

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of
REQUEST FOR RATE INCREASE
BY GULF POWER COMPANY.

DOCKET NO. 010949-EI

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VOLUME 6
Pages 488 through 600

PROCEEDINGS: HEARING

BEFORE: CHAIRMAN LILA A. JABER
COMMISSIONER J. TERRY DEASON
COMMISSIONER BRAULIO L. BAEZ
COMMISSIONER MICHAEL A. PALECKI
COMMISSIONER RUDOLPH "RUDY" BRADLEY

DATE: Monday, February 25, 2002

TIME: Commenced at 9:30 a.m.
Recessed at 6:24 p.m.

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

REPORTED BY: MARY ALLEN NEEL, RPR

APPEARANCES: (As heretofore noted.)

DOCUMENT NUMBER-DATE

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P R O C E E D I N G S

(Transcript follows in sequence from Volume 5.)

Thereupon,

F. M. FISHER

continues his testimony from Volume 5 as follows:

REDIRECT EXAMINATION

BY MR. STONE:

Q Mr. Fisher, you were asked a question about the possibility of enhancements to programs such as the trouble call management system and whether or not you would want to implement such enhancements. Would you evaluate the costs and benefits of those enhancements before choosing to purchase those enhancements from the vendor?

A Yes, I would.

Q So just the fact that a new enhancement might be available, it may not necessarily be cost-effective for your customers; is that correct?

A A new enhancement would have to compete with some very important programs at Gulf.

MR. STONE: That's all I have.

CHAIRMAN JABER: Okay. We have one exhibit, Mr. Stone, Exhibit 33.

MR. STONE: We would move Exhibit 33 into the record.

1 CHAIRMAN JABER: Without objection,
2 Exhibit 33 is admitted into the record.

3 (Exhibit 33 was admitted into the record.)

4 CHAIRMAN JABER: Commissioners, how about
5 we take a 15-minute break and come back at 3:20.

6 (Short recess.)

7 CHAIRMAN JABER: Okay. We're going to go
8 back on the record, and Gulf Power, the next witness
9 is Howell?

10 MR. MELSON: Mr. Howell, yes, ma'am. And
11 he has not been sworn.

12 CHAIRMAN JABER: Mr. Howell, if you'll
13 raise your right hand, please.

14 (Witness sworn.)

15 Thereupon,

16 M. W. HOWELL
17 was called as a witness on behalf of Gulf Power
18 Company and, having been duly sworn, testified as
19 follows:

20 DIRECT EXAMINATION

21 BY MR. MELSON:

22 Q Would you state your name and address for
23 the record, please.

24 A My name is M. W. Howell, One Energy Place,
25 Pensacola, Florida 32520.

1 Q By whom are you employed, and in what
2 capacity?

3 A I'm employed by Gulf Power Company. I'm
4 the Transmission and System Control Manager.

5 Q And have you prefiled direct testimony
6 consisting of 25 pages?

7 A Yes.

8 Q Do you have any changes and corrections to
9 your direct testimony?

10 A No.

11 Q And if I were to ask you the same questions
12 today, would your answers be the same?

13 A Yes.

14 MR. MELSON: I would ask that Mr. Howell's
15 direct testimony be inserted into the record as though
16 read.

17 CHAIRMAN JABER: The prefiled direct
18 testimony of M. W. Howell shall be inserted into the
19 record as though read.

20 BY MR. MELSON:

21 Q Mr. Howell, you had attached to your
22 testimony one exhibit labeled MWH-1, consisting of two
23 schedules; is that correct?

24 A Yes.

25 Q And as indicated on Schedule 1, you are

1 sponsoring certain portions of the MFRs; is that
2 right?

3 A Yes.

4 Q Do you have any changes or corrections to
5 your exhibit?

6 A No.

7 MR. MELSON: Chairman, I would ask that
8 Mr. Howell's exhibit be identified as Exhibit 34.

9 CHAIRMAN JABER: MWH-1 will be identified
10 as Exhibit 34.

11 (Exhibit 34 was marked for identification.)

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1 GULF POWER COMPANY

2 Before the Florida Public Service Commission
3 Prepared Direct Testimony and Exhibit of
4 M. W. Howell
5 Docket No. 010949-EI
6 In Support of Rate Relief
7 Date of Filing: September 10, 2001

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

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

12 Q. Please summarize your educational and professional background.

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

I am a member of the Engineering Committees and the Operating

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

13
14 Q. Have you previously testified before this Commission?

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

18
19 Q. Have you prepared an exhibit that contains information to which you will
20 refer in your testimony?

21 A. Yes. I have one exhibit to which I will refer. This exhibit was prepared
22 under my supervision and direction.

23 Counsel: We ask that Mr. Howell's Exhibit MWH-1,
24 consisting of two schedules, be marked for
25 identification as Exhibit No. ____.

1 Q. Are you the sponsor of certain Minimum Filing Requirements (MFRs)?

2 A. Yes. Those which I am sponsoring are listed on Schedule 1 of my exhibit.

3 To the best of my knowledge, the information in all of the listed MFRs is
4 true and correct.

5

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

7 A. I will address Gulf Power Company's (Gulf) participation in the Southern
8 electric system (SES) generation and transmission planning processes,
9 SES power pool operations, the Intercompany Interchange Contract (IIC)
10 and the benefits it provides to Gulf's customers, IIC treatment of Plant
11 Smith Unit 3 capacity, the Company's off-system sales, transmission line
12 facility charges, transmission operation and maintenance (O & M)
13 expenses, the transmission construction program, and services provided
14 by Southern Company Services, Inc., (SCS) for the transmission,
15 substation, and interchange functions.

16

17 Q. Please describe the SES generation planning process in which Gulf
18 participates.

19 A. Gulf plans for generation additions in conjunction with the other SES
20 operating companies through the SES Integrated Resource Planning
21 (IRP) process. The IRP incorporates historical and future economic
22 trends and conditions that will impact the SES business for the next
23 twenty to twenty-five years. Activities conducted in the IRP process
24 include the determination of escalation rates that affect fuel, construction,
25 O & M, and labor costs; energy and demand forecasting; assessment of

1 demand-side program impacts on SES system loads; technology
2 screening analysis and evaluation; and technology engineering cost
3 estimation modeling. Currently planned retirement dates of selected SES
4 generating units are evaluated, as well as the economics of possible unit
5 repowering over the planning horizon. Also, the market for power
6 purchases is evaluated in order to determine the cost-effectiveness as
7 opposed to the available supply-side and demand-side options.

8 The key assumptions for optimizing the system generation addition
9 model are load forecasts, demand-side options, candidate units, reserve
10 margin, cost of capital, fuel costs, and escalation rates. Once the
11 necessary assumptions are determined, technologies are screened to the
12 most acceptable candidates, planning inputs are defined, and the SES
13 generation mix analysis is initiated. After the results of the mix analysis
14 are verified, each individual operating company evaluates its specific
15 needs and recommends the type and timing of its unit additions. When all
16 companies are satisfied with their capacity additions, and the sum
17 matches the system need, the system base supply-side plan is complete.
18 The result of this allocation is an individual operating company supply
19 plan, as it would fit within the SES planning criteria. Once the individual
20 operating company supply plans are determined, demand-side options
21 are evaluated as a cost-effective alternative to the supply plan.

22 Finally, after the incorporation of the cost-effective demand-side
23 impacts, a final IRP for each individual operating company is produced. A
24 financial analysis of the IRP's impact is performed by considering changes
25 in load forecast as well as fuel price variations, as sensitivities, in order to

1 assess the impact on the SES's cost. Once the plan has proven to be
2 robust and financially feasible, it is reviewed with and presented for
3 approval to executive personnel.

4 In summary, the SES's IRP process involves a significant amount
5 of manpower and computer resources in order to produce a least-cost,
6 integrated demand-side and supply-side resource plan. During the entire
7 process, a broad range of alternatives to meet the SES's projected
8 demand and energy requirements are considered. The result of the SES
9 IRP process is an integrated plan that can meet the needs of our
10 customers in a cost-effective and reliable manner.

11
12 Q. Please describe the SES transmission planning process in which Gulf
13 participates.

14 A. Gulf plans for transmission system additions in a process separate from
15 the IRP. The SES transmission system is viewed as a medium used to
16 reliably transport electric power from its generation sources to the point of
17 its consumption under a number of system conditions, known as
18 contingencies. The results of the IRP, particularly with regard to location
19 of future generating units, are factored into the transmission planning
20 process in order to determine the impacts of various generation site
21 options on the transmission system. The system is studied under
22 different contingencies for various load levels to ensure that the system
23 can operate adequately without exceeding conductor thermal and system
24 voltage limits.

25 When the study reveals a potential problem with the transmission

1 system that could adversely impact Gulf's ability to maintain or restore
2 reliability, a number of possible solutions are identified, and their costs are
3 evaluated to determine which is the most cost-effective. Once it is
4 concluded which solution is appropriate to correct the problem, a capital
5 budget expenditure request is prepared for executive approval so that the
6 necessary facilities are added or improved.

7
8 Q. Did you participate in the need determination process for Smith Unit 3?

9 A. Yes. I provided testimony in Docket No. 990325-EI that addressed Gulf's
10 customers' need for the additional generating capacity represented by the
11 Smith Unit 3 combined cycle addition and the steps taken by Gulf to
12 analyze that need. As Transmission and System Control Manager for
13 Gulf, my responsibility in the need determination process was to ensure
14 that all viable power supply alternatives were thoroughly evaluated so that
15 the most cost-effective supply alternative was chosen.

16
17 Q. In determining that Plant Smith Unit 3 was Gulf's most economical choice
18 for supplying the needs of its customers, were independent power
19 suppliers given the chance to supply these power supply needs?

20 A. Yes. As part of the SES IRP process, the market for power purchases is
21 evaluated in order to determine the cost-effectiveness of purchases as
22 opposed to the available supply-side and demand-side options. In
23 accordance with Florida Public Service Commission Rule No. 22.082,
24 FAC, Gulf directed the preparation of a Request For Proposals (RFP) that
25 contained the power supply criteria that would meet the needs of Gulf's

1 customers. The RFP was advertised in state and national publications,
2 and approximately one hundred potential suppliers were mailed a copy of
3 the RFP.

4

5 Q. What did the results of the RFP tell Gulf about the cost-effectiveness of
6 the Smith Unit 3 project?

7 A. Gulf's proposed self-build option, Smith Unit 3, was a clear winner when
8 compared to the best RFP response received. This superior economic
9 advantage clearly showed that Smith Unit 3 was the most cost-effective
10 power supply alternative. Smith Unit 3 is the most economic alternative in
11 part because of its location on the transmission system where voltage
12 support is critically needed.

13

14 Q. Have the results of the Smith Unit 3 evaluations been brought before this
15 Commission?

16 A. Yes. On June 7, 1999, in Docket No. 990325-EI, the Commission held a
17 hearing on Gulf's request for determination of need for Smith Unit 3. After
18 hearing the evidence in the case, the Commission voted unanimously to
19 certify the need, and subsequently issued Order No. PSC-99-1478-FOF-
20 EI approving Smith Unit 3 as the best power supply alternative to meet
21 Gulf's customers' needs.

22

23 Q. What is the function of the IIC?

24 A. The contract is the mechanism wherein the operating companies of the
25 SES agree to operate an integrated electric system or power pool. The

1 IIC is dynamic in nature in that it is reviewed annually and updated as
2 required to reflect changing conditions while ensuring equitable sharing of
3 the benefits and responsibilities of operating the integrated SES. The
4 contract is prepared under the direction of the SES Operating Committee,
5 which consists of one executive representative from each operating
6 company and one representative from SCS. The transactions involved in
7 system operations and the sharing of benefits and responsibilities of
8 pooling among member companies are specified in the IIC. Under terms
9 of the IIC, the generating resources of all member companies are
10 economically dispatched to serve the total system load requirements.
11 This concept insures that multiple benefits accrue to the customers of
12 each operating company.

13
14 Q. Please summarize Gulf's participation in SES power pool operations.

15 A. Gulf's territorial generation and transmission facility operations are
16 coordinated with the other operating company facilities through the SES
17 Power Coordination Center (PCC) in Birmingham, Alabama. Through the
18 PCC, Gulf and the other SES operating companies form a centralized
19 power pool that provides electric service to their customers in the most
20 reliable and economical manner. All operating company facilities are
21 committed to serving total SES load requirements, and the companies
22 take advantage of coordinated generation unit maintenance scheduling,
23 unit commitment planning, system reliability, security analysis, and
24 economic dispatch. The centralized control of the SES by the PCC also
25 provides ready access to the numerous system generation and

1 transmission resources if power supply emergencies arise. There are
2 many complex issues that arise when operating a large interconnected
3 electric grid, and the IIC governs the many procedures used to operate
4 the integrated SES through the centralized power pool concept.

5
6 Q. What are the benefits that Gulf's customers derive from the IIC pooling
7 arrangement?

8 A. Gulf's customers benefit tremendously from Gulf participating in this
9 pooling arrangement. This Commission has consistently recognized
10 these benefits in past proceedings and rate orders. Our analyses over the
11 years have consistently shown that Gulf's customers receive significant
12 benefits annually as a result of Gulf's participation in the SES power pool,
13 as opposed to operating separately. These benefits include, but are not
14 limited to, the following:

- 15 1. Economic dispatch production cost savings.
- 16 2. Economic sharing of generating reserve capacity.
- 17 3. Ability to install large, efficient generating units.
- 18 4. Reduced requirements for operating reserves.
- 19 5. Pool market for temporary surpluses of capacity and energy on
20 Gulf's system.
- 21 6. Ready supply of energy for purchase when Gulf is short.
- 22 7. Potential long-term power sale revenues.
- 23 8. Unit power sale benefits.
- 24 9. Peak-hour load diversity.
- 25 10. Potential opportunity energy transaction benefits.

1 These multiple benefits that accrue to Gulf and the other SES
2 operating companies result from the coordinated planning and operation
3 of the power pool. Clearly, increased reliability is a major factor in pool
4 operation. In the event of the loss of generation or transmission ties
5 within Gulf's system, the pool responds instantly with replacement
6 capacity and energy from the most economical source available at the
7 time. The SES's many transmission interconnections with neighboring
8 utilities also allow us to purchase power for the system in an emergency;
9 therefore, the multiple transmission ties to other regional utilities ensure
10 that we can buy the cheapest energy available at all times.

11 Certainly, a major benefit of the pool to Gulf has been the selection
12 of generating unit size in the SES. Because of the capacity equalization
13 process under the IIC, Gulf has been able to completely own or purchase
14 shares of 500 MW and 800 MW state-of-the-art generating units. Gulf's
15 latest generation fleet addition, Plant Smith Unit 3, is a state-of-the-art,
16 highly efficient 574 MW gas fired combined cycle unit. All of this capacity
17 has been purchased at a lower cost per KW and is more efficient
18 generation than otherwise would have been available to a relatively small
19 company such as Gulf. The Company could not support construction and
20 ownership of such large units without participating in the SES power pool.
21 Thus, it is our participation in the pool and the IIC that enables Gulf's
22 customers to achieve the savings associated with these large, more
23 efficient units.

