Gulf Power

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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 Robert L. McGee, Jr.

(Document 10 of 16)

Sincerely,

Robert L. McGee, Jr.

Robert L. McGee, Jr.
Regulatory & Pricing Manager

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 160186-EI

Gulf Power

REBUTTAL TESTIMONY AND EXHIBIT

OF

ROBERT L. MCGEE, JR.

GULF POWER COMPANY

Before the Florida Public Service Commission
Rebuttal Testimony of
Robert L. McGee, Jr.
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 Bob McGee. My business address is One Energy Place, Pensacola, Florida 32520. I am the Regulatory and Pricing Manager for Gulf Power Company (Gulf or the Company).

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 rebuttal testimony is to address the assertions and mischaracterizations of Witness Rábago (Southern Alliance for Clean Energy or SACE and League of Women Voters of Florida) and Witness Loiter (Sierra Club), collectively referred to as the intervenors, as well as address the testimony of Staff Witness Harlow.

Q. Are you sponsoring any rebuttal exhibits?

A. Yes. I am sponsoring Exhibit RLM-2, Schedules 1 through 4. Exhibit RLM-2 was prepared under my direction and control, and the information contained therein is true and correct to the best of my knowledge and belief.

Q. Do you have any initial observations about the intervenor testimony in this docket?

A. Yes. The testimony provided by intervenor witnesses is voluminous and is somewhat difficult to follow. In an effort to focus my rebuttal on the key points in this docket, I will not attempt to address every point of inaccuracy, misunderstanding, or mischaracterization of my own direct testimony, but instead I will respond to what appear to be the main issues. The absence of a response on my part to any particular argument offered by the intervenor or Staff witnesses should not be construed as acquiescence or agreement.

Q. Please provide an overview of your rebuttal.

A. Gulf's proposed Advanced Pricing Package for residential customers consists of the following four elements:

- A lower energy charge and a higher base charge to more equitably allocate demand-related costs
- Optional demand rates to give residential customers more control and options
- A low-income credit to help qualifying residential customers transition to the new rate structure
- Additional and expanded conservation measures to help residential customers save energy and reduce their bills

The purpose of Gulf's proposal is to better align our residential rates with our costs, to provide more options for customers, to reduce customer bill variability, and to better serve our low-income customers. Although the consultants testifying on behalf of the Southern Alliance for Clean Energy, the League of Women Voters and the Sierra Club (the intervenors) desire to raise customers' energy rates to make it more expensive for our customers to purchase more electricity, Gulf is proposing a lower variable charge, more in line with costs of producing and delivering that energy, to better serve our customers.

Gulf's proposal is a package that the Commission should consider in its entirety, not piecemeal as the intervenors have done. For instance, the intervenors have overlooked the fact that Gulf's proposed optional demand rates would be a viable, cheaper alternative for many customers who use very little electricity or who are able and willing to closely control their usage. Gulf already, even before the rates have been approved, provides information on its website on how customers' demand is affected by their usage patterns and how that demand could be affected by changes in their use. Monthly demand data will be available to customers when they are ultimately presented with the new rate options.

The SACE and Sierra consultants claim that customers will have no control over their bill, ignoring the fact that all customers will still pay more if they use more and pay less if they use less. Customers will continue to have the ability and incentive to control their bills through their energy usage.

Finally, SACE and Sierra recommend rejection of Gulf's proposal to more effectively serve low-income customers with a bill credit designed to assist those who need it most. If Gulf's proposal is approved, qualifying low-income customers will have a lower fixed charge and a lower energy charge. The SACE and Sierra suggestion ignores the income status of all of our customers while raising our customers' energy charge.

Q. Don't the intervenors argue that energy efficiency and solar investment payback are adversely affected by Gulf's proposal?

A. Yes, but they neglect to mention that the effect is rather small. For example, a typical residential solar photovoltaic (PV) rooftop installation of 5 kW would have an 11 year payback under current electric rates and current federal subsidies. Under Gulf's proposed electric rates, that payback would extend to 12.5 years, a 1.5 year extension. SACE and Sierra also don't mention that their solution is an argument in favor of higher rates generally, which affects all customers. Exhibit RLM-2, Schedule 1 contains a payback calculation for rooftop solar. Moreover, Gulf's proposed demand rate and time-of-use demand rate will provide new avenues for customers to reduce their bills by controlling both their weather sensitive peak demands and their kWh use.

Q. What is the key difference between Gulf's proposed two-part residential rate and the intervenors' suggested alternative?

A. Gulf is proposing an enhanced residential rate structure which is based on a new methodology for appropriately allocating demand-related costs to the two parts of the traditional two-part rate (the base charge and the energy charge). Demand-related costs include things like distribution, transmission and generation investment and maintenance. This new approach, which I refer to as the B&G methodology, was developed by Drs. Larry Blank and Doug Gegax. Their methodology is cost-based, objective, technically sound, and very much in line with traditional ratemaking principles. The effect of the Blank and Gegax methodology is a more equitable allocation of demand-related costs, which reduces the per kWh energy charge and increases the fixed base charge. The intervenors, on the other hand, propose to include all demand-related costs in the energy charge with the exclusive purpose of raising the variable energy rate as much as possible. Witness Rábago, in his zeal to raise the energy charge, goes so far as to suggest that customer-related costs should be included in the variable energy rate.

