GEORGIA POWER COMPANY
FPC DOCKET NO. E-9091
PREPARED TESTIMONY OF ROBERT M. GROSS, JR.

Q PLEASE STATE YOUR NAME AND ADDRESS

A My name is Robert M. Gross, Jr. My business address is 1000 Crescent Avenue, N. E., Atlanta, Georgia 30309.

Q WHAT IS YOUR EDUCATIONAL BACKGROUND?

A I graduated from Georgia Institute of Technology in 1965, receiving the degree of Bachelor of Industrial Engineering. I also attended Georgia State University and in 1971 received the degree of Master of Business Administration, majoring in finance.

Q PLEASE STATE YOUR PROFESSIONAL EXPERIENCE.

A I have been employed by Southern Engineering Company of Georgia for approximately eight years. During this time I have been involved in the preparation of cost of service studies of Class A and B investor-owned utilities, rural electric cooperatives and municipal electric systems and have participated in wholesale and retail electric rate consulting assignments in 23 states. I am a registered professional engineer in the State of Georgia.

Q HAVE YOU EVER TESTIFIED IN OTHER COMMISSION PROCEEDINGS?

A Yes, I have testified as a rate expert and cost of service witness before the State Commissions of Kentucky, Indiana, Michigan, Vermont and Virginia. I have also testified before the Federal Power Commission in proceedings involving the Mississippi Power Company, FPC Docket No. E-7685; Appalachian Power Company, FPC Docket No. E-7775; Duke Power Company, FPC Docket No. E-7994; Gulf States Utilities Company, FPC Docket No. E-8121; Gulf Power Company, FPC Docket No. E-8911; Appalachian Power Company, FPC Docket No. E-9101; Virginia Electric & Power Company, FPC Docket No. E-9147; Arizona Public Service Company, FPC Docket No. E-8624; and Public Service Company of Indiana, Inc., FPC Docket Nos. ER76-149 and E-9537.

Q BY WHOM IS SOUTHERN ENGINEERING COMPANY RETAINED IN THIS PROCEEDING?

A Southern Engineering Company is retained by Oglethorpe Electric Membership Corporation (Cooperative Intervenors). Witnesses Solomon, Springs, Livingstone, Ewert and I will be Oglethorpe Electric Membership Corporation's witnesses in this proceeding.

Q WHAT WAS YOUR ASSIGNMENT IN THIS PROCEEDING?

A My assignment was twofold: First I was to review the direct testimony, exhibits and other available information of Georgia Power Company (GPC) concerning the cost to serve GPC's wholesale Cooperative customers. Specifically, I was to consider whether the methods employed by GPC for Period II to develop the overall Company rate base were proper and in accord with Commission precedent and sound ratemaking procedures.

7909260170

Secondly I was to make a determination as to the justness and reasonableness of GPC's proposed 100% summer-based billing demand ratchet as contained in the proposed wholesale rate WR-8R.

Q WHAT DATA HAVE YOU REVIEWED IN PREPARING YOUR TESTIMONY AND RELATED EXHIBITS?

A I have reviewed those portions of the Company's filing which relate to its cost of service studies and subsequent rate design including testimony and exhibits of GPC's witnesses and other information which GPC supplied in response to the FPC Staff's and the various Intervenors' requests for data.

Q WOULD YOU DESCRIBE THE CIRCUMSTANCES SURROUNDING THE COMPANY'S PROPOSED TARIFF AS IT APPLIES TO THE COOPERATIVE INTERVENORS?

A Yes, the proposed tariff, for full requirement service, became effective on sales to Cooperative Intervenors on April 1, 1975 and remained in effect through June 30, 1975. On July 1, 1975 rates for partial requirements service as contained in Docket Nos. E-9521 and E-9522 became effective and superseded the rate contained in the instant case.

For the Cooperative Intervenors, this proceeding is limited to the establishment of full requirement rates for the three month locked-in period April 1, 1975 through June 30, 1975.