24 Coordination of major maintenance periods for turbine inspections
25 and other generating unit outages can be a major problem for a company

1 of Gulf's size. However, with the coordinated maintenance planning that
2 takes place within the SES, we are able to accomplish major maintenance
3 on our large generating units and purchase economical replacement
4 power at the same time.

5 Gulf is also able to share in the diversity of power needs resulting
6 from the system providing service to such a large geographical region.
7 The territories of the system companies have weather, time zone, and
8 customer mix differences. These differences result in variations in load
9 patterns, because the operating companies do not all reach their annual
10 peak demand at the same time. This improves the overall system load
11 factor and means that fewer generating units have to be constructed and
12 committed to service at a given time, thus creating lower system
13 production costs.

14
15 Q. How will Plant Smith Unit 3 capacity be treated in the IIC?

16 A. The 574 MW combined cycle unit will be a generating capacity resource
17 for Gulf's territorial customers and will be treated like all of Gulf's other
18 territorial generating capacity resources. The Smith Unit 3 capacity will be
19 included in the IIC's capacity equalization calculation as an owned
20 capacity resource available to serve the total load of Gulf and the SES.

21
22 Q. Does membership in the SES power pool enable Gulf to participate in
23 multiple off-system power sales agreements?

24 A. Yes. The SES is in a regional position that allows the interchange and
25 sale of power directly to 13 interconnected utility systems and numerous

1 power marketers that have access to the SES through these
2 interconnections. Gulf has physical transmission line connections to only
3 two of these systems, but because of its IIC participation, Gulf is
4 essentially interconnected with all thirteen neighboring utility systems.
5 The IIC, which governs the operation of the SES power pool, provides for
6 the equitable distribution of these off-system sales among SES operating
7 companies; and this allows Gulf to be a party to many different power
8 purchase and sales contracts with regional utilities and other power
9 marketers. Some of these neighboring utilities are heavily dependent
10 upon oil and natural gas for electric generation. Because Gulf and the
11 SES have an excellent mix of generation resources with a high
12 percentage of economical coal capacity, a market for sales of electricity
13 off the SES has resulted. The coordination and economic dispatch of
14 these generation resources make the SES a reliable source of
15 economically priced energy for the entire region and provide substantial
16 cost savings for Gulf's customers.

17
18 Q. What types of sales are made through the SES power pool?

19 A. These off-system sales fall into two primary categories: market-based
20 opportunity energy sales, and Unit Power Sales (UPS). Opportunity
21 energy sales, commonly referred to as economy energy sales, occur
22 when the SES incremental energy price is below that of purchasing
23 entities. These sales have no associated capacity, and the energy is
24 priced according to market-based principles such that the customers of
25 both the selling and purchasing companies benefit. Currently, the SES,

1 through its Generation and Energy Marketing (GEM) organization, sells
2 economy energy to neighboring southeastern utilities and numerous other
3 utilities and power marketers. The SES will continue to market this energy
4 to the extent that it remains beneficial to the territorial customers of the
5 SES operating companies.

6 UPS are sales of capacity and energy entitlements from specific
7 generating units. These sales provide for capacity based on unit specific
8 costs. Currently, the generation contracted covers sales to three utilities
9 within the state of Florida through 2010. The UPS contracts allow the
10 SES to substitute peaking capacity for coal base-load generating units at
11 a lower total cost to the territorial customer. GEM will continually evaluate
12 new markets for off-system opportunity sales and UPS if cheaper long-
13 term replacement capacity can be secured. Selling unit specific capacity
14 will continue to be an alternative for future generation needs only when
15 the SES operating companies can sell base capacity and replace it with
16 combustion turbines or other more efficient and cost effective capacity to
17 meet its territorial customers' needs.

18
19 Q. What has been the impact of off-system sales on Gulf's retail customers?

20 A. These sales have provided revenues from short-term surplus energy and
21 capacity that have substantially reduced the revenue required from the
22 retail customer to provide long-term reliable electric service.

23
24
25

1 Q. What is another significant benefit provided by Gulf's membership in the
2 SES power pool?

3 A. This membership has allowed Gulf to purchase a share of Plant Daniel
4 and Plant Scherer at tremendous savings to its customers.

5

6 Q. How is the IIC budget determined?

7 A. The IIC budget is determined on an annual basis, and it is used by
8 Mr. Saxon as an input into Gulf's overall budgeting process. The two
9 components are the capacity and energy portions of the IIC budget.
10 Capacity determinations are projected on a monthly basis, driven by each
11 SES operating company's monthly peak-hour load responsibility and
12 expected generating capacity. The pricing for capacity transactions from
13 a surplus company to a deficit company is based on the incremental costs
14 of SES peaking generation or purchased power resources.

15 The energy budget is prepared utilizing a probabilistic dispatch
16 model that determines the most economical generation sources each
17 hour to provide for the entire SES load. When it is more economical to
18 buy from another pool member, rather than generate, the model captures
19 this in the dispatch simulation. The model aggregates all the energy
20 transactions for a year, and this information is represented in our pool
21 budget.

22

23 Q. Does Gulf currently have transmission facility agreements related to its
24 ownership in Plant Daniel and Plant Scherer?

25 A. Yes. These agreements were discussed in Gulf's last rate case, Docket

1 No. 891345-EI, and Gulf currently has the same agreements with
2 Alabama Power Company (APC), Mississippi Power Company (MPC),
3 and Georgia Power Company (GPC). These agreements, sometimes
4 referred to as transmission rental agreements, compensate these
5 companies for their transmission facilities used by Gulf to deliver capacity
6 and energy from the jointly owned plants in Mississippi and Georgia to the
7 customer. The charge to Gulf from MPC is related to the Daniel-Wade-
8 Barry 230 kilovolt (kV) transmission line that begins at Plant Daniel in
9 Mississippi, runs to the Wade Substation in Mississippi, and terminates at
10 Plant Barry in Alabama. The charge to Gulf from APC is related to the
11 Barry-Crist 230 kV line that begins at Plant Barry in Alabama and
12 interconnects with Gulf's transmission system at the Florida state line.
13 These charges to Gulf from APC and MPC are based on the cost of these
14 transmission facilities and are a small fraction of what a fully embedded
15 transmission service charge or alternative transmission construction would
16 cost Gulf. The charge to Gulf from GPC is related to transmission
17 facilities owned by GPC that are utilized to deliver capacity and energy
18 from Plant Scherer Unit 3. Because Gulf's share of Plant Scherer is now
19 fully committed to UPS until 2010, there has been no charge for
20 transmission service since 1995 to the retail customers. In all cases, the
21 available alternatives of a fully embedded transmission service charge or
22 construction of new facilities were evaluated prior to our decision to enter
23 into the agreements.

24
25

1 Q. How have these arrangements benefited Gulf's customers?

2 A. As discussed above, the transmission line facility charges represent
3 significantly less cost to Gulf's customers than the other alternative of
4 utilizing the standard embedded cost of transmission facilities as a basis
5 for transmission service charges. Thus, not only do our customers realize
6 millions of dollars in savings through generation cost savings over the life
7 of the associated shared plants, Plants Daniel and Scherer, but they also
8 receive additional savings through the lower transmission service costs
9 that we have been able to secure.

10

11 Q. Please summarize transmission O & M expenses for the test year period
12 of June 2002 through May 2003 as compared to the Benchmark level for
13 transmission.

14 A. The total requested transmission O & M expenses of \$8,209,000 consist
15 of two major categories: transmission line facility charges, and other
16 transmission expenses. A comparison of these expenses to their
17 Benchmark levels is shown on Schedule 2 of my exhibit. The amount of
18 transmission line facility charges requested for the June 2002 through
19 May 2003 test year is \$1,163,000. This amount is based on charges from
20 APC and MPC and, as I previously discussed, represents significant cost
21 savings to Gulf's customers as compared to a fully embedded
22 transmission service charge or the alternative transmission construction
23 cost. The benchmark amount for the transmission line facility charges is
24 \$3,622,000. These expenses are under their benchmark by \$2,459,000,
25 primarily since they are essentially fixed in price.

1 The remaining transmission O & M expenses requested for the test
2 year period are \$7,046,000. These projected expenses will be needed to
3 adequately monitor and control the daily interconnected operations of
4 Gulf's transmission system, maintain the integrity of its transmission
5 substations and 230 kV, 115 kV and 46 kV transmission lines, and retain
6 a highly specialized, well trained workforce equipped with up-to-date tools
7 and machinery to operate and maintain Gulf's transmission system. The
8 Benchmark amount for these transmission O & M expenses is
9 \$7,615,000. These expenses are under their Benchmark by \$569,000.
10 This difference is primarily due to improved maintenance practices and
11 the use of equipment and materials utilizing advanced technologies that
12 contribute to lower transmission system maintenance costs.

13 As discussed by Mr. Saxon, each department at Gulf that charges
14 to transmission accounts goes through a detailed review during each
15 budget cycle regarding expenses for the budget year that are necessary
16 to maintain a reliable transmission system. These expenses are reviewed
17 on a departmental and company wide basis before being recommended
18 for approval by Gulf's Leadership Team. Thus, these expenses receive
19 several levels of review prior to being included in the budget.
20

21 Q. Please compare transmission O & M expenses for the test year period of
22 June 2002 through May 2003 to the adjusted historical year 2000
23 transmission O & M expenses shown on Schedule 3 of Mr. Saxon's
24 exhibit.

25 A. Gulf's transmission O & M expenses for the test year total \$8,209,000.

1 For the year ending December 31, 2000, the adjusted transmission O & M
2 expenses are \$6,975,000. The difference is an increase of \$1,234,000.

3
4 Q. Please explain what factors contribute to the increase in O & M expenses.

5 A. The primary reason for the difference is the need for increased inspection
6 and maintenance of our transmission facilities. While Gulf has been
7 adding new facilities as necessary to accommodate customer load
8 growth, the fact remains that the great majority of its facilities are relatively
9 old. As they age, they naturally require more maintenance due to normal
10 deterioration to keep them fit and providing reliable service to the
11 Company's customers. Transmission line inspections and repairs have
12 increased approximately \$638,000 between the two periods. This is due
13 to a combination of the need to accommodate the aging of the facilities,
14 as well as the fact that the historical year was a relatively low year for
15 such expenses. Again, remember that overall Gulf's transmission
16 expenses are well under the Benchmark.

17 Miscellaneous transmission expenses are up slightly over
18 \$100,000, also partially due to the year 2000 being a down year for costs
19 in this area. Maintenance of substation equipment is up \$200,000,
20 reflecting the addition of two items not contained in the historical year
21 2000. These two items are the need to slightly increase corrosion
22 protection expenses for Gulf's equipment, and the need to clean 230 kV
23 insulators subject to contamination build-up due to the surrounding
24 environment. Otherwise, these insulators would have frequent flashovers,
25 with quite negative impacts to the reliability of Gulf's customers' electric

1 service.

2 These are the primary increases between the two periods.
3 Customer growth and escalation between the two periods account for the
4 remainder of the difference.

5

6 Q. Do you believe all these costs are necessary and prudent?

7 A. Absolutely. Gulf has been able to provide a high level of reliability to its
8 customers by the technological and cost-saving programs that have been
9 implemented. But the Company has reached the limit of what those
10 programs can provide. With more facilities and customers being added
11 each year, and the aging of Gulf's facilities, these costs are critical to the
12 Company's ability to keep customer reliability high.

13

14 Q. What transmission and substation facility efficiency improvements has
15 Gulf implemented since its rate case in 1990?

16 A. Since 1990, Gulf has evaluated and purchased new products that have
17 provided and will continue to provide better value for all company
18 stakeholders. Gulf is using spun concrete transmission poles where
19 practical to ensure longer pole life, lower maintenance costs, improved
20 transmission system reliability, and lower initial construction cost. Also,
21 Gulf's transmission department personnel have served on several SES
22 study teams to produce a standard SES design for new substations that
23 greatly reduces engineering and construction time and costs. In recent
24 years, Gulf and SES personnel have been sharing "best practices"
25 throughout all functional areas of the SES so that facility design and

1 maintenance techniques become more efficient. For example, Gulf's
2 substation personnel have pioneered the use of cast concrete poles to
3 replace the reinforced concrete-mounted steel structures that support
4 current carrying substation buswork. This thoroughly tested substation
5 design innovation has already saved Gulf significant material and labor
6 costs, and it will continue to do so as Gulf uses the design in future
7 substation sites.

8 During the 1990's, Gulf and the SES tested and deployed the new
9 Energy Management System (EMS) as its mainstay generation and
10 transmission system controller used by SES system control centers. The
11 EMS's versatile hardware and software replaces the antiquated Power
12 Management System that began its service to the SES in the 1970s. With
13 the computer based EMS, the SES will be able to readily adapt computer
14 hardware and software to the increasingly complex requirements being
15 placed on the SES and other electric utility grids nationwide.

16
17 Q. Please give a summary of your transmission construction program from
18 January 2001 through May 2002.

19 A. The transmission department has initiated several key projects during this
20 period to ensure the continued reliability of Gulf's transmission system, as
21 well as to meet the growing energy needs of the company's customers.
22 Total construction expenditures of approximately \$49 million are projected
23 for the period January 2001 through May 2002. The Company has
24 already completed a rebuild of the South Crestview-Glen Tap 115 kV line
25 and added new 115/12 kV transformer banks at its Highland City and

1 Destín substations during 2001. During the remainder of the period, Gulf
2 will place into service such major facilities as the Farley-Sinai Cemetery
3 230 kV line and substation, the Alligator Swamp-Santa Rosa Energy
4 230 kV line and substation, and the Laguna Beach-Santa Rosa No. 2
5 115 kV line.

6 Included in the above mentioned \$49 million is approximately
7 \$10 million in construction costs for the Smith Unit 3 step-up substation
8 and interconnection facilities. This \$10 million amount is part of the total
9 installed cost of the Smith Unit 3 generation addition project. Also,
10 projects to upgrade the Smith-Highland City, Callaway-Highland City, and
11 Smith-Greenwood 115 kV transmission lines in order to accommodate
12 Smith Unit 3 are included in the total construction costs for January 2001
13 through May 2002. When the total construction costs of approximately
14 \$31 million for the Farley-Sinai Cemetery, Smith Unit 3 interconnection,
15 and the Laguna Beach projects are removed from the \$49 million total
16 amount for the period, the resulting transmission construction costs of
17 approximately \$18 million compare favorably with the historical year 2000
18 level of transmission construction expenditures, and are representative of
19 a typical level of annual construction costs.

20
21 Q. Please give a summary of your transmission construction program
22 planned for the June 2002 through May 2003 test year.

23 A. Gulf's current estimate for the test year period indicates that the company
24 expects to spend approximately \$7,505,000 for new transmission facility
25 construction. These transmission expenditures are necessary to serve

1 new customers; to strengthen the transmission system to meet additional
2 demand resulting from load growth; and to replace damaged, worn out, or
3 obsolete facilities. All of these transmission construction items are
4 necessary to serve the customers' current and future needs.

5
6 Q. What specific transmission and substation facilities and costs related to
7 Plant Smith Unit 3 are included in the construction budget?