Q. The intervenors have pointed to the fact that the Blank and Gegax (B&G) methodology is relatively new and assert that it should not be approved for this reason. Staff Witness Harlow also mentions that the B&G methodology has not been applied in previous base rate proceedings. Does the fact that an idea is new disqualify it?

A. Absolutely not. Innovation necessarily requires some element of newness. Although the B&G methodology is relatively new, it is a straight-forward, well-reasoned, objective approach built on the strong foundation of demand rates—something the electric utility industry has used for well over 100 years.

Q. How do you respond to the argument that the B&G methodology should not be accepted by this Commission until further information is developed to support it?

A. The soundness of the B&G methodology and the completeness of its supporting data are fully established in the record before this Commission. The proceeding we are currently undertaking is the exact venue for proper review of the methodology. The B&G methodology has been published for nearly a year and Gulf has been responding to extensive discovery since last October. Notably, the intervenors do not identify any actual fault, flaw or gap in the B&G methodology; they simply catalogue their dislikes for the results.

Q. Are the issues raised by the intervenors surrounding higher base charges and lower energy charges new?

A. No. Intervenors have been arguing against another rate design that also increases base charges, called Straight Fixed Variable (SFV), for some time. The SFV rate design typically places all demand-related costs into the fixed charge. In spite of the fact that Gulf is not proposing such a rate, Witness Rábago points to an Illinois case addressing SFV rates that occurred in 2014, and he includes the Illinois Commerce Commission's order in his Exhibit KRR-7.

Q. What was Witness Rábago's stated reason for referring to the Illinois case?

A. To show that "…other Commissions [have] addressed the cost-causation argument offered by the Company [i.e. Gulf Power]…" (Rábago, p. 15)

Q. What observations do you have regarding the Illinois case Witness Rábago uses to support his position?

A. The most striking thing is the fact that the B&G methodology, had it existed at that time, would have solved the problem in the Illinois case. The intervenors and staff in that case, aligned against the utility's request to raise their fixed fee for gas customers, argued amongst themselves over how much demand-related costs should be included in each component of the two-part rate—because no party, including the utility, proposed an objective criteria, like the B&G methodology, for determining exactly how much demand-related costs should be put into each component of the residential two-part rate. In the end, the Illinois Commerce Commission decided to put all of the demand-related costs into the energy charge, in part because the best proxy they had for a demand charge was the energy charge. However, as I stated in my direct testimony, the allocation of all demand-related costs to the energy charge results in an unnecessarily large energy charge, causing a misalignment between cost-causers and those who pay. The B&G methodology rectifies this by objectively improving alignment of rates with costs using a three-part demand rate.

Q. What did the intervenors opposing a higher fixed charge in the Illinois case have to say about cost-causation and rate design?

A. One intervenor in that case advocated aligning rates with cost-of-service results— "…the rate design Mr. Rubin [witness opposing the utility] proposes for the residential classes tries to mimic the way in which costs are allocated to the residential class, so that subsidies among residential customers are minimized.” (Rábago Exhibit KRR-7, p. 196).

Q. Is this similar to your own position?

A. Yes. As I stated in my direct testimony, “Mr. O’Sheasy’s cost of service study develops three categories of costs associated with serving residential customers: customer-related costs, demand-related costs, and energy-related costs. A three-part demand rate best aligns rates with costs because it mirrors these cost categories with three discrete rate components: a customer charge, a demand charge and an energy charge.”

Q. Do you have any final observations regarding that Illinois case cited by Witness Rábago?

A. Yes. The Illinois Commerce Commission did not have the benefit of the following as they considered what to do with demand-related costs in two-part rates:

- The B&G methodology, not yet published at the time, was not before the Illinois Commission.
- The utility did not propose to offer optional demand rates to its customers so they could choose, in the alternative, to pay for demand-related costs in proportion to the kW demand they place on the system.
- The utility did not propose to offer additional cost-effective conservation measures to help its customers save energy.

- The utility did not propose to offer customers a new low-income credit to help transition qualifying customers to the more equitable rate structure.

Q. What have Drs. Blank and Gegax written about the SFV rate design?

A. Drs. Blank and Gegax argued against SFV rate design in their 2014 paper entitled *Residential Winners and Losers behind the Energy vs. Customer Charge Debate*. The 2016 Blank and Gegax article relied on by Gulf in this current docket provides the completion of their 2014 research. Both papers stand for the proposition that all demand-related costs should not be put into the fixed charge, but some of them should. The April 2016 paper setting forth the B&G methodology provides a simple, cost-based, objective method for determining exactly how much is the right and fair amount of demand-related costs to put into each component of the residential two-part rate.

