

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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In Re: Petition for Increase in Rates )  
By Gulf Power Company )

DOCKET NO. 110138455 )  
FILED: OCTOBER 14, 2011 )  
COMMISSION CLERK

THE FLORIDA RETAIL FEDERATION'S NOTICE OF FILING AND CERTIFICATE OF SERVICE FOR THE TESTIMONY OF STEVE W. CHRISS

The Florida Retail Federation hereby gives notice that it has filed the direct testimony and exhibits of Steve W. Chriss on behalf of the Florida Retail Federation in this proceeding, and certifies that a copy of Mr. Chriss's testimony and exhibits has been served by U.S. Mail and, where possible, by electronic mail, to all parties listed on the certificate of service attached hereto.

Respectfully submitted this 14th day of October, 2011.



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**CERTIFICATE OF SERVICE**

**I HEREBY CERTIFY** that a true and correct copy of the foregoing Florida Retail Federation's Petition to Intervene has been furnished by electronic Mail and U.S. Mail this 14th day of October, 2011 to the following:

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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**DOCKET NO. 110138-El,  
PETITION FOR INCREASE IN RATES BY  
GULF POWER COMPANY**

**DIRECT TESTIMONY AND EXHIBITS**

**OF**

**STEVE W. CHRISS**

**ON BEHALF OF**

**THE FLORIDA RETAIL FEDERATION**

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1       **Q.   PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**  
2       **OCCUPATION.**

3       A.   My name is Steve W. Chriss. My business address is 2001 SE 10th St.,  
4       Bentonville, AR 72716-0550. I am employed by Wal-Mart Stores, Inc.  
5       ("Walmart") as Senior Manager, Energy Regulatory Analysis.

6       **Q.   ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS DOCKET?**

7       A.   I am testifying on behalf of the Florida Retail Federation ("FRF"), a  
8       statewide trade association of more than 9,000 of Florida's retailers, many  
9       of whom are retail customers of Gulf Power Company ("Gulf").

10      **Q.   PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.**

11      A.   In 2001, I completed a Masters of Science in Agricultural Economics at  
12      Louisiana State University. From 2001 to 2003, I was an Analyst and later  
13      a Senior Analyst at the Houston office of Econ One Research, Inc., a Los  
14      Angeles-based consulting firm. My duties included research and analysis  
15      on domestic and international energy and regulatory issues. From 2003 to  
16      2007, I was an Economist and later a Senior Utility Analyst at the Public  
17      Utility Commission of Oregon in Salem, Oregon. My duties included  
18      appearing as a witness for PUC Staff in electric, natural gas, and  
19      telecommunications dockets. I joined the energy department at Walmart  
20      in July 2007 as Manager, State Rate Proceedings, and was promoted to  
21      my current position in June 2011. My Witness Qualifications Statement is  
22      included herein as Appendix A.

1       **Q.    HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE**  
2       **FLORIDA PUBLIC SERVICE COMMISSION (“COMMISSION”)?**

3       A.    No.

4       **Q.    HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE OTHER**  
5       **STATE REGULATORY COMMISSIONS?**

6       A.    Yes. I have submitted testimony before utility regulatory commissions in  
7       26 states – Arkansas, Colorado, Connecticut, Delaware, Georgia, Illinois,  
8       Indiana, Kentucky, Louisiana, Maryland, Michigan, Minnesota, Mississippi,  
9       Missouri, Nevada, New Mexico, North Carolina, Ohio, Oklahoma, Oregon,  
10      South Carolina, Texas, Utah, Virginia, Washington, and West Virginia –  
11      and before a legislative committee in Missouri. My testimony has  
12      addressed topics including cost of service and rate design, ratemaking  
13      policy, qualifying facility rates, telecommunications deregulation, resource  
14      certification, energy efficiency/demand side management, fuel cost  
15      adjustment mechanisms, decoupling, and the collection of cash earnings  
16      on construction work in progress.

17      **Q.    ARE YOU SPONSORING ANY EXHIBITS WITH YOUR TESTIMONY?**

18      A.    Yes. I am sponsoring the following exhibits to my testimony:

19              Exhibit SWC-1: Witness Qualifications Statement

20              Exhibit SWC-2: “Addressing the Level of Florida’s Electricity Prices” by  
21              Theodore Kury.

1 Exhibit SWC-3: Calculation of Gulf Power Commercial Rates, 2006-

2 2010

3 Exhibit SWC-4: Calculation of Jurisdictional Revenues Collected

4 through Base Rates

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

6 A. The purpose of my testimony is to provide a customer perspective on  
7 Gulf's proposed rate increase and to explain the FRF's concerns  
8 regarding the Company's return on equity ("ROE"), operations and  
9 maintenance ("O&M") expenses, and rate base proposals.

10 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS TO THE**  
11 **COMMISSION.**

12 A. My recommendations to the Commission are as follows:

- 13 1) The Commission should consider the impacts to customers given current  
14 economic conditions and the high level of Gulf's current rates.
- 15 2) The Commission should reject Gulf's proposed Adjustment 9 because it  
16 would allow Gulf to earn a return on a possible future power plant site that  
17 is not used and useful in providing service to its customers and that Gulf  
18 has no plans to use to serve its customers for at least the next 10 years.
- 19 3) The Commission should reject Gulf's request to include \$60.9 Million of  
20 CWIP in rate base.

21 The fact that an issue is not addressed should not be construed  
22 as an endorsement of any filed position.



1       **Q.    GENERALLY, WHY ARE UTILITY CUSTOMERS, INCLUDING**  
2       **RETAILERS AND OTHER COMMERCIAL CUSTOMERS, CONCERNED**  
3       **ABOUT GULF'S PROPOSED RATE INCREASE?**

4       A.    Electricity represents a significant portion of retailers' operating costs.  
5       When rates increase, that increase in cost to retailers puts pressure on  
6       consumer prices and on the other expenses required by a business to  
7       operate, which impacts retailers' customers and employees. Rate  
8       increases also directly impact retailers' customers, who are Gulf's  
9       residential and small business customers. Given current economic  
10      conditions, a rate increase is a serious concern for retailers and their  
11      customers and the PSC should consider these impacts thoroughly and  
12      carefully in ensuring that any increase in Gulf's rates is only the minimum  
13      amount necessary for the utility to provide adequate and reliable service.

14      **Q.    WHAT REVENUE REQUIREMENT INCREASE HAS THE COMPANY**  
15      **PROPOSED IN ITS FILING?**

16      A.    The Company has proposed a total base rate revenue requirement  
17      increase of \$93.5 million. See MFR Schedule A-1. This is a significant  
18      increase, especially when increases in Gulf's rates in recent years,  
19      particularly for commercial customers, are taken into consideration.

1       **Q.    HAS THE COMMISSION RECENTLY RELEASED A UNIVERSITY OF**  
2       **FLORIDA REPORT REGARDING THE ELECTRIC RATES OF FLORIDA**  
3       **UTILITIES RELATIVE TO OTHER SOUTHEASTERN STATES?**

4       A.    Yes. The Commission has released on its website the September 28<sup>th</sup>,  
5       2011 University of Florida report titled "Addressing the Level of Florida's  
6       Electricity Prices." See Exhibit SWC-2.

7       **Q.    WHAT ARE THE REPORT'S FINDINGS FOR COMMERCIAL**  
8       **CUSTOMERS' ELECTRIC RATES?**

9       A.    The report finds that Florida's electric rates for commercial customers  
10      have increased steadily from 2000 through 2008 and, as of 2008, the last  
11      year in the study period, Florida's electric rates for commercial customers  
12      were among the highest in the Southeastern United States. *Id.*, page 4.

