



June 20, 1997

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0870

Dear Ms. Bayo:

Enclosed for official filing in Docket No. 970001-EI are an original and ten copies of the following:

1. Petition of Gulf Power Company for Approval of Final Fuel Cost True-up Amounts and GPIF Adjustment for October 1996 through March 1997; Estimated Fuel Cost True-up Amounts for April 1997 through September 1997; Projected Fuel Cost Recovery Amounts for October 1997 through March 1998; Final Purchased Power Capacity Cost True-up Amounts for October 1995 through September 1996; Estimated Purchased Power Capacity Cost True-up for October 1996 through September 1997; Projected Purchased Power Capacity Cost Recovery Amount for October 1997 through September 1998; GPIF Targets and Ranges for October 1997 through March 1998; Estimated As-available Avoided Energy Costs and Fuel Cost Recovery Factors to be applied beginning with the period October 1997 through March 1998; Capacity Cost Recovery Factors to be applied beginning with the period October 1997 through September 1998.

ACK _____
AFA Wardner
APP _____
CAF _____
CMU _____
CTR _____
E.D. _____
L _____
3 tags _____
L _____
W.S. _____
OTH _____

2. Prepared direct testimony and exhibit of M. F. Oaks. 6265-97
3. Prepared direct testimony and exhibit of G. D. Fontaine. 6266-97
4. Prepared direct testimony and exhibit of M. W. Howell. 06267-97
5. Prepared direct testimony and exhibit of S. D. Cranmer. 06268-97

Petition
DOCUMENT NUMBER-DATE

06264 JUN 23 97

FPSC-RECORDS AND REPORTING

Ms. Blanca S. Bayo
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Also enclosed is a 3.5 inch double sided, double density diskette containing the Petition in WordPerfect for Windows 6.1 format as prepared on a MS-DOS based computer.

Sincerely,



Susan D. Cranmer
Assistant Secretary and Assistant Treasurer

lw

Enclosures

cc: Beggs and Lane
Jeffrey A. Stone, Esquire

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

Docket No. 970001-EI

Certificate of Service

I HEREBY CERTIFY that a true copy of the foregoing was furnished by hand delivery or the U. S. Mail this 20th day of June 1997 on the following:

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ORIGINAL
FILE COPY

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 970001-EI

PREPARED DIRECT TESTIMONY AND EXHIBIT
OF
M. W. HOWELL

**FUEL COST RECOVERY
OCTOBER 1997 - MARCH 1998**

**CAPACITY COST RECOVERY
OCTOBER 1997 - SEPTEMBER 1998**

JUNE 23, 1997



DOCUMENT NUMBER-DATE
06267 JUN 23 5
SPCC REG. 12541-1000

1 Manager of System Planning, Manager of Fuel and System
2 Planning, and Transmission and System Control Manager.
3 My experience with the Company has included all areas of
4 distribution operation, maintenance, and construction;
5 transmission operation, maintenance, and construction;
6 relaying and protection of the generation, transmission,
7 and distribution systems; planning the generation,
8 transmission, and distribution system additions; bulk
9 power interchange administration; overall management of
10 fuel planning and procurement; and operation of the
11 system dispatch center.

12 I am a member of the Engineering Committees and
13 the Operating Committees of the Southeastern Electric
14 Reliability Council and the Florida Reliability
15 Coordinating Council, and have served as chairman of the
16 Generation Subcommittee of the Edison Electric Institute
17 System Planning Committee. I have served as chairman or
18 member of many technical committees and task forces
19 within the Southern electric system, the Florida
20 Electric Power Coordinating Group, and the North
21 American Electric Reliability Council. These have dealt
22 with a variety of technical issues including bulk power
23 security, system operations, bulk power contracts,
24 generation expansion, transmission expansion,
25 transmission interconnection requirements, central

1 dispatch, transmission system operation, transient
2 stability, underfrequency operation, generator
3 underfrequency protection, and system production
4 costing.

5
6 Q. What is the purpose of your testimony in this
7 proceeding?

