

One Energy Place  
Pensacola, Florida 32520

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ORIGINAL



October 13, 1998

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

Dear Ms. Bayo:

RE: **Transmission Reconsideration**  
**Docket No. 980001-EI**

Enclosed for official filing are an original and ten copies of the Prepared Direct Testimony of:

1. S. D. Cranmer ~~11530-98~~
2. M. W. Howell ~~11531-98~~

ACK \_\_\_\_\_  
 AFA Sincerely,  
 APP Susan D Cranmer  
 CAF \_\_\_\_\_  
 CMU \_\_\_\_\_  
 CTR \_\_\_\_\_  
 EAG lw  
 LEG 1 Enclosures  
 LIN 37249  
 OPS \_\_\_\_\_ cc: Beggs and Lane  
 RCH \_\_\_\_\_ Jeffrey A. Stone  
 SEC 1  
 WAS \_\_\_\_\_  
 OTH \_\_\_\_\_

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

Docket No. 980001-EI

Certificate of Service

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ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**DOCKET NO. 980001-EI**

PREPARED DIRECT TESTIMONY  
OF  
M. W. HOWELL

**TRANSMISSION  
RECONSIDERATION**

October 14, 1998



**A SOUTHERN COMPANY**

DOCUMENT NUMBER-DATE

11531 OCT 15 88

FILED FOR RECORDING

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission  
3 Direct Testimony of  
4 M. W. Howell  
5 Docket No. 980001-EI  
6 TRANSMISSION RECONSIDERATION  
7 Date of Filing: October 14, 1998  
8

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

10 A. My name is M. W. Howell, and my business address is One  
11 Energy Place, Pensacola, Florida 32520. I am  
12 Transmission and System Control Manager for Gulf Power  
13 Company.  
14

15 Q. Have you previously testified before this Commission?

16 A. Yes. I have testified in various rate case,  
17 cogeneration, territorial dispute, planning hearing,  
18 fuel clause adjustment, and purchased power capacity  
19 cost recovery dockets.  
20

21 Q. Please summarize your educational and professional  
22 background.

23 A. I graduated from the University of Florida in 1966 with  
24 a Bachelor of Science Degree in Electrical Engineering.  
25 I received my Masters Degree in Electrical Engineering  
from the University of Florida in 1967, and then joined  
Gulf Power Company as a Distribution Engineer. I have  
since served as Relay Engineer, Manager of Transmission,

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

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

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

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

8 A. The purpose of my testimony is to provide evidentiary  
9 support regarding the requirement of the Federal Energy  
10 Regulatory Commission (FERC) that revenues from non-firm  
11 transmission services shall be reflected as a revenue  
12 credit when calculating the firm transmission service  
13 rates of the Southern electric system (Southern) which  
14 are subject to the FERC's jurisdiction. Gulf Power is  
15 an operating company of Southern.

16  
17 Q. Does the FERC require that revenue from non-firm  
18 transmission services subject to FERC jurisdiction be  
19 reflected as a revenue credit in the derivation of firm  
20 transmission service rates subject to FERC jurisdiction?

21 A. Yes. The FERC included this requirement in both Order  
22 No. 888 and Order No. 888-A for transmission providers  
23 using annual system peak load pricing for their  
24 transmission services. On page 304 of the FERC's Order  
25 No. 888, issued April 24, 1996, the FERC clearly states

1 that as part of a mechanism to prevent over-recovery of  
2 costs ". . . revenue from non-firm services should  
3 continue to be reflected as a revenue credit in the  
4 derivation of firm transmission tariff rates."

5 This requirement was reaffirmed by the FERC in  
6 Order No. 888-A that was issued on March 4, 1997. Page  
7 247 of Order No. 888-A states that ". . . the Commission  
8 [FERC] explained that revenue from non-firm transmission  
9 services should continue to be reflected as a revenue  
10 credit in the derivation of firm transmission service  
11 rates. The Commission [FERC] noted that the combination  
12 of allocating costs to firm point-to-point service and  
13 the use of a revenue credit for non-firm transmission  
14 service will satisfy the requirements of a conforming  
15 rate proposal enunciated in our Transmission Pricing  
16 Policy Statement."

17  
18 Q. Has the Southern filed its Open Access Transmission  
19 Service Tariff to conform to the above mentioned  
20 requirements of FERC Order No. 888 and FERC Order No.  
21 888-A?

22 A. Yes. All of Southern's transmission service tariff  
23 filings, including the currently effective transmission  
24 service tariff, have complied with the FERC-ordered  
25 requirements to include non-firm revenue credits in the

1 firm transmission service rate derivation. Southern's  
2 currently effective Open Access Transmission Tariff is a  
3 formulary rate tariff that provides for annual updates  
4 of the investment, expense, load, and cost of capital  
5 components of the firm transmission rate calculation.  
6 The scheduled updates provide the occasion for  
7 incorporating the most current non-firm transmission  
8 revenue credits in the determination of firm  
9 transmission rates. At the time of the annual updates  
10 to the input components of the formulary rate, the non-  
11 firm transmission service revenue credits accumulated  
12 since the last update are reflected as a direct  
13 reduction to the transmission O&M expense component of  
14 the firm transmission service. This mechanism provides  
15 a safeguard against over-recovery of costs that could  
16 otherwise occur due to FERC's requirement in Order 888  
17 that transmission charges be "unbundled" from economy  
18 energy sales. In fact, Southern's annual update filing  
19 on May 1, 1998 incorporated the required credit for non-  
20 firm transmission revenues received during calendar year  
21 1997 with the result being lower firm transmission rates  
22 for use of Southern's (and therefore Gulf's)  
23 transmission system from June 1, 1998 until the  
24 effective date of the next update.  
25



1 Q. How would you compare this FERC process of including  
2 credit for non-firm transmission revenues in the annual  
3 updates to Southern's firm transmission rate with the  
4 requirement by the Florida Public Service Commission  
5 (FPSC) that transmission revenues associated with  
6 economy energy sales be credited to retail customers  
7 through the fuel adjustment clause?

