REBUTTAL TESTIMONY OF
ELLIOTT L. SPENCER AND THOMAS R. THAMES
ON BEHALF OF GEORGIA POWER COMPANY
GPSC DOCKET NO. 35277

1 **Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**
2 A. Elliott L. Spencer. I am Assistant Comptroller for Georgia Power Company
3 ("Georgia Power" or the "Company"). My business address is 241 Ralph McGill
4 Boulevard, Atlanta, Georgia 30308.
5
6 Thomas R. Thames. I am the Pricing and Rates Manager for Georgia Power. My
7 business address is 241 Ralph McGill Boulevard, Atlanta, Georgia 30308.
8
9 **Q. MR. SPENCER AND MR. THAMES, DID YOU PRESENT DIRECT**
10 **TESTIMONY AND EXHIBITS ON BEHALF OF GEORGIA POWER IN**
11 **THIS PROCEEDING BEFORE THE GEORGIA PUBLIC SERVICE**
12 **COMMISSION (THE "COMMISSION")?**
13 A. Yes.
14
15 **Q. MR. SPENCER, HAS THE COMPANY FILED UPDATES TO THE**
16 **MINIMUM FILING REQUIREMENTS ("MFRs") IN THIS PROCEEDING**
17 **AND RESPONDED TO ALL PUBLIC INTEREST ADVOCACY ("PIA")**
18 **STAFF DATA REQUESTS?**
19 A. Yes. The Company has filed MFR updates for the months of March and April
20 2012. We have also responded to all 82 data requests issued by PIA Staff and, in
21 fact, filed the majority of the responses well in advance of the required deadlines.

1 **Q. PLEASE PROVIDE AN OVERVIEW OF THE COMPANY'S REBUTTAL**
2 **TESTIMONY BEING FILED TODAY.**
3 A. We will be responding to the testimony of the PIA Staff panel of Messrs. Randall
4 J. Falkenberg and Phillip M. Hayet, as well as the testimony of the Association
5 for Fairness in Ratemaking ("AFFIRM") witness Mr. Russell L. Klepper. In
6 addition, the panel of Messrs. Dennis R. Madison and Tom E. Tynan will respond
7 to the disallowance recommendations contained in the testimony of PIA Staff
8 witness Dr. William R. Jacobs.
9
10 **Q. PLEASE SUMMARIZE THE COMPANY'S POSITIONS INCLUDED IN**
11 **THIS REBUTTAL TESTIMONY.**
12 A. The Company's filing in this proceeding requests Commission approval for a
13 significant reduction in fuel rates—a decrease of 19% in the fuel cost recovery
14 ("FCR") rates, which equates to a decrease of 6% or $8.00 per month on the total
15 bill of the typical 1,000 kWh residential customer. The Commission voted on
16 May 15, 2012 to implement the reduced fuel rates on an interim basis on June 1,
17 2012, one month earlier than originally proposed by the Company. The Company
18 agrees that it is appropriate to implement the FCR-23 rates early so that customers
19 could begin to benefit from the reduced rates at the start of the summer months.
20
21 There are no significant areas of disagreement between PIA Staff and the
22 Company with respect to the fuel rates proposed by the Company. The Company
23 does, however, have concerns regarding the test period proposed by PIA Staff as
24 it relates to the timing of the filing of the Company's next fuel case, as well as
25 certain of PIA Staff's proposed modifications to the Interim Fuel Rider ("IFR").
26 The Company recommends that the test period be set as July 1, 2012 to May 31,
27 2014, though we would not be opposed to extending the test period through June
28 30, 2014, as originally proposed by the Company. The Company does not believe
29 that rates to be implemented July 1, 2012 should be recalculated. While both
30 parties agree that the IFR should continue to be used as a tool to address

