

LAW OFFICES
J. PATRICK FLOYD, P. A.

408 LONG AVENUE
POST OFFICE DRAWER 950
PORT ST. JOE, FLORIDA 32456-0950
(904) 227-7413

20 AVENUE D, SUITE 208
POST OFFICE BUILDING
APALACHICOLA, FLORIDA 32320
(904) 653-8056

October 15, 1996

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
1540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0870

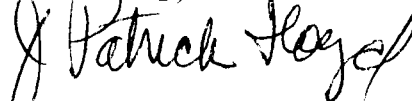
Re: Docket No. 930885-EU

Dear Ms. Bayo:

Attached please find an original and fifteen copies of
the Direct Prefiled Testimony and Exhibits of Stephen Page Daniel.

Thank you for your assistance.

Sincerely,



J. Patrick Floyd
Gulf Coast Electric
Cooperative, Inc.

ACK

AFA _____
APP 1 JPF/pb

CAT _____ Enclosure: as stated

cc: Jeffrey A. Stone, Esquire
Russell A. Badders, Esquire

Johnsm

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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition to Resolve)
Territorial Dispute with Gulf Coast)
Electric Cooperative, Inc. by) Docket No. 930885-EU
Gulf Power Company)

DIRECT TESTIMONY AND EXHIBITS
OF STEPHEN PAGE DANIEL
ON BEHALF OF
GULF COAST ELECTRIC COOPERATIVE, INC.

Gulf Coast Electric Cooperative, Inc. (Gulf Coast) hereby files the attached original Direct Testimony and Exhibits of Stephen Page Daniel together with 15 copies thereof this 15th day of October, 1996.

Respectfully Submitted,



John H. Haswell, Esquire
Chandler, Lang & Haswell, P.A.
P. O. Box 233879
Gainesville, FL 32602
(352) 376-5226
Florida Bar No. 162536


J. Patrick Floyd, Esquire
408 Long Avenue
P. O. Box 950
Port St. Joe, FL 32456
(904) 227-7413
Florida Bar No. 257001

I HEREBY CERTIFY that a true copy of the following together with one copy of the Direct Testimony and Exhibits of Stephen Page Daniel have been furnished this 15th day of October, 1996 by U.S. Mail or hand delivery to the following:

Vicki Johnson, Esquire
Staff Counsel
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0863

Jeffrey A. Stone
Beggs & Lane
Post Office Box 12950
Pensacola, Florida 32576
Attorney for Gulf Power Co.

Roberta S. Bass
Division of Electric & Gas
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0870



J. PATRICK FLOYD, ESQUIRE

ORIGINAL
FILE COPY

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STEPHEN PAGE DANIEL

ON BEHALF OF

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DOCUMENT IDENTIFICATION

FILE COPY

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GULF COAST ELECTRIC COOPERATIVE, INC.

October 15, 1996

I. INTRODUCTION

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Stephen Page Daniel. My business address is 1850 Parkway Place, Suite 720,
3 Marietta, Georgia 30067.

4 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

5 A. I am Executive Vice President and a founding principal of GDS Associates, Inc. ("GDS
6 Associates"), a multi-disciplined engineering and consulting firm.

7 Q. PLEASE OUTLINE YOUR FORMAL EDUCATION.

8 A. I received a Bachelor of Industrial Engineering degree from Georgia Institute of Technology in
9 1970. I received a Master of Business Administration degree with a major in finance from
10 Georgia State University in 1978.

11 Q. TO WHAT PROFESSIONAL ORGANIZATIONS DO YOU BELONG?

12 A. I am a member of the Institute of Electrical and Electronics Engineers.

13 Q. WHAT ARE YOUR DUTIES AND RESPONSIBILITIES WITH GDS ASSOCIATES?

1 A. My primary responsibilities involve providing rate and regulatory services related to electric
2 utility industry matters and consulting services with regard to electric system power supply
3 planning, including strategic planning for transmission resources.

4 **Q. PLEASE BRIEFLY DESCRIBE YOUR PROFESSIONAL EXPERIENCE.**

5 A. Prior to founding GDS Associates in early 1986, I worked for approximately fifteen (15) years
6 with another consulting engineering firm. During that time my positions and responsibilities
7 changed from initially a rate analyst to Assistant Vice President, Rate and Analytical Services.

8 As an engineering consultant over the last twenty-six (26) years, I have had primary
9 responsibility for assignments pertaining to wholesale rates, retail rates, financial planning, and
10 power supply planning for electric utilities. My various assignments have been on behalf of
11 more than one hundred and fifty (150) cooperative and municipal electric systems, several
12 industrial clients, several investor-owned electric systems, and regulatory commissions in thirty-
13 three (33) states. My responsibilities have included the preparation of allocated cost-of-service
14 studies, retail and wholesale rate design studies, financial forecasts, revenue requirements
15 evaluations, analyses of alternative power supply resources, facilities valuations, and analyses
16 regarding territorial disputes, including the economic impact associated with service area gains
17 or losses. These activities have also involved the negotiation of bulk power contracts and
18 transmission service arrangements.

19 I also have analyzed cost-of-service studies filed by others with the Federal Energy
20 Regulatory Commission and various state regulatory commissions.

21 My responsibilities also have included assignments in the specialized areas of rate
22 design for unusual loads, evaluation of financing alternatives, acquisition and merger feasibility,
23 and regulatory rulemaking.

1 I have attached a copy of my current resumé as Exhibit No. ____ (SPD-2) for further
2 reference to my professional experience.

3 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE REGULATORY COMMISSIONS?**

4 A. Yes. I have testified before the Florida Public Service Commission (“FPSC” or
5 “Commission”), Alabama Public Service Commission, Alaska Public Utilities Commission,
6 Arizona Corporation Commission, Arkansas Public Service Commission, Colorado Public
7 Utilities Commission, Georgia Public Service Commission, Public Service Commission of
8 Indiana, Louisiana Public Service Commission, North Carolina Utilities Commission,
9 Pennsylvania Public Utility Commission, South Carolina Public Service Commission, Public
10 Utility Commission of Texas, Utah Public Service Commission, Virginia State Corporation
11 Commission, West Virginia Public Service Commission, and the Wisconsin Public Service
12 Commission. I have also testified before the Federal Energy Regulatory Commission (formerly
13 the Federal Power Commission) in numerous proceedings.

14 **Q. HAVE YOU TESTIFIED IN ANY COURTS?**

15 A. Yes. I have testified in Federal District Courts in several cases and in State court in Florida.

16 **Q. HAVE YOU PROVIDED CONSULTING SERVICES AND TESTIMONY IN
17 MATTERS PERTAINING TO TERRITORIAL DISPUTES, INCLUDING THE
18 ECONOMIC IMPACTS ASSOCIATED WITH SERVICE AREA GAINS AND
19 LOSSES?**

20 A. Yes. In my work over the last twenty-six (26) years, I have had occasion to provide financial
21 and analytical services involving territorial issues between neighboring electric utility systems
22 in Florida, Alabama, Alaska, Colorado, Delaware, Illinois, Indiana, Mississippi, South
23 Carolina, and Virginia. These services have involved, among other things, the following:

1 (1) analysis of the financial impact of the loss of consumers, facilities, load (i.e., MW and MWh
2 sales), and service territory through annexation and/or condemnation; (2) transfers of facilities
3 to eliminate duplication; (3) transfers of facilities and consumers pursuant to territorial laws and
4 agreements; and (4) valuation of individual facilities and entire utility systems.

5 As part of these assignments, I have had occasion to study territorial laws in a number
6 of states throughout the nation, specifically as those laws relate to resolution of territorial
7 disputes or prescribe the assignment of retail service areas to utility systems and methods of
8 compensation for facilities, consumers, load, and service area exchanged or other transferred
9 between utilities. These assignments have provided me the opportunity to analyze in detail the
10 financial, economic, and operating ramifications of territorial disputes and an understanding of
11 how to resolve such disputes.

12 **Q. DESCRIBE IN GENERAL TERMS SEVERAL OF THESE PROJECTS TO**
13 **ILLUSTRATE THE TYPES OF TERRITORIAL DISPUTE MATTERS IN WHICH**
14 **YOU HAVE BEEN INVOLVED.**

15 A. I prepared a financial impact analysis for Clay Electric Cooperative, Inc. which quantified the
16 impact of the loss of a portion of its service area annexed by the City of Green Cove Springs,
17 Florida. Expert testimony was presented in that proceeding before Clay County, Florida Circuit
18 Court.

19 I also provided consulting services to Talquin Electric Cooperative, Inc. ("Talquin")
20 on a territorial agreement and territorial disputes between Talquin and the City of Tallahassee,
21 Florida. This matter, which included my submittal of testimony before the Florida Public
22 Service Commission, ultimately was settled by the parties.

1 I provided expert testimony as to the appropriate compensation to be paid to Chugach
2 Electric Association (“Chugach”) by the Anchorage Municipal Light & Power System
3 (“ML&P”) for territory, facilities, and load which the Alaska Public Utility Commission
4 (“APUC”) initially ordered transferred to ML&P in resolution of territorial disputes and
5 duplication of facilities issues. I also prepared a comprehensive damage study which quantified
6 the economic impacts on Chugach of the net loss of certain territory, facilities, customers, and
7 load which were finally ordered transferred to ML&P by the APUC. That study formed the
8 basis for a negotiated settlement of issues related to that matter.