8 A. There are none in the test year. As I mentioned earlier, however, there
9 are several projects currently under construction or already completed to
10 integrate the new unit into the system. While no major transmission
11 system upgrades or improvements are needed to connect the unit to
12 Gulf's system, three 115 kV lines in the vicinity of Plant Smith required
13 minor line work to accommodate this new generating capacity. The total
14 construction cost for these improvements is budgeted to be \$3.4 million,
15 and all three will be completed prior to the commercial in-service date of
16 the unit.

17 Also, improvements to the existing 230 kV switchyard at the site
18 were necessary to connect the new unit to the system. This work has
19 been completed at a cost of approximately \$2.8 million.

20
21 Q. What process is used to determine the need for new transmission
22 facilities?

23 A. All transmission capital projects are reviewed each year before they are
24 either added to or retained in the budgeting process. Long-range
25 transmission planning studies are typically performed annually to

1 determine what future transmission system improvements will be needed
2 in the coming ten-year period. When future deficiencies are determined,
3 alternative improvements are evaluated, and the most cost-effective
4 solution is recommended for inclusion in the budget. Several departments
5 within the company review these recommendations to ensure that these
6 are the most cost-effective and practical solutions available. Once a
7 project is in the budget, it is subjected to the same rigorous review on an
8 annual basis as any new project; thus, a transmission capital project will
9 generally have a number of reviews prior to dollars actually being spent on
10 the improvement. Mr. Saxon has a more extensive discussion of the
11 company's overall capital budgeting process in his prefiled testimony.

12

13 Q. What is Gulf doing to minimize new construction expenditures?

14 A. Transmission system improvements are evaluated on an alternative
15 economic basis before being included in the budget. Construction for
16 major transmission lines is awarded on the basis of competitive bids from
17 qualified contractors. Transmission equipment and material requirements
18 are also awarded on the basis of competitive bids. This process ensures
19 the lowest installed cost to Gulf's customers. And, of course, the strategic
20 location of Smith Unit 3 has saved, and will in the future continue to save,
21 Gulf's customers many tens of millions of dollars in avoided future
22 transmission line and substation construction costs.

23

24

25

1 Q. Please describe the services provided to your department by Southern
2 Company Services, Inc. (SCS).

3 A. Transmission and System Control takes advantage of the pool of
4 specialized professionals at SCS who utilize highly developed computer
5 facilities to assist in the evaluation, design, and operation of Gulf's
6 transmission and substation facilities. These services are not only
7 economical because of the sharing of these pooled resources with other
8 operating companies in the SES, but also because they are provided at
9 cost to Gulf. These services provided by SCS include transmission
10 system equipment evaluations, transmission line and substation design,
11 coordination of Gulf's transmission system operations through the PCC,
12 processing of system operations data, system security, power marketing
13 activities, and IIC budgeting and billing.

14
15 Q. Please summarize your testimony.

16 A. Because of Gulf's participation in the SES power pool and the IIC, there
17 are tremendous monetary benefits that are realized by Gulf's customers.
18 The low cost, shared capacity that Gulf was able to purchase at Plants
19 Daniel and Scherer are examples of how our participation in the IIC has
20 benefited our customers. Because Gulf is affiliated through the IIC with
21 an extremely large power system, there are opportunities for off-system
22 sales to outside utilities that would otherwise not be available to Gulf.
23 These opportunities for additional sales have provided significant
24 additional monetary benefits to our retail customers.

25 Our efforts in securing transmission facility agreements related to

1 our shared ownership of capacity at Plants Daniel and Scherer have
2 resulted in significant savings over standard transmission arrangements,
3 thus significantly reducing the long-term cost to Gulf's customers. Gulf's
4 transmission construction and O & M costs are carefully controlled
5 through an extensive budgeting review and approval process. The
6 requested \$7,505,000 for new transmission construction projects and the
7 \$8,209,000 in total transmission O & M expenses for the test year will
8 provide for the quality and level of facilities needed to serve Gulf's
9 customers' current and future needs. In all our activities in the
10 transmission area, Gulf has consistently acted prudently and devised
11 contracts and procedures that will serve to minimize our retail customer's
12 long-term cost. Gulf has also evaluated and employed new technologies
13 to build and maintain state-of-the-art transmission line and substation
14 facilities. Gulf is committed to continual improvements in transmission
15 and substation reliability through the use of highly qualified personnel and
16 modern equipment so that Gulf's customers will be best served and their
17 long-term electric service costs will continue to be among the lowest in
18 nation.

19
20 Q. Does this conclude your testimony?

21 A. Yes.

22
23
24
25

1 BY MR. MELSON:

2 Q Mr. Howell, would you briefly summarize
3 your testimony for the Commission?

4 A Yes. Good afternoon, Commissioners. The
5 transmission function of Gulf Power Company exists
6 solely to serve the customer. We provide economical,
7 low cost power. Their rates are among the lowest in
8 the nation, and we are very proud of that.

9 Transmission planning is where we start
10 with transmission projects. As we add more customers,
11 they use more electricity, and they require more
12 generation. This stresses the transmission system,
13 and we have to make improvements to the transmission
14 system. The way we do that is study the system under
15 various contingencies. We determine what overloads
16 are going to occur. We develop alternatives for
17 solving those overloads, and then we cost them out on
18 an economic basis. Every capital project that we
19 build goes through this process, and it's for the
20 benefit of the customer to maintain his reliability at
21 the lowest cost.

22 When a project has been identified as
23 needing being done, we bid the project out, both the
24 labor and the material, to get the lowest cost for the
25 customer. My direct testimony discusses the great

1 majority of the projects. The customer is the one who
2 benefits from this reliability.

3 We feel we have absolutely justified the
4 need for transmission improvements to serve the
5 customer. Thank you.

6 MR. MELSON: Mr. Howell is available for
7 cross.

8 MR. ERICKSON: No questions.

9 MR. GROSS: No questions.

10 MR. PERRY: No questions.

11 MR. BURGESS: No questions.

12 CHAIRMAN JABER: Staff?

13 MS. STERN: No questions.

14 CHAIRMAN JABER: well, now, that just begs
15 the question. I'll spare everybody from asking it.

16 Commissioners, do you have any questions?
17 Okay. There would be no redirect. Thank
18 you.

19 MR. MELSON: I can't think of any,
20 Commissioner.

21 CHAIRMAN JABER: Did you all not
22 communicate about Mr. Howell's testimony?

23 Thank you, Mr. Howell.

24 THE WITNESS: Thank you, Commission.

25 MR. MELSON: I would move Exhibit 34.

1 CHAIRMAN JABER: Exhibit 34 is admitted
2 into the record without objection.

3 (Exhibit 34 was admitted into the record.)

4 CHAIRMAN JABER: Gulf Power, next witness.

5 MR. BADDERS: Our next witness is M. D.
6 Neyman, and we need just a minute to bring her into
7 the room. This went just a little faster than we
8 thought with Mr. Howell.

9 CHAIRMAN JABER: You think?

10 MR. MELSON: A little bit.

11 CHAIRMAN JABER: Just in case there are
12 other witnesses where that's going to occur, I hope
13 that you get together in the next break and share that
14 information with one another.

15 (Pause in the proceedings.)

16 MR. BADDERS: The witness is taking the
17 stand. I believe we're ready to proceed.

18 Thereupon,

19 MARGARET D. NEYMAN
20 was called as a witness on behalf of Gulf Power
21 Company and, having been duly sworn, testified as
22 follows:

23 DIRECT EXAMINATION

24 BY MR. BADDERS:

25 Q Ms. Neyman, were you previously sworn this

1 morning?

2 A Yes, I was.

3 Q would you please state your name and your
4 business address for the record?

5 A My name is Margaret D. Neyman. My address
6 is One Energy Place, Pensacola, Florida 32520.

7 Q And by whom are you employed, and in what
8 capacity?

9 A I'm employed by Gulf Power Company as the
10 General Manager of Marketing.

11 Q And have you prefiled direct testimony
12 consisting of 22 pages?

13 A Yes, I have.

14 Q Do you have any changes or corrections to
15 that testimony?

16 A Yes, I have.

17 Q Could you please state those for the record
18 slowly?

19 A On page 2 of my direct testimony, line 2,
20 it currently reads "two schedules." It should read
21 "three schedules to be marked."

22 Q Is that the extent of the changes or
23 corrections?

24 A (Nodding head affirmatively.)

25 Q If I were to ask you the same questions,

1 with that correction, would your answers be the same?

2 A Yes.

3 MR. BADDERS: Chairman Jaber, we request
4 that the -- or we ask that the prefiled direct
5 testimony be inserted into the record as though read.

6 CHAIRMAN JABER: Yes. The prefiled direct
7 testimony of Margaret Neyman shall be inserted into
8 the record as though read.

9 BY MR. BADDERS:

10 Q Ms. Neyman, do you have one exhibit
11 attached to your testimony consisting of three
12 schedules?

13 A Yes.

14 Q And on Schedule 3 of that exhibit, does
15 that list the MFRs that you are sponsoring?

16 A Yes.

17 Q Do you have any changes or corrections to
18 that exhibit or to your portion of the MFRs?

19 A No.

20 MR. BADDERS: We ask that that exhibit,
21 which is MDN-1, be identified.

22 CHAIRMAN JABER: MDN-1 will be Exhibit 35.
23 (Exhibit 35 was marked for identification.)

24

25

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission
3 Prepared Direct Testimony and Exhibit of
4 Margaret D. Neyman
5 Docket No. 010949-EI
6 In Support of Rate Relief
7 Date of Filing: September 10, 2001

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

9 A. My name is Margaret D. Neyman; and my business address is One
10 Energy Place, Pensacola, Florida 32520. I am employed by Gulf Power
11 Company as General Manager of Marketing.

12 Q. Please summarize your educational background and your work
13 experience at Gulf Power Company.

14 A. I attended Auburn University and received a B.S. degree in Industrial
15 Engineering in 1980. I have been continuously employed by Gulf Power
16 Company for twenty years. I have held positions of increasing
17 responsibility in the following areas: Corporate Performance, Customer
18 Service, Appliance Sales, and Marketing Services. I am currently General
19 Manager of Marketing.

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

22 A. Yes. Exhibit MDN-1 was prepared under my supervision and direction.
23 Schedule 1 details the test year and Benchmark year expenses relating to
24 marketing activities at Gulf Power Company.

25

1 Counsel: We ask that Ms. Neyman's Exhibit MDN-1 consisting of
2 ~~two~~ ^{three} schedules be marked as Exhibit No. 35.

3

4 Q. Ms. Neyman, are you the sponsor of certain Minimum Filing Requirements
5 (MFRs)?

6 A. Yes, these are listed on Schedule 3 at the end of my exhibit. To the best
7 of my knowledge, the information contained in these MFRs is true and
8 correct.

9

10 Q. What is the purpose of your testimony?

11 A. The purpose of my testimony is to justify Gulf Power Company's
12 Customer Service and Information expenses, Sales expenses, Economic
13 Development expenses, and Advertising expenses contained in the
14 June 2002 – May 2003 test year. I will describe the organization and
15 functions within Gulf's Marketing department, the Company's philosophy
16 relating to sales, conservation, and efficiency and their impact on the
17 customer. I will also discuss the Company's economic development and
18 advertising activities and expenses.

19

20 Q. How is Marketing organized within Gulf Power Company?

21 A. Marketing is vertically integrated within the Company. That is, all
22 functions relating to program development, evaluation, and
23 implementation report to and are accountable to the General Manager of
24 Marketing. The general functions of Marketing include: Marketing
25 Services, Mass Marketing (residential and small business customers),

1 Major Accounts, and District Marketing.

2 Marketing Services includes Pricing and Rates, Load Research,
3 Translation Services, Market Reporting and Economic Evaluation,
4 Forecasting, and New Products and Services. Marketing Services is also
5 responsible for the development and reporting of the Company's demand
6 side management plan. This activity also includes the projection and true-
7 up filings for ECCR. Forecasting consists of developing the Company's
8 short and long-term (25-year) energy, demand, and revenue projections
9 annually.

10 The Mass Marketing group develops and supports programs,
11 products, and services aimed at the residential and small business
12 segments. This includes conservation programs, technical assistance
13 audits, **GoodCents Select** program management, and efficient energy
14 sales.

15 The Major Accounts group focuses on the largest industrial and
16 commercial accounts. These are the Company's largest and most
17 specialized customers. The customers are grouped into industry
18 segments (e.g., forest products, military, health care, etc.) and each
19 segment is assigned to an administrator. Because of the unique nature of
20 these customers, it is necessary that each segment administrator be
21 extremely knowledgeable of the assigned businesses and their
22 processes, outputs, markets, and competition.

23 District Marketing includes residential, commercial and industrial
24 sales activities. The Company has district offices in Panama City, Fort
25 Walton, and Pensacola. District Marketing is responsible for managing

1 day-to-day customer relationships. These activities include helping
2 customers with energy audits; equipment alternatives, sizing, and
3 installation options; and energy efficiency and conservation opportunities.
4

5 Q. Please describe Gulf Power Company's overall marketing philosophy.

6 A. Gulf Power Company's Marketing department operates by both balancing
7 and maximizing the interests of all of the Company's stakeholders –
8 customers, stockholders, and regulators. The Company recognizes that
9 its success is dependent upon gaining and retaining the confidence of our
10 customers. By gaining an understanding of the customer, the Company is
11 able to anticipate and meet those needs with existing or new products
12 and/or services.
13

14 Q. Ms. Neyman, can you provide a couple of recent examples of how Gulf
15 Power Company has implemented this philosophy?

16 A. Yes. Gulf Power Company has recently introduced two innovative
17 programs – Real Time Pricing and **GoodCents Select** – that emphasize
18 pricing flexibility as a means to increasing energy efficiency. The
19 Company has tested and implemented these programs that incorporate
20 pricing structures that better reflect the marginal costs associated with
21 providing electric service. The customer is guided by the price signals in
22 making purchase decisions, including demand side and/or energy
23 efficiency measures, that more appropriately reflect the scarcity of
24 resources used in producing and supplying electric service.
25

1 Q. Please explain the Real Time Pricing program.

2 A. Gulf Power Company introduced Real Time Pricing (RTP) as a pilot
3 program in 1995. The Company's Real Time Pricing program sends
4 hourly prices a day ahead to commercial and industrial customers
5 subscribing to the tariff. Customer reactions to these price signals impact
6 demand response (conservation) and economic efficiency.

7 The recurring theme from a post-pilot survey was what RTP did for
8 the customer. Customers for the first time, in their words, felt "in control"
9 of their energy purchasing decisions.

10 The pilot served as the basis for the Company's petition for a
11 permanent RTP tariff. The FPSC approved the RTP tariff as a permanent
12 offering in September 1999 in FPSC Docket No. 990315-EI.

13

14 Q. Please describe the **GoodCents Select** program.

15 A. Gulf Power Company introduced **GoodCents Select** as the Company's
16 innovative pricing program aimed at residential customers. **GoodCents**
17 *Select* is designed to provide residential customers with a means of
18 conveniently and automatically controlling and monitoring their energy
19 purchases in response to prices that vary during the day and by season in
20 relation to the Company's cost of producing or purchasing energy. The
21 **GoodCents Select** system allows the customer to control more precisely
22 the amount of electricity purchased for heating, cooling, water heating,
23 and other selected loads.