1 significant, unexpected changes in the Company's fuel balance that are not
2 expected to reverse in the short term, the Company recommends further
3 modifications to certain of PIA Staff's proposed adjustments to the IFR. The
4 threshold level set by PIA Staff is too low and would result in unnecessary filings,
5 and the monthly filings required under PIA Staff's proposal are highly
6 impractical. We have recommended modifications to PIA Staff's IFR proposal to
7 remedy these issues and certain procedural concerns.
8
9 The Company has also provided additional information and clarification as
10 requested by PIA Staff regarding a number of other issues and also responded to
11 certain other topics raised by PIA Staff, none of which have any impact on the
12 fuel rates to be implemented on July 1, 2012. PIA Staff raised the possibility of a
13 disallowance recommendation in connection with an outage at Plant Gaston
14 (which is neither directly owned nor operated by the Company) but has suggested
15 that it may defer this issue for resolution until FCR-24. We believe that deferral
16 is unnecessary and unwarranted given the circumstances. The analysis performed
17 by PIA Staff regarding the average duration of the Company's planned outages
18 during the historic period is flawed and, among other issues, fails to take into
19 account the Company's fleet optimization efforts and the impact of extended
20 outages occurring as a result of both cyclical planned outages and environmental
21 controls being added to the Company's generating units. The Company is willing
22 to create the ultra high risk category proposed by PIA Staff for purposes of the
23 Company's financial assessment of coal suppliers and transportation providers
24 and has provided current information regarding the status of testing of Illinois
25 Basin coal at its coal-fired generating units as requested by PIA Staff.
26
27 PIA Staff has indicated that it plans to raise the issue of economy energy sales
28 profit sharing in the 2013 base rate case and that any change approved by the
29 Commission in that case would apply to the entire FCR-24 historic period. In the
30 event the Commission does approve a change to the sharing mechanism during

1 the 2013 base rate case, retroactive application would be inequitable and, we are
2 advised by legal counsel, not in accordance with traditional ratemaking principles.
3 In our testimony, we have also provided an explanation regarding the slight
4 increase in the Company's short-term debt rate and identified a number of
5 significant concerns regarding any attempt to alter the Company's current
6 seasonal definitions. Finally, we have responded to the Time of Use ("TOU")
7 rate structure changes recommended by AFFIRM witness Mr. Klepper and
8 described why his recommended changes are unnecessary and unreasonable.
9
10 **Q. DOES THE COMPANY AGREE WITH PIA STAFF'S PROPOSAL TO**
11 **SET THE PROJECTED TEST PERIOD AS JUNE 1, 2012 TO APRIL 30,**
12 **2014?**
13 A. No. PIA Staff's proposed test year raises numerous practical difficulties because
14 it would require FCR-24 to be filed on January 31, 2014. The Company typically
15 begins its preparation for a fuel filing three months prior to the filing date. The
16 earlier filing date resulting from PIA Staff's proposed test year would force the
17 Company to begin preparation of the FCR-24 filing in November 2013 while the
18 2013 base rate case will be ongoing, placing an unreasonable burden on the
19 Company's resources. In addition, the proposed filing date would also require
20 preparation of the FCR-24 filing to overlap and conflict with the Company's
21 preparation of the year-end financial statements and Annual Reports filed with the
22 Securities and Exchange Commission and the FERC Form 1, further straining the
23 Company's already limited resources.
24
25 **Q. IS A POTENTIAL CHANGE TO THE DEFINITION OF THE SEASONAL**
26 **PERIODS A SUFFICIENT REASON FOR ENDING THE TEST PERIOD**
27 **ON APRIL 30, 2014?**
28 A. No. As described later in our testimony, the Company strongly disagrees with
29 any attempt to redefine the seasons for purposes of calculating and applying the
30 Company's fuel rates in light of actual fuel costs in the relevant months and the