9 I assisted Copper Valley Electric Association (Glenallen, Alaska) in matters dealing
10 with the proposed takeover of the Valdez, Alaska portion of its system by the City of Valdez.
11 The services involved negotiations with the City, meetings with the Rural Electrification
12 Administration (“REA”) (now Rural Utilities Service or “RUS”), preparation of economic and
13 financial impact analyses, and presentations to community meetings.

14 I testified on behalf of the Colorado Rural Electric Association in a matter before the
15 Colorado Public Utilities Commission involving the impact of a territorial agreement between
16 the Public Service Company of Colorado and Union Rural Electric Association (“Union”) (now
17 United Power, Inc.).

18 I later was retained by Union to prepare analyses and provide consultation associated
19 with the negotiation of territorial arrangements, including territorial exchanges, facilities and
20 service area valuation, and financial impact analyses. These matters related to the resolution
21 of territorial disputes and the implementation of a territorial agreement between Union and the
22 Public Service Company of Colorado emanating from the CPUC matter noted above.

1 **Q. DO YOUR JOB RESPONSIBILITIES ALSO REQUIRE YOU TO CONSULT IN THE**
2 **AREAS OF POWER SUPPLY PLANNING, POWER SUPPLY FEASIBILITY, AND**
3 **POWER SUPPLY ECONOMICS IN GENERAL?**

4 **A.** Yes. Periodically I assist clients with evaluating the feasibility of power supply alternatives.
5 On several occasions I have participated as part of a project team on power supply economic
6 studies and power supply negotiations. Examples of these power supply areas are: evaluation
7 of alternative power sources for public power systems such as municipals and generation and
8 transmission cooperatives; negotiation of joint ownership agreements for generating plants;
9 negotiation of interconnection and interchange agreements; negotiation of transmission service
10 contracts, including ancillary services, and joint transmission participation arrangements; and
11 development of generation support services arrangements. Work on rate cases before state
12 commissions and the FERC requires a varying intensity of power supply evaluation for
13 purposes such as cost allocation and rate design.

14 **Q. PLEASE SUMMARIZE YOUR EXPERTISE AS IT RELATES TO THE ISSUES IN**
15 **THIS PROCEEDING.**

16 **A.** That expertise is in the area of power economics involving all aspects of the cost of providing
17 electric service, including the production, transmission, and distribution of power and the factors
18 which affect these functional components.

19 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

20 **A.** Gulf Coast Electric Cooperative, Inc. (“Gulf Coast” or “GCEC”).

1 **II. SCOPE OF TESTIMONY**

2 **Q. WHAT WAS YOUR FIRM'S RESPONSIBILITY IN THIS PROCEEDING?**

3 A. My firm was asked to: (1) review the service area relationship between Gulf Coast's system and
4 Gulf Power Company's ("Gulf Power") electric system; (2) make a recommendation on how
5 a territorial boundary should be established consistent with the Commission's orders to
6 establish a territorial boundary in the areas in Bay and Washington Counties where the two
7 systems are commingled or in close proximity and/or where further uneconomic duplication
8 potentially could occur; and (3) comment on the territorial boundary line defined by Gulf Coast.

9 **Q. WHAT PREPARATIONS DID YOU UNDERTAKE TO FAMILIARIZE YOURSELF**
10 **WITH THE ISSUES BEFORE THE COMMISSION IN THIS PROCEEDING?**

11 A. I first reviewed the Commission's March 1, 1995 order requiring the parties to attempt in good
12 faith to negotiate a settlement agreement to resolve territorial disputed areas and indicating,
13 absent such an agreement, that the Commission would establish a territorial boundary. I have
14 also reviewed the Commission's Clarifying and Amendatory Order issued July 27, 1995. In
15 addition, I have reviewed, among other things, the following information:

- 16 1. The State Supreme Court's May 23, 1996 order involving the Department of
17 Corrections prison located in Washington County;
- 18 2. Subsequent orders by the Commission, including the Order Determining Issues To Be
19 Resolved At Evidentiary Hearing, issued September 23, 1996;
- 20 3. Various pleadings of Gulf Coast and Gulf Power filed in this docket subsequent to the
21 FPSC's March 1, 1995 order;
- 22 4. Various responses of Gulf Coast and Gulf Power to FPSC Staff's interrogatories and
23 requests for production of documents;

- 1 5. Various maps showing the facilities of Gulf Coast and Gulf Power, including maps
- 2 prepared by Gulf Power for certain areas which show the facilities of both parties;
- 3 6. Chapter 366 of the Florida statutes relating to electric utilities;
- 4 7. Chapter 25-6 of the Florida Administrative Code;
- 5 8. Other documents related to Gulf Coast's system and operations.

6 In addition to reviewing the above information, I met with representatives from Gulf
7 Coast to discuss the issues posed by this proceeding and to review certain relevant information.
8 Finally, I made visual inspections of portions of Gulf Coasts's service area and facilities where
9 the parties' facilities are commingled or in close proximity. Lastly, I have reviewed the various
10 maps filed with Mr. Gordon's testimony showing (1) the parties' facilities in the areas identified
11 by Gulf Coast as being in dispute and (2) Gulf Coast's recommended territorial boundary to
12 comply with the Commission's orders to establish a territorial boundary to avoid further
13 disputes and uneconomic duplication of facilities.

14 **III. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS**

15 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS WITH**
16 **REGARD TO THE ESTABLISHMENT OF A TERRITORIAL BOUNDARY IN THE**
17 **AREAS OF BAY AND WASHINGTON COUNTIES WHERE THE TWO SYSTEMS**
18 **ARE COMMINGLED OR IN CLOSE PROXIMITY OR WHERE FURTHER**
19 **UNECONOMIC DUPLICATION IS LIKELY TO OCCUR.**

20 **A. My analysis of relevant factors and information, including specific data about these disputed**
21 **areas, causes me to conclude the following:**

- 22 1. The fundamental criteria which should be used to establish a territorial boundary are:

- 1 a. The avoidance of further uneconomic duplication;
- 2 b. The assignment of the right to serve an area must recognize the historical
- 3 presence of the respective competing utilities in identified area(s), including
- 4 the physical location of existing facilities;
- 5 c. Minimization of the transfers of customers and facilities, taking into account,
- 6 among other things, reintegration costs and administrative costs of such
- 7 transfers, whether immediate or over a transition period;
- 8 d. The readiness, willingness, and ability of the respective utilities to serve
- 9 identified area(s);
- 10 e. The continuity of planning and operation of the respective competing systems;
- 11 f. The continuity of service areas;
- 12 g. Reliability;
- 13 h. Natural physical boundaries;
- 14 i. Resolutions of prior service area disputes; and
- 15 j. The respective utilities' costs to serve identified area(s).
- 16 2. The territorial boundary to be established by the Commission should be subject only
- 17 to deviations by mutual agreement;
- 18 3. Gulf Coasts' recommended territorial boundary for the identified areas in Bay and
- 19 Washington Counties set out on Exhibit No. ____ (AWG-2) and Exhibit No. ____
- 20 (AWG-5) reflects a reasonable assignment of service areas to Gulf Coast and Gulf
- 21 Power based upon and consistent with the fundamental criteria which should be applied
- 22 when establishing territorial boundaries. Most importantly, further uneconomic
- 23 duplication would be avoided.

1 intensity is influenced by two other important factors. One, electric facilities generally require
2 long lead times for construction. Two, electric utilities have an obligation to provide reliable
3 electric service not only to their existing customers but also to future customers. The utility
4 obligation to serve, requires that a utility be prepared to serve the increased loads of its existing
5 consumers and any new loads which locate within its service area. Given construction lead
6 times for distribution facilities, utilities must plan their systems based upon anticipated load
7 growth, including consideration of the location of load centers.

8 Second, where utilities do not have specifically assigned service territories, there is
9 almost invariably a tendency for neighboring utilities to engage in service area competition.
10 Such competition leads to the wasteful and unnecessary duplication of electric facilities. This
11 wasteful and unnecessary duplication in turn increases the costs of supplying electric service to
12 the retail consumers of both competing utilities.

13 For these reasons, service area integrity is necessary for the efficient and economical
14 rendition of retail electric service. Without service area integrity, the costs to serve retail
15 customers are unnecessarily increased by inefficiency and wasteful duplication.

16 **Q. EXPLAIN WHY SERVICE AREA INTEGRITY IS IMPORTANT**
17 **ENVIRONMENTALLY.**

18 A. The construction and operation of electric facilities generally affect the environment. The
19 construction of distribution facilities requires the use of both public and private rights-of-way.
20 To the extent there is service area competition, the potential for needless duplication of facilities
21 exists. Such needless duplication can unnecessarily impact the environment, both physically and
22 aesthetically. A couple of examples may be helpful. In the case of two electric distribution lines
23 along a roadway, where one is on one side of the road and one on the other, the probability of

1 an automobile leaving the roadway and striking a pole is certainly greater than if only one pole
2 line was built along the roadway. Another example has to do with crossings of power lines.
3 Where the lines of two or more utilities are in close proximity to each other, there may be
4 crossings of one utility by the other. In the event of accidents, conductors of one utility
5 sometimes sag into those of the other. This can create severe voltage problems for end-use
6 consumers and can damage utility equipment. Finally, I believe that most people would prefer
7 an environment without the visual effects of duplicate sets of distribution lines. Therefore,
8 service area integrity is compatible with the preservation and enhancement of the physical
9 environment, including public safety concerns.