Q. Witness Rábago refers to the Electricity Journal, the publisher of the B&G article relied on in this case, as a “trade publication.” (Rábago, p. 5) Do you agree with his choice of words?

A. No. The Electricity Journal, as I stated in my direct testimony, is a peer-reviewed journal. Its Editorial Advisory Board consists of members from the Natural Resources Defense Council (NRDC), Harvard University, Massachusetts Institute of Technology (MIT), Johns Hopkins University, National Regulatory Research Institute (NRRI), Regulatory Assistance Project (RAP), Edison Electric Institute (EEI), etc. The Electricity Journal is listed with Cabell's International: https://www.cabells.com/about-us, which substantiates respected academic journals. The following definition illustrates the difference: "*In general, a trade publication will contain news, current events information, articles, and ads of interest to people in that industry or profession. Unlike scholarly journals, trade publications do not contain original research and are meant to be practical in nature. Their focus is on current trends and issues.*" [http://courses.semo.edu/library/infolit/tradepublications.htm] The peer-reviewed article authored by Drs. Blank and Gegax and relied on in this case, stands in sharp contrast to the blog that Witness Rábago attaches to his testimony.

Q. Do you agree with Witness Rábago's assertion that the B&G methodology is an "arithmetic exercise"?

A. I do. In fact, that is a key strength of the B&G methodology—it is objective. Anyone, given the same data, and the means to perform a simple regression, would come to the same numerical conclusion. Another Florida utility recently requested that some amount of demand-related costs be placed in their residential customer charge, providing one page of testimony supporting that idea but with no logical reason for the amount. Gulf is not suggesting anything of the sort.

Gulf is not asking to put all demand-related costs into the base charge. Gulf is not asking to place some arbitrary amount of demand-related costs into the base charge. Gulf is requesting that an easily-determined, objective method (B&G) be used to more equitably allocate demand-related costs between the energy charge and the base charge of the two-part residential rate.

Q. Witness Loiter appears to suggest that because several utility companies are sponsors of the Center for Public Utilities (CPU) that the validity of the study by Drs. Blank and Gegax is somehow called into question. Do you have any observation about his implication?

A. Yes. Witness Loiter's reference leaves a misleading impression because he fails to also point out that the Advisory Council for the CPU includes 51 public utility commissioners and consumer advocates from across the country, 47 industry experts representing the electric, gas, water, and telecommunications industries and three representatives of the National Association of Regulatory Utility Commissioners (NARUC). (Exhibit RLM-2, Schedule 2)

Q. The witnesses for SACE and Sierra Club claim that Gulf's demand rates do not properly align with costs. (Loiter, p.4-5) (Rábago, p.12) Do you agree with this claim?

A. Not at all. Traditional three-part demand rates, like those Gulf has employed in this case, have been used for over a hundred years in the commercial and industrial customer segments to appropriately price electricity service. Staff Witness Harlow recognizes the appropriateness of demand rates to better align costs with revenue. She states that "Three-part demand rates are also one ratemaking option to better align cost causation with revenue recovery, and to send improved price signals to customers on how their actions impact system costs." Incidentally, the intervenors' testimony in the Illinois case Witness Rábago cites also asserts that rates should be aligned with costs and that demand rates do that better than two-part rates. (Rábago Exhibit KRR-7, p.172,196)

Q. Earlier you mentioned that Witness Rábago mischaracterized your testimony. Can you provide an example?

A. Yes, I will provide one example. This particular mischaracterization, which constitutes his critique of the B&G methodology, is found in several statements on page 11 of his testimony. There, he says that witness McGee "cites no cost of service analysis to suggest that high users create lower demand costs than low users." But I never said high users create lower demand costs than low users—this is a fabrication. Witness Rábago follows with a question: "Is it likely that witness McGee has discovered a condition among Company customers that demonstrates that high users are low demand-cost causers, and that low users are, in turn, high demand-cost creators?" and his answer: "No." Witness Rábago's Q&A is a continuation of his fabrication, which completely mischaracterizes my direct testimony. The positive slope of the B&G regression result is enough to refute this inane assertion.

My observation in direct testimony that Gulf's current residential rate structure "results in some customers [high users] paying more than they should for demand-related costs and others [low users] paying less than they should" (McGee, p.7) in no way implies that high users impose less cost on the system than low users. Under Gulf's proposal, high users will pay more (the "use-more pay-more" principle still applies). Furthermore, high users will pay more for demand-related costs than low users will pay for demand-related costs—because half of all residential demand-related costs are still in the energy charge after B&G is implemented. This is appropriate and is justified by the analysis developed by Drs. Blank and Gegax. The B&G methodology explicitly incorporates higher demand-related charges for those who use more energy.

Q. What is your response to the intervenors' complaint that demand rates are more complex for customers to understand than two-part rates?