1 immense changes that would be required by such a redefinition. Given the
2 practical difficulties described above that arise from a January 31, 2014 filing
3 date, ending the test period on April 30, 2014 is simply not reasonable for the
4 Company.
5
6 **Q. WHAT IS THE COMPANY'S POSITION ON CHANGING THE TEST**
7 **PERIOD?**
8 A. As discussed above, the Company is strongly opposed to a test period ending
9 April 30, 2014 due to the practical difficulties related to the associated filing date.
10 The Company recommends that the Commission adopt a test period ending May
11 31, 2014. However, the Company would not be opposed if the Commission
12 elected to utilize a test period ending June 30, 2014. In either case, the test period
13 selected should exclude June 2012, as rates for June have already been approved
14 by the Commission and will be effective in customers' bills beginning June 1,
15 2012.
16
17 **Q. SHOULD THE INTERIM FCR-23 AND TOU-FCR-3 TARIFFS**
18 **IMPLEMENTED ON JUNE 1, 2012 REMAIN UNCHANGED FOR THE**
19 **REMAINDER OF THE TEST PERIOD?**
20 A. Yes, the Company believes that the interim FCR-23 and TOU-FCR-3 tariffs
21 placed into effect early on June 1, 2012 should be retained throughout the test
22 period. If fuel rates were to be recalculated, there would be a slight increase in
23 rates from the June 1 rates (in other words, the 19% rate decrease that will be
24 implemented on June 1 will be slightly reduced). Leaving fuel rates unchanged
25 on July 1, 2012 is the preferable option because it will avoid a slight fuel rate
26 increase for customers, thereby creating rate stability for customers and
27 simplifying this proceeding.

1 **Q. WHY WOULD RATES INCREASE ON JULY 1, 2012 IF**
2 **RECALCULATED?**
3 A. The primary reason that rates would increase if recalculated is the projected
4 impact of the June 1 rate decrease. The Company had previously projected in its
5 initial FCR-23 filing that, with the application of the higher FCR-22 summer
6 rates, the Company would have over-collected by approximately $43 million for
7 the month of June. Now that the Commission has approved applying the lower
8 FCR-23 rates beginning June 1, the Company projects that it will be under-
9 recovered by approximately $5 million for the month of June. This $48 million
10 change is the primary reason why a recalculation of rates would result in a slight
11 increase from the rates initially proposed by the Company. Actualization of
12 results from March and April 2012 would similarly create slight upward pressure
13 on rates, as the Company did not recover as much as had been budgeted for these
14 two months.
15
16 Including the actual results from March and April and the projected impact of the
17 June 1 rate implementation, the Company currently projects a $61 million over-
18 recovered balance as of July 1, 2012. This projected fuel balance is $71 million
19 lower than the $132 million originally projected by the Company. Nevertheless,
20 the June 1 rate implemented should remain unchanged so that customers can
21 retain the benefit of the lower fuel rates, as we believe that the IFR can be
22 effectively utilized to manage any unexpected, excessive growth in the fuel
23 balance.
24
25 **Q. WHAT WOULD BE THE IMPACT OF RECALCULATING FUEL RATES**
26 **AS OF JULY 1, 2012?**
27 A. In our initial FCR-23 filing, the Company's proposed fuel rates resulted in an
28 $8.00 reduction for the typical residential customer using 1,000 kWh a month.
29 These proposed rates will be implemented one month early on June 1, 2012 as
30 ordered by the Commission. If the Company were to recalculate rates for July 1,

2012, assuming a 23-month test period from July 1, 2012 to May 31, 2014, actualizing for March and April 2012 and forecasting the impact of the June 2012 rate decrease, rates would need to increase slightly as compared with the rates implemented on June 1, 2012. Under such recalculated rates, the typical residential customer bill would increase by approximately $0.48 per month as compared with the June 1 rates (based on an average 1,000 kWh bill). Similarly, under a 24-month test period from July 1, 2012 to June 30, 2014, the typical residential bill would increase approximately $0.52 per month as compared with the June 1 rates (based on an average 1,000 kWh bill).

Q. DOES THE COMPANY HAVE ANY CONCERNS WITH THE IFR MODIFICATIONS PROPOSED BY PIA STAFF?

A. Yes. While both the Company and PIA Staff support the continuation of the IFR, the Company does have several significant concerns regarding the modifications proposed by PIA Staff. These concerns relate to the IFR threshold and the timing and frequency of the IFR filing, as explained in more detail below. See also ELS Rebuttal Exhibit 1.