Q HAS THE SHORT-TERM LOCKED-IN PERIOD HAD AN IMPACT ON THE CONDUCT OF THE COOPERATIVE INTERVENORS' COST OF SERVICE STUDIES IN THIS PROCEEDING?

A For the most part, no. We have based our cost of service studies on the Company's actual average cost and investments experienced for the calendar year 1975 (Period II). Although the proposed tariff was effective for services rendered to the Cooperative Intervenors only for the second quarter of 1975, we concur with the Company that rates in both this docket as well as Docket Nos. E-9521 and E-9522 should be based on average cost experienced during the calendar year 1975. Only in the determination of the cost of capital do we believe that the three month locked-in period has specific measurable impact on this rate proceeding. As testified to by Dr. Ewert, the measurement of the cost of capital for the instant case is related specifically to capital costs of GPC during the three month locked-in period. Similarly, Dr. Ewert's cost of capital determination for Docket Nos. E-9521 and E-9522 (to be filed August 27, 1976) will be based on the Company's capital cost also for a locked-in period coinciding with the effective term of the tariffs contained in that proceeding (July 1, 1975 through July 31, 1976).

Q WOULD YOU BRIEFLY SUMMARIZE THE CONCLUSIONS WHICH YOU AND THE OTHER WITNESSES FOR THE COOPERATIVE INTERVENORS HAVE REACHED AS A RESULT OF STUDYING GPC'S COST OF SERVING ITS WHOLESALE CUSTOMERS.

A The cost of service studies presented by the Company in this proceeding significantly overstate the cost of serving GPC's wholesale Cooperative customers. The following major errors have been made by GPC in its Period II cost of service study, necessitating adjustments:

1. GPC's use of the average of the beginning and end of year electric plant in service account balances to determine the plant investment level for the test year does not accurately reflect the overall average investment in GPC's plant-in-service for the test period, i.e., the twelve months ending December 1975. The most accurate method is the use of the thirteen month average of plant in service balances.

2. GPC improperly included in its rate base amounts for compensating bank requirements as a component of its cash working capital.

3. As testified to by Mr. Solomon, GPC's method of accounting for revenues derived from the application of the Company's fuel cost adjustment provision does not properly match revenues with fuel expense incurred during the test period (Period II).

4. GPC has allocated $88,005 of sales expense to wholesale customers. Such customers are not seeking any form of sales promotion from GPC and such expense is related only to retail sales. Such sales expense, therefore, should be deleted from the cost of service to wholesale customers.

5. As testified to by Mr. Solomon GPC does not properly allocate the administrative and general (A&G) expenses for Period II, since it specifically assigns without explanation only a select few A&G expense items while it allocates to all customers the majority of A&G expense items.

6. As testified to by Mr. Solomon, GPC has improperly allocated deductions in its determination of the federal and state income taxes charged to each class of service.

7. As testified to by Dr. Livingstone, GPC has inflated its rate base by using improperly calculated rates for capitalizing Allowance For Funds Used During Construction.

8. As testified to by Dr. Livingstone, GPC has significantly overstated the federal and state income tax expense charged in the cost of service by including taxes incurred on the one time sale of certain facilities to Oglethorpe Electric Membership Corporation during the test year.

9. As testified to by Mr. Springs, GPC has assigned a disproportionately large amount of transmission plant and associated expenses to its wholesale Cooperative customers. Moreover, some transmission facilities were specifically assigned by GPC to wholesale

customers on a basis that differs from that on which assignments were made to the retail class of customers, even though such transmission facilities used to serve retail customers perform a function similar to transmission facilities used to serve wholesale customers. This inequitable assignment of transmission facilities has been adjusted by Mr. Solomon by using the "rolled-in" method of transmission plant allocation.

Mr Solomon has prepared an exhibit (Cooperative Intervenors' Exhibit No. ____ (JBS-3)) which shows the combined effects of the cost of service adjustments listed above.