13      **Q.    DOES A REVIEW OF GULF POWER'S RATES FOR COMMERCIAL**  
14      **CUSTOMERS REFLECT THE GENERAL TRENDS PRESENTED IN**  
15      **THE REPORT?**

16      A.    Yes. A review of Gulf's FERC Form 1 filings for years 2006 through 2010  
17      shows that the Company's rates for the total body of commercial  
18      customers have increased from about 7.6 cents/kWh in 2006 to about  
19      10.9 cents/kwh in 2010, an increase of over 43 percent. This constitutes a  
20      \$143 million increase in annual revenue collections from commercial  
21      customers between 2006 and 2011. See Exhibit SWC-3. Additionally,  
22      and consistent with these data, data reported in the Commission's annual



1 Statistics of the Florida Electric Utility Industry reports show that Gulf's  
2 average revenue per kWh, for all customer classes, increased from about  
3 7.9 cents/kWh in 2006 to about 11.3 cents/kWh in 2010. See Florida  
4 Public Service Commission, Statistics of the Florida Electric Utility Industry  
5 2006, pages 35 & 38 (Tables 26 & 29); 2010 Statistics of the Florida  
6 Electric Utility Industry, pages 35 & 38 (Tables 26 & 29).

7 **Q. DOES YOUR CALCULATION OF A 43 PERCENT INCREASE IN**  
8 **COMMERCIAL RATES INCLUDE AN INCREASE IN GULF'S BASE**  
9 **RATES?**

10 A. No. Gulf has not had a base rate increase since June 7, 2002. See Direct  
11 Testimony of R. Scott Teel, page 4, line 10.

12 **Q. SHOULD THE COMMISSION CONSIDER THESE FACTORS WHEN IT**  
13 **EXAMINES GULF'S FILING?**

14 A. Yes. The Commission should consider the impacts to customers given  
15 current economic conditions and the high level of Gulf's current rates.  
16 FRF recognizes Gulf's duty to provide reliable and adequate service to its  
17 customers and that there are costs required to do so, including a  
18 reasonable return on the Company's used and useful capital investment.  
19 However, the Commission needs to ensure that service is provided at the  
20 lowest possible cost.

1     ***Return on Equity Concerns***

2     **Q.     WHAT IS THE COMPANY'S PROPOSED ROE IN THIS DOCKET?**

3     A.     The Company is proposing an after-tax ROE of 11.7 percent. See Direct  
4            Testimony of James H. Vander Weide, page 7, line 2 to line 6. Applying  
5            the Company's proposed Net Operating Income multiplier (1.634607, from  
6            MFR A-1) to this return indicates that Gulf is requesting a before-tax ROE  
7            of 19.1 percent.

8     **Q.     IS FRF CONCERNED THAT THE PROPOSED ROE IS EXCESSIVE?**

9     A.     Yes. FRF is concerned that the Company's proposed ROE is excessive,  
10            especially given the current economic conditions faced by the utility's  
11            customers as well as when viewed in light of the Company's low  
12            percentage of jurisdictional revenues collected through base rates and the  
13            high percentage of the Company's costs that are recovered through cost  
14            recovery clause charges, such as Fuel and Purchased Power Cost  
15            Recovery, Capacity Cost Recovery, Environmental Cost Recovery, and  
16            Energy Conservation Cost Recovery. Additionally, since its last base rate  
17            case, Gulf has been allowed to use storm cost recovery charges to  
18            recover storm restoration costs that Gulf experienced due to Hurricanes  
19            Katrina, Dennis, and Ivan. See PSC Order No. PSC-05-0250-PAA-EI, in  
20            Docket No. 050093-EI; PSC Order No. 06-0601-S-EI, in Docket No.  
21            060154-EI.

1       **Q.     FOR THE COMPANY’S PROPOSED 2012 TEST YEAR, WHAT**  
2       **PERCENT OF JURISDICTIONAL REVENUES ARE PROPOSED TO BE**  
3       **COLLECTED THROUGH BASE RATES?**

4       A.     Approximately 34 percent of jurisdictional revenues for the proposed 2012  
5       test year would be collected through base rates and would be essentially  
6       at risk due to regulatory lag. This low percentage of Gulf’s total revenues  
7       recovered through base rates mirrors the corresponding high percentage  
8       of its total revenues that Gulf recovers through cost recovery clause  
9       charges and other line-item charges. See Exhibit SWC-4.

10      **Q.     ARE THERE ANY OTHER FACETS OF THE COMPANY’S PROPOSAL**  
11      **IN THIS DOCKET THAT COULD IMPACT GULF’S EXPOSURE TO**  
12      **REGULATORY LAG?**

13      A.     Yes. The use of a projected test year reduces the risk due to regulatory  
14      lag because, as the Commission pointed out in the last Gulf rate case  
15      order, “the main advantage of a projected test year is that it includes all  
16      information related to rate base, NOI, and capital structure for the time  
17      new rates will be in effect.” See Order No. PSC-02-0787-FOF-EI, page 9.  
18      As such, the Commission should carefully consider the level of ROE  
19      justified by the Company’s exposure to regulatory lag.

1     **O&M Concerns**

2     **Q.     WHAT LEVEL OF O&M COSTS DOES THE COMPANY PROPOSE TO**  
3     **INCLUDE IN RATES?**

4     A.     The Company proposes to include approximately \$288 million in O&M  
5     costs in rates.  See Direct Testimony of Richard J. McMillan, page 23, line  
6     6 to line 7.

7     **Q.     DOES FRF HAVE A CONCERN WITH THE PROPOSED LEVEL OF**  
8     **O&M COSTS?**

9     A.     Yes.  The proposed level of O&M costs exceeds the Commission's O&M  
10    Benchmark level by approximately \$38 million.  *Id.*  To put this in  
11    perspective, the difference between Gulf's requested allowance for O&M  
12    costs and the Commission's O&M benchmarks is equal to more than 40  
13    percent of Gulf's total requested increase.  Additionally, the proposed level  
14    exceeds the 2010 historical O&M costs by approximately \$50 million, an  
15    increase of approximately 21 percent.  See MFR Schedule C-1, page 3.

16    **Q.     WHY IS THIS A CONCERN?**

17    This is a concern for two reasons.  First, the proposed O&M costs are a  
18    concern because of the significant increase in those costs proposed by  
19    the Company.  Second, the Commission's benchmark can serve  
20    essentially as an *ex ante* budget level, as the Company has before-the-  
21    fact knowledge of what the O&M Benchmark value will be, but the  
22    Company has chosen not to use the O&M Benchmark in its budgeting

1 process. See Direct Testimony of Constance J. Erickson, page 7, line 16  
2 to line 17. As such, the Commission should carefully consider the  
3 appropriate level of O&M costs to be included in rates.  
4

5 **Rate Base Concerns**

6 **Q. DOES THE COMPANY PROPOSE TO INCLUDE IN RATE BASE LAND**  
7 **AND OTHER DEFERRED CHARGES RELATED TO THE COMPANY'S**  
8 **NUCLEAR SITE SELECTION COSTS?**

9 A. Yes. The Company proposes Adjustment 9, which would include  
10 approximately \$27 million in rate base for the land and other deferred  
11 nuclear site selection costs. The revenue effect of this addition, as plant  
12 held for future use, is just over \$3 million. See Direct Testimony of  
13 Richard J. McMillan, page 5, line 9 to line 11 and Exhibit RJM-1, Schedule  
14 2, page 2.

15 **Q. UNDER WHAT AUTHORITY DOES THE COMPANY REQUEST**  
16 **INCLUSION OF THESE COSTS IN RATE BASE?**

17 A. This is not clear from Gulf's testimony, although Company witness  
18 McMillan states that "Gulf relied on the recovery provided by" Florida  
19 Statute 366.93. *Id.*, line 11 to line 13.

1 Q. DOES THE COMPANY SPECIFY THAT THE LAND WOULD BE USED  
2 ONLY FOR NUCLEAR OR INTEGRATED GASIFICATION COMBINED  
3 CYCLE POWER PLANTS?

4 A. No. The Company states that the site will be available for “any future  
5 nuclear or non-nuclear generation needs” and has “all the attributes –  
6 water, rail, and gas – necessary for other forms of generation.” *Id.*, line 22  
7 to page 6, line 2.