24 Variable pricing for all customer classes better reflects the cost of
25 service and provides a basis for customers to trade off service levels with

1 cost. Environmental and regulatory stakeholders benefit from flexible
2 pricing through energy and demand conservation and increased economic
3 efficiency. The customers benefit through control of their processes or
4 homes and increased value from each purchase. The Company gains
5 through a more efficient use of its generation and distribution system and
6 increased customer satisfaction.

7 The **GoodCents Select** system was recently awarded the 2001
8 Governor's New Product Award. The award was based on the quality and
9 innovation of the product and its economic contribution to Florida.

10

11 Q. Ms. Neyman, what has Gulf Power Company learned from these two
12 programs?

13 A. Both of these examples illustrate Gulf Power Company's recognition that
14 our success is dependent upon gaining and retaining the confidence of
15 our customers. Knowing the customer and providing the products and
16 services demanded allows the Company to position itself as the energy
17 provider of choice.

18

19 Q. How are marketing programs developed, evaluated, and implemented?

20 A. As stated previously, Gulf Power Company relies extensively on listening
21 to the customer. This is accomplished through market research, the
22 Company's experienced corporate and field staff interaction with
23 customers, and national and regional information sources on emerging
24 trends. The Company also uses its internal marketing databases to
25 identify emerging customer usage patterns and preferences. Gulf Power

1 Company additionally leverages its affiliation with the Southern Company
2 and the other system operating companies to co-fund projects and
3 exchange information on consumer trends, preferences, leading edge
4 technologies, and marketing techniques.

5 Information gathered from these diverse sources is then
6 assimilated and translated into new or enhanced products/services or
7 programs. The marketing programs are then tested against a matrix
8 consisting of consumer attributes, financial considerations, and marketing
9 issues.

10

11 Q. Can you provide any examples of how the marketplace changes have
12 impacted marketing programs?

13 A. Yes. The pervasiveness of computers in the home and workplace has
14 changed how Gulf Power Company interacts with its customers and how
15 customers expect the Company to respond to their needs.

16 Enhancements made to the Energy Audit program are illustrative of how
17 the Company has responded to marketplace changes. Prior to the advent
18 of computers, customers needed to contact the Company and then one of
19 the Company's energy consultants made a physical visit to the customer's
20 home to perform the energy audit. Today, a customer using the Internet
21 can go on-line and complete an energy audit questionnaire and have the
22 analysis and report sent to them via e-mail.

23 Likewise, demographic and workplace changes have necessitated
24 Gulf Power Company being accessible to customers in more ways and for
25 more hours. The Company allows customers to request a new service

1 connection or disconnection, make bill inquiries, request an additional
2 service, or notify us of an outage through the Internet or the Customer
3 Service Center by telephone – 24 hours a day and 7 days per week.
4 Previously, these routine services might have required a visit or telephone
5 call to a local or district office during normal business hours.

6 One of Gulf Power Company's goals is to make contact between
7 the Company and its customers seamless. As the pace of life has
8 accelerated, the Company has responded to the customer's need for
9 more ways to access the Company.

10
11 Q. Has competition in the energy marketplace impacted Gulf Power
12 Company's marketing efforts?

13 A. Yes. Competition takes many forms in the marketplace. In its most
14 obvious form, competition in the large commercial and industrial sectors
15 can be in the form of the direct acquisition of the customer's energy
16 requirements through co-generation. The loss of customers to self-
17 generation can result in increased costs to all of the Company's
18 customers. The retention of these blocks of energy load by the Company
19 can prevent the general body of customers from having to bear the fixed
20 costs previously associated with serving these customers.

21 Competition does not have to be between competing energy
22 sources or suppliers. Gulf Power Company must also deal with the
23 competition our customers face. For example, our customers compete
24 with other national or international facilities that can displace the output of
25 the local facility. Helping a customer maintain its competitive position

1 benefits the customer, the Company, the economic well being of the
2 community, and the general body of customers.

3 A very subtle form of competition has emerged as customers have
4 asked for "green" energy from non-traditional sources. In response, Gulf
5 Power Company became the first utility in Florida to develop and receive
6 approval of a Green Pricing Rate Rider. This program allows customers
7 to purchase photovoltaic energy in 100-watt blocks through the
8 Photovoltaic Optional Rate Rider (PV). Subscribing to the optional energy
9 blocks allows the customer to displace traditional generation sources with
10 electricity from "green" sources. When the total subscription reaches
11 1 mW, the Company has the option to either build an alternative green
12 energy source or to purchase green energy.

13 Gulf Power Company recognized that to maintain a high level of
14 customer satisfaction, and therefore increase its ability to retain all types
15 of customers, it must be proactive and creative in meeting its customers'
16 needs. Innovative programs and/or pricing options are examples of how
17 competition in its many forms continues to shape the Company's
18 marketing efforts.

19
20 Q. Does Gulf Power Company actively sell energy?

21 A. Yes. Gulf Power Company selectively sells energy, but only when it is
22 cost-effective for all its customers. The Company attributes its success in
23 the marketplace to its ability to sell concepts to our customers such as
24 conservation, load management, and general economic efficiency. These
25 skills have also enabled the Company to selectively sell energy. In order

1 to be the competitive energy supplier of choice in Northwest Florida, the
2 Company must minimize its overall cost of service. This enables our
3 customers to maximize the overall value received from our services.
4 Improving the Company's load factor by selling electricity primarily during
5 off-peak periods increases the utilization and efficiency of existing and
6 planned facilities and thus helps minimize cost to all customers.

7 Real Time Pricing for commercial and industrial customers and
8 **GoodCents Select** for residential customers are examples of marketing
9 strategies that encourage on-peak reduction and off-peak sales. Time-
10 of-use rates, available to all customer classes, are designed to elicit the
11 same type of customer response.

12
13 Q. Why does Gulf Power Company concentrate its marketing efforts on
14 increasing off-peak energy sales?

15 A. The Company's on-going market and load research reveals definite
16 changes taking place in market conditions. The Company and its
17 business customers face an increasingly competitive market environment.

18 This competitive business environment has placed a significant
19 block of the Company's energy load at risk. The Company has already
20 invested to serve this energy load. Loss of large blocks of load from
21 single customers has occurred and continues to be at risk as these
22 businesses face domestic and foreign competition, co-generation, higher
23 production costs, and dated facilities and equipment.

24 As a result of this environment, Gulf Power Company's long term
25 strategy has been to ensure the lowest cost and most reliable electricity to

1 its customers. A vital part of this strategy has been conservation and
2 efficiency marketing efforts begun by the Company over twenty years ago.
3 The Company's ultimate objective, which the Company believes to be in
4 the best interests of its customers, is to minimize overall costs of service
5 through increasing the efficiency and utilization of existing facilities while
6 reducing future requirements. This strategy conserves corporate
7 investment, utilizes it more efficiently, and puts downward pressure on
8 rates to all customers by spreading fixed costs over more electricity sales.

9 The overall plan is a long term one, encompassing conservation,
10 off-peak sales, pricing alternatives, load management options,
11 co-generation, and other demand side options.

12

13 Q. What value does Gulf Power Company's Marketing Department bring to
14 its customers?

15 A. The Company has been successful in marketing high efficiency electric
16 technologies for heating and water heating in the new home and business
17 markets and improving the Company's load factor. The educational
18 efforts of the Company result in customers having access to all of the
19 information necessary to make informed decisions regarding energy
20 efficient end-use products. The marketing efforts of Gulf Power Company
21 help improve the Company's load factor. As noted above, an improved
22 load factor will result in a more efficient electrical system and result in
23 lower costs for all customers.

24

25

1 Q. How does Gulf Power Company measure the success of its marketing
2 efforts?

3 A. Gulf Power Company continually talks with its customers. Personal
4 contact, letters, e-mail, telephone calls, and surveys are all ways
5 customers let us know how we are doing.

6 One of the Company's stated goals is to be in the upper quartile in
7 customer value when measured against a peer group of utilities. The
8 results of these annual surveys are part of each marketing employee's
9 performance plan. These studies primarily allow the Company to
10 compare and contrast itself against a group of 16 peer utilities in the
11 Southeast and nationally.

12 Gulf Power Company has an excellent track record with regard to
13 customer value. In the three customer segments it monitors (large
14 business, general business, and residential), the Company ranks number
15 three in the residential segment, number two in the general business
16 segment, and number one in the large business segment. The Company
17 ranks second in overall value when all three segments are combined.

18 Surveys and all other customer contacts help Gulf Power Company
19 measure its success with developing and delivering products and
20 services. The Company is proud of its record and the high customer
21 value and satisfaction scores bear out that we are being successful in
22 meeting the needs of our customers.

23

24

25

1 Q. Ms. Neyman, would you please provide some details as to the marketing
2 expenses Gulf Power Company seeks to recover?

3 A. The total test year budget for Gulf Power Company's marketing efforts is
4 \$9,922,000. The test year budget amount includes only operating and
5 maintenance expenses to be recovered through base rates. A portion of
6 the marketing budget is recovered through the Energy Conservation Cost
7 Recovery clause (ECCR). That portion of the marketing budget to be
8 recovered through base rates is 71 percent of our total marketing budget.

9 The marketing portion of the test year expenses is contained in
10 Schedule 1 of my exhibit. The expenses to be recovered are Customer
11 Service and Information Supervision, Customer Assistance Expenses,
12 CS&I Information, Sales, Advertising, and Miscellaneous Customer
13 Service & Information Expenses. These expenses are adjusted for ECCR
14 related expenses. The net marketing expenses in the test year are
15 projected to be \$9,922,000.

16

17 Q. How do the expenses you have identified for the test year compare to the
18 Benchmark expenses?

19 A. The marketing test year expenses are under the Benchmark by \$478,000.

20

21 Q. What are the major reasons for the variance in expenses between the test
22 year and the Benchmark?

23 A. One of the major reasons for the decrease in expenses is the reduction of
24 staff members. In 1990, the marketing organization had 92 employees.
25 Of those 92 employees, 16 were managers/supervisors, 60 were

1 professional employees, and 16 were support staff employees. From
2 1990 to the test year, six manager/supervisor level positions were
3 eliminated. The professional staff employee count has remained the
4 same. There was an increase of one support staff position resulting in a
5 net reduction of 5 positions.

6 Another major reason for the decrease in expenses is the
7 discontinuance of programs. Programs that have been discontinued
8 include Shine Against Crime, Presentations and Seminars, Energy
9 Education, Architects and Engineers Program, and the GoodCents
10 Incentive Program.

11

12 Q. Ms. Neyman, are there any other areas of Gulf Power Company's
13 expenses you would like to address?

14 A. Yes. I would like to briefly discuss the Company's advertising and
15 economic development activities and expenses.

16

17 Q. Why is Gulf Power Company seeking to recover dollars spent on
18 advertising?

19 A. Gulf Power Company depends on advertising as one of the primary
20 methods of communication with our customers. This communication
21 results in a greater awareness of the various products and services that
22 are available to customers. These products and services are available to
23 assist customers in making their homes and businesses more enjoyable,
24 comfortable and safe and provides for operation in a more energy efficient
25 and, therefore, cost efficient manner.

1 Q. What types of advertising does Gulf Power Company utilize?

2 A. The Company primarily utilizes mass media advertising including: radio,
3 television, newspaper and billboard advertising. These mediums have
4 proven to be the most cost effective way to communicate with our
5 customers. The combination of these media outlets seeks to reach the
6 very broad and diverse audience served by Gulf Power Company.

7
8 Q. What is Gulf Power Company's advertising philosophy?

9 A. The Company's advertising philosophy is two-pronged. First, the
10 Company advertises to communicate with customers to affect their
11 beliefs. Second, we advertise to affect their behaviors. The first tenet of
12 advertising is that the customer must believe that an organization is
13 credible and has the customer's best interest in mind. Unless that is
14 established, it does not matter what programs, products and/or services
15 are offered. The Company cannot affect behaviors until and unless the
16 customer has confidence in the institution offering the product or service.
17 To establish this credibility, we communicate messages about Gulf Power
18 Company's rates, our reliability, and our community service; and we
19 encourage customers to practice safety around electricity. All of these
20 messages are critical to first gaining public acceptance of Gulf Power
21 Company as a caring, well-managed institution. Only then can the
22 Company effectively educate the customer about the efficient use of
23 energy.

24 The second step is to affect behaviors. In our case, this means
25 convincing our customers to practice energy efficiency and to enroll in our

1 conservation programs and our demand side management programs. In
2 this second step, the Company uses advertising to inform customers
3 about program availability and benefits. Both steps – establishing
4 company credibility and communicating program availability – are critical
5 to the success of our energy efficiency efforts.

6

7 Q. What types of advertising does Gulf Power do to affect customer beliefs?

8 A. We educate customers about our low rates, high reliability, environmental
9 commitment, community service, and customer services. Advertising
10 centered on rates helps customers understand the cost associated with
11 the energy they purchase. Once they believe that their electricity is a
12 good value, this impacts their behavior and helps them make decisions
13 about products and equipment for their homes and businesses that will
14 improve their energy efficiency. Reliability, community service and
15 customer service messages affect customer satisfaction and company
16 loyalty. Customer loyalty is essential for customer retention and customer
17 participation in all of our energy efficiency programs.

18

19 Q. Are all advertising costs currently being recovered through base rates?

20 A. No. At present, only those advertising costs associated with informing
21 customers about our marketing programs and safety are recovered. Gulf
22 Power Company believes this ignores the benefits of communicating
23 effectively with customers to change behaviors. Even though the
24 Company has not been able to recover these other costs, we have
25 continued to advertise those messages that affect customer beliefs – low

1 rates, good reliability, concern about the environment – because the
2 Company understands that credibility has to be established as we gain
3 buy-in for our conservation programs. The customer views Gulf Power as
4 one entity – not in separate pieces. A message to build loyalty will affect
5 behavior, which is essential for the success of our energy conservation
6 programs. This is why the Company is seeking recovery of all of its
7 advertising expenses.

8

9 Q. What types of products or services does Gulf Power Company advertise?

10 A. The Company advertises the GoodCents Home Program for new and
11 existing homes. This includes advertising about energy efficient end-use
12 technologies for heating, cooling and water heating. Gulf Power
13 Company promotes Energy Audits and **GoodCents Select**. These
14 programs assist customers with energy saving advice and provide tools
15 that allow customers to take an active part in the management of their
16 energy use. We also promote the Geothermal Heating and Cooling
17 Program providing, information about the most efficient heating and
18 cooling systems available for homes and businesses. Additional
19 advertising is directed at the safe use of electricity by our customers,
20 safety in and around our electrical equipment and systems, the reliability
21 of our service, our competitive rates, and our environmental record and
22 stewardship.

23

24 Q. What are the advertising expenses Gulf Power Company seeks to recover
25 through base rates?

1 A. In Schedule 1 of my exhibit, the advertising expenses are broken out by
2 functional area. The first portion of the advertising budget can is included
3 Customer Service and Information Expense. This portion of the
4 advertising budget for the test year is \$595,000.

5 The second portion of the advertising budget is shown under
6 Corporate Communications and Advertising. The amount the Company is
7 seeking to recover in this area is \$550,000. The total advertising budget
8 that the Company seeks to recover through base rates is \$1,145,000.