Q WOULD YOU PLEASE EXPLAIN WHY YOU USED THE AVERAGE OF THE 13 MONTHLY BALANCES INSTEAD OF THE AVERAGE OF THE BEGINNING AND END OF YEAR BALANCES IN DETERMINING THE TOTAL RATE BASE FOR GPC FOR PERIOD II.

A In determining its rate base GPC has used the average of the beginning and end-of-year balances for electric plant in service during the test year. In some cases this method may be adequate for ratemaking purposes. Generally, however, it is recognized that the proper synchronization of revenues, expenses and electric plant in service can be accomplished only by matching the monthly plant in service balances with the billing periods, which are the periods of metering for sales to wholesale customers. Billing is done on a monthly basis. Therefore, a monthly average is the most accurate method for synchronization of the expenses during the months, the energy produced during the months, and the revenues collected during the months. The average of the thirteen electric plant in service end of month account balances accomplishes monthly averaging since the beginning balance and the ending balance of each month during the test period is weighted equally in the computation. Moreover the thirteen month average method avoids the necessity of determining how to properly weight large, irregular additions to plant which are placed in service during the test period. The 13-month average method, therefore is more accurate for matching revenues and expenses with the facilities in service during the year.

The relative superiority for ratemaking purposes of the 13-month average method is demonstrated by its use in calculating GPC's rate base. Applying that method to the actual data available from GPC on its monthly net plant balances for Period II produces the following average net plant amounts: ($1,000)

Production	Transmission	Distribution	General
955,555	451,867	708,892	55,134

These figures compare with the Company's beginning and end of year average net plant balances as follows: ($1,000)

Production	Transmission	Distribution	General
1,100,944	467,897	732,257	57,425

My calculations show that the Company's method overstates all functional net plant in service balances particularly net production plant. The $145,389,000 difference between GPC's figure for net production plant and my figure is due primarily to the commercial in-service dates of the Hatch No. 1 unit and the Bowen No. 4 unit. GPC's beginning and end of year average method of calculating plant in service attributes both units to be in commercial operation for six months during the test year, i.e., July through December 1975. In fact, the Hatch unit was not commercialized until December 31, 1975. The Bowen unit was placed in commercial operation on November 14, 1975. When GPC computes it rate base using the beginning and end of year plant in service balances, it seeks a return on both of these units as if they were in service for six months of the test year rather than the actual in-service periods of one day for Hatch No. 1 and approximately 6 weeks for Bowen No. 4.

It should be pointed out that although most units generally are of some value prior to commercial operation, because of the availability of test run energy, the Company has fully recognized that value by increasing Account 557 for the value of the kilowatt hours produced in the pre-operational testing of these units.

Additionally, prior to final commercial operation, the Company continues to capitalize its Allowance For Funds Used During Construction (AFUDC) so that the final capitalized value of the plant in service reflects AFUDC incurred during the entire period of pre-operational testing. Over the life of the facility, Georgia Power Company will recover these costs through depreciation charges and return on rate base. Therefore, to allow the Company to calculate its rate base on a beginning and end of year production plant investment balance results in this case in a double return to the Company. GPC would earn a full return on the weighted value of both Hatch and Bowen investments included in the rate base representing the pre-operational period of June through December for Hatch, and June through October for Bowen. GPC would also capitalize AFUDC on these investments for the same periods.

The average of the 13-month plant balances eliminates its overlap and provides for a proper relationship between plant in service for the rate of return purposes and AFUDC taken on pre-commercial investments.

FPC precedent dictates the use of the 13-month average plant balance method. For example, the Commission required use of the 13-month average in Mississippi Fuel Corporation, 11 FPC 288 (1952), Idaho Power Company, 46 GPC 384 (420) 1971 and most recently in Connecticut Light & Power, 1976 FPC Docket No. E-7743, Opinion No. 761.