Q. PLEASE DESCRIBE THE COMPANY'S CONCERNS WITH THE $175 MILLION IFR THRESHOLD PROPOSED BY PIA STAFF.

A. The $175 million threshold is not a sufficient buffer at the known peaks of the over-recovery expected in the FCR-23 test period and could potentially result in unnecessary IFR filings. Because the FCR rates proposed by the Company are effectively levelized over a twenty-four month projected test period, there are periods of time during which the Company is projected to be in an over-recovered position. Under the Company's current projections in light of the projected June under-recovery and the March and April actualization, the Company is estimated to be over-collected by $122 million in December 2012, which would gradually be eliminated by the end of the projected test period without additional adjustment.

1 The IFR mechanism is designed to account for significant, unexpected changes in
2 the Company's under/over-recovered fuel balance. The threshold level set by PIA
3 Staff would require the Company to potentially make a detailed filing even in
4 circumstances where there was only a small variance from projections. For
5 instance, a slight variance to budget could require an IFR filing in December 2012
6 even though the majority of the balance would be eliminated over the course of
7 the test period. PIA Staff is correct that the absolute size of the under/over-
8 recovered balance is important; however, the Commission should set the IFR
9 threshold at a level at which an IFR filing would only be required in the event of a
10 significant deviation from budget since the approved rates are already set to adjust
11 the budgeted balance over the remainder of the test period.
12
13 The IFR threshold of $75 million that was utilized in FCR-21 and FCR-22 was
14 lower than PIA Staff's proposed threshold because it was relative to budget. In
15 the event the Commission prefers to set the IFR trigger on the actual balance, the
16 Company believes that $250 million is more appropriate for the threshold level
17 given the current forecasted peak over-recovery of $122 million.
18
19 **Q. DOES THE COMPANY HAVE ANY CONCERNS WITH THE MONTHLY**
20 **FILINGS CONTEMPLATED UNDER PIA STAFF'S PROPOSED IFR**
21 **MODIFICATIONS?**
22 A. Yes. PIA Staff's proposed modifications would require a filing to be made
23 "within 20 calendar days from the end of any month when the fuel balance
24 exceeds $175 million in either direction." The monthly filing contemplated in
25 PIA Staff's proposal is extremely detailed and would require significant effort and
26 resources to prepare and thus is not feasible within the time frame proposed by
27 PIA Staff, which would allow as few as 14 business days in some months. The
28 process of determining the balance following the end of the month, completing
29 and assessing revised projections, and preparing analyses and any proposed new
30 rates will require extensive work. The Company believes that such a filing could

be prepared and submitted within 45 calendar days of the end of the first month in which the fuel balance exceeds the IFR threshold.

Q. SHOULD THE COMPANY BE REQUIRED TO MAKE ADDITIONAL MONTHLY FILINGS FOLLOWING AN INITIAL IFR FILING?

A. No. Once the Company has made an IFR filing, the Company should not be required to make another IFR filing as proposed by PIA Staff, without regard to the size of the under/over-recovered balance, until six months after the date of the initial IFR filing. This period is necessary to allow the Company and the Commission sufficient time to analyze the filing, complete approvals and, if applicable, determine if the change in rates was successful in reducing the fuel balance. See ELS Rebuttal Exhibit 1 for an example timeline. The Company proposes that if the Company exceeds the IFR threshold in a month after the six month period, another IFR filing would be required within 45 days of the end of such month.

It is simply not feasible to produce a new budget each month, as each budget production requires a number of inputs including, but not limited to, forecasts of retail and wholesale sales, fuel burn, fuel prices, outage schedules, and fuel inventory balances. This process involves obtaining information from many different areas of the Company and integrating all of the inputs into a single budget, which is then verified and thoroughly analyzed. This is obviously a process with which the Company is very familiar and our experience has shown that 45 days is needed to complete a full budget.

