

BEFORE THE

## FLORIDA PUBLIC SERVICE COMMISSION

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In The Matter of : DOCKET NO. 891045-EI  
:   
Application of GULF POWER : HEARING  
COMPANY for an increase in rates : NINTH DAY  
and charges. : MORNING SESSION  
-----

VOLUME - XXIV

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Pages 3619 through 3831

JUN 21 1990  
Florida Public Service Commission

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

Thursday, June 21, 1990

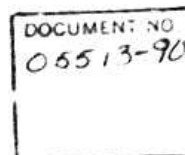
Met pursuant to adjournment at 8:30 a.m.

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

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P R O C E E D I N G S

(Hearing reconvened at 8:35 a.m.)

MR. STONE: Commissioners, before we start with the first witness, I wanted to let you know that as we closed yesterday we were indicating that Mr. Jordan had some changes to his testimony. We gave those to the court reporter in the form of a record copy, but just so everyone is aware of what the changes are, I have handed out on the dais a one-page listing of all the changes, plus a revised Exhibit 139, which the changes between the old exhibit and the new exhibit are also listed on the list of changes. That's just mainly so everyone is informed of what we did.

CHAIRMAN WILSON: All right.

MR. STONE: Also, as we were closing the day yesterday there was some discussion with Commissioner Gunter about an exhibit that he had requested. I believe it was 598.

COMMISSIONER GUNTER: Yep.

MR. STONE: We have worked diligently to try and get that prepared for Mr. Conner returned to the stand; however, because some of the information require other departments to contribute, and because of the



1 distances involved in trying to get this information,  
2 we, quite frankly, have not been able to complete the  
3 exhibit at this time.

4 COMMISSIONER GUNTER: I can take 559 and I  
5 can do what I need to do from 559.

6 MR. STONE: We appreciate that. And we will  
7 continue to work and get it completed as soon as  
8 possible.

9 COMMISSIONER GUNTER: All right.

10 COMMISSIONER BEARD: That exhibit wasn't on  
11 the purported theft of the hand truck, was it?

12 MR. STONE: No, sir.

13 The first witness of the morning is Mr.  
14 Conner, who has previously been sworn.

15 ERNEST C. CONNER, JR.  
16 having been previously duly sworn as a witness on  
17 behalf of Gulf Power Company, was called as a rebuttal  
18 witness and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. STONE:

21 Q Mr. Conner, you have previously testified in  
22 these proceedings, and you have also prefled rebuttal  
23 testimony, is that correct?

24 A That's correct.

25 Q Do you have any changes or corrections to

1 your prefiled rebuttal testimony?

2 A Yes, I do. On Page 6, Line 13, change the  
3 number in line -- excuse me, Line 13, at the beginning  
4 of the line, change the number "6" to read "5."

5 COMMISSIONER GUNTER: To read what?

6 WITNESS CONNER: 5.

7 COMMISSIONER GUNTER: 5.

8 WITNESS CONNER: Second correction is on Page  
9 13, Line 13, at the beginning of the line, change the  
10 year "1949" to read "1947."

11 Q (By Mr. Stone) Do you have any other changes  
12 to your testimony?

13 A I do not have any changes to my rebuttal  
14 testimony. I do have one correction that I would like  
15 to make from my direct cross examination.

16 Q Okay.

17 A I'm not sure of the process for this, but on  
18 Page 1642 of the transcript, Lines 4 through 7, I was  
19 asked to state whether the square footage of the  
20 economic development room was included in the corporate  
21 office on my Exhibit ECC-1, and I stated that I  
22 believed it was in the common area. It was indeed  
23 included in the economic development square footage.

24 Q With the changes you've noted, if I were to  
25 ask you the questions contained in your rebuttal

1 testimony, would your responses be the same?

2 A They would.

3 MR. STONE: We ask that his rebuttal  
4 testimony be inserted into the record as though read.

5 CHAIRMAN WILSON: Without objection, his  
6 prefiled rebuttal testimony will be inserted into the  
7 record as though read.

8 (Exhibit Nos. 147 through 151 previously  
9 stipulated into the record.)

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GULF POWER COMPANY

Before the Florida Public Service Commission  
Rebuttal Testimony of  
Ernest C. Conner, Jr.  
In Support of Rate Relief  
Docket No. 891345-EI  
Date of Filing: May 21, 1990

Q. Please state your name, address and occupation.

A. My name is Ernest C. Conner, Jr., and my business address is 500 Bayfront Parkway, Pensacola, Florida 32501. I am Manager of General Services of Gulf Power Company.

Q. Have you previously testified before this Commission?

A. Yes. I submitted direct testimony in this docket.

Q. Have you prepared an exhibit that contains information to which you will refer in your testimony?

A. Yes. Schedule 1 is an index to the subsequent schedules to which I will refer. Each schedule of this exhibit was prepared under my supervision and direction.

Counsel: We ask that Mr. Conner's Exhibit, (ECC-2), comprised of 4 Schedules, be marked for identification as Exhibits 147 through 151.

1    **Q.    What are your areas of responsibility within Gulf Power**  
2       **Company?**

3    **A.    I have responsibility for providing budgeting,**  
4       **planning, design, construction, operations,**  
5       **maintenance, and administrative support to all Company**  
6       **Division buildings and the Corporate Office.**

7  
8    **Q.    What is the purpose of your rebuttal testimony in this**  
9       **proceeding?**

10   **A.    The purpose of my testimony is to rebut the direct**  
11       **testimony of Mr. Larkin and Mr. Schultz and to provide**  
12       **additional information relating to the Corporate**  
13       **Headquarters project, the Graceville and Bonifay**  
14       **buildings, and land held for future use at Bayfront**  
15       **Parkway, Pace Boulevard, and Panama City.**

16  
17   **Q.    Is Mr. Larkin's testimony on the Bonifay and**  
18       **Graceville offices valid in asserting that Mr. Conner**  
19       **can not offer any personal insight into this**  
20       **construction because of the fact that he was not an**  
21       **employee of the Company at the time these buildings**  
22       **were constructed?**

23   **A.    No, Mr. Larkin's assertion is not valid. It fails to**  
24       **recognize that I have been an employee of the Company**  
25       **since shortly after these buildings were occupied**

1        eight years ago. Additionally, Mr. Larkin does not  
2        acknowledge the fact that I have held various  
3        positions of increasing responsibility in my eight  
4        years of employment all of which provided technical  
5        construction, operations, and maintenance support to  
6        all customer facilities including Bonifay and  
7        Graceville. Finally, Mr. Larkin's assertion fails to  
8        recognize my 21 years of work and educational  
9        experience in the areas of architecture and building  
10       construction. Included in this experience are four  
11       years of undergraduate work in Architecture and  
12       Building Construction at Auburn University, nine years  
13       of practical work experience in private sector General  
14       Contracting and Construction Management prior to  
15       employment with Gulf Power, and during eight years of  
16       employment with the Company, three years of serving as  
17       an adjunct instructor for the Construction  
18       Administration class in the Building Construction  
19       program at the University of West Florida in  
20       Pensacola, Florida. Also while working at Gulf, my  
21       experience has included completing a Master's Degree  
22       in Management and as a requirement for this degree,  
23       authoring an extensive research paper on the benefits  
24       to the Owner in administering various approaches to  
25       project design and construction management. This

1       diversified blend of educational and work experience  
2       qualify me to present testimony on the Bonifay  
3       and Graceville offices both from the perspective  
4       of the Company and from the industry as a  
5       whole.

6  
7       Q.   Is Mr. Larkin's testimony on the Bonifay and  
8       Graceville offices valid in asserting that Mr.  
9       Conner's testimony "... does not offer any additional  
10      information which the Commission did not have  
11      available to it when it originally made this  
12      disallowance ..."?

13      A.   No, Mr. Larkin's assertion is not valid. My testimony  
14      highlights several areas of additional information  
15      which the Commission did not have available to it when  
16      it made the adjustment in the 1984 rate case. In  
17      the 1984 rate case, Gulf Power did not prefile direct,  
18      or rebuttal testimony on the cost of the Bonifay and  
19      Graceville offices. It was during the rate case  
20      hearings that questions were raised relating to the  
21      "per square foot cost" of these office buildings.  
22      During cross examination, the Company was also asked  
23      to supply the Commission with industry average "per  
24      square foot cost" figures to compare with the  
25      Company's actual figures on the Bonifay and Graceville

1 offices. The Company answered the Commission with  
2 construction cost data from the Means Survey showing  
3 the average cost for office buildings sized from  
4 20,000 square feet to 100,000 square feet to be \$67.00  
5 per square foot. In its testimony before the  
6 Commission, the Company clarified this data by  
7 indicating that the Survey results did not include  
8 commercial office buildings of less than 20,000  
9 square feet. In this rate case, the Company is  
10 asserting that, in making its final decision, the  
11 Commission drew the wrong conclusion from the Means  
12 Survey construction cost data. The final order in the  
13 1984 rate case stated that "... we shall disallow all  
14 construction costs in excess of \$67.00 per square  
15 foot, which is a cost supported by the Means Survey  
16 provided by the Company". Cost information which  
17 projects average costs for office buildings with the  
18 economies of scale of up to 100,000 square feet is not  
19 appropriate for projecting a reasonable cost for a  
20 small 1,582 square foot building. Use of the Means  
21 Survey data provided in this manner is not appropriate  
22 and resulted in an unjustified reduction of allowable  
23 plant in service.

24 The proper test for reasonableness of cost is an  
25 analysis of the bid methodology and results which



1 ultimately formed the basis for the costs of the  
2 project. Information on the prospective letting of  
3 bids for these buildings appeared in construction  
4 industry trade publications, assuring notification of  
5 all interested contractors. Gulf Power obtained  
6 sealed competitive bids from six qualified general  
7 contractors on a combined bid package for the Bonifay,  
8 Graceville, and Chipley facilities. This number of  
9 bidders represents a sufficient number to ensure that  
10 good competition was achieved in obtaining bids on the  
11 project.

12 The successful contractor's bid was approximately  
13 <sup>5</sup>~~6~~ percent below that of the next lowest bidder  
14 indicating an opportunity for Gulf Power to receive  
15 the full advantage of the low contractor's uniquely  
16 competitive bid. Additionally, the range of bids from  
17 low to high bidder indicated that the low contractor's  
18 bid apparently did not represent an error on the  
19 bidder's part. Such an error could result in a  
20 potential contract default due to financial problems  
21 on the part of the low bidder. All things considered,  
22 my analysis of the bids received leads me to the  
23 conclusion that construction of these buildings  
24 resulted from a well managed bid process. This  
25 process generated a highly competitive bidding

1 environment thereby ensuring Gulf Power the best price  
2 for the three buildings in the bid package.

3 The design of the buildings represents a  
4 reasonable level of quality construction to reflect  
5 the Company's commitment to long term customer  
6 service Recognizing that unlike some unregulated  
7 industries which may build for the short term in  
8 anticipation of selling their facilities, Gulf Power  
9 is obligated and prepared to support its customers  
10 with reliable service for many years to come from  
11 facilities which will continue to support effective  
12 customer service. The Bonifay and Graceville  
13 buildings, albeit small in size, are large in terms of  
14 our continued commitment to these communities and our  
15 customers.

16  
17 Q. Did the packaging of the bids for Bonifay, Graceville,  
18 and Chipley as one bid have the effect of increasing  
19 the price of the buildings by restricting the number  
20 of contractors available to bid?

21 A. No. The packaging of the bids for small buildings  
22 together in lieu of requiring that they be bid  
23 separately has the effect of attracting qualified  
24 contractors to the possibility of a more appealing  
25 project. The opportunity to spread overhead costs

1 such as supervision, office trailers, and other minor  
2 job site costs actually serves to reduce the overall  
3 cost to the Owner. The Commission's decision in the  
4 1984 rate case final order that the packaging of the  
5 bids served to restrict the number of bidders did not  
6 recognize the tangible advantages that Gulf Power  
7 achieved by increasing the economies of scale of such  
8 small buildings through packaging them together.  
9 Furthermore, even with the combined bid approach, the  
10 total bid amounts were not high enough to cause any  
11 contractors to withdraw from the bidding because they  
12 had exceeded their financial support capabilities.  
13 Altogether, a fine balance of competitive bidding was  
14 achieved allowing Gulf Power a reasonable cost for  
15 facilities designed to meet the Company's specific  
16 requirements.

17  
18 Q. Should the total cost of the Bonifay and Graceville  
19 offices be allowed in rate base?

20 A. Yes. As covered in my direct testimony, the total  
21 cost of the Bonifay and Graceville offices should be  
22 allowed in the rate base. The cost per square foot  
23 adjustment made in the 1984 rate case decision did not  
24 represent a valid method for determining a reasonable  
25 cost for these small buildings. Both of these

1 buildings were competitively bid. The resulting  
2 contract costs for construction represent the true  
3 market value for construction of the building in the  
4 given market and economic conditions, given the  
5 reduced economies of scale for such small commercial  
6 construction, geographic location, and functional  
7 needs of the facility as reflected in the building  
8 design. The 1984 adjustment did not recognize these  
9 relevant facts.

10

11 Q. Should the property held for future use for parking  
12 expansion at the Bayfront office building be included  
13 in the rate base?

14 A. Yes. The land should be included in the rate base.  
15 The long range parking plans for the Corporate Office  
16 building require 23.9 acres of land to support the  
17 project through the year 2010. The land Gulf  
18 currently owns is approximately 20.5 acres of land.  
19 Of this land, approximately 17.4 acres is classified  
20 as plant in service supporting the present needs of  
21 the building. Approximately 3.1 acres is being held  
22 for use as future parking in the Plant Held for Future  
23 Use account.

24 Because of the anticipated future growth and  
25 development at this building and site, the only

1 prudent decision for the Company to make was to  
2 proceed expeditiously in acquiring the property  
3 needed to support the building while property costs  
4 are reasonable and before land availability diminishes  
5 due to other development in the area. The Company  
6 prudently recognized that the presence of our quality  
7 structure in this previously undeveloped area of the  
8 city would and has enhanced the value of neighboring  
9 property. This enhanced value tends to drive up the  
10 price for subsequent purchases of property needed by  
11 the Company. While the approved site specific zoning  
12 plan only requires Gulf to build parking to support  
13 the needs of the building at the given time, the total  
14 land need is based upon the ultimate requirement for a  
15 minimum of 1,200 parking spaces to support the present  
16 building. Provisions were also made in the planning  
17 process for the addition of another building on site  
18 sometime after year 2010. The future building will  
19 further impact parking requirements and may create the  
20 need to expand land acquisition efforts beyond the  
21 23.9 acres required for eventual support of the  
22 present building. The timing of the need for the  
23 future building will be affected by employee growth  
24 over the years.

25 The intent of the overall master plan is to allow

1 the Hawkshaw site to serve as the permanent home for  
2 Gulf Power Company's Corporate Office. Securing  
3 property to meet this need when and while it is  
4 available at reasonable prices is in the best interest  
5 of our customers. By prudently planning for our  
6 future needs, we are assuring the most efficient use  
7 of these facilities at the lowest cost to the  
8 ratepayers.

9

10 Q. What are the land development requirements for the  
11 Gateway District in which the new building is  
12 located?

13 A. The Gateway District of Pensacola is a special zoning  
14 district requiring adherence to site planning  
15 guidelines, fiscal impact guidelines, screening of  
16 off street parking, street set backs for development,  
17 vehicle access restrictions to area thoroughfares,  
18 underground utilities, and landscaping requirements.  
19 The area is bordered generally on the north by  
20 Heinberg Street, on the west by Ninth Avenue, and on  
21 the south and east by Bayfront Parkway. All  
22 developments within the boundaries of the district  
23 are subject to the restrictions through a site  
24 specific zoning process.

25

1 Q. Did Gulf consider the construction of parking decks in  
2 lieu of surface parking in order to reduce the land  
3 requirements of the project?

4 A. Yes. Parking decks were considered, but they did not  
5 prove to be a desirable alternative. The cost  
6 comparison included in Schedule 2 of ECC-2 shows the  
7 cost for a parking deck to be approximately twice the  
8 cost of surface parking. Gulf prudently pursued the  
9 option of surface parking.  
10

11 Q. Has the Commission staff reviewed Gulf's need for and  
12 use of the Corporate Office building and associated  
13 land?

14 A. Yes. The Commission staff thoroughly reviewed these  
15 aspects of the building and land. Their report  
16 entitled "Final Report on Corporate Office Building,  
17 Gulf Power Project PE 872 (3336), AW 408951 (E-84-14)  
18 is dated May 23, 1989. In virtually all respects,  
19 this report is supportive of my testimony.  
20

21 Q. Should the property held for future use at the Pace  
22 Boulevard site be included in the rate base?

23 A. Yes. The property held for future use at the Pace  
24 Boulevard complex is an integral component of an  
25 evolving 60 year master plan which is currently

1 projected through year 2008. The site supports the  
2 Western Division Headquarters facility growth needs  
3 and the general and industrial facility growth needs  
4 of various Company support functions. These needs are  
5 summarized in Schedule 3. This property should be  
6 included in the rate base.

7  
8 Q. Can you elaborate on the evolution of this site in  
9 serving the needs of the Company?

10 A. Yes. The Pace Boulevard complex has been the  
11 permanent home for many Company functions for over 40  
12 years beginning with the initial purchase of property  
13 in <sup>1947</sup>~~1949~~ to build a general warehouse, line service  
14 building, repair shop, garage, and a combination  
15 Western Division Headquarters and General Office  
16 building. My direct testimony described the details  
17 of the evolution of this site from its initial stages.  
18 For nearly 30 years from the initial purchase, the  
19 site was adequate to meet initial Company needs. As  
20 customer growth continued and productivity  
21 improvements were developed through implementing the  
22 use of equipment such as bucket trucks, congestion on  
23 the site became a real problem. In the mid-70's, the  
24 line service function was relocated off site to the  
25 Pine Forest facility near Interstate Highway I-10.



1 This relocation extended the life of the Pace  
2 Boulevard site for the remaining functions.

3 By the 1980's, continued growth of the functions  
4 remaining at the site lead once again to overcrowding  
5 and congestion on the site. The study titled  
6 "Corporate and Western Division Survey" which was  
7 completed in 1982 lead to the Company's decision to  
8 provide relief by relocating the Corporate Office  
9 function to its present Bayfront Parkway location.  
10 This relocation was completed in 1987.

11

12 Q. Which functions are presently located on the site?

13 A. The Pace Boulevard complex presently serves as the  
14 home of the Western Division Headquarters and many  
15 company-wide general and industrial support functions.  
16 The industrial functions include the Bayou Chico  
17 Substation, the General Repair Shop, the Automotive  
18 Rebuild Center, the General Warehouse, the System  
19 Protection Shop, and the Investment Recovery Center.  
20 In addition, some general functions have historically  
21 been located at this site and remain there today.  
22 These functions include the Employment Center, the  
23 Training Facility, and the Credit Union.

24

25 Q. Is Mr. Larkin correct in his assertion that the land

1       held for future use at the Pace Boulevard complex site  
2       is not needed because Building Maintenance is housed  
3       on the third floor of the Corporate Office Building?

4    A.   No. Mr. Larkin is not correct in stating that the  
5       land held for future use at Pace Boulevard is not  
6       needed. Furthermore, his cursory contention that the  
7       third floor of the Corporate Office Building negates  
8       the need for land at Pace Boulevard is without merit  
9       in that it fails to recognize the growth needs of the  
10      60 year master plan for the multiple functions located  
11      on and planned for the site.

12

13   Q.   Why is Building Maintenance located on the third floor  
14       of the Corporate Office Building?

15   A.   Building Maintenance is located on the third floor  
16       because that location temporarily represents the most  
17       cost effective alternative for providing this  
18       necessary function of Company operations. In  
19       designing the Corporate Office Building to meet the  
20       needs of the Company, office growth space was provided  
21       in three phases. Short range growth was provided  
22       through provision of space for future work stations  
23       within departments. Intermediate growth space was  
24       provided in the form of the third floor avoiding the  
25       costs of beginning a new major construction program to

1 accommodate intermediate growth. Finally, to ensure  
2 the longevity of the Corporate Office site as the  
3 permanent home for this Company function, provisions  
4 have been made in the site planning to accommodate  
5 another building for growth beyond the year 2010.  
6 This comprehensive approach produced a long range plan  
7 which solved the Company's needs in a logical and  
8 orderly manner.

9  
10 Q. Would the Building Maintenance function be facilitated  
11 in the near future by relocating it from the Corporate  
12 Office to the Pace Boulevard site?

13 A. No. The Building Maintenance function operates  
14 reasonably well from the third floor of the Corporate  
15 Office Building. A ground level facility would have  
16 easier access for loading and unloading by not having  
17 to use a service elevator. However, this advantage  
18 would be offset by the fact that some of the services  
19 from a Building Maintenance Facility would be provided  
20 to the Corporate Office Building itself resulting in  
21 using the same service elevator to transport items  
22 back into the building. Altogether, the plan to  
23 presently utilize the office space growth area  
24 provided by the third floor as a maintenance shop and  
25 for storage provides an excellent plan compatible with

1 the overall needs of the various functions affected by  
2 the third floor.

3  
4 Q. Should the property held for future use for a general  
5 repair facility be included in the rate base?

6 A. Yes. This property which was reported in the filing  
7 as Plant Held for Future Use and is part of the Pace  
8 Boulevard complex is now plant in service. After this  
9 property was purchased and booked, the General Repair  
10 Facility, originally planned for this site, was  
11 relocated to another property at the Pace Boulevard  
12 site. Accounting does not change the name on the  
13 property once it has been booked. The property held  
14 for future use at the Pace Boulevard site originally  
15 for the General Repair Facility is now used to support  
16 the Electric Operations Center Project.

17  
18 Q. Are you familiar with the "Navy House"?

19 A. Yes. The structure referred to as the Navy House is a  
20 former residence which became the property of the  
21 Company when it purchased land needed to install a  
22 transmission line from the Company's Bayou Chico  
23 Substation to serve the Pensacola Naval Air Station.  
24 The transmission line property on which the Navy House  
25 is located is at 615 South Navy Boulevard in Pensacola

1 adjacent to the bridge leading to the Main Gate of the  
2 Pensacola Naval Air Station. The installation and  
3 maintenance requirements of the transmission line  
4 equipment made the purchase of only a portion of the  
5 property impractical. Consequently, the Company  
6 purchased the land which included the structure which  
7 has come to be called the Navy House.

8  
9 Q. How is the Navy House being used by the Company?

10 A. The Navy House is used today for Company business  
11 meetings and training. During construction of the  
12 transmission line, the Company leased the house to the  
13 transmission line contractor for their use as a  
14 temporary construction office.

15  
16 Q. Were the costs to renovate the structure reasonable?

17 A. Yes, although the total cost may appear high on the  
18 surface without a full understanding of the  
19 difficulties encountered during the renovation  
20 project. The final costs for renovation of the  
21 structure itself were only approximately \$39 per  
22 square foot. When compared to the costs for  
23 construction of a facility for training, these costs  
24 would compare quite favorably. However, in addition  
25 to these renovation costs, the Company found itself

1 obligated to conform to regulatory requirements  
2 related to the sewer connection for the building.  
3 After renovation of the structure had been essentially  
4 completed, the Company found that the Escambia County  
5 Utilities Authority (ECUA) would not allow continued  
6 use of the septic tank system on the property. Gulf  
7 Power had anticipated that the septic tank system, or  
8 a septic tank combined with on site self contained  
9 sewage processing equipment would be approved by the  
10 ECUA officials. The septic tank and equipment were  
11 not approved and the Company found itself with a newly  
12 renovated building which could not be used.

13 Gulf Power Company decided to extend a small  
14 sewer line from the house to the closest accessible  
15 sewer tap location. The cost for this sewer line when  
16 added to the renovation costs make the overall project  
17 appear to be costly. The Company felt that we had no  
18 logical option at the time but to comply with the  
19 regulatory decisions made relative to the sewer.  
20

- 21 Q. Has the Company determined the incremental costs  
22 included in the 1990 test year for the Navy House?
- 23 A. Yes. The majority of the work associated with  
24 refurbishing the Navy House for Company use was  
25 expensed in years prior to 1990. The impact on the

1 1990 test year is therefore minimal. O & M costs for  
2 the Navy House are approximately \$600 per month. The  
3 investment costs which were booked to plant for  
4 refurbishing the structure were approximately \$5,300.

5

6 Q. If the Company had not renovated the Navy House for  
7 meetings and training, where would these activities  
8 have taken place?

9 A. If the Navy House were not available, the Company  
10 would have continued to operate without the space  
11 recommended in its training study. The meetings and  
12 training would have taken place at Company facilities  
13 and at rented facilities depending upon the nature of  
14 the activity.

15

16 Q. Why was \$252,000 budgeted in 1990 O & M for the Panama  
17 City Office renovation?

18 A. The project was budgeted as expense to be consistent  
19 with past practice on project work. FERC Electric  
20 Plant Instructions 10A state: "For the purpose of  
21 avoiding undue refinement in accounting for additions  
22 to and retirements and replacements of electric plant,  
23 all property shall be considered as consisting of (1)  
24 retirement units and (2) minor items of property.  
25 Each utility shall use such list of retirement units

1 as is in use by it at the effective date hereof or as  
2 may be prescribed by the Commission, with the option,  
3 however, of using smaller units, provided the  
4 utility's practice in this respect consistent."

5 In being consistent with other prior renovation  
6 projects, the \$252,000 was determined to be expense  
7 work on the following basis. When changes are made to  
8 a component that is existing and is not classified as  
9 a retirement unit as per the approved Gulf Power  
10 Retirement Unit Manual, then that work is considered  
11 minor items of property and in the case of the Panama  
12 City project, was budgeted in O & M. All new  
13 additions or replacements of retirement units are  
14 accounted through the electric plant budget.

15  
16 Q. Will the Panama City Renovation Project be completed  
17 in 1990?

18 A. No, the renovation project was deferred to 1991 during  
19 the February 1, 1990 capital budget process. The  
20 capital dollars were reallocated to 1991 reflecting  
21 this change. The O & M dollars associated with the  
22 project in the 1990 budget were reallocated as shown  
23 in Schedule 4 of ECC-2 to various expense projects  
24 that were unanticipated during the 1990 O & M  
25 budgeting process.



1 Q. Will the funds for the Panama City Renovation be  
2 rebudgeted in the 1991 O & M budget?

3 A. Yes.  
4

5 Q. Can you summarize your testimony?

6 A. Yes. Gulf Power Company's management philosophy is to  
7 provide adequate facilities to meet the needs of our  
8 customers and to provide a productive work environment  
9 for our employees. The Company utilizes long range  
10 planning to prudently acquire the necessary property  
11 to support needed facilities. Such property additions  
12 help to ensure that our facilities provide long term  
13 solutions to needs. Concern for our customers is also  
14 exhibited through wisely implementing our facility  
15 investments in a method which enhances the communities  
16 that we serve. Great pride is taken in the tremendous  
17 large scale contribution made in helping to revitalize  
18 downtown Pensacola through our Corporate Office  
19 building. On a much smaller scale, but no less  
20 important, the local offices in Bonifay and Graceville  
21 also serve to enhance those communities. Long range  
22 planning together with a facility design which  
23 enhances the community at reasonable costs all combine  
24 for an effective facilities planning and development  
25 program.

26 Q. Does this conclude your testimony?

27 A. Yes.

1           Q     (By Mr. Stone) Mr. Conner, please summarize  
2 your testimony.

3           A     Thank you.

4                     The purpose of my rebuttal testimony is to  
5 correct the record of these hearings by providing  
6 additional information on the corporate office project  
7 land held for future use, the plan in Panama City  
8 renovation and the Navy House.

9                     Specifically, I will rebut portions of direct  
10 testimony of Mr. Larkin and Mr. Childers. I will also  
11 provide clarification of the Staff Audit Report on the  
12 Navy House.

13                    First, I'd like to correct Mr. Larkin's  
14 testimony.

15                    I would rebut Mr. Larkin's contention that  
16 additional detail was not provided in my direct  
17 testimony on the Bonifay and Graceville facilities. My  
18 additional detail was covered extensively during my  
19 cross examination on direct testimony and is also  
20 covered in my rebuttal testimony. I would also like to  
21 advise the Commission on how I can give my personal  
22 insight into the construction of the Bonifay and  
23 Graceville facilities.

