

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Gulf Power Company.

DOCKET NO. 160186-EI

In re: Petition for approval of 2016 depreciation and dismantlement studies, approval of proposed depreciation rates and annual dismantlement accruals and Plant Smith Units 1 and 2 regulatory asset amortization, by Gulf Power Company.

DOCKET NO. 160170-EI  
ORDER NO. PSC-17-0099-PHO-EI  
ISSUED: March 14, 2017

PREHEARING ORDER

Pursuant to Notice and in accordance with Rule 28-106.209, Florida Administrative Code (F.A.C.), a Prehearing Conference was held on March 6, 2017, in Tallahassee, Florida, before Commissioner Jimmy Patronis, as Prehearing Officer.

APPEARANCES:

JEFFREY A. STONE, RUSSELL A. BADDERS, STEVEN R. GRIFFIN, RUSSELL VAN SICKLE, and CHARLES WIGGINS, ESQUIRES, of Beggs and Lane, P.O. Box 12950, Pensacola, FL 32576, CHARLES A. GUYTON, ESQUIRE, Gunster, Yoakley & Stewart, P.A., 215 South Monroe Street, Suite 601, Tallahassee, FL 32301, and RICHARD D. MELSON, ESQUIRE, 705 Piedmont Drive, Tallahassee, FL 32312.

On behalf of Gulf Power Company (Gulf).

J.R. KELLY, CHARLES J. REHWINKEL, and STEPHANIE A. MORSE, ESQUIRES, Office of Public Counsel, c/o The Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, FL 32399-1400

On behalf of Office of Public Counsel (OPC).

MAJOR ANDREW J. UNSICKER and LIEUTENANT COLONEL CHRISTOPHER COLCLASURE, ESQUIRES, USAF Utility Law Field Support Center, Air Force Legal Operations Agency, 139 Barnes Drive, Suite 1, Tyndall Air Force Base, FL 32403.

On behalf of the Federal Executive Agencies (FEA).

JON C. MOYLE, JR. and KAREN A. PUTNAL, ESQUIRES, Moyle Law Firm, P.A., 118 North Gadsden Street, Tallahassee, Florida 32301

On behalf of Florida Industrial Power Users Group (FIPUG).

BRADLEY MARSHALL and ALISA COE, ESQUIRES, Earthjustice, 111 S. Martin Luther King Jr. Blvd., Tallahassee, Florida 32301  
On behalf of League of Women Voters of Florida and Southern Alliance For Clean Energy (LWVF/SACE).

DIANA CSANK, ESQUIRE, 50 F Street NW, 8<sup>TH</sup> Floor, Washington, DC 20001, and LANE JOHNSON, ESQUIRE, Law Office of Lane Johnson, PLLC, 1722 Newton Street N.W., Washington, DC 20010  
On behalf of Sierra Club (Sierra Club).

ROBERT SCHEFFEL WRIGHT and JOHN T. LAVIA, III, ESQUIRES, and Gardner, Bist, Bowden, Bush, Dee, LaVia and Wright, P.A., 1300 Thomaswood Drive, Tallahassee, Florida 32308  
On behalf of Wal-Mart Stores East, LP and Sam's East, Inc. (Walmart).

KELLEY F. CORBARI, BIANCA LHERISSON, LEE ENG TAN, and KEINO YOUNG, ESQUIRES, and STEPHANIE CUELLO, QUALIFIED REPRESENTATIVE, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850  
On behalf of the Florida Public Service Commission (Staff).

MARY ANNE HELTON, ESQUIRE, Deputy General Counsel, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850  
Advisor to the Florida Public Service Commission.

KEITH HETRICK, ESQUIRE, General Counsel, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850  
Advisor to the Florida Public Service Commission.

## **PREHEARING ORDER**

### **I. CASE BACKGROUND**

On August 12, 2016, Gulf Power Company (Gulf) filed a test year letter, as required by Rule 25-6.140, F.A.C., notifying this Commission of its intent to file a petition between October 11 and October 28, 2016, for an increase in rates effective 2017. Pursuant to the provisions of Chapter 366, Florida Statutes (F.S.), and Rules 25-6.0425 and 25-6.043, F.A.C., Gulf filed its Minimum Filing Requirements and testimony on October 12, 2016. On November 9, 2016, Docket No. 160170-EI (2016 Depreciation and Dismantlement Studies) was consolidated into

the rate case docket, Docket No. 160186-EI.<sup>1</sup> On November 22, 2016, it was ordered that the issues identified in the Environmental Cost Recovery Clause (ECRC) docket related to Gulf's recovery of its identified environmental compliance investment and expenses associated with Gulf's ownership interest in Scherer Unit 3 would be deferred for resolution in the instant docket.<sup>2</sup> It was further ordered that the testimony and exhibits of Gulf witnesses Boyett, Burleson, Deason, Liu, Markey and Vick, related to those issues filed in Docket No. 160007-EI, be inserted into the record of this proceeding, as a basis for recovery of all costs identified therein, and that the witnesses be subject to cross-examination.<sup>3</sup>

The Office of Public Counsel, Federal Executive Agencies, Southern Alliance for Clean Energy, Florida Industrial Power Users Group, League of Women Voters of Florida, Wal-Mart Stores East, LP and Sam's East, Inc., and Sierra Club are parties.<sup>4</sup> The hearing is scheduled for March 20 through March 24, 2017.

