

1
2
3
4
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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In The Matter of Application of GULF POWER COMPANY for an increase in rates and charges.	: : : : : : :	DOCKET NO. 891345-EI <u>HEARING</u> <u>SEVENTH DAY</u> <u>LATE EVENING SESSION</u>
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JUN 19 1990
Florida Public Service Commission

FPSC Hearing Room 106
Fletcher Building
101 E. Gaines Street
Tallahassee, Florida 32399

Tuesday, June 19, 1990

Met pursuant to adjournment at 12:37 p.m.

BEFORE: COMMISSIONER MICHAEL McK. WILSON, CHAIRMAN
COMMISSIONER GERALD L. GUNTER
COMMISSIONER THOMAS M. BEARD
COMMISSIONER BETTY EASLEY

APPEARANCES:

(As heretofore noted.)

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I N D E XWITNESSES

3	<u>Name:</u>	<u>Page No.</u>
4	HELMUTH W. SCHULTZ, III.	
5	Cross Examination by Mr. Holland	2519
6	(Dinner Recess)	
7	HELMUTH W. SCHULTZ, III.	
8	Continued Cross Examination by Mr. Holland	2564
9	Cross Examination by Mr. Palecki	2605
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

1 Index Continued:

EXHIBITS

2

Number:

Identified Admitted

3

609 (Schultz)

2599

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LATE EVENING SESSION

1
2 (Transcript follows in sequence from Volume
3 XVI.)

4 MR. McWHIRTER: No questions.

5 MR. HOLLAND: I have a few questions.

6 COMMISSIONER BEARD: You said that last time.

7 MR. HOLLAND: My few is like Commissioner
8 Gunter's few.

9 COMMISSIONER BEARD: There's only two or
10 three questions, but there's 30 or 40 subparts?

11 MR. HOLLAND: That's right.

CROSS EXAMINATION

12
13 BY MR. HOLLAND:

14 Q Mr. Schultz, does Mr. Burgess call you
15 Helmuth?

16 A You don't want to know what he really calls
17 me.

18 Q All right. With respect to Issue 86 in the
19 Prehearing Order, and specifically with respect to your
20 Exhibit HWS-3, do you have that?

21 A Yes, sir.

22 Q You have made a number of corrections with
23 respect to your prefiled testimony, and I think you
24 would agree with me in that if we find errors that we
25 ought to make the corrections? Is that, do you agree

1 with that?

2 A If I agree with the error.

3 Q Okay, if you agree it is an error. At Line 5
4 of HWS-3, you make an adjustment of \$409,000, based on
5 an inappropriate reference level. Is that correct?

6 A If you want to save some time on this,
7 subject to check and verification of the information
8 that was prepared in rebuttal testimony, upon
9 verification of that, I would withdraw this adjustment.

10 Q Okay. You would agree, it's not a reference
11 level adjustment, then, subject to check?

12 A I would agree, from what was in the rebuttal
13 testimony, I would agree that \$648,000 figure was not a
14 reference level adjustment. The \$409,000 I don't
15 recall him addressing in the testimony.

16 Q Because you're looking at Line 6 and agreeing
17 to the 648, subject to check, is that correct?

18 A That's correct.

19 Q Okay. Now the 409, are you familiar with the
20 nature of that figure, and is it your position that
21 that was a reference level adjustment?

22 A That's the way it was identified on the B
23 forms that were submitted for the budget.

24 Q Was it identified as a reference level
25 adjustment or was it identified as an update to a

1 controlled item, an update in the budget on a
2 controlled item? (Pause) Maybe we can save some time.
3 Let me ask you this question.

4 If the evidence is that the \$409,000 has
5 never been a part of the reference level, and is in
6 fact an adjustment to the budget made in November of
7 1986, updating the '88 budget in November of '87, would
8 you agree that it does not belong in the adjustments
9 that you have listed here?

10 A Yes.

11 Q Would you also agree that the \$409,000 is
12 included on HWS-8, and let's turn to that. The second,
13 Line 3 there, Postretirement Life Insurance, and Line
14 5, Postretirement Medical Benefits, would you agree
15 that the \$409,000 would also be included in that column
16 and you would have double-counted were you to include
17 it?

18 A No. I wouldn't agree to that.

19 Q Can you tell me why?

20 A First of all, because I can tell you exactly
21 where and how these numbers were put on your B-4 forms
22 -- B-3 forms. The \$409,000 at this point in time, I'm
23 not sure, other than the fact that I saw it come
24 through on an approval form as an adjustment to the
25 other expenses. Normally, your corporate-controlled

1 expenses is what you're referring to on HWS-8, don't
2 get categorized in the way that that particular item
3 did in its adjustment. That's what led me to believe,
4 originally, that all the adjustments were reference
5 level adjustments and did not pertain to
6 corporate-controlled items.

7 Specifically, like I say, it's a difference
8 in the way that the Company handled these adjustments,
9 in respect to the way they normally handle a controlled
10 item.

11 Q Okay. But you would agree that you wouldn't
12 want to count it twice, would you? You wouldn't want
13 to disallow the same dollars twice?

14 A Well, I wouldn't want to allow the same
15 dollars twice. And, like I said, in respect to the
16 Adjustment No. 1 that I had, when you take out the
17 \$648,000 item that I referred to and you offset the 409
18 with the credits that are in there, it is basically a
19 wash in my eyes. And it was something, like I said, as
20 long as the 648,000 meets my approval, I would just
21 withdraw that total adjustment.

22 Q It would actually go negative, would it not,
23 if you take the 409 and the 648?

24 A No. Because then you'd have to explain to me
25 why you're making a credit for the 393,477, which is

1 unexplained. That's why I have that item on there,
2 too.

3 Q But the 648 would make it go to about
4 \$100,000, just in and of itself, would it not?

5 A Well, if you want to take them one item at a
6 time.

7 Q Well, I thought about that, but at the time I
8 picked the two biggest ones.

9 A What I'm saying is if you just provide me the
10 documentation for the 648, I'll just withdraw my
11 recommendation for the total adjustment and drop the
12 whole situation, because if you have to look at each
13 one independently, I think you could carry this out a
14 lot farther than would be necessary and would
15 accomplish anything.

16 Q Let's look at HWS 4, and specifically with
17 reference to Issue 87. You have taken the position
18 that an additional adjustment over and above that made
19 by the Company should be made for vacancies, is that
20 accurate?

21 A That's correct.

22 Q And you took 58 employees, which in your
23 testimony I believe you stated was the February
24 budget-to-actual?

25 A That would adjust it down to the February

1 actual, that's correct.

2 Q Did you get a listing of the employees and do
3 any analysis of the type of employees involved, why the
4 vacancies had occurred or anything like that?

5 A I looked at various analyses; the titles
6 changed from time to time.

7 Q Do you agree -- I believe your colleague, Mr.
8 Larkin, did, and there are several references in your
9 own testimony that to the extent that the Commission
10 can, that we ought to use actual data, the latest data
11 that we have available?

12 A The actual data, as long as it's proper
13 actual data, yes.

14 Q Would you agree, subject to check, that as of
15 May, actual, Gulf Power Company had 37 vacancies?

16 A That would surprise me. I looked at March's
17 after preparing the schedule, and if I would have gone
18 on to March's, I believe I would have had to adjust it
19 by two the other way, making it only 56, but then when
20 I looked at April, it was back to 58 again. Unless you
21 decided to make a quick hiring of a bunch of people, I
22 would find that number hard to accept.

23 Q Well, what April figure did you have?

24 A I'm not including your appliance salespeople,
25 if you are.

1 Q Well, I'm looking at the total budgeted
2 employees after the Company adjustment for purposes of
3 this rate case of 1,587. That includes the 38.

4 A That's not the same number that I had, as a
5 supplied response to a data request by the Company.

6 Q Let me ask you this: Were you looking at a
7 budgeted level of 1,625?

8 A That's correct.

9 Q And you were looking at the actual data for
10 April, which would be -- what number were you given?

11 (Pause)

12 A That would be about 1,567.

13 Q Let me ask you this question, and I'll leave
14 it to the Commission to decide what number, if any,
15 should be used. But if we're going to adjust for
16 budgeted employees which were not hired, is it not
17 likewise appropriate to adjust for unbudgeted employees
18 that we did hire, such as temporaries and co-ops?

19 A Well, first of all, I believe that by using
20 the number that I have, I have accounted for some
21 unbudgeted numbers because I'm taking some actual,
22 which a position may have been filled that wasn't on
23 your list, or a newly-created position may have come
24 about that resulted in an increase.

25 Second of all, you do have in your budget a

1 complement -- well, I won't say a complement -- but you
2 do have included in your budget summer employees other
3 than this labor amount here.

4 Q But the temporaries who are hired to take the
5 place of, at least for a period of time, the unfilled
6 permanent positions, should an adjustment not be made
7 for those expenses?

8 A Like I said, I believe my figure, going back
9 to an actual number, includes that, in theory.

10 Q Do you know it for a fact?

11 A Well, if you mean did I sit down and check
12 out the total quantity of employees at Gulf Power and
13 verify all the salaries, I didn't do that.

14 Q Okay. Would you also agree that in terms of
15 the budgeted salaries, that if Gulf budgeted for a 3%
16 increase in its labor force -- and by that I mean the
17 covered employees -- and the actual was 3.7 under the
18 new contract, that an appropriate adjustment would be
19 made there as well?

20 A Are you saying you want me to increase the
21 adjustment?

22 Q No. I'm saying that the expenses associated
23 with the covered employees are over and above that
24 which we projected them to be, or budgeted them to be.
25 And if we're making adjustments for what we know today

1 to be the fact, that are causing the budgeted level to
2 go down, should we not make a commensurate adjustment
3 for those items that we did not anticipate that are
4 causing it to go up?

5 A That might have some impact on it, but I'd
6 also have to start considering other things, like
7 overtime, too.

8 Q Okay. (Pause) On your HWS-5, I believe it's
9 your position that your avering technique is the
10 appropriate technique to use for calculation of a
11 turbine and boiler expense level, is that correct?

12 A I believe it to be a fair way of determining
13 what an average cost that should be flowed to through
14 the rate payers would be.

15 Q You would agree, would you not, that the
16 benchmark variance was \$202,000? (Pause) If you don't
17 have that, Mr. Schultz, that's okay. Let's move on.

18 With respect to the Office of Public
19 Counsel's position, they state that based on a ten-year
20 average, you did not average over ten years, did you?

21 A Where is that?

22 MR. BURGESS: Would you tell me what issue
23 you're referring to?

24 MR. HOLLAND: 38.

25 Q (By Mr. Holland) That's not what you did, I

1 don't believe.

2 A No, I didn't use a ten-year average.

3 Q You used a six-year average, is that correct?

4 A I have a six-year average actual that I used
5 to determine the adjustment and a comparative
6 alternative based on a five -- the five-year forecast
7 of what the Company was projecting to be the cost for
8 turbine and boiler inspections.

9 Q The six-year average that you calculated and
10 the correction you made, you had erroneously picked up
11 the customer growth factors rather than the inflation
12 factors, is that correct?

13 A That's correct.

14 Q And the adjustment that you made to your
15 projected data, you had actually taken a five-year
16 average and divided by six rather than by five, is that
17 correct?

18 A That's right, because I at one time had six
19 years in there.

20 Q At Page 19, Line 13 -- and hold that exhibit,
21 maybe you just can agree with this -- you state that
22 it's better to use an actual average if you, in fact,
23 have actual data available, rather than a projected?

24 A That's right.

25 Q Have you calculated what your average would

1 be for 1990 if you used the actual dollars spent in
2 1990 for turbine and boiler maintenance?

3 A I don't know what the 1990 dollars were that
4 were spent. 1990 is not over yet.

5 Q I apologize. Mr. Lee was here; you were not
6 here, I do not believe. And he testified that all
7 turbine and boiler maintenance to be done by Gulf Power
8 Company had, in fact, been completed and that the
9 amount spent was actually \$6,977,000. Should we use
10 that figure rather than your budgeted figure?

