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March 14, 2002

Ms. Blanca S. Bayo, Director
Division of the Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0870

Dear Ms. Bayo:

RE: Docket No. 010949-EI

Enclosed are an original and fifteen copies of Gulf Power Company's Late Filed Exhibits no. 25 (T. J. Bowden) and no. 55 (R. R. Labrato) from the hearings held February 25-26, 2002, to be filed in the above referenced docket.

Sincerely,

Susan D. Ritenour
Assistant Secretary and Assistant Treasurer

lw

Enclosure

AUS _____
CAF _____
CMP _____
COM Stone
CTR _____
ECR _____
GCL _____
OPC _____
MMS _____
SEC 1
OTH _____

cc: Beggs and Lane
Jeffrey A. Stone, Esquire
Florida Public Service Commission
Lila A. Jaber, Chairman
Braulio L. Baez, Commissioner
Rudolph Bradley, Commissioner
J. Terry Deason, Commissioner
Michael A. Palecki, Commissioner

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Incentive Earnings Sharing Plan

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Incentive Earnings Sharing Plan

I. Proposal

(1) Return on Equity / Sharing Points

- **Cost of Equity (C)** to Gulf will be determined by the Commission as a part of Gulf's rate case proceeding
- ROE used for setting rates, **(M) = C + Performance Adder**. This becomes the **Midpoint (M)** of the ROE range.
- The **Authorized Range** will be determined by the Commission as a part of Gulf's rate case proceeding.
- Sharing of earnings between customers and shareholders begins at the top of the authorized range (the **Sharing Point**)
- Any earnings contributing to an ROE over a designated amount (the **Maximum Sharing Point**) will be under the jurisdiction of the Commission. The disposition of these earnings will be determined in the future.

(2) Sharing

- The amount of earnings contributing to an ROE above the Sharing Point up to the Maximum Sharing Point will be grossed up for taxes to determine the amount of **Shared Earnings**. This amount will be shared between customers and shareholders as follows:
 - If Gulf achieves a Level 3 rating on its Performance Measures (as described later in this document), the Shared Earnings will be split 1/3 to customers and 2/3 to shareholders.
 - If Gulf achieves a Level 2 rating (as defined below), the Shared Earnings will be split 1/2 to customers and 1/2 to shareholders.
 - If Gulf achieves a Level 1 rating (as defined below), the Shared Earnings will be split 2/3 to customers and 1/3 to shareholders.
 - If Gulf does not achieve a performance rating of Level 1 or above, the amount of any actual earnings contributing to an ROE above the Sharing Point will be under the jurisdiction of the Commission. The disposition of these earnings will be determined in the future.
 - Any actual earnings contributing to an ROE above the Maximum Sharing Point will be under the jurisdiction of the Commission. The disposition of these earnings will be determined in the future. Such earnings could be refunded to customers (added to the Shared Earnings determined above) or used to increase accruals or write-offs of regulatory assets.
- At the close of each calendar year, the total amount of Shared Earnings and the amount allocated to customers, as described above, will be

Incentive Earnings Sharing Plan

I. Proposal

determined based on actual financial results. The customers' portion of the Shared Earnings will be refunded in July of the following calendar year, beginning with the 1st billing cycle on or about July 1st. The credit to the customers will be calculated on a per kWh basis using projected kWh sales for the July billing cycle.

- The Company will report to the Commission the amount of Shared Earnings actually refunded. Any difference between the targeted refund amount and the actual refund amount will be considered in the fuel over/under recovery calculation.
- (3) The Incentive Earnings Sharing Plan covers calendar years 2002, 2003, 2004 and 2005. The calculations of the actual jurisdictional ROE for these years will be on an "FPSC Adjusted Basis" using the adjustments and jurisdictional separation factors approved in Gulf Power's rate case, Docket No. 010949-EI. Except as noted in the preceding sentence, all actual reasonable and prudent expenses and investment related to Gulf's retail electric jurisdiction will be allowed in the calculation and no annualized or pro forma adjustments will be made. The calendar year surveillance reports for the years 2002 through 2005 on which the earnings sharing calculations will be based will continue to be filed no later than February 15 of the year following each plan year and will be subject to audit by the FPSC Staff and true-up. The Company will also submit a report to the Commission by June 15 regarding the results achieved on the Performance Measures defined below.
- (4) Any amounts deferred pending Commission jurisdiction as to final disposition will accrue interest at the 30 day commercial paper rate as specified in Rule 25-6.109, FAC. Such deferred amounts will be assigned a cost rate in the determination of the cost of capital based on the rate used in the interest accrual for deferred balances.

