No. 4 contains Commission Schedules A-1 through A-9 for the months of October 1997 through March 1998. Included with the March 1998 monthly filing is a six months summary for each of Commission Schedules A6, A7, A8, and A9 for the period October 1997 through March 1998.

Q. Please explain Document No. 1.

A. Document No. 1, entitled "Tampa Electric Company Final Fuel Over/(Under) - Recovery for the period October 1997 through March 1998" shows the calculation of the final fuel over/(under) - recovery for the period of $53,414 which will be applied to jurisdictional sales during the period January 1999 through December 1999.

Line 1 shows the total company fuel costs of $157,393,162 for the period October 1997 through March 1998. The jurisdictional amount of total fuel costs is $156,592,234 as shown on line 2. This amount is compared to the jurisdictional fuel revenues applicable to the period on line 3 to obtain the actual over/(under) - recovered fuel costs for the period, shown on line 4. The resulting $10,359,607 over/(under) - recovered fuel costs for the period, combined with $109,335 of interest shown on line 5, constitute the actual over/(under) - recovery of $10,468,942 shown on line 6. The $10,468,942 less the actual/estimated over/(under) - recovery of $10,415,528 shown on line 7, which was approved in the February 1998 fuel hearings, results in the final over/(under) - recovery of $53,414 shown on line 8.

Q. What does Document No. 2 show?

A. Document No. 2, entitled "Tampa Electric Company Calculation of True-Up Amount Actual vs. Original Estimates for the period October 1997 through March 1998", shows the calculation of the actual over/(under) - recovery as compared to the original estimate for the same period.

Q. What was the variance in jurisdictional fuel revenues for the period October 1997 through March 1998?

A. As shown on line C1 of my Document No. 2, the company collected ($3,820,025) less jurisdictional fuel revenues than originally estimated.

Q. What was the total fuel and net power transaction cost variance for the period October 1997 through March 1998?

A. As shown on line A7 of Document No. 2, the fuel and net power transactions cost variance is ($11,239,487) or (6.7%).

Q. What are the reasons for the total fuel and net power transactions cost being lower by ($11,239,487) or (6.7%)?

A. The primary reason for the (6.7%) decrease is due to Net Energy for Load being down (150,422) MWH or (2.0%). This (2.0%) combined with the ¢/KWH for Total Fuel and Net Power Transaction being less than estimated by (4.7%), accounts for the (6.7%) decrease.

CAPACITY COST RECOVERY CLAUSE

Q. What is the net true-up amount for the capacity cost recovery clause for the period October 1997 through March 1998?

A. An over/(under) - recovery of ($347,147). The actual capacity cost over/(under) - recovery, including interest, is ($645,929) for the period October 1997 through March 1998 (Document No. 3, pages 2 and 3 of 5). This amount, less the actual/estimated over/(under) - recovery approved in the February 1998 fuel hearings of ($298,782) results in a final over/(under) - recovery for the period of ($347,147) (Document No. 3, page 5 of 5). This over/(under) - recovery amount of ($347,147) will be carried over and applied in the calculation of the capacity cost recovery factor for the period January 1999 through December 1999.

Q. How much effect will this ($347,147) over/(under) - recovery in the October 1997 through March 1998 period, have on the January 1999 through December 1999 period?

A. The ($347,147) over/(under) - recovery will cause a 1,000 KWH residential bill to be approximately $0.02 higher.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

KAREN O. ZWOLAK

Q. Please state your name, address, occupation and employer.

A. My name is Karen O. Zwolak. My business address is 702 North Franklin Street, Tampa, Florida 33602. My position is Manager - Energy Issues in the Regulatory Affairs Department of Tampa Electric Company.

Q. Please provide a brief outline of your educational background and business experience.

A. I received a Bachelor of Arts Degree in Microbiology in 1977 and a Bachelor of Science degree in Chemical Engineering in 1985 from the University of South Florida. I began my engineering career in 1986 at the Florida Department of Environmental Regulation and was employed as a Permitting Engineer in the Industrial Wastewater Program. In 1990, I joined Tampa Electric Company as an engineer in the Environmental Planning Department and was responsible for permitting and compliance issues relating to wastewater treatment and disposal. In 1995, I transferred to Tampa

Electric's Energy Supply Department and assumed the duties of the plant chemical engineer at the F. J. Gannon Station. In this position, I was responsible for boiler chemistry, water management, and maintenance of environmental equipment and general engineering support. In 1997, I was promoted to Manager, Energy Issues in tne Electric Regulatory Affairs Department. My present responsibilities include the areas of fuel adjustment, capacity cost recovery, environmental filings and rate design.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to sponsor Tampa Electric's Fuel and Purchased Power Cost Recovery Schedules and Capacity Cost Recovery Schedule and to support the company's proposal to extend the currently approved total Fuel and Purchased Power Cost Recovery factors and Capacity Cost Recovery factors ("cost recovery factors") during the three month period October 1998 through December 1998.

