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August 21, 2006

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:

Enclosed for official filing in Docket No. 060001-EI are an original and ten copies of the following:

Prepared direct testimony of L. S. Noack addressing the proposed Generating Performance Incentive Factor reward/penalty criteria modifications as outlined in the "Petition of Citizens of the State of Florida for Modification of Reward/Penalty Criteria of Generating Performance Incentive Factor Mechanism."

Sincerely,

A handwritten signature in cursive script that reads "Susan D. Ritenour".

bh

Enclosures

cc: Beggs & Lane  
Jeffrey A. Stone, Esq.

DOCUMENT NUMBER-DATE

07585 AUG 22 08

FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: **Fuel and Purchased Power Cost** )  
**Recovery Clause with Generating** )  
**Performance Incentive Factor** )

Docket No.: **060001-EI**

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a true copy of the foregoing was furnished by U. S. mail or hand delivery this 21<sup>st</sup> day of August, 2006, on the following:

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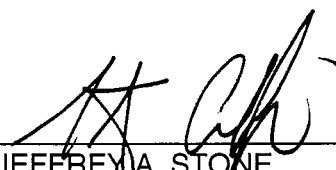
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Attorneys for Gulf Power Company

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

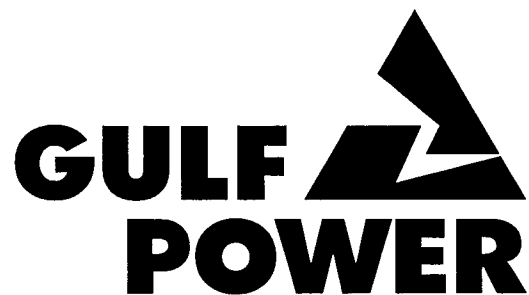
**Docket No. 060001-EI**

**PREPARED DIRECT TESTIMONY  
OF**

**L. S. NOACK**

**GENERATING PERFORMANCE INCENTIVE  
FACTOR**

**AUGUST 21, 2006**



**A SOUTHERN COMPANY**

DOCUMENT NUMBER-DATE

07585 AUG 22 8

FPSC-COMMISSION CLERK

1 **GULF POWER COMPANY**

2 **Before the Florida Public Service Commission**

3 **Direct Testimony of**

4 **Lonzelle S. Noack**

5 **Docket No. 060001-EI**

6 **Date Filed: August 21, 2006**

7  
8 **Q. Please state your name, business address, and occupation.**

9 A. My name is Lonzelle S. Noack. My business address is One Energy Place,  
10 Pensacola, Florida 32520-0335. My current job position is Power Generation  
11 Specialist, Senior for Gulf Power Company.

12  
13 **Q. Please describe your educational and business background.**

14 A. I received my Bachelor of Science degree in Environmental Engineering from the  
15 University of Florida in 1995 and received my Master of Business Administration  
16 degree from the University of West Florida in 2000. I joined Gulf Power in 1995  
17 as an Environmental Engineer and served in that role with increasing levels of  
18 responsibility for over six years. Major responsibilities included coordination of  
19 federal and state air-related compliance testing for all Gulf Power generating units,  
20 management of the Continuous Emission Monitoring (CEM) System program at  
21 each of the Company's generating facilities, and coordination of the Company's air  
22 compliance reporting to state and federal regulatory agencies. I was also  
23 responsible for serving as Gulf's Environmental Subject Matter Expert on  
24 Company and system-wide compliance teams. As previously mentioned in my  
25 testimony, my current job position is Power Generation Specialist, Senior at Gulf

1 Power Company. In this position, I am responsible for preparing all GPIF filings  
2 as well as other generating plant reliability and heat rate performance reporting.  
3

4 **Q. What is the purpose of your testimony?**

5 A. The purpose of my testimony is to address the proposed GPIF reward/penalty  
6 criteria modifications as outlined in the Petition of Citizens of the State of Florida  
7 for Modification of Reward/Penalty Criteria of Generating Performance Incentive  
8 Factor and in the Prepared Direct Testimony of James A. Ross on behalf of the  
9 Florida Office of Public Counsel.  
10

11 **Q. What is the objective of the GPIF program?**

12 A. The GPIF was incorporated into the Fuel and Purchased Power Cost Recovery  
13 Clause in 1980 to provide an incentive for the efficient operation of base load  
14 generating units. The intent of this incentive is to reward utilities for performance  
15 that exceeds reasonably expected performance and to penalize utilities for  
16 performance that is less than reasonably expected.  
17

18 **Q. Does the GPIF program achieve this objective?**

19 A. Yes. As outlined in the GPIF Implementation Manual, the GPIF process  
20 establishes equivalent availability and heat rate performance targets for base load  
21 units for each period encompassed by the projected fuel adjustment clause. These  
22 targets are a reflection of how each unit is expected to perform during the period  
23 based on historical performance data and projected operating parameters such as  
24 planned outages and expected average loads. For each target, a maximum  
25 reasonably attainable range for improving and decreasing performance is