24                    Mr. Larkin contends that I cannot give  
25 personal insight into those facility, solely on the

1 basis that I was not an employee of the Company at the  
2 time those buildings were constructed. My 21 years of  
3 varied experience in the construction industry give me  
4 ample personal insight into this type of construction.

5 I studied four years of architecture and  
6 building construction before receiving a degree in  
7 building construction. After college I worked nine  
8 years as a general contractor, preparing bids on over  
9 75 construction projects of a commercial and industrial  
10 nature, ranging in value from 200,000 to over \$10  
11 million in value.

12 I then worked eight years at Gulf Power  
13 Company in varying positions of increasing  
14 responsibility, all providing technical construction  
15 and O&M support for buildings to all Company  
16 facilities. I have achieved a Masters Degree in  
17 Management, wherein I place my emphasis on construction  
18 management. I wrote a thesis research paper, detailing  
19 the benefits of the construction process to the owner,  
20 and have served three years as an adjunct instructor at  
21 the University of West Florida in their Building  
22 Construction Department, teaching a course on  
23 construction administration. I feel that my background  
24 qualifies me to address those facilities.

25 On the subject of the corporate office plant

1 held for future use, Mr. Larkin did not recognize the  
2 project needs. Mr. Larkin stated that the building was  
3 not fully utilized. All of the building is in use  
4 today, including the third floor. Mr. Larkin stated  
5 that no additional office space would be needed in the  
6 near future. Additional office space is planned for  
7 the near future and we plan to begin occupying the  
8 third floor in 1995.

9 Mr. Larkin stated that our plans on land held  
10 for future use were too indefinite. Our plans are very  
11 definite and we've held extensive meetings with the  
12 Commission Staff reviewing those plans and reviewing  
13 our site acquisition plan with your Staff. The Staff  
14 agrees with Gulf's position on plant held for future  
15 use.

16 Mr. Larkin also stated that the plant held  
17 for future use would not be utilized for parking until  
18 after the Year 2010. Our plans, as they have been  
19 reviewed with the Staff, are to begin adding parking on  
20 that as employee growth requires it, and we anticipate  
21 that all of the land will be fully utilized for parking  
22 by the year 2010.

23 On the subject of the Pace Boulevard Plant  
24 held for future use, Mr. Larkin assumed incorrectly on  
25 a limited scope for that complex. He did address the

1 building maintenance facility, the testing lab and the  
2 additional parking plant for that site, but did not  
3 consider the extensive growth needs of the other  
4 functions located on that site, as detailed in Schedule  
5 3 of my Exhibit ECC-2.

6 In clarifying Mr. Schultz' testimony, he  
7 indicated that the Panama City renovation should be  
8 charged to plant. It is my understanding that that  
9 planned renovation is properly accounted as an O&M  
10 expenditure.

11 My rebuttal testimony also details the  
12 history of the Navy House and its purpose in meeting  
13 the Company's needs.

14 In summary, both my detail and rebuttal  
15 testimony -- excuse me, direct and rebuttal testimony,  
16 show that Gulf's facilities are planned for the long  
17 term to meet the needs of our customers.

18 That concludes my summary.

19 MR. STONE: we tender for cross examination.

20 MR. BURGESS: We have no questions.

21 CROSS EXAMINATION

22 BY MR. VANDIVER:

23 Q Good morning, Mr. Conner.

24 A Good morning.

25 Q I'd like to direct your attention to Page 20

1 of your rebuttal testimony, please, sir. At Line 11,  
2 you've referred to a training study. Could you  
3 describe that study for me, please?

4 A The training study is a study that was done  
5 in 1983 by the firm of, I believe it was  
6 Baskerville-Donovan Engineering in Pensacola, Florida,  
7 where they met with our employee relations people and  
8 other individuals in the Company and discussed the  
9 Company's training needs. That study indicated a need  
10 for training space in the Company of approximately 19  
11 thousand square feet. And that's a brief summary of  
12 the study.

13 Q Now, how many meeting and training rooms do  
14 you have at the Bayfront property site? (Pause)

15 A We'll have that for you in a minute. The  
16 Bayfront property site has meeting rooms in it. The  
17 training is not done in that building.

18 Q And why is that?

19 A Because we have training facilities  
20 elsewhere.

21 Q In the absence of the training facilities  
22 elsewhere, your training could be conducted in the  
23 meeting rooms that are at the Bayfront Center, would  
24 you agree with that?

25 A No, sir, I would not agree with that. The

1 utilization of those rooms would not permit their use  
2 for training and be able to conduct the business of the  
3 Company also. The training is provided at our Chase  
4 Street building at Pace Boulevard, and in combination  
5 with the Navy House.

6 Q Do you have a feel for how often the various  
7 training rooms, apart from the Navy House, are  
8 utilized? (Pause)

9 A Yes, we do. That's a question that's hard to  
10 answer in terms of a percentage of utilization because  
11 it gets into a demand question. The rooms have to be  
12 available when you need the training course, but we  
13 feel like it's approximately 70% if you look at it on a  
14 utilization basis of time available.

15 Q And that's 70% of the times the various  
16 meeting rooms you all have at Bayfront are in use?

17 A That's correct.

18 Q And that would include the room that I was in  
19 for the audit exit conference on the second floor, last  
20 week, or several weeks ago?

21 A That is correct.

22 Q I think you were in that room that day, too.

23 A Yes, I was.

24 Q Okay. Now, how many individuals can the Navy  
25 House accommodate for training purposes?

1           A     That would be approximately 12 people that  
2 could work in that facility for training purposes or  
3 meeting purposes.

4           Q     Are those the folks in the meetings and being  
5 trained or are those the trainers?

6           A     I would say probably 12 people plus the  
7 person conducting the training course, if that's what  
8 the use was.

9           Q     Okay. So the Navy House you could only get  
10 12 people into to train at any one time?

11          A     That would be to hold a training course. It  
12 could accommodate more people for meetings. It is set  
13 up with two conference areas in it. So you could have  
14 two meetings going on there at the same time, but I  
15 doubt it would be effective for more than about 12  
16 people for pure training purposes.

17          Q     But that's what you use the Navy House for,  
18 is just training?

19          A     No, I believe I stated earlier it's used also  
20 for meetings.

21          Q     Okay. Now, what I'm trying to get at is, are  
22 there similar sized rooms elsewhere that Gulf Power  
23 could utilize, apart from the Navy House?

24          A     Yes. We have a facility at Chase Street  
25 which also serves to meet some of the training needs,



1 again going back to the 1983 study. That study  
2 identified a need of 19,000 square feet total, to meet  
3 all the Company's training needs. That 19,000 square  
4 feet is being met by a combination of the Navy House  
5 and Chase Street building, and by utilizing the  
6 facilities that we had already owned.

7 Q Okay. Do you have that figure yet on how  
8 many square feet of meeting space there is at Bayfront?  
9 And I'm going to need how many there are at Chase  
10 Street as well, or Pace Boulevard I guess.

11 A I don't believe we have a square footage  
12 figure on meeting space.

13 Q Can you ballpark it for me? (Pause)

14 A That would be hard to do. I'd rather do some  
15 calculations for you and file that as a late-filed, if  
16 I need to.

17 CHAIRMAN WILSON: You don't have the square  
18 footage on the training space where, to overall or at  
19 the Bayfront?

20 WITNESS CONNER: We don't have any training  
21 space in the Bayfront building. We have meeting rooms  
22 in the Bayfront building and I understood the question  
23 to be what size -- let me get you to restate your  
24 question.

25 COMMISSIONER BEARD: When I walk in on the

1 first floor -- and I'm trying to remember, I'm real  
2 foggy -- there is not a room there that has a screen  
3 that drops down out of the ceiling?

4 WITNESS CONNER: Not on the first floor. The  
5 room you're probably referring to is our auditorium,  
6 which is on the second floor.

7 COMMISSIONER BEARD: It's on the second  
8 floor, okay.

9 WITNESS CONNER: Correct.

10 COMMISSIONER BEARD: Okay, and you can't use  
11 that for training?

12 WITNESS CONNER: Commissioner, you could use  
13 it for training. We do reserve that, though, for  
14 Company meetings.

15 COMMISSIONER BEARD: How often do you have a  
16 Company meeting?

17 WITNESS CONNER: We have -- I believe the  
18 auditorium is used on an average about once a day for  
19 each working day in the year.

20 COMMISSIONER BEARD: You have a Company  
21 meeting every day in that auditorium?

22 WITNESS CONNER: On the average. I would  
23 think some days we have two, some days three meetings  
24 in that auditorium. And that's where you get into the  
25 problem having to do these percentage utilization

1 comparisons is that if you want to have a training  
2 class on May 23rd and you have two meetings on May  
3 23rd, you have got a problem there. And it gets to be  
4 a demand question more than a utilization --

5 COMMISSIONER BEARD: I understand. I know a  
6 little bit about training, just a little bit. On  
7 average, one day, one meeting every day, on average,  
8 you have in that auditorium?

9 WITNESS CONNNER: That is correct.

10 Q (By Mr. Vandiver) Mr. Conner, for purposes  
11 of our late-filed exhibit, what I want to do is -- what  
12 I would like for you to do is I would like for you to  
13 give me the total conference room square footage in the  
14 Pensacola area. And, I guess I need to understand one  
15 more time, if you could. Is it simply a utilization  
16 reason that you cannot use the meeting rooms that you  
17 have elsewhere for training purposes? They're filled  
18 up so you've got to use the Navy House? Is that your  
19 testimony?

20 A The meeting rooms in the corporate office are  
21 used for business meetings. They do stay sufficiently  
22 occupied that it does not work for training; and we do  
23 have a study that shows we needed the 19,000 square  
24 feet for training, and that space is utilized for  
25 training. It's not only the Navy House but also the

1 Chase Street building that I previously referred to.

2 COMMISSIONER EASLEY: Could I ask?

3 MR. VANDIVER: Certainly.

4 COMMISSIONER EASLEY: Could you very briefly  
5 tell me what kinds of meetings are taking place every  
6 day in the auditorium? Just the nature of it. Is it  
7 all administrative? Is it all executive? A  
8 combination thereof? Sales?

9 WITNESS CONNNER: Commissioner, it can be  
10 various meetings. The last meeting I attended was one  
11 on the fire alarm system where we had a fire drill and  
12 then recapped the results of that fire drill with the  
13 employees that are fire wardens in the building.

14 It would vary. There are employee  
15 information meetings; information that our corporate  
16 Communications Department would disseminate to the  
17 employees; it's all types of meetings, and it's  
18 generally your larger groups.

19 COMMISSIONER EASLEY: On the training, is  
20 there anything in the nature of the training that  
21 requires a different physical setup?

22 WITNESS CONNNER: Yes. Ideally, in training,  
23 you want people to have their minds on what you're  
24 trying to teach them, what you're trying to convey to  
25 them. And the study indicated that that training would

1 be best performed in an isolated location, away from  
2 the telephones.

3 Q But it's not a difference in the equipment or  
4 the construction or the interior of the room, or  
5 there's nothing like that involved? Classroom setting;  
6 it is a classroom setting?

7 WITNESS CONNNER: Commissioner, I would that  
8 there would be. It would depend on the type of  
9 training you're doing. If you're doing skills training  
10 for linemen, you would have one setup. If you're doing  
11 management training, you may have another setup. I'm  
12 not a training expert, but I do know that in the  
13 training facility at Chase Street, it is set up in a  
14 classroom-type style and utilized for that purpose.

15 WITNESS CONNNER: Thank you.

16 MR. VANDIVER: Why don't we go ahead and get  
17 a number for this exhibit.

18 CHAIRMAN WILSON: That would be Exhibit 619,  
19 and what you're asking for is conference room square  
20 footage?

21 MR. VANDIVER: In the Pensacola area.

22 (Late-Filed Exhibit No. 619 identified)

23 CHAIRMAN WILSON: Was your prior question how  
24 many square feet of training facilities?

25 MR. VANDIVER: Yes. And his testimony is

1 that you can't use the conference rooms in the Bay  
2 Front Center for training because of the other  
3 meetings.

4 CHAIRMAN WILSON: I understand. But did he  
5 ask you how many square feet of training area you had  
6 and you said that you didn't know?

7 WITNESS CONNOR: What I understood and I  
8 think the point of confusion -- he asked me how many  
9 square foot of training we had in the Bayfront office  
10 building. And my contention is that that is not used  
11 for training, therefore, I don't have any square  
12 footage for training. I do have meetings rooms. I  
13 would be glad to provide the square footage of those  
14 meetings rooms, if that's what the Commission would  
15 like, or any information that you would like.

16 But if it is not used for training now and  
17 that's not the intent of it. But any information I  
18 could provide that would clarify it, I'd be happy to  
19 provide.

20 MR. VANDIVER: I think the total square  
21 footage of the conference space in the Pensacola area  
22 will give us a handle on what the physical plant looks  
23 like in terms of what's available for folks to meet  
24 and/or train in.

25 COMMISSIONER GUNTER: Can I help just for a

1 second?

2 MR. VANDIVER: Absolutely.

3 CHAIRMAN WILSON: Are you looking for a total  
4 or you want it broken down as to where that is?

5 MR. VANDIVER: I think I want to know where  
6 it is by location.

7 CHAIRMAN WILSON: Are you looking for just  
8 training, or conference?

9 MR. VANDIVER: Conference, conference areas.  
10 I don't necessarily want Mr. Scarbrough's office in  
11 there, but I would like to have any kind of conference  
12 rooms that you all have available for meeting purposes.  
13 And it's my -- common sense tells me that if I could  
14 hold a meeting of 12 people in there, I can also train  
15 12 people in there.

16 MR. STONE: Is Mr. Vandiver testifying?

17 CHAIRMAN WILSON: Mr. Vandiver is not  
18 testifying.

19 COMMISSIONER GUNTER: Let me ask you a  
20 question, Mr. Conner. Where are your training  
21 personnel located?

22 WITNESS CONNOR: The training personnel are  
23 located in the corporate office building.

24 COMMISSIONER GUNTER: Where does your  
25 training take place?

1           WITNESS CONNNER: The training takes place at  
2 the Chase Street building, at Pace Boulevard. It also  
3 takes place at the Navy House, and those two  
4 facilities, primarily.

5           COMMISSIONER GUNTER: So the place that you  
6 -- how far is it from Pace Boulevard to the old office  
7 -- is that the old office building, the one you're  
8 talking about, the Pace Boulevard?

9           WITNESS CONNNER: It's the old Western  
10 Division building, which is behind the old office  
11 building.

12          COMMISSIONER GUNTER: I'm familiar with it.

13          COMMISSIONER EASLEY: How far is it?

14          COMMISSIONER GUNTER: How far is it, five  
15 miles?

16          WITNESS CONNNER: Approximately three miles.

17          COMMISSIONER GUNTER: Three miles. Okay.

18          COMMISSIONER BEARD: Do you all rent space  
19 any place for training from time to time?

20          WITNESS CONNNER: Commissioner, I think we  
21 did rent space prior to being able to have adequate  
22 facilities; in fact, I know we did. But I don't know  
23 if there's still space rented for training now or not.  
24 I would think that the facilities we have now have  
25 greatly reduced that need.



1 CHAIRMAN WILSON: Well, I think we need to  
2 know that.

3 COMMISSIONER BEARD: How many people could  
4 you --

5 MR. VANDIVER: Could you include on there or  
6 let's make it a separate exhibit.

7 CHAIRMAN WILSON: Make it a separate exhibit.  
8 That would be 620.

9 (Late-Filed Exhibit No. 620 identified.)

10 MR. VANDIVER: I would like to know any space  
11 that's been leased for training purposes.

12 When was the Navy House completed? When did  
13 you all start using it for training?

14 WITNESS CONNER: I believe it was in 1988.

15 MR. VANDIVER: Great, we'll take the exhibit  
16 from 1985 through the present year and a short title  
17 would be Leased Training Space.

18 COMMISSIONER BEARD: How many people can you  
19 train over -- is it Chase or Pace?

20 WITNESS CONNNER: Chase Street. It's the  
21 Chase Street building located on the Pace Boulevard  
22 complex.

23 COMMISSIONER BEARD: The other building  
24 besides the Navy House, Chase Street, how many people  
25 can you train in there in a given setting?

1           WITNESS CONNNER: Commissioner, I believe  
2 it's about 54 in Training Room A over there. Training  
3 Room E is the largest training room at the Chase Street  
4 facility and it will accommodate 81 people in a  
5 classroom-type setting.

6           COMMISSIONER BEARD: So you have a room that  
7 will hold up to 81 in a classroom-type setting; one  
8 that will hold 54; and you have the Navy House, that  
9 will hold 12?

10          WITNESS CONNNER: That's basically correct.  
11 The Navy House, as I stated earlier, can hold more  
12 people in a meeting-type setting.

13          COMMISSIONER BEARD: Then you can always hold  
14 meetings at Bayfront, couldn't you, or Bay Street, or  
15 whatever it's called?

16          WITNESS CONNNER: Certainly you can hold  
17 meetings at the Bayfront office. And when you need an  
18 isolated, uninterrupted type environment, the Navy  
19 House is excellent for those type of meetings also.

20          CHAIRMAN WILSON: Refresh my memory a little  
21 bit. How big is the Navy House? How many square feet  
22 is it?

23          WITNESS CONNER: Commissioner, the Navy House  
24 is approximately 1800 square feet.

25          CHAIRMAN WILSON: When was it originally

1 constructed?

2 WITNESS CONNER: Commissioner, the Navy House  
3 in -- I think it would help if I could provide a brief  
4 history of it.

5 CHAIRMAN WILSON: That would be fine.

6 WITNESS CONNER: The Navy House became Gulf  
7 Power Company property because we ran a transmission  
8 line from the Bayo Chico substation, I believe it was  
9 the Bayo Chico substation, to the naval air station at  
10 Pensacola. In order to run that transmission line, we  
11 had to put a submarine cable termination structure at  
12 the base of the bridge leading to the Navy House. When  
13 we installed that -- or we were doing the planning to  
14 install that structure, we had to buy the piece of  
15 property there at the bridge in order to have room to  
16 install that structure, have the last pole of that  
17 transmission line lead down to that structure, and we  
18 had to buy the entire lot, or the one lot there at the  
19 end of the bridge. It just so happened that when we  
20 bought that lot, it had a house on it. We did not buy  
21 the Navy House to have the house. We bought the land  
22 to put in a transmission line, to install the submarine  
23 cable termination structure, and it had a house sitting  
24 there.

25 The Company knew that it had a training study

1 which show we had need for 19,000 square feet of  
2 training space. We also had that house available. We  
3 could either renovate it, tear it down, or do something  
4 with it, because it was not feasible to sell it. You  
5 have a massive concrete pole right at the front door of  
6 that building. You have essentially a substation on  
7 the right of the drive as you come into that building,  
8 and the substation and the pole and the apparatus to  
9 accomodate the transmission line take up the majority  
10 of that property.

11 And we made the decision to renovate that  
12 house and to use it for Company meetings and for  
13 training to meet the needs of that study.

14 MR. STONE: How old is the house?

15 Commissioner, it may help, I think Mr.  
16 O'Conner has some photographs that would help to convey  
17 what he's talking about.

18 CHAIRMAN WILSON: How old is the house? When  
19 was it originally constructed?

20 WITNESS CONNER: Excuse me just a second.

21 COMMISSIONER BEARD: Have you all done any  
22 EMS studies to understand the impact on training of  
23 transmission facilities there?

24 COMMISSIONER GUNTER: That's that that is,  
25 they keep somebody in there all the time and find out

1 how long it would take them to glow in the dark.

2 MR. VANDIVER: I think it's Mr. Holland's  
3 office.

4 COMMISSIONER GUNTER: Suspicious confirmed.

5 Q (By Mr. Vandiver) How much did it cost you  
6 all to renovate that?

7 A Mr. Vandiver, I'd like to answer Mr. Wilson's  
8 question, the age of the house.

9 Q Oh, I apologize. I didn't realize --

10 A I do not know the age of that structure.

11 CHAIRMAN WILSON: That didn't answer my  
12 question.

13 WITNESS CONNER: But I'm leading to that  
14 answer. I feel like it's a lot older than me.

15 COMMISSIONER GUNTER: Great pictures of the  
16 substation but don't show much about the house. Wish I  
17 could understand pictures being taken by utility folks,  
18 you sort of glaze over it, When you have a choice  
19 between a building structure that may be in question  
20 and a substation.

21 MR. HOLLAND: Can't see the house from the substation.

22 COMMISSIONER BEARD: If you built a low  
23 profile substation, you'd be able to see the house.

24 (Laughter)

25 CHAIRMAN WILSON: Maybe you ought to build an

1 underground facility.

2 WITNESS CONNER: Commissioners, as you can  
3 see from those prohotgraphs, the property is just  
4 dominated by that electrical structure, and as --

5 COMMISSIONER BEARD: Do you train in the  
6 garage?

7 WITNESS CONNER: Sir?

8 COMMISSIONER BEARD: Do you train in the  
9 garage? Is that a garage I see?

10 WITNESS CONNER: That used to be a garage.  
11 What we recognized when we renovated the building was  
12 that you did not have adequate parking there. It's  
13 tight getting in and out of that site. It's one of the  
14 highest traffic areas in Pensacola, leading into and  
15 out of that navy base. And rather than leave the  
16 garage on the building, we took the garage door off,  
17 and you can now park two cars there when you have a  
18 meeting or have a training function at that site.

19 COMMISSIONER BEARD: So if you can get six  
20 people in each car, then you have adequate parking for  
21 12 people you have to train there?

22 WITNESS CONNER: Right, or if you're going to  
23 have an all day meeting and people are coming from  
24 their house and you've got 12 people, we can now  
25 accommodate them on that site.

1 COMMISSIONER GUNTER: How is the Navy House  
2 identified on Exhibit 559?

3 WITNESS CONNER: Commissioner, the Navy  
4 House, per your request, was removed from the exhibit,  
5 or what we understand your request, because you asked  
6 for occupied facilities, and we removed that building  
7 from the exhibit -- or what we understood to be your  
8 request, because you asked for occupied facilities, and  
9 we removed that building from the exhibit.

10 COMMISSIONER GUNTER: Okay. And it was about  
11 1800 square feet?

12 WITNESS CONNER: That is correct.

13 COMMISSIONER GUNTER: The thing I really got  
14 hung up on was all the substations. I didn't realize  
15 we had a house or a training structure that wasn't  
16 there, but substations that weren't manned. You don't  
17 really count that as available administrative space,  
18 but you do certainly count training facilities.  
19 There's a difference in a 200 or 400-foot structure at  
20 a substation, so I'm going to add that back in.

21 WITNESS CONNER: Okay.

22 COMMISSIONER GUNTER: How big is it? 1800  
23 square feet?

24 WITNESS CONNER: Yes, sir.

25 COMMISSIONER GUNTER: Are there any others

1 that would fall in that category?

2 WITNESS CONNER: Commissioner, I'd have to go  
3 back through that list. I'll be glad to restructure  
4 that any way you'd like it.

5 COMMISSIONER GUNTER: No, I just -- I didn't  
6 pick out Navy House. As I went through them, I saw all  
7 the unmanned substations, and I know what a little  
8 building is, a substation, but that would not be  
9 available primary -- I don't think you can carry  
10 anybody out to a substation and have a training class.  
11 You might have.

12 WITNESS CONNER: You might have.

13 COMMISSIONER GUNTER: But it would be sort of  
14 a field training, if you did.

15 WITNESS CONNER: Right. I believe in the  
16 1984 data, there may be some of the small houses around  
17 the Pace Boulevard site that did not actually have  
18 people in them that we used for departmental storage,  
19 and those houses would have been removed also since  
20 they were not occupied.

21 COMMISSIONER GUNTER: Yeah, okay.

22 Q (By Mr. Vandiver) How much did you all spend  
23 to renovate this 1800 square foot house?

24 A The expenditure to renovate the house itself  
25 was approximately -- I show building structure work as



1 \$42,615 on the audit disclosure provided by Mr. Freeman  
2 to the Commission.

3 Q Wasn't there a lot more money involved with  
4 some utility problems you all had?

5 A There certainly was a lot more money involved  
6 with the utility problems. The regulatory requirements  
7 that we got into on that house became extensive. We  
8 had anticipated, when we made the decision to use the  
9 house and began to renovate it, that we would be able  
10 to use the house as is, hopefully with the existing  
11 septic tank system to serve that house, and all of the  
12 houses along Navy Boulevard have been there for a long  
13 time, and I would say -- well, I know all of them had  
14 septic tank systems. We had had discussions with the  
15 regulatory people locally and had understood that we  
16 would be able to install a package unit in combination  
17 with that septic tank system. The house was  
18 essentially completed as far as renovation at the point  
19 in time that the -- I believe it was ECUA is the local  
20 sewer company, and the county told us that they would  
21 not allow that, and we had to tie in with the county  
22 sewer system. At that point in time is when the cost  
23 for regulatory requirements related to the sewer became  
24 higher.

25 Q How much money are we talking about? About

1 \$133,000 for that utility snafu or fixing that up,  
2 something like that?

3 A The total cost for the sewer system was  
4 approximately \$50,000.

5 Q On your direct testimony --

6 COMMISSIONER EASLEY: Let me ask a question.  
7 It's a large hook-up fee, but this is after you had  
8 already committed the 40 -- or paid the 40-some-odd  
9 thousand dollars for renovation?

10 WITNESS CONNER: That is correct,  
11 Commissioner.

12 COMMISSIONER EASLEY: And you paid how much  
13 for the property itself, understanding that that's not  
14 just the house?

15 WITNESS CONNER: Right, the original purchase  
16 price for the property was \$110,000, and when we made  
17 the decision to utilize the house for training and for  
18 meetings, the purchased price was allocated between  
19 general plant and transmission plant. I believe it was  
20 35,000 to transmission plant for land, 35,000 to  
21 general plant for land and 40,000 for the house to  
22 general plant.

23 COMMISSIONER EASLEY: Okay, so in effect, if  
24 the decision had been made to stop, the investment for  
25 that part of the property would have been lost?

1           WITNESS CONNER: That's correct. The only  
2 other alternative at that point in time would have  
3 probably been to remove the house from the site.

4           COMMISSIONER EASLEY: Was there any study  
5 done to see what the relative cost would have been and  
6 which way was the most economic to go?

7           WITNESS CONNER: At that point in time?

8           COMMISSIONER EASLEY: Uh-huh. To whether or  
9 not you ought to spend the additional \$50,000 for the  
10 regulatory requirement.

11           WITNESS CONNER: Commissioner, there was not  
12 a study done at that point in time, and here again, I  
13 need to give you the evolution of that project. The  
14 estimate we had at the time they told us that we had to  
15 hook up to the sewer system from the engineering firm  
16 locally that was handling that for us was approximately  
17 \$18,000 to make that hook up.

18           It became complicated. We ran a two-inch  
19 force main sewer line from the Navy House,  
20 approximately 1200 feet. It had to cross Navy  
21 Boulevard, which is a -- essentially a five or six lane  
22 highway, require drilling under Navy Boulevard. The  
23 reason the cost exceeded the \$18,000 was that when they  
24 got to the Navy Boulevard -- to the point that they  
25 were ready to go under Navy Boulevard, they hit an

1 unmanned water main that served the navy base, and they  
2 had to back and redrill under the street. That  
3 required extensive street repair on the other side of  
4 the street, and it got to be a situation that went from  
5 \$18,000 to \$44,000 for the actual work performed on the  
6 sewer system.

7 COMMISSIONER GUNTER: Did I hear you  
8 correctly say a two-inch sewer line?

9 WITNESS CONNER: Commissioner, that's  
10 correct.

11 COMMISSIONER GUNTER: That's the first  
12 two-inch sewer line I ever heard of. There's a lot of  
13 things I never heard of, but that's the first two-inch.

14 WITNESS CONNER: Commissioner, I'm certainly  
15 no expert on sewer lines.

16 COMMISSIONER GUNTER: How big is the one  
17 coming out of your house? Oh, okay, how big is the one  
18 that comes out of your house?

19 WITNESS CONNER: I'm not certain.

20 COMMISSIONER GUNTER: You never dug one up?

21 WITNESS CONNER: No, sir.

22 COMMISSIONER GUNTER: Oh, you're lucky.

23 COMMISSIONER BEARD: It's bigger than  
24 two-inch.

25 WITNESS CONNER: I think the difference

1 probably is that that was a force main sewer line with  
2 a pump located at the Navy House.