9
10 Q. Ms. Neyman, could you please indicate why Gulf Power Company seeks
11 to recover economic development expenses?

12 A. Yes. In 1994, The State of Florida recognized that economic
13 development improves the quality of life for all Floridians and that public
14 utilities play an important role in economic development. This was
15 codified in Section 288.035, Florida Statutes, that provides the FPSC with
16 the authority to permit public utilities to recover reasonable economic
17 development expenses. FPSC Dockets 971334-PU and 000418-PU
18 further defined the boundaries of recoverable economic development
19 expenses.

20 The expenses that Gulf Power Company seeks to recover meet the
21 rules as specified by the FPSC. The Company's economic development
22 activities support state, regional, and local development agencies in
23 recruitment, retention, prospecting, planning assistance, community
24 revitalization, trade shows, and other approved activities which promote
25 Northwest Florida's competitive economic climate.

1 Q. What is the amount of economic development expenses that Gulf Power
2 Company has included in the test year budget?

3 A. Gulf Power Company has included \$1,006,000 of the Company's
4 projected test year economic development expenses in the calculation of
5 the revenue requirements requested in this case. This amount is slightly
6 less than the total amount of economic development expenses the
7 Company has budgeted for the period. Gulf Power Company is asking
8 that the Commission authorize the Company to include 95 percent of its
9 actual recoverable economic development expenses in the monthly
10 surveillance reports following conclusion of this case, subject to a cap
11 equal to the lesser of 0.15 percent of the Company's gross annual
12 revenues or \$3.0 million.

13

14 Q. What type of expenses are incurred in the area of economic
15 development?

16 A. The economic development expenses can be broken into four main
17 areas. Approximately 30 percent of the requested expenses are in
18 financial support of regional and national marketing efforts to promote
19 Northwest Florida. This includes trade shows, direct advertising,
20 partnership with Florida's Great Northwest and Enterprise Florida (the
21 statewide public/private economic development organization). Another
22 30 percent supports direct marketing efforts in urban and rural
23 communities, Chambers of Commerce, and includes initiatives with Main
24 Street, Downtown Revitalization and Urban job retention and creation.
25 This portion of the expenses also includes support for the University of

1 West Florida and three junior/community colleges.

2 Another 20 percent of the requested economic development
3 expenses are used in financial support of regional and statewide
4 organizations that promote and benefit regional economic development
5 efforts. Activities in this arena include the Florida League of Cities, Florida
6 Association of Counties, Florida Economic Development Council, Florida
7 Chamber of Commerce, and Northwest Florida Association of Chambers.
8 The remainder of the test year expenses are for labor and associated
9 office expenses (offices, material, travel, and clerical support).

10

11 Q. How do the test year expenses compare to the 2000 adjusted expenses?

12 A. The test year expenses are \$295,000 above the 2000 adjusted expenses
13 (see Mr. Saxon's Schedule 3 – Sales). When the FPSC granted Gulf
14 Power Company the authority to recover economic development
15 expenses in late 1995, the Company started building an economic
16 development program from the ground up. During 1996 and 1997, most
17 of the economic development department's expenditures were for
18 salaries, direct support to local chambers of commerce, and a limited
19 marketing and advertising budget. Based on the success of the
20 Company's initial marketing efforts of 1996 and 1997, the Company has
21 carefully increased its direct marketing and advertising in order to build
22 awareness for Northwest Florida as a great place to conduct business.
23 The economic development department's marketing efforts include direct
24 advertising, attending trade shows with Enterprise Florida and working
25 directly with site consultants. As the Company's economic development

1 symposium attendance grew, the Company continued to increase its
2 budget in this area.

3 Over the past two years, the Company has also contributed directly
4 to a new regional public/private partnership called "Florida's Great
5 Northwest". This program is proving to be very successful and the
6 Company intends to increase its contribution to this program. Gulf Power
7 Company has also increased its financial contributions to rural and urban
8 economic development initiatives that were not an original part of the
9 Company's economic development program. The Company has also
10 increased its commitments to local chambers of commerce, Enterprise
11 Florida and the Florida Chamber of Commerce. In summary, the
12 Company's increased spending in the test year is a reflection of the
13 maturing of our relatively new economic development program and our
14 increased contributions to other economic development programs that
15 leverage our overall efforts.

16

17 Q. Ms. Neyman, would you please summarize your testimony?

18 A. Yes. Over the past three decades, Gulf Power Company has built a solid
19 reputation with its customers and business partners in developing and
20 delivering solutions to energy related issues. Beginning in 1975 with the
21 GoodCents programs for homes and businesses, the Company has been
22 a leader in the field of energy efficiency and conservation. More recently,
23 the Company started offering Real Time Pricing for industrial and
24 commercial customers and **GoodCents Select** for residential customers.
25 These latter two new innovations not only reduce demand and can save

1 energy but also help increase the overall efficiency of the Company's
2 electrical system.

3 Gulf Power Company has been successful because it listens to its
4 customers and trade allies. All of the various channels through which the
5 customer can communicate with the Company are used to bring new
6 products and services to market. The Company values the trust it has
7 earned from its customers and knows that its continued success is
8 dependent upon maintaining and building on that relationship.

9 The Company relies upon advertising to educate customers about
10 conservation, energy efficiency, safety, new products and services, rates,
11 reliability, environmental issues, community service, and customer
12 services. The Company believes all of its messages are tied together and
13 strengthen its ability to help the customer make well informed and
14 reasoned decisions regarding the Company and its products and services.

15 The Company believes that economic development improves the
16 quality of life for all Floridians and that Gulf Power Company plays an
17 important role in this effort. The Company's Economic Development
18 Department provides financial support of regional, statewide, and national
19 marketing efforts to promote Northwest Florida. Economic development
20 also support the efforts of urban and rural communities in direct marketing
21 efforts.

22

23 Q. Ms. Neyman, does this conclude your testimony?

24 A. Yes.

25

1 BY MR. BADDERS:

2 Q Ms. Neyman, would you please summarize your
3 testimony?

4 A Yes. Good afternoon. The purpose of my
5 testimony is to justify Gulf Power Company's customer
6 service and information expenses and other expenses
7 related to marketing, economic development, and
8 advertising. I am also providing information on the
9 Company's marketing philosophy relating to sales,
10 conservation, and efficiency, and their impact on the
11 customer.

12 Over the past three decades, Gulf Power
13 Company has built a solid reputation with its
14 customers and business partners in developing and
15 delivering solutions to energy related issues.
16 Beginning in 1975 with the introduction of the
17 GoodCents Home program, the Company has been a leader
18 in the field of energy efficiency and conservation for
19 all customer classes.

20 We have continued to listen to our
21 customers and offer solutions to their energy needs.
22 Recently the Company introduced Real Time Pricing for
23 industrial and commercial customers and the GoodCents
24 select program for residential customers. The latter
25 two innovations not only reduce demand and can save

1 energy, but also help to increase the overall
2 efficiency of the Company's electrical system.

3 In terms of the Commission's benchmark
4 measure, the Company's conservation, marketing, and
5 efficiency efforts are more than \$450,000 under the
6 benchmark. The Company has been able to achieve these
7 results through increased productivity and efficiency
8 in developing and delivering our products and
9 services.

10 Gulf Power Company depends on advertising
11 as one of the primary methods of communicating with
12 our customers. This communication results in a
13 greater awareness of the various products and services
14 that are available to the customers. The Company also
15 educates customers about our low rates, high
16 reliability, environmental commitment, and customer
17 service to affect the customer's belief and confidence
18 in the Company. A customer's trust and loyalty is
19 essential for retention and participation in our
20 programs, including energy efficiency, power quality,
21 and conservation programs.

22 Gulf Power is also seeking to recover
23 economic development expenses as defined in recent
24 FPSC economic development dockets. Gulf Power has
25 been an instrumental force in improving the economic

1 welfare of northwest Florida. Recovery of these
2 expenses is vital to continue the progress.

3 This concludes the summary of my direct
4 testimony. Thank you.

5 MR. BADDERS: The witness is available for
6 cross.

7 CHAIRMAN JABER: Thank you.

8 MR. ERICKSON: No questions.

9 MR. GROSS: No questions.

10 MR. PERRY: No questions.

11 CHAIRMAN JABER: Mr. Burgess?

12 MR. BURGESS: Yes.

13 CROSS EXAMINATION

14 BY MR. BURGESS:

15 Q Ms. Neyman, I was interested in a program
16 you described on page 7 of your prefiled testimony,
17 speaking about home energy audits, and specifically
18 down towards the bottom around line 17 and down. Do I
19 understand correctly from this that based on this, you
20 can perform more of these audits and they're less
21 expensive, and you end up with greater satisfaction?
22 Is that the thrust of this testimony here?

23 A Yes. We offer energy audit programs to all
24 classes of our customers. We have residential energy
25 audits, GoodCents energy audits. We do technical

1 assistance audits for our commercial and our
2 industrial customers. And we have done a lot to
3 improve those. We've gone on-line for our commercial
4 customers as well as our residential customers. We've
5 done mail-in audits. And that is a very important
6 program to us that enables us to give customers advice
7 about how to improve their energy purchase.

8 Q And is this less expensive? When you talk
9 about this where the customer can go on-line, go on
10 the Internet and complete a questionnaire without
11 needing to or requiring a company representative to
12 come out to the house, is that then less expensive to
13 the customer as well?

14 A Well, I'm not sure what you mean by less
15 expensive. There's no charge for our audits.

16 Q There's no charge to the customer, whether
17 it's an in-home or whether it's on the Internet?

18 A That's right.

19 Q And so it's less expensive to the Company
20 certainly?

21 A The on-line, yes, there's less labor
22 involved if the customer will participate in that.
23 And we really designed the program to be additive, to
24 reach out to customers beyond what -- we were making
25 physical site visits. Sometimes customers are not

1 real comfortable with that, and they like to go
2 on-line, and they would -- we have -- our goal is to
3 increase the overall number of audits that we do, not
4 really to replace the home visits, but actually to
5 enhance our audit program.

6 Q Now, when was this begun? When was this
7 initiated?

8 A I'm thinking the commercial program was
9 introduced first. Probably about three or four years
10 ago, the commercial mail-in audit program, and the
11 residential program probably only within the last
12 maybe two years, something like that.

13 Q Do you anticipate this electronic program
14 increasing?

15 A It needs to increase some. It will
16 eventually plateau, and eventually, I think we
17 actually have forecasted in our ECCR filings that it
18 will flatten out and eventually maybe tail off a
19 little bit, particularly the commercial customers,
20 because we should reach a certainly level and saturate
21 that.

22 Q All right. would you reference page 13 of
23 your prefiled testimony?

24 CHAIRMAN JABER: How do you advertise your
25 on-line audit program?

1 THE WITNESS: The commercial on-line audit
2 program, we do a direct mail, and then we follow up
3 usually with a call if we don't get a response back.
4 There is also -- we do this on-line as well, but
5 actually, I think most of our contacts have come
6 through this direct mail. We cycle through. We send
7 out a wave, and then we have someone that calls and
8 says, "Look, I'm on the phone. Just take a few
9 minutes. Maybe I can fill out this information for
10 you. It's easy." And we get some customers that will
11 go through with it at that point, even though they
12 might not have from the direct mail piece.

13 CHAIRMAN JABER: How do you advertise your
14 website?

15 THE WITNESS: It's put out in our -- we
16 have it advertised in some of our print media, our
17 bill stuffers. We have a newsletter we put in our
18 bills. We talk about it there. It's on our website
19 that we have, this information. This is an option,
20 that you can go, if you would like to go -- you can go
21 to our website and look at it there as well.

22 I'm sorry. Mr. Burgess, what page was it
23 you had --

24 BY MR. BURGESS:

25 Q Page 13. I wanted to ask you about the net

1 marketing expenses that you describe there.

2 A I'm sorry. Which one?

3 Q The net marketing expenses of 9,922,000. I
4 want to make sure I understand. This is just the
5 amount that would be associated with the non-ECCR
6 portion; is that correct?

7 A That is correct.

8 Q Okay. And it indicates that it's under the
9 benchmark by 478,000, so that means that the total
10 expense -- I mean that the benchmark is 10,400,000; is
11 that correct?

12 A I believe that's right. It's on one of my
13 exhibits, the schedules to my exhibits.

14 Q I'm just going by the arithmetic. I'm not
15 as concerned about that. More to the point of what I
16 want to try to find out about is whether you know what
17 the ECCR amount for the marketing expenses was in
18 1990.

19 A I don't know that I have the ECCR for 1990.

20 Q So that portion that was removed from base
21 rates in 1990, we don't have that?

22 A I don't believe I do. I mean, I have the
23 components of it. I would have to add them up. It
24 would take me quite a few minutes to get you that
25 total number for 1990. I have some historical numbers

1 for ECCR in total for the Company. I don't go back to
2 1990.

3 Q Okay. I want to ask you a question or
4 two from page 14 of your prefiled about the
5 managerial/supervisory positions that were
6 eliminated. This says they have been eliminated.
7 Does that mean at this point they are eliminated, or
8 some of these are still anticipated to go?

9 A No, they have been eliminated.

10 Q Do you know when the last one was
11 eliminated?

12 A I know there were a bunch eliminated in
13 1996, I believe. That's when most of the managers --
14 we eliminated quite a few of our -- we flattened the
15 marketing organization, and -- I'm sorry. We
16 eliminated one manager -- we combined a manager's
17 position in Panama City, and that took place probably
18 in 2000, 1999 or 2000. So we eliminated half of a
19 position.

20 Q So five and a half of these took place
21 perhaps '96, through the 1990s, and half a position in
22 the year 2000?

23 A Right, as best I can remember the timing of
24 it.

25 MR. BURGESS: Thank you very much. I

1 appreciate it.

2 CHAIRMAN JABER: Thank you, Mr. Burgess.
3 Staff?

4 MS. ESPINOSA: Staff has a few questions.

5 CROSS EXAMINATION

6 BY MS. ESPINOSA:

7 Q Good afternoon. Ms. Neyman, are you
8 familiar with the customer satisfaction and public
9 confidence surveys that were attached to Mr. Fisher's
10 testimony?

11 A Yes.

12 Q And are you familiar with the survey
13 methods?

14 A Yes. I'm familiar with -- very familiar
15 with the -- customer value survey actually is what we
16 call it. I'm somewhat familiar with the public
17 confidence survey methods, but I'm very familiar with
18 the customer value survey methods.

19 Q Could you please describe both those
20 methods to the extent that you're comfortable doing
21 so?

22 A Yes. The customer value, which is the one
23 that I've had a lot of experience with -- I actually
24 worked on the committee that oversaw that survey back
25 in the mid '90s and worked with our choice of

1 selecting a vendor and the structure of the program.

2 We started -- and I want to give you a
3 little bit of history, because I think it sort of
4 helps explain where we are today and how Southern
5 Company got to where we are. We actually started in
6 the early '90s doing the survey ourselves, and we did
7 not benchmark ourselves against the 16 peer utilities.
8 We actually just did a Southern Company survey. We
9 had a department in Atlanta that would phone the -- we
10 would pull a sample from our customer service records,
11 and we would call customers. And if they had had an
12 active contact with us, we would follow up and say,
13 "How was it?" It was very labor extensive. It was
14 very good for that time period.