Clearly, both logic and precedent, as well as good ratemaking procedures require the use of the 13-month average net electric plant in service in GPC's cost of service for its plant balances.

Q HAVE YOU PREPARED AN EXHIBIT WHICH SHOWS THE DEVELOPMENT OF THE

13-MONTH ACCOUNT BALANCES WHICH WERE EMPLOYED IN COOPERATIVE INTERVENORS' COST OF SERVICE STUDY?

A Yes, Cooperative Intervenors' Exhibit No. ___(RMG-1) contains the development of the monthly account balances which I used for gross plant in service, accumulated reserve for depreciation, plant held for future use, and nuclear fuel.

Q MR. GROSS, THE STAFF IN ITS DEVELOPMENT OF THE COMPANY'S RATE BASE, TREATED PLANT HATCH AS IF IT WERE IN COMMERCIAL SERVICE EFFECTIVE JULY 1, 1975 RATHER THAN THE ACTUAL COMMERCIAL DATE OF DECEMBER 31, 1975. WOULD YOU PLEASE COMMENT ON THE STAFF'S TREATMENT?

A The Staff is proposing to reverse the Company's accounting treatment for the Hatch Unit No. 1 by transferring the monthly balances for the CWIP investment in Hatch, as charged to Account 107, to plant in service for this six month period (July through December 1975). Additionally, the Staff increases depreciation expense over the actual booked amounts for 1975 based upon the six month plant in service balance for Hatch.

I believe the Staff has erred in its treatment of the Hatch unit on several bases. First, the Company commercialized Hatch on December 31, 1975 for particular reasons. Because of warranty requirements and other contractual provisions between Georgia Power Company and various venders associated with the Hatch equipment, it was not feasible from Georgia Power's view to commercialize Hatch until after a significant test period. During this test period Georgia Power Company charged to Account 557 the "costs" of Hatch test run energy. Included in the test run costs charged to Account 557 were nuclear fuel burn-up expenses, Hatch operation and maintenance expenses, and some additional $4,577,479 which the Company terms "the difference between the budgeted cost of energy, assuming that the Plant Hatch Unit No. 1 were in commercial operation and the actual cost of energy," (Cooperative Intervenors Exhibit No. ___(RMG-2), Page 4). The Company justifies charging these additional "costs" to Account 557 on the basis that such amounts are "equivalent to the same amount which would have been expensed if depreciation had been computed on Plant Hatch No. 1 using a unit of production method of depreciation," Page 3 Cooperative Intervenors' Exhibit No. ___(RMG-2). It is apparent that when the Staff increases test year depreciation expense for six months of commercial operations for the Hatch Unit No. 1, it duplicates what are essentially depreciation charges previously booked in Account 557 by the GPC in the test year.

Secondly, when the Staff transfers the Hatch Unit No. 1 Account 107 balances for July through December to plant in service, it removes applicable AFUDC amounts charged to the average balance. Unfortunately Staff's AFUDC adjustment is only for ratemaking purposes involved in this particular case. Georgia Power Company presently has on file in Docket

Nos. E-9521 and ER76-587, subsequent rate filings applicable to Cooperative Intervenors which supersede the instant docket. The Staff's plant in service adjustment for Hatch Unit No. 1 affects forthcoming rate cases pending before this Commission since the Staff has not permanently reduced the actual book plant in service for the AFUDC capitalized on Hatch for the period June through December 1975. If these amounts are allowed to remain in electric plant in service, then the Company in forthcoming rate cases will earn a full return on AFUDC taken during what the Staff has determined to be a fully commercial period for this investment. Obviously this is an incorrect procedure and will ultimately result in a double return to the Georgia Power Company for this component of the Hatch investment.

Unless the Staff is willing to make a substantial change to the permanent book records of the Georgia Power Company, then its adjustment to recognize an earlier Hatch in-service date is incorrect.