A. Although I think they exaggerate the extent of the matter, I agree with them and said so in my direct testimony. My objection is to the fact that they try to use this as a reason to reject Gulf's proposed Advanced Pricing Package, which is nonsensical because the residential demand rates proposed by Gulf are optional. The intervenors' arguments against residential demand rates are based on the false premise that Gulf is proposing mandatory demand rates, which Gulf has not proposed.

Q. Witness Loiter goes so far as to suggest that "the vast majority of residential customers are incapable of" knowing "what equipment and behavior contributes to that demand, and have the ability to modify behavior and equipment to control their demand." (Loiter, p. 10) What is your view of Gulf's customers' ability to learn about and respond to demand rates?

A. Witness Loiter seriously underestimates the ability of Gulf's customers to understand the basic concepts of knowing which equipment draws the most energy and to modify use of their equipment to affect simultaneous energy use. Gulf's customers have responded well to the Energy*Select*® program which includes a complex four-tier time-of-use critical peak pricing rate and in-home equipment. When that rate was first developed and rolled out to customers, there was no on-line access to real-time data. Customers were educated on and understood how the rate operated, when electricity cost more, and how to manage their usage to maximize their benefit. At the roll-out of Gulf's optional demand rates, customers will have available to them monthly max demand data for their premise over the previous year. If they choose a demand rate, their meter will display the appropriate billing determinants (energy kWh, max demand kW and, if applicable, on-peak demand kW) as they occur. As evidenced through discovery, Gulf has already provided, even before the rates have been approved and made available to customers, on-line educational material to help customers understand demand rates and actions customers can take to manage their demand. Witness Loiter's critique of Gulf's actions related to demand rates fails for two reasons: (1) the rates are optional so any customer who chooses not to understand them or manage them will not have to do so; and (2) Gulf is currently providing and will continue to provide adequate, helpful information to customers who may consider this type of rate.

Q. What is your response to the assertion that the B&G methodology is intended to "flatten the slope of the curve delineating how bills increase with usage"? (Rábago, p. 10)

A. This statement ignores an important aspect of the B&G methodology which is explained in my direct testimony. The whole point of running a <u>simple linear regression</u>, is to find a <u>straight line</u> that best fits the data—because a straight line represents a <u>two-part rate</u> in the B&G plot of bills versus kWh. The B&G methodology, as described in my direct testimony, appropriately collapses the plot of three-part bills into a two-part rate structure, a straight line.

Although it is possible to fit a curve to the data, it is a pointless exercise in this context. The result of such a fit would be a very peculiar rate design. Given a quadratic curvilinear fit, which is a second degree polynomial, the resulting "rate" has three components, one component of which is cents per squared kilowatt-hour. Furthermore, the cents per squared kilowatt-hour rate is negative (less than zero). Gulf is not proposing such an irrational idea as a rate to offer customers.

The important thing to be determined is which straight line, either the current two-part rate structure or the B&G two-part rate structure, best fits the data. One way to measure data fit is the coefficient of determination, otherwise known as r-squared. This is a statistical measure describing the amount of data variation accounted for by the approximating line. The coefficient of determination is sometimes referred to as a measure of the "goodness of fit."

The coefficient of determination for the B&G straight line is 59 percent, indicating that this line accounts for a significant amount of the variation in the data. The coefficient of determination for the straight line representing Gulf's current rate structure, the structure that the intervenors propose we use, is 11 percent. It is clear from a simple comparison of these results that the current two-part rate structure does a terrible job of approximating a traditional three-part demand rate (and therefore the underlying cost structure) and that the B&G two-part rate is a vast improvement.

Q. What is your response to the comments of the intervenors and Staff regarding low-income customers?

A. Gulf has already addressed these concerns through Gulf's proposed Low Income Rider credit that completely nullifies the impact of the proposed rate structure change for qualifying customers in an occupied home. The intervenors' testimony on this issue is unnecessarily confusing. The amount of energy used by a low-income customer is a distraction from the more significant point that all qualifying low-income customers will benefit from both a lower fixed charge (base charge minus the $21 per month credit) and a lower energy charge under Gulf's proposal.

Q. What alternatives do SACE or Sierra Club propose to help low-income customers?

A. None. Worse yet, they recommend keeping the current rate structure which we know results in higher bills for the majority of customers who already struggle to pay their bills—customers who have a “D” credit rating. These customers may have recently received a disconnect notice, have not been able to meet their special payment arrangements, or have been cut for non-pay in the previous year. Sixty percent of these customers, Gulf Power customers struggling to pay their bills, will have lower bills as a result of the proposed rate structure change even without the benefit of a low-income credit. Furthermore, all customers, including those struggling to pay their bills, will experience lower month-to-month bill variability.