8 A. The purpose of my testimony is to support Gulf Power
9 Company's projection of purchased power recoverable
10 costs for energy purchases and sales for the period
11 October, 1997 - March, 1998. I will also support the
12 Company's projection of purchased power capacity costs
13 for the October, 1997 - September, 1998 annual recovery
14 period. Finally, in response to economy energy pricing
15 and cost recovery issues raised by the Florida Public
16 Service Commission's Staff, I will discuss the changes
17 to the Southern electric system's pricing of economy
18 energy as related to the Federal Energy Regulatory
19 Commission's (FERC) Orders 888 and 888-A.

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

23 A. Yes. I have two exhibits to which I will refer. These
24 exhibits were prepared under my supervision and
25 direction.

1 Counsel: We ask that Mr. Howell's exhibits
2 MWH-1 and MWH-2 be marked for
3 identification as
4 Exhibit____(MWH-1) and
5 Exhibit____(MWH-2).

6

7 Q. What is Gulf's projected purchased power recoverable
8 cost for energy purchases for the October, 1997 - March,
9 1998 recovery period?

10 A. Gulf's projected recoverable cost for energy purchases,
11 shown on line 12 of Schedule E-1 of the fuel filing, is
12 \$6,609,297. These purchases result from Gulf's
13 participation in the coordinated operation of the
14 Southern electric system power pool. This amount is
15 used by Gulf's witness Susan Cranmer as an input in the
16 calculation of the fuel and purchased power cost
17 adjustment factor.

18

19 Q. What is Gulf's projected purchased power fuel cost for
20 energy sales for the October, 1997 - March, 1998
21 recovery period?

22 A. The projected fuel cost for energy sales, shown on line
23 18 of Schedule E-1, is \$13,588,600. These sales also
24 result from Gulf's participation in the coordinated
25 operation of the Southern electric system power pool.

1 This amount is used by Gulf's witness Susan Cranmer as
2 an input in the calculation of the fuel and purchased
3 power cost adjustment factor.
4

5 Q. Has Southern made any changes to the Intercompany
6 Interchange Contract (IIC) that was used in the most
7 recent recovery factor adjustment proceedings?

8 A. Yes. The Southern electric system has filed Amendment
9 No. 8 and Amendment No. 9 to the IIC. These amendments,
10 filed with the FERC on March 5, 1997 and June 6, 1997,
11 respectively, will enhance the system's energy and
12 capacity pricing and enable the system to more readily
13 compete in a market-based environment.
14

15 Q. Will these amendments have any effect on Gulf's
16 customer's rates?

17 A. Yes. Both amendments will reduce the rates that our
18 customers pay.
19

20 Q. What are the key features of the two new IIC amendments
21 as related to energy?

22 A. For a number of years, the Southern electric system has
23 dispatched its generating units using marginal
24 replacement fuel costs, but the pricing of energy was
25 based on blended (long-term contracts plus spot fuel)

1 costs. IIC Amendment No. 8 and Amendment No. 9 will not
2 change the way system units are dispatched, but will
3 affect how energy from the units is priced.

4 Amendment No. 8, accepted by the FERC on May 2,
5 1997, has changed the Southern electric system's non-
6 associated pool interchange energy pricing for
7 opportunity (economy) sales. Prior to Amendment No. 8,
8 when Southern made an economy sale to an off-system,
9 non-associated company, the system operating company
10 that supplied more energy than its load ratio obligation
11 in a given hour sold the excess energy to the pool at a
12 rate based on blended replacement fuel costs. Amendment
13 No. 8 changed this rate to one based on marginal
14 replacement fuel costs. However, all other energy
15 pricing, including pool interchange and all Unit Power
16 transactions, will continue to use blended replacement
17 fuel costs.

18 Under Amendment No. 9, when each operating company
19 supplies pool energy for purchase by the other operating
20 companies to serve their territorial load requirements,
21 it will be based upon marginal pricing.

22

23 Q. Will either Amendment affect Gulf's pool capacity
24 transactions?

25 A. Yes. Amendment No. 9 will also modify the IIC's

1 capacity pricing of shared reserves by incorporating the
2 use of monthly capacity worth factors in the monthly
3 capacity rate calculation. These factors, derived
4 primarily from system reliability studies, are used to
5 allocate annual capacity costs over those months when
6 capacity is most valuable to the customers of the
7 operating companies.