3 COMMISSIONER GUNTER: Lift station, what have  
4 you?

5 WITNESS CONNER: Yes, sir. And that's what  
6 allowed the reduced size of that line.

7 COMMISSIONER GUNTER: Let me ask you one  
8 question. Do you know what the book value of that  
9 house is today for depreciation purposes? That sort of  
10 cuts through all the investment and what have you.

11 WITNESS CONNER: Yes, sir. I don't have that  
12 number with me. I think the exhibit prepared by your  
13 auditor -- I believe it was prepared by Mr. Don  
14 Hartsfield and Bob Freeman, pointed out that the --  
15 that the total plant investment at that house was  
16 \$23,000, but that included the furnishings. And the  
17 actual plant investment was approximately half that  
18 number. So approximately \$10,000 of plant investment  
19 in the house.

20 COMMISSIONER GUNTER: Yeah. But, see, I can  
21 cut through all that if I find out what it's on the  
22 books at. What you're carrying it on the books at as  
23 plant and service.

24 WITNESS CONNER: We can get that number for  
25 you.

1           COMMISSIONER GUNTER: If you got the plant in  
2 service for that specific facility, all of a sudden you  
3 cut through all the stuff about investments, and what  
4 have you, so that you get a better idea of what was  
5 expensed and what was capitalized, and I would be very  
6 surprised if you didn't capitalize the majority of it.

7           WITNESS CONNER: Commissioner, I do know that  
8 the majority of it was not capitalized.

9           COMMISSIONER GUNTER: It was not?

10          WITNESS CONNER: No, sir, it was expensed.  
11 The exhibit, again, and I'm not sure what page this is  
12 from, from Mr. Freeman's audit, but his audit does  
13 detail those in terms of the expense and capital on  
14 that project, and I spent a lot of time with Mr.  
15 Freeman myself going through all of this, and with Mr.  
16 Hartsfield.

17          COMMISSIONER GUNTER: Okay. But the exhibit  
18 that you're going to provide, that late-filed, will  
19 give me the value of it, the value of that facility  
20 anyway. Only thing, make sure you add the Navy House  
21 on.

22          WITNESS CONNER: Yes, sir.

23          COMMISSIONER GUNTER: All right, okay.

24          MR. STONE: Commissioner Gunter, just for  
25 your edification, it is on Page 42 of the Commission's

1     audit, which I believe is Exhibit 420.

2                 MR. VANDIVER: I don't have it, but it is  
3     Audit Disclosure No. 18, it appears on Page 42.

4                 Q     (By Mr. Vandiver) On your direct testimony  
5     we talked about the Graceville and Bonifay offices and  
6     you explained to me how you get more, "bang for the  
7     buck" when you have the big office buildings that  
8     you're building, as opposed to the little ones?

9                 A     That's correct, in terms of cost per square  
10    foot.

11                Q     In your professional opinion was all the  
12    money that you all put into the Navy House a good deal?

13                A     If we had that to do over, knowing what we  
14    know today, and knowing the cost of the sewer, we would  
15    have to think long and hard about it.

16                Q     So you could get a comparable facility in  
17    Pensacola, if knowing what you know today, for a lesser  
18    price?

19                A     I would say the answer to that would be yes,  
20    but we didn't know what we know today at the point in  
21    time we began that project.

22                Q     I appreciate that.

23                       Just one final question in this area: And  
24    that is the scheduling of these meetings. Who is your  
25    space guru in Pensacola? Who divvies up who gets what

1 meeting room on any given day?

2           A     That's handled in my department, in  
3 accordance with the policies that have been established  
4 for the various buildings. We recognize that the  
5 corporate office is needed primarily for business  
6 meetings, related to the day-to-day operations in that  
7 building, and that training centers are available and  
8 the meetings are assigned accordingly.

9           Q     So you have a hierarchy of need?

10          A     I don't know if hierarchy of need is a proper  
11 term, but there is an allocation based on the plan for  
12 use of those buildings.

13          Q     What if Mr. Scarbrough called you tomorrow  
14 morning and said, I want to have a little training  
15 session in the Bayfront Center. Can I get a meeting  
16 room?" What would you do?

17               COMMISSIONER BEARD: Put him in the  
18 auditorium, probably. (Laughter)

19               WITNESS CONNER: Mr. Vandiver, I would  
20 advise Mr. Scarbrough, just like we have other people,  
21 that we got the training space available at Chase  
22 Street, the Navy House is available, but that if he  
23 wanted a room in the Bayfront Parkway building, that I  
24 would probably find a way to do it for him.

25          Q     And you'd let him have his training there,



1 wouldn't you?

2 A If it was critical and he felt like it was  
3 critical, yes, I would.

4 Q Okay. Mercifully I'd like to move on to  
5 another area if I could, and that concerns Page 20 and  
6 21 of your testimony? And this concerns the  
7 renovations to the Panama City office.

8 Could you explain to me what the nature of  
9 those renovations are?

10 A The nature of the renovations to the Panama  
11 City facility are to provide growth space for that  
12 building. It is approximately eight years old, and the  
13 renovations will be to layout the furniture providing  
14 employees the same type of style of work stations that  
15 we have in the other buildings in the Company,  
16 increasing the professional square footage allocated,  
17 say, for professional employee from approximately 30  
18 square feet per employee that they have today, to  
19 approximately 75 square feet per employee as is our  
20 Company standard.

21 Q 70 square feet for employee is the Company  
22 standard?

23 A It's 75 square feet per professional  
24 employee.

25 Q How did you arrive at that figure? Does the

1 Occupational Safety and Health Administration have some  
2 kind of requirement on you people or on a business,  
3 generally?

4 A If they have a requirement on square footage,  
5 I'm not aware of it.

6 The way we arrived at the allocation square  
7 foot per employee, was going back all the way to the  
8 1982 study that was done for the corporate office  
9 project by the Bullock Associates, wherein they cited  
10 national average figures for productive work  
11 environment.

12 Those average figures are, for the total  
13 building, an average of 125 square feet per work  
14 station and then they break it down by various  
15 classifications. We currently provide 56 square feet  
16 for clerical positions, 75 square feet for professional  
17 positions, and when you run all the numbers out, it  
18 averages out to about 125 square feet per employee.

19 Q What I'm getting at on the Panama City  
20 renovations is what physically are you going to do to  
21 the plant? I mean you're not just going to paint the  
22 walls. Bricks and mortar; what are you going to do?

23 A The renovation project consists of going in  
24 and taking the furniture systems, adding new  
25 furnishings that are required to achieve 75 square feet

1 per employee, refurbishing the old furnishings that are  
2 already there to accommodate the new layout --

3 Q And you all -- what account's that in? The  
4 Panama City office building?

5 A The account for the renovation would be  
6 090935900.

7 Q Okay. Could you take a look, please, sir, at  
8 Exhibit No. 479? I believe that's -- and I've got one.

9 CHAIRMAN WILSON: What is it?

10 MR. VANDIVER: This is a list of retirement  
11 units, Commissioners.

12 The purpose of this line of questioning is, I  
13 believe they've expensed all of this, and I'm  
14 questioning whether or not some of that should have  
15 been capitalized.

16 A Was that a question? I'm sorry?

17 Q No, it wasn't. It was an explanation to the  
18 Commissioner. I want you to look please, sir, if you  
19 would, at Exhibit No. 479.

20 A I'm not sure I've got that exhibit.

21 Q Okay. I'll provide you with a copy. I'd  
22 also like to pass out, at this time, a portion of the  
23 Commission rules relating to retirement units. (Pause)

24 In your testimony, sir, you refer to the FERC  
25 account, but you don't refer to this Commission's rules

1 as to capitalization and so forth, is that correct?

2 A I believe that's correct in my testimony.

3 Q Now, basically Exhibit No. 479, which I  
4 believe you have now, is "the list" that's referred to  
5 in this rule, is that your understanding?

6 A I'm not an accountant, but that's what it  
7 appears to be.

8 Q Now, what I want to do is I want to walk  
9 through what you're doing to the Panama City office and  
10 I want to see if anything falls in Exhibit 479, which  
11 would mean it should be capitalized, is that correct?

12 A I think I can clarify this and save you that  
13 effort.

14 Q Sure.

15 A We have a PE, which is Plant Expenditure  
16 4377, titled, "Panama City Additions" which covers the  
17 plant portion of that project. The current budget for  
18 that is \$622,000. The expense portion, which is what  
19 I understood you asked me a few minutes ago, is covered  
20 under the expense budget and that is account 090935900.

21 So it is both -- there are both plant and  
22 expense dollars associated with the project. Plant  
23 dollars, we have met with our Accounting Department and  
24 they have helped us allocate the planned work at that  
25 building for both the Commissions' rules and FERC, and

1 our plant accounting people are the ones that helped us  
2 allocate the dollars between the PE and the expense.

3 Q And your accounting folks told you the split  
4 between capitalization and expense was correct?

5 A That is correct.

6 Q Okay. I'd like to move on now, and I have  
7 another exhibit I'd like to pass out, sir. This is the  
8 one that I gave you this morning, sir. It's Exhibit  
9 No. 477, as revised by late-filed Exhibit No. 559,  
10 excluding substation buildings. I believe this is one  
11 of the variations that Commissioner Gunter asked for.  
12 It's unfortunate that -- (Pause)

13 CHAIRMAN WILSON: Do we need a new number for  
14 this? This isn't an existing exhibit, is it?

15 MR. VANDIVER: No, sir, I think it's a  
16 combination of two earlier exhibits, and just for  
17 safety purposes we probably should give it a new  
18 number.

19 CHAIRMAN WILSON: 621.

20 (Exhibit No. 621 marked for identification.)

21 Q (By Mr. Vandiver) These questions all relate  
22 to Exhibit 621, sir.

23 This chart tells me that between 1984 and  
24 1990 projected, Gulf Power has built 330,020 square  
25 feet of utility building space in Pensacola. Would you

1 agree with that?

2 A I would agree that that's what this exhibit  
3 shows.

4 Q And during this same period Gulf added 54  
5 employees in Pensacola, is that correct?

6 A That is what this exhibit shows. This  
7 exhibit, though, is not what Mr. Gunter asked for on  
8 the stand the other day. You still have buildings that  
9 are not occupied on here. You also have the generating  
10 plants on this exhibit, as I look at it.

11 Q Commissioner Gunter isn't here and we'll just  
12 run through this one and then perhaps he'll have some  
13 questions about this one when he returns.

14 CHAIRMAN WILSON: This has buildings that are  
15 not occupied?

16 WITNESS CONNER: Commissioners, I read that  
17 it does.

18 MR. STONE: Perhaps Mr. Conner could explain  
19 what you mean by "not occupied.".

20 COMMISSIONER BEARD: Before you do that let  
21 me ask you a question. Go down here to the Lemon  
22 House, it's been demolished, right?

23 WITNESS CONNER: That's correct.

24 COMMISSIONER BEARD: Was that figure  
25 subtracted out to get the 320,000 difference?

1           WITNESS CONNER: Yes, it was. I believe over  
2 in the third column from the right, or the the fourth  
3 column from the right, is where that is taken out on  
4 the difference.

5           COMMISSIONER EASLEY: Well, on the column  
6 marked "in use and not in use," it appears that where  
7 it's not in use it has also been subtracted out. Under  
8 the one shown as "present status end use," are there  
9 some where they are not occupied, even though they are  
10 in use, is that what you're saying? (Pause)

11          WITNESS CONNER: The one example that just  
12 kind of jumps off the page at me is the Credit Union  
13 and the Western Division drive-thru, that drive-thru is  
14 not occupied.

15          Commissioner easley: Well, those show as  
16 zeros, though over in the different total utility  
17 column?

18          WITNESS CONNER: Right. Commissioner, I have  
19 not had time to study this exhibit.

20          COMMISSIONER EASLEY: I understand.

21          CHAIRMAN WILSON: Why don't we take about a  
22 10-minute break and you can use that time to look at  
23 the chart.

24          COMMISSIONER EASLEY: Good idea.

25          (Brief recess.)

1

- - - - -

2

Q (By Mr. Vandiver) Mr. Conner, between 1984

3

and projected 1990, according to this exhibit, Gulf

4

either demolished or sold 21,600 square feet of office

5

space, which housed 23 employees. Where were these 23

6

employees relocated?

7

A The 23 employees were relocated to the

8

Corporate Office Building, as is covered in my direct

9

testimony pretty extensively. That space represented a

10

temporary solution to space support for the Corporate

11

Office Building or for the corporate office employees

12

while the Corporate Office Building was being built.

13

Q When you demolished these buildings, how is

14

that land currently being used?

15

A The land is in plant -- I'm not sure whether

16

it's in plant in service or plant held for future use.

17

But it's used to support the needs of the Pace

18

Boulevard complex and the functions listed on the

19

schedule in my exhibit -- I don't have the number, but

20

it's in my exhibit to rebuttal testimony.

21

Q The Faith Building here was sold, is that

22

correct? When was this sale completed? And was there

23

a gain on the sale?

24

A You're correct that the Faith Building was

25

sold. That building has a story behind it also.



1           We initially leased that building to support  
2 the temporary needs of the Company until the Corporate  
3 Office Building could be built. The owner of that  
4 building, I'm not sure whether it was corporate  
5 bankruptcy or personal bankruptcy, but in any case, the  
6 building was sold on the steps of the courthouse. And  
7 Gulf Power Company had a decision to make as to whether  
8 to buy that building or risk someone else buying it and  
9 evicting us from it and then incurring the costs to go  
10 and lease other space.

11           The Company bid on that building and was  
12 successful bidder. I don't have the exact number with  
13 me. My memory is it was around \$200,000, was the  
14 purchase price of it. And it was used -- excuse me.

15           Q     When did you all buy it, now? When was that  
16 \$200,000 expended?

17           A     Just a minute. (Pause)

18           The building was auctioned off in December of  
19 1983 and I believe the actual title is dated December  
20 21st, 1983. We had occupied the building on a lease  
21 basis, on a lease that began January 1st, 1983, as a  
22 part of the temporary space allocation plan that was  
23 put into effect in 1982.

24           And as I said, that building, we did purchase  
25 it. My memory is that it was a tradeoff basically

1 between the final purchase -- the purchase price and  
2 what we sold it at. The selling price was less than  
3 the purchase price because of the deterioration in that  
4 section of town. The local market for real estate in  
5 that section of town went down and so, from strictly a  
6 sale of facility point of view, it was not a gain  
7 there.

8 But it did offset for the period of time that  
9 we stayed in the building between 1983 and 1987, when  
10 we moved into the Corporate Office Building. And  
11 purchasing and general services were located in that  
12 building. When those two departments moved into the  
13 Corporate Office Building in '87, we had avoided the  
14 lease on that building all that time and it basically  
15 was a wash between the avoided lease and the loss on  
16 the sale.

17 Q And you all sold it in '87, is that correct?

18 A I don't believe it was sold in '87. We  
19 ceased occupying it in '87 and put it the market. And  
20 it was February 28th of '89 was when it finally sold.

21 Q What did you all get for it?

22 A The sales agreement was \$150,000.

23 Q And how is that \$50,000 loss accounted for on  
24 your books and records?

25 A I couldn't tell you.

1 Q Could Mr. Scarbrough tell me?

2 A I'm sure he probably could.

3 Q Okay. I'll defer that to him.

4 COMMISSIONER GUNTER: Was \$200,000, was that  
5 the purchase price?

6 WITNESS CONNER: Commissioner, I have that in  
7 front of me and it appears the purchase price was  
8 \$210,000.

9 COMMISSIONER GUNTER: 210?

10 WITNESS CONNER: Yes, sir.

11 COMMISSIONER GUNTER: And you sold it when?

12 WITNESS CONNER: We sold it in '89 for  
13 150,000.

14 COMMISSIONER GUNTER: When in '89?

15 WITNESS CONNER: February the 28th.

16 COMMISSIONER GUNTER: February 28. So you  
17 had six years depreciation on the facility, is that  
18 correct?

19 WITNESS CONNER: I believe that would be  
20 correct.

21 COMMISSIONER GUNTER: That's right. Six  
22 years depreciation on the facility. Have you got any  
23 wild idea of what depreciation schedule you all took?

24 WITNESS CONNER: No, sir.

25 COMMISSIONER GUNTER: So in order to do that,

1 we would really need to know what the book value was at  
2 the time you sold the facility and then what you sold  
3 it for in order to make that evaluation, isn't that  
4 correct?

5 WITNESS CONNER: I believe that would be  
6 correct. And to look at the total picture, you also  
7 would need to consider the avoided lease payments.  
8 Since we owned that building for those six years and  
9 occupied from '83 to '87, we avoided paying the lease.

10 COMMISSIONER GUNTER: But the issue of the  
11 question is before. It doesn't have anything to do  
12 with the lease. It was just the purchase and sale and  
13 the gain on the sale. How it was handled for any loss,  
14 that's a different issue as to the cost effectiveness  
15 is what you're trying to get at. Go ahead.

16 COMMISSIONER BEARD: Let me back up just a  
17 second.

18 Awhile ago you talked about 125 square feet  
19 per employee on average.

20 WITNESS CONNER: Yes, sir.

21 COMMISSIONER BEARD: That includes hallways,  
22 bathrooms, training space?

23 WITNESS CONNER: No, sir.

24 COMMISSIONER BEARD: What does it include?

25 WITNESS CONNER: The reference I made awhile

1 ago was work stations, working space.

2 COMMISSIONER BEARD: Yes, I know. The  
3 secretary gets an eight by seven work space, and the  
4 professional gets a nine by seven work space, which  
5 means the president gets the eleven by seven work  
6 space, right? That's that averaging we learned about  
7 the other day.

8 WITNESS CONNER: There is a ratio there.

9 COMMISSIONER BEARD: I don't understand  
10 averages as good as I thought I did.

11 WITNESS CONNER: The 125 feet is net working  
12 space. And then you have adders on top of that for  
13 circulation and support space. And when you add it all  
14 up, it works out to approximately 240 gross square feet  
15 per employee.

16 COMMISSIONER BEARD. 240 square foot per  
17 employee?

18 WITNESS CONNER: That's the gross based on  
19 the office area of any building that would be involved,  
20 and --

21 COMMISSIONER BEARD: That would include  
22 average training space, hallways, bathrooms, cafeteria?

23 WITNESS CONNER: That would not include those  
24 items. Those items are considered specialty items in  
25 addition to the 240,000 square feet -- or 240 square

1 feet per employee.

2 COMMISSIONER BEARD: Well, let me back up.

3 You said secretarial-clerical gets 56 square  
4 feet?

5 WITNESS CONNER: That's correct.

6 COMMISSIONER BEARD: Professional gets 75  
7 square feet. How do you get the 125 on average on  
8 that? Let's back into that piece.

9 WITNESS CONNER: Well, you have to extend it  
10 on out to get the overall average to look at what  
11 supervisors are assigned, and then what managers are  
12 assigned, what general managers are assigned. In terms  
13 of square footage, and then our vice presidents and the  
14 president's office.

15 COMMISSIONER BEARD: I guess what I'm trying  
16 to figure out is normally you have got a lot more  
17 clerical and professional than you do supervisors,  
18 managers and vice presidents?

19 WITNESS CONNER: Right.

20 COMMISSIONER BEARD: So it's going to take a  
21 hell of a square footage on a fewer number of people to  
22 average out, it would seem.

23 WITNESS CONNER: Well, I can run through  
24 those square footages for you. We have gone through  
25 this with Staff and shown them how we calculated those

1 numbers and how we arrived at the total size of the  
2 building.

3 If you extrapolate that 125 square feet out  
4 with the adders for circulation, et cetera, it projects  
5 out to a building size of 314,000 square feet of gross  
6 area and our building is actually 308,000 gross square  
7 feet. So we're well within that average once you  
8 extrapolate all the numbers out.

9 But to go through the square footages of work  
10 station area for each employee, okay?

11 COMMISSIONER BEARD: I'm interested, but I'm  
12 not that interested.

13 Q (By Mr. Vandiver) So we go back to Mr.  
14 Scarbrough on how that loss was accounted for.

15 But it's your basic testimony that your lease  
16 payments from 1983, when you bought it on the  
17 courthouse steps, to February of 1989, when you sold  
18 it, would have equaled \$60,000? That loss from the 210  
19 to the 150?

20 A I believe that would be correct.

21 Q Okay. Where is the Pine Forest area located?

22 A The Pine Forest area is on Pine Forest Road,  
23 which is in the northwest section of Pensacola area.

24 Q North of I-10.

25 A It's adjacent to I-10. Probably the facility

1 there is about a mile off of I-10, west of Pensacola.

2 Q Now, between 1984 and 1990, Gulf constructed  
3 new facilities at Pine Forest for a meter shop, and  
4 storage and substation building, is that correct?

5 A I believe that's correct.

6 Q Where were these facilities previously  
7 located?

8 A Those facilities, I would need to go through  
9 them one by one, but the substation did not exist prior  
10 to that. It was a productivity measure, which the  
11 Company built a building to improve productivity.  
12 That's probably a good example to look at in terms of  
13 growth because this Commission had its audit team come  
14 over in 1983 and do a management audit on the Company.  
15 One of the things that they found in that management  
16 audit was that we had studied substations and the work  
17 done by our substation people, and had found that we  
18 could achieve some savings to the Company if we built  
19 buildings at the various service centers in the Company  
20 to support minor substation work. And the audit found  
21 that we should be building those buildings now. We  
22 were tracked on our progress on those buildings to  
23 ensure that we did build them to achieve the savings  
24 that we said we could achieve. And I believe the  
25 reports were filed quarterly to the Commission on the



1 progress of those buildings as they were under  
2 construction.

3           The meter shop represents growth in the Pine  
4 Forest Building itself. A study was done on that  
5 building which showed that here again, that was one of  
6 the first buildings the Company built with open office  
7 furniture, in the open-office concept. Professional  
8 employees in that building were given 30 square feet of  
9 work-space area per employee, when our study in '82  
10 showed that 75 square feet was more in line with a  
11 productive work environment.

12           That building was opened, I believe in 1977,  
13 and it was renovated in '88, ten years later,  
14 appoximately, to go back and achieve a better  
15 productive work situation in the Pine Forest facility.  
16 When we calculated the numbers out, the office space in  
17 that building expanded.

18           One of the alternatives, and the alternative  
19 that was used, was to use the old meter shop building  
20 -- excuse me, the old meter shop space in the Pine  
21 Forest office portion for office space and to go out  
22 onto the Pine Forest complex site and to build a new  
23 meter shop in lieu of adding on to the office building  
24 to provide new office space.

25           It's a case of when you grow, what gets

1 bumped, and in this case the meter shop got bumped, and  
2 the meter shop ended up out on the site. It improved  
3 the functional nature of the meter shop a lot because  
4 customers could now back a truck directly into that  
5 building. The employees that accessed the meter shop  
6 did not tend to be office employees, they tended to be  
7 line service people.

8 Q So there aren't any professionals at the  
9 meter shop then? I misunderstood you.

10 A There is a supervisor. I'm not sure if they  
11 have any analysts. I think there is an analyst  
12 assigned to the meter shop, but I'm not that familiar  
13 with their complement.

14 Q I misunderstood again. I assumed a meter  
15 shop was the place where you all tested and fixed  
16 meters.

17 A That's correct.

18 Q Why would a customer ever want to drive up to  
19 that? Don't you all go out to the customer's location,  
20 pull the meter, take it in for the bench test?

21 A My understanding is that contractors come to  
22 the Company to pick up meter cans.

23 Q And you let your all's meters -- you put your  
24 meters in the hands of these contractors?

25 A The meter cans, not the meters.

1 COMMISSIONER BEARD: Don't you pick up the  
2 meter can at the warehouse and not the meter shop?  
3 That's where most people keep them.

4 WITNESS CONNER: Commissioner, at Gulf Power  
5 Company, the meter shop at Pine Forest is where all the  
6 meters and the meter cans are kept from my  
7 understanding. And that's where all of our line  
8 service functions are based in Pensacola, and --

9 COMMISSIONER BEARD: And you keep your meter  
10 can inventory at the meter shop?

11 WITNESS CONNER: I would guess that it would  
12 probably come through the warehouse and then go to the  
13 meter shop, but my understanding is the contractors do  
14 receive that at the meter shop at Pine Forest.

15 COMMISSIONER BEARD: Might want to check that  
16 out. That surprises me.

17 Q (By Mr. Vandiver) And that meter shop is for  
18 your entire service area, so -- is that what you just  
19 testified?

20 A I think from a testing point of view, yes. I  
21 think from -- and this may address where Commissioner  
22 Beard is coming from -- is that in the Panama City  
23 area, I doubt seriously the contractors would drive to  
24 the Pine Forest meter shop. They probably do pick them  
25 up at the warehouse there. The Pine Forest facility

1 does have a warehouse, but my understanding is they  
2 pick up the meter cans at the meter shop there at Pine  
3 Forest.

4 Q So if I were an electric consumer out there  
5 and I lived in Panama City and I thought my meter was  
6 running fast or slow, whichever one it is, and I asked  
7 you all to test it, you all would take that meter back  
8 to Pensacola and test it? You all wouldn't test it  
9 anywhere in Panama City at any of your facilities  
10 there?

11 A This is getting a little bit outside of my  
12 area of responsibility, but my understanding is that  
13 it's tested in Pensacola.

14 Q Okay. Now, I'd like to talk about that  
15 storage area at Pine Forest if I could for a little  
16 bit. Since 1984, you all have added 3,000 square feet  
17 at Pine Forest. And the third floor of the Corporate  
18 Office Building is used for storage, and there's 24,000  
19 square feet, approximately, at the general warehouse.  
20 Can you give me a feel for what types of things are  
21 stored at these various locations, just a general idea?  
22 I mean, I don't need to go into the --

23 A Let me give you a general idea on that, but  
24 let me correct some misperceptions about this Exhibit  
25 477 that may exist, if they do exist. And the --

1 during previous testimony just before the break, I was  
2 given an opportunity to study this. I had indicated  
3 before the break that some buildings are unoccupied.  
4 This Pine Forest storage is a good example of that. I  
5 did not intend in any way to say that those buildings  
6 were not in use. The Pine Forest storage is in use,  
7 just as all the other buildings are in use. We just  
8 don't have people assigned to them.

9 Another problem with this exhibit is that --  
10 as with this example, it includes multiple and various  
11 functions. This exhibit includes office space. It  
12 includes, in the case of the growth of the corporate  
13 office, the parking garage underneath the corporate  
14 office. It includes the third floor that you just  
15 referenced. There's just a multitude of functions  
16 here. And it makes it very difficult to try to draw  
17 conclusions from it.

18 To get to your question on the storage, the  
19 30,000 -- or 3,000 square feet of storage at Pine  
20 Forest is a storage building to provide protection for  
21 wood reels and other line service equipment that is  
22 stored out on the site, and here again, this is where  
23 this exhibit is causing me some confusion in trying to  
24 prepare to answer questions. That, in some people's  
25 mind, may not even be a building. It's an open-storage

1 building that you bring the line service components  
2 that we understand need protection from the weather, in  
3 out of the weather and store those. I believe there's  
4 also PVC underground conduit in those buildings, stored  
5 to keep them out of the sun so that you don't have  
6 deterioration on that conduit.

7 Q Talking about just about a tin roof with some  
8 four-by-fours or --

9 COMMISSIONER BEARD: Commissioner Gunter  
10 would call it a pole barn, but it would be one of them  
11 fancy metal pole barns?

12 WITNESS CONNER: It's a fancy metal pole  
13 barn.

14 COMMISSIONER GUNTER: Butler building with no  
15 sides?

16 WITNESS CONNER: I believe it does have  
17 sides. I think it's got three sides on it, and one  
18 side is open so you can get forklifts in and out, a  
19 jeep for retrieving material.

20 Q (By Mr. Vandiver) I didn't mean to  
21 interrupt. Go ahead, sir.

22 A I'm through. You also asked about the third  
23 floor.

24 Q Yeah.

25 A I had covered that, I think before, that that

1 is basically our company-wide furniture storage.