11 A Subject to check, you might insert that. I'd
12 question the flow in itself of the dollars, as they are
13 expected to be spent on the turbine and boiler
14 maintenance. You have a year there that is
15 substantially less than all the other years, and the
16 maintenance in this year may have been accelerated to
17 an extent.

18 Q When you say, "accelerated," do you mean we
19 performed additional turbine and boiler maintenance?

20 A You may have some.

21 Q You don't know that though

22 A No, I don't. I don't know also whether you
23 have deferred some, either. So it could go either way.

24 Q You used a six-year average, I believe,
25 beginning in 1984 through 1989?

1 A That's correct.

2 Q Might it not be more appropriate to use a
3 shorter period of time, such as five years, and look at
4 1990 actual, say 1986 through 1990? Is there a reason
5 why that's not as appropriate, if not more appropriate,
6 than the methodology which you used?

7 A I took 1984 through 1989 for a particular
8 reason. 1984 was a benchmark year in their last rate
9 case. So I figured, in all fairness, I would take all
10 the expenses from that time period on through 1989 and
11 grow them up based on a CPI factor and get an average
12 and compare that to what's been budgeted for 1990.
13 That's what I thought was a fair approach to doing it.

14 Q What did the Commission do in 1984 when it
15 used an averaging technique? Do you remember?

16 A I can't say that I do.

17 Q Would you agree, subject to check, that they
18 used the actual data that they had -- I think it was
19 two years or three years, including the rate case plus
20 a project two years?

21 A Subject to check.

22 Q Okay. Would you also agree that, subject to
23 check, that using that methodology, the average is
24 \$5,108,000?

25 MR. BURGESS: Excuse me. I have a problem

1 with generally with these questions.

2 MR. HOLLAND: I'll withdraw the question.

3 MR. BURGESS: It's just subject to check
4 would you, I mean --

5 MR. HOLLAND: Rather than having him --

6 Q (By Mr. Holland) Let me see if you will
7 agree to this, Mr. Schultz: Would you agree that there
8 are any number of appropriate averaging techniques that
9 one might use to give or reflect an appropriate level
10 or to test the level of O&M or turbine and boiler
11 expenses for the 1990? Yours is not the only one that
12 would --

13 A I don't have a patent on it, no.

14 Q With reference to your six-year or your
15 five-year projected numbers -- and this is more of a
16 curiosity question than anything -- your 1987 actual
17 that you show there. I'm sorry, it's not the
18 forecasted but the actual dollars. The 1987 actual
19 that you show there, your firm, I believe, was involved
20 in the 1987 tax rule docket.

21 A I thought it was '88 but --

22 Q You were involved in that one, too.

23 In your opinion, would it have been
24 appropriate to use your averaging technique for the tax
25 rule docket to arrive at a reasonable level of O&M

1 expenses?

2 A I would have used an averaging.

3 Q You would? Okay.

4 COMMISSIONER BEARD: Does that mean you want
5 to reopen the '87 tax docket?

6 MR. HOLLAND: It would mean that we would get
7 a refund, that we would get all the money back that we
8 refunded to the customer.

9 MR. BURGESS: You did have the opportunity to
10 move for reconsideration.

11 MR. HOLLAND: I did.

12 COMMISSIONER EASLEY: And your friends call
13 you what? (Laughter)

14 Q (By Mr. Holland) With respect to Issue 89,
15 the Plant Daniel expenses, you state there that your
16 recommended disallowance is based on your benchmark
17 variance, and this is at Pages 22 and 23 of your
18 testimony. (Pause)

19 Is that an accurate assessment of your
20 position?

21 A Could you state that question again? I only
22 heard --

23 Q Your recommended disallowance is based on the
24 benchmark variance?

25 A That's what the adjustment is, is the

1 benchmark variance.

2 Q Okay. And in your opinion the Company has
3 failed to justify a \$477,000 turbine and boiler repair
4 item at Plant Daniel in 1990?

5 A You're asking me to accept the \$477,000
6 explanation for a total budget.

7 The benchmark doesn't necessarily say, "Okay,
8 you have a specific item that is in it." I think you
9 have to consider whether maybe there was something else
10 that changed, too, and maybe the benchmark should have
11 been adjusted for other items within it. I don't think
12 that the explanation provided justified the variance.

13 Q Did you make any attempt, using your
14 averaging technique, to look at Plant Daniel O&M
15 expenses since 1984?

16 A I wouldn't take an averaging technique for
17 Plant Daniel because of the fact that I'm not convinced
18 that all the Plant Daniel costs are such that should be
19 flowed through to the ratepayer.

20 Q What does that have to do with taking a look
21 for analytical purposes? I mean, it seemed to be
22 appropriate in one instance; why would it not be
23 appropriate in another?

24 A Well, I guess it's a basic theory question as
25 to -- you're talking earlier about turbine and boiler

1 inspections of which you go out and you see what you
2 can spend. With Plant Daniel it's not what you can go
3 out and spend, it's what Plant Daniel decides you're
4 going to be billed for your expenses for the year.
5 They are not comparable, the two costs.

6 Q And that's based upon your assessment of the
7 control that Gulf Power Company has over Plant Daniel
8 expense. Is that accurate?

9 A That's accurate.

10 Q Okay. Given the fact that the expenses at
11 some period in 1984 were deemed by the Commission to be
12 reasonable, would it not be appropriate to look at what
13 has happened to those expenses since 1984?

14 A It would be appropriate to see what has
15 happened to those expenses since 1984, yes.

16 Q Would you agree, subject to check, that the
17 Plant Daniel expenses in 1990, the budgeted are, in
18 fact, less than those allowed in 1984?

19 A Again, you can go subject to check. I don't
20 know. I can't say --

21 Q You've not made that determination?

22 A I haven't determined that Plant Daniel
23 expenses in 1990 are less than what they were in 1984.

24 Q And you've not done any type of averaging to
25 determine what the average has been over?

1 A No, I did not average Plant Daniel's
2 expenses.

3 Q With respect to Issue 80 in your testimony at
4 Pages 23 and 24. Again, your adjustment is based
5 solely on your benchmark calculation?

6 A Where was that again? Issue 80, and I think
7 the testimony at Page 23 and, yes, Pages 23 and 24.
8 Your proposed adjustment relative to the Plant Daniel
9 transmission line rentals?

10 A I didn't make an adjustment to the Company's
11 expenses for Plant Daniel's transmission lines. I
12 simply stated that the Company's proposal to adjust the
13 benchmark for \$425,000 wasn't necessary because, if you
14 take the benchmark as of 1984 and see what it results
15 in in 1990, it exceeds the Plant Daniel transmission
16 line expense for 1990. Therefore, no adjustment to the
17 benchmark is necessary. In fact, it's almost straight
18 on the money.

19 Q Well, let me just -- and maybe I
20 misunderstood your position. With respect to Issue 80,
21 are you only recommending that the Plant Scherer
22 transmission line rentals be disallowed?

23 A That's correct.

24 Q And you're making no adjustment for Daniel
25 transmission line?

1 A That's correct.

2 Q Okay. We'll move on then.

3 Plant Daniel A&G, Issue 89, testimony I think
4 Page 24. Is your adjustment there based upon your
5 determination of the appropriate benchmark methodology?

6 A My adjustment there is based on the
7 Commission's ruling in the last rate case.

8 Q And is it your position that Gulf Power
9 Company has not calculated the benchmark for Plant
10 Daniel A&G consistent with the Commission's order in
11 the last rate case?

12 A I read through and tried to find where the
13 Commission says the Company should take production-
14 related A&G and separate it from other A&G and provide
15 any factors to it. And I didn't see where the
16 Commission said that that was the case.

17 My reading of the order, the Company said,
18 "These costs have been duplicated and, therefore,
19 should not be allowed."

20 Q But the Commission also stated in that order,
21 did it not, that production related A&G should be
22 attached to or made a part of plant, and that it should
23 not be included in a benchmark justification.

24 A That wouldn't make a difference in the total
25 number. The Company is saying, well, here we have a

1 benchmark level, which the Commission's approved, and
2 says the dollars are all included in this benchmark.
3 And now the Company comes along and says, "Whoops,
4 we're going to pull a part of these dollars out related
5 to A&G for Plant Daniel and identify them as production
6 A&G. These are in addition to what was approved. It's
7 in addition to what was approved. It's not the same
8 dollars.

9 Q But if they were never included in 1984, if
10 Gulf Power Company in its filing did not include Plant
11 Daniel A&G expenses for purposes of calculating the
12 benchmark, it has not been included, has it?

13 A Well, my understanding of the order is it's
14 been included in there.

15 Q Listen to my question, Mr. Schultz. If it
16 were included in 1984 in the calculation of the
17 benchmark, it is not included in the '84 benchmark.
18 Just "yes" or "no".

19 A Well, your question says, "If it were not
20 included in the --"

21 Q I'm not asking you what the Commission found.
22 I'm asking you, based on a hypothetical, that if in
23 1984 the Company did not, in fact, include in its
24 calculation of the benchmark, production-related A&G at
25 Plant Daniel, then it is not included in the benchmark

1 level for 1984 escalated forward?

2 A Under what you're saying.

3 Q Okay.

4 COMMISSIONER BEARD: It's kind of hard to
5 deny. If you did put it in the benchmark, then you
6 didn't put in the benchmark.

7 MR. HOLLAND: That's exactly what I'm asking.
8 A simple question.

9 Q (By Mr. Holland) With respect to Issue 80 on
10 Page 28 of your testimony. You state there, and I
11 think it's your position, that all of the Scherer
12 transmission line rentals should be removed because the
13 Scherer capacity is all for unit power sales?

14 A That's correct.

15 Q Do you have any testimony to support your
16 statement that Plant Scherer capacity is all for unit
17 power sales?

18 A My testimony is based on the fact that Mr.
19 Rosen recommended the item be adjusted out of the
20 normal ratepayers -- the regular ratepayers -- the
21 regular ratepayers' base and also that Mr. Larkin took
22 the amount out.

23 Q But I think Mr. Larkin agreed, and I hope
24 that you will agree that that's not what Mr. Rosen said
25 that it would be sold in UPS. He simply stated that it

1 should be removed, is that correct? (No response)

2 Do you have any proof that the 63 megawatts
3 will be sold in unit power sales in 1990 test year?

4 A No.

5 Q Whether it's in or out of rate base, for
6 purposes of the 1990 test year and beyond, you would
7 agree, would you not, that it will be, in terms of
8 dispatch, available for and, in fact, providing energy
9 to retail customers?

10 A Only because Plant Scherer's there.

11 Q Okay. I agree with that.

12 I don't agree that that's the reason, but I
13 agree that it's there, and because it's there, it will
14 be providing service.

15 (Simultaneous conversation)

16 Q (By Mr. Holland) Would you also agree that
17 in order to get the energy to Gulf's territorial
18 customers that you need a transmission line?

19 A You're going to need something, yes.

20 Q But it's your testimony that even though they
21 are not going to pay for the capacity but are going to
22 receive the energy out of it, that they should not pay
23 any part of the transmission line rentals necessary to
24 get the capacity to Florida?

25 A I don't think I said that. You said that.

1 Q Well, I'm asking you. Is it appropriate to
2 disallow the transmission line rentals, which will be
3 used to transmit the energy to Florida, to serve Gulf's
4 retail customer?

5 A If it's determined that Plant Scherer is not
6 necessary, then the transmission lines are not
7 necessary and shouldn't be charged to the ratepayers.

8 Q Would you also agree that any benefit that
9 Gulf's retail ratepayers are receiving from
10 transmission payments from the UPS customers should not
11 go to the benefit of the retail customers?