8
9 Q. Has Gulf incorporated these new amendments into its
10 projections of energy transactions for the October,
11 1997-March, 1998 recovery period that is being submitted
12 for approval by the Commission in this proceeding?

13 A. Yes. Because IIC Amendment No. 8 has been accepted for
14 filing by the FERC, Gulf has incorporated its pricing
15 provision into its energy cost projections. Amendment
16 No. 9 has been incorporated into Gulf's energy cost
17 projections beginning January 1, 1998 to coincide with
18 our requested effective filing date for the amendment.
19 If final FERC acceptance of Amendment No. 9 is delayed,
20 and the Southern electric system decides to base its
21 actual monthly IIC territorial energy billing
22 transactions upon the current blended replacement fuel
23 costs, Gulf will reflect the resulting differences in
24 the true-up filing for the period.

1 Q. Has Gulf incorporated Amendment No. 9's capacity related
2 modification into its projections of IIC capacity
3 transactions for the October, 1997 - September, 1998
4 recovery period that is being submitted for approval by
5 the Commission in this proceeding?

6 A. Yes. Beginning January 1, 1998, the amendment's new
7 capacity pricing has been incorporated into Gulf's
8 capacity cost projections. If final FERC acceptance of
9 Amendment No. 9 is delayed and we decide to base monthly
10 IIC capacity billing transactions upon the current IIC,
11 Gulf will reflect the resulting differences in the true-
12 up filing for the period.

13
14 Q. Which power contracts produce capacity transactions that
15 are recovered through Gulf's purchased power capacity
16 cost recovery factors?

17 A. The two primary power contracts that produce recoverable
18 capacity transactions through Gulf's purchased power
19 capacity recovery factors are the Southern electric
20 system's Intercompany Interchange Contract and Gulf's
21 cogeneration capacity purchase contract with Monsanto
22 Company. The Commission has authorized the Company to
23 include capacity transactions under IIC for recovery
24 through the purchased power capacity cost recovery
25 factors. Gulf will continue to have IIC capacity

1 transactions during the October, 1997 - September, 1998
2 recovery period. The energy transactions under this
3 contract for these periods are handled for cost recovery
4 purposes through the fuel cost recovery factors.

5 The Gulf Power/Monsanto cogeneration capacity
6 contract enables Gulf to purchase 19 megawatts of firm
7 capacity from June 1, 1996 until June 1, 2005. Gulf has
8 included these costs for recovery during the October,
9 1997 - September, 1998 recovery period. The energy
10 transactions under this contract have also been approved
11 by the Commission for recovery, and these costs are
12 handled for cost recovery purposes through the fuel cost
13 recovery factors.

14
15 Q. Are there any other arrangements that produce capacity
16 transactions that are recovered through Gulf's purchased
17 power capacity cost recovery factors?

18 A. Yes. Gulf and other Southern electric system operating
19 companies have purchased short-term market capacity for
20 the summer of 1998. Gulf also expects to make
21 additional market purchases of capacity for the summer
22 of 1998, but it is not known at this time what these
23 might be. Any actual costs incurred but not projected
24 will be included in a future true-up filing.

25

1 Q. Besides Amendment No. 9 which you discussed earlier,
2 have there been any other changes to the IIC with regard
3 to capacity transactions since the last recovery factor
4 adjustment proceedings?

5 A. Yes. On November 1, 1996, in accordance with both the
6 contract and the requirements of the FERC, the Southern
7 electric system made its annual IIC informational filing
8 with the FERC. The informational filing reflects
9 updated historical load responsibility ratios, expected
10 system load, and the capacity resource amounts for the
11 1997 budget cycle that are used in the IIC capacity
12 equalization calculation to determine the capacity
13 transactions and costs for each operating company.
14 All of these changes are reflected in the projection of
15 capacity transactions among the Southern electric
16 system's operating companies for the October, 1997
17 -September, 1998 recovery period.

18
19 Q. What are Gulf's IIC capacity transactions that are
20 projected for the October, 1997 - September, 1998
21 recovery period?