2 Q You did. I asked you that on direct. I  
3 apologize, sir.

4 Did you all ever consider using any of that  
5 third floor for meeting space, training space?

6 A The third floor could be used for that, but  
7 it would be very expensive to do so. The third floor  
8 is basically shelled in, that is protected from the  
9 weather. It does not have all the electrical run now.  
10 It does not have the air handlers installed now. And  
11 to use any portion of that third floor for that type of  
12 meter, we would have to go in and install the restrooms  
13 to handicapped code. We would have to find a way to  
14 have proper ingress and egress to meet fire codes.  
15 Essentially, you'd have to go in and finish, I would  
16 guess, a fourth or a third of that floor, maybe even  
17 half of that floor, in order to get the restrooms, air  
18 handling rooms, electrical closets, the telephone  
19 closets, things that we did not make the initial  
20 investment in, installed to utilize the floor training  
21 space today.

22 Q Didn't you tell me on direct you all had some  
23 office space there, some kind of -- some of your people  
24 were housed there on the third floor?

25 A I don't believe I did. I did say that it is

1 used to support my function, which is a building  
2 maintenance shop. That doesn't -- I don't have people  
3 permanently assigned to the third floor.

4 Q Okay. When new buildings are constructed for  
5 similar uses, that is garages, meter shops, local  
6 offices, does Gulf use the same design and plans, et  
7 cetera? I just noticed that Graceville and Bonifay  
8 offices were exactly identical in square footage.  
9 That's what brought it to mind.

10 A Right, we try to -- the best example I can  
11 think for that is the substation buildings that I  
12 talked about previously, that the Commission followed  
13 up with us to be sure we did build those buildings, in  
14 that case, those were done on, I believe, a hybrid  
15 design-build basis, to where we got a basic floor plan  
16 and then used that same floor plan in other buildings  
17 on a design-build basis, to reduce the cost of  
18 architectural fees and design fees and still  
19 accommodate the individual needs of each division.

20 Q If Gulf discontinues its appliance sales and  
21 service operations, would Gulf's building requirements  
22 be reduced?

23 A Repeat the question, please.

24 Q If Gulf discontinues its appliance sales and  
25 service operations, would Gulf's building requirements



1 be reduced?

2 A I think the question -- that question could  
3 be answered -- or has to be qualified on timing. If it  
4 happened this afternoon, yes. If it happened over a  
5 phased basis, probably the answer to that would be no.  
6 For example, in the Panama City facility, we show a  
7 need for 3500 -- approximately 3500 square feet of  
8 additional space to support the office needs of that  
9 facility. And the way it works out, the appliance  
10 sales floor is close to that number. If they moved out  
11 tomorrow, I would be able to take that sales floor,  
12 convert it to office space and greatly reduce the plant  
13 expenditures planned for that building. So it's a  
14 case-by-case basis that you have to look at.

15 Q Okay. Certain buildings on this thing are  
16 designated as temporary. Could you explain that to me,  
17 please, sir?

18 A Yes. The temporary buildings on -- this is  
19 on your Exhibit 477?

20 Q Yes, sir.

21 A The temporary buildings are part of the plan  
22 that's covered in my direct testimony from the period  
23 of 1982 through March of 1987, when we utilized  
24 temporary buildings and facilities to basically get by  
25 and overcome our serious space deficiencies until we

1 could occupy the new building, new corporate office  
2 building in March of 1987. I think it's important to  
3 understand, again from your Exhibit 477, that as much  
4 as I think every is trying, it is very difficult to get  
5 an apples-and-apples comparison here.

6 In 1984, we had serious space deficiencies in  
7 the Company. In 1990, we have growth provided in our  
8 facilities for the most part. So you're not talking  
9 apples and apples in trying to make any comparisons  
10 between those two areas. And it -- I wish it could be  
11 simplified, but it's just a lot of information here,  
12 and it's going to be hard to make heads or tails out of  
13 it.

14 MR. VANDIVER: I'm slugging through the best  
15 I can.

16 COMMISSIONER BEARD: If you look at this  
17 thing just in a real rough deal, and you take 84 and  
18 divide by the number of employees, you've got about 244  
19 square foot per employee which is a very -- you said  
20 times were tight, and if you go to 90 you've got about  
21 398 square foot on average per employee with growth  
22 built into it.

23 COMMISSIONER CONNER: Commissioner, I don't  
24 dispute the numbers that you just calculated but I  
25 would caution you that when you start building

1 substations, which were built, you've got those in that  
2 number; you've got a lot of information in the numbers.  
3 And even on the corporate office building, my  
4 understanding of what was requested for this exhibit  
5 was total square footage, and total square footage of  
6 the corporate office building includes a third floor,  
7 which is a building maintenance shop; it also includes  
8 the basement, which is as parking garage, and neither  
9 one of those floors have any employees assigned to  
10 them. I think it would take a great deal of study to  
11 start drawing any of those kind of comparisons. And  
12 your Staff reviewed extensively all of the studies on  
13 the corporate office building, how those square  
14 footages were calculated, and it works out to match  
15 almost exactly what the 1982 study recommended for  
16 productive work environment.

17 COMMISSIONER BEARD: Which of the buildings  
18 in that top piece there on the first page are  
19 substations?

20 MR. VANDIVER: Commissioner Beard, if you're  
21 looking at Exhibit 621, that sheet that we just passed  
22 out.

23 COMMISSIONER BEARD: Uh-huh.

24 MR. VANDIVER: At the bottom it says,  
25 "excluding substation buildings."

1           It's my understanding that this exhibit is  
2 exclusive of substations, and perhaps Mr. Conner could  
3 correct me because I just don't know. I'm just reading  
4 what it says.

5           WITNESS CONNER: I do need to correct that.  
6 If you look at the second page of the exhibit, the top  
7 group there where it says "Fort Walton substation,"  
8 that is not a substation; that is a minor repair  
9 facility that supports substations, and employees do  
10 work in that building and it is occupied.

11           COMMISSIONER BEARD: I was really just  
12 looking at the first page up of Pensacola, to be honest  
13 with you. I was just looking for some trending.  
14 That's okay. Go ahead. I didn't mean to interrupt.

15           Q     (By Mr. Vandiver) I'd like to shift gears  
16 again, please, Mr. Conner.

17                   What's Gulf Power Company's relationship to  
18 the credit union?

19           A     The Company credit union leases space from  
20 the Company in a building located at Pace Boulevard.

21           Q     What's the amount of the lease income and  
22 which account is it recorded in? (Pause)

23           A     Mr. Vandiver, I'm not sure I've got that  
24 information with me on the stand. I can provide that  
25 for you. It'll takes some research to get it.

1           Q     Maybe we can get by without a late-filed. I  
2 think this record is replete with enough exhibits,  
3 quite frankly.

4                     Do you have a feel for how much --

5           COMMISSIONER GUNTER: Before you leave that,  
6 where were they in 1984? Where was the credit union in  
7 1984?

8           WITNESS CONNER: Commissioner, I believe the  
9 credit union, in 1984, was at the same place it was in  
10 1990; they haven't moved.

11           COMMISSIONER GUNTER: Fine. I just wanted to  
12 make sure when we get our discussions we're talking  
13 apples and apples.

14           Q     Do you know how those lease payments compare  
15 to similar leased space in the Pensacola area?

16           A     The lease payments, I believe, right now are  
17 probably -- well, it's hard to say, if you compare it  
18 to the Pace Boulevard area, because the Pace Boulevard  
19 area has been very depressed. There are a couple of  
20 leased buildings right up the street that have been for  
21 lease now for two or three years that are still vacant  
22 and they've not been able to lease them. So I'm not  
23 sure if it even has market value if you can't lease a  
24 building.

25                     But we think the lease with the credit union

1 was negotiated to basically pick up where they left off  
2 from their old lease, which was probably a little below  
3 market value, and to gradually phase them in to market  
4 value over the term of the lease, to not hit it all at  
5 one time. And it phased it in and brought it up. And  
6 over five years, I believe it's a five-year term on  
7 that lease, it will be to what, roughly the equivalent  
8 of market value.

9 Q And, excuse me, what year is that going to  
10 get to market value?

11 A It's a five-year lease. I believe it was  
12 negotiated in '89, so that would be '94.

13 Q I think I will ask for a late-filed exhibit  
14 on that.

15 A I'll be happy to provide it.

16 Q Thank you.

17 The short title would be Comparison of Lease  
18 to Market Value for the Credit Union, and I'd like it  
19 just for the terms of the lease from '89 forward  
20 through the five years.

21 COMMISSIONER GUNTER: Mr. Vandiver, would you  
22 be interested in knowing what is provided under that  
23 lease?

24 MR. VANDIVER: Yes. Yes, I probably would  
25 Commissioner Gunter

1 COMMISSIONER GUNTER: Some leases, you know,  
2 you've just got the square footage; other leases you  
3 have utilities. You know, you have in various terms of  
4 leases just a pure dollar amount doesn't really tell  
5 you anything until you know all of the items of value  
6 that are there.

7 MR. VANDIVER: If he could just attach a copy  
8 of the lease that would be fine, and Staff can take a  
9 look at that.

10 CHAIRMAN WILSON: That will be Exhibit No.  
11 622.

12 WITNESS CONNER: The lease would spell all  
13 of that out.

14 MR. VANDIVER: Thank you, Commissioner  
15 Gunter.

16 (Late-Filed Exhibit No. 622 identified.)

17 Q (By Mr. Vandiver) I just have two remaining  
18 questions.

19 Could you provide for the White House the  
20 amount included in rate base and current use test year  
21 expenses? Do you have that with you, sir?

22 A I do not.

23 Q What is the White House?

24 A Let me answer your first question first.

25 Q Okay.

1           A     I do not have the amount with me; that's part  
2 of the information that's being researched for this big  
3 exhibit that we're trying to pull together.

4           The White House is one of the temporary  
5 buildings that was used to support the temporary office  
6 space needs of the Company between 1982 and March of  
7 1987 when we moved to the corporate office. Since  
8 March of 1987 it has been used to support shop space,  
9 which was relocated out of the general warehouse, to  
10 decrease the access of people in and out of the  
11 warehouse, improve security at the warehouse. And it  
12 has supported the needs of our Relay and Communications  
13 Department since between March of 1987 through today.

14           The White House is -- well, that's basically  
15 the summary of it.

16           Q     And that exhibit you all are preparing will  
17 include the amount of the White House included in rate  
18 base and current test year expenses? If that's so I  
19 don't need that late-filed then

20           A     The exhibit will include that.

21           Q     Thank you.

22           One final thing: Just looking at this exhibit  
23 and running through it, everything is in Florida except  
24 for the very last one, and that's Washington, D.C. As  
25 long as we were talking about the White House it kind



1 of goes together, and everything is blank after that.

2 Can you help me out on what we're talking  
3 about here?

4 A This is your exhibit so you might can help me  
5 out. But I think I can tell you the story behind it.  
6 And, by the way, the White House is not white, it's a  
7 brick house, just to add to the confusion.

8 The Washington, D.C. office, as I understand  
9 it, is a situation where our Company pays a cost for  
10 utilization of office space but it is not allocated on  
11 any square footage basis. It is just a cost number.  
12 Our accounting people are familiar with how that is  
13 handled. I'm not personally familiar with how that is  
14 handled, but I was told in researching for this exhibit  
15 that there is nothing in a lease, or nothing in any  
16 documentation, that says Gulf Power Company occupies so  
17 many square feet in that office and, therefore, you pay  
18 this many dollars. It's more of a total cost  
19 allocation thing and may include other support.

20 Q Sort of a Scarbrough question.

21 COMMISSIONER GUNTER: Would that be the  
22 offices are maintained by the Southern Company, of  
23 which you would receive an allocated portion of the  
24 expense of those offices?

25 WITNESS CONNER: Commissioner, we have an

1 employee in that office.

2 COMMISSIONER GUNTER: I understand.

3 WITNESS CONNER: I'm sure we do receive an  
4 allocated portion of the expense of those offices. But  
5 I would need to defer that, really, to Mr. Scarbrough  
6 because I'm not --

7 COMMISSIONER GUNTER: I'm just trying to  
8 understand. Because when I was working some  
9 legislation with the Congress, at one time I attended a  
10 meeting in those offices and I was wondering if that  
11 would be an allocation of those offices in Washington,  
12 of that one employee.

13 WITNESS CONNER: I believe that's what it is.

14 MR. VANDIVER: Thank you for your patience,  
15 Mr. Conner. I have no further questions.

16 COMMISSIONER BEARD: Let me ask you a quick  
17 question. On your exhibit ECC-2, Schedule 2, you do a  
18 comparison of garage structure versus ground level  
19 parking.

20 WITNESS CONNER: That's correct.

21 COMMISSIONER BEARD: And in both of those  
22 figures you have a \$9 times 49,400 square feet.

23 WITNESS CONNER: Right.

24 COMMISSIONER BEARD: Now, if my math is  
25 right, 49,400 square feet is just a tad over an acre.

1 WITNESS CONNER: Uh-huh,  
2 I believe that's correct.

3 COMMISSIONER BEARD: I think 48,400 with my  
4 math is one acre. Where is this one acre?

5 WITNESS CONNER: This example that I've  
6 given is a hypothetical example. It shows a relative  
7 cost between ground level parking versus structure  
8 parking and it's not tied to any one parcel of land.

9 COMMISSIONER BEARD: I just want to know  
10 where I can go find -- I want to sell somebody some  
11 land at 436,000 an acre, is what I want to do.

12 COMMISSIONER GUNTER: Downtown Dallas.

13 COMMISSIONER BEARD: Because that's what that  
14 equates to, 1.02 divided into 444,000 is about \$436,000  
15 for an acre of land.

16 I know this is hypothetical and it's appeared  
17 on both sides, but what did you all pay for your land  
18 down there at corporate headquarter?

19 WITNESS CONNER: Commissioner, the reason  
20 that figure is used in this example is because the  
21 current appraised value of land around our corporate  
22 office is around 8 to \$10 a square foot. So, you know,  
23 in a worst case scenario we may have to pay that to  
24 achieve the last few parcels that we need to support  
25 the full plan for the building.

1           The actual amounts that we've paid have been  
2 about half that. It was \$5.34, I believe, per square  
3 foot what we paid for the land.

4           COMMISSIONER BEARD: If you all ever take up  
5 serving Starke, I've got 60 acres I'll let you have for  
6 a lot less than that. But it's not in Downtown New  
7 York City. I'm shocked, to be honest with you. I know  
8 downtown land costs more than farmland. I mean, that  
9 much I understand. But I didn't know in Pensacola the  
10 price of land had gotten that bad.

11           WITNESS CONNER: That is the appraised value  
12 of the land in that area. Again, I would point out  
13 that the land price we paid is approximately half of  
14 that. And in the alternatives that were studied in  
15 looking at the locations for the corporate office  
16 building, that price compares with the other locations  
17 that were looked at.

18           CHAIRMAN WILSON: Were your other locations  
19 waterfront?

20           WITNESS CONNER: The other locations were, I  
21 believe, at the University Mall and at Pace Boulevard,  
22 and neither one of those locations are on the water,  
23 and none of the corporate office land is actually on  
24 the water.

25           CHAIRMAN WILSON: You can throw a rock there

1 from your corporate offices, though.

2 COMMISSIONER BEARD: There's nothing between  
3 you and the water, anyway.

4 COMMISSIONER GUNTER: A road.

5 COMMISSIONER BEARD: A Road, yeah.

6 You all need to build your parking somewhere  
7 else and get a shuttle bus; you can do it a lot  
8 cheaper.

9 COMMISSIONER GUNTER: Mr. Conner, I'm going  
10 to address my questions off of Exhibit 559. On Page 2  
11 of 559 I'm going to start with nits and try and work up  
12 to the nits and make sure I understand.

13 You've got a Tiger Point appliance building,  
14 is that right?

15 A Yes, sir.

16 COMMISSIONER GUNTER: You've got one employee  
17 there, total number of employees, I'm looking at Column  
18 D. And D-1 is a nonutility employees, and that says  
19 on. And that's at the appliance sales and service, is  
20 that correct?

21 A That's correct. We've got, in the final  
22 exhibit -- and this is an evolving thing where we are  
23 finding corrections that need to be made. Actually, I  
24 need to correct Column D on the Tiger Point appliance  
25 to show total employees to read three, in lieu of one,

1 and the total or the nonutility employees, column D-1,  
2 would read one.

3 COMMISSIONER GUNTER: All right, then it  
4 begins to make a little sense.

5 WITNESS CONNER: Yes, sir.

6 COMMISSIONER GUNTER: Does that affect your  
7 total employees, or is there somewhere else that you've  
8 got -- does that mean we've got 1627 employees?

9 WITNESS CONNER: No, sir. What it means is  
10 that we found that the records, when we put together  
11 this exhibit the first time, we didn't recognize that  
12 if you look up about the middle of the page, "General  
13 Office, Western Division Headquarters," where it shows  
14 112? That should have read 109.

15 COMMISSIONER GUNTER: All right.

16 WITNESS CONNER: And where it shows the East  
17 Gate appliance store and it shows two employees, that  
18 should have shown three employees. And what  
19 effectively happened there was that three employees  
20 were reassigned from the Western Division office  
21 building downtown, one to the East Gate building and  
22 two to the Tiger Point building.

23 COMMISSIONER GUNTER: All right. On the --

24 WITNESS CONNER: And excuse me. By the way,  
25 that will be corrected on the final exhibit.

1 COMMISSIONER GUNTER: Okay. I'm just trying  
2 to go through and see if I understood what is before  
3 me.

4 WITNESS CONNER: Yes, sir. Right.

5 COMMISSIONER GUNTER: At Niceville, you had  
6 an addition of something in excess of 4,000 square feet  
7 on the Niceville Division, is that correct? Central  
8 Division building? Between '84 and 90?

9 A I believe it's right at 4,000 square feet. I  
10 hadn't --

11 COMMISSIONER GUNTER: What was that?

12 WITNESS CONNER: That was essentially the  
13 difference in going from a leased building in the  
14 Niceville area to a company-owned facility.

15 COMMISSIONER GUNTER: Did you buy -- is this  
16 the Niceville -- in '84, there was a question about the  
17 construction of a building at Niceville, wasn't there?  
18 In the '84 case?

19 WITNESS CONNER: Commissioner, I don't recall  
20 any questions. I've tried to, in preparing for this  
21 case, to go back and read the transcripts. I don't  
22 recall the Niceville office coming up.

23 COMMISSIONER GUNTER: Okay. So this facility  
24 at Niceville, which was at 3,000 square feet, you built  
25 a new one that's 7249 square feet?

1 WITNESS CONNER: That's correct. And that  
2 would include the office space and the store room.

3 COMMISSIONER GUNTER: Okay. Let's talk about  
4 the Pace site for a second. Has there been any capital  
5 expenditures made to the Pace building since 1984?

6 WITNESS CONNER: I'm not sure I understand  
7 your question.

8 COMMISSIONER GUNTER: You know where the Pace  
9 building is?

10 WITNESS CONNER: The Pace Boulevard building?

11 COMMISSIONER GUNTER: Yeah.

12 WITNESS CONNER: Yes, sir.

13 COMMISSIONER GUNTER: I just refer to it as  
14 the Pace building.

15 WITNESS CONNER: The old general office.

16 COMMISSIONER GUNTER: The old general office?

17 WITNESS CONNER: Right.

18 COMMISSIONER GUNTER: Have there been any  
19 capital expenditures made to that building since 1984?

20 WITNESS CONNER: Yes, there have been.

21 COMMISSIONER GUNTER: Would you describe the  
22 nature of those capital expenditures, please?

23 WITNESS CONNER: Certainly. When the  
24 corporate office function left that building and the  
25 Western Division function relocated to that building to



1 provide growth for both functions, the building had to  
2 be converted from a general office type function to a  
3 customer service type function. There were renovations  
4 and additions to the building. The building, at that  
5 point in time, was 30 years old.

6 Some of the equipment was changed out to  
7 extend the life of that facility, and there were  
8 capital additions involved in reorienting the site. We  
9 cooperated with the City to close a street in front of  
10 the, I believe it's the north entrance to that  
11 building. That closing of the street allowed us to  
12 give customers the opportunity to walk from a parking  
13 space directly into the building, without having to  
14 cross the street. It improved customer safety, it also  
15 improved traffic safety around the building.

16 Basically, that's the story behind what was  
17 done with the Pace Boulevard building between those  
18 times.

19 COMMISSIONER GUNTER: We have testimony in a  
20 service hearing in the Pensacola area that there have  
21 been extensive paving done at the Pace, the old office  
22 building. Is that correct?

23 WITNESS CONNER: Paving?

24 COMMISSIONER GUNTER: Resurfacing, that kind  
25 of stuff?

1           WITNESS CONNER: We did reorient, they were  
2 probably referring to the reorientation of that parking  
3 lot to make it a customer service parking lot. We did  
4 expand that parking lot. We, I guess, in taking out  
5 the street, they may have perceived that was additional  
6 and, indeed, it was, to make it a customer service  
7 facility and improve the safety for our customers.

8           COMMISSIONER GUNTER: Let me ask you a  
9 question. It's been years and years since I was at  
10 that facility, but all the customer parking that was  
11 behind the building -- I mean, not customer parking,  
12 all the parking that was available behind the building  
13 and over to the side, that was insufficient parking and  
14 it was some safety consideration? What street did you  
15 have to cross in order to get into the building?

16          WITNESS CONNER: You had to cross Chase  
17 Street, to go from the --

18          COMMISSIONER GUNTER: That was a little side  
19 street that came out on Pace Boulevard, right?

20          WITNESS CONNER: Well, it was a side street  
21 off of Pace Boulevard, but it was the only side street  
22 off of Pace Boulevard leading into that site. And as  
23 such, if you're familiar with the Pace site, there's a  
24 big hill that you come down there.

25          There's a four-laned highway, I believe, with

1 turn lanes in the middle. And my understanding is that  
2 that had a high potential for accidents there, and the  
3 purpose was to try to avoid that problem.

4 COMMISSIONER GUNTER: You used to let  
5 Commissioners cross there, whenever, but I then guess  
6 we're --

7 COMMISSIONER EASLEY: Still encouraged.

8 COMMISSIONER GUNTER: Maybe that was  
9 encouraging, hopeful we might be run over or something.  
10 But that was good enough for employees and good enough  
11 for visitors at that time, but all of a sudden we had  
12 to make that -- let me ask you this. How about a  
13 drive-up window?

14 WITNESS CONNER: Let me clarify that just a  
15 second.

16 COMMISSIONER GUNTER: I'm just trying to  
17 understand.

18 WITNESS CONNER: Right. I think the  
19 difference is there are 30,000 customers that go in and  
20 out of that building every month. And when you go from  
21 a general office type activity where you do not have  
22 the vehicular traffic that you get with 30,000  
23 customers a month, we felt safe in letting the  
24 Commissioners cross that street.

25 But when you go to 30,000 customers a month,

1 and only one point in a funnel for all of them to get  
2 in and out of the site, we anticipated a big traffic  
3 problem there. The City worked with us, and the County  
4 worked with us, and the State Road Department worked  
5 with us, to try to avoid that problem.

6 COMMISSIONER GUNTER: It's your testimony  
7 that you have 30,000 customers a month that visit that  
8 Pace building?

9 WITNESS CONNER: That is my understanding,  
10 yes, sir. And they come in with the children in hand,  
11 and kids running around all over everywhere. And it  
12 had a potential for problems there.

13 COMMISSIONER GUNTER: So, I'm just trying to  
14 understand this. 30,000 customers a month would visit  
15 that facility and that would represent -- how many  
16 people you got living in Pensacola? 250,000 people?

17 WITNESS CONNER: Commissioner, I don't know.

18 COMMISSIONER BEARD: You got 158 customers an  
19 hour coming in there.

20 COMMISSIONER GUNTER: Yeah.

21 WITNESS CONNER: My understanding is it's  
22 30,000 customers a month.

23 COMMISSIONER GUNTER: Okay. You're just, you  
24 don't really know, just somebody has told you that,  
25 right?

1           WITNESS CONNER: That's correct. I've not  
2 gone and counted them myself or done any research on  
3 it. But we did talk with the Western Division people  
4 and that was the number they had told us.

5           COMMISSIONER GUNTER: All right. 360,000 --  
6 well, 30,000 times the average household size, and I'm  
7 just trying to understand. If you have 30,000  
8 customers and an average household size, you would be  
9 having probably 25% of the people in Pensacola, or 20%  
10 of the people in Pensacola, would be going to that  
11 office building every month.

12           Do you have a drive-up window?

13           WITNESS CONNER: We do have a drive-up window  
14 at that site.

15           COMMISSIONER GUNTER: Is it in use?

16           WITNESS CONNER: It is in use. And it could  
17 be that that 30,000 includes the drive-up window also.  
18 But in any case, it would --

19           COMMISSIONER BEARD: I hope you all have a  
20 revolving door there.

21           WITNESS CONNER: Commissioner, Counsel just  
22 handed me something, gives the total walk-in, this is  
23 company-wide, so I'm not sure it is going to help us a  
24 whole lot, but the total walk-in payments we had in the  
25 Company in a year is 953,795.

1 COMMISSIONER GUNTER: Total walk-ins. Do you  
2 receive, do you count walk-in payments where you allow  
3 some payments to be made at drug stores, other  
4 commercial areas around? Or is that figure  
5 specifically limited to Company facilities? Can Mr.  
6 Scarbrough answer that?

7 WITNESS CONNER: I did not prepare this  
8 exhibit, but I will be glad to read off of it to you.  
9 It says, "All local offices with appliance sales." And  
10 it shows mail-in payments, it shows drive-thru  
11 payments, and it shows walk-in payments.

12 COMMISSIONER GUNTER: I think that would be  
13 interesting if we had that as an exhibit, the Company  
14 could make sure that we all got it.

15 MR. HOLLAND: It's a late-filed, it will be  
16 provided.

17 COMMISSIONER GUNTER: It will be provided?  
18 All right.

19 How many employees do you have at Pace  
20 Boulevard, 12? Total employees?

21 WITNESS CONNER: Commissioner, let me make  
22 sure I'm not confused here. The Pace Boulevard site  
23 includes several functions. Are you talking about the  
24 old general office building?

25 COMMISSIONER GUNTER: I'm talking about the

1 Chase Street Pace -- what is that? Let's go to the  
2 exhibit.

3 WITNESS CONNER: The Chase Street building?

4 COMMISSIONER GUNTER: Yep.

5 WITNESS CONNER: That is the building that  
6 was previously used for the Western Division  
7 headquarters.

8 COMMISSIONER GUNTER: Yep.

9 WITNESS CONNER: It is located behind the old  
10 general office building and it is called the Chase  
11 Street building because Chase Street runs in front of  
12 it on the Pace Boulevard complex.

13 COMMISSIONER GUNTER: All right.

14 WITNESS CONNER: And those 12 employees are,  
15 I believe, eight of them are in the appliance service  
16 area section of that building, and the other four would  
17 be in the employment center, which is located in that  
18 building, also.

19 COMMISSIONER GUNTER: The other four would be  
20 what?

21 WITNESS CONNER: Employment center employees.

22 COMMISSIONER GUNTER: Okay. So if I'm  
23 looking at this exhibit correctly, you would have four  
24 employees in an employment center of 17,661 people?

25 WITNESS CONNER: No, sir.

1 COMMISSIONER GUNTER: Is that right?

2 WITNESS CONNER: In looking at this exhibit  
3 you might could pick that up. But you have to  
4 recognize from my previous testimony earlier this  
5 morning I said that that Chase Street building also  
6 serves to support the training center function.

7 And what you have and the way that building  
8 is laid out, on the west end of that building, we have  
9 our employment center as one function located in that  
10 building. On the very far east end of the building,  
11 you have appliance service located as a second function  
12 in that building.

13 Then in the center of the building, you have  
14 an area that I believe is approximately, off the top of  
15 my head, 10 to 12,000 square feet, that is the training  
16 center function. All three functions located within  
17 one building.

18 COMMISSIONER GUNTER: Let me ask you a  
19 question. Would the training center of, and you've got  
20 four employees, so I'm going to be real generous and  
21 say the training center would only be about 15,000  
22 square feet. And with 30,000 people coming in a month,  
23 30,000 customers, and the traffic in there of walk-ins  
24 and otherwise, where in the devil do they park?  
25 Because you've got 150 people an hour. How many



1 parking places have you got out there?

2 WITNESS CONNER: I believe it's about 100.

3 COMMISSIONER GUNTER: 100?

4 WITNESS CONNER: Parking spaces for  
5 customers.

6 COMMISSIONER BEARD: How many front counter  
7 people you got at the pay window? Just curious.

8 WITNESS CONNER: Commissioner, I believe  
9 there are four pay stations there, and I'm not sure  
10 whether they are all manned all the time or whether  
11 they rotate employees there. I know we have peak  
12 periods of time.