12 A I haven't really considered that issue. I
13 think Mr. Larkin talked about that but I didn't
14 consider it.

15 Q Well, you're recommending disallowance of the
16 transmission line rentals and I think the issues are
17 related.

18 A Would you state the question again, please?

19 Q The UPS customers pay for use of the
20 transmission lines. If they're going to take out of
21 this rate case the expenses associated with the
22 transmission lines related to Plant Scherer, isn't it
23 also appropriate that any benefit that is derived from
24 the use of the transmission lines in terms of revenues
25 paid by UPS customers also be taken out of this rate

1 case?

2 A I believe the revenues from the UPS were
3 removed.

4 Q The transmission line payments by the UPS
5 customers were credited to the retail customers?

6 A Is that a question?

7 Q I'm asking you, would it be appropriate to --

8 MR. BURGESS: Excuse me, is that a question?

9 MR. HOLLAND: It's a statement with a
10 question.

11 MR. BURGESS: Well, I simply, at this point,
12 don't see that in the record, so --

13 MR. HOLLAND: Mr. Larkin, in his description
14 to the Commissioners of what the exhibit showed, stated
15 that there is a credit to the retail customers for --

16 CHAIRMAN WILSON: Why don't you posit the
17 question, "If there is a credit to the retail
18 customers, should it -- "

19 MR. HOLLAND: Thank you.

20 Q (By Mr. Holland) If there is a credit to the
21 retain customers, should that not be removed if the
22 transmission line rentals are removed?

23 A I believe so.

24 Q With respect to Issue 73 in your testimony at
25 Page 34, this relates to the SCS steam production

1 adjustment. You're recommending that a total, I
2 believe, of \$734,595 of the SCS expenses be disallowed,
3 is that correct?

4 A That sounds right.

5 Q And I believe with respect to, on HWS-7
6 schedule, that shows those adjustments?

7 A That's correct.

8 Q The duplicative services in the amount of
9 324,000 shown on Page 2 of 3, is it fair to state that
10 your proposed disallowance is based primarily upon what
11 you deemed to be similar wording, in terms of the
12 description of the work to be done?

13 A That had a big part of it.

14 Q Did you do any indepth analysis to determine
15 whether, in fact, they were duplicative?

16 A If you're referring did I review each and
17 every study that would have been performed, I didn't.

18 Q Okay. On the next page, Page 3, --

19 CHAIRMAN WILSON: Does that mean that I can
20 conclude that your disallowance was based principally
21 on the wording descriptions of the programs?

22 WITNESS SCHULTZ: The descriptions of the
23 different programs gave all indications that there was
24 similarities within the programs and they overlapped.

25 And therefore, I recommended that they be adjusted

1 based on an overlapping of the programs.

2 CHAIRMAN WILSON: But that was based on the
3 wording of the description?

4 WITNESS SCHULTZ: Right, I didn't analyze any
5 programs in detail.

6 CHAIRMAN WILSON: All right.

7 Q (By Mr. Holland) On Page 3 of 3, you've
8 picked four work orders or areas and made a
9 calculation, budget-to-actual historical? Is that
10 accurate of what you've done, and an accurate
11 description what have you've done here?

12 A That's accurate.

13 Q Is it fair to state that you picked four out
14 of 28 work orders, and you picked those work orders
15 which were considerably below budget, while ignoring a
16 considerable number that were over budget? (Pause)

17 You looked at all of them, didn't you, Mr.
18 Schultz?

19 A I can't say that I identified all 28 of them.

20 Q Did you look at more than four?

21 A Yes. I did look at more than four.

22 Q Would you agree that, subject to check, that
23 if you take the average of the 28 and do the same
24 averaging technique that you have used, that we are, in
25 fact, over budget on all work orders?

1 A Well, you asked me subject to check, yeah,
2 subject to check, I could check it out. Depending on
3 what the circumstances are.

4 Q Do you think, in doing this type of averaging
5 technique that you've used here, that it's appropriate
6 to just take those that are below budget or would it be
7 more appropriate to look at all of them and include
8 those that are above budget as well?

9 A When I looked at them, I took and tried to
10 find the ones that stood out the most as being
11 inconsistently -- or consistently out of sync with the
12 budget. Some of the others you may have had a variance
13 one year plus, and the next year you may have a
14 variance minus. Therefore, if they're fluctuating --
15 you know, depending on the fluctuation. These stood
16 out, in a sense, that I thought it appropriate to
17 address these items in particular.

18 Q With respect to Issue 99, the fan and the
19 duct repair adjustment, the adjustment that you made or
20 the amended calculation that you made, I believe, to
21 your HL --

22 A 11.

23 Q -- 11, was that based upon your picking up
24 the customer growth rather than the inflation factor?

25 A The original adjustment was, yes. There is a

1 revised schedule.

2 Q With respect to Issue --

3 COMMISSIONER GUNTER: Mr. Holland, could I go
4 back just for a second?

5 MR. HOLLAND: Yes.

6 COMMISSIONER GUNTER: I apologize, but I was
7 listening and letting that cook through my brain just a
8 little bit.

9 On your HWS-7, you had a -- I've got to make
10 sure I understand this correctly. You had a sample
11 size of 28, is that correct?

12 WITNESS SCHULTZ: That's what Mr. Holland
13 tells me the total number was.

14 COMMISSIONER GUNTER: Okay. Well, I didn't
15 hear you object to that 28. You responded that you
16 hadn't studied all 28?

17 WITNESS SCHULTZ: Right.

18 COMMISSIONER GUNTER: But you had looked at
19 more than four?

20 WITNESS SCHULTZ: That's correct.

21 COMMISSIONER GUNTER: That was your response,
22 wasn't that correct?

23 WITNESS SCHULTZ: That's correct.

24 COMMISSIONER GUNTER: With a sample size of
25 28, I assume you did not do a random sample? In other

1 words, you went through and picked out, if I
2 understand, you went out and picked out those that you
3 wanted to display for us to consider as evidence in
4 this proceeding, is that correct?

5 WITNESS SCHULTZ: I picked out the ones that
6 stood out significantly, in my eyes, as being
7 consistently out of sync.

8 COMMISSIONER GUNTER: Okay. I understand.
9 You know, if you want to take a position, you take the
10 position that you want to display. And if you don't
11 have any randomness in your sample, that would
12 indicate, at least from a statistical standpoint, that
13 you could skew your results significantly, one way or
14 another, by not having randomness in your sample.

15 WITNESS SCHULTZ: Randomness could, you know,
16 affect the results, yes. I also considered the fact
17 that I have some familiarity with The Southern Company
18 Services budgeting process and some of the problems
19 that I have had before and have encountered with it,
20 and I took that into consideration also.

21 COMMISSIONER GUNTER: In other words, you're
22 saying that you've got a bias, is that correct?

23 WITNESS SCHULTZ: I have found that the
24 Southern Companies Services or that Southern, as it is,
25 had to, had a tendency to have a budget that was

1 biased, I felt.

2 COMMISSIONER GUNTER: Well, that's, as I
3 said, you had a built in bias that went into this
4 sampling process. Okay, I understand.

5 Q (By Mr. Holland) Mr. Schultz, you've not
6 attempted, I would suspect, to take Gulf's total O&M
7 expenses, steam production, and do any kind of
8 averaging on those historically, have you?

9 A Which ones are you talking about right now?

10 Q All of them. The total.

11 A No, I haven't taken an average on the total
12 steam production.

13 Q Do you think that might be an appropriate
14 methodology, to use to measure the reasonableness of the
15 O&M expenses for 1990? (Pause)

16 A I don't know about taking it on a total
17 basis. I find that you have to pull out specific
18 areas, you have to identify the -- break down the steam
19 production into specific areas, so you can get a better
20 evaluation on it. Because you're looking at too big of
21 a base if you just take steam production in general and
22 evaluate it on overall average.

23 Q But if historically the level has been within
24 2, 3, \$4 million of the total of, I think, around \$50
25 million, might not it be appropriate to look at that,

1 in terms of using it as an analytical tool similar to
2 the Commission's benchmark analysis?

3 A I think looking at the components of the
4 steam production is a little better than looking at the
5 steam production in general.

6 Q But you told me a while ago you didn't want
7 to do that on some of the things that we were talking
8 about, you didn't think it was appropriate,
9 specifically the Plant Daniel?

10 A Specifically with Plant Daniel. Are you
11 talking about Plant Daniel or are you talking about
12 steam production in general?

13 Q Some areas it might be appropriate, in some
14 areas it might not, is that your testimony?

15 A I'm talking in regards to looking at the
16 expenses of Gulf Power, where Gulf Power incurs those
17 expenses themselves; and where I believe the control
18 exists over those expenses, you look at those
19 individual expenses and you can use some type of
20 averaging to evaluate the expenses.

21 In respect to Gulf Power's expenses incurred
22 with Plant Daniel, Plant Scherer and Southern Companies
23 Services, you have a different ballgame. Averaging
24 doesn't work, I don't believe, there.

25 Q But it would be appropriate if you took those

1 out, if you removed those?

2 A Took what?

3 Q You just said if --

4 CHAIRMAN WILSON: From the averaging process.

5 Q (By Mr. Holland) Right, if you took those
6 out from the averaging process and averaged what was
7 left, that that would be appropriate?

8 A Not on a total basis. I'm saying, you could
9 take everything excluding those three items, and you
10 break them into the detailed components and use an
11 averaging basis on those details. You can't take,
12 well, let's say the Company had \$50 million of expenses
13 this year and they got \$50 million budgeted for next
14 year, that looks appropriate and let it go. You have
15 to analyze what makes up the \$50 million to determine
16 what's appropriate in that amount.

17 Q I don't disagree with that. That's not what
18 I'm asking. What I'm asking you is, is it an
19 appropriate analytical tool, similar to the
20 Commission's benchmark? You used it in several
21 instances, specifically the last one you talked about
22 was in testing these Southern Company Services.

23 A Correct. For individual items, yeah.

24 Q You just said, we take it out of -- we don't
25 do it for SCS, but then you did it for SCS. Is that --

1 A I'm -- in the expenses that you're talking
2 about, I was trying to be conservative and fair and
3 trying to make an evaluation on them. If you want to
4 take a different approach at SCS and look at it from
5 the standpoint of what is fair, maybe a detailed audit
6 of the SCS expenses should be made and determine
7 whether those costs that SCS is flowing through to Gulf
8 Power Company are all appropriate.

9 Q Okay. With reference to HWS 8, the
10 adjustment under Issue 50 that you're proposing, the
11 vast majority of it is with respect to the
12 post-retirement life insurance and post-retirement
13 medical benefits, based upon Gulf's accrual methodology
14 versus a pay-as-you-go method. Is that accurate?

15 A That sounds accurate.

16 Q You're an accountant, aren't you?

17 A That's correct.

18 Q And you have a knowledge, a basic knowledge,
19 I would assume, of accrual accounting?

20 A That's correct.

21 Q Would you agree also that the benefits
22 associated with the post-retirement life insurance and
23 post-retirement medical benefits are being earned by
24 the employees at Gulf today?

25 A In a sense you could say they're being

1 earned, yes.

2 Q It's really a matter, isn't it, Mr. Schultz,
3 of pay me now or pay me later?

4 A I guess that's what the pay-as-you-go is,
5 yes.

6 Q And your recommendation would be that we pay
7 later?

8 A You pay as you go, right.

9 Q With respect to Issue 92, and your disallowance
10 -- and let me just speak to Issues 92 and 93 together.
11 You state that neither the productivity improvement plan
12 nor the performance pay plan are appropriate for
13 ratemaking purposes. Is that an accurate characterization
14 of your testimony?

15 A Right, they shouldn't be included in
16 determining the rates.

17 Q And I think you also state that the -- to the
18 extent that you're paying incentives, that you are
19 duplicating what is already included in base salary, is
20 that accurate?

21 A That's part of the assumption, yes.

22 Q Have you done any analysis to determine the
23 appropriateness of Gulf's salary levels and where they
24 compare to other similarly-placed utilities trying to
25 hire the same people?