10 **Q. HOW DOES DUPLICATION OF FACILITIES OCCUR WHEN THERE ARE NO**
11 **DEFINED SERVICE AREAS FOR UTILITIES WHICH WILL OTHERWISE**
12 **COMPETE TO SERVE THE SAME LOADS AND CUSTOMERS?**

13 A. Where two utilities compete for the same loads and each assumes that it will serve a given
14 geographic area (or specific consumers and load within an area), each must plan and install the
15 necessary facilities to serve its expected load and associated consumers. If these competing
16 neighboring systems only secure a portion of the common load which they both planned to
17 serve, each utility has needlessly duplicated facilities, in whole or in part, to serve the same load.

18 Both systems have the right to serve as public utilities and in return have an obligation
19 to serve. RUS cooperatives also have certain area coverage obligations. In return, both systems
20 also anticipate being allowed the opportunity to recover their prudently incurred costs to serve.
21 Because each utility plans to serve its historic service area, including logical extensions thereof,
22 and fully expects to recover all costs committed to serve, any duplication of facilities which

1 occurs results in increased costs to serve those customers and loads actually served by each
2 system.

3 **Q. DESCRIBE GENERALLY HOW UNECONOMIC DUPLICATION MAY OCCUR AT**
4 **THE DISTRIBUTION SYSTEM LEVEL WHEN TWO UTILITIES COMPETE TO**
5 **SERVE THE SAME AREA, CUSTOMERS, AND LOADS.**

6 A. First, duplication of facilities may occur in the immediate vicinity of the specific area where two
7 utilities, such as Gulf Coast and Gulf Power, are vying to serve the same customers and load.
8 Both may install tap lines to pick up individual customers within an area, with both serving
9 some of the same customers. The tap lines of either utility are likely adequate to serve the total
10 load which has been split between the two systems. Hence, unnecessary duplication of facilities
11 has occurred.

12 Second, feeder lines are constructed from distribution substations through various areas
13 of the system to serve load remote from distribution substation facilities. These distribution
14 feeders generally are sized to serve dispersed loads across several geographically distinct areas,
15 which may include disputed areas where two utilities are vying to serve the same load. If both
16 systems size their distribution feeders to serve the same load and that total load is ultimately
17 split between them, unnecessary duplication of feeder capacity occurs. To the extent either or
18 both systems also build alternative feeders with switching capability to provide dual feed to
19 various areas which include disputed areas where both systems seek to serve the same load,
20 thereby increasing reliability, and the sizing of such facilities also is based on the total load in
21 disputed areas, either or both systems may install unnecessary duplicate capacity.

22 And, third, distribution substations are generally designed to serve geographically
23 dispersed loads across a wide area through multiple feeders. These distribution substations are

1 planned and sized to serve current load and some amount of future load growth. Again, to the
2 extent such facilities are planned by both Gulf Coast and Gulf Power to serve the same load in
3 disputed areas, unnecessary and uneconomic duplication will occur.

4 **Q. ARE THERE OTHER ELEMENTS OF UNECONOMIC DUPLICATION WHICH**
5 **MAY OCCUR?**

6 A. Yes. Many other elements of utilities' operations are affected by unnecessary duplication.
7 Maintaining two separate rights-of-way to serve a given area, which could be served by a single
8 entity, results in duplicative costs. Maintenance costs per kWh sold likely will be higher on
9 facilities which are under utilized due to uneconomic duplication. General costs (e.g.,
10 administrative and general expenses and general plant costs) are also impacted.

11 **Q. SHOULD THE HISTORICAL PRESENCE OF THE RESPECTIVE COMPETING**
12 **UTILITIES IN THE AREAS IDENTIFIED IN THIS CASE BE CONSIDERED IN**
13 **ESTABLISHING A TERRITORIAL BOUNDARY?**

14 A. Where a utility historically has provided electric service to an area, that utility should be allowed
15 to continue to serve that area, including natural extensions of that area, as it develops and the
16 load and number of consumers grow. If a utility is currently serving in a particular area, there
17 is no logic for displacing that utility unless that utility is not prepared to continue to serve that
18 area with adequate, reliable electric service.

19 Where two competing utilities are vying to serve a particular area that historically has
20 been served by one of those utilities, and the current supplier is not allowed to continue to serve
21 the area, one of several outcomes can result.

22 1. Both utilities could compete openly and serve the consumers each could attract
23 to its system.

- 1 2. The area could somehow be bifurcated into separate areas to be served by the
2 respective systems.
- 3 3. The utility with a historical presence could be frozen in place and not allowed
4 to serve any more consumers within the area.
- 5 4. The utility without the historical presence could be allowed to serve the entire
6 area and the utility with historical presence ordered to withdraw by either
7 removing its facilities or transferring them to the competing utility.

8 Under any of these four possible occurrences, there will be adverse economic effects on both
9 systems. There will be uneconomic duplication. There will be the potential for idle capacity.
10 Under the first and second outcomes enumerated above, there will be the loss of the beneficial
11 economies of serving defined areas. Under the fourth outcome, there will be unnecessary
12 disengagement and reintegration costs for both systems, and the system with historical presence
13 in the area may be adversely affected by the loss of embedded cost investment and other factors
14 which adversely affect the costs of providing service to its remaining customers.

15 Electric utility systems are planned and designed to serve an evolving service area and
16 the load characteristics of that service area. Loss of the right to serve in an area which has
17 historically been served by a utility disrupts that utility's orderly planning process. This is
18 unnecessary and adverse to the public interest.

19 Finally, if a utility has historically served a particular area, it has asserted the right to
20 serve that area and has accepted the responsibility to serve that area as part of its utility
21 obligation. Absent a showing that the utility is not capable of serving that area with adequate,
22 reliable service, or unless it has refused to serve that area, it should be permitted to continue to
23 serve that area exclusively.

1 Q. WHY IS THE MINIMIZATION OF THE TRANSFERS OF CUSTOMERS AND
2 FACILITIES IMPORTANT WHEN ESTABLISHING A TERRITORIAL
3 BOUNDARY?

4 A. If areas which competing utilities are allowed to serve, are continuously being redefined, with
5 customers and loads transferred as service areas boundaries are realigned, the disruption or
6 frustration of the planning process is obvious. It is difficult enough to plan adequate facilities
7 to serve a known service area, given all of the uncertainties associated with planning for the
8 future; it is even more difficult when a utility is constantly faced with the threat of losing service
9 area, customers, and load in unknown quantities and at unpredictable times, which may be solely
10 within the discretion of a third party (i.e., the competing utility which, for whatever reason, is
11 granted some right to take-over another neighboring utility's service area, customers, and load).
12 Minimization of transfers of facilities and customers will minimize these adverse effects.

13 Furthermore, the transfer of service area and facilities is not without expense. First,
14 there is a cost for disengagement and transfer of the facilities and customers, including costs of
15 the acquiring utility to integrate the acquired facilities with existing facilities. Second, there may
16 be a cost to the utility losing the facilities associated with reintegrating its remaining facilities
17 for continuity of service. Both such costs are directly caused by a transfer and must be absorbed
18 by the ratepayers of one or both utilities involved.

19 Third, the utility originally serving an area to be transferred to another utility was under
20 an obligation to construct facilities adequate to serve existing and future loads within the area.
21 To the extent the transfer of service area, facilities, consumers, and load idles capacity in the
22 remaining distribution system of the losing utility, the cost of this idle capacity will be borne by

1 the remaining ratepayers of the system losing the area. When such a situation occurs, the cost
2 of serving the remaining consumers is increased unnecessarily.

3 Fourth, where substantial investments in distribution facilities have been made in a
4 specific area to serve existing and future consumers and load, the current ratepayers have paid
5 rates reflective of those costs. Rates are reflective of costs determined on a declining rate base
6 (i.e., net plant – gross plant less accumulated depreciation). Net plant is high initially for
7 transfer facilities before they are transferred and the associated costs have been paid by existing
8 ratepayers. When facilities are transferred after they have declined in net book value, the
9 acquiring utility is able to acquire them at a point in time when the revenue requirement
10 associated with the investment is reduced. At the same time, the losing utility is losing the
11 advantage of the reduced revenue requirement. In other words, the losing utility and its
12 ratepayers have carried the transferred assets during the higher-cost earlier years due to the
13 front-loaded method of recovering costs based on declining rate base.

14 Also, since a distribution system is always designed to include capacity for growth, the
15 expense of this reserve capacity is borne by the current ratepayers. Such investments are made
16 in anticipation of additional consumers and load which will ultimately pay a portion of the costs
17 of such facilities. To the extent a service area is lost by a utility prior to receiving the benefits
18 of such growth in consumers and load, the current ratepayers of the utility have paid for the
19 carrying costs associated with investments in reserve capacity within the system without the
20 benefits of the future load which those facilities are intended to serve.

21 Adverse occurrences, such as those described above, increase the costs of providing
22 service to a utility's remaining customers. Minimization of transfers of facilities and customers
23 will mitigate these adverse costs associated with such transfers.