13 COMMISSIONER BEARD: I imagine.

14 WITNESS CONNER: And it gets pretty hectic,  
15 and I think they do use all four of those stations at  
16 peak periods, and maybe less of them at other periods.

17 COMMISSIONER GUNTER: So all four employees  
18 there are workers; you don't have any supervisory or  
19 anything? You don't have any training people located  
20 there, co-located where you've got 15,000 square feet  
21 of training area?

22 WITNESS CONNER: I believe the four people  
23 includes the Supervisor of Employment, or I'm not sure  
24 of the exact title, but there is supervision there, and  
25 this exhibit doesn't break that down.

1 COMMISSIONER GUNTER: Who receives the money?  
2 See, that's the thing I'm trying to understand. If  
3 you've got four windows and they are occupied, then  
4 you've got the Supervisor of Employment over there.  
5 Mr. Conner, I'm trying to understand what we're saying.

6 WITNESS CONNER: I think I understand now  
7 that --

8 MR. STONE: Commissioner, if I might, I think  
9 we are getting a little bit confused. The employment  
10 center and the payment center are not in the same  
11 building.

12 WITNESS CONNER: There are not.

13 COMMISSIONER GUNTER: Let's take the Chase  
14 Street/Pace site. Now, where on Page 2 of 559, where  
15 is the old office building?

16 WITNESS CONNER: If you go down to about the  
17 center of the page, just before Fort Walton, it says,  
18 "General Office/WDH," and that WDH stands for Western  
19 Division Headquarters. Recognizing that this exhibit  
20 is used for both 1984 and for 1990, we tried to show  
21 that the same building served in 1984 as the general  
22 office. It now serves --

23 COMMISSIONER GUNTER: Well, see, that's part  
24 of the confusion, because in 19 -- you had not occupied  
25 the new building in 1984, had you?

1 WITNESS CONNER: No, sir, we occupied it in  
2 March of 1987.

3 COMMISSIONER GUNTER: See, that's the reason  
4 I asked for these exhibits with 1984, what you had in  
5 1984, and then 1990, because I'm trying to understand  
6 the difference.

7 WITNESS CONNER: Right.

8 COMMISSIONER GUNTER: And the further we get  
9 into this, the more we find out, oh, that's a mistake  
10 and we did this, that and the other. The exhibits are  
11 not like we asked for.

12 WITNESS CONNER: Commissioner, I don't  
13 believe it's a mistake. You had asked to list each  
14 building --

15 COMMISSIONER GUNTER: As in 1984 and then in  
16 1990.

17 WITNESS CONNER: Right, and we were --

18 COMMISSIONER GUNTER: What they were used for  
19 -- in 1984, if you just had on in 1984, and you went  
20 back to 1984, you didn't have the Western Division  
21 office, it wasn't a primary purpose of the Pace Street  
22 Central Office Building.

23 WITNESS CONNER: You're correct.

24 COMMISSIONER GUNTER: See, that's part of my  
25 concern in trying to quickly analyze this, because the

1 exhibit I asked for last week is not here.

2 WITNESS CONNER: We will get that corrected  
3 on that exhibit, and in 1984, that will show the  
4 Department using the General Office/Western Division  
5 building as being the general office or corporate  
6 office.

7 COMMISSIONER GUNTER: See, because what  
8 really screwed me up was that -- and I have asked the  
9 question previously, and I'm trying to find out what  
10 the difference is in the non -- there's so many  
11 questions that are raised by this, and I'm trying to  
12 get to utilization -- utilization by Gulf Power Company  
13 of the spaces that are available to it that the  
14 ratepayer is paying for.

15 WITNESS CONNER: Right.

16 COMMISSIONER GUNTER: It raised a question  
17 that total number of employees in 1984 was 299  
18 employees, is that right? In that General Office/  
19 Western Division, in 1984?

20 WITNESS CONNER: That's correct.

21 COMMISSIONER GUNTER: Of which 3.14  
22 equivalent employees were non-utility?

23 WITNESS CONNER: That's correct.

24 COMMISSIONER GUNTER: Now, I think previously  
25 you had testified that the credit union was in there,

1 is that right? Wasn't that where the credit union was?  
2 Because I asked a question had they moved, and you  
3 said, "No, they're in the same place that they were."

4 WITNESS CONNER: No, sir, they are in the  
5 same place that they were, and what I tried to clarify,  
6 and perhaps this was a misunderstanding on our part,  
7 that no Gulf Power Company employees work in the credit  
8 union, so it was considered nonoccupied and we removed  
9 it from the exhibit.

10 COMMISSIONER GUNTER: Okay. Well, you see,  
11 what troubles me even a little further is that in that  
12 -- and I'm just trying to get on and I'll get to the  
13 big items in a minute -- but I look at a 60,000 gross  
14 square-foot building, and that's consistent, both  
15 sides.

16 WITNESS CONNER: All right.

17 COMMISSIONER GUNTER: Got that? In 1984,  
18 there was no non-utility square footage allocated, but  
19 yet there was over three man years of equivalent  
20 non-utility business done there.

21 WITNESS CONNER: Right.

22 COMMISSIONER GUNTER: It's your testimony  
23 that the credit union was leasing some of that  
24 facility?

25 WITNESS CONNER: No, sir.

1 COMMISSIONER GUNTER: Where is it then?

2 WITNESS CONNER: The credit union is -- I  
3 think the confusion here, when I refer to the Pace  
4 Boulevard site, I'm referring to a big site covering  
5 several blocks with several buildings on it.

6 COMMISSIONER GUNTER: Which building is it?

7 WITNESS CONNER: The credit union is a  
8 free-standing building located on the Pace Boulevard  
9 site and is not the same building as the general  
10 office.

11 COMMISSIONER GUNTER: It's not shown anywhere  
12 then?

13 WITNESS CONNER: It is not shown anywhere  
14 because we removed it thinking that you had wanted to  
15 not have any buildings that were not occupied by  
16 employees.

17 COMMISSIONER GUNTER: Great, I'm just trying  
18 to understand. So, we didn't have any non-utility  
19 space allocated to the Pace Boulevard site in 1984, but  
20 we did allocate 3900 feet to ten employees in the  
21 current period, is that right?

22 WITNESS CONNER: That is correct. And that  
23 difference is, again, the change in function of that  
24 building. Today it is used as an appliance sales store  
25 as part of the Western Division headquarters building,

1 and as such, the appliance sales store area is  
2 allocated to non-utility.

3 COMMISSIONER GUNTER: Okay.

4 WITNESS CONNER: In 1984, it was strictly a  
5 general office building and had no appliance sales  
6 floor, and therefore no space was allocated.

7 COMMISSIONER GUNTER: All right, fine. And  
8 you went from a total of 299 people down to 112 total  
9 employees; 102 employees, utility employees, in that  
10 56,000 square feet. Is that correct?

11 WITNESS CONNER: Well, it's correct, except  
12 for the earlier correction I made changing that from  
13 112 to 109 to represent three employees, one of which  
14 was transferred.

15 COMMISSIONER GUNTER: Make 99 employees.

16 WITNESS CONNER: That's correct.

17 COMMISSIONER GUNTER: You'd have 99 employees  
18 and 56,050 square feet. What else was this building  
19 being used for except to collect money and be the  
20 headquarters for Western Division?

21 WITNESS CONNER: Commissioner, the old  
22 General Office Building, like most of the buildings on  
23 Pace Boulevard, are multifunctional buildings. The --  
24 just a rough breakdown of the old General Office  
25 Building is that 10,000 square feet is used as part of

1 the training effort in conjunction with the Chase  
2 Street Building. A portion -- and I don't have an  
3 exact number on this, but I'm going to ballpark it at  
4 about 4,000 square feet in the basement is used to tie  
5 in all the Company's communications equipment in the  
6 old control room area, and the remainder of the  
7 building is used to support the Western Division  
8 efforts, including the appliance sales effort.

9 COMMISSIONER GUNTER: Well, you know, there  
10 is a great analysis that utilities, electric utilities  
11 in particular, always use as number of employees per  
12 number of customers, you know, customers served, and  
13 that's sort of a measurement of how many connections  
14 that each employee serves.

15 Generally following that concept, I want to  
16 make sure that I'm doing this properly now, because  
17 I've had to do some calculations, and I want you to  
18 follow me along if you can.

19 WITNESS CONNER: Okay.

20 COMMISSIONER GUNTER: Because generating  
21 plants are not really administrative personnel, I have  
22 extracted Crist construction, the Crist Plant. I have  
23 extracted the Scholz Plant and the Smith Plant, both  
24 their square footage and their employees. And this  
25 gave me a total of 1126 employees and an extraction of



1 26,650 square feet. That was for 1984.

2 WITNESS CONNER: What was that last figure,  
3 Commissioner, square footage?

4 COMMISSIONER GUNTER: 26,650 square feet. On  
5 the -- I did the same thing for the '90, for Page 2 of  
6 Exhibit 559, which gave -- the square footage was the  
7 same, 26,650. And the personnel changed. It went to  
8 403. And that's using the figures that are on Exhibit  
9 559.

10 In 1990, Page 2, that left me with a total of  
11 1,162 employees. I took that 26,650 feet. which were  
12 in the generating areas, and I subtracted that from the  
13 total utility square feet. And then I just did a  
14 mathematical calculation of how many square feet per  
15 employee. And that's sort of a sanity test as to what  
16 has happened since the last time we were together.

17 And in 1984, it came out to 244 and a half  
18 square feet per employee. In 1990, it came out to  
19 598.15 square feet per employee. Would that seem --  
20 and that's not including Navy House or some of those  
21 other facilities that are available for training,  
22 meetings and this kind of stuff. Would that seem as  
23 though that were a rather dramatic change?

24 WITNESS CONNER: Commissioner, that would  
25 seem to be a dramatic change. As I had pointed out

1 earlier, this exhibit gives me some concern in that the  
2 -- I'm not sure we're talking apples and apples here.  
3 Again, the square footage, as we understood it had been  
4 requested, was gross square footage taking the  
5 corporate office as one example.

6 COMMISSIONER GUNTER: That's exactly right.

7 WITNESS CONNER: Taking the corporate office  
8 as one example. The third floor is presently used as a  
9 building maintenance floor, pending its growth as an  
10 office space floor. The gross square footage of the  
11 corporate office building also includes the parking  
12 garage in the basement and I'm not sure this exhibit is  
13 really giving you what you're trying to analyze.

14 And we can restructure it any way you'd like  
15 it restructured so it can lead to that, but I don't  
16 think it's going to be anywhere near 598 square foot  
17 per employee.

18 COMMISSIONER GUNTER: Well, the amount on the  
19 exhibits, that's what it's telling me, 598 square feet,  
20 and I've extracted the non-occupied, non-employee  
21 occupied. I'm only dealing with utility, I'm dealing  
22 with utility employee. In fact, it would be higher  
23 than that if we used the actual employees you've got,  
24 because we had evidence that you had 38 employees, and  
25 it would vacillate in unfilled positions, by one of the

1 witnesses previously, and that was up and down. I've  
2 tried to be as fair as I can. I've tried to be as open  
3 as I can since we first talking about this. We talked  
4 about it last week.

5           Where are we missing? And I'm going to get  
6 you to help me, because this is big-time dollars and  
7 don't think it's not. I don't believe in trying to  
8 sandbag anybody, but you start with a total square feet  
9 -- I'm on Page 2 now -- you start with a total square  
10 feet in 1990. We've got the total utility in 1990, the  
11 total nonutility in 1990, we've got the total employees  
12 -- I want you to tell me where I'm using these wrong --  
13 the total nonutility employees, and the other two is  
14 whether you own them or lease them, and that was just  
15 sort of interesting.

16           WITNESS CONNER: Right.

17           COMMISSIONER GUNTER: But you start  
18 extracting those areas that had to do with generation,  
19 because those are going to very constant, They are not  
20 going to change. I extracted those. I took from total  
21 employees, I extracted the employees that were located  
22 there, as well as the employees that were nonutility,  
23 and came out with a number of employees. And then the  
24 buildings, the utility square feet, I just took those  
25 employees times the utility square feet, recognizing

1 that I'm probably being a little generous because I  
2 haven't used places like Navy House.

3 And one of the things that's sort of getting  
4 to be cumulative -- I think I'd know how to play the  
5 numbers game, I was involved in that for a while -- is  
6 that when you ain't got anything else to do because you  
7 were -- you've already built me up something over  
8 20,000 square foot of training, and that means you  
9 ain't got anybody working and you're utilizing 20,000  
10 square feet of training, fully utilized, if it's fully  
11 being scheduled, or if it's one of those that whenever  
12 you need a training room, you can go get one because  
13 you've got such a dirth of space available. But if you  
14 look at the square footage that is available for  
15 employee versus what was available for an employee in  
16 the time period -- recognizing there has to be some  
17 growth, but I'm real concerned about well in excess of  
18 100% growth using the same analysis for 1984 as I am  
19 for 1990.

20 COMMISSIONER EASLEY: If I could ask a  
21 question about the '84 numbers. I understand what you  
22 said about the parking garage being in the '90 numbers,  
23 that third floor storage being in the '90 numbers, and  
24 I've gathered there some other storage in the '90  
25 numbers. What were the numbers in '84 for like space?

1 WITNESS CONNER: Well --

2 COMMISSIONER BEARD: Let me do something  
3 there, Commissioner. I think we can back it out.

4 How many floors have you got on the corporate  
5 headquarters, counting parking and everything?

6 WITNESS CONNER: Including the parking  
7 garage, there are six floors.

8 COMMISSIONER BEARD: Six floors. That means  
9 that you got about 50,000 square foot per floor. Now,  
10 you probably didn't have any parking garage in '84, did  
11 you?

12 WITNESS CONNER: No, we did not.

13 COMMISSIONER BEARD: Okay. So we need to  
14 back 50,000 square feet out for the parking garage.  
15 Now, you did do a little warehousing and maintenance,  
16 and those kinds of things, back in '84, didn't you?

17 WITNESS CONNER: Yes, we did.

18 COMMISSIONER BEARD: You just didn't do it on  
19 the third floor of the Bayfront building?

20 WITNESS CONNER: That's correct.

21 COMMISSIONER BEARD: So you did those same  
22 things, you just did them somewhere else?

23 COMMISSIONER EASLEY: And is that "somewhere  
24 else" in the '84 figure?

25 WITNESS CONNER: Yes, it was. I've tried to

1 anticipate where you may be headed with this exhibit,  
2 and I've got some numbers here that I think may be able  
3 to shed some light on it, if I could run through them  
4 real quickly.

5 COMMISSIONER BEARD: Before you do it, I just  
6 have to understand -- the parking garage, we can back  
7 that out. It's 50,000, you can pop it out, and we  
8 don't have to worry about that anymore. That's 50,000  
9 from whatever his figure is, around 500,000, ballpark  
10 figure.

11 Now, what are you doing different today that  
12 you weren't doing in '84?

13 WITNESS CONNER: There are a lot of things  
14 that are different.

15 In the divisions which represent about 20% of  
16 that growth in square footage terms, we have -- and  
17 this is looking at the cumulative totals which  
18 Commissioner Gunter was looking at.

19 COMMISSIONER BEARD: What I'd like to do  
20 before you get to his numbers -- we're going to get  
21 there, but conceptually you're still putting up poles,  
22 still stringing line, still running a warehouse, still  
23 got a shop where you build things, still take payments.  
24 Okay. Those kind of things. What are you doing today  
25 that you weren't doing in '84, conceptually?

1           WITNESS CONNER: Conceptually, we're  
2 operating with better facilities, doing a better job  
3 and we have a situation now in 1990 to where we have  
4 some growth space in most, if not all of our  
5 facilities, where in 1984 we were severely deficient in  
6 most, if not all of our facilities.

7           Additionally, some of the productivity  
8 measures that the Company had studied back in the early  
9 '80s and the Commission found, in it's '83 audit of the  
10 substation buildings for an example, which are included  
11 in these totals, we have built those buildings and you  
12 did not add employees, you just added the building to  
13 produce the savings per the cost/benefit studies there.

14           A second thing is that in cost/benefit  
15 studies on buildings such as the Gulf Breeze line  
16 service building, the Destin line service building,  
17 Panama City Beach line service building, those  
18 employees, again, were relocated from central line  
19 service buildings, the Panama City line service  
20 building, it's staff of employees that used to be  
21 located at the Pine service building and you achieved  
22 the economies there by not driving back and forth there  
23 every day to that isolated area in Panama City.

24           So the problem I've got with the exhibit, in  
25 trying to make the kind of comparisons that we're

1 trying to make here this morning, is that you're  
2 talking about a mix of office space, parking space,  
3 warehouse space, growth areas versus severely deficient  
4 in 1984. We now have training space that totals about  
5 19,000 square feet, where we had zero in 1984.

6 COMMISSIONER DEARD: You didn't do any  
7 training in 1984?

8 WITNESS CONNER: If we did it in this  
9 late-filed that I'm going to come up with for Mr.  
10 Vandiver, it shows that it was done outside the Company  
11 in leased space.

12 We had a terrible situation in 1984. We were  
13 just, I believe the -- in the corporate office building  
14 or the old general office building alone, we had a  
15 gross allocation of 82 square feet per employee to  
16 compared with 121 square feet in 1982. Now these  
17 numbers are in 1984, after we had already moved the  
18 people out into temporary buildings. But it was a  
19 tough situation then.

20 CHAIRMAN WILSON: Well, you were about --  
21 Commissioner Easley, did you have your question  
22 answered?

23 COMMISSIONER EASLEY: Not exactly, I'm not  
24 sure -- I think probably the new exhibit will answer  
25 part of that?



1 WITNESS CONNER: Repeat the question, please,  
2 so I can make sure we've covered it for you.

3 COMMISSIONER EASLEY: Well, I was trying to  
4 compare, if we are going to compare the square foot per  
5 employee, and I think it's a valuable comparison, what  
6 I was asking is the space for parking garage, for  
7 storage, that has been added, what was the number in  
8 '84, if you wanted to take it out on both sides, what  
9 would you take out. You've partially answered it in  
10 that there wasn't a parking garage.

11 COMMISSIONER GUNTER: I took that out, that  
12 dropped you to 575 square feet.

13 COMMISSIONER EASLEY: Per employee?

14 COMMISSIONER GUNTER: Yeah. I took out the  
15 parking garage.

16 COMMISSIONER EASLEY: Okay, I was just trying  
17 to figure out what would make it closer to apples to  
18 apples, using this exhibit, if it was possible to get  
19 there.

20 CHAIRMAN WILSON: I understood the thrust of  
21 your question to be comparing like space to like space

22 COMMISSIONER EASLEY: That's what I meant.

23 CHAIRMAN WILSON: -- and like function to like  
24 function, so that you could see, in fact, where  
25 increases have occurred or their efficiencies, where

1 those have occurred. Now, is that what we're going to  
2 see in this exhibit?

3 WITNESS CONNER: Commissioner, I will  
4 structure the exhibit that way and any other  
5 information you'd like on it. We've not been asked to  
6 do it that way before, and I think that would be very  
7 helpful in your analysis of it.

8 Additionally, I think it may -- it will point  
9 out things like the fact that nonutility represents  
10 34,000 square feet of that growth, Company-wide, and  
11 here again we've got that in this exhibit, but it's  
12 hard to ferret it out.

13 CHAIRMAN WILSON: Nonutility? Is in this --  
14 in the numbers?

15 WITNESS CONNER: Yes, sir.

16 COMMISSIONER GUNTER: Mr. Conner, now, let's  
17 make sure we understand. I use the Utility square  
18 footage --

19 WITNESS CONNER: I understand.

20 COMMISSIONER GUNTER: I have not used the  
21 nonutility. Did not use that at all. So that's heifer  
22 dust about the nonutility folks, except in some places  
23 you have nonutility people and you had no space  
24 allocated to them and when I started to look at it,  
25 that started to make me scratch my head.

1           My problem, Mr. Chairman, where we are, and I  
2 apologize for dragging this out, but this witness is  
3 going to be gone, we're going to be finished before  
4 this exhibit comes in, and if I don't understand it any  
5 better than I understand this one, one or two folks are  
6 in a heap of trouble, either you or me.

7           WITNESS CONNER: I think our late-filed can  
8 clarify it, make it simple.

9           I see now things I didn't realize you were  
10 trying to arrive at, and that is, if I can restate  
11 that, and I want to be sure I understand so that I can  
12 clarify it for you.

13           What I feel you're trying to arrive at is a  
14 comparison between 1984 and 1990 of the administrative  
15 areas of square foot per employee for utility space.

16           COMMISSIONER GUNTER: Not just  
17 administrative. I took out the generating stations  
18 because those are very static, but when you start  
19 talking about administrative, you know, one of the  
20 things, and don't be lulled --

21           CHAIRMAN WILSON: What do you want in  
22 addition to administrative?

23           COMMISSIONER GUNTER: I want all employees  
24 except for those that are located at the generating  
25 stations.

1           CHAIRMAN WILSON: Does that clarify it for  
2 you?

3           WITNESS CONNER: Yes, sir.

4           COMMISSIONER BEARD: I think what you'd  
5 better do, I may be wrong, but if you don't want to get  
6 jammed up, you may want to put a figure out there that  
7 says the amount of training space in '84, zero.  
8 Training space in '90, 20,000. Warehouse -- okay, now  
9 I don't know how you're going to do the third floor,  
10 I've seen it, okay. And that's, I guess, a combination  
11 of shop and warehouse.

12          WITNESS CONNER: Right.

13          COMMISSIONER BEARD: For a lack of a better  
14 word. I have a tough time calling the third floor of  
15 the Bayfront a warehouse, quite frankly, but you may  
16 better do that. It's just a sanity check, so something  
17 adds up to the bottom line down here.

18          WITNESS CONNER: Right.

19          COMMISSIONER GUNTER: Because there is, and  
20 one of the things, you know, like Commissioner Beard  
21 just said, training, zero, and training -- somebody  
22 better let us know how training was accomplished  
23 because you have training people on board during that  
24 time period and I know training took place. There is  
25 necessary training that you had to do. You're required

1 by law to do some of it.

2 COMMISSIONER EASLEY: Would it be helpful in  
3 what we're looking at -- it would seem to me, anyway,  
4 to be helpful because of some of the things outside the  
5 Bayfront building -- would it be helpful to know the  
6 change in numbers of customers between '84 and '90 and  
7 any population migration of those customers to some of  
8 these areas? Whether or not there was any population  
9 migration? Would it give me anything?

10 WITNESS CONNER: I don't think it would.

11 COMMISSIONER EASLEY: Probably not?

12 WITNESS CONNER: I'm not sure what you would  
13 try --

14 COMMISSIONER EASLEY: The only reason it  
15 occurred to me is that you have changed, where you've  
16 relocated some employees out into some of these service  
17 areas and you have -- there was a statement earlier  
18 that one of the sanity tests is the number of employees  
19 versus per customer. I was trying to make some more  
20 sense out of this, if we can.

21 COMMISSIONER BEARD: You have conflicting  
22 things besides population migration; I mean, you  
23 centralized security, then you decentralized it. You  
24 have organizational decisions.

25 COMMISSIONER EASLEY: If it won't help, I

1 wouldn't ask for it. I was just curious.

2 CHAIRMAN WILSON: Do you now understand what  
3 you need to do with that exhibit?

4 WITNESS CONNER: Yes, I do. And I think it  
5 will show the growth, and I can just run through real  
6 quickly some key things I think it will show, just to  
7 clarify that. Growth has occurred, and I've got nine  
8 areas and I'll just read them off without going through  
9 the figures, so that you can get a feel for where we're  
10 headed.

11 It will cover the line service growth, which  
12 is a function; it will cover warehouse growth at the  
13 general warehouse which also impacted because of the  
14 increases in security there, in limiting the number of  
15 people coming in and out of that warehouse area;  
16 relocating the general repair shop, general garage, and  
17 electric operation center. The substation buildings I  
18 feel like could probably be broken out in the  
19 divisions. That's not in the substations, that's the  
20 buildings out in the divisions.

21 COMMISSIONER GUNTER: You're talking about --  
22 there is only two substations that have people in them.  
23 One of them is the Fort Walton substation, and one of  
24 them is the Pine Forest substation.

25 WITNESS CONNER: And the Panama City

1 substation, also.

2 COMMISSIONER GUNTER: Okay. Those three are  
3 are the only ones that was employees at them.

4 WITNESS CONNER: Those are the only three we  
5 have that are buildings, they are called minor repair  
6 shops. That's a better term for them to avoid the  
7 confusion with actual substations themselves. They are  
8 minor repair shops for doing minor repair work on  
9 transformers, regulators and OCRs, and then the  
10 nonutility is not an issue, because we're going to  
11 break that out separate.

12 The division facilities growth in terms of  
13 offices, corporate office growth, Western Division  
14 office growth, and then the training growth. And I  
15 feel like if I could break it out into those areas that  
16 would clarify it, and allow you look at each of the  
17 functions and the respective growth.

18 Another way to look at it is to try to  
19 analyze what's happened in each area, and that was the  
20 other set of numbers that I was going to get into. I  
21 can just run through that briefly for you. The  
22 divisions have grown 20%, Pace Boulevard represents  
23 22%, and these are all the functions on Pace Boulevard  
24 which include the warehouse, the buildings moved out of  
25 the warehouse complex, the Western Division office and

1 the training function. Then the corporate office  
2 represents about 49% of the growth, and the nonutility  
3 was about 7-1/2 percent of the growth and you've  
4 already separated that out.

5 COMMISSIONER GUNTER: Yeah. Well, see, one  
6 of the things, between 1984 and 1990, by the figures  
7 that you provided me you've only had a growth of  
8 employees of 36 employees, and yet you're talking  
9 about, you know, substantial growth that I have to  
10 understand that. I'm just being as candid with you as  
11 I can.

12 One of the things that I would like to see  
13 would be '84 to '90, just a flat one number, numbers of  
14 customers in 1984, numbers of the customers in 1990.  
15 Sanity test at the bottom. You can put that in the  
16 last item on the sheet.

17 WITNESS CONNER: Would that be a Company  
18 number, Company total?

19 COMMISSIONER BEARD: Number of customers, the  
20 number of customers that you serve in 1984. Make it  
21 average, because you've got an average figure for 1990,  
22 and an average that you're projecting for 1990.

23 WITNESS CONNER: Right

24 COMMISSIONER GUNTER: Just at the bottom.

25 WITNESS CONNER: We wouldn't have an average



1 for the whole year of 1990.

2 COMMISSIONER GUNTER: Yeah, but you've got a  
3 projection in the MFRs that darn sure come right in and  
4 add all 12 of them up, divide by 12. I even learned to  
5 figure that much.

6 WITNESS CONNER: Okay.

7 CHAIRMAN WILSON: All right.

8 COMMISSIONER GUNTER: I'm just going to defer  
9 any further because it's getting more clouded as we go  
10 down the way.

11 CHAIRMAN WILSON: Any other questions?

12 COMMISSIONER GUNTER: No, that's it.

13 CHAIRMAN WILSON: Redirect? Have you  
14 finished? Mr. Palecki, do you have any other  
15 questions?

16 MR. PALECKI: We have no further questions.

17 CHAIRMAN WILSON: Mr. Vandiver, are you  
18 through?

19 All right, redirect?

20 MR. STONE: Yes, Commissioner, briefly, I  
21 hope.

22 REDIRECT EXAMINATION

23 BY MR. STONE:

24 Q Mr. Conner, you have testified to the  
25 utilization of the meeting rooms that are in existence

1 at the Company's corporate headquarters. Is it  
2 difficult to obtain meeting space at times in the  
3 corporate headquarters?

4 A Yes. It can become difficult. And again,  
5 that goes back to the demand situation, That if you're  
6 in a high use period, it can be. You can have trouble  
7 getting a room.

8 COMMISSIONER GUNTER: Who schedules those?  
9 Do you have one individual that schedules all of the  
10 activities?

11 WITNESS CONNER: In the corporate office  
12 building, yes, sir.

13 COMMISSIONER GUNTER: Who is that?

14 WITNESS CONNER: Her name is Patti Clevenger,  
15 she works in my department.

16 COMMISSIONER GUNTER: Oh, does she? All right.

17 Do you have a pecking order in there for who  
18 gets what? If Mr. McCrary calls you and says, "I want  
19 the conference room," do you run in there and tell  
20 everybody to get out?