Q. What would be the impact on Tampa Electric's customers of continuing your currently approved ccst recovery factors during the months of October 1998 through December 1998?

A. Tampa Electric has shown that an overrecovery of $4,090,044 will result, based on projections provided in Exhibits (KOZ-4) and (KOZ-5), both of which were prepared under my direction and supervision. This overrecovery is associated with a cost differential of less than 5% which is significantly less than the amount which would trigger a mid-course correction. Therefore, Tampa Electric believes it is appropriate to continue applying its currently approved fuel adjustment factors through the end of 1998.

Q. Do you wish to sponsor any additional exhibits in support of your testimony?

A. Yes I do. Exhibit No. (KOZ-2) consisting of 29 pages was prepared under my direction and supervision, as was Exhibit (KOZ-3), regarding Capacity Cost Recovery.

Q. Why does Tampa Electric propose extending the applicability of its currently approved cost recovery factors during the three month period October 1998 - December 1998?

A. Tampa Electric's current cost recovery factors were approved by the Commission in Order No. PSC-98-0412-FOF-EI issued March 20, 1998 in this docket for use during the period April 1998 through September 1998. Subsequent to the entry of that order the Commission voted to change the cost recovery clauses from a six month cost recovery period to an annual calendar year cost recovery period.[1] The Commission's decision in this regard requires a transition from the existing bi-annual hearing schedule to an annual schedule. Under the transition a hearing will be conducted in November of 1998 to set the cost recovery factors to be applied during the period January 1999 through December 1999.

As I stated earlier, the currently effective cost recovery factors were approved for use through September 1998. Tampa Electric has analyzed its fuel and capacity expense and kilowatt hour sales both for the current six month cost recovery period and projected through the three month transition period ending December 31, 1998 and has concluded that a continuation of the company's present cost recovery factors during the three month transition period of October 1998 through December 1998 is a preferable alternative to changing the factors on October 1 and again three months later.

Maintaining the current factors will avoid potential customer confusion over fluctuating cost recovery factors

[1] Order No. PSC-98-0691-FOF-PU issued in Docket No. 980269-PU on May 19, 1998.

and will save all parties the administrative costs of placing new factors in place for the brief three month transition. Such stability of rates is one of the reasons why the Commission determined it appropriate to move from a six month cost recovery period to an annual calendar year period.

Q. Is Tampa Electric also proposing to keep its temporary base rate reduction in place during the period September 1998 through December 1998?

A. Yes we are. Any over or under collection associated with the temporary base rate reduction factor will be handled as a true-up component in the normal course of the fuel adjustment proceedings as contemplated in the stipulation which brought about the reduction.

Q. Will the GPIF component of the overall fuel adjustment factor remain in place under Tampa Electric's proposal?

A. Yes. The Generation Performance Incentive Factor approved for the April 1998 through September 1998 cost recovery period would remain in place through December 1998. The penalty assessed each month has been continued through December in our proposal and will be trued up to the next true-up filing. Pursuant to Staff's request, new GPIF targets and ranges will be calculated and submitted in the Company's projection filing in October 1998.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

GEORGE A. KESELOWSKY

Q. Will you please state your name, business address, and employer?

A. My name is George A. Keselowsky and my business address is Post Office Box 111, Tampa, Florida 33601. I am employed by Tampa Electric Company.

Q. Please furnish us with a brief outline of your educational background and business experience.

A. I graduated in 1972 from the University of South Florida with a Bachelor of Science Degree in Mechanical Engineering. I have been employed by Tampa Electric Company in various engineering positions since that time. My current position is that of Senior Consulting Engineer - Energy Supply Engineering.

Q. What are your current responsibilities?

A. I am responsible for testing and reporting unit performance, and the compilation and reporting of generation statistics.

Q. What is the purpose of your testimony?

A. My testimony presents the actual performance results from unit equivalent availability and station heat rate used to determine the Generating Performance Incentive Factor (GPIF) for the period October 1997 through March 1998. I will also compare these results to the targets established prior to the beginning of the period.

