ORIGINAL

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 010949-EI

TESTIMONY AND EXHIBIT

OF

M. W. HOWELL

GULF POWER

A SOUTHERN COMPANY

ORIGINAL

GULF POWER COMPANY

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

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

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

Q. Please summarize your educational and professional background.

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

I am a member of the Engineering Committees and the Operating

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

Q. Have you previously testified before this Commission?

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

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

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

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

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

A. Yes. Those which I am sponsoring are listed on Schedule 1 of my exhibit. To the best of my knowledge, the information in all of the listed MFRs is true and correct.

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

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

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

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

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

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

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

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

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

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

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

When the study reveals a potential problem with the transmission

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

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

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

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

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

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

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

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

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

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

Q. What is the function of the IIC?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q. How is the IIC budget determined?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

service.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q. Please summarize your testimony.

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

Our efforts in securing transmission facility agreements related to

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

Q. Does this conclude your testimony?

A. Yes.

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 010949-EI

Before 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, Transmission and System Control Department of Gulf Power Company, a Maine corporation, and that the foregoing is true and correct to the best of his knowledge, information, and belief.

M. W. Howell
Transmission and System Control Manager

Sworn to and subscribed before me by M. W. Howell who is personally known to me this 7th day of September, 2001.

Rollanda R. Cothran
Notary Public, State of Florida at Large

ROLLANDA R. COTHRAN
MY COMMISSION # CC 697366
EXPIRES: February 28, 2002
Bonded Thru Notary Public Underwriters

RESPONSIBILITY FOR MINIMUM FILING REQUIREMENTS

SCHEDULE	TITLE
A-8	Five Year Analysis-Change in Cost
C-8	Report Of Operation Compared To Forecast - Revenue And Expenses
C-12	Budgeted Versus Actual Operating Revenues And Expenses
C-19	Operation And Maintenance Expenses – Test Year
C-20	Operation And Maintenance Expenses – Prior Year
C-21	Detail Of Changes In Expenses
C-57	O&M Benchmark Variance By Function
F-9	Forecasting Models
F-17	Assumptions

O & M BENCHMARK COMPARISON

($000)

	1990 Allowed	Test Year Benchmark	Test Year Request	Variance
Transmission Facility Charges	1,978	3,622	1,163	(2,459)
Transmission Other	4,159	7,615	7,046	(569)
Transmission Total	6,137	11,237	8,209	(3,028)

Florida Public Service Commission
Docket No. 010949-EI
GULF POWER COMPANY
Witness: M. W. Howell
Exhibit No._____(MWH-1)
Schedule 2
Page 2 of 5

TRANSMISSION FACILITY CHARGES

	$(000)
1990 Allowed	1,978
Test Year Adjusted Benchmark	3,622
Test Year Adjusted Request	1,163
System Benchmark Variance	(2,459)

Description	1990 Allowed	Test Year Benchmark	Test Year Request	Variance
1. Facility Charges	1,978	3,622	1,163	(2,459)
				(2,459)

TRANSMISSION FACILITY CHARGES
1. Facility Charges

	$(000)
1990 Allowed	1,978
Test Year Adjusted Benchmark	3,622
Test Year Adjusted Request	1,163
System Benchmark Variance	(2,459)

Justification

The requested test year amount is under the benchmark primarily since the monthly charges under the transmission facility agreements with Alabama Power Company and Mississippi Power Company are essentially fixed in price.

TRANSMISSION OTHER

	$(000)
1990 Allowed	4,159
Test Year Adjusted Benchmark	7,615
Test Year Adjusted Request	7,046
System Benchmark Variance	(569)

Description	1990 Allowed	Test Year Benchmark	Test Year Request	Variance
1. Overhead Line Maint.	1,129	2,067	1,083	(984)
				(984)

TRANSMISSION OTHER
1. Overhead Line Maintenance

	$(000)
1990 Allowed	1,129
Test Year Adjusted Benchmark	2,067
Test Year Adjusted Request	1,083
System Benchmark Variance	(984)

Justification

The requested test year amount is under the benchmark due to improved maintenance practices and the use of equipment and materials utilizing advanced technologies that contribute to lower transmission system maintenance costs.