

APPALACHIAN POWER COMPANY

FPC DOCKET NOS. E-7775 & E-9101

1 Q PLEASE STATE YOUR NAME AND ADDRESS.

2

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

5

6 Q WHAT IS YOUR EDUCATIONAL BACKGROUND?

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

12

13 Q PLEASE STATE YOUR PROFESSIONAL EXPERIENCE.

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

22

23 Q HAVE YOU EVER TESTIFIED IN OTHER COMMISSION PROCEEDINGS?

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25 A Yes, I have testified as a rate expert and cost of service witness
26 before the State Commission of Kentucky, Indiana, Michigan, Vermont
27 and Virginia. I have also testified before the Federal Power Com-
28 mission in proceedings involving the Mississippi Power Company, FPC
29 Docket No. E-7625; Central Vermont Public Service Corporation, FPC
30 Docket No. E-7685; Appalachian Power Company, FPC Docket No. E-7775;
31 Duke Power Company, FPC Docket No. E-7994; Gulf States Utilities
32 Company, FPC Docket No. E-8121; and Gulf Power Company, FPC Docket
33 No. E-8911.

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

36

37 A By Virginia Polytechnic Institute and State University (VPI).

38

39 Q WHAT WAS YOUR ASSIGNMENT IN THIS PROCEEDING?

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41 A My assignment was to review Appalachian Power Company's (APCO) direct
42 testimony, exhibits and other available information concerning its
43 filing of November 8, 1974 and June 23, 1975. I was to consider the
44 appropriateness of APCO's proposed draft Service Agreement, specifi-
45 cally Article 3.

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47 Q WOULD YOU BRIEFLY SUMMARIZE THE CONCLUSIONS WHICH YOU HAVE REACHED
48 AS A RESULT OF YOUR ANALYSIS?

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1 A Article 3 of APCO's proposed Service Agreement, in combination with
2 the billing demand ratchet (50%) established in proposed Rate Sched-
3 ule "WS", acts to work an unreasonable hardship on VPI. I have
4 therefore amended Article 3 in VPI Exhibit____(RMC-1) to change
5 the application of the ratchet from one based on the maximum contract
6 demand commitment to one based on the actual previous peak load of
7 VPI.

8
9 Q MR. GROSS, WOULD YOU PLEASE DISCUSS THE REASONS WHY YOU HAVE CHANGED
10 APCO'S PROPOSED LANGUAGE IN ARTICLE 3 OF THE FILED DRAFT SERVICE
11 AGREEMENT.

12
13 A Yes. Article 3 of APCO's proposed Service Agreement is as follows:

14
15 The contract capacity reserved and contracted for by the Customer
16 is fixed at 30,000 kW. The Company shall not be required to supply
17 more than 30,000 kW provided, however, that if the requirements of
18 the Customer should exceed the maximum permissible reservation of
19 contract capacity, i.e., 30,000 kW, or if the Customer advises the
20 Company that it believes that its requirements will in the future
21 exceed the maximum permissible reservation of contract capacity
22 of 30,000 kW, the parties shall meet in attempt to negotiate the
23 rate, terms and conditions under which such capacity in excess of
24 30,000 kW shall be supplied. Such negotiations shall not be deemed
25 a waiver by the Company of its right to make such filing with any
26 governmental authority or authorities or regulatory agency having
27 jurisdiction in the premises of a rate schedule applicable to
28 energy delivered in excess of the maximum permissible reservation
29 contract capacity of 30,000 kW or otherwise to make any filing
30 permitted by Paragraph "5". In the event that Customer shall notify
31 Company pursuant to Paragraph "14" hereof that Customer has elected
32 to terminate this Agreement in the manner provided in said Para-
33 graph "14", then in such event, there shall be no obligation on the
34 part of the Company to enter into the negotiations otherwise con-
35 templated by this Paragraph.