Q. Have you prepared an exhibit with the results for this six month period?

A. Yes. Under my direction and supervision and exhibit has been prepared entitled, "Tampa Electric Company, October 1997 - March 1998, Generating Performance Incentive Factor Results" consisting of 28 pages that was filed with this testimony (Have identified as Exhibit GAK-1).

Q. Have you calculated the results of Tampa Electric Company for its performance under the GPIF during this period?

A. Yes I have. This is shown on page 4 of my exhibit. Based upon - 0.911 GPIF points, the result is a penalty amount of $188,281 for the period.

Q. Please proceed with your review of the actual results for the October 1997 - March 1998 period.

A. On page 3 of my exhibit, the actual average common equity for the period is shown on line 8 as $1,123,610,573. This produces the maximum penalty or reward figure of $2,273,380 as shown on line 15, page 3. Please note that the maximum allowed incentive dollar amount has been reduced to meet the constraint that it not exceed fifty percent of fuel savings. This is demonstrated on page 2 of my exhibit.

Q. Would you please explain how you arrived at the actual equivalent availability results for the six units included within the GPIF?

A. Yes I will. Operating data on each of our operating units is filed monthly with the Florida Public Service

Commission on the Actual Unit Performance data form. Additionally, outage information is reported to the Commission on a monthly basis. A summary of this data for the six months provides the basis for the GPIF.

Q. Are the equivalent availability results shown on page 6, column 2, directly applicable to the GPIF table?

A. Not exactly. Adjustments to equivalent availability may be required as noted in section 4.3.3 of the GPIF Manual. The actual equivalent availability including the required adjustment is shown on page 6 of my exhibit. The necessary adjustments as prescribed in the GPIF Manual are further defined by a letter dated October 23, 1981, from Mr. J.H. Hoffsis of the Commission's Staff. The adjustments for each unit are as follows:

Gannon Unit No. 5

On this unit, 504 planned outage hours were originally scheduled to fall within the Winter 1997 period. Due to a reprioritization of the outage schedule additional work was moved forward and accomplished in this period. Consequently, the actual equivalent availability of 53.6% is adjusted to 63.5% as shown on page 7 of my exhibit.

Gannon Unit No. 6

On this unit, 48 planned outage hours were originally scheduled to fall within the Winter 1997 period. Due to a revision of the outage schedule, this work was moved forward to fall completely within the period, and 582.5 planned outage hours fell within the period. Consequently, the actual equivalent availability of 63.7% is adjusted to 72.6%, as shown on page 8 of my exhibit.

Big Bend Unit No. 1

On this unit 336 planned outage hours were originally scheduled to fall within the Winter 1997 period. Due to a revision of the outage schedule no planned outage hours fell within the period. Consequently, the actual equivalent availability of 82.7% is adjusted to 76.3% as shown on page 9 of my exhibit.

Big Bend Unit No. 2

On this unit 336 planned outage hours were originally scheduled to fall within the Winter 1997 period. Due to a revision of the outage schedule, 248.5 planned outage hours fell within the period. Consequently, the actual equivalent availability of 77.3% is adjusted to 75.7% as shown on page 10 of my exhibit.

Big Bend Unit No. 3

On this unit 504 planned outage hours were originally scheduled to fall within the Winter 1997 period. Due to a revision of the outage schedule, outage activities were moved forward and accomplished prior to the period, and no planned outage hours fell within the period. Consequently, the actual equivalent availability of 80.5% is adjusted to 71.2% as shown on page 11 of my exhibit.

Big Bend Unit No. 4

On this unit 504 planned outage hours were scheduled to fall within the Winter 1997 period. Due to a revision of the outage schedule the outage was moved to occur after the end of the period. Consequently, the actual equivalent availability of 92.3% is adjusted to 81.5% as shown on page 12 of my exhibit.

Q. How did you arrive at the applicable equivalent availability points for each unit?

A. The final adjusted equivalent availabilities for each unit are shown on page 6, column 4, of my exhibit. This number is entered into the respective Generating Performance Incentive Point (GPIP) Table for each particular unit on pages 21 through 26. Page 4 of my exhibit summarizes the equivalent availability points to be awarded or penalized.

Q. Would you please explain the heat rate results relative to the GPIF?

A. The actual heat rate and adjusted actual heat rate for Gannon and Big Bend Station are shown on page 6 of my exhibit. The adjustment was developed based on the guidelines of section 4.3.16 of the GPIF Manual. This procedure is further defined by a letter dated October 23, 1981, from Mr. J.H. Hoffsis of the FPSC Staff. The final adjusted actual heat rates are also shown on page 5 of my exhibit. This heat rate number is entered into the respective GPIP table for the particular unit, shown on pages 21 through 26. Page 4 of my exhibit summarizes the weighted heat rate and equivalent availability points to be awarded.