8 Q. HAS THE COMPANY INDICATED THAT, FOR THE SITE IN QUESTION,  
9 IT HAS RECEIVED A FINAL ORDER FROM THE COMMISSION  
10 GRANTING A DETERMINATION OF NEED FOR A POWER PLANT?

11 A. No. The Company’s witnesses do not indicate that the Company has  
12 received a final order from the Commission granting a determination of  
13 need for a power plant on the site in question.

14 Q. IS FRF CONCERNED WITH THIS PROPOSAL?

15 A. Yes. FRF is concerned for two reasons. First, Gulf states that it “relied  
16 on” the nuclear advance cost recovery statute, Florida Statute 366.93, but  
17 without a determination of need and Gulf’s option to use it for an  
18 unspecified generation technology, in my opinion though I am not an  
19 attorney, it is not clear that Gulf has followed the statute. It is inconsistent  
20 for Gulf to claim that it relied on Florida Statute 366.93 and then try to  
21 seek recovery without showing that they have followed that statute.

1                   Second, Gulf is proposing to include \$27.687 million in plant  
2 held for future use for costs for a potential power plant site that, as I will  
3 explain below, Gulf will not use before 2022 – eleven years from now –  
4 and potentially may not use at all.

5       **Q. HAS THE COMPANY GIVEN ANY PUBLIC INDICATION OF ITS PLANS**  
6       **FOR THIS SITE?**

7       A. Not specifically, however in its 2011-2020 Ten Year Site Plan for Electric  
8 Generating Facilities and Associated Transmission Lines, Gulf has stated  
9 that it has no plans to add any generating capacity until after 2020, so it  
10 can be inferred that as such the Company does not plan to use the site for  
11 generation until at least 2020, as their next need for capacity does not  
12 begin to develop until 2022. Additionally, when that need does begin to  
13 develop, Gulf will consider four other existing Gulf sites as the location for  
14 such future capacity: “its existing Florida sites at Plant Crist in Escambia  
15 County, Plant Smith in Bay County, and Plant Scholz in Jackson County,  
16 as well as its greenfield Florida site at Shoal River in Walton County.” See  
17 Gulf Power’s Ten Year Site Plan, April 1, 2011, Docket 110000, page 68.

18       **Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION ON THIS**  
19       **ISSUE?**

20       A. Given the above circumstances, the Commission should reject Gulf’s  
21 proposed Adjustment 9 because it would allow Gulf to earn a return on a  
22 possible future power plant site that is not used and useful in providing



1 service to its customers and that Gulf has no plans to use to serve its  
2 customers for at least the next 10 years.

3 **Q. DOES THE COMPANY PROPOSE TO INCLUDE CONSTRUCTION**  
4 **WORK IN PROGRESS (“CWIP”) IN ITS RATE BASE?**

5 A. Yes. The Company has proposed to include approximately \$60.9 million  
6 of CWIP in rate base. See MFR Schedule B-1, page 1. This is an  
7 increase of approximately \$12.5 million from the actual CWIP in rate base  
8 for 2010. See MFR Schedule B-1, page 3.

9 **Q. IS THE INCLUSION OF CWIP IN RATE BASE OF CONCERN TO FRF?**

10 A. Yes. The inclusion of CWIP in rate base charges ratepayers for assets  
11 that are not yet used and useful in the provision of electric service. Under  
12 the Company’s proposal ratepayers would pay for the assets during a  
13 period when they are not receiving benefits from those assets, so the  
14 matching principle (*i.e.* customers bearing costs only when they are  
15 receiving a benefit) is not satisfied. In this case, Gulf’s customers in 2012,  
16 the test year that the Company chose for its rate increase request, would  
17 pay for assets that do not provide service – *i.e.*, assets that are not used  
18 and useful – during that test year. The problem is compounded by  
19 changes in the number of customers during the construction process. For  
20 example, customers may pay for the assets during construction but leave  
21 the system before they are operational, receiving no benefit from the  
22 assets for which they helped pay.

1       **Q.    IS THERE ANOTHER CONCERN WITH THE INCLUSION OF CWIP IN**  
2       **RATE BASE THAT THE COMMISSION SHOULD CONSIDER?**

3       A.    Yes. Including CWIP in rate base shifts the risks traditionally assumed by  
4       investors, for which they are compensated through the rate of return  
5       elements once the plant is in service, and instead places the risks  
6       squarely on the shoulders of ratepayers with no offer of compensation.  
7       Additionally, should the Company encounter problems during construction  
8       of the plant resulting in stoppage of the construction, non-completion of  
9       the project and/or substantial delay in the completion of the project,  
10      consumers have no recourse for recovering the money they have paid for  
11      the inclusion of CWIP in rate base.

12      **Q.    WHAT IS YOUR UNDERSTANDING OF HOW, UNDER TRADITIONAL**  
13      **REGULATORY PRACTICES, GULF WOULD RECOVER THE COSTS**  
14      **OF THE ASSETS THAT WILL, ACCORDING TO GULF, BE UNDER**  
15      **CONSTRUCTION BUT NOT COMPLETED DURING THE COMPANY'S**  
16      **CHOSEN TEST YEAR?**

17      A.    Under traditional regulatory practices, Gulf would add the assets to its rate  
18      base accounts if and when they were completed. They would then be  
19      reflected in the rate base and depreciation accounts in Gulf's earnings  
20      surveillance reports and would, other things equal, lower Gulf's achieved  
21      ROE. If and when Gulf's earnings (i.e., its ROE) were to fall to a level that  
22      Gulf believed was insufficient to enable it to provide adequate and reliable

1 service, Gulf could ask for a rate increase that would include the value of  
2 the assets in some future test year.

3 **Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION ON THIS**  
4 **ISSUE?**

5 A. The Commission should reject Gulf's request to include \$60.9 Million of  
6 CWIP in rate base.

7 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

8 A. Yes.

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**DOCKET NO. 110138-EI,  
PETITION FOR INCREASE IN RATES BY  
GULF POWER COMPANY**

**EXHIBITS**

**OF**

**STEVE W. CHRISS**

**ON BEHALF OF**

**THE FLORIDA RETAIL FEDERATION**

# Steve W. Chriss

Senior Manager, Energy Regulatory Analysis  
Wal-Mart Stores, Inc.

Business Address: 2001 SE 10<sup>th</sup> Street, Bentonville, AR, 72716-0550  
Business Phone: (479) 204-1594

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## EXPERIENCE

July 2007 – Present

**Wal-Mart Stores, Inc.**, Bentonville, AR

**Senior Manager, Energy Regulatory Analysis** (June 2011 – Present)

**Manager, State Rate Proceedings** (July 2007 – June 2011)

June 2003 – July 2007

**Public Utility Commission of Oregon**, Salem, OR

**Senior Utility Analyst** (February 2006 – July 2007)

**Economist** (June 2003 – February 2006)

January 2003 - May 2003

**North Harris College**, Houston, TX

**Adjunct Instructor, Microeconomics**

June 2001 - March 2003

**Econ One Research, Inc.**, Houston, TX

**Senior Analyst** (October 2002 – March 2003)

**Analyst** (June 2001 – October 2002)

## EDUCATION

2001

**Louisiana State University**

M.S., Agricultural Economics

1997-1998

**University of Florida**

Graduate Coursework, Agricultural Education  
and Communication

1997

**Texas A&M University**

B.S., Agricultural Development

B.S., Horticulture

## TESTIMONY

2011

North Carolina Utilities Commission Docket Nos. E-2, Sub 998 and E-7, Sub 986: In the Matter of the Application of Duke Energy Corporation and Progress Energy, Inc., to Engage in a Business Combination Transaction and to Address Regulatory Conditions and Codes of Conduct.

Public Utilities Commission of Ohio Case Nos. 11-346-EL-SSO, 11-348-EL-SSO, 11-349-EL-AAM, and 11-350-EL-AAM: In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form on an Electric Security Plan and In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Approval of Certain Accounting Authority.