36
37 The objectionable feature of this language concerns the definition of
38 contract capacity. The Company fixes the amount of contract capacity
39 at 30,000 kW. The Billing Demand Provision contained in proposed Rate
40 "WS" establishes the minimum monthly billing demand by multiplying a
41 50% ratchet times the defined contract capacity. In this case the
42 30,000 kW contract capacity established for VPI when multiplied by the
43 50% ratchet produces a minimum monthly billing demand of 15,000 kW.
44 VPI's present load on APCO's system fluctuates in a range of 15 to 20
45 megawatts. There is also some probability that VPI may add additional
46 self-owned generation in the future thus reducing its requirements
47 from APCO to a level below 15 megawatts. It is obvious that the 15
48 megawatts minimum billing demand works an undue hardship on VPI by
49 establishing an arbitrary minimum load requirement which is not related
50 to previous loads placed by VPI on APCO's system. Additionally, APCO

1 has not shown that the 15,000 kW minimum billing demand relates
2 to the investment that APCO wishes to protect in case of signi-
3 ficant load reduction.
4

5 In recent negotiations with APCO, in which I participated, APCO
6 has been primarily concerned with the establishment of a maximum
7 amount of capacity above which there would be no obligation to
8 provide additional power except through negotiations. APCO ad-
9 vised VPI that the present transformation facilities installed
10 to serve VPI would not be of sufficient capacity to meet loads
11 in excess of thirty megawatts. Because of APCO's stated position
12 VPI agreed to the thirty megawatt contract capacity limitation in
13 the contract. In doing so, however, it was understood by all
14 parties present that the acceptance of a maximum not to exceed
15 amount of 30,000 kW would not tie VPI to an onerous minimum con-
16 tract demand level arising through strict application of the
17 ratchet contained in Schedule "WS".
18

19 Q MR. GROSS, DO YOU HAVE AN EXHIBIT THAT SHOWS YOUR PROPOSED CHANGES
20 IN THE COMPANY'S FILED CONTRACT CAPACITY PROVISION NO. 3?
21

22 A Yes. VPI Exhibit___(RMG-1) contains my revisions to the Company's
23 Article 3 on contract capacity.
24

25 Q PLEASE EXPLAIN THIS EXHIBIT.
26

27 A VPI Exhibit___(RMG-1) revises the Company's proposed language
28 concerning contract capacity by establishing the contract capacity
29 for billing demand purposes at a level equal to the previous maxi-
30 mum thirty-minute integrated demand established on VPI's system
31 less the total installed kW capacity (name plate rating) of VPI's
32 existing generating units. This provision provides that VPI's
33 minimum billing demand obligation from APCO will be equal to 50%
34 of its previous maximum thirty-minute demand less the present capa-
35 bility of VPI's self-owned generation. The concept of establishing
36 the contract capacity for billing purposes on the basis of peak
37 system load less self-owned generation capability was actually
38 initiated by APCO in its November 8, 1974 filing with the Federal
39 Power Commission. Article 3 of the proposed Service Agreement in
40 the November 8, 1974 APCO filing contained the following language:
41

42 For contract capacity reserved and contracted for by the Customer
43 for the first year of the term of this Agreement is fixed at
44 22,800 kW. For each succeeding year of the term of this Agree-
45 ment, the contract capacity shall be adjusted automatically to
46 equal the difference, adjusted to the nearest 100 kW, between
47 the maximum thirty-minute kW demand established on the Custo-
48 mer's system during the term of this Agreement up to the end
49 of the preceding contract year (which the Customer shall report
50 in writing to the Company at the end of each contract year) and

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1,800 kW; provided, however, that the contract capacity in any year shall in no event be less than the highest contract capacity reserve in any preceding year of the term of this Agreement, nor shall it in any event be more than 30,000 kW and the Company shall not be required to supply more than 30,000 kW. ..."

The 1,800 kW specified in this provision represents APCO's evaluation of the then-existing generating capability of VPI. The proposed language contained in VPI Exhibit ____ (RMG-1) is a refinement of this same concept. I have eliminated the initial contract amount of 22,800 kW, since VPI may exceed it in the near future. Furthermore to make the formula flexible for variations, up or down, in VPI's generating capability, I have provided that VPI's previous maximum system peak thirty-minute demand will be reduced by the name plate generating capability of VPI's electric generating units in service at the date of billing, before application of the ratchet. I believe this language provides adequate flexibility to protect the stated interests of both parties.