22 A. As shown on my exhibit MWH-1, capacity transactions
23 under the IIC vary during each month of the annual
24 recovery period. IIC capacity purchases in the amount
25 of \$2,398,766 are projected for the period. IIC

1 capacity sales during the same period are projected to
2 be \$1,591,874. Therefore, the Company's net capacity
3 transactions under the IIC for the period are net
4 purchases amounting to \$806,892. This is significantly
5 lower than the net purchases of \$10,735,529 which were
6 projected for the period October, 1996 - September,
7 1997.

8

9 Q. What is the cost of Gulf's capacity purchase from
10 Monsanto that is projected for the October, 1997 -
11 September, 1998 recovery period?

12 A. As shown on my exhibit MWH-1, Gulf is projected to pay
13 \$746,424, or \$62,202 per month, to Monsanto for firm
14 capacity purchases made pursuant to the Commission
15 approved contract.

16

17 Q. What is the cost of Gulf's market capacity purchases
18 that is projected for the October, 1997 - September,
19 1998 recovery period?

20 A. As shown on my exhibit MWH-1, Gulf is projected to pay a
21 total of \$288,353 for the committed market capacity
22 purchases. Capacity in varying amounts will be
23 purchased during the months of June through September of
24 1998. The individual suppliers and megawatt amounts are
25 not shown, since this is highly sensitive and

1 confidential information. Public availability of this
2 information would seriously undermine our competitive
3 position and cause our customers increased cost.
4

5 Q. What are Gulf's total projected net capacity
6 transactions for the October, 1997- September, 1998
7 recovery period?

8 A. As shown on my exhibit MWH-1, the net purchases under
9 the IIC, the Monsanto contract, and the committed market
10 capacity purchases will result in a projected net
11 capacity cost of \$1,841,669. This annual figure is used
12 by Ms. Cranmer as an input into the calculation of the
13 total capacity transactions to be recovered through the
14 purchased power capacity cost recovery factors for this
15 twelve month recovery period.
16

17 Q. Earlier in your testimony, you indicated that in
18 response to economy energy pricing and cost recovery
19 issues raised by the Commission's Staff, you would
20 discuss the changes to the Southern electric system's
21 pricing of economy energy as related to FERC Orders 888
22 and 888-A.

23 A. Yes, my testimony will now address these issues.
24
25

1 Q. What is Gulf's relationship to the other operating
2 companies of the Southern electric system as related to
3 economy energy transactions?

4 A. Gulf and the other Southern operating companies all
5 participate in consolidated Southern economy energy
6 transactions. Gulf does not make economy sales on its
7 own. When I reference Gulf's transactions in the
8 remainder of my testimony, it is our share of the total
9 Southern sale to which I am referring.

10

11 Q. Prior to FERC Order 888, how did Gulf determine the
12 price for economy transactions between directly
13 interconnected utilities and recover the associated
14 costs?

15 A. Gulf included only its incremental cost of production in
16 determining the price for economy transactions. Gulf's
17 economy transaction price was based on the average of
18 the seller's incremental production cost and the buyer's
19 decremental production cost. When Gulf sold economy
20 energy to others, it credited the fuel portion of the
21 production component of the economy price to its fuel
22 cost for recovery through the Fuel Cost Adjustment
23 Clause. Gulf's mark-up was split 80/20 between the
24 retail customer and the shareholders for recovery
25 purposes in the Fuel Cost Adjustment Clause. When Gulf

1 purchased economy energy from others, it charged the
2 full purchase cost to its fuel cost for recovery through
3 the Fuel Cost Adjustment Clause.
4

5 Q. In response to FERC Order 888, how does Gulf now
6 determine the price for economy transaction prices
7 between directly interconnected utilities and costs to
8 be recovered?

9 A. FERC Order 888 required Gulf to include a transmission
10 cost component in the transaction price for economy
11 sales. Because there was no transmission cost component
12 included in Gulf's economy price before Order 888, Gulf
13 now adds its transmission cost after first calculating
14 the average between its incremental production cost and
15 the buyer's decremental production cost. My exhibit
16 MWH-2 illustrates Gulf's economy pricing before and
17 after FERC Order 888. In the exhibit's example, it is
18 assumed that Gulf's incremental production cost is
19 \$20/mwh, the interconnected utility's decremental cost
20 is \$30/mwh, the transmission rate (after Order 888) is
21 \$3/mwh, and both buyer and seller have comparable
22 regulatory treatment. The fuel clause treatment of
23 economy sales revenues and economy purchase costs before
24 and after FERC Order 888 are also shown on my exhibit
25 MWH-2.