Virginia State Corporation Commission Case No. PUE-2011-00037: In the Matter of Appalachian Power Company for a 2011 Biennial Review of the Rates, Terms, and Conditions for the Provision of Generation, Distribution, and Transmission Services Pursuant to § 56-585.1 A of the Code of Virginia.

Illinois Commerce Commission Docket No. 11-0279 and 11-0282 (cons.): Ameren Illinois Company Proposed General Increase in Electric Delivery Service and Ameren Illinois Company Proposed General Increase in Gas Delivery Service.

Virginia State Corporation Commission Case No. PUE-2011-00045: Application of Virginia Electric and Power Company to Revise its Fuel Factor Pursuant to § 56-249.6 of the Code of Virginia.

Utah Public Service Commission Docket No. 10-035-124: In the Matter of the Application of Rocky Mountain Power for Authority to Increase its Retail Electric Utility Service Rates in Utah and for Approval of its Proposed Electric Service Schedules and Electric Service Regulations.

Maryland Public Utilities Commission Case No. 9249: In the Matter of the Application of Delmarva Power & Light for an Increase in its Retail Rates for the Distribution of Electric Energy.

Minnesota Public Utilities Commission Docket No. E002/GR-10-971: In the Matter of the Application of Northern States Power Company d/b/a Xcel Energy for Authority to Increase Rates for Electric Service in Minnesota.

Michigan Public Service Commission Case No. U-16472: In the Matter of the Detroit Edison Company for Authority to Increase its Rates, Amend its Rate Schedules and Rules Governing the Distribution and Supply of Electric Energy, and for Miscellaneous Accounting Authority.

Regarding Missouri Senate Bills 50, 321, 359, and 406: Testimony Before the Missouri Senate Veterans' Affairs, Emerging Issues, Pensions, and Urban Affairs Committee, March 9, 2011.

2010

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*2005*

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**Addressing the Level of Florida's Electricity Prices**

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September 28, 2011

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## Introduction

During his campaign for Governor, Rick Scott outlined his plan for Florida titled 7 Steps. 700,000 Jobs. 7 Years. The third step in the plan, addressing Regulatory Reform, states that “Reducing unnecessary costs that Tallahassee places on Florida businesses will result in creating 240,000 jobs.” One tenet of this step of the plan is to “address Florida’s relatively expensive electricity costs so businesses could save approximately \$3.25 billion”. This statement raises two questions: (1) Are Florida’s electricity costs to customers relatively higher than those in neighboring states; and (2) If they are higher, what are the causes? Looking at this question in a historical context, the relative rank of electricity prices by state changes over time due to a number of factors:

- Investment decisions for capacity are made over a period of years, often many years before a plant begins to produce electricity;
- Electric utilities that make prudent investments are typically allowed to recover those investments from ratepayers;
- Electric utilities also buy on the spot market and prices can fluctuate quickly when such transactions occur;
- Florida, compared to other states in the region, relies greatly on natural gas which has been more prone to price fluctuations than coal, which is typically purchased under longer-term contracts, or nuclear, which has high capital (construction) costs but low operating costs;
- Once a plant is operating, if decisions are changed in midstream to lower rates on, say, industrial customers, other consumers will need to pay more.

## Comparison of Electricity Costs

The answer to the first question depends on what is meant by “costs.” One way of answering that question would be to directly compare prices that utilities charge across the states. Such a comparison would be simple to read, but it would provide confusing information because each customer pays several prices and so no one price tells very much of the story.

Another way of answering the question about costs is to compare customers’ bills. The Edison Electric Institute’s (EEI’s) well-known bill comparison study provides such a comparison.<sup>2</sup> This study computes total costs for hypothetical customers, such as a residential customer consuming 750 kilowatt hours (kWh) per month, a small business consuming 1000 kWh per month, or a large business consuming 180,000 kWh per month. EEI’s study indicates for example that customers of some Florida utilities have bills that are lower than bills for comparable customers in neighboring states. This comparison calls into question the validity of the governor’s concerns at least for these utilities.

But a bill comparison does not aggregate costs across utilities in a state, which is the level of aggregation the governor seems to consider. Indeed, even though the EEI bill comparison shows some Florida utilities with price levels that compare favorably with major utilities in neighboring states, rates for

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<sup>2</sup> Edison Electric Institute, “Typical Bills and Average Rates Report.” The report is reproduced on a regular basis.

Florida's 56 electric utilities vary greatly. According to Florida Public Service Commission data<sup>3</sup>, the monthly bill for a residential customer consuming 1000 kWh per month ranged from \$81.48 to \$205.00 in 2010, depending upon the utility.

In this study we compare Florida as a whole to other states in terms of the total cost of electricity to the customer. Our approach is similar to the bill comparison approach in that we include all of the prices that customers pay, but different in that we consider the state as a whole and not individual utilities. As such our approach considers averages: Some utilities would have lower costs for customers than our results and some utilities will have higher costs for customers.

In this study, we focus on the total amounts that different types of customers in Florida pay for electricity as reported by the U.S. Department of Energy.<sup>4</sup> We divide these total payments by the number of kWhs consumed so that we can compare across states.<sup>5</sup> Figure 1 shows the average residential electricity cost expressed per kWh for the state of Florida and six other southeastern states for 1990 through 2008. From 1990 through 2002, Florida's electricity costs were comparable to the other states' costs. Beginning in 2003, the residential cost of electricity in Florida grew faster than costs in the other states and is now about 10% higher than the next highest state, Alabama. Figure 2 shows the average cost to commercial customers, while Figure 3 shows the costs to industrial customers. From 1990-2000, commercial customers in Florida enjoyed costs at the lower end of the range of the region, but now even though they experience costs at the higher end of the region, the costs for commercial customers do not stand out in the same way as the residential costs do. Industrial costs, for Florida customers have always been high relative to other southeastern states and show similar disparities to the residential rates over the last 5 years.

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<sup>3</sup> "Comparative Rate Statistics", Florida Public Service Commission, December 2010.

<sup>4</sup> "State Energy Data System", U.S. Department of Energy's Energy Information Administration. Accessed September 2011.

<sup>5</sup> We could use other denominators, such as numbers of customers, which would give us an average customer bill. We choose kWhs because this is a standard practice and is easily understood. Any denominator we would use would give results that are affected by variations in customers across states.