15 But we found pretty quickly when we bought
16 into other surveys -- we bought into a Gallup survey,
17 and we found that our results were a little higher
18 than the Gallup results were. And we went out to sort
19 of -- to some consultants that were premier in the
20 customer research area, and they said, "It's because
21 you're doing the survey. Customers are going to be
22 nice to you, and they're not going to be completely
23 honest."

24 So we then decided to go to a blind survey
25 in which we would not identify that it was Southern

1 Company. We disbanded the department that did the
2 survey, and we hired an outside group to conduct the
3 surveys. We then -- we were able to compare our
4 results to ourselves. But, quite frankly, the
5 Southern Company operating companies are all very good
6 in this area, so we found that we weren't getting as
7 much value from that survey.

8 So in 1998, we went to the present form we
9 have today, where we benchmark ourselves against 16
10 peer utilities, and we -- we do an RFP process to pick
11 the vendors who actually collect the data, and also
12 they analyze and compile the data for us. There's
13 actually three vendors that are involved.

14 We also went to a customer value
15 calculation. We originally were asking sort of just a
16 straight up question, "Are you satisfied?" And that
17 was meaningful, but we didn't find it was really
18 getting to all the issues that customers found that
19 they valued and they incorporated when they considered
20 us.

21 So we actually take a series of questions,
22 and they're weighted according to what customers have
23 told us is important to them. And we survey each of
24 those 16 utilities with those questions and calculate
25 a value score for each of the 16 utilities, and then

1 we are compared against that.

2 One of the questions I know had been -- to
3 Mr. Fisher had been about what information is
4 available. And we actually get -- we get the
5 composite answers to every single question in the
6 survey, and then we -- we also know who's best in
7 class. So, for example, if we're not the best in
8 class, which I'm proud to say most of the time we are,
9 but on some of the questions we're not always the best
10 utility. We actually get for every question in the
11 survey those answers so that we can then go and look
12 to see if there's ways that we can improve our score
13 on that question.

14 There's a group, a Southern Company group
15 of operating company employees, and Gulf has a
16 representative on there, and they are the ones that
17 oversee the RFP process, get the results in. They
18 distribute the results to the Company. But we don't
19 actually participate in the survey itself. We're not
20 part of the survey. They do not know that it is us
21 conducting it.

22 We then -- like we did with Gallup, we look
23 at other surveys that are done to make sure that our
24 results are sort of in line. Gallup doesn't do the
25 survey they did back in the mid '90s, but J. D. Power

1 does a survey. And although they don't take it down
2 to Gulf's level, they take it to the Southern Company
3 level. And Southern Company, I'm happy to say, has
4 been number one in that survey the last two years.

5 There's also a survey the University of
6 Michigan puts on that is residential customers, and in
7 that survey Southern has been number one.

8 So we look at -- we buy into some other
9 surveys to try to make sure that ours is making sense,
10 because we did have that happen in the mid '90s where
11 we had some different results. So we put a lot of
12 commitment into it, and it is -- we don't want to go
13 to all this effort, to spend the money on the research
14 and get an answer back that we can't use.

15 And the group that oversees this is very
16 committed to getting us a good product, because you
17 can very well imagine that some of those questions,
18 when they come in, if they're in the organization that
19 -- if they pertain to something that marketing is
20 responsible for, we pore over those questions, and we
21 challenge them to make sure that those answers make
22 sense and they fit with sort of what we understand.
23 And if they're out of whack, then we would be the
24 first ones to say, "Something looks wrong here with
25 the answers."

1 But we would be very comfortable in having,
2 you know, a further -- like a workshop or some time
3 that we could sit down and bring in the people in
4 Atlanta that actually work on the survey to get
5 everyone comfortable with it, because it's very well
6 done. And I do have some of the results that I could
7 share to reassure you that it is done to the highest
8 research standards.

9 Q You mentioned a while back in your answer
10 16 other utilities that Gulf is compared to. Can you
11 give us a list of those 16 utilities?

12 A Yes, I can. I cannot tell you their
13 ranking. That's what has been proprietary, you know,
14 which one ends up with what. But would you like me to
15 read them to you, or would you like for me to give
16 them to you?

17 Q Yes, that would be --

18 CHAIRMAN JABER: You know what would help
19 also, Ms. Neyman, is if you answer the precise
20 question that staff asks. And then we will allow you
21 to elaborate, but let's focus on the question that's
22 being asked.

23 THE WITNESS: Okay.

24 CHAIRMAN JABER: Start over.

25 BY MS. ESPINOSA:

1 Q I guess, if you could, list those 16
2 utilities, please.

3 A AEP, Alabama Power, Carolina Power & Light,
4 Central & Southwest, Duke Power, Entergy, Florida
5 Power Corp. Florida Power & Light, Georgia Power, Gulf
6 Power, LG&E, MEAG, Mississippi Power, Oglethorpe
7 Power, Pacific Gas & Electric, Savannah Power, SoCal
8 Edison, South Carolina -- I'm sorry. South Carolina
9 Electric & Gas, Texas Utilities, and Virginia Power.

10 And let me specify, this was 2000's list.
11 The list changes depending on mergers. We look each
12 year at the 16 utilities. I'll tell you that
13 California utilities dropped off, will drop off, for
14 example, because they're really not considered premier
15 utilities at this point. So that was who we surveyed
16 in 2000.

17 Q Okay. Can the survey instruments and the
18 raw data be verified by third parties?

19 A Can it be?

20 Q Uh-huh.

21 A Yes.

22 Q Are you familiar with the method that the
23 public confidence survey is conducted?

24 A Yes.

25 Q And can you describe that for us, please?

1 A Not as well as I am with the customer --

2 Q That's fine.

3 A -- value, but it's done quarterly. It is a
4 phone survey. It is conducted by a third party. I do
5 not believe it is a blind survey. We've been doing it
6 for a long time, and it's used to sort of spot more
7 short-term trends of what our customers are focusing
8 on and their view of the Company. It's done more
9 frequently throughout the year, quarterly.

10 Q Okay. Turning to page 14 of your direct
11 testimony, on line 20, you state that Gulf is seeking
12 to recover dollars spent on advertising in part
13 because the ads promote products and services that
14 provide for safety and energy efficiency in the
15 ratepayers' homes.

16 Now, turning to staff's Hearing Exhibit No.
17 22 -- I believe it's located in the accordion brown
18 folder in front of you marked "Staff's Proposed
19 Exhibits." It should have a yellow piece of paper in
20 it that has the number 22 on it.

21 A Yes. Okay.

22 Q Now, turning to page 24 of this exhibit,
23 this exhibit has been identified as Gulf Power
24 Company's response to OPC's POD No. 12. Looking at
25 that ad on page 24, would you agree that this is one

1 of the ads that Gulf is currently seeking to recover
2 the cost of in its base rates?

3 A Yes.

4 Q And can you please identify in that ad the
5 elements in this ad that promote safety or energy
6 efficiency?

7 A Well, as I had said in my testimony, I
8 think my actual wording is, "This communication
9 results in greater awareness." This ad does not
10 actually promote per se one of our products or
11 services. But we feel like customers that -- if
12 customers understand that we have low rates, they're
13 more likely to participate in a program such as
14 conservation that will help them save more money. But
15 they need to trust us and believe that we provide low
16 rates and have already provided some value before
17 they're going to listen to us and take our advice. So
18 we don't actually promote the products and services in
19 this advertising that we're asking for, but we feel
20 that it supports the efforts.

21 Q Is it fair to say then that the connection
22 between that particular ad and the promotion of safety
23 and energy efficiency is indirect?

24 A Yes, I would say it's indirect.

25 Q Okay. And if I were to ask you the same

1 questions about the other four ads contained in that
2 exhibit, Part C of Exhibit 22, and I believe they're
3 all ads that Gulf is seeking to recover in its base
4 rates, would your testimony be the same?

5 A Yes. Let me clarify one thing. These ads
6 were actually historical. This would be the type of
7 ad. These are already produced, and we will -- they
8 ran actually, I think, in 1999.

9 So it would be -- these are representative
10 of the types of ads and advertising that we feel like
11 will be beneficial to the ratepayers and have been
12 beneficial to the ratepayers, and therefore we are
13 asking the Commission to reconsider its past position
14 on this type of advertising.

15 Q Has Gulf provided examples of actual ads
16 that they're going to seek to recover in the base
17 rates, or in the test year, I should say?

18 A We have not actually produced our ads for
19 the test year, so we don't have at this time ads
20 actually produced for 2002. We're in the process of
21 actually developing -- the ad agency we work with is
22 in the process of developing those, so I do not have
23 -- is that what you're asking?

24 Q Yes. So just to clarify, those ads in that
25 exhibit are from the historic test year, and those

1 would be the best example?

2 A Right. These were provided -- or I think a
3 good representation. In fact, this exhibit covers
4 three categories of ads: the ads that do directly
5 promote the products and services; I think there are
6 some conservation ads in here that are recovered
7 through ECCR; and then this category of advertising
8 that we have found to be valuable in helping us
9 promote our products and services.

10 Q Thank you.

11 shifting gears, I would like to ask you a
12 few questions about Gulf's water heating conversion
13 program. You would agree that Gulf currently has a
14 program that provides for free electric water heaters
15 to its residential customers, and this is known as the
16 Water Heating Conversion Program?

17 A Yes.

18 Q And this program provides for the
19 replacement of existing natural-gas-fired heaters with
20 new electric water heaters; correct?

21 A Yes.

22 Q And you would agree that the program does
23 not allow for existing customers with electric water
24 heaters to get a free replacement electric water
25 heater?

1 A That is correct, because of the -- if we
2 did that, the program would not be cost-effective for
3 the ratepayers, and therefore, we do not do that. It
4 would actually put upward pressure upon rates if we
5 allowed electric-to-electric conversion or a free
6 electric water heater in that case. The program we
7 have is one that has a very strong cost-effectiveness
8 evaluation as it's structured.

9 Q Turning to staff's Composite Exhibit 4,
10 which you'll find in one of the two large binders in
11 front of you.

12 A Yes.

13 Q Okay. Page 18 of that composite exhibit,
14 which is a letter sent to a PSC employee from a Gulf
15 employee named Susan Ritenour.

16 A Yes.

17 Q Looking at that letter, would you agree
18 that Gulf's expenditure for the water heating
19 conversion program for the projected test year is
20 \$116,695?

21 A Yes.

22 Q And would you agree that Gulf currently
23 does not recover the cost for this program through the
24 energy conservation cost recovery clause?

25 A That's correct. We've never asked for it

1 to be recovered through energy conservation cost
2 recovery, because it does not comply with what the
3 Commission would consider to be an ECCR program, since
4 it does not reduce either peak demand or annual
5 energy.

6 Q Okay. Can you please tell us how Gulf does
7 current recover the cost for this program?

8 A It is recovered through base rates. I
9 mean, it's a new program, but it's a base rate
10 program.

11 Q Okay. And looking back at that letter,
12 would you agree that the program has resulted in an
13 increase in per-customer energy use by 4,367
14 kilowatt-hours per year?

15 A Yes, it does increase. We sell annual
16 energy -- we will make sales throughout the year with
17 an electric water heater that we otherwise would not
18 have made for essentially the same investment that
19 we've made to serve the summer air conditioning load.

20 Q And also stated in that letter, you would
21 agree that the program has also resulted in an
22 increase in per-customer peak demand by .21 -- excuse
23 me, 25 kilowatts?

24 A Yes, .25 kw is the diversified coincident
25 peak.

1 MS. ESPINOSA: Thank you. We have no
2 further questions.

3 CHAIRMAN JABER: Thank you, staff.
4 Commissioners?

5 COMMISSIONER PALECKI: Yes, I have a few
6 questions. I would like to follow up on that water
7 heater conversion program. You stated that it's not
8 an ECCR program because it wouldn't pass the
9 Commission's criteria, specifically, the rate impact
10 measure?

11 THE WITNESS: No. I'm sorry, Commissioner.
12 It would pass the rate impact measure. It does not
13 pass -- it does not reduce weather sensitive demand or
14 annual energy, but it does pass the rate impact
15 measure by a large margin.

16 COMMISSIONER PALECKI: Are there any other
17 programs similar to that that you run through rates
18 when they won't pass as a conservation program under
19 ECCR?

20 THE WITNESS: We have a couple of programs
21 that we do in base rates that are not ECCR programs.
22 Some of those, in fact, we even count toward our
23 conservation goals. For a variety of reasons, we
24 don't ask for recovery. Sometimes we do those
25 programs in base rates. Sometimes they've been in

1 base rates for years, and we don't choose to put them
2 through the clause.

3 COMMISSIONER PALECKI: And what are those
4 programs?

5 THE WITNESS: well, one program we have
6 that's in base rates is Real Time Pricing. We see
7 significant demand reductions from that program. We
8 have not chosen to seek recovery of the cost of that
9 program. We have -- our GoodCents Home program is a
10 program that we do in base rates that is not an ECCR
11 program. We have --

12 COMMISSIONER PALECKI: It's not an ECCR
13 program, or it's a program you choose not to run
14 through the clause?

15 THE WITNESS: It is a program that's --
16 it's not an ECCR program. It has not been an ECCR
17 program, I believe, since the late '80s or the early
18 '90s.

19 COMMISSIONER PALECKI: What about Real Time
20 Pricing that you just mentioned?

21 THE WITNESS: It has never been -- we've
22 never petitioned the Commission for it to be an ECCR
23 program, but we did include it as part of our
24 demand-side management plan to achieve our
25 conservation goals, the demand reductions from Real

1 Time Pricing. We also count our energy savings from
2 our GoodCents Home program in our goal achievement.
3 So we have --

4 COMMISSIONER PALECKI: So in the programs
5 you mentioned in your prefiled testimony, the
6 GoodCents new and existing customer program, that's
7 not --

8 THE WITNESS: That's not ECCR, that's
9 correct.

10 COMMISSIONER PALECKI: The GoodCents Select
11 program is not ECCR?

12 THE WITNESS: No, the GoodCents Select
13 program is ECCR.

14 COMMISSIONER PALECKI: Is ECCR?

15 THE WITNESS: Yes, sir, it is. In fact,
16 it's probably -- the cornerstone of our residential
17 DSM plan is our GoodCents Select program.

18 COMMISSIONER PALECKI: The Real Time
19 Pricing program is not?

20 THE WITNESS: It is not.

21 COMMISSIONER PALECKI: The enhancement to
22 your energy audits programs?

23 THE WITNESS: The mail-in audits are ECCR
24 programs.

25 COMMISSIONER PALECKI: And you state that

1 you recover through base rates 71% of total
2 marketing. I guess what I'm trying to understand is,
3 how do you decide on a conservation program, such as
4 the energy audits program and GoodCents Select, what
5 it is you run through rates and what you run through
6 ECCR, and why do you run some of those expenses
7 through rates?

8 And I guess I'll ask a composite question.
9 When you do your cost-benefit analysis of these
10 programs, specifically the RIM and the other analysis
11 you're required to complete, do you put all of the
12 expenses into the equation, both those that are in
13 rates and those that go through the clause?

14 THE WITNESS: The one program that we have
15 is -- most of the time it's very clean. A program is
16 100% ECCR or it's 100% base rate.