Incentive Earnings Sharing Plan

I. Proposal

(5) Performance Measures

Gulf's operating performance will be assessed based on the following performance measures for the applicable plan year:

A. Price

- Overall retail cents per kwh in the lowest quartile as compared to an appropriate peer group

B. Reliability

- Achieve a certain performance level on the System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI) measurements

C. Service (Customer Satisfaction/Value)

- Be in the upper quartile among peer group based on Customer Value Survey

(6) Performance Ratings

- A **Level 3** performance rating is achieved if Gulf meets or exceeds all three performance measures described above
- A **Level 2** performance rating is achieved if Gulf meets or exceeds two of the performance measures described above
- A **Level 1** performance rating is achieved if Gulf meets or exceeds one of the performance measures described above

Incentive Earnings Sharing Plan

II. References to Pre-filed Testimony of Gulf's Witnesses

Labrato Rebuttal – Incentive Program with Reward for Quality Service

Page 6, lines 19 – 24 (RE: Part 1, 2, 5 and 6 of Proposal)

- Regarding Mr. Breman's proposal to provide an incentive to Gulf to maintain reliable service, the Company agrees that it should be rewarded if it provides superior service.
- Mr. Breman's proposal actually penalizes the Company for not meeting one particular standard with no opportunity for reward.

Page 7, lines 1 – 13 (RE: Part 1, 2, 5 and 6 of Proposal)

- For a more appropriate way to establish an incentive program, the Commission should look at the overall quality of service rather than looking only at one particular standard.
- Gulf Power has demonstrated that it has provided high quality service to its customers at low rates with excellent customer satisfaction ratings through the testimony of several witnesses in this case, including customer testimony at Gulf's service hearings.
- Would be appropriate for the Commission to reward the Company for its high level of service by increasing the return on equity for purposes of setting rates and/or expanding the allowed return on equity range.

Labrato Direct – Among Lowest Rates in Florida & Nation

Page 7, lines 8 – 20 (RE: Part 5 and 6 of Proposal)

- As of July 2001, Gulf's residential rate for 1000 kWh compared to those of 53 other utilities across the nation and in the State of Florida was among the lowest, with only 4 other utilities having lower rates than Gulf. (See Schedule 1 of Exhibit RRL-1)
- Gulf's proposed residential rate for 1000 kWh will remain among the lowest - only 13 other utilities would have lower rates than Gulf.

Bowden Direct– Overall Efficiencies through New Programs and Technologies

Page 5, lines 13 – 25 (RE: Part 5 and 6 of Proposal)

- Company was able to reduce workforce through new programs and technologies – resulted in efficiencies and allowed improvement in service levels and customer satisfaction
- Distribution programs implemented: TCMS, Earned Progression, CSS, ARMS

Incentive Earnings Sharing Plan

II. References to Pre-filed Testimony of Gulf's Witnesses

Page 6, lines 1-25 (RE: Part 5 and 6 of Proposal)

- Generation programs implemented: PRO, GADS, PREPS. Collectively, these programs automate the complex job of optimizing the impact of the Southern system's maintenance dollars and minimizing outages.
- Y2K effort, opportunities to apply new technology and increase efficiencies –
 1. Consolidated many company specific applications into Southern system-wide applications. For example, consolidation of purchasing/inventory applications.
 2. Replacement of 20-plus year old customer accounting system with CSS.

Page 7, lines 1 – 25 (RE: Part 5 and 6 of Proposal)

- Other economies and efficiencies:
 - PC has had an impact on efficiency and has helped to reduce workforce
 - Installation of 800 megahertz radio system
 - Computers in line trucks to speed work orders and material deliveries to work sites
 - Computer systems to track power outages to improve restoration times
 - Digital cameras and intranet applications to do engineering work in the field
- References to low rates, National Customer Value Survey

Fisher Direct – Quality Service and Customer Satisfaction

Page 12, lines 14-25 (RE: Part 5 and 6 of Proposal)

- Corporate goal - to be an industry leader in service and customer satisfaction.
- Initiatives taken to understand & be responsive to customer's needs & expectations
- Customer service standards adopted to ensure consistent, reliable, high quality customer service
- Reduced customer complaints and avoided FPSC rules infractions