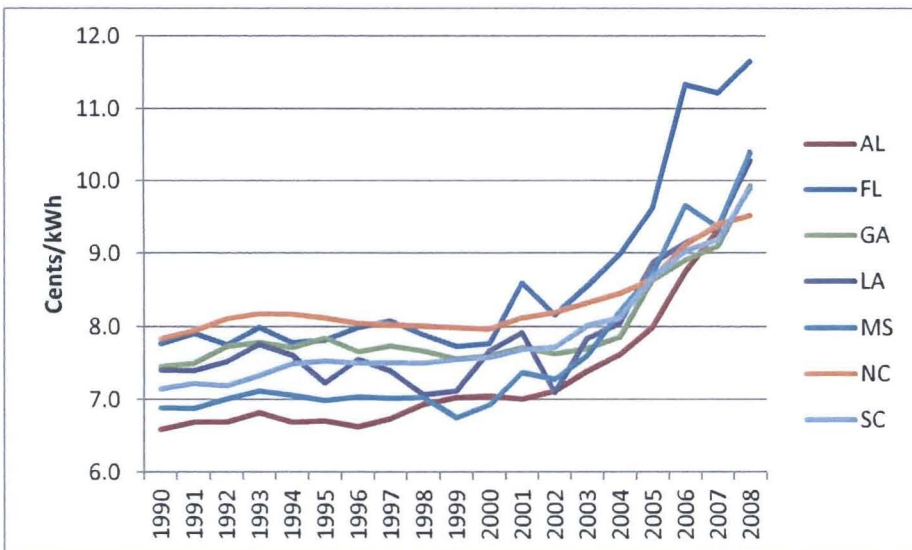


Figure 1. Nominal residential electricity costs per kWh 1990-2008

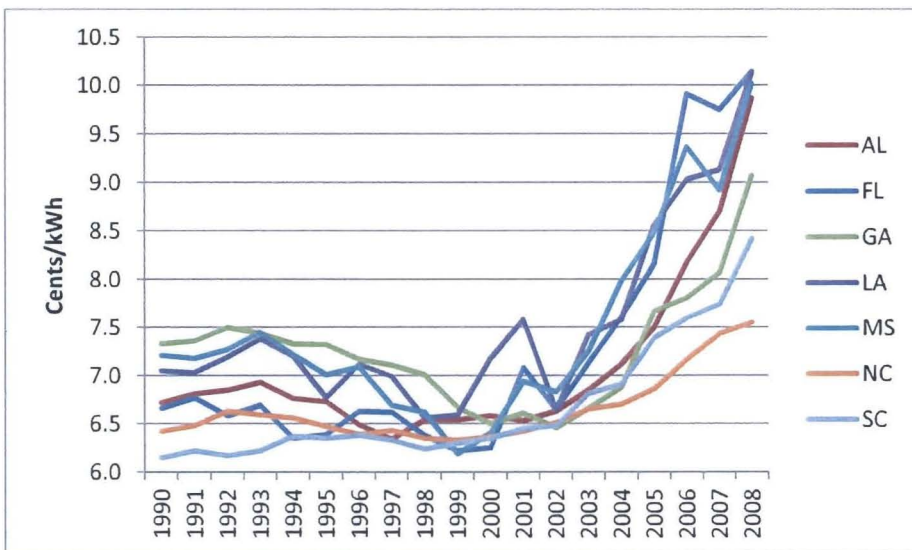


Figure 2. Nominal commercial electricity costs per kWh 1990-2008



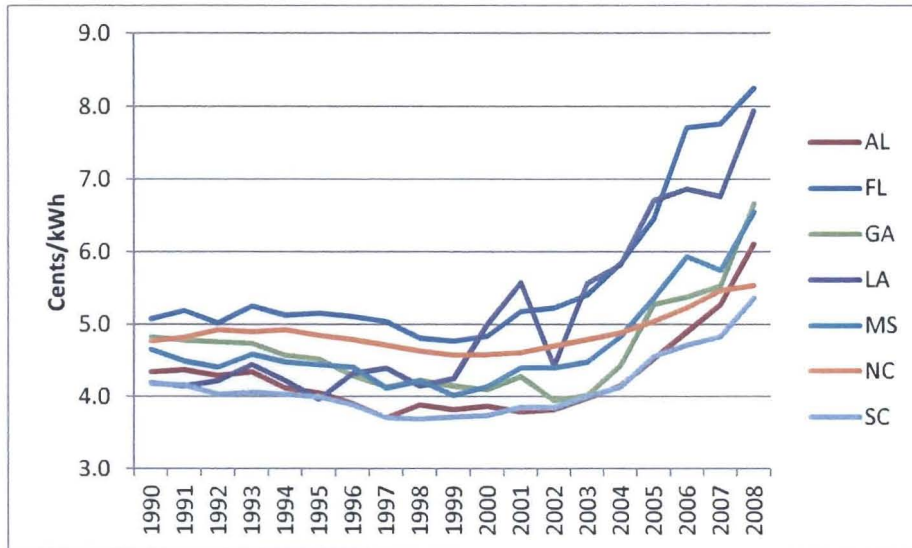


Figure 3. Nominal industrial electricity costs per kWh 1990-2008

Based on Figures 1-3, it appears that Florida's electricity costs are higher on average than those in neighboring states. But for clarity it is important to repeat that this does not compare customers' bills, nor compare individual utilities. But the finding that costs on average appear higher in Florida and have risen in recent years raises our second question: Why are Florida's costs higher? Or more directly, is it reasonable that Florida's costs are higher?

### Costs for Producing Electricity

Determining the source of the cost differences for customers is important and complicated. Because utilities are regulated so that their revenues are based on their costs, analyzing differences in costs for customers is really about analyzing differences in utility. Which utility costs are most important? Figure 4 shows the percentage of the operating expenses of U.S. investor-owned electric utilities in 2009 by broad expense categories.<sup>6,7</sup> This shows that 55% of operating expenses are related to production of electricity, and 9% are related to depreciation. While not all of the depreciation expenses are related to electricity generating plants, it is clear that a significant portion of the utility's costs are related to the costs of the electric generators themselves and the fuels used.

<sup>6</sup> The investor-owned electric utilities in Florida include FPL, Gulf Power, TECO, Progress Energy, and Florida Public Utilities Company.

<sup>7</sup> Florida has a large number of municipally-owned utilities and electric cooperatives, but comparable data is not available for those utilities.

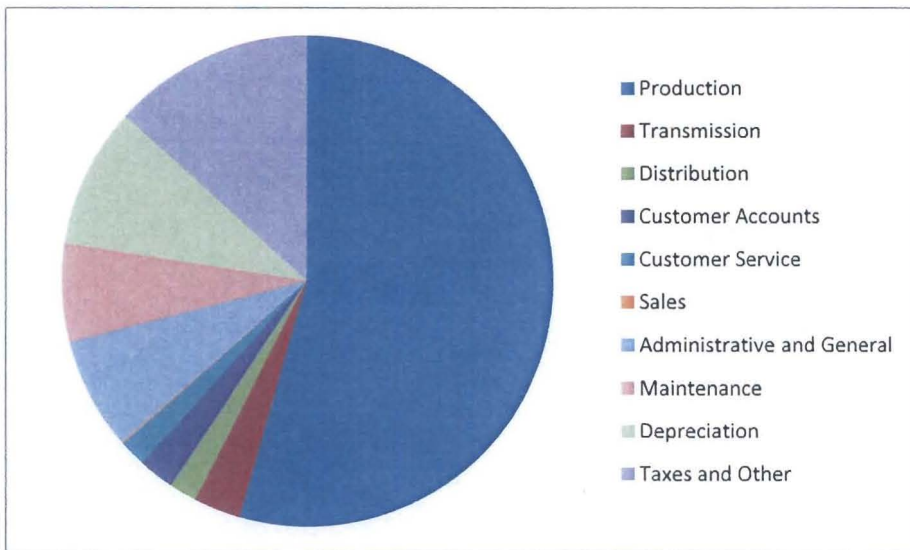
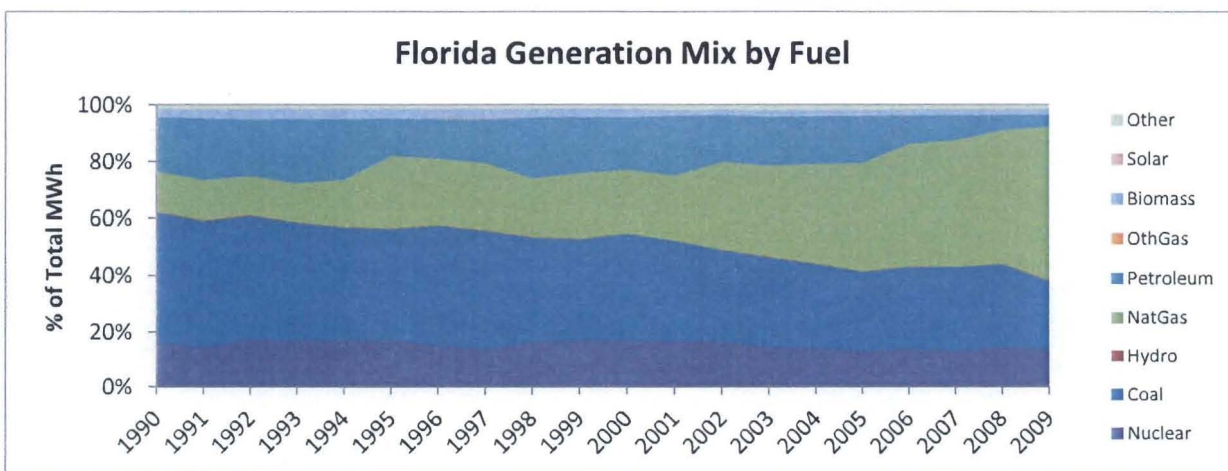


Figure 4. Electric utility operating expenses by function for major U.S. investor-owned utilities

Figure 5 shows the percentage of electricity generated by various fuels for the states of Florida, Georgia, and Alabama since 1990. In 1990, Florida generated approximately 60% of its electricity with uranium and coal. That percentage has since fallen to about 40%, with this decline offset by an increased reliance on natural gas. In contrast, the neighboring states of Alabama and Georgia generated 66% and 78%, respectively, from coal and nuclear energy. By 2009, Florida generated over 50% of its electricity from natural gas. This shift to natural gas has diversified the generation portfolio of the state of Florida, but also occurred at a time when natural gas prices in the region began to increase.