1 determined. Maximum fuel savings and losses are determined for each range and  
2 then weighting factors are calculated for each range that reflect the percent  
3 contribution of that target range to the total potential system fuel savings at  
4 maximum improvement. At the end of the fuel adjustment period, actual unit  
5 performance is compared to the targets, and rewards or penalties are assessed based  
6 on this comparison. The maximum reward or penalty is limited to 25 basis points  
7 of the utility's average common equity for the period and does not exceed the gross  
8 amount of any fuel savings or loss experienced during the period.  
9

10 **Q. Are you familiar with the proposed modifications to the GPIF**  
11 **Reward/Penalty Criteria that are being made by the Florida Office of Public**  
12 **Counsel (OPC)?**

13 A. Yes. The OPC is recommending two modifications to the GPIF Reward/Penalty  
14 Criteria. The first recommendation is to establish a Generating Performance  
15 Incentive Points (GPIP) dead band. Within this point dead band, utilities would  
16 not be assessed either a reward or a penalty. The second recommendation is to  
17 establish absolute system weighted equivalent availability factor (EAF) and heat  
18 rate (HR) targets for each utility.  
19

20 **Q. Is the OPC proposed recommendation to establish a GPIP dead band**  
21 **reasonable?**

22 A. No. The GPIP dead band proposed by OPC is not reasonable. The proposed dead  
23 band range is skewed and does not treat rewards and penalties fairly. The proposed  
24 upper limit on the dead band range is no less than +5.0 and no greater than +7.5  
25 points, while the proposed lower limit on the dead band range is -2.5 to -3.5. This

1 skewed dead band is contradictory to the intent of the GPIF program and does not  
2 provide an equitable incentive.

3

4 **Q. Do you agree with the recommendation to establish an absolute system**  
5 **weighted EAF and HR targets for each utility?**

6 A. No. Establishing absolute system weighted EAF and HR targets is not feasible and  
7 does not follow the intent of the GPIF program. There are many uncontrollable  
8 factors that affect unit performance such as weather conditions, environmental  
9 restrictions, changes in fuel quality, load factors, etc. GPIF was not intended to  
10 unfairly reward or penalize utilities for these types of uncontrollable and often  
11 times unpredictable conditions. Setting absolute targets would result in unfair  
12 rewards and penalties and would not provide the intended incentive for utilities to  
13 focus on controllable unit improvements. The current GPIF process accounts for  
14 these uncontrollable conditions in the target setting process by using actual  
15 historical data to set targets and by adjusting these targets to incorporate actual  
16 operating conditions such as planned outages, reserved shutdowns, and average  
17 unit loads.

18

19 **Q. Would you please summarize your testimony?**

20 A. Yes. The purpose of the GPIF program is to promote the efficient operation of  
21 base load units. The program achieves this through an incentive mechanism that  
22 provides rewards for achieving greater than reasonably expected improvements in  
23 unit performance and by providing penalties for achieving less than reasonably  
24 expected performance. The expected performance targets that are set using the  
25 current GPIF methodology are both reasonable and challenging. Because the

1 targets are based on historical data, fluctuations of uncontrollable parameters  
2 affecting performance are accounted for in the targets. This allows for net rewards  
3 and penalties over time to be reflective of controllable changes in unit  
4 performance.

5 The GPIF criteria modifications as proposed by OPC are not reasonable and  
6 would not achieve the desired intent of the GPIF program. The GPIF dead band  
7 range is unfairly skewed and does not provide for equitable incentives. This GPIF  
8 dead band should, therefore, not be implemented as proposed. Establishing  
9 absolute heat rate and availability targets is also not reasonable and not feasible.  
10 Setting absolute targets would not take into account unforeseeable and  
11 uncontrollable conditions that can occur over time and would not provide the  
12 intended incentive for utilities to achieve controllable unit improvements.

13  
14 **Q. Does this conclude your testimony?**

15 **A. Yes.**  
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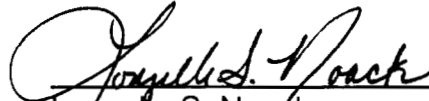


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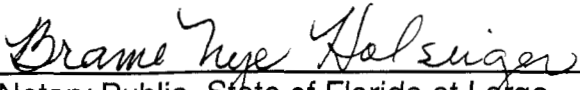
STATE OF FLORIDA     )  
                                  )  
COUNTY OF ESCAMBIA )

Docket No. 060001-EI

Before me, the undersigned authority, personally appeared Lonzelle S. Noack, who being first duly sworn, deposes, and says that she is the Power Generation Specialist, Senior, for Gulf Power Company, a Florida corporation, and that the foregoing is true and correct to the best of her knowledge, information and belief. She is personally known to me.

  
\_\_\_\_\_  
Lonzelle S. Noack  
Power Generation Specialist, Senior

Sworn to and subscribed before me this 21<sup>st</sup> day of August, 2006.

  
\_\_\_\_\_  
Notary Public, State of Florida at Large

Commission Number:

Commission Expires:

