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Regulatory & Pricing Manager

FILED FEB 08, 2017
DOCUMENT NO. 01644-17
FPSC - COMMISSION CLERK

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February 8, 2017

VIA ELECTRONIC FILING

Ms. Carlotta Stauffer
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Petition for rate increase by Gulf Power Company, Docket No. 160186-EI

Dear Ms. Stauffer:

Attached is the Rebuttal Testimony and Exhibit of Gulf Power Company Witness Lee P. Evans.

(Document 4 of 16)

Sincerely,

A handwritten signature in blue ink that reads "Robert L. McGee, Jr." in a cursive style.

Robert L. McGee, Jr.
Regulatory & Pricing Manager

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

DOCKET NO. 160186-EI



Gulf Power

**REBUTTAL TESTIMONY AND EXHIBIT
OF
LEE P. EVANS**

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GULF POWER COMPANY
Before the Florida Public Service Commission
Rebuttal Testimony of
Lee P. Evans
Docket No. 160186-EI
In Support of Rate Relief
Date of Filing: February 8, 2017

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

A. My name is Lee Evans and my business address is One Energy Place, Pensacola, Florida 32520. I am employed by Gulf Power Company (Gulf or the Company) as the Pricing Supervisor.

Q. Have you previously filed testimony in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to address the factual inaccuracies and flawed analysis in the testimony of Federal Executive Agencies (FEA) Witness Alderson with regard to Gulf Power's proposed load research and test year cost allocators. Gulf Witness O'Sheasy addresses other areas of Ms. Alderson's testimony in his rebuttal testimony. I also address reasons why the Commission should not misapply a limit, typically applied to a class of customers, to individual customers within a rate class as discussed by Staff Witness Harlow. Gulf Witness McGee addresses other areas of Ms. Harlow's testimony in his rebuttal testimony.

1 Q. Are you sponsoring any rebuttal exhibits?

2 A. Yes. Exhibit LPE-2, consisting of one schedule, was prepared under my
3 supervision and direction, and the information contained therein is true and
4 correct to the best of my knowledge and belief.

5

6 Q. Please summarize Ms. Alderson's criticism of Gulf Power's proposed 2017
7 allocation factors.

8 A. Ms. Alderson questions the accuracy of Gulf Power's 2017 allocation
9 factors. She postulates that, absent an explanation such as customer-
10 specific load growth information, the ratio of energy to demand should
11 remain the same within customer rates when comparing the 2015 load
12 research data to the 2017 test year projections. Ms. Alderson's table,
13 Exhibit AMA-4, and her associated argument are the result of a
14 fundamentally flawed analysis.

15

16 Q. Please describe how Ms. Alderson's analysis reflected in her Exhibit AMA-4
17 is flawed.

18 A. Ms. Alderson's analysis improperly compares data for individual voltage
19 levels to cost allocations made across customer classes. As I discuss later,
20 she also uses the data incorrectly. Ms. Alderson's underlying assumption is
21 that a change in energy, whether measured as the rate class's total energy
22 or a rate class's voltage level, from the 2015 load research year to the 2017
23 test year, should move in direct proportion to the change in contribution it
24 makes to corresponding 12-CP. In fact, these ratios do not move
25 proportionately because Gulf's forecasted monthly system peaks do not

1 change proportionally to changes in class-level energy. Moreover, Ms.
2 Alderson inexplicably compares rate class energy and 12-CP data to NCP
3 data for only certain voltage levels within that rate class. Finally, Ms.
4 Alderson builds on this flawed analysis to allege the existence of “variances”
5 in four rate classes: RSVP, LP, LPT and RTP in lines 2, 5, 6, and 7 of AMA-
6 4, respectively.

7
8 Q. Why is Ms. Alderson’s analysis in Exhibit AMA-4 related to the RSVP rate
9 flawed?

10 A. The energy forecast for Rate RSVP is largely driven by the forecast for the
11 number of customers on Rate RSVP. The energy forecasts for RS and
12 RSVP customers are developed by means of the method described at
13 length in Gulf Witness Park’s direct testimony. The increase in forecasted
14 energy use for customers on the RSVP rate is a result of Gulf’s forecast that
15 additional customers currently on Rate RS rate will select Rate RSVP in the
16 test year. Customers moving from Rate RS to Rate RSVP would not impact
17 the overall energy forecasted for the Residential Class. They would just shift
18 the energy from RS to RSVP. Since the resulting energy total for the
19 Residential Class does not change, the energy allocators which are used
20 together in Mr. O’Sheasy’s cost-of-service study to represent the
21 Residential Class as a whole do not change. Therefore, these forecasted
22 changes between RS and RSVP customers have no impact on cost
23 allocations.

1 Q. Do you have anything further to add regarding Ms. Alderson's discussion of
2 the RSVP rate?

3 A. Yes. In footnote 11 on page 13 of her testimony, Ms. Alderson erroneously
4 states that, based on her reading of Gulf's tariffs for Rate RSVP, this rate
5 does not include a critical pricing rate. Contrary to her statements, Rate
6 Schedule RSVP does provide four distinct pricing tiers, including a critical
7 period, and uses the Energy Conservation Cost Recovery Clause (ECCR)
8 to achieve the price differentials among these four price tiers. The pricing
9 tiers for Rate RSVP are clearly listed in Gulf's Tariff in Rate Schedule ECC,
10 Sheet No. 6.38, attached as Schedule 1 of Exhibit LPE-2. This tariff sheet
11 is also available to the public via www.GulfPower.com/pdfs/rates/ecc.pdf.

12
13 Q. Why is Ms. Alderson's analysis in Exhibit AMA-4 related to the LPT rate
14 flawed?

15 A. When addressing the LPT rate in her table, Ms. Alderson makes an
16 inaccurate comparison when referencing the 2015 load research year and
17 the 2017 test year data for LPT NCP demand. Ms. Alderson inexplicably
18 compares the LPT class level NCP for the 2015 load research year, as seen
19 in line 6, column G of Exhibit AMA-4, to the sum of only voltage levels F and
20 G NCP in the 2017 test year. The value for the 2015 load research year is
21 for LPT customers at all voltage levels of service. The value for the 2017
22 test year is merely for those customers at levels F and G, since it is only
23 those voltage service levels that use the NCP allocator. Such a comparison
24 is inappropriate and oddly inconsistent with her comparisons of other rates
25 within Exhibit AMA-4. If the appropriate data point of 65,497 kW were

1 included in the table, the 26 percent decrease shown in line 6, column I,
2 which Ms. Alderson claims is the “variance,” would decrease to a zero
3 percent change. In other words, there would be no “variance” if Ms.
4 Alderson had properly performed her analysis.
5

6 Q. Please discuss the two remaining rates Ms. Alderson highlights in her
7 Exhibit AMA-4.

8 A. The final two rates from Exhibit AMA-4 that Ms. Alderson highlights are
9 Rates LP and RTP. For these rates, the differences in the ratios of energy
10 to demand between the 2015 load research data and the 2017 test year are
11 explained by the fact that Gulf projected known customer changes among
12 these rate classes, including customer additions to these rate classes.
13 These customers have different energy to NCP and/or CP relationships
14 than those of the members of the rate group before the rate switching
15 occurred. Ms. Alderson concedes in her testimony that assumptions for
16 known customer changes could explain discrepancies in these ratios, and
17 this is indeed the case with these rates.
18

19 Q. Do you agree with Ms. Alderson’s conclusions about Gulf’s load research
20 and test year cost allocators?

21 A. No. Gulf’s load research and test year cost allocators were developed
22 following customary methods as described in the description on page 1 of
23 MFR E-11. Ms. Alderson’s faulty analysis is based on her erroneous
24 assumptions and her incorrect data and calculations.
25

1 Q. Ms. Alderson suggests an alternative revenue allocation among the rate
2 classes. Do you agree with her revised revenue allocation?

3 A. No. Ms. Alderson bases her revised revenue allocation on her erroneous
4 and unsupported conclusion that the 2017 test year cost allocators are
5 incorrect. To the contrary, Gulf's test year cost allocators are appropriate
6 and based on the same methodology submitted by Gulf and approved by
7 the Commission in previous base rate proceedings. As shown in MFR E-8
8 and summarized on Schedule 2 of Exhibit LPE-1 of my direct testimony,
9 Gulf's needed overall base rate increase of 19.2 percent has been allocated
10 across rate classes in order to move the rate of return for each class toward
11 the overall retail average rate of return. In doing so, an indexed rate of
12 return of 1.00 was achieved for classes representing almost 94 percent of
13 Gulf's retail customers.

14

15 Q. Please summarize Staff Witness Harlow's testimony as it relates to
16 gradualism and the 'limitation practice.'

17 A. Ms. Harlow, on page 15 of her filed testimony, alludes to the possibility of
18 the Commission applying, under the banner of gradualism, its historical
19 practice of limiting increases to entire rate classes to individual customers
20 within a single rate. Ms. Harlow acknowledges that this approach deviates
21 from past practice but injects a reference to the Commission's 'broad
22 authority' relating to rate setting.

23

24

25

1 Q. Do you have any concerns with Ms. Harlow's suggestion?

2 A. Yes. If the Commission were to apply a specific limit at the individual
3 customer level, as opposed to the Commission's customary limit at the rate
4 class level, all of the pricing in this rate proceeding would be impacted.
5 Additionally, applying a limitation of 1.5 times the system average increase
6 for each individual customer would materially affect how utilities develop
7 their pricing in future Commission proceedings.

8

9 Q. How would the application of a 1.5 times limitation to individual customers
10 have such broad impacts?

11 A. Rates, or prices, are not developed in isolation. Prices are designed to
12 achieve the overall requested revenue requirement. Altering the prices in a
13 single rate could necessitate that the overall revenue sought by another rate
14 or rates be adjusted. Additionally, the relationships of individual pricing
15 components within a single rate must be considered in concert with the
16 relationships among pricing components in other rates available to similar
17 customers. An overall balance must be achieved both within a rate and
18 among all rates. Layering on such a precise and cumbersome requirement
19 to ratemaking practices would be wholly and totally impractical, add
20 significant and unnecessary complexity, and produce unintended outcomes.

21

22 Q. Do you have examples of such unintended outcomes?

23 A. Yes. There are scenarios in which limiting the rate increase for each
24 customer to 1.5 times the system average increase would cause an entire
25 rate class's allocated increase to be limited. In turn, classes projected to be

1 at parity would then be pushed to be above parity. This undesirable
2 outcome could be the result of subgroups of customers within a rate with
3 very poor load factors being especially subsidized to the detriment of large
4 groups of customers.

5
6 Q. Should the Commission consider the customer impacts from a rate
7 increase?

8 A. Certainly. As I describe more fully in my direct testimony, Gulf's Advanced
9 Pricing Package provides equity and fairness among customers.
10 Furthermore, as discussed by Gulf Witness McGee, the more equitable
11 base charge and corresponding lower energy charge are being proposed in
12 combination with new, optional residential demand rates to provide our
13 customers more opportunities for control. These new, optional demand
14 rates are likely beneficial to many of the low usage customers Ms. Harlow
15 addresses. Additionally, the proposed Low Income Rider will ensure that no
16 qualified low income customer in an occupied residence will see a bill
17 increase due to the rate structure change, regardless of usage.

18
19 Q. Does this conclude your testimony?

20 A. Yes.

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24


25

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 160186-EI

Before me the undersigned authority, personally appeared Lee P. Evans, who being first duly sworn, deposes, and says that he is the Pricing Supervisor of Gulf Power Company, a Florida corporation, and that the foregoing is true and correct to the best of his knowledge, information, and belief. He is personally known to me.


s/ _____
Lee P. Evans
Pricing Supervisor

Sworn to and subscribed before me this 3rd day of February, 2017.



Notary Public, State of Florida at Large

Commission No. FF912698

My Commission Expires December 17, 2019



MELISSA DARNES
MY COMMISSION # FF 912698
EXPIRES: December 17, 2019
Bonded Thru Budget Notary Services

Exhibit



Section No. VI
Twenty-Fifth Revised Sheet No. 6.38
Canceling Twenty-Fourth Revised Sheet No. 6.38

**RATE SCHEDULE ECC
COST RECOVERY CLAUSE
ENERGY CONSERVATION**

PAGE 1 of 1	EFFECTIVE DATE January 1, 2017
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APPLICABILITY:

Applicable to the monthly rate of each filed retail rate schedule under which a Customer receives service.

**DETERMINATION OF ENERGY CONSERVATION COST RECOVERY CLAUSE
ADJUSTMENT:**

Bills should be decreased or increased by an adjustment calculated in accordance with the formula and procedure specified by the Florida Public Service Commission designed to reflect the recovery of conservation related expenditures by the Company.

Each rate schedule shall be increased or decreased to the nearest .001 cents for each kWh of sales to reflect the recovery of conservation related expenditures by the Company. The Company shall record both projected and actual expenses and revenues associated with the implementation of the Company's Energy Conservation Plan as authorized by the Commission. The total cost recovery adjustment per kWh applicable to energy delivered will include, when applicable, a true-up with interest to prior actual costs which will be determined in accordance with the formula and procedures specified by the Florida Public Service Commission and is subject to Commission approval. Such increase or decrease shall be adjusted for taxes which are based upon revenues. The procedure for the review, approval, recovery and recording of such costs and revenues is set forth in Commission Rule 25-17.015, F.A.C.

Energy Conservation Cost Recovery Clause factors are shown below:

<u>Rate Schedule</u>	<u>Energy Conservation Cost Recovery Factor ¢/kWh</u>
RS	0.160
RSVP Tier 1	(3.000)
RSVP Tier 2	(0.774)
RSVP Tier 3	7.247
RSVP Tier 4	62.627
RSTOU On-Peak	17.000
RSTOU Off-Peak	(3.106)
RSTOU Critical Peak Credit	\$5.00 per Event
GS	0.156
GSD, GSDT, GSTOU	0.151
LP, LPT	0.144
PX, PXT, RTP, SBS	0.141
OS-I/II	0.126
OS-III	0.143

Service under this rate schedule is subject to Rules and Regulations of the Company and the Florida Public Service Commission.

ISSUED BY: S. W. Connally, Jr.