8 A. In principle, the two mechanisms are addressing the same  
9 concern. In both cases, the respective commissions are  
10 attempting to fashion a mechanism to protect against  
11 possible over-recovery of costs that might otherwise  
12 result in the short-term due to previously unanticipated  
13 revenues associated with the newly unbundled  
14 transmission charges. FERC's approach is to apply these  
15 revenues as a credit against transmission costs as part  
16 of the annual setting of transmission rates subject to  
17 its jurisdiction. The FPSC's approach is to take these  
18 same revenues and flow them directly to retail customers  
19 through the fuel clause in order to avoid ". . . a  
20 windfall for the seller." (Order No. PSC-98-0073-FOF-EI  
21 at page 7) To the extent that Gulf or any other utility  
22 is required to credit the same revenues in both  
23 jurisdictions, ". . . it will obviously be forced to  
24 credit more revenues than it receives." (Florida Power  
25 Corporation Motion for Reconsideration at page 5)

1 Q. Is the fact that both the FERC and the FPSC are each  
2 trying to address the potential of over-recovery by  
3 essentially capturing the same revenues twice of any  
4 concern?

5 A. In principle, yes. If both the FERC mechanism for  
6 addressing the concern about potential over-recovery by  
7 lowering transmission rates and the FPSC mechanism of  
8 flowing the same revenues back to customers through the  
9 fuel clause are in effect at the same time, the end  
10 result would be harm to the selling utility's  
11 shareholders due to under-recovery of costs. However,  
12 due to circumstances that have arisen recently in a  
13 docketed proceeding before the FERC involving Southern's  
14 Open Access Transmission Tariff, it appears that the  
15 potential that Gulf/Southern would prospectively be  
16 crediting the same revenues twice will be avoided for  
17 now.

18  
19 Q. What has happened that has changed Gulf's concern on  
20 this issue?

21 A. The FERC's docketed proceeding in which Southern's Open  
22 Access Transmission Tariff is under review has several  
23 intervenors who are seeking changes to Southern's  
24 transmission rate tariff. Recently, the parties to that  
25 docketed proceeding (including the intervenors, the FERC

1 staff and Southern) have reached agreement in principle  
2 on a settlement that will, if approved, result in the  
3 termination of the contested proceeding. Although the  
4 settlement agreement has not yet been reduced to writing  
5 and is still subject to review and approval by the  
6 Administrative Law Judge assigned to hear the case and  
7 the FERC itself, we believe that the settlement will  
8 ultimately be approved. The net result of the  
9 settlement will be that Southern's firm "open access"  
10 transmission rates will be fixed for an undetermined  
11 amount of time, and will not be subject to annual  
12 updates for changes in investment, cost of capital,  
13 expense or load components. The settlement, if  
14 approved, also means that the non-firm revenue credits  
15 will not be updated annually so long as the fixed rate  
16 contemplated by the settlement agreement remains in  
17 effect.

18  
19 Q. How should Gulf Power Company allocate transmission  
20 revenues associated with its sale of economy energy  
21 between the retail and wholesale jurisdiction?

22 A. The Company continues to believe that any transmission  
23 revenues received by the Company due to economy energy  
24 transactions should be credited to operating revenues  
25 rather than through the fuel clause. In this fashion,

1 the FPSC's surveillance mechanism would be used to  
2 ensure that such revenues do not cause the Company to  
3 over-earn. By crediting the revenues to operating  
4 revenues, the Company avoids the prospect of having to,  
5 in effect, give away the same revenues twice. However,  
6 given the Commission's prior decision to credit such  
7 transmission revenues through the fuel clause, and given  
8 it is likely that for the foreseeable future the non-  
9 firm transmission revenues received by Gulf will not be  
10 flowed back to the FERC jurisdiction through annual  
11 updates to Southern's firm transmission rates, Gulf's  
12 only remaining concern relative to this issue involves  
13 the use of a transmission-related jurisdictional  
14 separation factor to allocate revenues between the  
15 wholesale and retail jurisdictions. This concern is  
16 addressed in the testimony of Gulf's witness S. D.  
17 Cranmer.

18  
19  
20  
21  
22  
23  
24  
25

Q. Does this conclude your testimony?

A. Yes.

AFFIDAVIT

STATE OF FLORIDA     )  
                                  )  
COUNTY OF ESCAMBIA    )

Docket No. 980001-EI

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

*M. W. Howell*

M. W. Howell  
Transmission and System Control  
Manager

Sworn to and subscribed before me this 13<sup>th</sup> day of October, 1998.

*Rollanda R. Cothran*

Notary Public, State of Florida at Large

Commission No.

My Commission Expires