## **II. CONDUCT OF PROCEEDINGS**

Pursuant to Rule 28-106.211, F.A.C., this Prehearing Order is issued to prevent delay and to promote the just, speedy, and inexpensive determination of all aspects of this case.

## **III. JURISDICTION**

This Commission is vested with jurisdiction over the subject matter by the provisions of Chapter 366, F.S. This hearing will be governed by Chapters 366 and 120, F.S., and Chapters 25-6, 25-22, and 28-106, F.A.C., as well as any other applicable provisions of law.

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<sup>1</sup> Order No. PSC-16-0511-PCO-EI, issued on November 9, 2016, in Docket No. 160186-EI, In re: Petition for rate increase by Gulf Power Company; and Docket No. 160170-EI, In re: Petition for approval of 2016 depreciation and dismantlement studies, approval of proposed depreciation rates and annual dismantlement accruals and Plant Smith Units 1 and 2 regulatory asset amortization, by Gulf Power Company.

<sup>2</sup> Order No. PSC-16-0535-FOF-EI, issued on November 22, 2016, in Docket No. 160007-EI, In re: Environmental cost recovery clause, p. 10.

<sup>3</sup> Id., at pgs. 10-11.

<sup>4</sup> "Order Acknowledging Intervention," Order No. PSC-16-0466-PCO-EI, issued on October 14, 2016; and "Orders Granting Intervention," Order No. PSC-16-0546-PCO-EI, issued on December 2, 2016; Order No. PSC-16-0550-PCO-EI, issued on December 8, 2016; Order No. PSC-16-0568-EI, issued on December 19, 2016; Order No. PSC-16-0585-PCO-EI, issued on December 30, 2016, Order No. PSC-17-0013-PCO-EI, issued on January 4, 2017, and Order No. PSC-17-0035-PCO-EI, issued on January 26, 2017, in Docket Nos. 160186-EI and 160170-EI.

#### **IV. PROCEDURE FOR HANDLING CONFIDENTIAL INFORMATION**

Information for which proprietary confidential business information status is requested pursuant to Section 366.093, F.S., and Rule 25-22.006, F.A.C., shall be treated by the Commission as confidential. The information shall be exempt from Section 119.07(1), F.S., pending a formal ruling on such request by the Commission or pending return of the information to the person providing the information. If no determination of confidentiality has been made and the information has not been made a part of the evidentiary record in this proceeding, it shall be returned to the person providing the information. If a determination of confidentiality has been made and the information was not entered into the record of this proceeding, it shall be returned to the person providing the information within the time period set forth in Section 366.093, F.S. The Commission may determine that continued possession of the information is necessary for the Commission to conduct its business.

It is the policy of this Commission that all Commission hearings be open to the public at all times. The Commission also recognizes its obligation pursuant to Section 366.093, F.S., to protect proprietary confidential business information from disclosure outside the proceeding. Therefore, any party wishing to use any proprietary confidential business information, as that term is defined in Section 366.093, F.S., at the hearing shall adhere to the following:

- (1) When confidential information is used in the hearing that has not been filed as prefiled testimony or prefiled exhibits, parties must have copies for the Commissioners, necessary staff, and the court reporter, in red envelopes clearly marked with the nature of the contents and with the confidential information highlighted. Any party wishing to examine the confidential material that is not subject to an order granting confidentiality shall be provided a copy in the same fashion as provided to the Commissioners, subject to execution of any appropriate protective agreement with the owner of the material.
- (2) Counsel and witnesses are cautioned to avoid verbalizing confidential information in such a way that would compromise confidentiality. Therefore, confidential information should be presented by written exhibit when reasonably possible.

At the conclusion of that portion of the hearing that involves confidential information, all copies of confidential exhibits shall be returned to the proffering party. If a confidential exhibit has been admitted into evidence, the copy provided to the court reporter shall be retained in the Office of Commission Clerk's confidential files. If such material is admitted into the evidentiary record at hearing and is not otherwise subject to a request for confidential classification filed with the Commission, the source of the information must file a request for confidential classification of the information within 21 days of the conclusion of the hearing, as set forth in Rule 25-22.006(8)(b), F.A.C., if continued confidentiality of the information is to be maintained.