1 Q. ARE THERE ADVERSE EFFECTS ON THE ACQUIRING UTILITY OF
2 TRANSFERRING CUSTOMERS TO ESTABLISH A TERRITORIAL BOUNDARY?

3 A. Yes. An acquiring utility also incurs costs for the acquisition, transfer, and integration of
4 acquired facilities. For example, there are costs associated with cut-over and integration of the
5 acquired facilities. There may also be costs for voltage conversion where the acquired facilities
6 historically have been operated at a different voltage than the facilities of the acquiring utility.
7 There are also administrative costs incurred by the acquiring utility (as well as the losing utility)
8 such as inventorying and valuing facilities, accounting and meter reading related to transferred
9 customers, and engineering and other overhead generally associated with the transfer process.
10 Such costs must be borne by the acquiring utility's and losing utility's ratepayers.

11 Any transfer results in both utilities incurring additional costs and results in total costs
12 being increased, regardless of the compensation formula. The end result is that the public pays
13 more than would otherwise be the case.

14 Q. YOUR PRIOR RESPONSE ASSUMES CONSTANTLY CHANGING SERVICE AREAS
15 FOR TWO COMPETING UTILITIES. WOULD THE SAME BE TRUE WHERE A
16 PERMANENT TERRITORIAL BOUNDARY BETWEEN TWO UTILITIES, SUCH AS
17 GULF COAST AND GULF POWER, IS FIXED?

18 A. Yes. The only difference is that the types of costs occasioned by a transfer, and which I
19 described earlier, would be a one-time occurrence.

20 Q. YOUR RESPONSES TO THE LAST SEVERAL QUESTIONS ASSUME THAT
21 UNDER EITHER THE CONSTANTLY CHANGING SERVICE AREA SCENARIO OR
22 THE PERMANENT BOUNDARY SCENARIO, THERE WOULD BE A NECESSITY
23 OR REQUIREMENT FOR THE TRANSFER OF FACILITIES AND CUSTOMERS

1 **FROM ONE ENTITY TO ANOTHER. WHAT WOULD BE THE EFFECT IF NO**
2 **FACILITIES WERE TRANSFERRED?**

3 A. No facilities being transferred could occur under either of three conditions: (1) there was a
4 standstill arrangement, or grandfathering, for existing facilities and customers of one utility in
5 the assigned service area of the other utility, instead of a mandatory transfer; (2) the acquiring
6 system opted not to acquire the existing facilities of the losing system if transfers are otherwise
7 required; or (3) the losing system had no facilities in the area.

8 Under the first condition, each utility would continue to serve all customers it had
9 historically served, even those customers which, by the establishment of a service area
10 boundary, are in the other utility's designated service area. This standstill arrangement would
11 avoid the costs as well as any potential customer confusion and dissatisfaction occasioned by
12 being transferred from one utility to another.

13 Under the second condition, there would be an even greater adverse public interest
14 effect. Facilities on the losing system would be idled and would have to be retired prematurely
15 (excluding salvageable materials), representing an uneconomic writeoff. There may also be
16 facilities, or a portion of the capacity of facilities, on the losing system which are remote from
17 the area and which are temporarily idled. I discussed the adverse effects of this earlier. The
18 acquiring system in turn would have to construct new facilities to serve an area at current costs
19 which, in today's economic environment, are higher than embedded costs. Both the losing
20 system and the acquiring system would be adversely affected.

21 Under the third condition, the losing system may have no existing facilities directly in
22 the area, yet the area, because it is contiguous to, or in close proximity to other areas being
23 served by the utility, is a natural extension of the other service area presently being served by

1 the losing system. It is common for primary distribution facilities to be planned in anticipation
2 of serving other areas which are logical and natural extensions of the existing system. Once
3 again, idled capacity will occur if these other areas are lost, thus causing adverse economic
4 consequences for the losing system.

5 **Q. WHY IS THE READINESS, WILLINGNESS, AND ABILITY OF THE RESPECTIVE**
6 **UTILITIES TO SERVE AN AREA AN IMPORTANT FACTOR IN ESTABLISHING**
7 **A TERRITORIAL BOUNDARY?**

8 A. First, let me clarify the extent of this readiness, willingness, and ability of a utility to serve a
9 particular area. This factor should not only be based upon current conditions, it should also take
10 into account historical conditions as well.

11 If a utility historically has been ready and willing to serve an area and has developed
12 the capability to serve that area, this should be considered in deciding whether that utility should
13 be allowed to continue to serve an area which another utility now desires to serve. If a utility
14 historically was not prepared to serve an area, or for any reason was not ready, willing, and able
15 to serve an area, or refused to serve an area, this should be a major point in deciding which
16 utility should be allowed to serve a specific area.

17 While there may be exceptions, generally where two utilities are competing to serve a
18 specific area, those respective utilities are currently ready and willing to serve the area. The
19 abilities of those respective utilities to serve the area in all likelihood, however, are not identical.
20 The capability of each utility to serve the area must be evaluated to determine which one is most
21 capable of serving. This is a difficult issue to evaluate, since the motives and objectives of the
22 planning of each utility may differ. Simply because one system has built heavier facilities in a
23 given area, for example, speculating on future service in areas where it has not had a historical

1 presence, awarding that utility the right to intrude and serve the area of a neighboring utility with
2 adequate facilities would not be justified. This simply would encourage wasteful overbuilding,
3 which is just another form of uneconomic duplication. The real issue is whether the utility with
4 the historical presence has planned and continues to plan prudently to serve areas, including
5 natural extensions, which it historically has served.

6 Finally, absent compelling reasons to the contrary, the utility which has historically
7 maintained a presence in an area should be allowed to continue to serve that area,
8 notwithstanding the fact that the competing utility may now find it convenient, desirable, or
9 economically beneficial to serve an area in which it has not historically operated.

10 **Q. WHY IS CONTINUITY OF PLANNING AND OPERATION OF THE RESPECTIVE**
11 **COMPETING SYSTEMS A FUNDAMENTAL CRITERION WHICH SHOULD BE**
12 **CONSIDERED IN ESTABLISHING A TERRITORIAL BOUNDARY?**

13 A. As I noted previously, electric utilities are capital intensive. Capital intensive industries are
14 usually identified by two significant characteristics: (1) high investment cost per dollar of
15 annual revenue; and (2) lead times for planning and constructing distribution facilities. The
16 investments to serve electric consumers are not incurred on a continuous basis from year to year
17 as the need for electric service changes. Rather, facilities are planned and constructed in discrete
18 increments with long lead times. Distribution facilities have lead times that can be from several
19 months to several years depending upon the type of facility, location of service, and other
20 factors. The ability to plan distribution facilities in large part is contingent upon the certainty
21 of the right and obligation to serve specified service areas.

1 Distribution feeders are designed and constructed to serve not only existing load but
2 future load growth within particular areas, including natural extension of those areas. The same
3 is true for distribution substations.

4 These planning factors must be taken into account in establishing a territorial boundary.
5 If a utility plans its facilities to serve a particular area and a pocket of that area is taken away
6 by a competing utility, planning is disrupted. The resulting distribution system may be less
7 efficient or more costly than one which would have been designed to serve the area had the loss
8 of that pocket in the service area been anticipated in advance.

9 One of the worst things that can occur where the right to serve is uncertain is the failure
10 to construct and maintain adequate facilities. If a utility is expected to meet its service
11 obligation while knowing that it is constantly threatened by loss of service area to a competing
12 utility, a logical strategy would be to minimize investments where there is the greatest
13 uncertainty of being allowed to continue serving. A minimization-of-investment decision
14 strategy may be inefficient and may result in reduced reliability. The uncertainty of which
15 service area may be lost and when that loss will occur makes it difficult to even measure the
16 impact of such losses before they occur.

17 In summary, uncertainties related to service area obligations and constantly changing
18 service areas caused by infringement of competing utilities frustrates the orderly, long-term
19 planning necessary for the economic delivery of power at the distribution level.

20 **Q. WHY IS CONTINUITY OF SERVICE AREA AN IMPORTANT CRITERION TO BE**
21 **USED IN ESTABLISHING A TERRITORIAL BOUNDARY?**

22 **A. For many practical reasons, it is more efficient and economical to plan and construct facilities**
23 **to serve contiguous areas. It is more costly and less efficient to serve areas which are**

1 interrupted by or interspersed with areas served by competing utilities. Where neighboring
2 utilities' service areas come together, the continuity of those service areas should be maintained
3 to the extent practicable to facilitate the orderly and efficient planning and operation of the
4 respective systems. Thus, allowing one utility to carve out and serve an area in the midst of a
5 neighboring utility's system should be avoided.

6 **Q. SHOULD RELIABILITY BE CONSIDERED IN ESTABLISHING A TERRITORIAL**
7 **BOUNDARY?**

8 A. Yes. A utility has the obligation to provide adequate and reliable service consistent with good
9 utility practices. Where utilities competing to serve an area have documented and quantified
10 differences in the level of reliability of service to its members, this should be taken into account
11 in deciding which utility should serve the particular area. Care must be taken here, however, to
12 be sure that consistent comparisons are being made. The adequacy, accuracy, and comparability
13 of reliability reporting must be analyzed carefully. If there are unique service characteristics
14 associated with an area, care must be taken to measure the reliability of the respective systems
15 with respect to service under similar circumstances (e.g., reliability may be greater in downtown
16 Pensacola than more remote rural areas of Washington County). Finally, trends with regard to
17 reliability standards and performance of the competing utilities should be considered as part of
18 this evaluation.