In addition, on a monthly basis, the Commission currently receives both the FCR Variance Analysis, which compares the actual monthly over/under recovery to the budgeted recovery, and the monthly Retail Fuel Cost Recovery Report, which provides the Company's fuel cost recovery position on a cumulative basis. These monthly filings provide the Commission with the primary information that it will

1 need to track the status of the Company's fuel balance, as well as the Company's
2 current fuel expenses and revenues.
3
4 **Q. WHAT ADDITIONAL CHANGES DOES THE COMPANY**
5 **RECOMMEND TO PIA STAFF'S IFR PROPOSAL?**
6 A. In the event that the Company requests to implement a rate adjustment as part of
7 its IFR filing, a timeline of 30 days should be set for Commission review and
8 decision. Furthermore, any such rate adjustment should automatically go into
9 effect if no action is taken by the Commission. These provisions are included in
10 the current IFR as adopted in FCR-21 and FCR-22.
11
12 **Q. MESSRS. HAYET AND FALKENBERG INDICATED THAT THEIR**
13 **REVIEW OF AN OCTOBER 2011 OUTAGE ARISING UNDER A POWER**
14 **PURCHASE AGREEMENT ("PPA") FULFILLED BY PLANT GASTON**
15 **RAISED "A SIGNIFICANT QUESTION AS TO THE PRUDENCE OF**
16 **THIS OUTAGE." DID THEY ULTIMATELY MAKE A DISALLOWANCE**
17 **RECOMMENDATION?**
18 A. No. Messrs. Hayet and Falkenberg indicated that PIA Staff still needs to
19 complete its analysis prior to making a final recommendation and reserved the
20 right to do so during the FCR-23 hearings or during the next FCR proceeding.
21
22 **Q. IS THERE ANY REASON TO DEFER THIS MATTER UNTIL FCR-24?**
23 A. No. The Company has provided all requested information to PIA Staff, including
24 the root cause report, replacement power cost and additional explanation, and
25 there is no reason to defer this matter until FCR-24.
26
27 **Q. IS PLANT GASTON OPERATED BY GEORGIA POWER?**
28 A. No. As is typical with other assets used to source power under PPA arrangements,
29 Georgia Power does not operate Plant Gaston. Plant Gaston is operated by
30 Alabama Power Company ("Alabama Power"), an affiliate of Georgia Power, as

1 agent for Southern Electric Generating Company ("SEGCO"), which owns the
2 plant. SEGCO is a jointly owned subsidiary of Georgia Power and Alabama
3 Power. Fifty percent of the output of the plant is provided to Georgia Power
4 pursuant to a FERC approved PPA. Georgia Power exercises reasonable and
5 diligent oversight of SEGCO through its representatives on SEGCO's board.
6 However, Georgia Power does not have direct operational responsibility for the
7 plant.
8
9 **Q. PLEASE RESPOND TO PIA STAFF'S ANALYSIS OF THE DURATION**
10 **OF THE COMPANY'S PLANNED OUTAGES DURING THE HISTORIC**
11 **PERIOD.**
12 A. PIA Staff's analysis is fundamentally flawed because it does not take into account
13 the Company's fleet optimization efforts, the varying length of planned outages,
14 and the impact of the increasing number of environmental tie-ins on the length of
15 planned outages.
16
17 First, PIA Staff's analysis does not take into account the fleet optimization efforts
18 of the Company that have benefitted customers through extended operations.
19 Through these efforts, the Company has continued to take steps to extend the
20 interval period between outages in a manner that appropriately balances costs,
21 reliability and availability. However, these extended intervals also result in
22 increased outage duration, as more extensive work needs to be performed during
23 the planned outages. Thus, while average MWh lost generation might actually
24 increase for a particular outage as a result of these efforts, such measurement does
25 not capture or reflect the increased benefit to customers resulting from the
26 available MWh during the extended availability of the units.
27
28 Second, all planned outages are not created equal. PIA Staff's analysis rests on a
29 flawed assumption that, over time, the average lost generation per outage during
30 historic periods of varying lengths should remain at some median value. This