Q. Were any additional adjustments to heat rate required?

A. In order to assure compatibility of data, Big Bend Unit 3 heat rates have been calculated in the standard fashion, without scrubber power. This methodology has been reviewed and approved by the PSC staff, to be employed until there is sufficient operational history with the scrubber to meet target preparation guidelines.

Q. Does this assure that the Big Bend 3 heat rate for the period is appropriate for comparison to its target and meets GPIF criteria?

A. Yes.

Q. What is the overall GPIP for Tampa Electric Company during this six month period?

A. This is shown on page 28 of my exhibit. Essentially, the weighting factors shown on page 4, column 3, plus the equivalent availability points and the heat rate points shown on page 4, column 4, are substituted within the equation. This resultant value, -0.911, is then entered into the GPIF table on page 2. Using linear interpolation, a penalty amount of $188,281 is calculated.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

ROD BURKHARDT

Q. Please state your name, address and occupation.

A. My name is Rod Burkhardt. My mailing address is P.O. Box 111, Tampa, Florida 33601, and my business address is 6944 U.S. Highway 41 North ,Apollo Beach, Florida 33572. I am Manager, Fuels in the Energy Supply Department of Tampa Electric Company.

Q. Mr. Burkhardt, please furnish a brief outline of your educational background and business experience.

A. I graduated from the University Florida in July, 1977 with a Bachelor of Science degree in Chemistry. I began my career with Tampa Electric Company in July 1977 as a chemist in the Production Department. Between 1977 and 1986, I held various technical and supervisory positions in the Central Testing Lab. In 1986, I became Supervisor-Budgets for Tampa Electric Company and in 1990 assumed the position of Manager-Central Testing Lab. In 1994 I joined the Fuels Department as Manager-Transportation and Planning and was named to my current position as Manager, Fuels in 1995.

Q. Will you describe some of the responsibilities of your present position?

A. As Manager, Fuels, I am responsible for the planning, procurement, delivery, inventory control, and price forecasting of the company's fuel requirements.

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to report to the Commission the actual 1997 costs of Tampa Electric's affiliated coal and coal transportation transactions compared to the benchmark prices calculated in accordance with Order No. 20298 (coal transportation) and Order No. PSC-93-0443-FOF-EI ("Order No. 93-0443") (coal). I conclude that the 1997 prices paid by Tampa Electric to its affiliates TECO Transport and Trade and Gatliff Coal are reasonable and prudent.

Q. Have you prepared an exhibit which you sponsor in this proceeding?

A. Yes. Exhibit No. (RB-1) titled "Exhibit of Rod Burkhardt", consisting of 2 documents, was prepared under my direction and supervision.

AFFILIATED COAL AND COAL TRANSPORTATION PRICES

Q. Were Tampa Electric's actual affiliated coal transportation prices for 1997 at or below the transportation benchmark?

A. Yes, they were. This is reflected in Document No. 1 of my exhibit.

Q. Were Tampa Electric's actual 1997 affiliated coal prices at or below the benchmark as established in Order No. 93-0443?

A. Yes, they were. This is reflected in Document No. 2 of my exhibit.

Q. Please summarize your testimony.

A. My testimony justifies the prices paid for coal and coal transportation by Tampa Electric Company in 1997 to its affiliated suppliers, Gatliff Coal and TECO Transport. I demonstrate that the average prices for the year 1997 for all coal and coal waterborne transportation services were at or below the appropriate benchmark calculations as directed by Order No. 20298 and Order No. 93-0443 of this Commission. Therefore, Tampa Electric should recover its payments for coal and coal transportation made during 1997.

Q. Does this conclude your testimony?

A. Yes, it does.

STATE OF FLORIDA)
: CERTIFICATE OF REPORTER
COUNTY OF LEON)

I, JOY KELLY, CSR, RPR, Chief, Bureau of Reporting, Official Commission Reporter,

DO HEREBY CERTIFY that the Hearing in Docket No. 980001-EI was heard by the Florida Public Service Commission at the time and place herein stated; it is further

CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript, consisting of 124 pages, constitutes a true transcription of my notes of said proceedings and the insertion of the prescribed prefiled testimony of the witnesses.

DATED this 27th day of August, 1998.

JOY KELLY, CSR, RPR
Chief, Bureau of Reporting

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