1 A I looked at the information provided by Gulf
2 Power to me through interrogatories and production of
3 documents.

4 Q Is it your testimony that an incentive-type
5 pay plan, similar to the performance pay plan, has no
6 benefit to ratepayers?

7 A I didn't see any benefit to them.

8 Q Are you familiar with the Commission's --

9 CHAIRMAN WILSON: Is that a general principle
10 or just in this specific case you didn't see any
11 specific benefit for these ratepayers from the
12 incentive program and the incentives that were paid?

13 WITNESS SCHULTZ: Well, in this situation, I
14 find that where the performance pay plan is
15 inappropriate because, one, their base salary still has
16 incentives built into it. They can attain increases
17 with -- irregardless of the performance pay plan. They
18 can still get the normal increases. I mean they have a
19 range -- they can have increases in their base salary
20 up to 10%, depending on the levels that their ratings
21 are given in their reviews, or whatever. Even if your
22 medium grade, which is just an acceptable employee,
23 you're getting a four percent increase, according to
24 the performance pay plan booklet that they have.

25 And on top of that, you have -- besides

1 getting the regular pay increases that they get and the
2 merit increases that they get with their raises or
3 promotions and stuff, they get the performance pay
4 plan, which is related to Southern Company's results
5 and is under the control of Southern Company. This is
6 the Southern Company instituted item, and it's not
7 something that should be flowed through to the
8 ratepayer because, one, if Southern Company doesn't
9 attain certain goals, then the -- then Gulf Power
10 doesn't pay this. Well that means that Gulf Power's
11 ratepayers have to make sure that Southern Company is
12 happy, not Gulf Power, in order to pay this -- in order
13 for payment of the plan.

14 So that the whole objective is is let's do
15 whatever we have to do, I think, of maintaining
16 Southern Company, and it isn't oriented toward the
17 performance of service for Gulf Power.

18 CHAIRMAN WILSON: I'm back to my original
19 question. Do you object to the incentive pay plan
20 because you object to them in general or because this
21 plan, for the ratepayers of Gulf Power, for these
22 incentives for these employees is inappropriate?

23 WITNESS SCHULTZ: I think this is
24 inappropriate because it's an additional incentive. Is
25 that what you're asking?

1 CHAIRMAN WILSON: Well, that's not what I'm
2 asking, but I'll take that answer for now. Does that
3 mean that you object to any two-stage incentive-type
4 plan?

5 WITNESS SCHULTZ: Actually, I think they
6 already have the two-stage, because you do get your
7 incentives, and you can get promotions. That's a
8 two-stage in itself.

9 CHAIRMAN WILSON: Let me ask the question
10 this way: Do you have an objection to three-stage
11 incentive plans?

12 WITNESS SCHULTZ: Yes.

13 CHAIRMAN WILSON: I want to find out whether
14 your objection to incentive plans is a philosophical
15 one or whether you have problems because the incentives
16 given to the employees of this Company are not
17 commensurate with the benefits that are received by
18 these ratepayers. I want to know whether it's a
19 specific objection for benefits that these ratepayers
20 receive for what they pay, or do you have a
21 philosophical objection to incentive pay plans?

22 WITNESS SCHULTZ: I believe it's that this is
23 an excess of what the ratepayers are receiving.

24 CHAIRMAN WILSON: Go ahead.

25 Q (By Mr. Holland) It's true, is it not, that

1 the --

2 COMMISSIONER BEARD: Hold on a second. Let
3 me see -- I'll ask it a different way. I think we can
4 get there. Your problem -- you would not have a
5 problem with an incentive pay plan if the incentives
6 were appropriate to benefit the ratepayers as opposed
7 to the stockholders?

8 WITNESS SCHULTZ: I wouldn't have a problem
9 if it was to the benefit of the ratepayers and there
10 wasn't an excess amount of incentives.

11 COMMISSIONER BEARD: It's your position that
12 this particular pay plan, the design of it, and the
13 incentives, are more associated with the benefit of
14 Southern Company and their stockholders as opposed to
15 the ratepayers of Gulf Power?

16 WITNESS SCHULTZ: My objection was basically
17 on both, I'd have to say, if I heard your question
18 right. It has to do with the stockholders of Southern
19 Company, as well as being an excess incentive.

20 COMMISSIONER BEARD: I didn't say "or"; I
21 said "and." They are both linked.

22 WITNESS SCHULTZ: Pardon?

23 COMMISSIONER BEARD: I said "and," not "or."
24 In other words, you're -- I'll try it again. Your
25 complaint with this incentive pay plan is because the

1 incentives are designed to benefit Southern Company and
2 its stockholders as opposed to benefitting the
3 ratepayers of Gulf Power, which you think it should if
4 it's going to be approved? Never mind.

5 MR. HOLLAND: Mr. Schultz --

6 CHAIRMAN WILSON: Let me give it one last
7 shot. What I want to know, and what the other
8 Commissioners want to know is what exactly is your
9 objection to the incentive pay plan, succinctly and
10 specifically?

11 WITNESS SCHULTZ: My objection is two-fold:
12 One, it's based on Southern Company results, okay? And
13 the other one is that this is an additional
14 compensation plan for Gulf's employees that I don't
15 believe is providing any benefit to the ratepayers of
16 Gulf Power Company.

17 Q (By Mr. Holland) Mr. Schultz, does the
18 performance pay plan have anything at all to do with
19 the Southern Company return?

20 A Well, the Southern Company, or the
21 performance pay plan will not be paid if the Southern
22 Company dividends aren't paid. That's what it says in
23 the performance pay plan booklet.

24 Q That has to do with the ability to pay, does
25 it not?

1 A I'd have to check the wording, if it says
2 "ability" or "payment."

3 CHAIRMAN WILSON: When you say Southern
4 Company dividends, you mean what's paid from Gulf Power
5 to Southern Company or Southern Company to its
6 stockholders?

7 WITNESS SCHULTZ: No, paid to Southern
8 Company's stockholders.

9 Q (By Mr. Holland) What that means is if we
10 don't have the money, we don't pay, right?

11 A Whose "we"?

12 Q We, Gulf. Gulf.

13 A That means that Southern -- if Southern
14 Company doesn't have the money to pay their dividends,
15 there isn't a payment made.

16 Q Where does Southern Company get its dividend
17 payments?

18 A They get it from all their operating subs.

19 Q Let me make one stab. Are you opposed to
20 incentive pay plans? Is it your position that they are
21 inappropriate?

22 A I didn't say that. I said that you already
23 have a base pay that already provides for incentives
24 and this is an extra incentive that I didn't think was
25 necessary. Incentives are something that are required.

1 I just considered this excess compensation.

2 Q Is it --

3 CHAIRMAN WILSON: Do you work for a base
4 salary and that's it? Are you straight salary?

5 WITNESS SCHULTZ: No.

6 CHAIRMAN WILSON: Do you have any incentive?

7 WITNESS SCHULTZ: Do I have an incentive?

8 CHAIRMAN WILSON: Yeah, is there any kind of
9 incentive pay plan that you operate under? Mr. Larkin
10 pay you anything extra at the end of the year if the
11 Company has done real well?

12 WITNESS SCHULTZ: Well, since I'm considered
13 a partner, that's how I get --

14 COMMISSIONER EASLEY: That's an incentive.

15 CHAIRMAN WILSON: I think that answers my
16 question.

17 COMMISSIONER GUNTER: I'm going to duck in
18 just for a second.

19 MR. HOLLAND: Go ahead. I'm about to duck
20 out.

21 COMMISSIONER GUNTER: I'm going to be number
22 four on the list. I think the Chairman kind of broke
23 the code. Let's forget about this Company in this
24 case, and it's just you and I talking, riding along on
25 the back of a turnip truck. And if I --

1 philosophically, are you against any incentive pay
2 plans?

3 WITNESS SCHULTZ: Philosophically, I'm not
4 against incentive pay.

5 COMMISSIONER GUNTER: And if we were going
6 back to this case and that's what folks have been
7 trying to get you to say is, "no, philosophically
8 you're not against it," but in this case the two
9 reasons you mentioned previously would be the reason
10 you would oppose in this case, because one, it was
11 based on Southern Company performance.

12 WITNESS SCHULTZ: Right.

13 COMMISSIONER GUNTER: Okay, I've got you. I
14 thought I'd just try that a different way. It's easier
15 when you get on the back of a turnip truck, Mr.
16 Holland.

17 Q (By Mr. Holland) It's your testimony then,
18 that the performance pay plan will cause Gulf Power's
19 employees to earn excessive compensation?

20 A Yes.

21 Q Have you done any analysis or comparative
22 studies to compare Gulf salaries to other utilities?

23 A Like I said, I looked at your -- the
24 companies provided information, evaluated that, and
25 considered whether that compensation, in my opinion,

1 was benefiting the ratepayers of Gulf Power.

2 Q Is the goal of Gulf Power Company to obtain a
3 75 percentile level of salaries, in your opinion,
4 unreasonable?

5 A I think Gulf Power has to consider one, it's
6 area it's in, geographically. I know Gulf Power, in
7 response, has referred numerous times to the fact that
8 our Southern System Companies wages are such and such
9 and we're below those.

10 If I was to look at wages paid in Pensacola
11 and paid to the employees of Georgia Power, and
12 thought, "Well, gee, they are a lot higher over in
13 Georgia; that isn't fair to the people in Pensacola,"
14 I'd have to also consider what's the cost of living in
15 Pensacola. I can't just take it on the fact that the
16 wages are lower in one location as opposed to another.

17 Q But you would agree, would you not, that if I
18 am out trying to recruit 5 or 10 engineers, that they
19 are going to look at the salary they earn with Gulf
20 Power Company compared to the other utilities or other
21 companies that are hiring engineers in the South, or in
22 the nation, for that matter?

23 A They are going to look at the salary, but if
24 they are really serious about sticking around, they are
25 going to look at other things, too, including the area

1 and what a house costs in Pensacola compared to
2 Georgia.

3 Q Have you tried to recruit any engineers or
4 lawyers or anybody else like that to Pensacola lately?

5 A I wouldn't -- no, I didn't.

6 Q Okay.

7 COMMISSIONER GUNTER: They're starving to
8 death. They are down to their BMWs and things.

9 WITNESS SCHULTZ: Pardon?

10 COMMISSIONER GUNTER: They are starving to
11 death, they are down to the big BMWs.

12 MR. BURGESS: You're talking about the
13 engineers, aren't you?

14 MR. HOLLAND: He's got to be.

15 WITNESS SCHULTZ: He must be. (Laughter)

16 COMMISSIONER BEARD: You ought to try
17 recruiting engineers to Keystone Heights, Florida.

18 CHAIRMAN WILSON: Because I know what you
19 drive. (Laughter)

20 MR. BURGESS: I drive the turnip truck.
21 (Laughter)

22 MR. HOLLAND: That's good.

23 COMMISSIONER GUNTER: And I appreciate the
24 ride.

25 COMMISSIONER BEARD: Boy, we have gone to the

1 pits now.

2 COMMISSIONER GUNTER: It gets better as the
3 evening goes on.

4 MR. HOLLAND: You're right.

5 I want to ask one less set of questions, and
6 then if you could, take a short break?

7 Q (By Mr. Holland) The EPRI nuclear research
8 expenses that you've recommended be disallowed, do you
9 know how the EPRI dues are set?

10 A I don't recollect at this time how it is
11 anymore. I have seen how.

12 Q Would you agree, subject to check, that they
13 are based on a percent of revenues?

14 A Yes.

15 Q And you can't pick and choose, can you; pay
16 dues for certain projects, and not pay dues for other
17 projects.

18 A You can't pick and choose, but I think it is
19 in the Commission's position to be able to pick and
20 choose whether those costs are beneficial to the
21 ratepayers or not.