1 Q. Prior to FERC Order 888, how did Gulf determine the
2 price for economy transactions between non-directly
3 interconnected utilities and recover the associated
4 costs?

5 A. Transactions between Gulf and a non-directly
6 interconnected utility only occurred in an indirect
7 manner. A utility directly interconnected to Gulf would
8 buy the economy energy from Gulf and then resell it to
9 the utility not directly interconnected to the system.
10 Therefore, economy energy pricing and fuel cost recovery
11 under this scenario were identical to the economy
12 pricing and cost recovery for two directly
13 interconnected utilities.

14
15 Q. In response to FERC Order 888, how does Gulf now
16 determine the price for economy transaction prices
17 between non-directly interconnected utilities and costs
18 to be recovered?

19 A. Gulf would add its transmission after first calculating
20 the production cost component of the economy sale.
21 Then, the third party's transmission cost is added. The
22 sale occurs only if the total transaction price is below
23 the non-directly interconnected utility's decremental
24 cost.

25 However, Gulf expects most future economy

1 transactions will be under the emerging market-based
2 pricing. Under market-based pricing, Gulf has the
3 flexibility to price economy energy based on the
4 prevailing market price. If the market price covers our
5 incremental production cost, transmission cost, and some
6 minimum mark-up, we will make the sale.

7
8 Q. Exhibit MWH-2 shows the transmission component being
9 treated as a base rate item, not a part of the mark-up.
10 What is the reason for this?

11 A. Originally, Gulf determined the economy mark-up before
12 adding the transmission component, so it would be
13 improper to include it as part of the mark-up. More
14 importantly, however, is that accounting for the
15 transmission component as a part of the mark-up would
16 result in the entire transmission component being
17 credited as an 80/20 split between the customer through
18 the fuel clause and the stockholder. Consequently, none
19 of this revenue would be available to be applied to
20 offset transmission costs. Yet, the FERC requires that
21 all transmission revenue be credited in calculating
22 reductions to the transmission tariff rates. Crediting
23 the transmission component through the 80/20 split, and
24 also crediting the tariff rate calculation would be, in
25 effect, "giving away" the money twice, and would

1 eventually result in our customers paying more in base
2 rates.

3

4 Q. What should the Commission do, then, regarding the
5 accounting for the transmission component revenue?

6 A. The Commission should direct that all such transmission
7 revenue be credited to base rates and should not be
8 included as part of the mark-up to be split 80/20.

9

10 Q. Does this conclude your testimony?

11 A. Yes.

12

13

14

15

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25

GULF POWER COMPANY
PROJECTED PURCHASED POWER CONTRACT TRANSACTIONS
OCTOBER, 1997 - SEPTEMBER, 1998

| Contract | MW Purchase/(Sale) | Capacity (\$) Costs/(Receipts) |
|--|-----------------------|-----------------------------------|
| Southern Company Intercompany Interchange | | |
| October 97 | 49.3 | 170,303 |
| November | (77.1) | (273,405) |
| December | 200.9 | 691,440 |
| January 98 | 231.0 | 467,627 |
| February | 443.1 | 549,397 |
| March | 558.5 | 232,925 |
| April | 1.9 | 797 |
| May | 186.0 | 77,906 |
| June | 70.8 | 208,371 |
| July | (11.0) | (140,425) |
| August | (61.5) | (785,107) |
| September | (51.3) | (392,937) |
| SUBTOTAL | | 806,892 |
| Monsanto | | |
| October 97 | 19.0 | 62,202 |
| November | 19.0 | 62,202 |
| December | 19.0 | 62,202 |
| January 98 | 19.0 | 62,202 |
| February | 19.0 | 62,202 |
| March | 19.0 | 62,202 |
| April | 19.0 | 62,202 |
| May | 19.0 | 62,202 |
| June | 19.0 | 62,202 |
| July | 19.0 | 62,202 |
| August | 19.0 | 62,202 |
| September | 19.0 | 62,202 |
| SUBTOTAL | | 746,424 |