21 WITNESS CONNER: He's never asked me to run  
22 anybody out of a conference room, but I would --

23 COMMISSIONER BEARD: But you would.

24 COMMISSIONER GUNTER: But you would, let's be  
25 honest about it. (Laughter)

1 CHAIRMAN WILSON: Nothing surprising about  
2 that.

3 COMMISSIONER GUNTER: Does he have a pecking  
4 order?

5 WITNESS CONNER: Commissioner, it's basically  
6 first come, first served.

7 COMMISSIONER GUNTER: Is it?

8 WITNESS CONNER: We try to encourage people  
9 to plan their meetings ahead and to reserve the  
10 appropriate-sized room for the appropriate-sized  
11 meeting.

12 COMMISSIONER GUNTER: Are they full all the  
13 time?

14 WITNESS CONNER: No, sir. We indicated that  
15 it was approximately 70% as far as utilization.

16 COMMISSIONER GUNTER: That is good  
17 utilization.

18 COMMISSIONER BEARD: That's 70% by Gulf Power  
19 for Gulf Power activities?

20 WITNESS CONNER: Yes, sir.

21 COMMISSIONER BEARD: That doesn't include  
22 somebody coming in at night to utilize it that's not  
23 Gulf Power?

24 WITNESS CONNER: Commissioner, it may include  
25 some of those meetings. We do allow the employees, if

1 an employee has a meeting -- excuse me. If an employee  
2 were a den leader of a Boy Scout troop, we allow them  
3 to use the building when it's not being utilized for  
4 business purposes. And I'd have to go back and  
5 double-check that number for you.

6 COMMISSIONER BEARD: What I'm asking you, 70%  
7 is a good figure, no question about that. But does  
8 that include den meetings?

9 WITNESS CONNER: Let me check it for you,  
10 just a second. (Pause) Commissioner, I'm going to  
11 have to verify that number for you. I have not  
12 personally checked this to see whether it includes  
13 meetings at night. We think it may include the  
14 meetings at night. What I don't know is whether it was  
15 divided by the appropriate number of hours with respect  
16 to that use and that's the problem you would have with  
17 it.

18 COMMISSIONER BEARD: Normally, you would  
19 figure, unless you had a linemen's training course you  
20 were doing at night, which sometimes people do, you  
21 normally would figure you'd divide by the nine hours of  
22 the day that I assume that you're open.

23 WITNESS CONNER: Right, including lunch.

24 COMMISSIONER BEARD: Yeah.

25 WITNESS CONNER: I know that at night

1 sometimes it's used for -- I believe the Troy State  
2 University teaches a class primarily for Gulf Power  
3 Company employees that want to do work towards their  
4 Masters Degree and that sort of thing that gets into  
5 maybe a little bit of a gray area as to most of the  
6 time. But --

7 COMMISSIONER BEARD: I can tell you when I  
8 was in that job, if I had had my training room full 70%  
9 of the time, the General Manager would have fired me  
10 because nobody would have been working.

11 WITNESS CONNER: These are meeting rooms in  
12 the corporate office.

13 COMMISSIONER BEARD: I understand what they  
14 are. I see it holds a lot of people.

15 Q (By Mr. Stone) Mr. Conner, you were asked a  
16 number of questions about the Pace Boulevard building  
17 and in some cases the questions referred to the Pace  
18 Boulevard site. When you make those distinctions, you  
19 are referring to two different areas, are you not?

20 A I'm referring to two different areas. They  
21 happen to be in the same geographical location. The  
22 Pace Boulevard building is a generic term referring to  
23 the building located at 75 North Pace Boulevard, that  
24 used to be the old general office.

25 The Pace Boulevard site is a generic term

1 that we use to describe the entire site at Pace  
2 Boulevard, which includes the old general office  
3 building, the old Western Division building, the  
4 general warehouse, and the other functions that are  
5 located there.

6 Q Are there other stand-alone buildings on the  
7 Pace Boulevard site besides the old general office  
8 building, which is out of the Western Division  
9 headquarters?

10 A Yes there are.

11 Q For example, I believe you cited the credit  
12 union as one, is that correct?

13 A The credit union is on that site and that is  
14 one of them. Also the general repair shop facility is  
15 located at that site.

16 Q You were asked about the meter test facility  
17 out at the Pine Forrest site. And I believe you  
18 indicated it's outside your area to describe all the  
19 activities that go on at the meter testing facility, is  
20 that correct?

21 A That is definitely correct.

22 Q Would you understand the distinction between  
23 a field test and a shop test of the customer's meter?

24 A I would not.

25 CHAIRMAN WILSON: Now wait a minute, even I

1 understand that.

2 COMMISSIONER BEARD: You should get your  
3 corporate people out in the field a little bit and let  
4 them know what's going on in the business.

5 Q (By Mr. Stone) Mr. Conner, what is your  
6 function in terms of what is your job title and what  
7 are you responsible for?

8 A I am Manager of General Services, I have  
9 responsibilities for the building planning, building  
10 operation and maintenance, and administrative services  
11 provided to the Company.

12 Q Who in the corporate hierarchy would be  
13 responsible for meter testing?

14 A That function falls, I believe, under the  
15 Western Division and would be supported by Power  
16 Delivery, which is Mr. Jordan's responsibility.

17 Q Thank you. What were the working conditions  
18 of the Company employees in 1984 in terms of their  
19 space and working environment?

20 A In 1984, it had improved a little bit over  
21 1982. 1982 was terrible. We were extremely crowded.  
22 I've covered that extensively in my direct testimony,  
23 going through those details.

24 In 1984, we had occupied in temporary office  
25 spaces, some of the houses we had moved into were

1 marginal at best for use as office space. And we just  
2 simply got by until we could achieve construction and  
3 occupancy of the corporate office building.

4 MR. STONE: I have no further questions. Mr.  
5 Chairman, we would like to have those photographs  
6 identified by exhibit number.

7 CHAIRMAN WILSON: We will give those Exhibit  
8 No. 623. I will give those to the court reporter.

9 (Exhibit No. 623 marked for identification.)

10 Whose exhibit is 621, is that Staff's?

11 COMMISSIONER GUNTER: Yes.

12 CHAIRMAN WILSON: Do you want to move that?

13 MR. VANDIVER: Yeah, I need to move it, I  
14 guess.

15 CHAIRMAN WILSON: All right, 621 without  
16 objection is entered into evidence. And the remainder  
17 are late-filed, is that right?

18 And 623, which is the photographs, do you  
19 want to move those?

20 MR. STONE: Please.

21 CHAIRMAN WILSON: Without objection, those  
22 are admitted into evidence.

23 (Exhibit Nos. 621 and 623 entered into  
24 evidence.)

25 CHAIRMAN WILSON: Thank you, Mr. Conner, you



1 may be excused. Call your next witness.

2 (Witness Conner excused.)

3 - - - - -

4 MR. HOLLAND: Mr. Chairman, as I announced, I  
5 believe it was on Tuesday, Mr. Bell needs to get on  
6 today. And I've talked to Counsel or Public Counsel  
7 and the Staff and they have no objection to us taking  
8 him out of order.

9 CHAIRMAN WILSON: Fine. Let's go ahead and  
10 put him on now.

11 CHAIRMAN WILSON: Have you been sworn?

12 WITNESS CONNER: Yes, I have.

13 MARK R. BELL

14 was called as a rebuttal witness on behalf of Gulf  
15 Power Company and, having been previously sworn,  
16 testified as follows:

17 DIRECT EXAMINATION

18 BY MR. HOLLAND:

19 Q Mr. Bell, you have previously testified in  
20 this docket, have you not?

21 A Yes I have.

22 Q And have you caused to be filed rebuttal  
23 testimony entitled, "The Rebuttal Testimony of Mark R.  
24 Bell"?

25 A Yes, I have.

1           Q     If I were to ask you the questions contained  
2 in your testimony today, would your answers be the  
3 same?

4           A     They would be the same.

5           MR. HOLLAND: Mr. Chairman, we'd ask that Mr.  
6 Bell's testimony be inserted into the record as though  
7 read.

8           CHAIRMAN WILSON: Without objection, his  
9 testimony will be so inserted.

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1                    GULF POWER COMPANY  
2       Before the Florida Public Service Commission  
3                    Rebuttal Testimony of  
4                    Mark R. Bell  
5                    In Support of Rate Relief  
6                    Docket No. 891345-E1  
7                    Date of Filing May 21, 1990

8 Q.    Would you please state your name, business address, and  
9        occupation?

10 A.    My name is Mark R. Bell, and I am a partner in Arthur  
11       Andersen & Co., a firm of independent public  
12       accountants, at 133 Peachtree Street, N.E., Atlanta,  
13       Georgia, 30303.

14 Q.    Mr. Bell, have you previously submitted testimony in  
15       this proceeding?

16 A.    Yes. I submitted prefiled direct testimony on my  
17       independent review of the financial forecast used by  
18       the Company in this rate proceeding.

19 Q.    What is the purpose of your rebuttal testimony?

20 A.    The purpose of my rebuttal testimony is:

- 21       - To comment on certain issues related to the operation  
22       and maintenance (O & M) expense budgeting process which  
23       were raised by Mr. Helmuth W. Schultz III in his  
24       testimony filed on behalf of the Office of Public  
25       Counsel.  
26       - To explain why Mr. Schultz fails in his attempt to

1       discredit the Company's budgeting process based on the  
2       examples cited in his testimony.

3       - To point out specific errors or inaccuracies in the  
4       comments or proposals suggested by Mr. Schultz with  
5       respect to the Company's budgeting process or budgeted  
6       amounts specifically related to the Employee Relations  
7       and labor budgets.

8

9       Q.   Mr. Bell, are you familiar with Mr. Schultz's  
10       description of how the Company's O & M budget was  
11       developed?

12       A.   Yes, I am.

13

14       Q.   Do you agree with Mr. Schultz's description of that  
15       process?

16       A.   No, not entirely. In his description of the budget  
17       process, Mr. Schultz has omitted several components.  
18       He does not include important steps such as the review  
19       of planning unit documentation performed by planning  
20       unit directors, the approval process by the appropriate  
21       vice-presidents, and the review of each planning unit  
22       budget for compliance with budget procedures and  
23       completeness performed by the Corporate Planning  
24       Department.

25

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1 Q. Are there any other steps in the budget process which  
2 Mr. Schultz has not identified?

3 A. Yes. On page 4 of his testimony, Mr. Schultz states,  
4 "After the planning units prepare their budgets, the  
5 budgets are submitted to the O & M Review Committee for  
6 approval. The budgets are then provided to the Budget  
7 Committee for final approval." This description omits  
8 an extremely important step in the O & M budgeting  
9 process related to the responsibilities of the O & M  
10 Review Committee. Before the planning units' budgets  
11 are submitted to the Budget Committee for final  
12 approval, the O & M Review Committee specifically  
13 reviews each planning unit's requests and each  
14 corporate controlled budget amount. A representative  
15 of the planning unit is present during this specific  
16 review and must be able to provide explanations to the  
17 Committee which support budgeted amounts for which the  
18 planning unit is responsible. During this process, the  
19 Committee reviews the activity analyses provided by the  
20 planning units, along with a three-year historical  
21 budget-to-actual variation analysis. The planning unit  
22 must be able to explain any budget requests which seem  
23 unusual in light of prior year budget-to-actual  
24 variances. This detailed scrutiny of the planning  
25 units' budget support is an extremely important

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1 component of the budget preparation and review process  
2 but is not included in Mr. Schultz's summary of the  
3 O & M budget process.

4  
5 Q. Mr. Bell, in his testimony, Mr. Schultz expresses  
6 general reservations about the credibility of the  
7 Company's O & M budget process and his concerns that  
8 certain of the Company's O & M budget procedures are  
9 not proper. Did your independent review of the  
10 Company's forecast support Mr. Schultz's concerns?  
11 A. No, it did not. As I stated in my prefiled direct  
12 testimony, it is my opinion that the Company's  
13 financial forecasting system conforms with the American  
14 Institute of Certified Public Accountants (AICPA)  
15 guidelines for preparing a financial forecast, is  
16 adequate for its purpose, is complete and logically  
17 founded, and can be relied upon to produce consistent,  
18 reliable results based upon the stated assumptions. As  
19 a result of the work performed by me or under my  
20 supervision, I concluded that the 1990 O & M budget was  
21 prepared based on the forecasting procedures as  
22 established by the Company. During my review, I noted  
23 no evidence that supports Mr. Schultz's position that  
24 the Company's O & M budget procedures include any  
25 weakness that "lessens the credibility" of the

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1 Company's budgeting process.

2

3 Q. Mr. Schultz states on page 4 of his testimony that the  
4 Company's procedures with respect to preparing the  
5 O & M budget "appear to have been followed" but then  
6 states "I do not believe the Company's reference levels  
7 are properly developed." Do you agree with his  
8 statement with respect to the reference levels?

9 A. No, I do not.

10

11 Q. Please explain.

12 A. First, Mr. Schultz may not fully understand the concept  
13 of the O & M budget reference level. As stated in  
14 Mr. Gilbert's rebuttal testimony, the O & M reference  
15 level is a level of O & M expenses established by the  
16 Budget Committee each year for use in determining the  
17 amount of documentation required to be submitted to the  
18 Budget Committee for review in the budget approval  
19 process. The reference level should be seen as a means  
20 to improve efficiency and effectiveness of the budget  
21 process. It is not, and should not be construed as, a  
22 rigid requirement based on an inflexible formula to be  
23 blindly computed by management without considering the  
24 specific facts and current circumstances.

25 Secondly, Mr. Schultz specifically cites several

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1 examples relating to 1989 reference levels which he  
2 believes support his assertion that the reference  
3 levels were not properly developed. He believes that  
4 errors in the 1988 budget, which affected the 1989  
5 reference levels, ultimately "flow into" the 1990  
6 budget. As discussed more fully in Mr. Gilbert's  
7 rebuttal testimony, Mr. Schultz fails to recognize that  
8 the adjustments made to those reference levels were  
9 proper adjustments to either correct errors in  
10 previously computed reference level amounts (such as  
11 the miscalculation of Employee Relations reference  
12 level related to employee group insurance) or to  
13 incorporate changes in circumstances to more accurately  
14 reflect expected expenditures in the forecast period  
15 (such as the repeal of Florida's state sales tax on  
16 services and the transfer of corporate office building  
17 expenses out of "Corporate-controlled" costs). Thus,  
18 these adjustments actually enhance the credibility of  
19 Gulf's budgeting process.

20

21 Q. Mr. Bell, you reviewed the Company's 1989 O & M budget  
22 in connection with the Company's 1988 retail rate case  
23 filing. In your review of the Company's 1989 O & M  
24 budget, did you note any changes to the reference  
25 levels originally communicated to the planning units?



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1 A. Yes, I did. In my review of the Employee Relations  
2 planning unit budget support, I noted that the 1989  
3 reference level was improperly stated on the original  
4 Resource Summary due to an error in computing the  
5 reference level as described by Mr. Gilbert in his  
6 rebuttal testimony. I also noted that the actual 1989  
7 reference level used in the 1989 budget process  
8 properly reflected the correction of that error.  
9

10 Q. Do you believe that the change the Company made to the  
11 Employee Relations reference level indicates that the  
12 Company's reference levels were improperly developed or  
13 that such modifications affect the use of the Company's  
14 budget as the source for test year data used to  
15 establish rates?

16 A. No. As stated in my prefiled direct testimony, my  
17 review of the Company's financial forecast was designed  
18 to ensure that the Company's forecasting system meets  
19 the relevant professional standards as prescribed by  
20 the AICPA. Those standards require that the process  
21 used to develop the financial forecast provide for  
22 "seeking out the best information that is reasonably  
23 available at the time" and that "information used in  
24 preparing financial forecasts should be consistent with  
25 the plans of the entity." Based on these

3/08

1 authoritative guidelines, the changes made by the  
2 Company to its O & M reference levels were not only  
3 appropriate, but were in fact required, to make the  
4 forecast properly reflect the best information  
5 available and the intentions of management. In my  
6 opinion, modifications to the reference levels to  
7 reflect known errors or changes in circumstances serve  
8 to increase rather than lessen the credibility of the  
9 Company's budgeting process.

10

11 Q. Mr. Schultz notes on page 5 of his testimony that only  
12 one of the five "modifications" to reference levels was  
13 outlined in the Company's Budget Message. Do you  
14 believe that this is a weakness in the Company's  
15 budgeting process?

16 A. No. As I stated above, the Company's responsibilities  
17 with respect to developing a proper forecast include  
18 the requirement to use the best information available  
19 at the time. Over the course of the process, facts and  
20 circumstances may change and those changes should be  
21 addressed in the final budget. Allowing properly  
22 documented changes in budget information to reflect  
23 known facts or circumstances, especially to correct  
24 known errors in or misstatements of budget data,

25

1 is certainly not a weakness in the forecasting system.

2

3 Q. On page 15 of his testimony, Mr. Schultz states that  
4 "if the Company happens to be over or under the budget  
5 which had been established at a certain level in the  
6 prior year, the reference level could remain unadjusted  
7 and would not reflect any over or under budgeting in  
8 the prior year." Do you agree with this statement?

9 A. No. As Mr. Gilbert explains in his rebuttal testimony,  
10 and as I mentioned previously in this testimony, the  
11 reference level is used to determine the level of  
12 documentation required to be submitted to the O & M  
13 Budget Review Committee to support the planning units'  
14 budgets and not as a starting point in developing the  
15 budget. Budget variance reports which quantify  
16 historical differences between actual and budgeted  
17 expenses are used by management of each planning unit  
18 to develop their current year budgets. Also, as I  
19 previously mentioned in describing the responsibilities  
20 of the O & M Budget Review Committee, the review of  
21 historical budget-to-actual results is an important  
22 step in the O & M budget review process. The O & M  
23 Budget Review Committee is provided a three-year  
24 historical budget-to-actual report for use in its  
25 review of the planning units' budget requests and

1 activity analyses. The planning unit must be able to  
2 explain any budget requests which seem unusual in light  
3 of variations between historical budgeted and actual  
4 amounts. This part of the budget review process  
5 mitigates the risk that prior year actual-to-budget  
6 variations may not be considered in the current  
7 reference level and may therefore "carryover" to future  
8 budgets.

- 9
- 10 Q. On page 13 of his testimony, Mr. Schultz proposes an  
11 adjustment to the Company's O & M budget related to the  
12 employee complement. He uses an annualized wage rate  
13 based on 1989 actual wages to compute his adjustment.  
14 Do you agree with his use of this average wage rate?
- 15 A. No. I do not believe that it is reasonable to assume  
16 that the average salary of all employees of the Company  
17 at any point in time would approximate the average  
18 salary related to normal vacancies. Normal vacancies  
19 generally do not include many upper-management  
20 positions which would have higher salaries; therefore,  
21 the actual average salary of the Company's employees  
22 would generally be higher than the average salary for  
23 the vacant positions. Once again I refer to the AICPA  
24 forecast guideline which requires "seeking out the best

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1 information that is reasonably available at the time."  
2 I believe that use of an average salary based on the  
3 budgeted salaries of currently vacant positions would  
4 more accurately reflect the best information available  
5 for computing this adjustment.

6  
7 Q. Mr. Bell, on page 14 of his testimony Mr. Schultz  
8 states that the election of some planning units not to  
9 use the Company's model for determining budgeted  
10 payroll shows "there is a lack of consistency in the  
11 operation of the Company's formal budgeting process."  
12 Do you agree with this observation?

13 A. No. As Mr. Gilbert discusses in his rebuttal  
14 testimony, the labor model to which Mr. Schultz refers  
15 is merely a tool offered to the planning units to  
16 assist in the clerical calculation of their labor  
17 budgets. It is by no means a required part of the  
18 Company's "formal budgeting process" and is no more  
19 accurate than other methods that may be employed to  
20 calculate labor budget amounts. In my opinion, the  
21 decision by the various planning units to use or not  
22 use that specific labor model has no impact on the  
23 accuracy or credibility of the Company's labor budget  
24 and does not result in an inconsistency in the  
25 Company's forecasting methodology.

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1 Q. Do you have any further comments with respect to the  
2 matters related to the budget process raised by  
3 Mr. Schultz?

4 A. Yes. In my opinion, the inferences made by Mr. Schultz  
5 with respect to the credibility of the Company's  
6 budgeting process are without merit. Mr. Schultz has  
7 failed to recognize certain key steps in the O & M  
8 budget process and has attempted to discredit the  
9 entire budgeting process using isolated examples that  
10 are not supported by the facts. In fact, the  
11 modifications made in the budget process referred to by  
12 Mr. Schultz serve to enhance, rather than lessen, the  
13 credibility of the budget process. In summary, I want  
14 to repeat my conclusion, based on my review of the  
15 Company's entire financial forecasting system, that the  
16 system conforms with relevant professional standards,  
17 is adequate for its purposes, is complete and logically  
18 founded, and can be relied upon to produce consistent,  
19 reliable results based on the assumptions.

20

21 Q. Does this conclude your testimony?

22 A. Yes.

23

24

25

1 Q (By Mr. Holland) Mr. Bell, have you prepared  
2 a summary of your testimony?

3 A Yes, I have.

4 Q Would you please proceed?

5 A Yes.

6 My rebuttal relates to the statements made by  
7 Mr. Schultz on the budgeting process. The comments  
8 made by Mr. Schultz regarding the lack of the  
9 credibility of the Company's budgeting process are  
10 without merit. The modifications made in the budgeting  
11 process referred to by Mr. Schultz, in my judgment,  
12 enhance rather than lessen the credibility of the  
13 process.

14 The Company's budgeting process conforms to  
15 relevant professional standards, is complete and  
16 logically founded, and produces consistent, reliable  
17 results.

18 Finally, regarding Issue 38 and specifically  
19 the Commission Staff audit, we have conducted numerous  
20 thorough audits of Gulf Power. It is my professional  
21 opinion that the system of internal controls and the  
22 plant accounting system are adequate and appropriate.  
23 Further, I believe the management of Gulf Power acted  
24 prudently in the investigation of and correction of  
25 irregularities.

1 That concludes my comments.

2 MR. HOLLAND: Tender Mr. Bell.

3 MR. HALE: We have no questions.

4 MR. PALECKI: Staff has no questions.

5 CHAIRMAN WILSON: Questions, Commissioners?

6 No questions? Thank you very much. No redirect,  
7 obviously?

8 MR. HOLLAND: None.

9 CHAIRMAN WILSON: Thank you very much.

10 (Witness Bell excused)

11 - - - - -

12 CHAIRMAN WILSON: Next witness?

13 MR. HOLLAND: Call Mr. Scarbrough.

14 ARLAN E. SCARBROUGH

15 having been previously duly sworn as a witness on  
16 behalf of Gulf Power Company, was called as a rebuttal  
17 witness, and testified as follows:

18 DIRECT EXAMINATION

19 BY MR. HOLLAND:

20 Q Mr. Scarbrough, are you ready?

21 A Yes.

22 Q Mr. Scarbrough, have you previously been  
23 sworn and testified in this proceeding?

24 A Yes.

25 Q And have you caused to be filed testimony



1 entitled "The Rebuttal Testimony of Arlan E.  
2 Scarbrough"?

3 A Yes, I have.

4 Q Do you have any additions or corrections to  
5 that testimony?

6 A Yes.

7 Q Could you --

8 A On Page 34, Page 34, Line 4, change "new  
9 plant," to "production-related A&G."

10 And on Page 35, Line 8, change \$151,288 to  
11 \$126,566. (Pause)

12 Q Does that complete your corrections?

13 A That concludes my corrections, yes, sir.

14 Q With those corrections, if I were to ask you  
15 the questions today that are contained in your  
16 testimony, would your answers be the same?

17 A Yes.

18 MR. HOLLAND: Mr. Chairman, we'd ask Mr.  
19 Scarbrough's testimony be inserted into the record as  
20 though read.

21 CHAIRMAN WILSON: Without objection, his  
22 testimony will be inserted into the record as though  
23 read.

24 MR. HOLLAND: I believe Mr. Scarbrough's  
25 rebuttal exhibits have been premarked and stipulated

1 to.

2 (Exhibit No. 19 previously stipulated into  
3 evidence.)

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GULF POWER COMPANY

Before the Florida Public Service Commission  
Rebuttal Testimony of  
Arlan E. Scarbrough  
In Support of Rate Relief  
Docket No. 891345-E1  
Date of Filing May 21, 1990

Q. Are you the same Arlan E. Scarbrough who testified  
earlier in this proceeding?

A. Yes, I am.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to rebut the testimony  
of Ms. Bass, Mr. Larkin, Mr. Seery, and Mr. Schultz  
and positions taken by them with respect to the  
issues raised in this proceeding.

Q. Have you prepared an exhibit that contains  
information to which you will refer in your  
testimony?

A. Yes.

Counsel: We ask that Mr. Scarbrough's  
Exhibit (AES-2), comprised of  
1 schedule, be marked as  
Exhibit 19.

Q. Mr. Scarbrough, Ms. Bass has recommended that a

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1 return on equity penalty be imposed on the Company  
2 for mismanagement. Do you agree?

3 A. No. Mr. McCrary has clearly shown that an equity  
4 penalty is not justified. The fact is, we have been  
5 and currently are being financially penalized as a  
6 result of the various investigations. Obtaining rate  
7 relief adequate to maintain our financial integrity  
8 has been delayed at least a year as a result of our  
9 voluntary dismissal of the 1989 rate case. For 1989,  
10 our jurisdictional return on equity was 10.81  
11 percent. Now, even granting the full requested  
12 increase in this case will result in the Company  
13 earning only 9.47 percent jurisdictional return on  
14 equity for 1990. As I stated on pages 9 - 11 in my  
15 direct testimony, and as shown on Schedule 12 of my  
16 exhibit (AES-1), the rating agencies are extremely  
17 concerned about the Company's financial position.  
18 Failure of the Company to obtain rate relief  
19 sufficient to earn a reasonable return on equity in  
20 this proceeding will only worsen the situation. If  
21 this occurs, not only will the Company and its  
22 shareholders suffer, but our customers will suffer as  
23 well from higher financing costs in the future.

24  
25 Q. On page 22, line 11, Mr. Larkin has recommended the

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1 disallowance of the acquisition adjustment related to  
2 Plant Scherer common facilities. Please discuss this  
3 transaction.

4 A. The Commission should consider the value received for  
5 the dollar paid in determining the appropriate amount  
6 to approve for recovery. Effective November 19,  
7 1987, Gulf Power Company purchased production plant  
8 facilities common to all four units commensurate with  
9 its previously acquired 25 percent ownership position  
10 in Unit #3 of Plant Scherer. Georgia Power Company  
11 sold their undivided ownership in Plant Scherer  
12 Common Facilities to Oglethorpe Power Corporation and  
13 Dalton in 1980 and 1977, respectively. In addition,  
14 Oglethorpe and Dalton incurred subsequent  
15 construction expenditures and carrying costs until  
16 the date of the sale to Gulf. Gulf Power Company  
17 purchased 6.25 percent (.25 units x .25 ownership in  
18 one unit) of the common facilities from Oglethorpe  
19 Power Corporation and the City of Dalton for  
20 \$25,841,510 and \$3,290,340, respectively.

21  
22 Q. How is the purchase of common facilities recorded on  
23 the Company books?

24 A. We recorded the purchase according to the guidelines  
25 prescribed in Electric Plant Instruction No. 5. This

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1 rule requires that, when an electric plant  
2 constituting an operating unit or system is acquired  
3 by purchase, the costs of acquisition, including  
4 expenses incidental thereto properly includible in  
5 electric plant, be charged to Account 102, Electric  
6 Plant Purchased or Sold. The accounting for the  
7 acquisition is completed as follows:

8 (1) The original cost of plant, estimated if  
9 not known, is credited to Account 102, Electric Plant  
10 Purchased or Sold, and concurrently charged to the  
11 appropriate electric plant-in-service accounts.

12 (2) The depreciation and amortization  
13 applicable to the original cost of the properties  
14 purchased is charged to Account 102, Electric Plant  
15 Purchased and Sold, and concurrently credited to the  
16 appropriate account for accumulated provision for  
17 depreciation or amortization.