17 And we do evaluate our base rate programs
18 as though they were conservation programs. We use the
19 Commission's models and their methodology even if it's
20 not an ECCR program when we evaluate the programs
21 every year to determine how much -- you know, do they
22 pass RIM, basically, and do they pass the participants
23 test. As things change, we always want to make sure
24 that our programs, non-ECCR programs that are intended
25 to reduce demand, that they are in fact RIM passing,

1 and so we do evaluate those programs.

2 And then the same thing is true of the
3 conservation cost recovery programs. We evaluate
4 those every year per the Commission's request and as
5 part of the ECCR proceedings.

6 You also asked how did we decide whether or
7 not we recovered --

8 COMMISSIONER PALECKI: Yes.

9 THE WITNESS: -- or we didn't. Most of the
10 time if we feel like a program has good -- we have a
11 good handle on the impact that it's going to have, it
12 looks like it's going to pass the RIM, it's going to
13 reduce either annual energy or peak demand, then we
14 will usually ask for recovery.

15 Sometimes we -- RTP, that program, we have
16 driven most of the cost of that program to the
17 participants. They pay a customer charge. And
18 there's not -- we have been able to deploy that
19 program relatively cost-effectively and have not had a
20 tremendous amount of administrative cost associated
21 with it, which I am pleased about. At the time we
22 initially introduced it, we left the door open,
23 because we weren't really sure if there would be a lot
24 of expense. As it turned out, there hasn't been, and
25 it has been a very successful program for us. So we

1 didn't choose to recover those costs, because they
2 really were fairly minor.

3 You know, some programs, we sort of trial
4 run them for a while, and then we may disband them if
5 they're not successful. There's a lot of effort to go
6 through to get them approved and to report on them.
7 The reporting requirements and the administration of
8 an ECCR program is a little higher than it is for a
9 base rate program just because you have more scrutiny
10 of it. So we don't always take a program immediately
11 and file for it, because we may end up having to
12 withdraw it because customer participation is not
13 there. So that factors in sometimes with our
14 decisions not to ask for recovery of it.

15 COMMISSIONER PALECKI: Now, it's a
16 principle of the RIM test that there won't be
17 cross-subsidization so that nonparticipants end up
18 subsidizing those customers that participate. In
19 other words, the benefits of the program have to
20 benefit the entire body of ratepayers. And what I'm
21 seeing in the filing is several of these programs
22 being singled out as justification for part of the
23 rate increase.

24 How has that -- I guess I'm troubled by the
25 mix between ECCR and base rate conservation programs.

1 And if we truly have a RIM cost-effective program, is
2 it going to cause a rate increase?

3 THE WITNESS: Well, we are actually in our
4 function \$450,000, 470-something thousand dollars
5 under the benchmark in customer service and
6 information, so our costs are below really what they
7 could be. So I think we have done a good job in
8 deploying programs that put downward pressure on
9 rates. It has been 12 years since we've been in for a
10 rate case.

11 We have programs that are -- we have some
12 very strong conservation programs that we recover
13 through ECCR, and then we have some that we've always
14 had in base rates that help customers make their
15 choices. We evaluate them. They pass RIM. They're
16 cost-effective for the general body of ratepayers.
17 And I feel like that they have been -- they also all
18 pass the participants test. Our customers that
19 participant in the program receive value from the
20 program, but so do the general body of ratepayers.

21 COMMISSIONER PALECKI: Are there any
22 programs that are hybrids, where you put some of the
23 cost through energy conservation cost --

24 THE WITNESS: Yes, and I was going to --
25 one program that is a hybrid of sorts is the GoodCents

1 select program, and mainly it's in the RSVP rate. The
2 RSVP rate has two components. It has a component that
3 works essentially as a credit to ECCR, and it pays for
4 the actual cost of the equipment at the customer's
5 home that's unique to that program. The rest of RSVP
6 pays for their base rate energy investment that we
7 have there, the distribution.

8 so it is a hybrid, in that the rate itself
9 has two components really, a base rate component, and
10 then it has a component that serves essentially to
11 credit our ECCR cost, offsets -- the participants pay
12 for some of the equipment at the home. But there's a
13 little piece of it, roughly 40% of the equipment cost
14 for that program that's recovered through ECCR.
15 That's the only program that we have that you could
16 call a hybrid.

17 COMMISSIONER PALECKI: In the
18 cost-effective analysis, do you take the cost both on
19 the rate base side and the ECCR side to --

20 THE WITNESS: Right.

21 COMMISSIONER PALECKI: -- determine
22 cost-effectiveness?

23 THE WITNESS: Right. We carefully assign
24 the buckets in the right place and look at those costs
25 to ensure that the ratepayers through the ECCR

1 mechanism are getting a good deal from this program,
2 and then the base rate component as part of this rate
3 proceeding is good for the ratepayers.

4 COMMISSIONER PALECKI: And now, these
5 programs sound like conservation programs that are
6 purely run through base rates, do you run the same
7 cost-effectiveness analysis on those programs that you
8 do on the conservation programs?

9 THE WITNESS: Yes. Now, some of the
10 programs we do are more in the area of customer
11 service, like we'll do Manual J calculations sometimes
12 for customers and help them do energy analysis when
13 they're doing some construction project or whatever.
14 So we do have a component that we call internal to our
15 area sort of customer service. That customer
16 education and assistance, those programs are not
17 necessarily evaluated the same way, but the ones such
18 as the hot water heater program, we evaluate it to
19 determine that it is cost-effective for the general
20 body of ratepayers as well as the participating
21 customers.

22 COMMISSIONER PALECKI: But I thought you
23 said it was not cost-effective under the standard
24 ECCR --

25 THE WITNESS: It is. It would pass the

1 Commission's conservation cost-effectiveness
2 evaluation, but it does not reduce -- traditionally
3 the programs that we have recovered through ECCR have
4 to either reduce peak demand or annual energy. This
5 program does not.

6 COMMISSIONER PALECKI: And this does.

7 THE WITNESS: Right.

8 COMMISSIONER PALECKI: So one of the
9 components it does not.

10 THE WITNESS: Right. It's cost-effective.
11 It passes -- it's very strong RIM passing.

12 COMMISSIONER PALECKI: But it increases
13 your peak.

14 THE WITNESS: A little bit, but overall it
15 increases our load factor. It improves the efficiency
16 of our system, because we're making essentially energy
17 sales for an investment that we've got on the ground
18 to serve the summer air conditioning load. So we are
19 able to -- it does have a very small increase, .25
20 kw. But we sell throughout the year a lot of energy
21 sales, so it has a -- that's why it is so strong in
22 the RIM passing, is that it's very cost-effective.

23 COMMISSIONER PALECKI: why does Gulf put
24 Real Time Pricing through base rates when every other
25 electric utility puts it through their conservation

1 programs in the conservation cost recovery clause?

2 THE WITNESS: I don't know that -- I'm not
3 familiar with the other utilities. We did contemplate
4 that. In fact, if you go back to some of the original
5 RTP filings, we left that door open, that we wanted to
6 see in the pilot what kind of costs we incurred, were
7 we able to administer it. And when we came back at
8 the end of the pilot, we did not ask for recovery. We
9 felt like that we could through the rate design, and
10 then our own management to administer the program, we
11 didn't really have significant costs to administer the
12 program, so it really wasn't worth recovery.

13 COMMISSIONER PALECKI: And I think you
14 might be right about the other utilities. I was
15 thinking about load control is generally under --

16 THE WITNESS: Right. I'm not familiar with
17 anybody in Florida recovering it. But we do count the
18 results in our DSM plan. It's part of our DSM plan to
19 achieve our conservation goals.

20 COMMISSIONER PALECKI: Are there any other
21 programs like the water heater conversion program that
22 don't decrease your peak demand that you've
23 implemented?

24 THE WITNESS: Don't decrease peak demand?

25 COMMISSIONER PALECKI: That actually

1 increase your peak.

2 THE WITNESS: No, there's not any that I'm
3 aware of. Some of the -- you know, there's programs,
4 power quality programs that we have that we work with
5 customers to improve the power quality problems they
6 may be having. Some of that work falls within this
7 organization to help customers with that. It doesn't
8 really typically have any impact one way or the other,
9 but that's part of the cost that we're asking for
10 recovery here.

11 COMMISSIONER PALECKI: Thank you.

12 CHAIRMAN JABER: Any other questions,
13 Commissioners?

14 Redirect?

15 MR. BADDERS: No redirect.

16 CHAIRMAN JABER: Thank you, Ms. Neyman.

17 THE WITNESS: Thank you.

18 CHAIRMAN JABER: We have Exhibit 35,
19 Mr. Badders.

20 MR. BADDERS: Yes. We move Exhibit 35.

21 CHAIRMAN JABER: Without objection, Exhibit
22 35 is admitted into the record.

23 (Exhibit 35 was admitted into the record.)

24 CHAIRMAN JABER: Call your next witness.

25 MR. BADDERS: At this time Gulf Power

1 calls R. J. McMillan.

2 (Pause in the proceedings.)

3 MR. BADDERS: We're ready to proceed.

4 Mr. McMillan, were you sworn in this morning?

5 THE WITNESS: No, I wasn't.

6 CHAIRMAN JABER: See, that's why I didn't
7 want to interrupt you when you were doing the -- but
8 you did it anyway. Mr. McMillan, everyone does that.
9 It's just a matter of timing.

10 MR. MCMILLAN: It's a different pitcher,
11 I'll tell you.

12 CHAIRMAN JABER: All right. Would you
13 please --

14 MR. BADDERS: There goes your performance
15 bonus.

16 CHAIRMAN JABER: I think we need to
17 evaluate the person that puts the pitcher there.

18 Mr. McMillan, if you will raise your right
19 hand.

20 (Witness sworn.)

21 Thereupon,

22 RICHARD J. MCMILLAN
23 was called as a witness on behalf of Gulf Power
24 Company and, having been duly sworn, testified as
25 follows:

DIRECT EXAMINATION

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BY MR. BADDERS:

Q Please state your name for the record.

A Richard McMillan.

Q And your business address, and by whom are you employed?

A One Energy Place, Pensacola, Florida 32520, and I'm employed by Gulf Power.

Q And in what capacity are you employed by Gulf Power?

A I'm Manager of General Accounting.

Q Did you prefile direct testimony consisting of eight pages?

A Yes, I did.

Q Do you have any changes or corrections to that testimony?

A No, I don't.

Q If I were to ask you those same questions today, would your answers be the same?

A Yes.

MR. BADDERS: We ask that the prefiled direct testimony of Richard McMillan be inserted into the record as though read.

CHAIRMAN JABER: The prefiled direct testimony of Richard J. McMillan will be inserted into

1 the record as though read.

2 BY MR. BADDERS:

3 Q Mr. McMillan, do you have one exhibit,
4 RJM-1, attached to your testimony which consists of
5 six schedules?

6 A Yes.

7 Q Are you also sponsoring a section of the
8 MFRs which are identified as schedule 6 of your
9 exhibit?

10 A Yes.

11 Q Do you have any changes or corrections to
12 your exhibit list or to your portion of the MFRs?

13 A Yes, I do. On schedule 6, page 1 of
14 three, I would add MFR C-33. I've been added as a
15 witness for that MFR.

16 MR. BADDERS: Thank you. We ask that
17 Exhibit RJM-1 be identified. I believe that would be
18 Exhibit 36.

19 CHAIRMAN JABER: Yes. RJM-1 will be
20 Exhibit 36.

21 (Exhibit 36 was marked for identification.)

22

23

24

25

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission
3 Prepared Direct Testimony and Exhibit of
4 Richard J. McMillan
5 Docket No. 010949-EI
6 In Support of Rate Relief
7 Date of Filing: September 10, 2001

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

9 A. My name is Richard J. McMillan. My business address is One Energy
10 Place, Pensacola, Florida 32520. I am General Accounting Manager of
11 Gulf Power Company.

12 Q. Please describe your educational and professional background.

13 A. I graduated from Louisiana State University in 1976 with a Bachelor of
14 Science Degree in Accounting. Immediately following graduation, I was
15 employed by Gulf Power Company as an Internal Auditor. I have held
16 various accounting positions, including Staff Internal Auditor, Staff
17 Financial Analyst, Staff Accountant, Coordinator of Internal Accounting
18 Controls, Supervisor of Financial Planning; and in March 1992, I was
19 promoted to my current position as General Accounting Manager. Also,
20 during my employment, I graduated from the University of West Florida in
21 1983 with a Master of Science Degree in Business Administration.

22 Q. Briefly describe your duties and responsibilities as General Accounting
23 Manager.

24 A. My responsibilities include: all external accounting reporting and
25 administration, regulatory accounting requirements, tax accounting, fuel

1 accounting, actual FPSC recovery clause calculations and support, cost
2 accounting, bank reconciliations, coordination and preparation of the
3 Accounting department budget and Company budgets for general
4 corporate expenses, and assistance with various other projects and
5 assignments as required.

6

7 Q. What is the purpose of your testimony?

8 A. The purpose of my testimony is to support Gulf's Operation and
9 Maintenance (O & M) expense Benchmark calculations and the level of
10 Administrative and General (A & G) expenses included in the test year. I
11 am also the witness for tax expenses included in the test year.

12

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

15 A. Yes.

16 Counsel: We ask that Mr. McMillan's Exhibit (RJM-1) consisting
17 of six schedules be marked for identification as
18 Exhibit ____.

19

20 Q. Were all the schedules in this Exhibit prepared under your supervision
21 and direction?

22 A. Yes.

23

24

25

1 Q. Are you also the sponsor of certain Minimum Filing Requirements
2 (MFRs)?

3 A. Yes. The MFRs are listed at the end of my Exhibit on Schedule 6. To the
4 best of my knowledge, all of the information presented in the MFRs is true
5 and correct.

6
7 Q. Has the Company prepared an O & M Benchmark variance by function?

8 A. Yes. The Benchmark variance by function is included in MFR C-57, and
9 Schedule 1 of my Exhibit shows the functional summary for the test year.
10 As shown on the summary, the Company's total adjusted O & M of
11 \$186.4 million for the test year is \$3.7 million under the Benchmark. The
12 justifications for each functional variance are also included in MFR C-57,
13 beginning on page 3. The following Company witnesses address each
14 function: Mr. Moore is responsible for Production expenses; Mr. Howell is
15 responsible for Transmission expenses; Mr. Fisher is responsible for
16 Distribution expenses; Mr. Saxon will address Customer Accounts
17 expenses; Ms. Neyman is responsible for Customer Service and
18 Information, Sales, and advertising expenses; and I am responsible for
19 A & G expenses.

20
21 Q. What is the basis for the Company's base year Benchmark amounts?

22 A. The Benchmark year amounts are based upon the 1990 test year O & M
23 expenses approved in Gulf's last rate case in Order No. 23573, Docket
24 No. 891345-EI. The derivation of the 1990 allowed amounts by function is
25 included in Schedule 2 of my Exhibit. As noted in Schedule 2 of my

1 Exhibit, I also adjusted 1990 allowed amounts for certain Southern
2 Company Services (SCS) charges, which were charged to A & G in 1990
3 and are now charged to the responsible business unit's functional
4 accounts. The total adjustment of \$1.8 million is labeled SCS Functional
5 Adjustments. A detailed listing of the SCS work orders, which total
6 \$1.8 million, is included in Schedule 3 of my Exhibit.