GULF POWER COMPANY
PROJECTED PURCHASED POWER CONTRACT TRANSACTIONS
OCTOBER, 1997 - SEPTEMBER, 1998

| Contract | Capacity (\$) Costs/(Receipts) |
|------------------------------|-----------------------------------|
| Market Capacity Purchases | |
| June 98 | 63,181 |
| July | 81,570 |
| August | 81,569 |
| September | 62,033 |
| SUBTOTAL | 288,353 |
| | |
| TOTAL | 1,841,869 |

ECONOMY PURCHASE BY SOUTHERN (GULF POWER)

Assumptions

1. The buyer and seller have comparable treatment.
2. The seller's incremental cost is \$20/mwh.
3. The buyer's decremental cost is \$30/mwh.
4. The transmission component cost is \$3/mwh.

| | FERC ORDER 888 | |
|----------------------------|-----------------------|--------------|
| | BEFORE | AFTER |
| Seller's Incremental Cost | \$20.00 | \$20.00 |
| Buyer's Decremental Cost | \$30.00 | \$30.00 |
| Transmission Rate | — | \$3.00 |
| Production component split | \$25.00 | \$25.00 |
| Transaction price | \$25.00 | \$28.00 |

REGULATORY TREATMENT

| BEFORE | AFTER | |
|-----------------|-----------------|--|
| <u>Customer</u> | <u>Customer</u> | |
| \$25.00 | \$25.00 | Production component |
| — | \$3.00 | Transmission component |
| <hr/> \$25.00 | <hr/> \$28.00 | Total Transaction Cost charged to Customer (through Fuel and Purchased Power Cost Recovery Clause) |

ECONOMY SALE BY SOUTHERN (GULF POWER)

| | FERC ORDER 888 | |
|----------------------------|----------------|-----------|
| | BEFORE | AFTER |
| Seller's Incremental Cost | \$20.00 | \$20.00 |
| Buyer's Decremental Cost | \$30.00 | \$30.00 |
| Transmission Rate | — | \$3.00 |
| Production component split | \$25.00 | \$25.00 |
| Transaction price | \$25.00 | \$28.00 |
| Transaction price | \$25.00 | \$28.00 |
| Cost (production) | (\$20.00) | (\$20.00) |
| Cost (transmission) | — | (\$3.00) |
| Gain | \$5.00 | \$5.00 |

REGULATORY TREATMENT

| BEFORE Customer | AFTER Customer | BEFORE Gulf | AFTER Gulf | |
|--------------------|-------------------|----------------|---------------|---|
| (\$20.00) | (\$20.00) | — | — | Revenue credited to customer through Fuel Clause (excluding gain) |
| \$20.00 | \$20.00 | — | — | Cost charged to customer through Fuel Clause |
| — | — | — | — | Transmission credited to customer through Fuel Clause |
| — | (\$3.00) | — | — | Transmission credited to customer through Base Rates (Surveillance Reports) |
| (\$4.00) | (\$4.00) | — | — | 80% of gain credited to customer through Fuel Clause |
| — | — | (\$1.00) | (\$1.00) | 20% of gain credited to Gulf's Shareholders |
| (\$4.00) | (\$7.00) | (\$1.00) | (\$1.00) | |

NOTE: Numbers in parentheses, (), are credits to the customer or company.

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 970001-EI

Before me the undersigned authority, personally appeared M. W. Howell, who being first duly sworn, deposes, and says that he is the Transmission and System Control Manager of Gulf Power Company, a Maine corporation, that the foregoing is true and correct to the best of his knowledge, information, and belief. He is personally known to me.

M. W. Howell

M. W. Howell
Transmission and System Control
Manager

Sworn to and subscribed before me this 17 day of
JUNE, 1997.

Paul H. Roberts

Notary Public, State of Florida at Large

Commission No.

My Commission Expires

PAUL H. ROBERTS
"Notary Public-State of FL"
Comm. Exp. Sept. 12, 1998
Comm. No. CE 400548