1 assumption simply does not reflect the realities of fleet operation or the variability
2 of planned outages. **REDACTED REDACTED REDACTED REDACTED REDACTED**
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9 **REDACTED REDACTED REDACTED REDACTED REDACTED REDACTED REDACTED**
10 **REDACTED REDACTED REDACTED REDACTED REDACTED REDACTED**. Given the
11 varying lengths of the FCR historic periods, there will likely be historic periods
12 that happen to encompass a higher percentage of longer and more involved
13 planned outages than other historic periods where planned outages happen to be
14 smaller in scope and thus shorter in duration.
15
16 Third and finally, PIA Staff's analysis also fails to account for the fact that the
17 Company is in the process of installing significant environmental controls on its
18 units and that such installations typically extend basic outage periods, thus
19 skewing any attempt at averaging. As an example, **REDACTED** planned
20 outage for **REDACTED** during the historic period required **REDACTED REDACTED**
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22 **REDACTED REDACTED REDACTED REDACTED REDACTED REDACTED REDACTED**
23 **REDACTED REDACTED REDACTED REDACTED REDACTED REDACTED REDACTED**
24 **REDACTED**, which is close to the average values for FCR-20 through FCR-22 as
25 calculated by PIA Staff. In other words, setting aside whether such calculations
26 provide any meaningful data to begin with, the main driver for the increase in
27 average lost generation per outage during the historic period was the required,
28 non-routine environmental work **REDACTED**. Going forward, there likely will be
29 more such planned outages involving environmental tie-ins that will further skew
30 the average data, making PIA Staff's analysis even less meaningful.

1 **Q. PLEASE COMMENT ON PIA STAFF'S PROPOSED ULTRA HIGH RISK**
2 **CATEGORY FOR COAL SUPPLIERS AND TRANSPORTATION**
3 **PROVIDERS.**
4 A. PIA Staff has reiterated its belief that the Company should create an ultra high
5 risk category for coal suppliers and transportation providers and has proposed that
6 the definition provided by the Company in its response to data request STF-
7 HPSC-2-22 be adopted. The Company is willing to create this new category as an
8 additional risk ranking in connection with future potential supplier analyses and
9 will include ultra high risk suppliers with high risk suppliers for purposes of its
10 financial risk profile targets going forward. As noted in the Company's
11 comments to the Staff's Coal Procurement Report, the financial assessment is
12 only one part of the evaluation of potential suppliers performed by the Company
13 and the actual distribution of financial risk profiles may diverge from the
14 specified targets.
15
16 **Q. PLEASE RESPOND TO PIA STAFF'S REQUEST FOR CLARIFICATION**
17 **REGARDING THE STATUS OF TEST BURNS OF ILLINOIS BASIN**
18 **COAL AT THE COMPANY'S PLANTS.**
19 A. Testing has been completed at **REDACTED REDACTED**, and **REDACTED** have
20 expanded their coal quality specifications as a result of such testing. Plant
21 Wansley is now authorized to accept up to 100% Illinois Basin coal, and
22 **REDACTED REDACTED REDACTED REDACTED REDACTED REDACTED REDACTED**
23 continues at **REDACTED REDACTED REDACTED REDACTED REDACTED REDACTED**
24 **REDACTED REDACTED REDACTED REDACTED REDACTED**. However, because
25 such testing has not been completed, **REDACTED REDACTED REDACTED**
26 **REDACTED REDACTED REDACTED REDACTED REDACTED REDACTED REDACTED**
27 **REDACTED REDACTED REDACTED**.

Q. PLEASE COMMENT ON PIA STAFF'S SUGGESTION THAT THE CURRENT SHARING MECHANISMS IN PLACE FOR PROFITS FROM ECONOMY SALES AND CAPACITY AND ENERGY SALES SHOULD BE EXAMINED IN THE 2013 BASE RATE CASE.

A. Though the Company continues to believe that the current Commission-approved sharing mechanisms represent a reasonable and fair allocation of such profits, we can certainly address the topic in more detail during the 2013 base rate case to the extent raised by PIA Staff. However, the Company disagrees with the PIA Staff's assertion that, if a change is adopted by the Commission at the conclusion of the 2013 base rate case, "any profits identified during the historic period of FCR-24 . . . will be shared . . . in accordance with whatever decision the Commission makes." Actual economy energy sales profits will be earned and recorded prior to the conclusion of the 2013 base rate case and allocated in accordance with the Commission's currently approved sharing mechanism, and it would be inequitable to require the Company to reverse such profits. Furthermore, while we are not attorneys, it is our understanding that such an action would constitute impermissible retroactive ratemaking.