Q MR. GROSS, IF THESE PERMANENT ACCOUNTING CHANGES WERE MADE DO YOU BELIEVE THAT IT WOULD BE PROPER FOR RATEMAKING PURPOSES TO TIME WEIGHT THE HATCH NO. 1 UNIT FOR AN IN-SERVICE DATE OF JULY 1, 1975?

A No, I believe it is very important to recognize that we are dealing not with prospective ratemaking in this proceeding but with a locked-in ratemaking proceeding. As I have emphasized previously, with respect to Cooperative customers, the instant case applies for the period April 1975 through June 30, 1975; only a three month period. The Georgia Power Company has on file in Docket No. E-9521 a successor rate applicable to the Cooperative Intervenors which also covers a locked-in period, i.e., July 1, 1975 through July 31, 1976. For service rendered effective August 1, 1976 the Company presently has on file in Docket No. ER76-587, the third in a succession of rate increases which is based on calendar year 1976 operations. If the instant case was for the purpose of setting a rate that would be in effect for some significant time subsequent to the test year, then I could understand the Staff's adjustment in this proceeding. However, in this docket we are dealing only with the second quarter of 1975 (Period II) with a maximum requirement of setting rates based upon average 1975 costs. Certainly costs subsequent to 1975 should not be considered in a proceeding dealing with rates that will be in effect only during three months during the second quarter of the test year. Therefore in the case of the Cooperative Intervenors, I strongly believe that the Staff has improperly reflected the Hatch investment in the rate base for ratemaking purposes. The rates filed by GPC during the spring 1976 in FPC Docket No. ER76-587 will recover the full annualized costs of Hatch Unit No. 1 concurrent with its commercial operations.

Q MR. GROSS, DO YOU AGREE WITH GPC'S DEVELOPMENT OF ITS WORKING CAPITAL REQUIREMENTS?

A No. GPC overstated its cash working capital requirements and therefore

its rate base by the inclusion of $11,052,567 for minimum bank balances.

Q WHY DO YOU DISAGREE WITH THE COMPANY'S TREATMENT OF MINIMUM BANK BALANCES?

A There are several reasons why there is disagreement with the Company's inclusion of minimum bank balances as a component to rate base. Dr. Ewert and I both will give reasons why minimum bank balances should not be included in GPC's rate base.

Company's witnesses state that the normal cash working capital allowance of 45 days of annual operation and maintenance expense less purchased power is not sufficient to provide enough cash to fulfill compensating bank balance requirements. I have carefully reviewed the testimony and exhibits of the Company's witnesses and I find no studies prepared by the Company showing that the standard 45 days cash working capital allowance is deficient. I believe that if additional cash working capital amounts, over and above the standard 45 days allowance, are to be included in the rate base, then GPC must show a detailed analysis of its total cash working capital needs based on all cash receipts and cash disbursements.

This Commission has consistently limited the cash working determination to the 45 days allowance. Any attempts to expand or reduce the 45 days allowance through specific treatment of any one item, has been met with the requirement to show all cash leads and lags (with the exception of FIT accruals, prior to Sierra Pacific Power Company, Opinion No. 730). Particularly, the Commission has rejected the specific addition of compensating bank balances in some cases because of the availability of counterbalancing amounts of cash generated through certain accruals. Along this line, GPC has not made a showing that cost free funds generated from tax or other accruals were not continually available during the test year for bank deposit and thus acted to satisfy requirements for compensating bank balances as such exists.

Q ARE GPC'S MONTHLY TAX ACCRUALS OF A SUFFICIENT AMOUNT TO COUNTERACT THE APPROXIMATE $11,000,000 STATED MINIMUM BANK BALANCE REQUIREMENT?

A From the information that GPC has provided, I find that tax accrual balances for the 13-month period December 1974 through December 1975 (Period II) averaged $32,842,337 as I have shown on Cooperative Intervenors' Exhibit No. ___(RMG-3). These balances are the result of GPC's booking tax expense on a current basis but with the actual payment to the taxing entity usually not due until some later date. Since rates are based on current tax expense, a cash leading situation develops as cash in-flow from revenues are received well prior to the actual cash disbursement to the taxing entity.