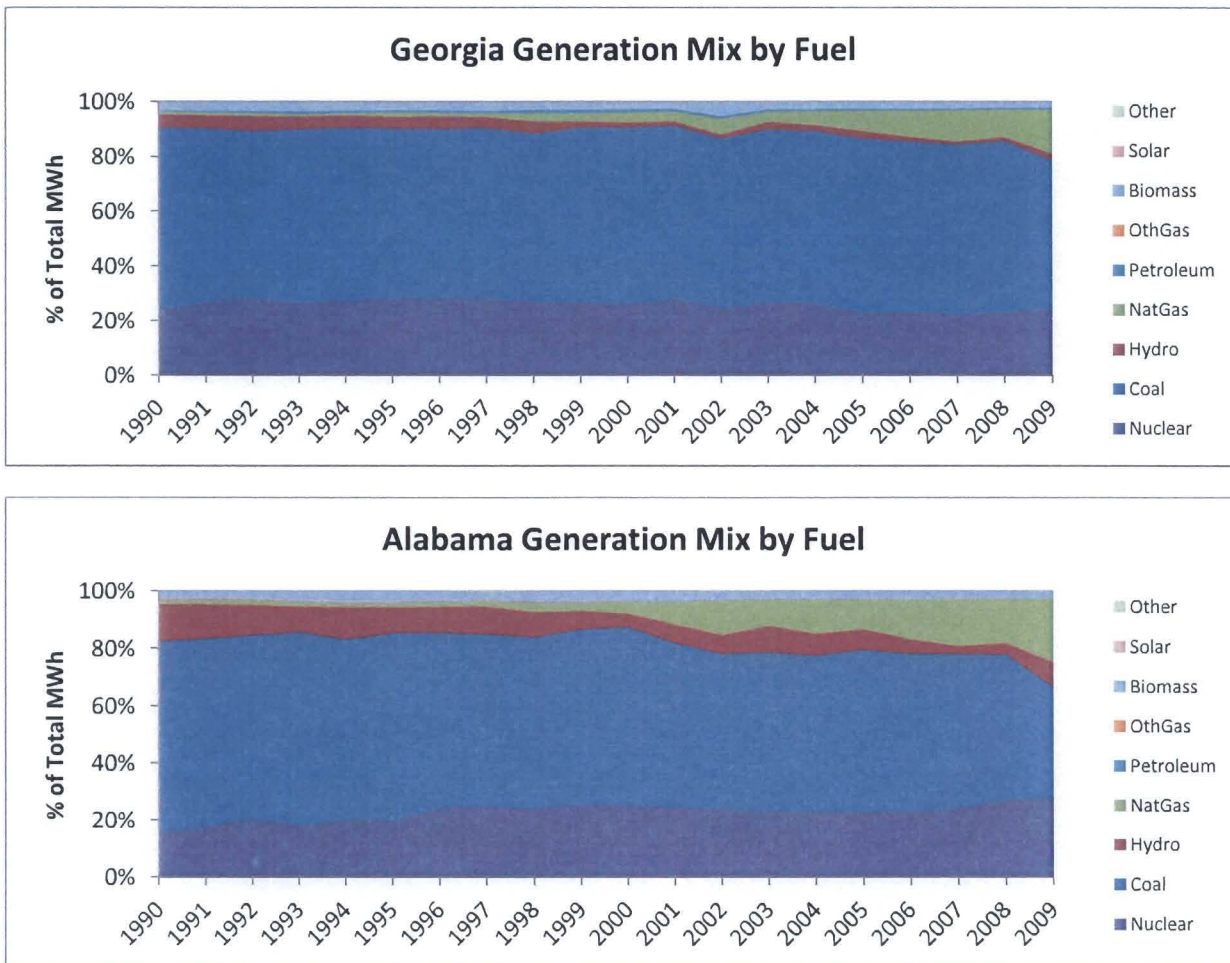


Figure 5. Electric generation by Fuel since 1990 for Florida, Georgia, and Alabama



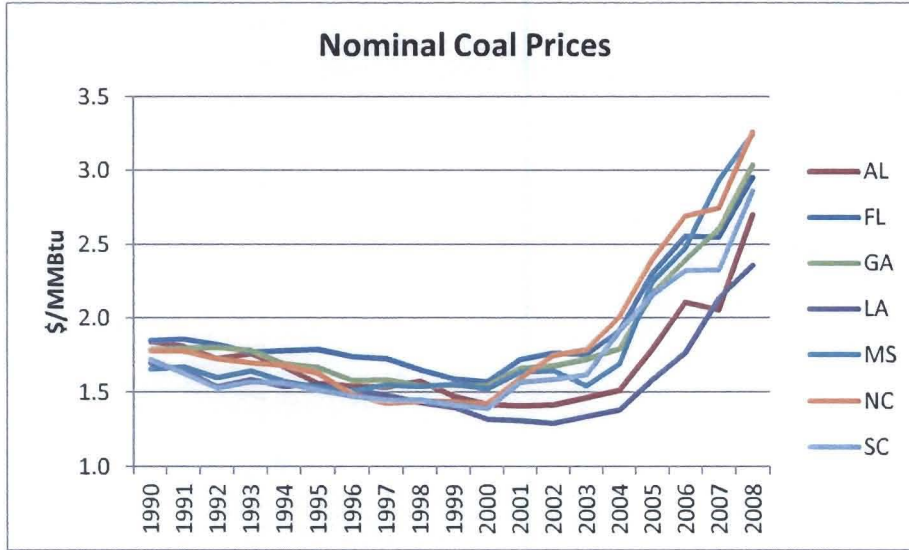
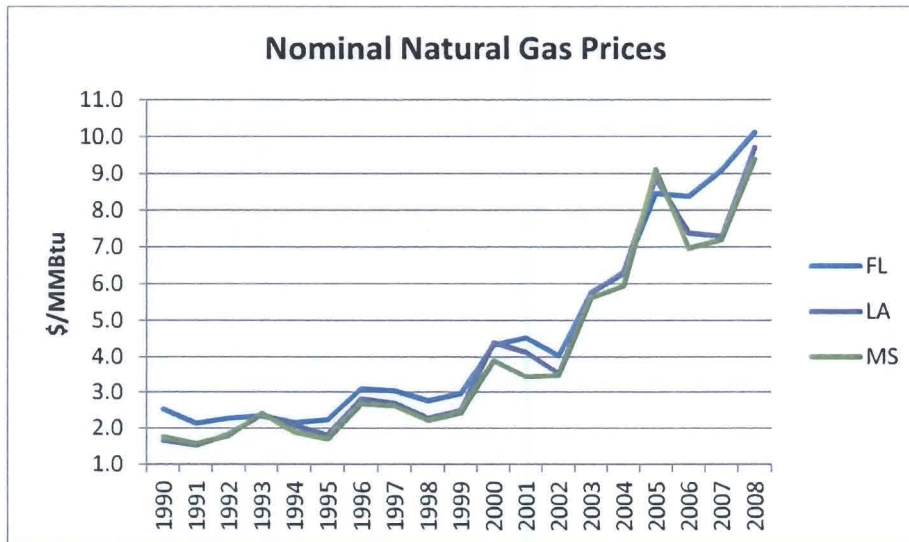


Figure 6. Nominal delivered coal prices since 1990

Figure 6 shows the average nominal coal prices for the southeastern states since 1990. Florida had the highest coal prices in the region from 1993 through 2002, but the state’s prices have fallen relative to the rest of the region since, and Florida’s prices are closer to the regional average, despite the fact that Florida is on the end of the rail lines used for coal transportation. Figure 7 shows natural gas prices for the three states that are the most significant consumers of natural gas. Florida’s prices seem to correspond to the prices in Louisiana and Mississippi, despite the fact that Louisiana and Mississippi are producers of natural gas. The only significant deviation is the period from 2006 through 2008 which followed the rapid increase in natural gas prices from 2002 through 2005.