18 (3) The amount remaining in Account 102,  
19 Electric Plant Purchased or Sold, is then closed to  
20 Account 114, Electric Plant Acquisition Adjustments.  
21

22 Q. What does the acquisition adjustment of \$8,680,507  
23 represent?

24 A. The \$8,680,507 acquisition adjustment amount is made  
25 up of three components: interest on carrying cost in

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1 the amount of \$4,865,444, Accumulated Depreciation  
2 \$3,796,376, and A & G Cost (legal) in the amount of  
3 \$18,687.

4 Electric Plant Instruction No. 5 in the Code of  
5 Federal Regulations states that "the depreciation and  
6 amortization applicable to the original cost of  
7 properties purchased shall be charged to Account 102,  
8 Electric Plant Purchased or Sold." It was necessary  
9 for the Company to re-compute the accumulated depreciation  
10 reserve balance for the following reasons:

11 (1) City of Dalton carried no depreciation on  
12 their books,

13 (2) Oglethorpe Power Corporation vintaged the  
14 majority of original cost of common facilities in year  
15 1984; whereas, the correct in-service date for the  
16 facilities was 1982, and

17 (3) If the Company had used the data as submitted  
18 by Oglethorpe Power Corporation and Dalton, the ~~Florida~~ <sup>Florida</sup>  
19 Public Service Commission (FPSC) would re-allocate the  
20 accumulated depreciation reserve using Gulf's rates to  
21 be filed in its next Depreciation Study in 1991. The  
22 reason for this re-allocation is because the  
23 accumulated depreciation reserve would have been  
24 understated by using Oglethorpe's and Dalton's reserve  
25 balance.

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1           The acquisition adjustment of \$8,680,507 was  
2       recorded in accordance with the Plant Accounting  
3       Instructions applicable to this purchase. The  
4       Federal Energy Regulatory Commission (FERC) accepted  
5       the Company's proposal to clear Account 102, Electric  
6       Plant Purchased or Sold, including depreciation, on  
7       November 2, 1988.

8           The purchase of the common facilities was in  
9       accordance with the agreement to purchase a  
10      25 percent interest in Plant Scherer Unit #3. The  
11      \$8.7 million is a prudent cost relating to Plant  
12      Scherer and should be included in rate base. To  
13      illustrate this point and the significant value to  
14      our customers, it is estimated that Plant Scherer's  
15      Unit #3 depreciated book cost for 1990 will be \$760  
16      per kw, which is well under the \$1,163 estimated per  
17      kw cost to construct a new coal unit in 1990, a  
18      savings of approximately \$85.4 million.

19  
20   Q. On page 23, Mr. Larkin states that the acquisition  
21      adjustment "artificially inflates the cost to be  
22      borne by ratepayers. In this instance, the benefit  
23      flows to the Southern Company through Georgia's  
24      Power's inflation of the purchase price which Gulf  
25      paid for the Scherer Unit." Is this a fair



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1        characterization of these transactions?

2        A. Absolutely not. There was no net book gain or  
3        economic gain to Georgia Power Company or Southern  
4        Company related to the purchase of Plant Scherer  
5        Unit #3 or any of the related common facilities  
6        purchased by Gulf from Oglethorpe and Dalton.

7  
8        Q. The issue of accounting for the Caryville "sod farm"  
9        has been raised by staff. How does Gulf account for  
10       the "sod farm"?

11       A. Gulf's revenues and expenses from the Caryville "sod  
12       farm" are recorded in Account 417 - Revenues from  
13       Non-Utility Operations 'below the line' on the books  
14       and records of the Company. Income Taxes are  
15       recorded in Account 409-2 Income Taxes - Other Income  
16       and Deductions and Payroll Taxes are recorded in  
17       Account 408-2 Taxes Other Than Income Taxes - Other  
18       Income and Deductions. The investment in the trailer  
19       and equipment is recorded in Account 121 - Non-Utility  
20       Property and the lease payment for use of the land  
21       paid by the sod farm to Gulf is credited to the  
22       electric department Account 455 - Interdepartmental  
23       Rents.

24  
25       Q. The issue of allocating all of the appropriate

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1 investment and expenses to its appliance division has  
2 been raised by staff. How does Gulf allocate the  
3 investment and expenses to its appliance division?

4 A. Gulf records all merchandising revenues and expenses  
5 as well as the income and payroll taxes of the  
6 Appliance Sales and Service operation 'below the  
7 line.' The rate base is adjusted to remove the  
8 investment in plant and equipment related to  
9 merchandising.

10

11 Q. Mr. Larkin has proposed the disallowance of all of  
12 Gulf's investment in the Tallahassee Office. Is this  
13 appropriate?

14 A. No. All of the State agencies that regulate Gulf  
15 Power are located in Tallahassee. The Tallahassee  
16 office is routinely and regularly used as office  
17 space and conference facilities by Company employees  
18 and representatives who participate in Commission or  
19 other governmental hearings, workshops, meetings, or  
20 other activities which occur in the State's capital  
21 city. For example, in 1988 there were over 50  
22 occasions when more than 65 individual Gulf employees  
23 or representatives, other than Mr. Henderson or Mr.  
24 Connell, were involved in hearings, meetings, and  
25 workshops with PSC Staff. This does not include the

1 use of the office by other Gulf employees who were  
2 meeting with staffs of the Departments of Revenue,  
3 Environmental Regulation, Natural Resources, etc.  
4 Moreover, none of Mr. Connell's work involves  
5 lobbying, and much of what Mr. Henderson does out of  
6 this office does not constitute lobbying. These  
7 facilities are used primarily for regulatory and  
8 other administrative work, and are properly included  
9 in rate base as a reasonable and prudent utility  
10 investment. In the interest of removing unnecessary  
11 controversy from this docket, we have agreed to  
12 remove 25 percent of the office space allocated to  
13 Mr. Henderson's location from rate base. The  
14 remaining investment should be allowed.

15  
16 Q. Is Mr. Larkin's adjustment to exclude prepaid pension  
17 cost justified?

18 A. No. In 1988, the Company recorded \$1,385,000 of  
19 pension expense on its books. This amount was  
20 calculated using the "projected unit credit"  
21 actuarial method that is required by the Financial  
22 Accounting Standards Board (FASB) Statement No. 87.  
23 However, the Company is allowed under section 404 (a)  
24 (6) of the Internal Revenue Code to claim a larger  
25 tax deduction for the 1987 tax year if the

1 actuarially determined maximum tax deduction for the  
2 1987 year is funded to the plan prior to September  
3 15, 1988. The Company decided to take advantage of  
4 this provision to maximize the tax deduction (based  
5 on the higher 1987 Federal income tax rates) and,  
6 therefore, funded an amount in excess of the expense  
7 determined for book purposes in order to secure the  
8 increased tax deduction. The prepayment included in  
9 working capital is the thirteen month average of the  
10 difference between the amount funded and the amount  
11 expensed. The customer receives the benefit of the  
12 related deferred taxes in the capital structure.  
13 This was a prudent decision by the Company and the  
14 prepayment should be included in working capital.

15

16 Q. Beginning on page 50, Mr. Schultz talks about  
17 non-recurring expenses for rebuilds. Has the  
18 Commission addressed the issue of capitalizing versus  
19 expensing in a generic docket?

20 A. Yes. In 1984, the Commission opened Docket  
21 No. 840204-EI to address the broad spectrum of  
22 retirement units and the issue of capitalizing versus  
23 expensing. A recommendation was made that an  
24 approved list of retirement units be developed for  
25 the electric utilities in Florida.

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1           This process was completed when the Florida  
2           Administrative Code was updated to include the new  
3           procedures in the Revision dated August 1987. A list  
4           of Retirement Units (Electrical Plant) was also  
5           issued in 1987 by the FPSC. We believe that the  
6           Company is in compliance with the rules for expensing  
7           versus capitalizing addressed in Docket  
8           No. 840204-EI. To follow the recommendations of  
9           Mr. Schultz would be in direct conflict with FPSC and  
10          FERC Rules and Procedures.

11

12   Q.   Are the Rules of the FERC and FPSC specific on  
13          retirement unit accounting and expensing versus  
14          capitalizing?

15   A.   Yes. In the maintenance instruction contained in the  
16          FERC Section of the Code of Federal Regulations, Item  
17          3 provides that work performed specifically for the  
18          purpose of preventing failure, restoring  
19          serviceability or maintaining life of plant is  
20          chargeable to expense, not plant. Item 8 in the same  
21          section states that replacing or adding minor items  
22          of plant which do not constitute a retirement unit is  
23          an expense process.

24

25   Q.   On page 50 of Mr. Schultz's testimony, he has

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1 recommended that certain items be capitalized rather  
2 than charged to operation and maintenance expenses.  
3 Please address this recommendation.

4 A. As indicated in Mr. Schultz's testimony on page 50,  
5 Gulf has begun rebuilding its heavy line vehicles.  
6 Prior to Gulf performing this work, an outside  
7 contractor would perform the work for Gulf. The  
8 outside contractor would replace the cab and chassis  
9 of the vehicle, a retirement unit for Gulf, and  
10 reinstall the old hydraulic lift systems. The cost  
11 of the new cab and chassis was capitalized and the  
12 replaced cab and chassis were retired. Currently,  
13 the work performed by Gulf involves the replacement  
14 of items such as transmissions and brakes or the  
15 rebuilding of engines, etc.; all of which involve the  
16 replacement of less than a retirement unit. The FPSC  
17 Rule that addresses this situation is Rule 25-6.0142  
18 of the Florida Administrative Code which states:

19 When a minor item is replaced independently  
20 of the retirement unit of which it is a part,  
21 the cost of replacement shall be charged to the  
22 maintenance account appropriate for the item,  
23 except that if the replacement affects a  
24 substantial betterment (the primary aim of  
25 which is to make the property affected more  
useful, more efficient, of greater durability,  
or of greater capacity) the excess cost of the  
replacement over the estimated cost at current  
prices of replacing without betterment shall be  
charged to the appropriate plant account.

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1           Since the rebuilding process simply replaces  
2       minor items of property on the vehicles in question,  
3       the process is nothing more than maintenance under  
4       the above rule. A retirement unit for Gulf relating  
5       to vehicles, except as noted, is generally nothing  
6       short of the entire vehicle. Special bodies,  
7       truck-mounted hydraulic systems, air compressors, and  
8       etc., are treated as retirement units when  
9       transferred from one vehicle to another or retired  
10      from service. The cost of replacing any item less  
11      than a complete vehicle or the above mentioned items  
12      are properly chargeable to the automotive clearing  
13      account which is then allocated to Operation and  
14      Maintenance (O & M) expenses or capitalized based on  
15      vehicle usage.

16  
17   Q.   Is Mr. Schultz's proposed adjustment of Operation and  
18       Maintenance expense in the amount of \$116,500 related  
19       to vehicle rebuilds proper?

20   A.   No. As I have stated earlier, Gulf is accounting for  
21       the work being performed in accordance with FERC  
22       System of Accounts which has been adopted by this  
23       Commission. Mr. Schultz's adjustment proposes  
24       accounting treatment contrary to the Commission's  
25       accounting regulations.

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1 Q. Is there any basis for Mr. Schultz's concern that  
2 "the rebuilds are expensed and also included in the  
3 absorption rate"?

4 A. No. The operation and maintenance costs of vehicles  
5 are charged into clearing accounts since the vehicles  
6 are used for various jobs, many of which may have  
7 different account classifications. The costs are  
8 then cleared to the proper Operation and Maintenance  
9 or Capital Account by applying an absorption factor  
10 based on the actual mileage or hours used.

11 The costs of minor component rebuilding of the  
12 heavy equipment are treated as any other vehicle  
13 maintenance cost and are charged to the clearing  
14 account. These costs are included when developing  
15 the absorption rate and are cleared by applying that  
16 rate. There is no "double-counting" of these  
17 expenditures.

18  
19 Q. On page 84 of Mr. Schultz's testimony, he has  
20 recommended that certain recurring expenses relating  
21 to Underground Network System Repair be capitalized  
22 rather than charged to Operation & Maintenance  
23 expenses. Please address this recommendation.

24  
25 A. Mr. Schultz indicates plant in service should be



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1 increased by \$90,000 for the "remanufacturing" of  
2 network protectors and maintenance of network  
3 transformers. As I indicated previously in my  
4 testimony relating to truck rebuilds, the FPSC rule  
5 that relates to this situation is Rule 25-6.0142 of  
6 the Florida Administrative Code. Since the  
7 "remanufacturing process" simply replaces minor items  
8 of property on each of the 22 network protectors, the  
9 process is nothing more than maintenance under the  
10 above rule. Remanufacturing is synonymous with  
11 maintenance, as are other words used in the electric  
12 industry such as renovate, revitalize, restore,  
13 update, modify, refurbish, overhaul and the like.

14 In Docket No. 830525-EI, Generic Investigation of  
15 Production Plant Increases, the FPSC was very  
16 specific about their concerns regarding capitalizing  
17 projects that relate to maintenance. In its  
18 Memorandum dated February 7, 1985, the FPSC Staff  
19 stated in Item 5,

20 There are some cases of capitalization which  
21 are questionable, based on the companies'  
22 descriptions of the operations. These  
include cases described as 'restoration,'  
'repair,' repaint.

23 The expensing of the remanufacturing of the network  
24 protectors and the maintenance of network  
25 transformers (repainting and regasketing) clearly

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1 fall within the intent of Item 5.

2

3 Q. Mr. Scott Seery, on page 18, and Mr. Hugh Larkin, on  
4 page 11, of their respective testimonies, recommend  
5 removing non-utility investment from the capital  
6 structure directly from equity rather than by a  
7 weighted average cost of capital method. Is this  
8 appropriate?

9 A. Absolutely not. First of all, funds are fungible as  
10 stated by Mr. Seery. They cannot be traced to each  
11 individual investment or expense. Mr. Seery argues  
12 that the cost of capital should be based on the  
13 capital required to provide electric service. He  
14 also argues that regulated utilities are of relatively  
15 low risk, that there are few industries of lower risk  
16 and therefore any investments in non-regulated  
17 subsidiaries will increase the utility's cost of  
18 capital, thereby increasing the cost to the customer  
19 and subsidizing the non-utility operation. Mr. Seery's  
20 conclusion is inappropriate because, as stated by Dr.  
21 Morin on page 61 of his direct testimony, Gulf Power's  
22 non-utility operations represent a negligible proportion  
23 of its total operations and, therefore, investors would  
24 not perceive that they should expect a higher return  
25 because of Gulf's small investment in diversified

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1 activities. Gulf's stockholders should not be  
2 penalized as a result Mr. Seery's generalization.

3  
4 Q. Public Counsel has raised an issue regarding the  
5 Company's corporate goal to increase its level of  
6 equity in relation to other sources of capital. Is  
7 this goal appropriate?

8 A. Gulf Power has adopted a long-term goal of attaining  
9 a common equity ratio of 40-45 percent. The timing  
10 at which this goal is achieved is dependent upon a  
11 number of factors, including the annual external  
12 financing requirements of Gulf Power Company. The  
13 common equity target reflects Gulf Power's desire to  
14 maintain a strong 'A' bond rating.

15  
16 Q. Why is it important that Gulf maintain a strong bond  
17 rating?

18 A. The bond rating is the single most important and  
19 visible indicator of creditworthiness for a utility.  
20 The ratings are primarily the products of three  
21 rating agencies (Moody's Investors Service,  
22 Standard & Poor's, and Duff & Phelps) which rate debt  
23 and preferred stock securities for investors  
24 according to the degree of risk to the investor.  
25 Generally speaking, the higher the rating the lower

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1 the interest and dividend rate.

2 Standard & Poor's (S & P) has developed financial  
3 standards for rating investor-owned electric utility  
4 bonds. One of the standards, debt leverage, has a  
5 44-52 percent debt ratio established for the 'A'  
6 rating. It is apparent that a 40-45 percent common  
7 equity target in conjunction with a 10 percent  
8 preferred stock component results in a debt target  
9 which falls within the S & P standard for a single  
10 'A' utility. Gulf's debt and preferred stock were  
11 downgraded by S & P in 1987, from "A+ and A" to "A  
12 and A-", due primarily to a highly leveraged capital  
13 structure, after issuing the \$60 million of debt used  
14 in the Daniel Coal Buyout.

15 The 'A' bond rating is the lowest rating that  
16 permits Gulf Power the constant access to financial  
17 markets necessary for Gulf to meet its obligations to  
18 provide electricity in a growing economy. In the  
19 1970's, 'BBB' rated companies were often shut out of  
20 the market even though 'BBB' is considered investment  
21 grade. Many institutional investors have established  
22 a policy of not investing in bonds with ratings lower  
23 than 'A'. When credit market conditions tighten,  
24 'BBB' rated companies often have great difficulty  
25 selling their securities as investors attempt to

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1 upgrade their holdings. The 'A' bond rating also  
2 provides a buffer that allows a utility to finance  
3 ongoing capital requirements even if unexpected  
4 adverse developments result in a downgrade.

5 The 'A' rating will provide for an overall lower  
6 cost of service. When tight credit conditions exist,  
7 utilities rated lower than 'A' are often required to  
8 cut back construction, delay investments, or complete  
9 them at higher costs resulting from inefficiencies  
10 and cost escalations occurring with construction  
11 delays. 'A' ratings will thus require somewhat lower  
12 revenue requirements over the long term.

13 A strong 'A' rating will provide Gulf Power with  
14 frequent and ready access to the security markets at  
15 desirable terms and conditions almost all times.  
16 When considering the additional benefits of lower  
17 revenue requirements, maintenance of a strong 'A'  
18 rating is even more imperative. The attainment of a  
19 capital structure which adheres to the standards for  
20 an 'A' rated investor-owned electric utility has thus  
21 been adopted as a corporate goal.

22

23 Q. What are the Post-Retirement Benefits discussed on  
24 page 41 of Mr. Schultz's testimony?

25 A. They are medical and life insurance benefits provided

1 by the Company to its retired employees.

2

3 Q. How does the Company account for these benefits?

4 A. In 1987, the Company implemented FASB Statement

5 No. 87, "Employer's Accounting for Pensions," which

6 required the use of the "projected unit credit"

7 actuarial method for financial reporting purposes.

8 At that time, FASB also began to concentrate on

9 accounting for other post-retirement benefits.

10 Therefore, the Company decided to review its

11 accounting for all retirement benefits. As a result

12 of this review, we determined that it is more

13 appropriate to recognize these benefits on an accrual

14 basis using the "aggregate cost" actuarial method

15 which spreads the expected cost of such benefits over

16 the remaining periods of employees' service as a

17 level percentage of payroll costs.

18

19 Q. What method has Mr. Schultz proposed for the

20 accounting and ratemaking treatment of these costs?

21 A. Mr. Schultz has proposed that the Company account for

22 these costs on a "cash basis." That is, he proposes

23 that we not recognize the expense until the employee

24 has retired and is receiving the benefits.

25

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1 Q. Do you agree with Mr. Schultz's proposal?

2 A. No. The accrual basis is the only proper method for  
3 use in the regulatory process. Post-retirement  
4 benefits reward Gulf's employees for effective  
5 service and enable Gulf to attract and retain  
6 qualified people to provide electric service to the  
7 citizens of Northwest Florida. As with other  
8 expenses, such as pensions and depreciation expense,  
9 the accrual basis recognizes the expense in the  
10 proper period pursuant to the generally accepted  
11 "matching" principle and provides for recovery of the  
12 costs from the customers that receive the benefit of  
13 service. The cash basis method inappropriately  
14 shifts cost recovery for present services to future  
15 customers.

16  
17 Q. What is the status of the FASB's deliberations on the  
18 accounting for other post-retirement benefits?

19 A. The FASB has issued its exposure draft which would  
20 require accrual accounting. In other words, the FASB  
21 proposal, as drafted, will require accrual of the  
22 costs over each employee's working life. It is  
23 expected that a final FASB statement will be issued  
24 by the end of this year requiring accrual accounting  
25 for Post Retirement Medical and Life Insurance

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1 benefits in 1991.

2

3 Q. On page 40, lines 13 through 18, Mr. Schultz  
4 suggested that an additional adjustment of \$628,000  
5 may be necessary. Please comment on this.

6 A. Apparently, there is some confusion between funding  
7 and actual payments to retirees. If the additional  
8 adjustment Mr. Schultz suggests was made, the Company  
9 would not be allowed to recover any costs related to  
10 post-retirement medical and life benefits. The  
11 \$628,000 represents the Company's estimate of actual  
12 payments to retirees during 1990, not a funding of  
13 the reserve.

14

15 Q. Has the Company funded any of these benefits

16 A. Yes. The Company funded \$2.1 million for  
17 post-retirement medical benefits in 1989. However,  
18 the Company has never been able to fund the reserve  
19 for post-retirement life benefits.

20

21 Q. Please comment on Mr. Schultz proposed adjustment to  
22 uncollectible expenses which is discussed on pages 37  
23 and 38 of his testimony.

24 A. On page 37, Mr. Schultz acknowledges that the amount  
25 budgeted "...produces a representative amount for



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1 1990. Therefore, I am not recommending that the 1990  
2 budget for uncollectibles be adjusted." His  
3 statement is correct in that, because rates are being  
4 set for the future, no adjustment should be made in  
5 this proceeding.

6 However, he goes on to state that the accounting  
7 adjustment made in 1989 should be amortized over four  
8 years on the assumption that the rate payers were  
9 charged for this over-accrual. This assumption is  
10 totally incorrect. In Gulf's last rate case (Order  
11 No. 14030), the Commission allowed bad debt expense  
12 of \$523,000. For the period of 1985 through 1988,  
13 the Company's accrual to the reserve for  
14 uncollectible expense far exceeded the allowed amount  
15 in each year, averaging \$782,670 per year.  
16 Therefore, his basic assumption that, "the accounting  
17 charge that resulted in a credit to the 1989 O&M  
18 expense in the amount of \$813,000 was charged to the  
19 ratepayers over a period of years," is incorrect.

20  
21 Q. Does Mr. Schultz take issue with Gulf's request for  
22 amortization of rate case expense for this Docket  
23 No. 891345-EI?

24 A. Yes. He believes an amortization period of five years,  
25 instead of two years, is representative based on the

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1 fact that Gulf's last rate case began in 1984 and the  
2 current case was not filed until the end of 1989.

3

4 Q. Why does Gulf believe a two year amortization period  
5 is proper?

6 A. Gulf filed requests for rate increases in 1979, 1981,  
7 1982, 1984 and 1989. This equates to approximately  
8 one case in every two years since 1979. Based upon  
9 this historical analysis, two years is appropriate.

10

11 Q. On page 28 of Mr. Schultz's testimony, he questions  
12 the amount of input Gulf has in determining the  
13 appropriate Southern Company Services (SCS) expense  
14 budget for Gulf. On page 34 of his testimony,  
15 Mr. Schultz believes an adjustment to Gulf's budget  
16 for SCS is warranted because of lack of support for  
17 SCS specific budget amounts. Do you agree?

18 A. No. As discussed in Mr. Gilbert's rebuttal  
19 testimony, Gulf has significant involvement in the  
20 SCS budget preparation, review, and approval process.

21 Each SCS department prepares and maintains  
22 working papers to substantiate its budget amounts.  
23 These budget amounts become the basis for each  
24 operating company's SCS Work Order Billing Budget.  
25 Gulf relies on SCS to maintain the appropriate level

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1 of workpapers to support the 1990 Billing Budget.  
2 Gulf maintains its copy of the SCS Work Order Billing  
3 Budget as the basis for its 1990 SCS budget.  
4

5 Q. Has Mr. Schultz supported his recommendation on page  
6 37 that \$734,595 budgeted SCS expenditures be  
7 disallowed?

8 A. No. Mr. Schultz bases his recommendation on  
9 information obtained from a three year old review  
10 related to a rate proceeding in another  
11 jurisdiction. Mr. Schultz has not performed such a  
12 review of the 1990 SCS budget support in conjunction  
13 with this proceeding.

14 The Commission should base its decision on the  
15 allowance of SCS expenditures based upon the  
16 justification provided for SCS variances in MFR C-57  
17 and in the direct and rebuttal testimony of Mr. Lee  
18 and Mr. Parsons.  
19

20 Q. Mr. Scarbrough, would you like to comment on whether  
21 duplicative functions exist at SCS and the sister  
22 companies, including Gulf Power?

23 A. Yes, I would. The services provided by SCS do not  
24 duplicate but complement activities of Gulf Power  
25 Company and other companies of the Southern electric

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1 system. The purpose of Southern Company Services is  
2 to provide certain professional and technical  
3 services, at cost, and in a more efficient manner  
4 than would otherwise be possible. The sharing of  
5 knowledge and resources within the system has  
6 resulted in cost savings for both Gulf Power Company  
7 and our customers. Economies of scale have made it  
8 possible for certain functions to be provided to each  
9 operating company with less duplication, more  
10 consistency, a higher level of expertise, and at a  
11 lower cost. An example of this is the Customer  
12 Accounting System utilized by the operating  
13 companies. Southern Company Services processes  
14 customer meter readings, produces customer bills, and  
15 posts payments and other transactions to the  
16 customers' accounts. On-line access to account  
17 information is also provided in order to promptly  
18 respond to customer inquiries. The benefits derived  
19 from the use of the standard Customer Accounting  
20 System are greater than could otherwise be possible  
21 if each company maintained its own hardware and  
22 software.

23 Centralized fuel procurement has allowed the  
24 Southern electric system to benefit from its large  
25 buying power and realize lower cost and improved

1 service.

2 Economic load dispatching has resulted in lower  
3 fuel cost for our customers as well as greater  
4 overall system reliability. The operating companies  
5 within the Southern electric system have agreed to  
6 plan and operate their generation and transmission  
7 facilities from a common control center as if those  
8 facilities were part of a single electric utility.  
9 Because of this commitment, the common dispatch power  
10 pools provide each operating company, including Gulf  
11 Power Company, with more reliable power at less cost  
12 than would otherwise be possible.

13 So, rather than duplicating functions, SCS  
14 provides services which complement the operating  
15 companies, including Gulf Power Company, thus  
16 providing a means by which each of the operating  
17 companies can avoid, to a great extent, duplicative  
18 functions.

19

20 Q. In his testimony pages 19-23, Mr. Schultz states that  
21 the Company does not seem to be able to control its  
22 costs related to Plant Daniel and Plant Scherer. Can  
23 you please describe the processes by which the  
24 Company controls both the budgeted and actual costs  
25 related to these plants?

1 A. Yes. There are numerous controls in place which, in  
2 the aggregate, enable us to rely on both the budgeted  
3 and actual costs related to our ownership of Plant  
4 Daniel and Plant Scherer. I will first describe  
5 those controls which relate to budget information. I  
6 will then describe the procedures in place to monitor  
7 the actual costs which are billed to Gulf.

8 Both Plant Daniel's and Plant Scherer's budgets  
9 are developed using sophisticated budgeting  
10 techniques and management review processes similar to  
11 those used at Gulf. As discussed in his testimony,  
12 Mr. Lee is Gulf's representative on the Plant Daniel  
13 supervisory committee. This Committee has  
14 significant input to decisions concerning operating  
15 expenses and future planned expenditures. In  
16 addition, our Corporate Planning Department and Power  
17 Generation Department review the budgets for  
18 reasonableness paying particular attention to  
19 significant variations from prior budget and actual  
20 amounts.

21 To monitor actual results, Gulf's operating  
22 personnel, as well as its accounting personnel,  
23 maintain open and frequent communications with their  
24 Mississippi Power Company and Georgia Power Company  
25 counterparts. Significant new or unusual issues are

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1 reviewed with all parties to ensure proper resolution  
2 in accordance with the provisions of the operating  
3 agreements. Gulf also reviews actual operating  
4 results in comparison to budget estimates on a  
5 quarterly basis. Gulf's Corporate Planning and Power  
6 Generation Departments, with input from Gulf's  
7 Accounting Department, assist in analyzing differences  
8 between budget estimates and actual costs of Plant  
9 Daniel and Plant Scherer.

10 Periodic audits of the joint ownership agreements  
11 are performed by the Southern Company Service  
12 Internal Auditing Department. These audits include  
13 reviews of applicable intercompany billings for  
14 proper computations, adequate support, and compliance  
15 with the operating agreements. The most recently  
16 issued audit report for the audit performed at Plant  
17 Daniel was for the 15 month period ended September 30,  
18 1988, while the last issued report for the audit of  
19 the Plant Scherer operating agreement was for the 12  
20 month period ended December 31, 1988. Reviews of  
21 intercompany receivable and payable balances are  
22 performed by the Company's external auditors in their  
23 annual audits. Discrepancies in intercompany  
24 balances are reported to management and all  
25 significant differences are resolved.