Q. WHY DID THE COMPANY'S SHORT-TERM DEBT RATE INCREASE IN DECEMBER 2011 COMPARED TO THE PREVIOUS MONTHS?

A. In the historic period, prior to December 2011, the Company issued commercial paper ("CP") at rates of less than 0.3% for its short-term debt needs. In December 2011, the Company entered into several six-month bank loans totaling $200 million, with an additional six-month bank loan for $100 million in January 2012. These bank loans were at rates of just under 1.2%, thus increasing the overall weighted average short-term debt rate to just over 0.6%. The full $300 million of bank loans will be repaid before the end of June 2012.

Q. WHY WAS CP NOT AVAILABLE TO THE COMPANY AT THAT TIME GIVEN THAT THE FUEL BALANCE WAS DROPPING SIGNIFICANTLY?

1 A. Short-term debt is used to meet the Company's working capital needs, including
2 fluctuations in fuel and other inventories and in payables and receivables.
3 Although reductions in fuel balances contribute to the demands on short-term
4 debt, other factors such as the timing of large capital commitments and other
5 long-term debt issuances and redemptions can have a far greater impact. The
6 Company's maximum CP capacity was, and remains, $877 million, but due to the
7 unpredictability of many of the factors that influence short-term debt
8 requirements, **REDACTED REDACTED REDACTED REDACTED REDACTED**
9 **REDACTED REDACTED REDACTED REDACTED REDACTED REDACTED REDACTED**
10 **REDACTED REDACTED REDACTED REDACTED** and in December 2011, short-term
11 forecasts showed that short-term debt would exceed these levels.
12
13 **Q. WHY DIDN'T THE COMPANY INCREASE ITS CP AVAILABILITY?**
14 A. The Company's CP capacity is determined by the amount of committed credit
15 negotiated through bank agreements. Such agreements are typically effective for
16 a period of at least one year, whereas additional funding levels identified in
17 December 2011 and January 2012 were for no more than six months in duration.
18 In addition, it typically takes up to eight weeks to source, negotiate and execute
19 such a credit agreement, which was therefore not a viable solution.
20
21 **Q. DID THE COMPANY HAVE ANY OTHER ALTERNATIVES TO MEET**
22 **THE SHORTFALL IN COMMERCIAL PAPER AVAILABILITY?**
23 A. The Company also had the option of entering into long-term bank loans of one or
24 two year durations, but this would have exceeded the short-term needs. In
25 addition, the Company has the ability to issue Senior Notes, subject to market
26 conditions, from time-to-time, although such securities are significantly longer-
27 term. While both of these alternatives would have resolved the issue of a shortfall

1 in CP availability without increasing the average short-term debt rate, the
2 Company's financing strategy is not simply focused on the short-term or the
3 amount allocated to fuel carrying costs. Entering into long-term bank loans or
4 issuing Senior Notes at higher interest rates would have increased the Company's
5 total interest expense and its total revenue requirements for customers. The
6 Company estimated that the available interest rate in December 2011 would have
7 been in the 4-5% range depending upon the time to final maturity, and such
8 interest would have been incurred for longer than necessary to meet the projected
9 need.
10
11 **Q. SHOULD THE COMMISSION CONSIDER RECLASSIFYING MAY AND**
12 **SEPTEMBER AS SUMMER AND WINTER MONTHS, RESPECTIVELY?**
13 A. No. Although PIA Staff has not made a formal recommendation at this time, the
14 Company strongly opposes any attempt to change the Company's seasonal
15 definitions. Such a change is unsupported by the evidence, would not alleviate
16 the variances in the over/under-recovery balance identified by PIA Staff and
17 would necessitate significant changes in many aspects of the Company's
18 operations.
19
20 **Q. HOW DO MAY AND SEPTEMBER COMPARE IN TERMS OF COSTS**
21 **AND USAGE?**
22 A. Historically, on average, September has a higher peak, higher usage, higher
23 monthly temperature, higher marginal costs, and higher fuel costs than May.
24 Because September has higher fuel expenses, it would be inappropriate to alter
25 the current seasonal definition because doing so would send incorrect price
26 signals to customers and would not assign costs to the cost causers.
27
28 Furthermore, the Company's seasonal definitions are in line with industry
29 practice. The Company examined ten Southeastern utilities in eight states and
30 found that none define summer as May through August. Although some of the