22 Q Well, the allocation that was done, was an
23 allocation that Gulf did, was it not?

24 A They are the ones that provided me with the
25 amount.

1 Q Okay. Would it be your opinion that oil and
2 gas utilities should not participate in coal studies
3 that are being performed by EPRI?

4 A Yeah, if they don't have any coal-fired
5 plants.

6 MR. HOLLAND: Okay. Mr. Chairman, could we
7 take just a few minutes, I'm getting ready to move into
8 another area, and I'm going to be quite a while.

9 CHAIRMAN WILSON: How much time do you want?

10 MR. HOLLAND: I probably have got 30 minutes,
11 maybe.

12 MR. PALECKI: We have 10 or 15 minutes, 10
13 probably. (Pause)

14 CHAIRMAN WILSON: What we are going to do is
15 take about 45 minutes and let everybody make
16 arrangements to have supper and then we'll come back
17 here and we'll go on.

18 MR. HOLLAND: Do we have any idea how long we
19 are going to go, just for planning purposes?

20 COMMISSIONER GUNTER: Well, as we used to say
21 in the country --

22 MR. HOLLAND: I remember it well.

23 COMMISSIONER GUNTER: -- you're going to be
24 here to your lips bleed.

25 MR. HOLLAND: Okay. (Laughter)

1 CHAIRMAN WILSON: What time do you want to
2 come back? Okay, we'll come back at 6:45. We'll go
3 for a couple of hours. Depends on how fast we move.
4 If we don't move fast enough, we may be here to
5 midnight.

6 (Dinner recess)

7 - - - - -

8 (Hearing reconvened at 6:58 p.m.)

9 MR. HOLLAND: Are we ready to proceed?

10 CHAIRMAN WILSON: Yes, we are.

11 HELMUTH W. SCHULTZ2572

12 having been previously called and duly sworn as a
13 witness on behalf of the Citizens of the State of
14 Florida, resumed the stand and testified as follows:

15 CONTINUED CROSS EXAMINATION

16 BY MR. HOLLAND:

17 Q Mr. Schultz, with reference to HWS-13 and
18 Issue 100.

19 A What was the issue number?

20 Q Issue 100.

21 A Okay, thank you.

22 Q Have you had an opportunity to review Gulf's
23 position relative to Issue 100 and the statements made
24 therein relative to the double counts with other
25 issues?

1 A You're referring to the double count of 100,
2 a \$152,000 item?

3 Q No, the position is that the only remaining
4 nonECCR expense not covered in other issues is the
5 399,006 related to residential and commercial
6 technology transfer, and that the remaining balance
7 relative to your 1,207,237, shown on Issue 100, is
8 covered in other issues in the Prehearing Order.

9 (Pause)

10 A Okay, I see what you're referring to.

11 Q Have you attempted to perform such an
12 analysis?

13 A Well, since I don't believe I made an
14 adjustment to any of those other issue items, I didn't
15 have a double count.

16 Q Well, let's look. Look at Issue 61. (Pause)

17 A Okay.

18 Q The position -- well, it's really the issues
19 that are stated and you've not taken a position. Is it
20 your position that everything is covered within Issue
21 100 and, I think, Issue 101, relative to marketing in
22 the test year? (Pause)

23 Let's me just ask you this, because --

24 A Yeah, I think that might be proper to state
25 that.

1 Q Okay. So to the extent your testimony would
2 be that you're not attempting to double recovery
3 expenses; and to the extent that an issue is stated
4 specifically that also covers expenses contained in
5 your Issues 100 and 101, you're not attempting to
6 disallow those twice?

7 A No. I'm not.

8 Q Okay. Specifically, with respect to HWS-13
9 and Issue 101, this is your proposed adjustment for
10 customer service and information, is that correct?

11 A That's correct.

12 Q Do you believe that a utility should provide
13 customer service and information programs if the
14 Utility's customers request or demand them from the
15 Utility?

16 A It depends if the customer knows what he's
17 paying for and to the extent that these costs are not
18 in the sense of an energy conservation cost.

19 Q Is it your testimony then that the customers
20 do not need or demand or request the type of programs
21 that are contained in your Exhibit HWS-13?

22 A What I'm saying is that a few customers, a
23 quantity of which I cannot identify, may request
24 specific services, but not all the customers are
25 requesting that service.

1 Q Okay. And your testimony, I believe, you
2 correct me if I'm wrong, is that only the customers
3 that get the service should pay for it. Is that
4 correct?

5 A Basically speaking, yes.

6 Q Okay. Are you aware that the recommendations
7 which you've made, in total, with respect to Gulf's
8 marketing programs would, in effect, disallow all
9 non-ECCR costs except for the costs associated
10 specifically with the computer programming for the
11 forecast?

12 A I don't believe all of it was.

13 Q Can you show me what's left?

14 A Well, I looked at the Company's response to
15 the OPC's Request No. 104. I know there's some
16 supervision or some labor, some material and expenses,
17 that are classified "General Supervision, Labor,
18 General Supervision, Material and Expenses." I
19 believe there's some residential program development
20 costs that are still there, some commercial program
21 development costs that are still there.

22 Q How much money are we talking about?

23 A Offhand, I couldn't --

24 Q That you left in?

25 A Pardon?

1 Q That you've left in?

2 A Offhand, I couldn't give you an exact amount.

3 Q Does the number \$800,000 ring a bell?

4 A I wouldn't argue the point. Subject to
5 check, I'd say that could be possible.

6 Q Were you here this --

7 CHAIRMAN WILSON: Do we have any kind of
8 schedule that shows what's in and what's out?

9 MR. BURGESS: I don't think we do. We could
10 probably piece one together, if you think it would be
11 helpful.

12 CHAIRMAN WILSON: Can you tell me what
13 principle you used to decide what was in and what was
14 out?

15 WITNESS SCHULTZ: I looked at the
16 identification of the programs that were there. And
17 first, I would eliminate the energy conservation
18 programs were the ones that were first eliminated by
19 me. And then the ones --

20 CHAIRMAN WILSON: And how did you determine
21 which ones those were?

22 WITNESS SCHULTZ: I tied back to the
23 Company's numbers for different energy conservation
24 costs.

25 CHAIRMAN WILSON: No, I mean, how did you

1 determine? Did you look at the program title and
2 determine whether it was conservation based on that or
3 what did you look at?

4 WITNESS SCHULTZ: Yeah. The Company provided
5 a response to I believe it was an interrogatory, a list
6 of all the various expenses with titles. And I went
7 through the total list and came up with a sum total
8 that matched another response that says, "This is so
9 much, it was Good Cents home. This equates to the
10 amount that the Good Cents new amount, Good Cents home
11 improved, so much was energy education." I pulled out
12 all those items specifically that the Company
13 identified directly.

14 CHAIRMAN WILSON: Are you saying you -- I
15 don't understand yet.

16 MR. HOLLAND: Let me see if I can help.

17 CHAIRMAN WILSON: Okay.

18 Q (By Mr. Holland) You were provided, were you
19 not, in response to an interrogatory, a listing of the
20 account numbers and the titles?

21 A That's correct.

22 Q And you went down those titles and deleted
23 those which you deemed not to be appropriate for
24 recovery?

25 A I went first and identified the ones that

1 were categorized as energy conservation. And then I
2 reviewed the titles of the costs in other accounts that
3 were left.

4 COMMISSIONER EASLEY: How were they
5 identified as energy conservation? Was it the number
6 or --

7 WITNESS SCHULTZ: The name itself said, "Good
8 Cents Home." And when I took all the Good Cents home,
9 in particular, it says "Good Cents Home New." I took
10 all those, added them up, and I could tie into the
11 number provided by the Company that says this is their
12 Good Cents home, new costs that are included in the
13 bundle.

14 COMMISSIONER EASLEY: Good Cents I can
15 understand. What about something like "Essential
16 Customer Service Labor?" What identifies that as an
17 ECCR?

18 COMMISSIONER GUNTER: That's line Item No. 16
19 on your HWS-13. (Pause)

20 Q (By Mr. Holland) Would you agree, Mr. Schultz
21 that --

22 COMMISSIONER EASLEY: He's got a question
23 pending.

24 MR. HOLLAND: I'm sorry. He's looking for
25 something? I'm sorry. (Pause)

1 WITNESS SCHULTZ: At the moment I can't
2 recollect how I came up with that, why I took out that
3 one.

4 COMMISSIONER EASLEY: But there was no series
5 of numbers or the account numbers or anything like
6 that?

7 WITNESS SCHULTZ: No, there wasn't a series
8 of account numbers that I used as a basis for that.

9 COMMISSIONER EASLEY: Okay, thank you.

10 CHAIRMAN WILSON: What was the principle? I
11 mean, what, why did you remove these?

12 WITNESS SCHULTZ: The principle for the --
13 what I classified as customer service information for
14 ECCR?

15 CHAIRMAN WILSON: Yeah.

16 WITNESS SCHULTZ: The principle is that if
17 these costs were energy conservation costs that should
18 be paid for in any way by the ratepayer, they would
19 qualify under the energy conservation clause. And if
20 they didn't qualify under the energy conservation
21 clause, then there's a question as to what benefit the
22 ratepayer may derive from those services and whether
23 the Company has proven that they are cost beneficial to
24 the ratepayer itself.

25 CHAIRMAN WILSON: Okay. So the principle of

1 you applied was if they weren't eligible to be
2 recovered through the ECCR, they shouldn't be recovered
3 at all?

4 WITNESS SCHULTZ: That would be correct. If
5 they're an energy conservation cost.

6 COMMISSIONER EASLEY: But if they were not an
7 energy conservation cost, you left them in?

8 WITNESS SCHULTZ: I would try to leave them
9 in. And if they were a questionable cost, I would
10 recommend that they be required to justify to the
11 extent that those costs are justifiably benefiting the
12 ratepayer. (Pause)

13 COMMISSIONER EASLEY: Were there any on this
14 list that you asked for additional justification on?

15 WITNESS SCHULTZ: I didn't ask for any
16 additional justification, no.

17 Q (By Mr. Holland) And those that were not
18 categorized by you as properly recoverable in energy
19 conservation, of the rest of them, you left in about
20 \$800,000, is that correct? (Pause) Why don't we
21 facilitate this and you just go down. There's not but
22 six or so you left in. Why don't you tell us what you
23 left in.

24 A Are you referring to the supplemental response
25 that I have?

1 Q No. I'm referring to the --

2 A That's where I get them from. Of the items
3 listed on HWS-13, okay, if you look at the 31 items
4 listed there, that comes up to a total of \$2.8 million.
5 The Company removed 1,640,000 of that, leaving a net
6 amount of 1,207,000.

7 COMMISSIONER GUNTER: Well, that's going
8 through your math. The question before you was go
9 through those that you didn't recommend to be removed.

10 WITNESS SCHULTZ: Well, all these would be
11 recommended as being removed because I'm recommending
12 in total 2-point --

13 COMMISSIONER GUNTER: How about of the list,
14 the supplemental list that they spoke of, how many were
15 not -- you know, kind of run through them, how many did
16 you not recommend be removed? You got a total of 31
17 different line items that you removed out of a list of
18 how many? (Pause)

19 WITNESS SCHULTZ: Of the list that I went
20 through, I just made a quick count, there's about 29
21 line items that I did not adjust out.

22 COMMISSIONER EASLEY: Is that total of
23 approximately 800,000? (Pause)

24 WITNESS SCHULTZ: I would be inclined to think
25 out of this list it's higher than that.

1 COMMISSIONER GUNTER: If we're going to talk
2 about that, is that an exhibit in the case that you all
3 are speaking from?

4 MR. HOLLAND: I think it's an interrogatory
5 response from a supplemental response.

6 COMMISSIONER GUNTER: Has it been identified?

7 MR. HOLLAND: Citizens' Second 104. I'm not
8 sure whether it has or not, Commissioner.

9 COMMISSIONER EASLEY: Did you intend to offer
10 that, Steve?

11 MR. BURGESS: Pardon?

12 COMMISSIONER EASLEY: Had you planned to put
13 that in?

14 MR. BURGESS: No.

15 COMMISSIONER GUNTER: Because at some point in
16 time -- we're getting to the point now, if we are going
17 to get any further questions, I've got to see it.