Overall, it appears that Florida’s electricity costs appear high relative to those of neighboring states because Florida uses more natural gas to generate electricity than do the other states. Electricity costs in

the state of Florida are a reflection of the mix of fuels used to generate it. The path of costs for Florida's electric customers since 2002 follow closely costs for customers in Louisiana, another state that relies on natural gas to produce electricity, rather than in Georgia and Alabama, states that rely primarily on nuclear and coal. However, to keep this result in context it is important to realize that the relative standing of a particular state is likely to change over a much shorter period of time than the composition of its generating fleet is able to do. So while it is always important to ask what can be done to provide reliable electric service at reasonable rates to consumers, it is equally important to make sure that those decisions incorporate the uncertainty in the future, recognizing the long-lived nature of the generating assets.

### **Risks in Choosing Generating Technologies**

Concluding that Florida's relatively higher costs results in large part from the choice of using natural gas to generate power begs the question of why Florida uses more natural gas than do other states. Choosing how to generate electricity is complicated and subject to great uncertainty. The generation plants are long-lived, lasting several decades, including the time it takes to construct them. This implies risk because the economic and political landscapes in which utilities operate these assets continually change. Also, a power plant may have the technical capability to produce electricity for thirty years or more, but the period of time that it can produce electricity economically can vary greatly. The price and availability of fuel for the power plants has become more volatile over the past ten years, and the future outlook for fuels is always uncertain. Further, national energy policy regarding a price on the emission of greenhouse gases, if implemented, would change the economics of power production by imposing additional costs on plants fueled by coal and to a lesser extent, natural gas.<sup>8</sup> Finally, the cost and availability of generation technology will change over time as construction and environmental standards change, regulatory standards evolve, and new technologies are discovered. As a result, the decision regarding a specific type of asset may be prudent at the time the decision is made to construct it, but as realizations of the future differ from the assumptions made at the time, that decision may have an outcome that is not what was expected.

The likelihood that future predictions of the evolution of prices and technologies will not turn out as expected can be characterized by operational risk. There are many practices that can be used to mitigate operational risk such as fuel hedging and the diversification of assets. But these practices don't actually reduce risk, they simply shift risk from one type to another. For example, fuel price hedging may reduce risk in the spot markets in which the fuel is purchased for operational purposes, but they increase the risk from fuel price movements in the futures markets where financial contracts are implemented. As a result, risk mitigation strategies tend to reduce costs when external factors are adversely impacting the utility (i.e. when spot fuel costs are high or when infrastructure is damaged by

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<sup>8</sup> Indeed a study at MIT concluded that a price-based climate policy could make coal uneconomical and drive it from the country's generation base by 2035. See "The Future of Natural Gas: An Interdisciplinary MIT Study," <http://web.mit.edu/mitei/research/studies/natural-gas-2011.shtml> (accessed September 27, 2011).

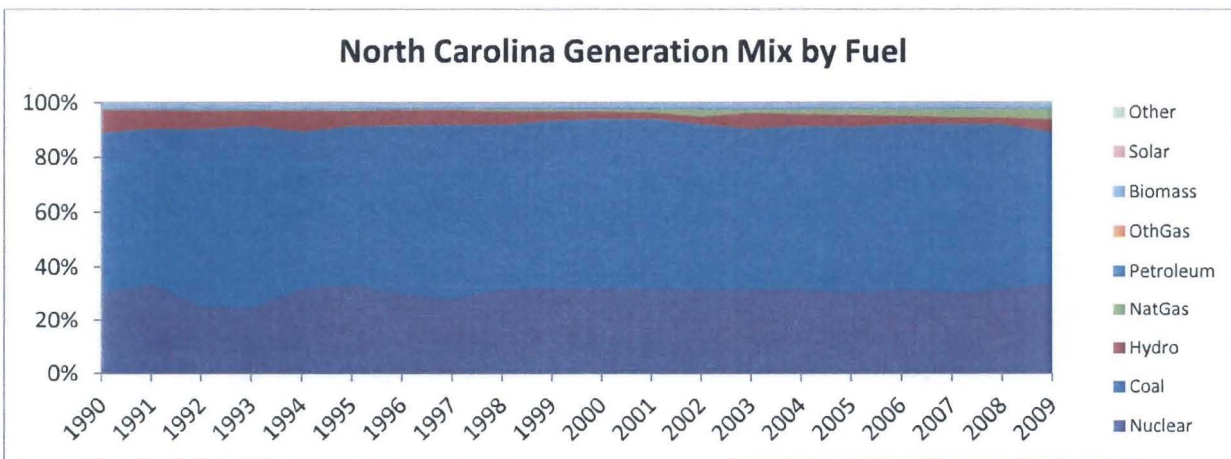
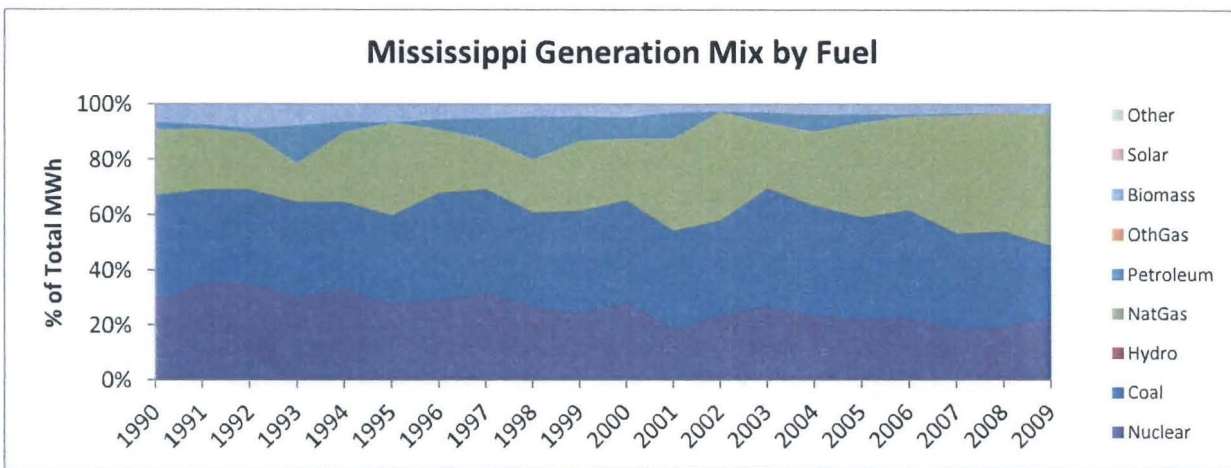
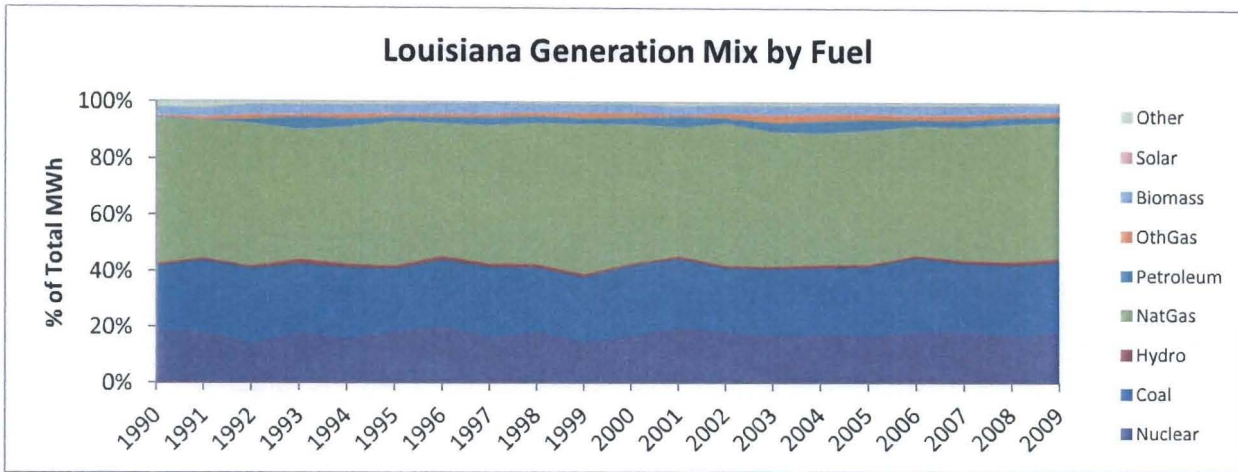
storms), but increase costs when they are not. This increase must be accepted as the cost of insuring against adverse events.