Q. Has anyone provided a critique of Gulf’s proposed Low Income Rider?

A. Yes. Staff Witness Harlow has raised two competing speculations regarding the implementation of the Low Income Rider: that our low-income credit may not reach enough customers—“Customers may be reluctant to divulge this personal information to Gulf, which may result in lower participation by those customers in need” (Harlow p. 17) or that it may reach too many customers—“Gulf may have underestimated the potential number of customers that will participate in the low income rider.” (Harlow p. 16) However, Gulf is confident that its proposed Low Income Rider appropriately balances the competing objectives of assisting the largest number of customers who need it most (based on an income standard) against the need to minimize impacts to all residential customers who are funding the low-income credit. Notably, no witness has provided any evidence that rebuts Gulf's assessment of anticipated participation in the Low Income Rider program.

Q. Please address Witness Loiter's comments regarding elderly customers and the Supplemental Nutrition Assistance Program (SNAP) program.

A. Referencing a USDA report, Witness Loiter states that "Elderly customers, for instance, who often live on fixed incomes tend to live in smaller households and therefore are only eligible for SNAP at lower income levels." (Loiter, p. 19) Witness Loiter left out an important fact (also stated in that same section of the USDA report he referenced) that "Elderly SNAP recipients tended to receive relatively small benefit amounts for two reasons. First, they typically had higher average gross and net incomes than other households." (JML-13, p.34) The second reason mentioned in the report is the one Witness Loiter chose to highlight.

This same report on SNAP recipients indicates that the above-60 age bracket has about 30 percent higher net income on average. The point to be made here, besides the fact that Witness Loiter is not providing a balanced view of the facts, is that income is the appropriate determiner of financial need, not age, or kWh consumption level, or whether the customer's income varies in some unspecified way, or any other demographic characteristic of our customer base. Gulf's Low Income Rider uses SNAP participation as a qualifying criteria for two simple reasons: (1) SNAP is the largest public assistance program administered by the Florida Department of Children and

Families (and also is the largest qualifying program for Lifeline participation), and (2) it simplifies Gulf's role in determining income status of customers.

Q. Do you have any comments regarding the general approach the intervenors and Ms. Harlow take in responding to Gulf's proposal?

A. Yes. The intervenors and Ms. Harlow are not thinking about Gulf's proposal as a whole—as a package of four elements designed to work in harmony together. As they focus on one element or another, to the exclusion of other elements of the package, their truncated view results in poor analysis of Gulf's proposal.

For instance, a narrowly-focused review of customer use and income, outside the context of Gulf's proposed $21 per month low-income credit, is of little value because it ignores the significant and important relief Gulf Power has proposed for customers whose income level, not their kWh consumption or their age, qualifies them for this subsidy. Arguments against a higher base charge that ignore the proposed low-income credit are just not credible.

Another example is the speculation that sales may increase or energy efficiency achievements may decline, which completely ignores the significant additional cost-effective (RIM-passing) conservation measures Gulf has proposed—kWh savings that are literally enabled by the rate structure change and that will evaporate into thin air if the rate structure change is not implemented.

Another example is a focus, in isolation, on the standard rate while ignoring the two new optional rates Gulf has very purposefully included in this package. No customer has to accept the higher base charge associated with the standard rate—because two rate options with lower base charges (RSD and RSDT) will be available to all residential customers under Gulf's proposed package. So, for instance, a customer with very low use (100 kWh) and low demand (10th percentile) who chooses the RSD rate and makes no change to their usage will see no more increase on the new demand rate than if the Advanced Pricing Package were rejected (see Exhibit RLM-1, Schedule 6 of my direct testimony). Witness Rábago highlights these very customers on page 12 of his testimony in a circle he drew on a graph taken from my direct testimony—but Witness Rábago neglected to consider the benefit customers could achieve by selecting an optional demand rate without even changing their behavior. Exhibit RLM-2, Schedule 3 shows the effect of removing data points where customers save enough on rate RSD that their total bill increase from today's rates is no more than average. Furthermore, Witness Rábago recognizes that customers "through efficiency, conservation, or self-generation" may "reduce high peak demand", but he ignores the benefits these same customers could attain on a rate such as RSDT. (Rábago p.37)

Another clear example of this is Witness Rábago's suggestion that a higher base charge should be offered as an option. Gulf's objective in this filing is to appropriately and effectively restructure its rates for all residential customers to better align rates with costs, not to offer just another rate option. Witness Rábago also displays a lack of contextual thinking in his inappropriate but repeated use of the term "non-bypassable" to describe the higher base charge associated with the standard rate. The Advanced Pricing Package purposefully provides customers with viable options (RSD and RSDT) for avoiding the higher base charge.

Gulf's proposed Advanced Pricing Package must be considered as a whole to appropriately and fairly assess its potential impacts and implications. Arguments in isolation or arguments against things Gulf is not proposing such as SFV or mandatory demand rates are not appropriate critiques of Gulf's current proposal before the Commission.

Q. Aside from inappropriately isolated analyses and arguments against things Gulf has not proposed, what other arguments have the intervenors and Ms. Harlow made opposing Gulf's proposed Advanced Pricing Package?