18 COMMISSIONER EASLEY: Yeah, me, too.

19 MR. HOLLAND: I thought you had a copy of it
20 in front of you. I'm sorry.

21 COMMISSIONER EASLEY: The only thing we have
22 got is his Exhibit --

23 MR. HOLLAND: His exhibits, okay. Well, if
24 they don't tie up, it's not going to help a whole lot.

25 COMMISSIONER GUNTER: The only thing we've got

1 is we're going through his exhibits; that's what we're
2 trying to follow and you all are talking about
3 different papers, you know.

4 COMMISSIONER BEARD: Do we have OPC 2-104,
5 supplemental response, is that what we want to look at?

6 MR. HOLLAND: Yes.

7 COMMISSIONER BEARD: Because we found 1.64,
8 which is the net operating income O&M adjustments on
9 C-53, Column J. I mean, that's there. Where is
10 Supplemental Response 2-104? Do we have that?

11 MR. HOLLAND: I don't know that you do. Let
12 us get some copies made of it. I think that might
13 facilitate, and I'll go on to some other questions and
14 come back to it.

15 WITNESS SCHULTZ: If I may, this supplemental
16 response is, if you'll reference to the Schedule C-53,
17 which shows the benchmarks --

18 CHAIRMAN WILSON: Yeah.

19 WITNESS SCHULTZ: I believe you'll find that
20 these are expenses that are included in the column
21 that's called "Customer Service and Information."

22 COMMISSIONER BEARD: Column J.

23 CHAIRMAN WILSON: I found your \$1,640,000
24 figure in Column J. What else am I supposed to find in
25 Column J?

1 WITNESS SCHULTZ: Well, that's what this
2 supplemental response list is of is of Column J. It's
3 a total itemized list of what is in Column J.

4 COMMISSIONER EASLEY: Where were you getting
5 the approximately 29 items that you did not disallow?

6 WITNESS SCHULTZ: That's from that
7 supplemental response.

8 COMMISSIONER EASLEY: That's what we are
9 looking for. That's not in 53?

10 WITNESS SCHULTZ: No, but the total of that is
11 in relation to that item, Column J.

12 COMMISSIONER EASLEY: No, wait a minute. Now
13 I don't understand this. Is the 800,000 included in
14 the 1.6 million?

15 WITNESS SCHULTZ: Let me put it this way: If
16 you look in Column J and it's Line -- I think it's Line
17 22 -- there's an amount there.

18 COMMISSIONER EASLEY: 22 is --

19 CHAIRMAN WILSON: 7,046,000?

20 WITNESS SCHULTZ: 7,066,000. Right.

21 CHAIRMAN WILSON: Right, what?

22 WITNESS SCHULTZ: That number is
23 representative -- is summarized with this customer
24 service and information expense on Supplemental
25 Response 2-104.

1 COMMISSIONER BEARD: Line 22 is purchased
2 power system. Line 23 is net operating income, O&M
3 adjustments.

4 WITNESS SCHULTZ: Well, the line -- it looks
5 like it's on Line 22, but it should be Line 21 is the
6 real title for it, 1990 budgeted O&M less direct fuel
7 and purchased power.

8 COMMISSIONER BEARD: I see.

9 COMMISSIONER EASLEY: I don't. That is the
10 2.8 million that is on your Exhibit HWS-13, plus the
11 800 you removed, plus the 1.6 million, that's adjusted
12 in Line 23 on C-53.

13 WITNESS SCHULTZ: No, let me start again.

14 The 7 million, okay, you understand that that
15 is what is in Supplemental Response 2-104, okay?

16 COMMISSIONER BEARD: O&M budgeted.

17 COMMISSIONER EASLEY: That's the entire
18 shooting match. Okay.

19 WITNESS SCHULTZ: Okay. Now, from the 7 --
20 included in 7 million is the 2.8 that I'm saying
21 adjusts out, of which 1.6 the Company has already done.

22 COMMISSIONER EASLEY: Which they did down on
23 Line 23 in C-53?

24 WITNESS SCHULTZ: And then I'm also adjusting
25 out the 1.1 million on HWS-14.

1 COMMISSIONER EASLEY: Okay. Which is test
2 year marketing expenses?

3 WITNESS SCHULTZ: Right.

4 COMMISSIONER EASLEY: Okay.

5 MR. BURGESS: Commissioner, I think so far
6 the 800,000 is on a question from Mr. Holland. I don't
7 think that's something that we've confirmed at this
8 point.

9 COMMISSIONER EASLEY: But whatever that
10 figure is would have to be added back in?

11 MR. BURGESS: As I understand it.

12 COMMISSIONER EASLEY: Okay.

13 MR. BURGESS: To reconcile back to that --

14 COMMISSIONER EASLEY: 7 million. And we're
15 not anywhere near 7 million yet.

16 MR. BURGESS: As I understand it, those would
17 be the programs that were left in.

18 CHAIRMAN WILSON: You said you adjusted out
19 the conservation-related one on your HWS-13, plus what
20 else?

21 WITNESS SCHULTZ: It would be HWS-12, 13 and
22 14 are the adjustments.

23 COMMISSIONER EASLEY: All right. Wait a
24 minute. Former ECCR Recovery Program. Tell me the
25 difference between that and the other 1.6 million.

1 WITNESS SCHULTZ: Well, the former ECCR are
2 costs that the Company is requesting be put into rates
3 that previously were recovered through the ECCR
4 Recovery Program; ECCR rates. Those are different than
5 the conservation costs that I've identified in HWS-13.

6 MR. BURGESS: As to tying it back to that, as
7 I understand it, Commissioner Easley, with 12, which is
8 2.1 million, and 13, which is 2.8, there are about 5,
9 and 1.1 on Issue 14.

10 COMMISSIONER EASLEY: Where it is 6 million.

11 MR. BURGESS: That's 6, a little over 6. And
12 then 7 you're heard about. Perhaps the 800,000.

13 COMMISSIONER BEARD: I get 610,407. In fact
14 that was 7066.

15 COMMISSIONER EASLEY: I rounded.

16 COMMISSIONER BEARD: That will put you at
17 900,000.

18 COMMISSIONER EASLEY: I have been listening
19 to you guys too long. I just rounded it.

20 COMMISSIONER GUNTER: Are you going on to
21 another subject?

22 MR. HOLLAND: Yeah. One thing I --

23 Q (By Mr. Holland) Is it a fair statement that
24 what you did was look down the account and program
25 title and that you derived your exhibits from that,

1 recommending disallowance of all items which you deemed
2 to be ECCR related or otherwise nonrecoverable?

3 A That would be a fair statement.

4 Q Did you do any analysis of whether specific
5 programs might be cost effective or otherwise necessary
6 for Gulf Power Company to comply with Commission rule
7 or law?

8 A I read the Company's responses as far as
9 justifying any of the ECCR expenses, and I didn't
10 figure they did, in fact, justify them. As far as
11 looking at the individual programs any further and
12 trying to justify them for the Company, I did not do
13 that, no.

14 Q Were you here this afternoon when I asked Mr.
15 Rosen about Exhibit 608, his Kentucky utility?

16 A I sure was.

17 Q Do you disagree with him, that in order to do
18 an appropriate disaggregated end-use forecast that
19 you've got to have customer information from all
20 classes?

21 A I don't think Mr. Rosen was saying that these
22 costs are -- he didn't specifically say that these
23 costs were costs that were to be recovered from the
24 ratepayer.

25 Q Who is going to pay for them if --

1 CHAIRMAN WILSON: I don't think he answered
2 your question.

3 MR. HOLLAND: I know he didn't.

4 CHAIRMAN WILSON: The question was more
5 generic than Mr. Rosen's testimony.

6 A Could you repeat the question for me, please.

7 Q (By Mr. Holland) Did Dr. Rosen, in fact,
8 agree with what he had stated in this document, that in
9 order to do an appropriate disaggregated end-use
10 forecast, that you had to obtain information from the
11 customers of all classes relative to their usage,
12 compliance usage?

13 A He did indicate that you had to obtain
14 information.

15 Q Okay. Are you familiar with the Commission's
16 end-use rule that requires the gathering of data
17 relative to --

18 A The end-use rule?

19 Q Yes.

20 A Not by that term.

21 Q Look, if you would, at HWS-14.

22 A Okay.

23 Q Specifically, lines 5, 6 and 7.

24 A All right. I'm looking at those.

25 Q Got those. You recommended that those be

1 disallowed, is that correct?

2 A Right

3 Q Are you aware that the costs associated there
4 are directly related to Gulf's compliance with the
5 end-use rule in gathering information, with respect to
6 that rule?

7 A No, I'm not.

8 Q Would it be fair to say that's indicative of
9 the type of analysis that you performed on the rest of
10 these programs?

11 MR. BURGESS: I'm not sure I understand the
12 question?

13 MR. HOLLAND: I think he did.

14 MR. BURGESS: Well, what's indicative?

15 MR. HOLLAND: I'm asking is this indicative.

16 MR. BURGESS: The previous question was he
17 aware whether these particular programs were in
18 response to a requirement of a Commission Order.

19 MR. HOLLAND: And he said no.

20 MR. BURGESS: He said no. And the next
21 question is, is that indicative of the research on
22 these?

23 CHAIRMAN WILSON: I think if you look at both
24 questions that's a fair question. The first question
25 was, "Did you know there was a rule," and he said, no.

1 Second question was, "Did you know these expenses were
2 necessary to comply with the rule," and he said, no.
3 And the third question was, "is that indicative of the
4 kind of analysis you did for these other expenses? "

5 MR. BURGESS: Then I would have to wonder
6 whether the inference of the question is that there is
7 a rule requiring every one of these other expenses. Is
8 that the premise of the question?

9 CHAIRMAN WILSON: I think that would then be
10 a fair question.

11 WITNESS SCHULTZ: I wouldn't categorize it as
12 being indicative of the analysis of the rest of the
13 items.

14 Q Okay. Let's take a look at that.

15 Turn, if you would, to Page 61 of your
16 testimony. Do you have that?

17 A I'm getting there. Okay.

18 Q Look, specifically, at lines -- well, let me
19 first ask you, you're recommending that the costs
20 associated with the Good Cents New Home Program be
21 disallowed, is that correct?

22 A That's correct.

23 Q And the basis for that, one of the reasons,
24 the first reason you state there, is that the program
25 was determined in Docket No. 860718-EG, "to have a

1 marginal cost/benefit ratio to participating
2 customers." Is that a correct statement?

3 A That's correct.

4 Q Can you show me where in that docket, or in
5 any order related to that docket, that determination
6 was made?

7 A I don't have that handy. I don't have it
8 with me.

9 Q You don't know whether that determination was
10 made or not?

11 A I, like I say, I don't have it with me and I
12 can't recollect what it said.

13 Q Maybe I could hand you the order and you
14 could read it and show me where in the order it says
15 that. (Witness furnished a document) (Pause)

16 COMMISSIONER GUNTER: Is there a question or
17 a response pending?

18 MR. HOLLAND: I think a response.

19 COMMISSIONER GUNTER: Okay. (Pause)

20 Q (By Mr. Holland) Mr. Schultz, let me try to
21 save you some time. It's not in there.

22 A Not exactly as I worded it; I agree with
23 that.

24 Q Let me ask you something else about your
25 statement there. Can you tell me what relevance a

1 marginal cost/benefit ratio do the participating
2 customers has to a cost/benefit analysis for the
3 purposes of conservation?

4 A Marginal cost/benefit ratio to participating
5 customers would be to those who are actually receiving
6 the benefit as opposed to -- you referred to the total
7 customer body, I believe.