It is obvious from this data that GPC has a substantial amount of interest free capital available which could and most probably is

totally deposited in bank accounts and indeed acts to fulfill any compensating bank balance requirement.

Q DOES GEORGIA POWER COMPANY'S FEDERAL INCOME TAX CREDIT TO CASH WORKING CAPITAL OFFSET THE TAX ACCRUAL BALANCE SHOWN IN COOPERATIVE INTERVENORS' NO. ____(RMG-3)?

A No, if booked accruals relating to federal income taxes are eliminated from the total tax accrual balance as shown by the Georgia Power Company for the test year, then the average tax accrual balance of $32,842,337 is reduced to $27,932,320, or by approximately $5,000,000. Even eliminating tax accruals relating to federal income tax from the average tax accrual balance does not change the fact that tax accrual balances are at least twice as much as the Company's stated minimum bank balance requirement. In addition, for cost of service purposes, Mr. Solomon has eliminated the federal income tax offset to working capital because of the Commission's Order in Opinion No. 730.

Q MR. GROSS, THE SECOND ASPECT OF YOUR STATED ASSIGNMENT IN THIS CASE CONCERNS THE REASONABLENESS OF THE COMPANY'S PROPOSED 100% SUMMER-BASED BILLING DEMAND RATCHET APPLICABLE TO THE COOPERATIVE WHOLESALE CUSTOMERS. HAVE YOU MADE A STUDY TO DETERMINE IF THE 100% SUMMER-BASED BILLING RATCHET IS JUSTIFIED?

A Yes. My studies show that given the long run necessity of including a summer-based billing demand ratchet in the Cooperative Intervenors' wholesale rate for full requirement service, the ratchet should be 75%. I generally agree with the testimony of Georgia Power Company's witnesses that the Company will be faced in the future with a continuation and possible widening of the summer peak demand over the other monthly demands. Based on such a trend I would agree that a summer-based billing demand ratchet would represent a reasonable consistent approach toward establishing a long-run pricing pattern applicable to developing cost trends.

Q MR. GROSS PLEASE DISCUSS YOUR STUDY SUPPORTING YOUR OPINION THAT THE SUMMER-BASED BILLING DEMAND RATCHET SHOULD BE 75% RATHER THAN 100%.

A GPC's witness Hensley states that the annual summer peak is the criterion which controls the amount of capacity the Company must install. Fixed costs relating to this installed capacity are recovered through the level of the demand charges contained in the rate structure. These demand charges coupled with the method of determining the customer's "Billing Demand" are designed to recover as equitably as possible from the wholesale customers the allocated amount of the fixed cost associated with the Company's installed capacity. The billing demand ratchet is designed to reflect back on the maximum 30 minute integrated demand of the wholesale customer established during the months of June through September when GPC is likely to establish its annual peak demand. The ratchet serves as a pricing

device to measure the relative contribution of each delivery point to GPC's annual peak demand and to assure that should the customer require capacity at the time of the summer peak, then the customer will be held accountable for such capacity on the billing basis for the remainder of the year.

GPC's witness Mr. W. R. Hensley has selected a 100% ratchet to measure the relative contribution of a customer's load to GPC's annual system peak. I believe that a 100% ratchet is too high and would place an unreasonable burden on the customer without cost justification.