1 ten utilities include May as a summer month, they were generally utilities with
2 operations in Florida or along the Gulf Coast and none of the utilities include
3 September as a winter month.
4
5 **Q. WHAT IS YOUR OPINION REGARDING PIA STAFF'S CONCERN**
6 **THAT THE FCR-23 RATE WILL UNDER-COLLECT IN MAY AND**
7 **OVER-COLLECT IN SEPTEMBER?**
8 A. The under/over-collection that occurs in May and September, respectively, is
9 primarily due to billing lag, not seasonal pricing. Billing lag results when the
10 amount of billed MWHs in a particular month differs from the fuel cost incurred.
11 Redefining the summer months as May through August will not eliminate the
12 billing lag but, instead, would simply shift the relatively high under-recovery in
13 May and the over-recovery in September to different months.
14
15 **Q. WOULD A REDEFINITION OF THE SUMMER OR WINTER MONTHS**
16 **HAVE AN IMPACT IN ANY OTHER AREAS?**
17 A. Yes. A redefinition of the summer and winter months would impact many areas,
18 including, but not limited to, the following: PPAs, Cost of Service Studies, TOU
19 time periods and holiday schedules, demand ratchets, meter programming, the
20 Customer Service System, Flatbill offers, Demand Plus Energy Credit schedules,
21 Multiple Load Management access charges, Fixed Pricing Alternative and TOU-
22 RN customer specific off-peak prices, as well as customer education materials and
23 websites.
24
25 **Q. IS THERE ANY SOUND REASON TO CONSIDER REDEFINING MAY**
26 **AS A SUMMER MONTH AND SEPTEMBER AS A WINTER MONTH?**
27 A. No.

1 **Q. WHAT CHANGES TO TOU-FCR DOES AFFIRM WITNESS MR.**
2 **KLEPPER RECOMMEND IN HIS FILED TESTIMONY?**
3 A. Mr. Klepper proposes the following changes to the TOU-FCR tariff:
4
- Additional differentiated pricing for on-peak, shoulder and off-peak
5 periods during summer and winter months, thereby creating a five part
6 TOU-FCR rate.
7
- Designing the five part TOU-FCR in a manner that reduces fuel cost
8 recovery from TOU-FCR customers and shifts that cost recovery to all
9 other customers.

10

11 **Q. DOES THE COMPANY AGREE WITH THE CHANGES SUGGESTED**
12 **BY MR. KLEPPER?**
13 A. No. The Company does not agree that the TOU fuel rate should be further
14 differentiated. Our experience with the TOU tariffs has shown that customers are
15 much more likely to understand and accept a simple two-part rate and understand
16 its advantages than a more complicated rate (such as the five part rate proposed by
17 Mr. Klepper). We believe that the TOU-FCR rate as currently structured strikes
18 the right balance between simplicity of use and accuracy of price signal.

19

20 The Company also does not agree with Mr. Klepper's recommendation to
21 redesign the TOU-FCR tariff so that fuel cost recovery is shifted away from
22 TOU-FCR customers to all other customers. The TOU-FCR rate as currently
23 designed provides a number of benefits. First, it rewards efficient energy use.
24 Customers with load shape patterns that use less energy in the on-peak time
25 period will see a benefit over customers that use proportionately more energy in
26 the on-peak period. Second, the TOU-FCR rate gives customers the option of
27 shifting energy usage from on-peak to off-peak to help control energy costs. The
28 proposed TOU-FCR rate in concert with TOU base rates provide adequate price
29 signals to incent customers to shift energy usage from the on-peak to the off-peak

1 time period. If a customer chooses to do so, then the customer lowers their
2 energy costs.
3
4 Mr. Klepper is suggesting that we lower the TOU-FCR prices to provide
5 additional benefit to customers on TOU-FCR with no additional changes in actual
6 usage patterns on the customers' part. Mr. Klepper suggests that we shift the
7 costs of this TOU-FCR windfall to all other customers.
8
9 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**
10 A. Yes.