1 Q. Mr. Schultz has stated on page 21 of his testimony  
2 that the Company does not perform audits of  
3 Mississippi Power Company to verify the propriety of  
4 Plant Daniel related charges to Gulf. Is this  
5 correct?

6 A. No. Although Gulf Power's internal audit personnel  
7 do not perform audits of Mississippi Power Company,  
8 Georgia Power, the SCS Internal Audit Department, at  
9 Gulf's request, performs scheduled audits of the  
10 jointly-owned plants' operating agreements. Such  
11 audits allow for an objective third party to make  
12 observations and recommendations as to compliance  
13 with the terms of the operating agreements.

14

15 Q. On page 23 of Mr. Schultz's testimony, he proposes an  
16 adjustment to Gulf's Production expenses associated  
17 with Plant Daniel in the amount of \$646,000. Is this  
18 adjustment appropriate?

19 A. No. The basis for Mr. Schultz's recommendation is  
20 his opinion as to the adequacy of controls over Plant  
21 Daniel's budget and expenditures. As I have stated  
22 above, Gulf performs adequate reviews of the Plant  
23 Daniel budget amounts and has effective control over  
24 Plant Daniel expenditures.

25 As is emphasized by Mr. Lee in his testimony, we



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1 have adequately justified the Plant Daniel benchmark  
2 variance in MFR C-57, demonstrating the need for the  
3 budgeted Plant Daniel expenditures. Mr. Schultz  
4 makes his recommendation without even attempting to  
5 address any of the justifications provided by the  
6 Company regarding the benchmark variances, but rather  
7 bases his recommendation on an inaccurate assertion  
8 that Gulf has no control over Plant Daniel's O & M  
9 expenditures. In addition to Gulf's controls I have  
10 previously mentioned, his assertion also ignores the  
11 fact that Mississippi Power controls its own  
12 expenditures.

13  
14 Q. On page 23 of his testimony, Mr. Schultz suggests  
15 that it is not appropriate to include in the  
16 benchmark calculation \$425,000 of expenses for Plant  
17 Daniel Transmission Facilities charges which were  
18 excluded in Gulf's 1984 rate case. Please explain  
19 this adjustment and why it is appropriate to add the  
20 Plant Daniel Transmission Line Rentals adjustment to  
21 the benchmark.

22 A. As I have explained in my direct testimony beginning  
23 on page 24, line 14, and continuing through page 29,  
24 line 8, the Plant Daniel Transmission Line Rental  
25 disallowance in the 1984 Rate Order of \$425,000 was

1 the result of an improper benchmark calculation.  
2 Schedule 1 of my exhibit shows the inappropriate  
3 methodology used by the Company to calculate the  
4 transmission benchmark for 1984 and compares it to  
5 the appropriate methodology. It also shows how staff  
6 backed into the disallowance of \$425,000 by dividing  
7 the improperly calculated transmission benchmark by  
8 the customer growth factor. Had the appropriate  
9 methodology been used, no adjustment to Plant Daniel  
10 Transmission Facility charges would have been made.  
11 The total 1984 requested amount for the Daniel  
12 Transmission Facility charges was \$1,380,929. The  
13 Commission did not find the amount to be unreasonable  
14 or imprudent, only that Gulf used the customer growth  
15 multiplier incorrectly. Yet, it allowed Gulf to  
16 recover only \$956,329 of the amount it needed to pay  
17 for its contractual obligation for Daniel  
18 Transmission Facility charges. The transmission  
19 facility charges were shown to be the best  
20 alternative for transmitting electricity generated by  
21 Plant Daniel to Gulf Power's customers and,  
22 therefore, the total cost of \$1,380,929 should have  
23 been allowed in 1984.

24  
25 Q. Mr. Schultz has recalculated the Production-related

1 A & G benchmark by removing Plant Daniel A & G  
2 disallowed in the last case and the 1990 Plant  
3 Scherer A & G of \$263,000 from his calculation. In  
4 his opinion, Gulf has a Production-related A & G  
5 benchmark excess of \$1,435,000. Mr. Schultz  
6 recommends on page 25 of his testimony that an  
7 adjustment be made for Plant Daniel A & G of  
8 \$1,172,000 (Schultz benchmark excess of \$1,435,000  
9 less 1990 Plant Scherer A & G of \$263,000). Are  
10 these adjustments appropriate?

11 A. No. Mr. Schultz has not calculated the benchmark  
12 appropriately. In the 1984 case, Gulf  
13 inappropriately escalated total Administrative and  
14 General expenses by customer growth and inflation.  
15 In this case, Gulf has separated the A & G into  
16 production-related and other A & G and escalated the  
17 production related A & G by inflation only in order  
18 to avoid double-counting the addition of new plants  
19 (capacity) and customer growth. As explained in my  
20 prefiled testimony on pages 29 through 34 and clearly  
21 portrayed in my Exhibit Schedule 7, the Commission's  
22 disallowance of the Plant Daniel A & G expenses in  
23 Order No. 14030 was based solely on Gulf's  
24 misapplication of the customer growth factor and  
25 justification related to new plant.

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1 Q. By separating production-related A & G from other  
2 A & G, does Gulf eliminate double-counting for  
3 customer growth and new plant?

4 A. Yes. Gulf escalates <sup>production-related A & G</sup> ~~new plant~~ by inflation only.  
5 This is the same rationale used by Gulf for separating  
6 Transmission Facility Charges (production-related  
7 transmission) from other transmission expenses, and  
8 escalating them by inflation only as instructed by  
9 the Commission in Order No. 14030.

10

11 Q. Why does Mr. Schultz recommend the disallowance of  
12 Plant Scherer in A & G?

13 A. He states on page 28 that "All of Plant Scherer costs  
14 should be removed because Plant Scherer capacity is  
15 all for unit power sales." This, as the Commission  
16 knows, is an inaccurate statement. Sixty-three of  
17 the 212 mw of Scherer is for Gulf's territorial  
18 customers. Gulf has added the Scherer A & G to the  
19 benchmark because it is associated with the addition  
20 of new plant and is not accounted for in the Gulf's  
21 benchmark calculation by customer growth.

22

23 Q. Has Gulf stipulated to removing lobbying and other  
24 expenses of its registered lobbyists budgeted in the  
25 test year?

1 A. Yes. Gulf inadvertantly included \$101,977 of  
2 lobbying expenses in the 1990 test year which should  
3 be removed pursuant to Commission policy to disallow  
4 lobbying expenses even though these expenses are for  
5 the purposes of establishing and maintaining  
6 reasonable laws to ensure that the ratepayers are not  
7 burdened with unreasonable costs. Gulf has also  
8 agreed to remove <sup>\$126,566</sup>~~\$151,288~~ of expenses related to the  
9 information gathering and administrative activities  
10 of its registered lobbyists.

11

12 Q. Should \$6,600 of expenses associated with Tax  
13 Services for Executives be removed?

14 A. No. \$6,600 is a small price to pay for ensuring that  
15 executive level employees do not make inadvertent  
16 errors on complicated tax returns which would take  
17 them away from their work to respond to Internal  
18 Revenue Service questions.

19

20 Q. The issue of the portion of Edison Electric Institute  
21 (EEI) dues, which are spent on lobbying, has been  
22 raised by staff. To your knowledge what percent of  
23 EEI dues should be considered lobbying?

24 A. EEI informs Gulf each year of the appropriate amount  
25 of the dues to be allocated to lobbying expenses

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1 For 1990, EEI has informed Gulf that approximately 1  
2 percent of the dues should be considered lobbying.  
3 This information is the most recent and reliable  
4 available.

5  
6 Q. Mr. Scarbrough, would you please summarize your  
7 testimony?

8 A. Yes. Gulf Power Company needs and deserves the rate  
9 relief requested in these proceedings. By the time  
10 of the Commission decision in this case, Gulf will  
11 have already experienced two years of inadequate  
12 earnings.

13 The disallowances to the Company's rate base and  
14 its expenses recommended by Public Counsel witness  
15 Larkin and Schultz are unsupported and unreasonable.  
16 Rates based on their version of rate base and  
17 expenses would be totally inadequate and confiscatory.

18 The Company's proposed rate base and expenses  
19 have been fully justified and are reasonable and  
20 necessary in order for the Company to continue to  
21 provide low cost, reliable and sufficient electric  
22 service to the citizens of Northwest Florida.  
23 Without the requested rate relief, the Company's  
24 earnings will continue to be inadequate.

25 Q. Does this conclude your testimony?

26 A. Yes.

1           Q     (By Mr. Holland) Mr. Scarbrough, would you  
2 summarize your testimony?

3           A     Yes. The purpose of my testimony is to rebut  
4 certain positions taken by Ms. Bass, Mr. Seery, Mr.  
5 Schultz, and Mr. Larkin regarding several issues in  
6 this proceeding.

7                     Ms. Bass has recommended that return on  
8 equity penalty be imposed on Gulf Power Company for  
9 mismanagement. As I have shown in my exhibits, for the  
10 period 1983 through 1988 Gulf's operating and  
11 maintenance expense per kilowatt hour generated is  
12 15.2% lower than the average of the 26 Southeastern  
13 Electric Exchange Companies.

14                    Additionally, I have shown that Gulf's retail  
15 rates are among the lowest in the southeast. In fact,  
16 Gulf's retail revenue per kilowatt hour sold was the  
17 23rd lowest out of the 26 Southeastern Electric  
18 Exchange Companies in 1988.

19                    Even when the total rate relief sought in  
20 this case is added to the actual retail revenue in  
21 1988, Gulf would still have been the 21st lowest of the  
22 26 companies in the southeast. These are not signs of  
23 mismanagement.

24                    Mr. McCrary has clearly shown that an equity  
25 penalty is not justified. We have been, and currently

1 are being, financially penalized as a result of the  
2 various investigations. Obtaining rate relief adequate  
3 to maintain our financial integrity has been delayed at  
4 least a year as a result of our voluntary withdrawal of  
5 the 1989 rate case.

6 For 1989 our jurisdictional return on equity  
7 was 10.81%, and for the year ended April 30th, 1990 was  
8 only 8.78%.

9 Even granting the full requested increase in  
10 this case will result in the Company earning only a  
11 9.47% return on equity for the test year 1990.  
12 Consequently, by the time of the Commission decision in  
13 this case, Gulf would have already experienced two  
14 years of inadequate earnings.

15 The rating agencies are extremely concerned  
16 about the Company's financial condition. In a December  
17 1989 review of Gulf, the Standard and Poor's Report  
18 stated that, "If needed rate relief is not forthcoming,  
19 financial protection measures could fall two levels  
20 below those commensurate with the current rating." The  
21 report concluded with a negative outlook for Gulf.

22 Also, after I entered the hearing room this  
23 morning, at 9:35, to be more specific, I was notified  
24 that Duff and Phelps rating agency was downgrading  
25 Gulf's bonds and preferred stock by two levels.



1 Failure of the Company to obtain rate relief  
2 sufficient to earn a reasonable return on equity in  
3 this proceeding will certainly increase the probability  
4 that Gulf's ratings on its bonds and preferred stock  
5 will be further downgraded. If this occurs, not only  
6 will the Company and its shareholders suffer, but our  
7 customers will suffer as well from higher financing  
8 costs in the future.

9 The recommended disallowances of Public  
10 Counsel witnesses Larkin and Schultz are unsupported  
11 and unreasonable. Rates based on their version of rate  
12 base and expenses would be totally inadequate and  
13 confiscatory. The Company's proposed rate base and  
14 expenses have been fully justified and are reasonable  
15 and necessary in order for the Company to continue to  
16 provide low-cost, reliable and adequate electric  
17 service to the citizens in Gulf's service territory.  
18 Without the requested rate relief, the Company's  
19 earnings will continue to be insufficient to maintain  
20 the financial integrity of Gulf Power Company.

21 That concludes my summary.

22 Q Mr. Scarbrough, before I tender you, and for  
23 the Commissioner's benefit --

24 The late-filed, or what I thought was a  
25 late-filed that Mr. Conner referred to with reference

1 to the cash payment summary at the appliance sales  
2 offices and the 900 and some-odd thousand customers, it  
3 is not a late-filed; it is, in fact, something that was  
4 prepared by Mr. Scarbrough to refer to something that  
5 had been deferred to him, a question. And we can  
6 either let him describe, or give those numbers on the  
7 record, or we can provide it in a late-filed, whichever  
8 the Commissioners would prefer. I don't even remember  
9 which -- one of the Commissioners asked the question,  
10 and I don't remember which one it was.

11 CHAIRMAN WILSON: I don't recall, either. Go  
12 ahead and put it on the record.

13 Q (By Mr. Holland) Mr. Scarbrough, would you  
14 please state what this cash payment summary relating to  
15 locations with appliance sales indicates?

16 A Yes. The total accounts paid in 1989 were  
17 \$3,425,061, less the mail-in payments of \$2,332,966,  
18 less the drive-through payments of \$138,300, which  
19 gives you the walk-in payments of \$953,795, which is  
20 27.8% of the total payments are walk-in.

21 Year-to-date, 1990, total accounts paid is  
22 \$1,460,153, less the mail-in payments of \$988,595, less  
23 the drive-through payments of \$57,600, for a total  
24 walk-in payments of \$413,958, which is 28.4% of all  
25 payments made year-to-date May 1990 for walk-in

1 payments.

2 MR. HOLLAND: Tender Mr. Scarbrough for cross  
3 examination.

4 CHAIRMAN WILSON: Duff and Phelps reduced  
5 your rating from what to what?

6 WITNESS SCARBROUGH: We had the -- we were  
7 rated by three agencies, Standard and Poors, Moody's  
8 and Duff and Phelps. Our highest ratings were were  
9 with Duff and Phelps. The Duff and Phelps rating for  
10 our bonds was AA-, and for our preferred stock it was  
11 A+. They downgraded them -- they notified us they were  
12 downgrading them. Actually, the Treasurer of our  
13 Company, who called me and told me this when they  
14 called looking for me. I wasn't there, of course, so  
15 they talked to him. They are going to wait until I get  
16 an opportunity to talk to them, but according to him  
17 they've already made that decision. But at least they  
18 are going to wait before they finally do it until I get  
19 an opportunity to talk to them.

20 CHAIRMAN WILSON: The AA- will go to what?

21 WITNESS SCARBROUGH: AA- was downgraded to an A.

22 CHAIRMAN WILSON: Did they touch your  
23 preferred stock?

24 WITNESS SCARBROUGH: They downgraded the  
25 preferred stock from an A+ to an A-. And I might point

1 out that, as I've stated before, when I began answering  
2 your question, that was our highest rating. And with  
3 this downgrade, that brings us to the Standard and  
4 Poor's level. Those ratings that they've downgraded us  
5 to are the same as Standard and Poor's has, because  
6 Standard and Poor's downgraded us in 1987.

7 COMMISSIONER EASLEY: Were you given a reason  
8 at this point?

9 WITNESS SCARBROUGH: Yes, I was. I'm getting  
10 this second-hand --

11 COMMISSIONER EASLEY: I understand.

12 WITNESS SCARBROUGH: -- from Mr. Tate, who is  
13 the Treasurer of our Company. The first thing that  
14 they mentioned was that our coverages were too low.  
15 meaning our coverages of our bond interest payments and  
16 our preferred stock dividend payments were too low, and  
17 Mr. Tate said that he talked to them about the fact  
18 that we were in for rate relief right now, and to the  
19 extent that we got rate relief, of course, that would  
20 cause those to improve.

21 And their response was that they feel like  
22 that even if we got everything we've asked for in this  
23 case, that still the coverages would be too low.

24 The second thing that they mentioned was a  
25 loss of the off-system sales; and the third thing that

1 he mentioned to me was that we were so highly leveraged  
2 -- in fact our debt percentage as a percent of our  
3 total capitalization is one of the very highest in the  
4 Southeastern Electric Exchange. In fact, when you  
5 compare us with the 26 utilities, Southeastern Electric  
6 Exchange Utilities, there are only four utilities that  
7 have a higher leverage than Gulf. The other 21 have,  
8 of course, a lower leverage than Gulf. And I might  
9 point out that three of those utilities that have a  
10 higher leverage than Gulf are all Louisiana utilities,  
11 GSU, Louisiana Power and Light and NOPS. So those are  
12 the reasons that they gave him.

13 COMMISSIONER EASLEY: Thank you.

14 MR. HALE: We have no questions.

15 CHAIRMAN WILSON: No questions? Staff?

16 CROSS EXAMINATION

17 BY MS. RULE:

18 Q Mr. Scarbrough, when you say "our stock and  
19 bonds," are you referring to Southern Company or Gulf?

20 A Gulf. These are Gulf. Southern Company  
21 doesn't issue any preferred stock or bonds.

22 Q You mentioned how the downgraded ratings  
23 compared to Standard and Poor's. How does that compare  
24 to Moody's?

25 A Moody's is one notch higher than Standard and

1 Poor's, and now one notch higher than, of course, Duff  
2 and Phelps will be after the downgrade.

3 Q And you haven't been notified that either  
4 Standard and Poor's or Moody's is downgrading, is that  
5 correct?

6 A Well, Standard and Poor's downgraded us in  
7 1987. We have not been notified they are going to  
8 downgrade us again. However, as I stated in my  
9 summary, they have put us on notice that without  
10 forthcoming rate relief that the protection coverages  
11 could be not commensurate with our current rating,  
12 which would indicate that -- and they gave us a  
13 negative outlook. So they're obviously considering a  
14 downgrade, but they haven't told us they downgraded us.

15 Q How common is it for a rating agency to drop  
16 stock or bonds two levels?

17 A How common is it?

18 Q Yes, sir.

19 A It's not very common.

20 Q Do you have any explanation for why the  
21 agency would take that step, dropping it two levels?>

22 A I have not talked to them myself. The  
23 information I gave you I got from my Treasurer this  
24 morning, so I haven't talked to them about this.

25 Q Do you think it has anything to do with

1 negative information about Gulf Power that has come out  
2 in this hearing?

3 A No.

4 Q Does the agency provide you with written  
5 commentary at the time of downgrading?

6 A In most cases they will, yes.

7 Q When would you expect that?

8 A I really don't know. I would have to talk to  
9 them, but I would assume that it would be forthcoming  
10 in a reasonably short time frame.

11 Q Can you provide that commentary as a  
12 late-filed exhibit, please?

13 A Uh-huh.

14 MS. RULE: What number would that be, Mr.  
15 Pruitt?

16 MR. PRUITT: That would be 624.

17 MS. RULE: The title would be, "Commentary  
18 Related to Downgraded Stocks and Bonds."

19 3827

20 (Late-Filed Exhibit No. 624 identified.)

21 COMMISSIONER GUNTER: They aren't downgrading  
22 the Company stock, they don't trade stocks; Southern  
23 Company trades stock.

24 WITNESS SCARBROUGH: These are preferred  
25 stock.

1 COMMISSIONER GUNTER: Preferred stock.

2 WITNESS SCARBROUGH: Yes, sir.

3 Q (By Ms. Rule) Mr. Scarbrough, how does Gulf  
4 decide what amount to add to its pension fund?

5 A You mean to expense, to charge to expense?

6 Q To actually add to the fund itself?

7 A To actually add to the fund itself, it's  
8 based upon the requirements of the Internal Revenue  
9 Service.

10 Q What do you mean "the requirements"?

11 A And our actuary makes that calculation and  
12 provides that to us.

13 Q Now by requirements of the IRS, do you mean  
14 the deductible amount, do you not?

15 A Yes, the deductible amount, right. In fact,  
16 if you fund it all there is a penalty. Not only do you  
17 not get it as a tax deduction but you have to pay a  
18 penalty on the pensions.

19 Q Is Gulf's pension fund overfunded?

20 A Yes.

21 Q How long has it been overfunded?

22 A Several years.

23 Q Did Gulf continue to make contributions to  
24 the fund after it became overfunded?

25 A Yes. We continued to make those



1 contributions to the fund that were recommend by the  
2 actuary. But you've got to remember, when you talk  
3 about a pension fund being overfunded, it may be  
4 overfunded today and next week it may be underfunded.  
5 Because a great amount of these investments is in  
6 common stock and, you know, we've had experiences in  
7 most recent history where the Dow has fell 500 points  
8 and if the Dow -- if we had that happen again, you  
9 know, depending upon the amount of stock that our  
10 managers had in those particular companies that were  
11 down, that overfunding could quickly fall to a less  
12 efficient funding, and it could even fail to  
13 underfunding as far as that goes. But to the extent  
14 today, though, as of today, they are overfunded.

15 Q But, Mr. Scarbrough, the fund's been  
16 overfunded for several years, hasn't it?

17 A It has been, yes,

18 Q Did Gulf perform any analysis to determine  
19 that continuing to fund the pension plan was  
20 appropriate?

21 A What we did, as I said before, we simply  
22 took the recommendation of the actuary.

23 Q What was the last year Gulf made a  
24 contribution to the fund?

25 A In 1988, which was included on the 1987 tax

1 return.

2 Q And if I understand your testimony correctly  
3 then, your position is that it's prudent for Gulf to  
4 make a contribution to the pension plan in '88 in order  
5 to take advantage of the higher 1987 tax rates, is that  
6 correct?

7 A That was just one advantage of doing that.

8 COMMISSIONER BEARD: Can I ask a question? I  
9 thought Gulf's position was zero on pension expense?

10 MS. RULE: That's for 1990.

11 COMMISSIONER BEARD: Sorry.

12 A It is zero as filed. The latest estimate  
13 that we get from the actuary says that it should be  
14 \$199,000.

15 Q Mr. Scarbrough, is Gulf accruing for other  
16 post-retirements benefits in accordance with the FASB  
17 exposure draft?

18 A Basically, yes.

19 Q Well, the exposure draft requires accrual  
20 using a benefit and years of service method, does it  
21 not?

22 A Yes, that's the reason I said "basically."

23 Q But Gulf uses an aggregate cost method,  
24 right?

25 A That's right.

1 Q Why aren't you accruing in accordance with  
2 the exposure draft, using the benefit method?

3 A First of all, the exposure draft is not  
4 completed, and since it's not completed we don't know  
5 what the final rules are going to be. And at the time  
6 we made the decision, we made it in 1987, began doing  
7 that, and we decided to do it on the aggregate cost  
8 method, which is basically a level percentage of  
9 compensation. We could have done it the other way. We  
10 didn't choose to do it that way.

11 Q Mr. Scarbrough, the proposed statement of  
12 financial --

13 A I might say I think if we had done this, and  
14 it would have to be subject to check, I think if we had  
15 done it, it would have increased the amount of the  
16 accrual.

17 Q I'd like to point out to you that the  
18 proposed statement of financial accounting standards  
19 for post-retirement benefits, Section 192, states that  
20 the Board concluded that a benefit/years of service  
21 approach should be predescribed and also states that  
22 the Board concluded it would be inappropriate to  
23 develop an approach inconsistent with the benefit  
24 approach. With that in mind --

25 A Are you reading the proposed exposure draft?

1 Q Yes, sir

2 A That's true, but, I mean, it's still an  
3 exposure draft.

4 Q Do you expect it to change?

5 A From what I hear, you know, we thought it was  
6 going to change last year, but from what I understand  
7 it's got a good chance of becoming a new FASB statement  
8 requirement by the end of this year, but I would have  
9 no way of knowing that.

10 Q Do you know the current implementation date  
11 of the exposure draft? You said, "by the end of the  
12 year."

13 A I'm not too sure. It's a year beginning  
14 after December '91, I'm advised.

15 Q Have you calculated what the accrual amount  
16 would be under the exposure draft?

17 A No, but I think it would be higher.

18 Q Why do you think it would be higher?

19 A Because of some preliminary calculations we  
20 have done in reviewing the exposure draft.

21 Q Can you provide me with a late-filed exhibit  
22 that would show a calculation of the amount under the  
23 exposure draft?

24 A You mean for 19 -- what year?

25 Q 1990.

1 A Yes, ma'am.

2 MS. RULE: I believe that would be Late-filed  
3 Exhibit 625.

4 CHAIRMAN WILSON: That's correct.

5 MS. RULE: Calculation per exposure draft.  
6 (Late-Filed Exhibit No. 625 identified.)

7 Q Could you tell me, for the years 1987, '88  
8 and '89, how much Gulf funded for medical benefits?

9 A Do you want it by each year?

10 Q Pardon me?

11 A You want it each year?

12 Q Yes, sir.

13 A Okay. We funded zero in 1987; in 1988 we  
14 funded \$924,000, and in 1989, \$2,148,186.

15 Q Our understanding is that, at present, Gulf  
16 is not going to fund the plan anymore right now, is  
17 that correct?

18 A That's correct. That's what our intentions  
19 are, not to, yes, until we're able to. In other words,  
20 we had a letter ruling from the IRS that allowed us to  
21 fund the post-retirement medical expenses and the Tax  
22 Act of 1989 revoked all previous letter rulings  
23 regarding that issue. So based upon that we cannot, of  
24 course, fund it, and, of course, and take a tax  
25 deduction for it.

1 Q For each of the years '87, '88 and '89 could  
2 you tell me how much was expensed per books, again for  
3 the medical benefits?

4 A For medical?

5 Q Yes, sir.

6 A 1987 it was 1,334,000; 1988 was 1,126,000,  
7 and for 1989 it was \$900,436.

8 Q Are the differences in these amounts  
9 reflected in working capital? (Pause)

10 A Yes.

11 Q Why did the amounts go down?

12 A Why did the amounts go down?

13 Q Yes, sir.

14 A That was the -- the actuary made that  
15 calculation and I would assume it probably had  
16 something to do with the discount rate or the  
17 investment rate, or something like that. That can, of  
18 course, change it very much, quickly.

19 Q Do you still have the exhibit packet that was  
20 furnished to you when you were appearing with your  
21 direct testimony?

22 A Let me see if we do. (Pause) I think we do.

23 Q I have a question about the difference in  
24 amounts between Exhibit 426 and 422.

25 A Okay. (Pause) Do you know what the

1     interrogatory number was?

2             Q     Yes, sir. Exhibit 426 was No. 13 of Public  
3     Counsel's first set. It was revised. Also, exhibit --  
4     I'm sorry, I don't believe I -- Oh, Exhibit 422 was not  
5     an interrogatory response, it was an informal data  
6     request. It was a letter from Hewitt Associates to  
7     Mr. Ronnie Labrato.

8             A     Okay.

9             Q     If you don't have them, I believe I can  
10    furnish you with an extra copy.

11            A     No, I think I think we have them now. Okay.

12            Q     Looking at Exhibit 426, it appears that the  
13    project accrual for 1990 for life benefits is \$917,000,  
14    correct?

15            A     The \$917,000 on the Interrogatory No. 13, for  
16    post-retirement life?

17            Q     Does that mean "yes"?

18            A     Yes.

19            Q     Okay. Also on that exhibit it indicates that  
20    the 1990 accrual amount will be at \$993,000, for  
21    medical?

22            A     That's correct. And, of course, those two  
23    are what was included in the rate case, those two  
24    figures you read.

25            Q     Looking at Exhibit 422, we have a different

1 amount for the medical benefits accrual. Can you  
2 explain the difference? Life stayed the same, but  
3 medical went down.

4 A Life is the same, as you say; post-retirement  
5 went down, let me see, just a minute here. (Pause)

6 They've just got some more updated numbers.

7 Q Do you know?

8 A Yes.

9 Q Okay.

10 A I mean, that's the only thing it could be.  
11 To my knowledge they didn't change any discount rate or  
12 anything on the medical and life.

13 Q Well, are you supposing that's what happened  
14 or do you know why it decreased?

15 A Well, I haven't gone back and verified it  
16 specifically what happened between the 922 and the 9  
17 and the 3. But I would, you know, I just know that  
18 there were better numbers available and I'll assume  
19 that they ran through the new calculations. But I  
20 don't know that. I have not, of course, checked that,  
21 I guess it's an assumption on my part.

22 CHAIRMAN WILSON: Are we at an appropriate  
23 place to break for lunch?

24 MS. RULE: Yes, sir.

25 CHAIRMAN WILSON: Let's break and come back



1 at 10 till 1:00.

2 (Thereupon, lunch recess was taken.)

3 - - - - -

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