A. All three have expressed dislike for the outcome. In other words, they don't oppose the methodology as much as they oppose the result. In short, they prefer higher energy charges. Witness Rábago even suggests throwing some customer-related costs into the energy charge for good measure. Witness Loiter does not think customers should buy more energy—even if their purchases are a result of better aligned rates and improved economic efficiency. All three discuss extended payback of energy efficiency investment—as if payback were the highest and greatest goal of rate design—overlooking the fact that the impact of Gulf's proposal is rather small. Payback for a solar rooftop investment will extend from 11 years to 12.5 years—a 1.5 year extension. Payback for rooftop PV was already extended by half a year in January 2017 when Gulf reduced its clause rates.

Witness Rábago makes the implausible claim that customers will not be able to reduce their bills under the new rate structure because of the lower energy charge—ignoring the fact that customers will be able to regularly avoid 16.8 cents per kWh on the RSVP rate, or 9.7 cents per kWh on the standard RS rate, or $5.00 per kW and 8.7 cents per kWh on the RSD rate, etc. (Rábago, p. 29) The "use-less, pay-less" principle is still fully effective under Gulf's proposed rate structure. Even the higher base charge is avoidable by selecting one of the optional demand rates. Staff Witness Harlow points out that "Gulf's two optional residential demand rates may give customers who choose to participate more ability to control their bills."

Q. Staff Witness Harlow points out that Drs. Blank and Gegax did not estimate the effect of a lower energy charge and a higher base charge on sales. Did Gulf make such an estimate?

A. Yes. Gulf Witness Park has estimated the effect of the rate structure change on kWh sales and provides details in his testimony and supporting responses to discovery. Mr. Park's estimate indicates a slight increase in sales, 0.7 GWh in the test year, as a result of Gulf's proposed rate changes, including the higher base charge and the lower energy charge.

Q. Did any witness offer a viable alternative to Gulf's estimate of the effect of proposed residential rates on sales?

A. No.

Q. Staff Witness Harlow asserts that Gulf's forecast model does not "appropriately account[s] for the potential impact on residential customer demand and energy usage due to the proposed change in rate structure" (Harlow, p. 9) and that "…Gulf has [not] provided sufficient information to the Commission regarding the potential impact on customer behavior and its sales due to the proposed rate structure change" (Harlow, p. 10) Do you agree with her assertions?

A. No, I do not. Gulf's residential sales forecast has, for each of the past 20 years I have been involved with the Company's forecast, included a total-bill customer response. This element of the multivariate regression model has consistently been a statistically significant and an important component of Gulf's forecast model.

Earlier in her testimony, Ms. Harlow states, "A lower energy charge can be expected to impact customer incentives to use energy efficiently. All else being equal, customers can be expected to increase energy usage due to a lower energy charge." (Harlow, p.8-9) In the case currently under examination by the Commission, where the proposed lower energy charge is coupled with a proposed higher base charge, the “all else being equal” presumption does not hold.

Gulf Witness Merilatt addresses this topic further in his rebuttal testimony.

Q. Ms. Harlow suggests that Gulf may have to require monthly confirmation of SNAP benefits from customers enrolled in the Low Income Rider. Is this true?

A. No. Customers enrolling in the Low Income Rider will be required to produce a ‘Notice of Case Action’ from the Florida Department of Children and Families showing their SNAP eligibility. The ‘Notice of Case Action’ includes the start and end date of the customer’s eligibility for SNAP benefits. The date the customer’s SNAP eligibility expires will be entered into Gulf’s database. Prior to the expiration of the customer’s SNAP benefits, Gulf will notify the customer receiving the low-income credit that they must provide another ‘Notice of Case Action’ indicating that their benefits have been extended in order for them to continue receiving the low-income credit.

Q. Ms. Harlow asserts that “…customers with the lowest usage will be the most impacted by the proposed rate structure change.” (Harlow, p.8) Do you agree with this assertion?

A. No, because it ignores the very real possibility that a low-use customer would choose a demand rate which is more favorable to them even without changes in their behavior. For example, a customer with very low use (100 kWh) and low demand (10th percentile) who chooses the RSD rate will see no more increase on the new demand rate than if the Advanced Pricing Package were rejected.

Q. Have you seen any arguments in the intervenors' or Staff's testimony that warrant further consideration?

A. Yes. Staff Witness Harlow addresses gradualism—wherein the rate structure change is deemed the appropriate thing to do, but should not be implemented all at once. Ms. Harlow offers an inadequate solution, suggesting a misapplication of a Commission rule of thumb for allocating costs to classes. This misapplication is appropriately rejected for reasons provided by Gulf Witness Evans in his rebuttal testimony. Nevertheless, Ms. Harlow raises an important issue.

To effectively address customer bill impacts in this case, several important interactions will need to be considered. For instance, Gulf's proposed increase in the base charge is accompanied by, and offset to varying degrees by, a decrease in the energy charge. Furthermore, some customers will find the optional demand rates economically beneficial, significantly mitigating total bill increases. Both of these facts reduce customers' total bill impacts. These and other factors are provided for consideration in Exhibit RLM-2, Schedule 4.