Page 13, lines 1-25 (RE: Part 5 and 6 of Proposal)

- Avoided FPSC rules infractions – In the past 3 years, Gulf has had 0 infractions.
- Low level of customer complaints
- Ranked #1 in overall satisfaction among major utilities last year in national customer value and satisfaction survey (Schedule 2 of Exhibit FMF-1)
- 2 annual surveys conducted by independent market research firms
- 1st survey is the "Customer Value Survey" – performance compared against peer utilities that are industry leaders
- Gulf ranked among the best in industry for residential, general business, and large business customers (Schedule 3 of Exhibit FMF-1)

Incentive Earnings Sharing Plan

II. References to Pre-filed Testimony of Gulf's Witnesses

- Use surveys to identify areas for process improvements as identified by customers
- 2nd survey is "The Public Confidence Survey" – measures customers' opinions on various facets of our business

Page 14, lines 1-13 (RE: Part 5 and 6 of Proposal)

- Recently Gulf received highest satisfaction ratings in more than 5 years
- 85% of customers surveyed in May and June 2001 had an overall positive opinion of Gulf
- Programs implemented to improve productivity and customers satisfaction: Trouble Call Management System (TCMS), Automated Resource Management (ARMS), and CSS

Page 15, lines 12-17 (RE: Part 5 and 6 of Proposal)

- TCMS – Residential segment of customer value surveys, Gulf ranks 2nd in handling emergencies and 3rd in responding quickly to problems. General business segment, Gulf ranks 3rd in restoring service quickly after an outage.

Page 16, lines 13-16 (RE: Part 5 and 6 of Proposal)

- ARMS – Customer value surveys – Gulf ranks 3rd among residential customers and 6th among general business customers in satisfaction with the way service requests are handled.

Page 19, lines 3-8 (RE: Part 5 and 6 of Proposal)

- CSS – Customer value surveys – Gulf ranked #1 by residential customers and 7th by general business customers on handling customer service requests right the first time. Gulf ranks 4th in the residential segment and 3rd in the general business segment on overall satisfaction with the billing statement and payment process.

Page 20, lines 5-13 (RE: Part 5 and 6 of Proposal)

- Centralization of Dispatch Center –
Goal to be on time to appointments with our customers is 95%. As of July 2001, Gulf is making more than 99% of its appointments on time.
Goal for completing lighting and service orders within their committed service dates is 95%. As of July 2001, Gulf is at 97% for service orders and 94% for lighting orders.

Page 21, lines 13 – 21 (RE: Part 5 and 6 of Proposal)

- Centralization of Customer Service Center –
 1. Customer value surveys –
 - Overall satisfaction with the knowledge and skills of our employees – Gulf ranks 1st in residential segment and 2nd in general business segment.

Incentive Earnings Sharing Plan

II. References to Pre-filed Testimony of Gulf's Witnesses

- Ease in doing business – Gulf ranked 2nd in both residential and general business segments.
- Treating our customers with respect – Gulf ranked #1.
- 2. Consistently have achieved service level goal of at least 80% of all calls answered within 30 seconds or less.
- 3. Gulf has maintained an abandoned call rate of less than 3%.

Fisher Rebuttal - Reliability

Page 11, lines 11-16 (RE: Part 5 and 6 of Proposal)

- Gulf has used the System Average Interruption Duration Index (SAIDI), the Public Confidence Surveys and FPSC infractions results as indicators of providing reliable electric service.

Page 12, lines 4-9 (RE: Part 5 and 6 of Proposal)

- In 2001, SAIDI was reduced to 78.55 minutes, a 19% reduction from 2000.
- The Public Confidence Survey regarding "Providing Reliable Service" showed 93% favorable response
- No FPSC infractions

Page 13, lines 9-25 (RE: Part 5 and 6 of Proposal)

- Customers will experience variances in reliability over time – it is a function of many variables that are under various degrees of the utility's control
- References to page 15 of Fisher direct testimony

Page 14, lines 1-5 (RE: Part 5 and 6 of Proposal)

- References to page 15 of Fisher direct testimony
- Over 3 ½ years since we have had a reliability related infraction

Howell Direct – Transmission Reliability

Page 5, lines 4 – 10 (RE: Part 5 and 6 of Proposal)

- The Southern electric system (SES) Integrated Resource Planning (IRP) process has allowed for a least-cost, integrated demand-side and supply-side resource plan. IRP process results in an integrated plan that can meet the needs of our customers in a cost-effective and reliable manner.