19 **Q. WHY SHOULD NATURAL PHYSICAL BOUNDARIES AND BARRIERS BE**
20 **CONSIDERED IN ESTABLISHING SERVICE AREAS FOR UTILITIES?**

21 A. This is best illustrated by giving examples. Where two utilities historically have served on
22 opposite sides of a major physical barrier (e.g., a bay, river, swamp, or recognized tract of land
23 such as a wildlife management area), it makes economic sense for those utilities not to traverse

1 such barriers which can be costly and environmentally sensitive. Such barriers provide a natural
2 geographic marker by which service areas can be delineated.

3 Other physical landmarks can provide logical and easily recognizable boundaries for
4 demarcation of service areas. Such landmarks would be roads and highways. In relying on such
5 landmarks, there may be reasons to establish a service area boundary at a point other than the
6 exact location of such landmarks. For example, rather than establishing the service area
7 boundary in the middle of a highway, it may be environmentally more acceptable to use a
8 setback location off the highway to avoid two sets of utility facilities running down opposite
9 sides of the highway. In other words, common sense should prevail.

10 **Q. IT SEEMS SELF-EVIDENT, BUT SHOULD PRIOR RESOLUTIONS OF SERVICE**
11 **AREA DISPUTES BE CONSIDERED IN ESTABLISHING A PERMANENT SERVICE**
12 **AREA BOUNDARY?**

13 A. Yes. There should be no reason to ignore the resolutions associated with prior service area
14 disputes. Quite to the contrary, expending valuable resources revisiting and attempting to revise
15 past resolutions of disputed service areas can be costly and is not in the public interest. For
16 example, as part of this proceeding, a dispute concerning the service rights to the
17 Washington County prison has already been resolved in favor of Gulf Coast and this
18 should not be revisited.

19 **Q. WHY SHOULD THE RESPECTIVE UTILITIES' COST TO SERVE A DISPUTED**
20 **AREA BE CONSIDERED IN ESTABLISHING A TERRITORIAL BOUNDARY?**

21 A. There are several costs which are impacted by a transfer of facilities extending service to
22 consumers, and duplication of facilities. Most weight is placed on the incremental cost to serve
23 an area of consumers. If one utility is already providing service in an area, from adequate

1 primary distribution feeders and substation capacity, its incremental cost to serve new
2 consumers is much lower than that of another utility which must install substation capacity,
3 construct new or upgrade existing distribution feeders and then add individual services. As I
4 have stated in reply to previous questions, there are also other costs such as the impact on the
5 costs of the displaced utility, such as reintegration costs and the burden of the cost of excess
6 capacity created by loss of load.

7 **V. SPECIFIC SERVICE AREAS AT ISSUE**

8 **Q. MR. DANIEL, HAVE YOU HAD OCCASION TO REVIEW INFORMATION**
9 **CONCERNING WHERE GULF COAST'S AND GULF POWER'S FACILITIES ARE**
10 **COMMINGLED, IN CLOSE PROXIMITY, OR WHERE FUTURE UNECONOMIC**
11 **DUPLICATION IS LIKELY TO OCCUR?**

12 **A. Yes.**

13 **Q. DESCRIBE IN GENERAL THE INFORMATION CONCERNING GULF COAST'S**
14 **AND GULF POWER'S FACILITIES IN THESE AREAS WHICH YOU HAVE**
15 **REVIEWED.**

16 **A. First, I have reviewed maps of the geographic areas identified by the FPSC Staff, which maps**
17 **were prepared by Gulf Power to show the facilities of both systems. Certain of these detail**
18 **maps are included in Exhibit No. ____ (AWG-3) [Bay County: Map Nos. 2533, 2534, 2632,**
19 **2633, 2634, 2639, 2731, 2828, and 2830] and Exhibit No. ____ (AWG-6) [Washington County:**
20 **Map Nos. 2218, 2220, 2221, 2320, 2321, 2322, 2518, 2519, and 2618]. In addition, I have**
21 **reviewed other detail maps which show the facilities of the two systems as being commingled,**
22 **in close proximity, or where further uneconomic duplication is likely to occur, even though such**
23 **maps were not identified by the FPSC Staff. See Exhibit No. ____ (AWG-3) [Bay County: Map**

1 No. 2733] and Exhibit No. ____ (AWG-6) [Washington County: Map Nos. 2418, 2419, 2420,
2 2421, 2520, 2521, 2619, 2620, 2718, 2719, and 2720]. As explained by Mr. Gordon, such
3 additional maps should be reviewed in order to illustrate a clear and continuous boundary in
4 these areas.

5 I also reviewed the responses of Gulf Coast and Gulf Power to certain of the FPSC
6 Staff's requests for information concerning the so-called "disputed areas" as identified by the
7 map numbers selected by the FPSC Staff. That information contained such things as sales
8 statistics, facilities investments, customer complaints, reliability data, and cost data purportedly
9 related to the "disputed areas," as selected by the FPSC Staff.

10 **Q. DO GULF COAST AND GULF POWER AGREE THAT THE SO-CALLED**
11 **"DISPUTED AREAS" SELECTED BY THE FPSC STAFF ARE THE AREAS**
12 **ACTUALLY IN DISPUTE?**

13 A. No. As discussed further by Mr. Gordon, certain areas were not identified by the FPSC Staff
14 where the facilities of Gulf Coast and Gulf Power are either commingled or in close proximity
15 and where further uneconomic duplication is likely to occur, and therefore, potentially in dispute
16 as to the delineation of a service area boundary between the two systems. Apparently, Gulf
17 Power also does not agree with the FPSC Staff's selection of the so-called "disputed areas," as
18 indicated by its April 12, 1996 letter transmitting data requested by the Staff.

19 **Q. HAVE YOU ALSO HAD OCCASION TO VISUALLY INSPECT AREAS WHERE**
20 **BOTH SYSTEMS' FACILITIES ARE COMMINGLED, IN CLOSE PROXIMITY, OR**
21 **WHERE FURTHER UNECONOMIC DUPLICATION IS LIKELY TO OCCUR?**

22 A. Yes.

1 Q. PLEASE COMMENT ON THE DATA SUPPLIED BY GULF COAST AND GULF
2 POWER IN RESPONSE TO THE FPSC STAFF'S DATA REQUESTS.

3 A. I am aware that under Chapter 25-6 of the Florida Administrative Code, certain guidelines are
4 provided as to how the Commission should go about resolving a territorial dispute. Section 25-
5 6.0441(1) states, in part, "... each utility party shall also provide a description of the existing
6 and planned load to be served in the area of dispute and a description of the type, additional
7 cost, and reliability of electrical facilities and other utility services to be provided within the
8 disputed area." Subsection (2) provides, in part, that:

9 The Commission may consider, but not be limited to the consideration of:

10 (a) the capability of each utility to provide reliable electric service within
11 the disputed area with its existing facilities and the extent to which
12 additional facilities are needed;

13 * * *

14 (c) the cost of each utility to provide distribution and subtransmission
15 facilities to the disputed area presently and in the future;

16 Subsection (3) provides that "the Commission may require additional relevant information from
17 the parties of the dispute if so warranted."

18 From my previous experience in dealing with territorial disputes in Florida, I am aware
19 that certain of the information enumerated in Chapter 25-6 may be relevant to the resolution of
20 a territorial dispute in particular situations which are confined to a well defined area, such as a
21 subdivision, where the geographic location is certain, the number and location of consumers and
22 expected electrical requirements can be reasonably projected, and where the cost of upgrading
23 and extending electric service facilities can be determined with a reasonable degree of certainty.
24 However such is not the case in this proceeding. Rather, as indicated by the number of maps
25 selected by the FPSC Staff as identifying these areas, the areas to be examined are spread across

1 a large geographic area. The data supplied by both Gulf Coast and Gulf Power in response to
2 the FPSC Staff's data requests primarily reflect aggregated data as to the combined areas (e.g.,
3 customers, kWh sales, and load) and in other instances county-wide (i.e., Washington and Bay
4 Counties) data (e.g., facilities investments). Furthermore, in the absence of the identification
5 of specific customers that are likely to develop by location within identified areas, it is difficult
6 to project the expected costs to serve the various areas as they develop over time.

7 Given the nature of this data, in my opinion, it is difficult to determine each utility's
8 expected costs to serve specific customers in specific areas as they materialize in the future. It
9 also is difficult to determine the life-cycle effects of the long-term planning process involved in
10 the commitment to serve customers, including identifying and quantifying the potential adverse
11 effects of both systems having planned to serve the same areas. Finally, for all the reasons I
12 discussed earlier, the relative costs of competing utilities to supply a given area are difficult to
13 assess and, therefore, should be used sparingly, if at all, in situations such as this where a
14 permanent service area boundary is to be established.

15 **Q. FROM THE DATA FILED BY THE PARTIES, CAN YOU INFER ANYTHING**
16 **RELATIVE TO THE EXPECTED CUSTOMER LOAD, ENERGY, AND**
17 **POPULATION GROWTH IN THE AREAS IDENTIFIED BY THE FPSC STAFF AS**
18 **THE DISPUTED AREA?**

19 A. I have summarized some of the data submitted by the parties which I have shown on Exhibit
20 Nos. ____ (SPD-3) and ____ (SPD-4). As indicated on page 1 of Exhibit No. ____ (SPD-3), in
21 column (d), line 6, Gulf Coast indicates that it expects to be serving an additional 304
22 consumers by the end of the next five years, reflecting a growth rate of about 4.5% per year
23 (column (b), line 7). Energy growth is also shown to increase steadily at a rate of approximately

1 7.25% per year (column (c), line 7). Based on these projections, average usage per consumer
2 should increase over the next five years. I have also attempted to estimate the growth in peak
3 load for these specific areas, based on the data submitted and also based upon information
4 included on Gulf Coast's RUS Form 7 (Operating and Statistical Report) for 1995. As shown
5 on Exhibit No. ____ (SPD-3), column (i), line 7, the annual rate of increase in summer peak
6 demand is expected to be approximately 5.8%, or approximately 1,420 kW over the next five
7 years. With a lower rate of increase in peak demand than energy growth, average load factor
8 in the areas will likely increase. Except for an inference that with an increase in consumers a
9 reasonably proportionate increase in population should occur, no specific estimates of
10 population growth can be determined from the data submitted.