Q. Does this conclude your rebuttal testimony?

A. Yes.

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 160186-EI

Before me the undersigned authority, personally appeared Robert L. McGee, Jr., who being first duly sworn, deposes, and says that he is the Regulatory and Pricing Manager 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/ Robert L. McGee, Jr.
Robert L. McGee, Jr.
Regulatory and Pricing Manager

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

Melissa Darnes
Notary Public, State of Florida at Large

Commission No. FF 912698

My Commission Expires December 17, 2019

NOTARY PUBLIC STATE OF FLORIDA
MELISSA DARNES
MY COMMISSION # FF 912698
EXPIRES: December 17, 2019
Bonded Thru Budget Notary Services

Exhibit

Residential Rate Structure and Clause Effects on Solar PV Payback

Assumptions

Avg kW size of Panel	5
Avg Cost/watt	$3.00
Federal Tax Credit	30%
Total Upfront Cost	$10,500.00
Capacity Factor	20%
kWh Savings	8,760

October 2016

Current Rate w/ 2016 Clauses

Energy Charge (base rate)	$0.04585
FCR	$0.03678
ECR	$0.02109
PPCC	$0.00919
ECCR	$0.00068
Total	$0.11359

Annual Savings	$995.05	
Payback	**10.6**	years

January 2017

Current Rate w/ 2017 Clauses

Energy Charge (base rate)	$0.04585
FCR	$0.03163
ECR	$0.00160
PPCC	$0.00888
ECCR	$0.02158
Total	$0.10954

Annual Savings	$959.57	
Payback	**10.9**	years
Change in Dollars (Annual)	**-$35**	
Change in Dollars (Month)	**-$3**	
Change in Years	**0.4**	

July 2017

Proposesd Rate w/ 2017 Clauses

Energy Charge (base rate)	$0.03298
FCR	$0.03163
ECR	$0.00160
PPCC	$0.00888
ECCR	$0.02158
Total	$0.09667

Annual Savings	$846.83	
Payback	**12.4**	years
Change in Dollars (Annual)	**-$113**	
Change in Dollars (Month)	**-$9**	
Change in Years	**1.5**	

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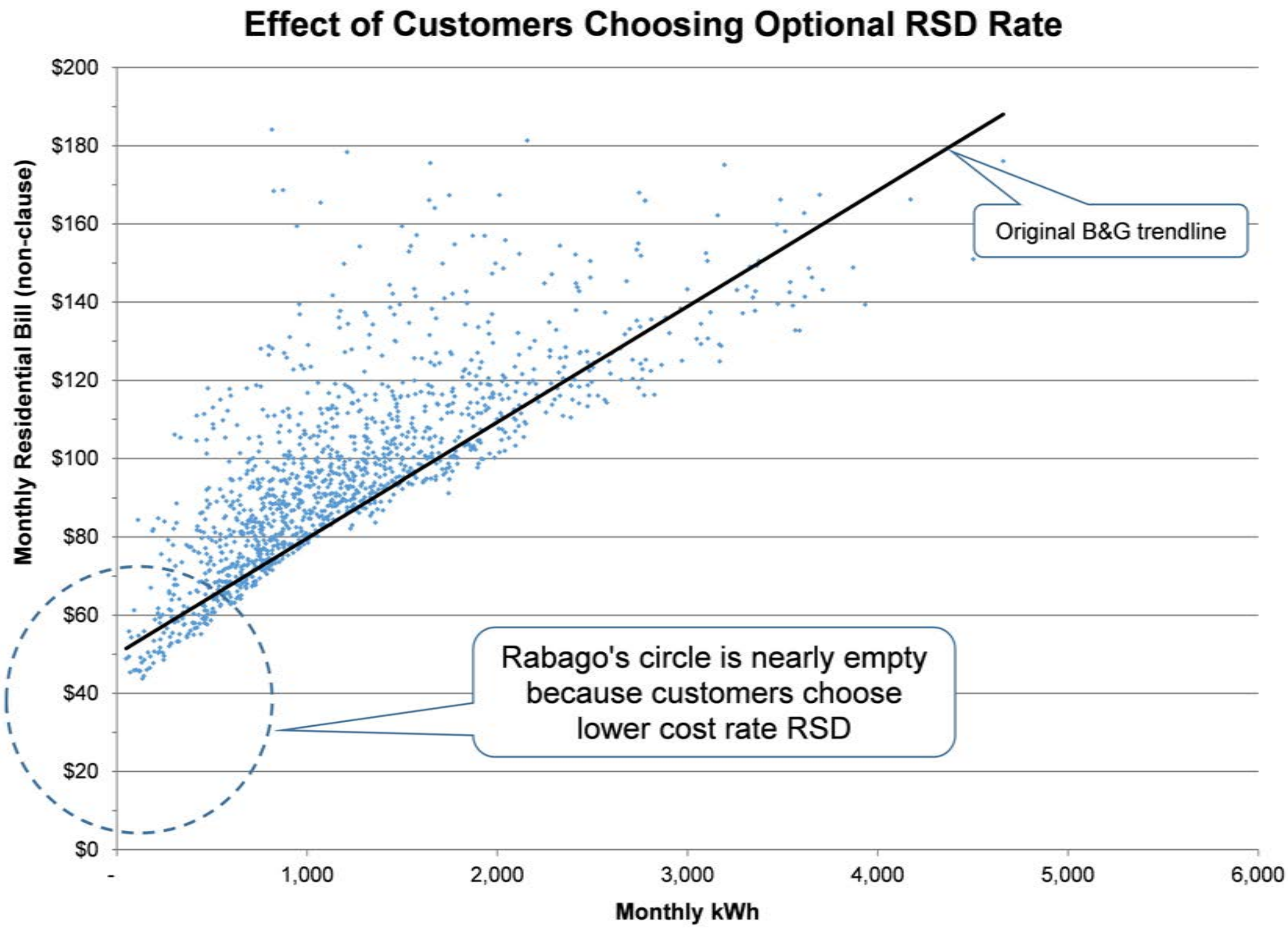