Page 6, lines 1 – 6 (RE: Part 5 and 6 of Proposal)

- The SES transmission planning process – transmission system is studied to reveal any potential problems that could adversely impact Gulf's ability to maintain or restore reliability, solutions are identified, and costs are evaluated to determine which solution is appropriate to correct the problem.

Incentive Earnings Sharing Plan

II. References to Pre-filed Testimony of Gulf's Witnesses

Page 8, lines 17 – 20 (RE: Part 5 and 6 of Proposal)

- Through the SCS Power Coordination Center in Birmingham, Gulf and the other SES operating companies form a centralized power pool that provides electric service to their customers in the most reliable and economical manner.

Kilgore Rebuttal – Explanation of Customer Complaints

Page 3, lines 15 – 25 (RE: Part 5 and 6 of Proposal)

- Increase in complaints in last 2 years relate to circumstances beyond our control. Weather conditions explain the increase in complaint activity.

Page 4, lines 8 – 13 (RE: Part 5 and 6 of Proposal)

- We have gone over 3 ½ years without any apparent violations of FPSC rules or tariffs on complaints

Moore Direct –System Reliability and Efficiency of Generating Units

Page 8, lines 13 – 22 (RE: Part 5 and 6 of Proposal)

- Implementation of plant reliability optimization (PRO) program. PRO is a maintenance process to produce appropriate balance between corrective, preventive, and predictive maintenance. Goal to perform maintenance at the least cost while maximizing equipment reliability.

Page 15, lines 7 – 18 (RE: Part 5 and 6 of Proposal)

- Gulf monitors GADS data as part of the production capital analysis process and develops plans to address GADS events that continue to be problematic and makes decisions to repair or replace existing equipment.
- Gulf uses the Project Evaluation and Prioritization System (PREPS) model to determine the economic viability of a project. PREPS model assigns benefits in terms of dollars to heat rate improvements, reduced forced outage rates, or reduced station service expenses and compares those benefits to the project costs.

Moore Rebuttal –System Reliability and Efficiency of Generating Units

Page 16, lines 13 – 23 (RE: Part 5 and 6 of Proposal)

- Implementation of plant reliability optimization (PRO) program.

Incentive Earnings Sharing Plan

III. Next Steps

In order to implement the proposed incentive plan in a timely manner that also recognizes the due process rights of the intervening parties, Gulf Power Company ("Gulf") proposes the following procedure:

Simultaneous with the Commission's final vote on Gulf Power's request for rate relief, the Commission should vote to (1) approve the incentive plan concept as presented in this Late-Filed Exhibit, (2) direct Gulf to file within thirty days after the Commission's vote proposed specific details for implementation and operation of the plan, and (3) schedule a 1 day hearing to allow parties to respond to the proposed plan. The order should include the specific goal of having an incentive plan finalized by no later than October 2002. For purposes of efficiency and convenience to all parties and the Commission, the plan could be handled as a "second phase" proceeding in Docket No. 010949-EI.

Rate Case Expenses

Line	Item	Original Estimate	Revised Estimate
1	Outside Consultants	\$ 200,000	\$ 240,000
2	Legal Services	603,000	550,000
3	Meals and Travel	125,000	55,000
4	Paid Overtime	40,000	70,000
5	Other Expenses	<u>415,500</u>	<u>418,000</u>
6	Total	<u>\$ 1,383,500</u>	<u>\$ 1,333,000</u>
7	Amortization Amount over 4 years	\$ 345,875	\$ 333,250

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Request for rate increase by)
Gulf Power Company)
_____)

Docket No. 010949-EI

Certificate of Service

I HEREBY CERTIFY that a copy of the foregoing has been furnished
this 14th day of March 2002 by U.S. Mail to the following:

Marlene Stern, Esquire
Staff Counsel
FL Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0863

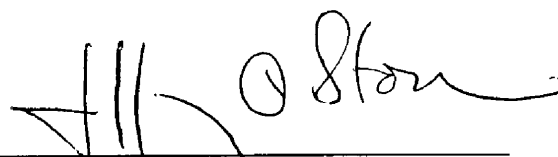
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