8 Q Would you agree that Rule 25-17.008 of the
9 Commission's Rules on Conservation Goals and Related
10 Matters defines the term "cost-effective" to mean, "the
11 cumulative present value of the benefits to the
12 Utility's ratepayers is greater than the cumulative
13 present value of the cumulative cost of the program to
14 a Utility's ratepayers through the horizon year"?

15 A If you read it properly, I'd agree that
16 that's what it says

17 Q Are you familiar with the Commission Order
18 No. 800671, or Docket 800671-E, specifically, Order No.
19 9677, wherein the Commission determined that the
20 cost/benefit analysis for conservation plans should be
21 limited to the costs and benefits experienced by the
22 Utility alone and that it was inappropriate to even
23 attempt to quantify the cost benefit to the customer?

24 A I would have to say, no, I wasn't aware of
25 that.

1 Q Do you dispute the fact that the Commission
2 did that?

3 A What order was that again?

4 Q Let me show it to you. (Witness provided a
5 document.) (Pause)

6 A Judging from the docket number, though, this
7 -- and the issue date, these are relatively old orders.
8 And I would question whether they still, whether any
9 subsequent orders may have changed, you know, the
10 opinion that the Commission may have taken on these.

11 Q Would you dispute the fact that the present
12 Commission rule that's currently in effect tracks that?

13 A Which number is that?

14 Q 25-17.008, the one I just read to you and you
15 agreed to.

16 A The Commission -- this is in an order, you
17 say?

18 Q This is a rule.

19 A This is a rule, not an order?

20 Q Let me -- you've not reviewed any of these
21 orders and you've not reviewed any of the Commission's
22 rules, is that an accurate statement?

23 A I didn't review this rule, no (indicating).
24 I did review the order, one of the orders you did --
25 that your witnesses have referred to in their rebuttal

1 testimony, which is a more recent order, in justifying
2 their recovery.

3 Q You can't tell me today, though, what a
4 marginal cost/benefit ratio to participating customers
5 has to do with whether a program is appropriate, can
6 you, for purposes of this Commission? (Pause)

7 A I'd have to say no. Right now, I couldn't.

8 Q Have you looked at the cost/benefit analysis
9 that had been performed and are a part of this record
10 with respect to the Good Cents New Home Program?

11 A I believe that was one of the items that was
12 provided us to review when we were visiting Gulf Power.

13 Q Did you review it?

14 A I reviewed a number of documents there, yes.

15 Q Did you attempt to determine whether the
16 all-customer benefit showed that the program was, in
17 fact, cost-effective?

18 A I didn't make that determination from that
19 review. No, I did not.

20 Q Did you attempt to ascertain what the
21 cost/benefit ratio was for all customers?

22 A No.

23 Q But you're basing your recommendation on an
24 order that doesn't say what you said it said. Is that
25 a fair statement?

1 A I guess you could say I had a
2 misunderstanding of what it's saying.

3 Q Okay. Let me ask you this: At the top of
4 Page 62, you state that, "The Good Cents Program
5 involves the promotion -- Good Cents New Home Program
6 involves the promotion of appliances." Have you read
7 the program description for the Good Cents New Home
8 Program?

9 A Not recently. I did earlier, but I don't
10 recollect everything in it.

11 Q Do you remember what the qualifying criteria
12 are?

13 A Not at the present. No, I don't.

14 Q Would you agree that the only appliance that
15 is mentioned in the criteria is heat pump or air
16 conditioner?

17 A I don't know if that's all or not, I can't
18 say.

19 Q Can you tell me -- assuming that's true --
20 can you tell me how the program involves the promotion
21 of appliances?

22 A Well, I'd classify a heat pump as an
23 appliance.

24 Q Let's talk about that. Is it your opinion
25 that the promotion of energy efficient air conditioning

1 equipment or heat pumps is not beneficial to the
2 ratepayer? (Pause)

3 A I'd have to say to the ratepayer that uses
4 it, possibly it's beneficial to him, yes.

5 Q All right, let's go on from there. If a
6 ratepayer who has a less than efficient air conditioner
7 installs a more efficient air conditioner or heat pump,
8 would that not lower the peak kW usage?

9 A That would lower it, but that doesn't mean
10 that the Company has to provide them that information.
11 I mean, if the individual wants to conserve his energy,
12 he's not required to go see Gulf Power, and Gulf Power
13 isn't the one and only source for providing him
14 information on conserving energy.

15 Q Where is he supposed to go?

16 A Well, when I decided I wanted to build a
17 house and I wanted to put an efficient furnace in, I
18 went and talked to the different furnace people who
19 actually installed them. When I wanted an efficient
20 air conditioner, I also talked to the same people who
21 took care of that. You talk to the people who actually
22 do the installation of those items.

23 Q Where did you build your house?

24 A Where did I build my house?

25 Q Yes.

1 A In Michigan.

2 Q Do you know what the circumstances or
3 conditions are in northwest Florida and whether they,
4 the customers in northwest Florida, in fact, are in a
5 similar or like position to you?

6 A Well, I'd assume that there's somebody out
7 there that sells heat pumps or there's somebody out
8 there that might sell a furnace or sell an air
9 conditioning unit. They can go to any company that's
10 out there.

11 Q It's your position, then, that appliance
12 dealers and builders would be promoting the most
13 cost-efficient, energy-efficient appliances in all
14 cases?

15 A Not in all cases. That's why people have to
16 go out and shop for them.

17 Q Have you read Mr. Bowers' rebuttal testimony?

18 A Yes. I have.

19 Q Have you read the quote from the gas company
20 where they, in fact, stated that it was cost-beneficial
21 for them to promote something less than the most
22 efficient furnace and still meet the Energy Code?

23 A Yes. That was the gas company, though.

24 Q Okay. It's different for gas companies and
25 heat pump dealers, is that your --

1 A I'm talking someone who sells the actual
2 things as opposed to selling gas or selling
3 electricity.

4 Q Let's get back to the -- let's assume that
5 there are kW savings, and I think the evidence will
6 support this, that there are kW savings associated with
7 the installation of energy-efficient air conditioners
8 or heat pumps. And that the kW savings, in fact,
9 facilitate the deferral of additional capacity on a
10 utility's system. Who benefits from that?

11 A Assuming there is a savings, everybody
12 benefits.

13 Q And shouldn't everybody pay for it if
14 everybody benefits? (Pause)

15 It's not a hard question, Mr. Schultz.
16 (Pause)

17 A I guess, taken in the context that you're
18 putting it, I'd have to say that not -- let me qualify
19 what I said earlier, how is that?

20 Q I wish you'd just answer yes or no and then
21 you can qualify.

22 COMMISSIONER GUNTER: Let me see if I can
23 help with this, Mr. Holland.

24 MR. HOLLAND: Yes, sir.

25 COMMISSIONER GUNTER: If you have state law

1 that says that the purpose of the conservation program,
2 generally, for the state is to reduce the
3 weather-sensitive peak demand, activities that work
4 toward reducing the weather-sensitive peak demand are
5 beneficial to all ratepayers, are they not?

6 WITNESS SCHULTZ: Correct.

7 COMMISSIONER GUNTER: All right. Thank you.

8 WITNESS SCHULTZ: That answers your question?

9 MR. HOLLAND: Yes.

10 COMMISSIONER GUNTER: I was afraid we were
11 going to get into window film and tree planting and all
12 that kind of stuff if I let it go much further.

13 Q (By Mr. Holland) If -- forget that.

14 Looking at Page 62, Line 7, you state that
15 the information and expertise which the Good Cents Home
16 Program purports to impart to its customers is already
17 available through the Florida Model Efficiency Code?

18 A That's what it says, yes, sir.

19 Q Is it your position, then, that the
20 Department of Community Affairs is responsible for
21 disseminating this information and that they, in fact,
22 do that?

23 A It's my position that the information is
24 available; and if you desire the information, you can
25 seek it out and obtain it.

1 Q It's your testimony then that an individual
2 in Pensacola who is seeking to construct an
3 energy-efficient home is going to telephone the
4 Department of Community Affairs and obtain that
5 information? Is that your testimony?

6 A If he wanted to obtain it from them, he could
7 obtain it from them. If he wanted to obtain it from a
8 building, he can obtain it from a builder. There's
9 other sources of obtaining the information for making
10 yourself an energy-efficient home. Gulf Power isn't
11 the designated entity that is supposed to be the divine
12 source of this information.

13 Q Have you performed any type of analysis or
14 study that would show that the customers do not, in
15 fact, expect Gulf Power Company to be the provider of
16 energy-efficient information?

17 A I have not done that study. However, on the
18 other side, even if Gulf Power did ask some questions
19 relative to the providing of that information, I wonder
20 if responses would be the same if the people they were
21 asking were fully aware of the fact that they were
22 paying for that information through rates, whether they
23 desired the information or not?

24 Q Let me make sure I understand what you just
25 said. It's your position then that the utilities in

1 the state of Florida have no business being in the
2 energy-efficiency information business or arena?

3 A They have the information available to them.

4 Q Who is "they"?

5 A The Utility does.

6 Q Oh.

7 A And if somebody needs that information and
8 desires to seek it out, then let them pay for the
9 information they need, unless it's in such a way that
10 the costs are approved costs by this Commission and
11 should be included in the energy conservation recovery
12 clause.

13 Q Okay, only upon a showing of cost benefit and
14 only upon a showing that it's appropriate for recovery
15 in ECCR? Is that your testimony?

16 A Correct.

17 Q Okay. You have recommended that Gulf's
18 energy education and awareness programs be disallowed
19 as well, have you not?

20 A That's correct.

21 Q And that would include presentations,
22 seminars -- presentations to schools, all of those
23 programs?

24 A Correct.

25 Q Have you had occasion to review the

1 Commission's order in Docket 890002-EG, Order No.
2 21317?

3 A I did, and I have --

4 Q Do you have that?

5 A Yes, I do.

6 Q Could you read at Page 9 the middle -- or the
7 paragraph that begins, "There are no factual issues in
8 dispute here."

9 A "There are no factual issues in dispute here.
10 The basic question is whether general purpose education
11 programs should be given the benefit of recovery
12 through the ECCR clause. We find that it should not.
13 Perhaps providing that this kind of information eight
14 years ago warranted special cost recovery
15 consideration, then the notion that the local utility
16 was a provider of information about insulation, heating
17 and cooling equipment and other energy services and
18 products was novel. Utilities had just begun to
19 encourage customer conservation and demand management
20 to improve load factors and defer the need for
21 generating equipment. Now, however, we believe all
22 programs of this kind are a fundamental part of the
23 customer service responsibility of such utilities and
24 therefore do not require special recovery. For
25 example, Tampa Electric provides such information as an

1 ongoing part of its customer service function. If the
2 FEECA statute and ECCR were abolished tomorrow,
3 customers would still call utility service offices to
4 inquire about energy-efficient products and uses.
5 Utilities should and would provide such information on
6 how to use its product wisely. The need for special
7 treatment of such information services has long since
8 passed. So we hereby order elimination of these
9 programs for ECCR purposes."

10 Q Mr. Schultz, does that not run counter to
11 your position that if it's not recoverable in ECCR and
12 not quantifiable in terms of cost effectiveness, that
13 it's not appropriate for recovery?

14 A If that's all you read, but if you read the
15 last paragraph, it also says, "Eliminating these
16 programs does not eliminate conservation education or
17 advertisement. Utilities will continue to provide
18 information on specific approved programs, which I
19 assume would be the programs included in the ECCR, but
20 will not be permitted to recover general advertising
21 expenses through the ECCR clauses."

22 And a lot of these costs could be considered
23 general advertising.

24 Q A lot. Is that -- not all, right?

25 A Well, I would categorize -- I, myself, would

1 categorize them all as that, because you're building up
2 your image by promoting these information seminars.