7
8 Q. Have you prepared a schedule that shows the calculation of the
9 Benchmark amounts?

10 A. Yes. Schedule 4 of my Exhibit shows the calculation of the Benchmark
11 amounts. The adjustments reflected in columns 2 through 13 were
12 provided by Mr. Labrato and are also included in Schedule 8 of his
13 Exhibit.

14
15 Q. How is the Benchmark used to test the reasonableness of O & M
16 expenses?

17 A. The Benchmark methodology assumes that customer growth (except for
18 production) and inflation, as measured by the Consumer Price Index
19 (CPI), will adequately cover increases in O & M expenses from whatever
20 baseline year is used to the test year. However, a multitude of O & M
21 increases in our industry are totally unrelated to either customer growth or
22 inflation. These may take the form of new programs, maintenance of
23 aging steam plants, or increases associated with conforming to newly
24 adopted laws and regulations. Additionally, the CPI is a measure of
25 increases in the cost of a wide variety of consumer items only some of

1 which are related to the electric utility industry. Because this Commission
2 has favored the Benchmark comparison in the past, the Company
3 witnesses address the Benchmark variances in their testimony. As shown
4 in Schedule 1 of my Exhibit, the Company's total adjusted O & M expense
5 of \$186.4 million is \$3.7 million below the Benchmark.

6

7 Q. Please discuss A & G - Other (excluding production related A & G)
8 included in the test year.

9 A. As shown in Schedule 5 of my Exhibit, A & G - Other requested in the test
10 year is \$33.8 million and includes administrative and general expenses of
11 the Company, excluding the amount related to Production discussed by
12 Mr. Moore in his testimony. The requested level of A & G - Other is
13 necessary to provide administrative support to the Company and ensure
14 compliance with regulatory requirements. A & G - Other includes the
15 following types of expenses: labor, office supplies, and expenses of
16 A & G employees; fees and expenses for outside professional services;
17 property insurance; injuries and damages insurance; employee pensions
18 and benefits; regulatory commission expenses; and other corporate
19 general expenses. The test year request of \$33.8 million is \$18.3 million
20 below the Benchmark, which is an indicator that the amount requested is
21 reasonable.

22

23 Q. Please discuss the A & G - Other (excluding production related A & G)
24 variance of \$18.3 million under the O & M Benchmark.

25 A. Over the last 12.5 years, Gulf has implemented cost saving measures to

1 keep Company costs low while providing reliable electric service to our
2 customers. Technology has allowed the Company to streamline many
3 functions and reduce the level of employees historically required to
4 perform those functions. As a result, the Company and SCS implemented
5 several workforce reduction programs and reorganizations during the
6 1990's that decreased A & G salaries and related expenses. Also, in the
7 1990 test year, the majority of all professional service costs for
8 Information Technology, Internal Auditing, and Human Resources were
9 provided by Company employees and the expenses were included in the
10 A & G function. In the mid-nineties, these functions were reorganized and
11 moved to SCS from each Southern Company subsidiary. These costs are
12 now charged directly to the Business Unit incurring the costs where
13 feasible. Use of technology, workforce reductions, and organizational
14 changes over the last 12.5 years have resulted in an estimated variance
15 under the A & G Benchmark of \$13.9 million.

16 The Company also centralized the operation and maintenance of
17 the corporate and district facilities and revised the functional accounts
18 being charged to more accurately allocate facility expenses to the
19 business functions. This change in allocation resulted in a variance of
20 approximately \$2.9 million under the Benchmark. Employee benefit
21 expenses, injuries and damages expenses, property insurance, and
22 advertising expenses are the other major items included in the
23 \$18.3 million A & G – Other Benchmark variance. Employee benefit
24 expenses are approximately \$2.3 million under the Benchmark primarily
25 due to reduced pension expenses. Injuries and damages insurance is

1 \$1.4 million under the Benchmark primarily due to no change in the
2 annual reserve accrual since 1990. Property insurance is \$1.6 million
3 over the Benchmark primarily due to extensive hurricane damage in 1995
4 that necessitated an increase in the annual property insurance reserve
5 accrual from \$1.2 million to \$3.5 million. Corporate advertising expenses
6 are \$0.6 million over the Benchmark, because the Company is requesting
7 recovery of these expenses as discussed and supported by Ms. Neyman
8 in her testimony.

9
10 Q. Please explain the Net Operating Income (NOI) adjustment of \$1,853,000
11 related to the annualized property tax for Smith Unit 3 made by
12 Mr. Labrato in Schedule 8 of his Exhibit.

13 A. Because the test year contains only five months of property taxes for
14 Smith Unit 3, an annualization adjustment of \$1,853,000 is necessary to
15 ensure that the test year taxes are representative of future periods.

16
17 Q. Did these estimated taxes for Smith Unit 3 include a county tax exemption
18 for the new generating facility?

19 A. No. Gulf requested and was granted a tax exemption by the Bay County
20 Board of Commissioners in accordance with Florida Statute 196.1995
21 Economic Development Ad Valorem Tax Exemption. However, the Bay
22 County Property Appraiser has taken the position that the exemption for
23 Smith Unit 3 is unlawful. In a lawsuit testing the legality of the exemption,
24 Gulf received a Summary Judgement in its favor. This ruling has been
25 appealed by the Bay County Property Appraiser. The timing and final

1 outcome related to this lawsuit cannot be determined at this time. If the
2 Company prevails in court and the property appraiser is required to honor
3 the tax exemption granted for Smith Unit 3, the annual property taxes
4 would be reduced by \$1,251,000 based upon the 2000 millage rates (from
5 \$3,178,000 to \$1,927,000).

6

7 Q. Please summarize your testimony.

8 A. Since Gulf's last rate case 12.5 years ago, the Company has provided
9 reliable electric service and kept customer costs low while complying with
10 new and existing laws and regulations. During that time, inflation
11 increased 39 percent; and the average number of customers served
12 increased 32 percent. At the same time, the Company reduced the
13 number of employees required to support those increased customers. In
14 addition, the Company has taken advantage of new technology when it
15 was economically feasible and made other organizational changes to
16 keep costs low. The test year A & G – Other request of \$33.8 million
17 increased only 19 percent from 1990, which is \$18.3 million below the
18 Benchmark. Also, as shown in Schedule 1 of my Exhibit, the Company's
19 total adjusted O & M of \$186.4 million requested in the test year is
20 \$3.7 million under the Benchmark, and is reasonable and necessary to
21 continue to provide our customers reliable electric service.

22

23 Q. Mr. McMillan, does this conclude your testimony?

24 A. Yes.

25

1 BY MR. BADDERS:

2 Q Mr. McMillan, will you please summarize
3 your testimony?

4 A Yes. Good afternoon. The primary purpose
5 of my testimony is to support Gulf's O&M benchmark
6 calculations and the level of administrative and
7 general expenses and taxes included in the Company's
8 test year request.

9 The O&M benchmark calculations were
10 prepared in accordance with Commission requirements
11 using the 1990 test year O&M expenses approved by this
12 Commission as the base benchmark year. These amounts
13 were escalated by customer growth and inflation and
14 compared to the test year request. As shown on
15 Schedule 1 of my exhibit, the Company's total adjusted
16 O&M request of \$186.4 million is 3.7 million under the
17 benchmark. If you exclude the test year O&M related
18 to new generation, the benchmark variance is 7.6
19 million under the benchmark.

20 Also noted on schedule 1 of my exhibit are
21 the Company's witnesses who have addressed the
22 functional variances resulting from the benchmark
23 calculations. I am responsible for A&G-Other. The
24 test year A&G-Other request of 33.8 million is 18.3
25 million under the benchmark. This represents only a

1 19% increase since 1990. Approximately 13.9 million
2 of the variance is related to reductions in staffing
3 and organizational changes.

4 The remaining variance of 4.4 million under
5 the benchmark is due to the following items. Employee
6 benefits are 2.3 million under the benchmark,
7 primarily due to reduced pension expenses. Injuries
8 and damages are primarily -- are under the benchmark
9 primarily due to the I&D reserve accrual has not
10 changed since the 1990 test year. Our facility
11 operation and maintenance expenses have changed and
12 are approximately 2.9 million under the benchmark due
13 to a change in the functional accounts being charged.

14 These increases were partially offset by
15 our property insurance expenses increasing 1.6 million
16 over the benchmark due to an increase in the property
17 insurance reserve accrual which was approved by this
18 Commission back in 1996. Also, the corporate and
19 institutional advertising expenses which were
20 disallowed in Gulf's last rate case are .6 million
21 over the benchmark, which Ms. Neyman just discussed
22 the Company's request to include these in our base
23 rates.

24 In the 12-plus years since Gulf Power's
25 last rate increase, the rate of inflation has

1 increased 39%, the average number of customers served
2 has increased 32%, and at the same time, the Company
3 has reduced the number of employees. The Company has
4 taken advantage of new technology when economically
5 feasible and made organizational changes that have
6 enabled the Company to streamline many functions and
7 reduce the level of employees historically required to
8 perform these functions.

9 The Company has consistently provided
10 reliable electric service while keeping our customers'
11 costs low. The Company's requested O&M of 186.4
12 million is reasonable and necessary for the Company to
13 continue to provide our customers reliable electric
14 service.

15 That concludes my summary.

16 MR. BADDERS: The witness is available for
17 cross.

18 CHAIRMAN JABER: Thank you.

19 MR. ERICKSON: No questions.

20 MR. GROSS: No questions.

21 MR. PERRY: No questions.

22 CHAIRMAN JABER: Mr. Burgess?

23 CROSS EXAMINATION

24 BY MR. BURGESS:

25 Q Mr. McMillan, could I get you to reference

1 page 3 of your prefiled testimony, specifically with
2 regard to line 11? I want to try to fully understand
3 what the numbers that I'm looking at should be. I see
4 186.4 million is the O&M amount that's used for
5 determining the benchmark, is that correct,
6 determining that Gulf is under the benchmark by 3
7 million; is that correct?

8 A That is the adjusted O&M amount in the test
9 year; correct.

10 Q Okay. And if I go to your Schedule 1, page
11 1 of one, at the bottom, the second to the far right
12 column, the 186,354; is that correct?

13 A Correct.

14 Q So you've just rounded it for purposes of
15 explaining your testimony. That's the 186.4 million;
16 correct?

17 A That's correct.

18 Q Okay. And what we compare it to then
19 ultimately is the far left column, the 116,810,000?

20 A That is the 1990 allowed amount, which then
21 has to be escalated, so --

22 Q Correct. But you start with the 116,810
23 and bring it forward for the CPI customer growth
24 effect; is that correct?

25 A That's correct.

1 Q Okay. And if I look at -- you referenced
2 C-57 as the MFR that displays this O&M expense. If I
3 look at C-57, MFR C-57 -- do you have a copy of that?

4 A Yes.

5 Q If I look on page 3 of three, am I correct
6 then to look at line 6 under operating expenses and
7 column 9 -- is that correct? If I make it a matrix,
8 line 6, column 9?

9 A On which MFR? C-57? C-57 has 46 pages.

10 Q I'm sorry. I want to look on Schedule C-2.
11 I apologize. If you look at Schedule C-2, page 3 of
12 three.

13 A Hold on one second. I don't have that.

14 Q Thank you, Mr. McMillan. I appreciate
15 that.

16 Page 3 of three of Schedule C-2.

17 A Okay.

18 Q Now, should I look at column 9, line 6, to
19 extract that same number? Is that where that would be
20 found?

21 A Yes.

22 Q And if I were to try to find a
23 corresponding number for the prior year, I would go
24 back to page 2 of three and look at the same place,
25 would I not, column 9, line 6?

1 A Yes.

2 Q 176,534,000?

3 A That's correct.

4 Q And if I were to try to find the
5 corresponding amount for the historical year that
6 ended December 31, 2000, I would go back to page 1 of
7 three, is that right, and look in the same spot?

8 A That's correct.

9 Q And I would see 165,197?

10 A That's correct.

11 Q Thank you.

12 I have one other area that I would like to
13 you clarify for me, if you would, please. Looking in
14 your prefiled testimony, page 7, and beginning on line
15 -- well, on line 10, where you're talking about
16 annualizing the property tax for Smith Unit 3. Now,
17 as I understand it, that was to reflect that the
18 actual year 2003 would only have five months of that
19 in there, and you're adding seven months, or is it the
20 other way around, you're adding five months onto 2002?

21 A You had it right the first time.

22 Q Okay. And as I understand it from the
23 following testimony, there is a controversy over
24 whether a county tax exemption will actually be
25 effected; is that correct?

1 A That's correct.

2 Q Now, that would affect the total amount of
3 property tax; is that right?

4 A Yes, it would.

5 Q Okay. Now, I couldn't understand from
6 this, is the amount of -- if Gulf prevails in this
7 controversy, if Gulf wins this appeal, should the
8 amount that's included in the test year for
9 establishing rates be lower than it is?

10 A That's correct. That's on page 8 of my
11 testimony. It would be reduced by --

12 Q Okay. I couldn't tell whether it had been
13 removed or had not been removed from the --

14 A It has not been removed. I said it would
15 be removed if we get that decision.

16 Q And at this point, the ruling is in favor
17 of Gulf, and it's a matter of holding onto that status
18 quo through the appellate process; is that correct?

19 A That's correct.

20 MR. BURGESS: Thank you, Mr. McMillan.
21 That's all I have.

22 CHAIRMAN JABER: Thank you, Mr. Burgess.
23 Staff?

24 MS. STERN: No questions.

25 CHAIRMAN JABER: Commissioners?

1 COMMISSIONER DEASON: Mr. McMillan, I'm
2 looking at your exhibit, schedule 1, page 1 of one.
3 And as I understand this, this is a compilation of the
4 benchmark analysis, and you're responsible for that
5 calculation, but other witnesses are providing the
6 justification for variances over the benchmark;
7 correct?

8 THE WITNESS: That's correct, other than
9 the A&G-Other, which I just briefly discussed in my
10 summary.

11 COMMISSIONER DEASON: And you're
12 responsible for the A&G?

13 THE WITNESS: That's correct.

14 COMMISSIONER DEASON: I guess my question
15 is, you did every well, and everybody else seems to be
16 over. What's your secret?

17 THE WITNESS: That's what they all keep
18 telling me.

19 COMMISSIONER DEASON: That's all the
20 questions I have.

21 CHAIRMAN JABER: Thank you.

22 Okay, Mr. Badders. Exhibit RJM-1.

23 MR. BADDERS: We move that in.

24 CHAIRMAN JABER: It's admitted into the
25 record without objection.

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(Exhibit 36 was admitted into the record.)

CHAIRMAN JABER: Thank you.

MR. BADDERS: Thank you.

(Proceedings continued without interruption
in volume 7.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, MARY ALLEN NEEL, do hereby certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter transcribed under my supervision; and that the foregoing pages numbered 488 through 599 are a true and correct transcription of my stenographic notes.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, or relative or employee of such attorney or counsel, or financially interested in the action.

DATED THIS 26th day of February, 2002.



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