I believe that the level of the ratchet applicable to a particular wholesale customer classification should be related to the amount of peak season diversity experienced by GPC in serving that wholesale customer classification. I have studied the likelihood of a Cooperative delivery point demand reaching its maximum summer season value at a time coincident with the Company's annual system peak demand. My studies show that the incidence of demand coincidence during the system peak for the total wholesale Cooperative class (all 350 delivery points) is approximately 75%. This percentage is measured by dividing the Cooperative load coincident with the system annual peak (both 1 hour peak and peak week) by the sum of all Cooperative delivery point peak thirty minute demands (NCP) occurring from June through September (summer months governing ratchet application). The purpose of this analysis is to determine the degree of summer seasonal diversity of the Cooperative class with respect to the time of the Company's annual peak demand. The ratchet should obviously reflect normal load diversity; otherwise, an individual cooperative customer could be unduly penalized if the ratchet was set at a level not consistent with normal delivery.

Q I SHOW YOU A DOCUMENT MARKED COOPERATIVE INTERVENORS' EXHIBIT NO. ____ (PMG-4) AND ASK YOU TO IDENTIFY IT.

A This Exhibit is entitled "Cooperative Intervenors' System Summary for Period June Through September, 1975 Metered Non-Coincident Peak Demand Summation by Delivery Points".

Q WAS THIS EXHIBIT PREPARED UNDER YOUR SUPERVISION?

A Yes.

Q PLEASE DISCUSS THIS EXHIBIT.

A I have summed for all delivery points (which accounts for entries shown under more than one month for all but one Cooperative) each peak 30 minute integrated demand established during the period of June through September 1975. I show that the summation of such 30 minute demands are equal to 1,363,632 kilowatts. When this figure is divided into the wholesale Cooperative class demand coincident with the Company's annual system

peak demand as shown on Page 2, I calculate the incidence of peak demand coincidence for the cooperative class for the summer period of June through September 1975 to be 75%.

Q WHY DO YOU BELIEVE THAT A WHOLESALE CUSTOMER COULD BE UNFAIRLY BURDENED BY ESTABLISHING A RATCHET AT A LEVEL THAT WAS HIGHER THAN THE LEVEL OF RATCHET PRODUCED BY A STUDY OF THE SUMMER SEASON DIVERSITY?

A Page 1 of Cooperative Intervenors' Exhibit No.___(RMG-4) shows that a significant number of Cooperative delivery points reached a peak demand during certain summer months other than during the month when the Georgia Power Company reached its annual peak demand. Our studies show that many Cooperative delivery points, particularly those in south Georgia, establish peak demands normally during the early summer months when farm operations are at a maximum. In other words these delivery point demands are a function of crop drying and irrigation requirements and are not significantly related to air conditioning requirements as suggested by Mr. Hensley on Page 9 of his testimony where he states that wholesale loads have essentially the same characteristics as loads of the Company. The Company's load characteristic of course is heavily air conditioning related whereas a sizable portion of the wholesale Cooperative load is related to farming operations. The natural diversity of the wholesale Cooperative class summer peak loads should be recognized in the ratchet. If this recognition is not established in the ratchet, then certain wholesale customers who traditionally peak during the summer at times not coincident with the Georgia Power Company would be treated for billing purposes as if their peak demands were coincident with the Georgia Power Company's annual system peak. This would unfairly penalize many wholesale Cooperative customers. Additionally the rate containing a 100% summer-based ratchet would not be completely consistent with the Company's method of allocating demand related costs since the Company has used loads established on the Company's system coincident with the GPC 5 day peak week (the week when the Georgia Power Company's system establishes its annual peak) rather than Class NCPs established during the summer season.

Q IF THE BILLING DEMAND RATCHET WAS REDUCED TO 75%, WHAT IMPACT WOULD IT HAVE ON THE DEMAND CHARGE IN THE WHOLESALE COOPERATIVE RATE?

A Given a fixed level of revenues to be generated by the demand charge, if the 100% ratchet was reduced to 75% then the demand charge price would have to be increased by an appropriate amount to recover the additional revenue generated by application of the higher ratchet. I have limited my testimony to only the level of the ratchet and I have not made a study, as yet, of the resulting demand charge increase caused by a lowering of a ratchet to 75%.

Q DOES THAT COMPLETE YOUR TESTIMONY?

A Yes.