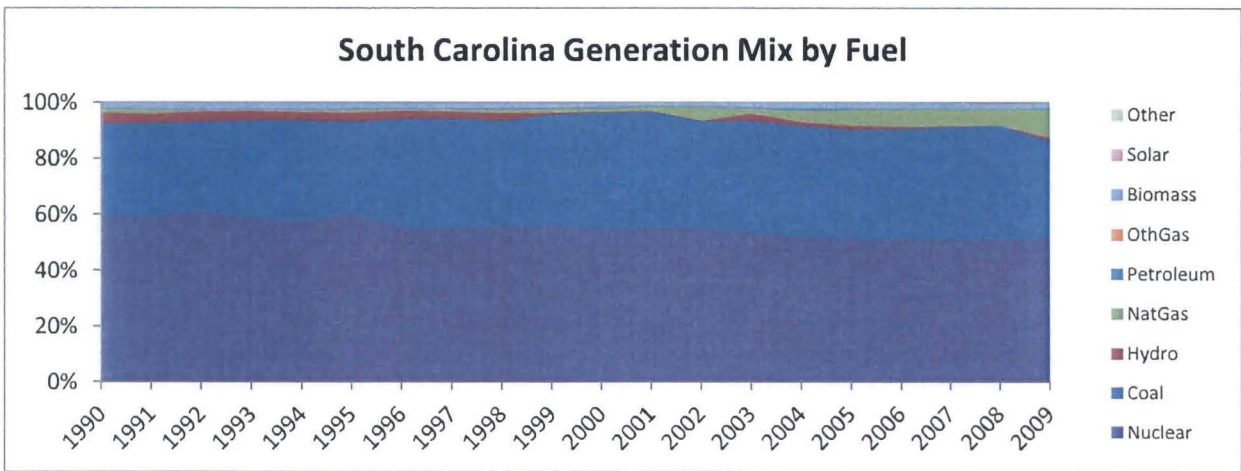
### **Conclusion**

Florida's customers' costs for electricity appear to be higher on average than costs in neighboring states. The difference is most pronounced for residential consumers, but the general pattern holds for business customers as well. This is not to say that all Florida utilities' prices are high relative to their neighbors: Individual utility prices vary greatly in Florida and bill comparison studies highlight that some Florida utilities' rates compare favorably with rates of major utilities in neighboring states.

This relationship between costs in Florida and those in other states began around 2003 when Florida began using relatively more natural gas than neighboring states to generate electricity. That is not to say that the move to natural gas was based on faulty decisions: decisions about how to generate electricity are long term decisions and so have to take into consideration many variables. For example, regulation aimed at assigning a market price to CO<sub>2</sub> emissions would have a greater impact on states that use more coal. Indeed decisions that appeared poor a few years ago may now look brilliant. But utilities cannot change their technology decisions as economic and political conditions change, so they and their customers will sometimes like the outcomes of their decisions and sometimes not.

Appendix







CALCULATION OF GULF POWER COMMERCIAL RATES, 2006-2010

FERC Form 1 Year/Period of Report	MWh Sold	Revenue	Revenue per kWh		Percent Change, \$/kWh	
			Sold	Commerical	Year-over-year	From 2006
	(MWh)	(\$)	(\$/kWh)		(%)	(%)
	(C1)	(C2)	(C3)	(C2) / (C1) / 1000	(C4)	(C5)
					(C3): (Rx) / (Rx-1)	(C3): (Rx) / (R1)
(R1) 2006/Q4	3,843,064	\$ 291,571,166	\$ 0.076			
(R2) 2007/Q4	3,970,892	\$ 337,166,078	\$ 0.085		11.9%	11.9%
(R3) 2008/Q4	3,960,923	\$ 355,856,268	\$ 0.090		5.8%	18.4%
(R4) 2009/Q4	3,896,105	\$ 413,866,000	\$ 0.106		18.2%	40.0%
(R5) 2010/Q4	3,996,502	\$ 434,800,711	\$ 0.109		2.4%	43.4%
<b>5 Year Change</b>		<b>\$ 143,229,545</b>	<b>\$ 0.033</b>			

Sources:

- (R1) E1804-06-AR, <http://www.psc.state.fl.us/library/financials/E1804-DOCS/ANNUAL-REPORTS/E1804-06-AR.PDF>, page 304
- (R2) E1804-07-AR, <http://www.psc.state.fl.us/library/financials/E1804-DOCS/ANNUAL-REPORTS/E1804-07-AR.PDF>, page 304
- (R3) E1804-08-AR, <http://www.psc.state.fl.us/library/financials/E1804-DOCS/ANNUAL-REPORTS/E1804-08-AR.PDF>, page 304
- (R4) E1804-09-AR, <http://www.psc.state.fl.us/library/financials/E1804-DOCS/ANNUAL-REPORTS/E1804-09-AR.PDF>, page 304
- (R5) E1804-10-AR, <http://www.psc.state.fl.us/library/financials/E1804-DOCS/ANNUAL-REPORTS/E1804-10-AR.PDF>, page 304

CALCULATION OF JURISDICTIONAL REVENUES COLLECTED  
 THROUGH BASE RATES, GULF POWER COMPANY, 2012

(1)	Total Operating Revenues	\$ 481,909,000
	<i>Revenue Adjustments</i>	
(2)	Fuel Clause Revenues	\$ (614,366,000)
(3)	ECCR Revenues	\$ (22,003,000)
(4)	PPCC Recovery Revenues	\$ (52,528,000)
(5)	Environmental Cost Recovery Clause Revenues	\$ (176,447,000)
(6)	Collection/Reconnect Fees	\$ 1,004,000
(7)	Additional Sales Related to AMI Meters	\$ 575,000
(8)	Franchise Fee Revenues	\$ (39,237,000)
(9)	Gross Receipts Revenues	\$ (32,620,000)
(10)	± (2) through (9) Total Revenue Adjustments	\$ (935,622,000)
(11)	(1) / ((10*-1)+(1)) <b>Percent of Jurisdictional Revenues in Base Rates</b>	<b>34.0%</b>

Sources:

- (1) Exhibit RJM-1, Schedule 4, page 1
- (2) - (9) Exhibit RJM-1, Schedule 4, page 2