11 Similar information was developed for Gulf Power, based on the data submitted. As
12 shown on page 2 of Exhibit No. ____ (SPD-4), Gulf Power projects the number of consumers
13 in the disputed area to increase by about 385 (column (d), line 6) over the next five years,
14 representing a growth rate of 5.1% (column (b), line 7). Energy sales are expected to grow at
15 an annual rate of approximately 11.7% (column (e), line 7), and summer peak demand growth
16 is expected to increase by about 8.1% (column (i), line 7) per year. As with Gulf Coast, average
17 usage per consumer and load factor are expected to increase during this period. Also, as with
18 the data filed by Gulf Coast, no specific population growth estimates can be made from the data
19 filed by Gulf Power.

20 As I have stated previously, the lack of certainty of service area usually results in both
21 utilities planning to serve some of the same consumers and load. While it is not clear from the
22 data submitted by the parties, it is likely that the projected consumer growth for both Gulf Coast
23 and Gulf Power include some of the same consumers and that both likely would incur costs to

1 serve consumers that may never materialize on their systems, absent a permanent resolution of
2 the service area responsibilities.

3 **Q. FROM THE DATA SUBMITTED BY THE PARTIES, CAN YOU DRAW ANY**
4 **CONCLUSIONS AS TO THE LOCATION, TYPE, AND CAPACITY OF EACH**
5 **UTILITY'S FACILITIES IN THE FPSC STAFF'S IDENTIFIED DISPUTED AREA?**

6 A. It is my understanding that Gulf Coast and Gulf Power worked together to develop a set of
7 detail maps which depict the facilities of both utilities. These are the grid maps identified by
8 the numbers shown on the FPSC Staff's request for documents of May 24, 1996. From my
9 review of these maps, I noted that conductor sizes and transformer sizes were indicated. For
10 substations shown on the maps, the capacity and load of substations is indicated. A summary
11 of the substation capacity and load for the substations serving the disputed areas for Gulf Coast
12 was provided to me by the Cooperative. I have reproduced this information on Exhibit No. ____
13 (SPД-5), on which I have also computed "available capacity" by subtracting the estimated peak
14 load on each station from the "fan rated" substation transformer capacity. As indicated in
15 column (e) on line 5, Gulf Coast's available substation capacity for the substations serving the
16 disputed area is approximately 12,545 kW, as of the end of the 1995 Summer period. I was not
17 able to develop comparable information for Gulf Power. While certain substation capacity and
18 load data for Gulf Power is shown on the maps defining the areas, the capacity of any
19 substations not shown on the maps which do or could serve load in the areas was not made
20 available in any of the information filed by Gulf Power.

21 **Q. WHAT CAN YOU INFER RELATIVE TO THE CAPABILITIES OF THE PARTIES**
22 **TO PROVIDE ADEQUATE AND RELIABLE ELECTRIC SERVICE, BASED ON THE**

1 **DATA FILED BY THE PARTIES FOR THE DISPUTED AREAS, AS IDENTIFIED BY**
2 **THE FPSC STAFF?**

3 A. Substation capacity is a key factor in a utility's ability to provide adequate and reliable electric
4 service. Referring again to my Exhibit Nos. ____ (SPD-3) and ____ (SPD-5), I transferred Gulf
5 Coast's available substation capacity of 12,545 kW from Exhibit No. ____ (SPD-5) to Exhibit
6 No. ____ (SPD-3), column (l), line 1. I then subtracted the increase in demand for each of the
7 next five years (1996 - 2000). At the end of the five-year period, approximately 1,420 kW of
8 the available capacity has been consumed, leaving about 11,125 kW (column (l), line 6) of
9 available substation capacity. Even if the amount of capacity utilized per year varied
10 significantly from the values used in this analysis, there would appear to be substantial available
11 capacity at the end of the period. Of course, some of this would likely be required to serve other
12 areas served by the substations which are not included within the Staff's defined disputed areas
13 and for which data has not been compiled.

14 As shown on Exhibit No. ____ (SPD-4), a similar analysis performed using the Gulf
15 Power data indicated that over the next five years, the growth in consumers would result in a
16 cumulative increase in demand of approximately 6,996 kW (column (j), line 6). While the peak
17 demand per consumer provided in the Gulf Power data appears to be unusually high, the
18 increased utilization of approximately 7,000 kW would probably be well within the capabilities
19 of Gulf Power's substations serving the load in the Staff's defined areas.

20 The FPSC Staff requested that the parties file customer complaint data for the counties
21 in which the specific areas are located. Presumably, the Staff believed that such information
22 may shed light upon the quality and reliability of service provided by the parties. A review of
23 the information filed by Gulf Coast indicates that the information relates to situations in the

1 field, and as indicated by the descriptions provided by Gulf Coast, only a few instances were
2 believed to be attributable to any problems on the Gulf Coast system. As also indicated, it
3 appears that Gulf Coast promptly located the cause and made the necessary repairs or advised
4 the consumer as to actions required to correct the situation. Furthermore, the data does not
5 indicate recurrences at the same location attributed to causes on the utility system. Moreover,
6 the situations documented do not indicate any kind of systematic patterns related to utility
7 deficiencies.

8 The data filed by Gulf Power reflects complaints of an entirely different nature than the
9 data provided by Gulf Coast. Whereas, the Gulf Coast data consisted almost entirely of
10 situations found in the field, which were not necessarily complaints but reports of service
11 problems, almost all of the items included in Gulf Power's data refers to complaints received
12 in the office concerning billing, disconnects, high bills, etc. Since the FPSC Staff's request
13 sought the "location, nature of the complaint, and the corrective action taken, along with the date
14 of the complaint and any recurring complaints of a similar nature by the same complainant," it
15 appears that the FPSC Staff was actually seeking information as to service complaints and the
16 utility's response. If this is the case, the Gulf Power response does not appear to provide the
17 data requested, unless Gulf Power actually received no complaints of the type sought in the data
18 requested by the FPSC Staff.

19 Given that the data filed by Gulf Coast and Gulf Power appear completely inconsistent,
20 no comparisons can be drawn from that data with respect to quality and reliability of service.
21 Based on the information submitted though, there is little to indicate persistent service quality
22 or reliability problems on either utility system.

1 The FPSC Staff also requested “Distribution Service Reliability Reports” for the
2 disputed areas for the most recent 12-month period for which data was available. Gulf Power
3 indicated on its response that the data submitted was for the Company’s Eastern District
4 (including Panama City, Chipley, and surrounding areas) and not specifically the FPSC Staff’s
5 identified areas. The report indicates a number of outages by category, although no real
6 conclusions can be drawn. Perhaps the most interesting information on this report is the average
7 length of service interruption of approximately 1.5 hours per outage. From the report, outage
8 time per consumer cannot be determined, which might be a good basis for comparison. The
9 report does indicate that the circuits with the highest number of breaker operations do not cover
10 the specific areas, indicating possibly the absence of repeated interruptions on the same line.

11 The data submitted by Gulf Coast is much more detailed in nature, indicating for each
12 outage, by major feeder serving the disputed area, each specific outage (excluding those
13 associated with Hurricane Opal), the location, the number of consumers affected, the duration
14 of the outage, and the total consumer outage time (number of consumers times outage duration).
15 As summarized in Exhibit No. ____ (SPD-6), this data indicates that there were 1,121 consumers
16 affected by outages in the areas and that the total consumer outage time was 1,387.88 hours.
17 This results in an average outage time per consumer affected of 1.24 hours (1,387.88
18 hours/1,121 consumers) as shown in column (e), line 9. I also computed the average duration
19 of the 101 reported outages as 1.4 hours (column (d), line 12), slightly less but certainly
20 comparable to the average duration reported by Gulf Power for an area that may not be
21 comparable to the areas identified by the FPSC Staff.

22 From all of this I can only conclude that both Gulf Coast and Gulf Power appear to be
23 providing adequate and dependable service to their consumers, and that both appear to be

1 capable of serving new load within their traditional service areas, including the specific areas
2 served by both. I cannot conclude that either has a significant advantage in service reliability
3 and/or capability based on the data submitted in response to the FPSC Staff's request. More
4 significantly, I believe this tends to confirm my belief that the traditional service areas served
5 by the two utilities should bear the greatest weight in determining where the service area
6 boundary should be established.