3 Q Is it your position then that conservation
4 promotion, energy efficiency is strictly
5 image-enhancing advertising? Is that your position?
6 And therefore should be disallowed?

7 A Unless it's allowed through the ECCR.

8 Q Okay.

9 CHAIRMAN WILSON: Does that mean that the
10 items that you propose disallowing in your Schedule
11 HWS-13 you recommend be disallowed because they are
12 image-enhancing? (Pause)

13 WITNESS SCHULTZ: A number of them are, yes.

14 CHAIRMAN WILSON: Is that the reason that you
15 suggest they be disallowed?

16 WITNESS SCHULTZ: I'm suggesting that they be
17 disallowed for that reason and the fact that if they
18 are energy conservation, they should be recovered and
19 monitored through that because the costs that can go
20 through a program like this can go through on a
21 non-controlled basis, if allowed to do so. And by
22 keeping them in an energy-conservation clause, you're
23 subjecting them to a routine audit, whereas allowing
24 them in base rates, you're opening up those costs for
25 any kind of expenditures to be made at the Company's

1 discretion, without control.

2 CHAIRMAN WILSON: So, does that go for all
3 advertising, that it ought to be preapproved? Is that
4 what you're suggesting?

5 WITNESS SCHULTZ: I'd have to think about
6 that.

7 CHAIRMAN WILSON: Well, I'm just trying to --

8 WITNESS SCHULTZ: I haven't really considered
9 all advertising as such.

10 CHAIRMAN WILSON: Well, the point, as I
11 understand, that you just made was that the recovery --
12 the costs are allowed to be recovered through Energy
13 Conservation Cost Recovery Clause received scrutiny by
14 the Commission and they are preapproved and
15 appropriately recovered there, but all these other
16 expenses that you suggest be disallowed are either
17 image-enhancing or they are the kind of program that
18 provide the opportunity for abuse, and --

19 WITNESS SCHULTZ: Correct.

20 CHAIRMAN WILSON: And ought to be -- if you
21 can't get them through the energy conservation cost
22 recovery, or I guess through a level of scrutiny by the
23 Commission in terms of preapproval, then they ought not
24 be allowed?

25 WITNESS SCHULTZ: That's correct.

1 CHAIRMAN WILSON: I heard you correctly?

2 WITNESS SCHULTZ: Right.

3 COMMISSIONER BEARD: Have you got your 104
4 Supplemental Response?

5 WITNESS SCHULTZ: Yes.

6 CHAIRMAN WILSON: We'd better give that an
7 exhibit number. That would be 609, Mr. Pruitt, is that
8 right? 609?

9 MR. PRUITT: 09.

10 (Exhibit No. 609 marked for identification.)

11 COMMISSIONER BEARD: I went through from your
12 HWS Exhibits 12, 13, and 14 and tried to line out those
13 that I could find. I think I got them all, and I just
14 wanted to check. For example, on the first page, you
15 would have allowed general supervision, labor and
16 materials expenses to stay in?

17 WITNESS SCHULTZ: That's correct.

18 COMMISSIONER BEARD: You would have allowed
19 the residential program development, labor and
20 materials, to stay in?

21 WITNESS SCHULTZ: That's correct.

22 COMMISSIONER BEARD: Commercial program
23 development, labor, materials and expenses to stay in?

24 WITNESS SCHULTZ: That's correct.

25 COMMISSIONER BEARD: You would have excluded

1 residential technology transfer and commercial
2 technology transfer?

3 WITNESS SCHULTZ: That's correct.

4 COMMISSIONER BEARD: But on the next page,
5 you would have included industrial technology transfer.
6 Why would you exclude residential and commercial
7 technology transfer -- and perhaps maybe you need to
8 explain what industrial technology transfer is. And
9 why would you include industrial technology transfer
10 and exclude the other two? And if I've missed it, let
11 me know. (Pause) I tried to match them by both title
12 and dollar figures and couldn't find a match.

13 WITNESS SCHULTZ: I can't answer that at the
14 present. I had been reading some descriptions of what
15 was in some of these accounts and made some
16 determinations from them.

17 COMMISSIONER BEARD: The third page at the
18 top it appears that you have left in, for example,
19 economic research. What kind of economic research
20 would they be doing?

21 WITNESS SCHULTZ: I don't know. That's why I
22 didn't do anything with it.

23 COMMISSIONER BEARD: Oh. Well, let me ask
24 you this, let's take a different angle. Back on the
25 second page, five lines from the bottom is one called

1 TransText, materials and expenses that you excluded.

2 What's in there?

3 WITNESS SCHULTZ: I can't answer that. As it
4 was, I left everything I did back in my office. The
5 one thing I have here is a faxed copy of it. So I
6 can't identify exactly what it was that I --

7 COMMISSIONER BEARD: I was just trying to get
8 a handle on what caused you to exclude some and include
9 some. I came up with about 1.06 million still in.

10 (Pause)

11 COMMISSIONER EASLEY: I wanted to ask about
12 the Shine Against Crime entries.

13 MR. HOLLAND: There's one of those TransText
14 in conservation, that already in ECCR, and that's about
15 200,000, I believe, and that's the difference. That's
16 where the 800 comes up.

17 COMMISSIONER EASLEY: Did you leave in or
18 exclude the for Shine Against Crime?

19 WITNESS SCHULTZ: That's left in.

20 CHAIRMAN WILSON: Why?

21 WITNESS SCHULTZ: I've never considered it
22 and never made a -- I've just never taken that position
23 on that particular item myself.

24 CHAIRMAN WILSON: Do you know what it is?

25 WITNESS SCHULTZ: Yes.

1 CHAIRMAN WILSON: What?

2 WITNESS SCHULTZ: It's where the people want
3 lighting to protect -- to give them basically
4 protection in certain areas where there is extra
5 lighting provided so that maybe somebody walks out of a
6 convenience store, they don't get mugged.

7 COMMISSIONER BEARD: In each instance it
8 appears that you left the program development in. For
9 example, residential program, commercial program and
10 industrial program development, do you remember what's
11 in those categories?

12 WITNESS SCHULTZ: No, I don't.

13 COMMISSIONER BEARD: Okay. Okay.

14 CHAIRMAN WILSON: Let's take about a
15 five-minute break.

16 (Brief recess.)

17 - - - - -

18 CHAIRMAN WILSON: Okay. We need to make some
19 progress here. Warp factor 5, Mr. Sulue.

20 COMMISSIONER BEAARD: Warp factor 5, sir.

21 Q (By Mr. Holland) Mr. Schultz, are you
22 familiar with the account numbers on Exhibit 609?

23 A I don't know what Exhibit 609 is.

24 Q Would you agree that Account 909 contains
25 advertising expenses?

1 A Oh, okay. Yes.

2 Q Would you likewise agree that there is very
3 little advertising associated with energy education?

4 (Pause)

5 A As identified in this, that would be correct,
6 if some of it was in 909.

7 Q Okay, have you had occasion to see or read
8 Order No. 22708, in Docket No. 900071-EG, relative to
9 the blackouts that occurred?

10 A No, I did not.

11 Q Let me show you a paragraph and get you to
12 read that into the record. Would you read Paragraph 2
13 into the record, please?

14 A "Utilities should enhance year-round public
15 education programs to better inform customers of the
16 benefits of conservation and mitigating the adverse
17 effects of cold weather."

18 Q Okay. Would you agree that a utility -- I
19 don't have any more questions on that. If you could --
20 would you agree that utilities should engage in
21 measures which reduce the overall costs of energy to
22 its customers? To their customers?

23 A If the costs are scrutinized through some
24 type of program.

25 Q Okay. A final question: Just to understand,

1 and I did have a lot more questions, but in the
2 interest of time, the essence of your testimony is that
3 a utility, in this case Gulf Power Company, in terms of
4 customer service information, energy education, those
5 types of activities, they should not engage in those
6 types of activities and should only be engaged in the
7 provision of electricity to the meter for the customer.
8 Is that an accurate statement?

9 A No. I thought what I had said is that
10 anything that is energy conservation related can and
11 should be charged to the ratepayer if it's a cost that
12 can be tracked, monitored and controlled by some means,
13 and that cost can be proven to provide a benefit to the
14 ratepayer.

15 Q The order to which you referred in 21317,
16 Order No. 21317, the Commission, in fact, in that order
17 stated that one of the reasons that they deemed it
18 appropriate that energy education and like programs be
19 included in base rates was in order to put a cap on the
20 expenditures associated with those programs, did they
21 not?

22 A I don't see where it says that in the order.

23 Q Well, in between the paragraph that you read,
24 the first one you read and the second one you read, and
25 the sentence states, "as Mr. Floyd noted," do you see

1 that?

2 A Yes.

3 Q Would you read the rest of that paragraph?

4 A "There is no effective cap on these
5 expenditures. Therefore, if a utility wanted to double
6 or triple its budget for educational programs, our
7 Staff would have no standard to review the propriety of
8 such expenses. Obviously education is desirable, but
9 utilities should not be given an automatic pass-through
10 for such expenses."

11 MR. HOLLAND: Okay. That's all I have.

12 MR. PALECKI: Staff has very brief cross
13 examination.

14 CROSS EXAMINATION

15 BY MR. PALECKI:

16 Q The first question concerns uncollectable
17 expenses.

18 Mr. Schultz, is it your position that Gulf
19 overcollected \$813 because of an adjustment made to
20 uncollectible expense in 1989? (Pause) I believe your
21 testimony was that this amount was to be amortized as a
22 credit over four years, or \$203,250 per year.

23 A That's correct. My position is that they
24 were costs that were -- I would term it, "indirectly
25 charged to the ratepayer," in that they overstated

1 expenses in years -- in the earlier years.

2 Q In making this recommendation, did you compare
3 the amount collected from the customers since the
4 Company's rates were placed into effect to the net
5 write-offs experienced by the customers, or by the
6 company?

7 A No.

8 Q Would your position be the same if it was
9 determined that Gulf recovered 2,615,000 from its
10 customers, from 1985 through 1988, and actually wrote
11 off 2,666,000 for that time period? (Pause)

12 A Did you ask if my position would be the same
13 if I add those numbers?

14 Q Yes, if the figures were that Gulf actually
15 wrote off more than it was able to recover from
16 customers.

17 A I'd have to rethink my position.

18 Q The next questions refer to bank fees and
19 line of credit charges, and whether they should be
20 included in operating expenses. Would you agree that
21 companies need to maintain cash on hand or have access
22 to cash in order to meet immediate cash needs?

23 A The Company has a need for cash to meet
24 current cash needs.

25 Q In other words, the costs associated with

1 maintaining a certain degree of liquidity is necessary
2 to do business?

3 A Certain costs would be.

4 Q And would you agree that prior to April 1,
5 1988, the costs to the Company to maintain this degree
6 of liquidity came in the form of costs associated with
7 maintaining compensating balances?

8 A Yes, I believe so.

9 Q Would you agree that the cost of maintaining
10 compensating balances were necessary costs associated
11 with utility service?

12 A Yes.

13 Q Now, I understand in 1989 and 1990 the
14 Company took a different tack. Instead of maintaining
15 compensating balances, the Company established the
16 majority of their lines of credit on a fee-based basis,
17 is that correct?

18 A That's correct.

19 Q Can you explain the difference between
20 maintaining compensating balances and the fee-based
21 structure, and if one is favorable to the other?

22 A Well, the favorability would be determined by
23 the dollars impacted. In this case, after reviewing
24 Mr. McMillan's rebuttal testimony, I would acknowledge
25 that there are some costs that should be borne by the

1 ratepayer as long as the amount, the cash balance, is
2 not included within the working capital as it
3 previously was.

4 Q Do you maintain your previous opinion that
5 the entire amount of these bank fees and line of credit
6 should not be included in operating expenses, or would
7 you modify that?

8 A I'd modify that.

9 MR. PALECKI: Thank you. Staff has no
10 further questions.

11 (Transcript follows in sequence in Volume
12 XVIII.)

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