Florida Public Service Commission
Docket No. 160186-EI
GULF POWER COMPANY
Witness: Robert L. McGee, Jr.
Exhibit No. ___(RLM-2)
Schedule 3
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Factors to Consider in Implementing the Advanced Pricing Package

1. **Offsetting Bill Elements**

   The proposed increase in the base charge is accompanied by, and offset to varying degrees by, a decrease in the energy charge. Thus customers will experience varying total bill impacts based on their level of kWh usage. It is important to keep in mind that the very idea of realigning rates to more equitably recover demand-related costs necessarily implies that not all customers will experience the same percentage increase in their total bill.

2. **Rate Options**

   Many low usage customers will find the optional demand rates economically beneficial, significantly mitigating their total bill increase. One practical result of the Advanced Pricing Package proposal is that the only customers who would experience an increase as large as the Base Charge increase (approximately $29 = {$1.58 - $0.62} x 30.4375 days) will be customers with zero energy use who also do not switch to rate RSD. If a zero use customer switches to rate RSD, their bill increase would be less than $4. (Exhibit RLM-1, Schedule 6) Another good example of a customer benefiting from rate RSD is the customer who uses very little electricity—eschewing a clothes dryer for instance and only using heating or air conditioning in the most extreme weather conditions. This type of electricity use would result in bill increases of approximately $25 per month if the customer remained on the standard RS rate. However, in switching to the RSD rate and not making any changes in their usage pattern, this type customer would experience only a $3 to $9 increase over their current bill, well below the average expected for all customers. Another type of low-use customer to consider is the residential customer with solar photovoltaic (PV) electricity generation at their residence. Gulf estimates that about one hundred of Gulf Power's 400 or so residential PV customers will benefit from the rate structure change without changing rates at all—because their total use (even after the kWh effects of their self-generation are accounted for) is above average. But some residential PV customers have very low or even zero use. These customers will benefit significantly by choosing the RSDT rate and maintaining their zero use during on-peak hours. Under these circumstances, their bill increase, over current level, would be about $5, well below the average expected for all customers.

3. **Low Income**

   Qualifying low-income customers will receive a monthly credit of $21 ($21 = $0.69 x 30.4375), substantially reducing any increase in their total monthly bill. This is a significant mitigating factor that should be taken into account as overall customer bill impacts are considered.

4. **Other Impacts**

   Another factor to consider if a gradual implementation of the base charge increase is contemplated, is that both the low-income credit and the savings associated with Gulf's proposed new conservation measures diminish as the approved base charge diminishes. The low-income credit diminishes because there is less base charge increase to offset with the low-income credit (as calculated in Exhibit RLM-1, Schedule 7). The available amount of new cost-effective conservation diminishes because as the Energy Charge increases (for a given revenue requirement and a diminishing Base Charge), fewer energy efficiency measures pass RIM.

5. Summary

In order to better evaluate all of these considerations, the following is provided as an example. The B&G methodology suggests that, in Gulf's circumstances, the appropriate and fair amount of residential demand-related costs to put into the base charge of the two-part residential rate is about 50 percent. Taking half of this as a first step toward fair and equitable rates and thus putting one quarter (25 percent) of residential demand-related costs into the Base Charge of the residential two-part rate and leaving three-quarters (75 percent) of residential demand-related costs in the Energy Charge, results in the following as a first step toward more equitable rates: a Base Charge of $1.18 per day or $36 per month (a 90% increase over the current rate); an Energy Charge of 4.3 cents per kWh (a 2% decline compared to the current rate—which will allow for some amount of additional cost-effective conservation); and a low-income credit of approximately $10 per month.