7 **Q. WHAT CAN YOU INFER ABOUT THE COST DATA FILED IN RESPONSE TO THE**
8 **FPSC STAFF REQUEST OF MAY 24, 1996?**

9 A. I have reviewed the data filed by both Gulf Coast and Gulf Power in response to items 3 and 6
10 of the Staff's list of additional discovery information issued May 24, 1996. From the
11 information filed, it appears that Gulf Coast expects to invest approximately \$470,000 to
12 upgrade and extend service to the 304 additional consumers it expects to serve in the identified
13 areas. This amounts to \$1,547 per consumer, significantly lower than Gulf Coast's embedded
14 distribution plant of \$2,350. If this is indeed the case, serving the additional consumers in the
15 identified areas will have the effect of lowering Gulf Coast's average distribution plant per
16 consumer, which should ultimately have a beneficial impact on revenue requirements and rate
17 levels.

18 The data filed by Gulf Power appears to be for the entire counties in which the
19 identified areas lie, and therefore the data does not lend itself to the same type of analysis as my
20 computations for Gulf Coast. Nonetheless, it does appear that Gulf Power intends to invest
21 approximately \$28 million in distribution facilities in Washington and Bay Counties over the
22 1996 - 2000 time period. While I was not able to relate this to the number of new consumers,
23 it appears that Gulf Power has planned to serve new consumers in the two counties. Likewise,

1 it also appears that Gulf Coast has developed plans to serve new consumers in Washington and
2 Bay Counties. This is as it should be. What is unknown is whether both utilities have
3 undertaken plans to serve the same consumers; and, if they have, what uneconomic duplication
4 of facilities is likely to occur. Certainty of service areas, though, would prevent this and allow
5 each utility to be more accurate in planning to serve new consumers.

6 **Q. PLEASE IDENTIFY ADDITIONAL AREAS WHICH WERE NOT IDENTIFIED BY**
7 **THE FPSC STAFF, WHERE GULF COAST'S AND GULF POWER'S FACILITIES**
8 **ARE COMMINGLED, IN CLOSE PROXIMITY, OR WHERE FURTHER**
9 **UNECONOMIC DUPLICATION IS LIKELY TO OCCUR.**

10 A. Mr. Gordon has identified these areas on the detail maps contained in Exhibit Nos. ____ (AWG-
11 3) [Bay County: Map No. 2733] and ____ (AWG-6) [Washington County: Map Nos. 2418,
12 2419, 2420, 2421, 2520, 2521, 2619, 2620, 2718, 2719, and 2720]. Shown thereon in red are
13 Gulf Coast's facilities and in blue are Gulf Power's facilities. These areas represent the areas
14 where either system (1) could serve customers currently served by the other or (2) could extend
15 its existing system with new facilities additions to serve existing or new customers which the
16 other system is capable of supplying and has planned to serve. It is my understanding that the
17 Commission's intent is to establish a service area boundary to clarify where each utility is to
18 serve to avoid further uneconomic duplication which will occur if both systems continue to plan
19 to serve those same areas, customers, and loads.

20 The areas identified on these additional maps also allow closure of a service area
21 boundary to avoid uncertainties due to gaps that would otherwise occur where continuity of the
22 boundary is not maintained by excluding these maps. Mr. Gordon notes and discusses the areas.

1 VI. ESTABLISHMENT OF A SERVICE AREA BOUNDARY

2 Q. IN YOUR OPINION, HOW SHOULD THE COMMISSION ESTABLISH THE
3 SERVICE AREA BOUNDARY BETWEEN GULF POWER AND GULF COAST IN
4 SOUTH WASHINGTON AND BAY COUNTIES WHERE THE ELECTRIC
5 FACILITIES ARE COMMINGLED OR IN CLOSE PROXIMITY AND WHERE
6 FURTHER UNECONOMIC DUPLICATION IS LIKELY TO OCCUR?

7 A. Given (1) the large geographic areas in question, (2) the uncertainty as to where future
8 consumers and load will materialize, (3) the inability to accurately project the cost of upgrading
9 and constructing new facilities to serve new consumers, wherever they may be located, (4) the
10 fact that both utilities appear to have adequate system capacity in the general areas in question,
11 and (5) the fact that the reliability of both Gulf Coast and Gulf Power has not been questioned,
12 I believe the Commission should establish a service area boundary between Gulf Coast and Gulf
13 Power that recognizes primarily the historic service area of each and which minimizes or
14 eliminates the need for transfers of customers and facilities. On Exhibit Nos. ___ (AWG-2) and
15 ___ (AWG-5), and on the detail maps included in Exhibit Nos. ___ (AWG-3) and ___ (AWG-
16 6), Mr. Gordon has indicated the location of the proposed service area boundary in south
17 Washington and Bay Counties that accomplishes a division consistent with my recommendation.
18 As review of these exhibits clearly indicates, the dividing line has been drawn along clearly
19 identified boundaries, more or less, at the point of interface of the facilities of the two systems.
20 In only a few instances are the facilities and consumers of Gulf Power on the Gulf Coast side
21 of the line and vice versa, and where this does occur, only short distances of line and only a few
22 consumers are involved. The affected consumers and facilities are so insignificant, I recommend
23 that, notwithstanding the establishment of this service area boundary, there be no requirement

1 for transfers of customers or facilities. Instead, I recommend a stand-still policy for those areas
2 where the existing facilities and consumers of one utility would be in the assigned area of the
3 other and that when a new consumer locates in this general area, the assigned supplier would
4 provide service, unless Gulf Coast and Gulf Power mutually agree otherwise.

5 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

6 A. It does at this time. I may have additional comments following receipt of Gulf Power's direct
7 testimony and FPSC Staff's testimony.

Stephen Page Daniel
Executive Vice President

EDUCATION: Master of Business Administration in Finance, Georgia State University
Bachelor of Industrial Engineering, Georgia Institute of Technology

PROFESSIONAL MEMBERSHIP: Institute of Electrical and Electronics Engineers

EXPERIENCE:

2/86-Present Executive Vice President and principal of GDS Associates, Inc.

1/71-2/86 Mr. Daniel served as rate analyst (1971-1974), project manager (1975-1981), Group Manager - Rate and Analytical Services (1982-1984), and Assistant Vice President - Rate and Analytical Services (1985-1986) with Southern Engineering Company. Mr. Daniel was also Coordinator - Load and Energy Management Services from 1978 to 1981.

During his more than twenty-six (26) years experience in the electric utility industry, Mr. Daniel has consulted with utilities, government agencies, and industrial clients in thirty-three (33) states in the following areas:

Power supply planning for generation and transmission utility systems and distribution systems.

Transmission access/pricing issues:

- Negotiation of transmission arrangements
- Policy advocacy/rulemaking
- Open-access transmission implementation/compliance
- Transmission rate case litigation
- Strategic Planning

Negotiation of wholesale (sales-for-resale) power supply contracts on behalf of cooperative electric power systems involving:

- Full and partial requirements services
- Interchange services
- Generation support services
- Joint ownership arrangements

Preparation of pooling rates for cooperative generation and transmission systems.

Preparation of financial forecasts and forecasts of operations for rural electric distribution and generation and transmission systems.

Stephen Page Daniel
Executive Vice President

Preparation of cost-of-service studies and sales-for-resale rate studies for cooperative generation and transmission systems.

Preparation of retail rate studies and cost-of-service studies for rural electric distribution systems and municipal electric systems.

Analysis of cost-of-service studies filed by others with the Federal Energy Regulatory Commission (formerly Federal Power Commission) and various state regulatory commissions.

Preparation of revenue requirements studies for cooperative and municipal power systems.

Facilities valuation studies for property sales and condemnations.

Assignments in specialized areas of:

- Rate design for special loads
- Financial requirements analyses
- Evaluation of financing alternatives
- Acquisition, merger and divestiture evaluations
- Regulatory rulemaking
- Public Utility Regulatory Policies Act of 1978
- Cogeneration and Small Power Production
- Territorial Integrity

REGULATORY EXPERIENCE:

Federal Energy Regulatory Commission (formerly Federal Power Commission) ¹
Alabama Public Service Commission
Alaska Public Utilities Commission ¹
Arizona Corporation Commission ¹
Arkansas Public Service Commission
Public Utilities Commission of the State of Colorado
Florida Public Service Commission ²
Georgia Public Service Commission
Indiana Regulatory Commission (formerly Public Service Commission of Indiana)
Louisiana Public Service Commission
North Carolina Utilities Commission
Pennsylvania Public Utility Commission
South Carolina Public Service Commission
Texas Public Utility Commission ¹
Utah Public Service Commission

Stephen Page Daniel
Executive Vice President

Virginia State Corporation Commission
West Virginia Public Service Commission ^{2/}

-
- ^{1/} Including Regulatory Rulemaking
^{2/} Including Generic Hearings

EXPERT TESTIMONY IN COURT PROCEEDINGS:

- (1) Clay County Superior Court, Clay County, Florida
- (2) United States Federal District Court, District of Nebraska
- (3) United States Federal District Court, Anderson, South Carolina

PUBLICATIONS

"Joint Ownership of Transmission" - CFC Power Review - Spring 1989 (with Robert M. Gross)

LECTURES/SEMINARS:

- (1) Open-Access Transmission: A Key to Competitive Bulk Power Markets
1996 Strategic Planning Program, Strategic Planning Process for 1997 and Beyond,
Alabama Electric Cooperative, Inc., July 2, 1996
- (2) Open-Access Transmission: A Key to Competitive Bulk Power Markets
1996 Annual Engineers Conference
Florida Electric Cooperatives Association, May 15, 1996
- (3) The Future: Transmission Open-Access Update; Industry Restructuring; and Strategic Planning
SMEPA Board of Trustees Forum (1996)
- (4) Open-Access Transmission -- The Path to Competitive Bulk Power Markets
Status of Utility Restructuring in the U.S. and Implications for Georgia
Georgia Public Service Commission Staff Meeting, December 18, 1995
- (5) Unbundling Services and Rates: A Choice or a Necessity?
Public Power: Preparing for Competition
Infocast, Washington, D.C., November 17, 1995
- (6) Trends in Power Supply: What's All the Change About?
The FERC MEGA-NOPR, Privatization & Regulatory Jurisdictional Issues
15th Annual Southeastern Electric & Natural Gas Conference
October 10, 1995
- (7) Transmission Access: The Path to Competition
The Electric Cooperatives of South Carolina, Engineering & Purchasing Association
Meeting, May 1995
- (8) Transmission Access: The Path to Competition
SMEPA Board of Trustees Forum (1994)

Stephen Page Daniel
Executive Vice President

- (9) The Changing Structure of Electric Utilities
G&T Accounting and Finance Association 1994 Annual Meeting
- (10) Surviving and Thriving as Rural (Cooperative) Energy Systems in the 90's and Beyond, Southeastern Power Administration Integrated Resource Planning Conference (1993)
- (11) Transmission Access and Pricing Policies of the FERC
National G&T Managers Association Meeting (1993)
- (12) G&T Rate Theory: Competitive Positioning
NRECA G&T Rate Seminar (1993)
- (13) Transmission Strategies In A Changing Regulatory And Access Environment
Electric Systems Planning and Operations Conference (1992)
- (14) A Wholesale Rate Case: The Consultant's Role
Seminole Electric Cooperative, Inc., June 1992 Employee Meeting
- (15) The Economic Impact of Annexation On Rural Electric Systems: The Technical Perspective; and
Price Alone May Not Be Good Enough! (Workshop)
NRECA Territorial Integrity Conference (1990)
- (16) Regulation After Refunding: Life At The FERC
National G&T Managers Association Meeting (1989)
- (17) Joint Ownership: A Transmission Access Alternative
Executive Enterprises Third Annual Transmission Access And Pricing Conference (1989)
- (18) FERC, IPPS, Etc.
NRECA Transmission Forum (1989)
- (19) FERC Regulation of G&Ts: Prospect and Impact
NRECA G&T Legal Seminar (1989)
- (20) A Review of Reality -- Cooperative/Creative Ratemaking
NRECA 1985 Directors' Update (1985)
- (21) Electric Rates: The Impact on Load and Energy Management
NRECA Load Management Workshop (1980)
- (22) AEP&CO Rates: Past, Present & Future
Grand Canyon State Electric Cooperative, Inc. Annual Meeting (1979)
- (23) Fuel Adjustment Clauses and Rates
Georgia Rural Electric Managers Association (1979)
- (24) How to Distribute the Benefits of Load Management
NRECA Load Management Conference (1979)
- (25) Fuel Adjustments and Power Rates
South Carolina Electric Cooperative Managers Association (1979)
- (26) Load Management and Rates
Indiana Statewide REC, Inc. (1978)
- (27) The Philosophy of Setting Rates
Cooperative Power Association (1978)
- (28) Strategies For Load and Energy Management
Northwest Public Power Association 1978 Directors Conference (1978)
- (29) Capital Budgeting to Meet System Planning Needs
APPA Accounting & Finance Workshop (1974)

GULF COAST ELECTRIC COOPERATIVE, INC. VS. GULF POWER COMPANY
 FLA PSC Docket No. 930885

Gulf Coast Electric Cooperative, Inc.
 Analysis of Consumer, Energy, And Demand Growth And Substation Capacity

Line No.	Year (a)	No. of Consumers * (b)	Annual Change in No. of Consumers (c)	Cum. Change in No. of Consumers (d)	Annual Energy Sales (kWh) * (e)	Annual Change in Energy Sales (kWh) (f)	Cum. Change in Energy Sales (kWh) (g)	Annual Demand (kW) * (h)	Estimated Summer Peak Demand (kW) (i)	Change in Summer Peak Demand (kW) (j)	Cum. Change in Summer Peak Demand (kW) (k)	Available Substation Capacity (kW) # (l)	Estimated Summer Peak Demand (kW) per Consumer (m)
1	1995	1,239			15,713,648			44,550	4,337			12,545	3.50
2	1996	1,309	70	70	16,451,736	738,088	738,088	47,962	4,669	332	332	12,213	3.57
3	1997	1,370	61	131	17,969,676	1,517,940	2,256,028	51,154	4,980	311	643	11,902	3.63
4	1998	1,431	61	192	19,429,380	1,459,704	3,715,732	54,066	5,263	283	926	11,619	3.68
5	1999	1,489	58	250	20,879,058	1,449,678	5,165,410	56,849	5,534	271	1,197	11,348	3.72
6	2000	1,543	54	304	22,297,632	1,418,574	6,583,984	59,137	5,757	223	1,420	11,125	3.73
7	Growth Rate	4.5%			7.2%			5.8%					

* Source: August 12, 1996 Gulf Coast response to FPSC Staff's request for additional information of May 24, 1996.

Does not include adjustments for the effects of power factor or losses.

GULF COAST ELECTRIC COOPERATIVE, INC. VS. GULF POWER COMPANY
FLA PSC Docket No. 930885

Gulf Power Company
Analysis of Consumer, Energy, And Demand Growth And Substation Capacity

Line No.	Year (a)	No. of Consumers * (b)	Annual Change in No. of Consumers (c)	Cum. Change in No. of Consumers (d)	Annual Energy Sales (kWh) * (e)	Annual Change in Energy Sales (kWh) (f)	Cum. Change in Energy Sales (kWh) (g)	Estimated Summer Peak Demand (kW) * (h)	Change in Summer Peak Demand (kW) (i)	Cum. Change in Summer Peak Demand (kW) (j)	Available Substation Capacity (kW) (k)	Summer Peak Demand (kW) per Consumer (l)
1	1995	1,368			26,978,331			14,763				10.79
2	1996	1,438	70	70	31,712,628	4,734,297	4,734,297	15,818	1,055	1,055		11.00
3	1997	1,511	73	143	35,269,973	3,557,345	8,291,642	17,112	1,294	2,349		11.32
4	1998	1,588	77	220	41,093,598	5,823,625	14,115,267	18,946	1,834	4,183		11.93
5	1999	1,668	80	300	43,700,186	2,606,588	16,721,855	20,219	1,273	5,456		12.12
6	2000	1,753	85	385	46,881,912	3,181,726	19,903,581	21,759	1,540	6,996		12.41
7	Growth Rate	5.1%			11.7%			9.9%				

* Source: August 12, 1996 Gulf Power Company response to FPSC Staff's request for additional information of May 24, 1996.

GULF COAST ELECTRIC COOPERATIVE, INC. VS. GULF POWER COMPANY
FLA PSC Docket No. 930885

Gulf Coast Electric Cooperative, Inc.
Substation Capacity, Load, and Available Capacity in Disputed Area

Line No.	Station (a)	Existing Capacity(1)	Fan Rated Capacity(1)	Summer 1995		Winter 1995	
		(kVA) (b)	(kVA) (c)	Peak Load (d)	Available Capacity(2) (3) (e)	Peak Load (f)	Available Capacity (2) (3) (g)
1.	Fountain (not on maps)	7,500	9,375	6,048	3,327	5,664	3,711
2.	Crystal Lake (not on maps)	7,500	9,375	6,854	2,521	6,816	2,559
3.	Bayou George - South (map no. 2634)	8,000	8,751	6,240	2,511	6,682	2,069
4.	Bayou George - North (map no. 2731)	<u>10,000</u>	<u>12,500</u>	<u>8,314</u>	<u>4,186</u>	<u>8,698</u>	<u>3,802</u>
5.	Total	33,000	40,001	27,456	12,545	27,860	12,141

* Source: Data provided by Gulf Coast Electric Cooperative, Inc.

Notes: 1) All kVA ratings are at 55 degrees C

2) Based on "fan rated" capacity

3) Does not include adjustments for the effects of power factor or losses

GULF COAST ELECTRIC COOPERATIVE, INC. VS. GULF POWER COMPANY
FLA PSC Docket No. 930885

Gulf Coast Electric Cooperative, Inc.
Summary of Outage Time for the Disputed Area

Line No.	Description (a)	No. of Consumers Out (b)	No. of Interruptions (c)	Duration (d)	Total Hours Off (e)
1	Substation: BGN Feeder East	32	14		32.5
2	Substation: BGN Feeder North	1	1		2.5
3	Substation: BGN Feeder South	280	22		349.1
4	Substation: BGS Feeder Highpoint	30	3		25.0
5	Substation: BGS Feeder Majette	36	10		38.7
6	Substation: CL Feeder North	732	47		931.1
7	Substation: F Feeder South	10	4		9.0
8	Total Affected Consumers	1,121	101	141.68	1,387.9
9	Average Outage Time Per Affected Consumer (Line 8(e) ÷ Line 8(b))				1.24
10	Total Consumers In Area (From Filed Data)	1,239			
11	Average Outage Time Per Consumer In Area (Line 8(e) ÷ Line 10(b))				1.12
12	Average Outage Duration (Hr) (Line 8(d) ÷ Line 8(c))			1.40	

* Source: August 12, 1996 Gulf Coast response to FPSC Staff's request for additional information of May 24, 1996.