**V. PREFILED TESTIMONY AND EXHIBITS; WITNESSES**

Testimony of all witnesses to be sponsored by the parties (and Staff) has been prefiled and will be inserted into the record as though read after the witness has taken the stand and affirmed the correctness of the testimony and associated exhibits. All testimony remains subject to timely and appropriate objections. Upon insertion of a witness' testimony, exhibits appended thereto may be marked for identification. Each witness will have the opportunity to orally summarize his or her testimony at the time he or she takes the stand. Summaries of witnesses' testimony shall be limited to 5 minutes.

Witnesses are reminded that, on cross-examination, responses to questions calling for a simple yes or no answer shall be so answered first, after which the witness may explain his or her answer. After all parties and Staff have had the opportunity to cross-examine the witness, the exhibit may be moved into the record. All other exhibits may be similarly identified and entered into the record at the appropriate time during the hearing.

The Commission frequently administers the testimonial oath to more than one witness at a time. Therefore, when a witness takes the stand to testify, the attorney calling the witness is directed to ask the witness to affirm whether he or she has been sworn.

The parties shall avoid duplicative or repetitious cross-examination. Further, friendly cross-examination will not be allowed. Cross-examination shall be limited to witnesses whose testimony is adverse to the party desiring to cross-examine. Any party conducting what appears to be a friendly cross-examination of a witness should be prepared to indicate why that witness's direct testimony is adverse to its interests.

**VI. ORDER OF WITNESSES**

Each witness whose name is preceded by an asterisk has been excused from the hearing. The parties have agreed to waiving cross-examination of the excused witnesses and to entering the witnesses' testimony and exhibits as evidence into the record at hearing.

<b><u>Witness</u></b>	<b><u>Proffered By</u></b>	<b><u>Issues #</u></b>
<b><u>Direct</u></b>		
Stan W. Connally, Jr.	Gulf	
Jarl T. Young (Adopting the prefiled direct testimony of Bentina C. Terry)	Gulf	1,6, 7, 22, 26, 53, 60, 68, 93, 94
Wendell E. Smith	Gulf	6, 7, 23, 60

<u>Witness</u>	<u>Proffered By</u>	<u>Issues #</u>
Michael L. Burroughs	Gulf	6, 7, 27, 31-34, 60 <sup>37</sup> ^
Jeffrey A. Burluson	Gulf	19, <del>37</del>
J. Terry Deason	Gulf	19
Xia Liu	Gulf	2, 19, 45-47, 77
Jun K. Park	Gulf	3-6
Joshua J. Mason	Gulf	6
* James H. Vander Weide	Gulf	46
Dane A. Watson	Gulf	8-13
Steven P. Harris	Gulf	64, 65
James M. Garvie	Gulf	36, 59-63
Janet J. Hodnett	Gulf	6, 13, 15-18, 29, 39, 40, 60 64-67, 72, 74-76, 78
Susan D. Ritenour	Gulf	2, 14, 20, 21, 24, 25, 28-32, 34-44, 47-52, 60, 67, 73, 74, 78-82, 101
Robert L. McGee, Jr.	Gulf	88-91, 102-104
John N. Floyd	Gulf	102-105
Michael T. O'Sheasy	Gulf	83-86
Lee P. Evans	Gulf	87, 89-100, 105

(19)  
6-19-17

<u>Witness</u>	<u>Proffered By</u>	<u>Issues #</u>
James R. Dauphinais	OPC	19, 20
Roxie McCullar	OPC	8, 9, 10, 11, 13, 18, 29, 74
Donna Ramas	OPC	1, 6, 19, 22, 23, 26, 27, 28, 29, 30, 31, 32, 33, 35, 36, 37, 38, 52, 53, 59, 60, 61, 63, 64, 68, 72, 73, 74, 75, 78, 79, 80, 82
* J. Randall Woolridge	OPC	39, 40, 41, 42, 43, 44, 45, 46, 47
* Michael P. Gorman	FEA	39-47
Brian C. Andrews	FEA	8-18
Amanda M. Alderson	FEA	83-87
Karl Rábago	LVWF/SACE	85-91, 95-97
Jeffrey Loiter	Sierra Club	88-91, 95-97
Philip Mosenthal	Sierra Club	19-20
* Steve W. Chriss	Walmart	46, 52
* Rhonda L. Hicks	Staff	7
* Donna D. Brown	Staff	19-82
Judy G. Harlow	Staff	3, 88, 89, 90, 91, 102, 103, and 104

### **Rebuttal**

Jeffrey A. Burleson	Gulf	19
J. Terry Deason	Gulf	19, 35, 59
Xia Liu	Gulf	19, 36, 45-47, 59, 60
Stan W. Connally, Jr.	Gulf	19

<u>Witness</u>	<u>Proffered By</u>	<u>Issues #</u>
Dane A. Watson	Gulf	8-13
Steven P. Harris	Gulf	64, 65
* James H. Vander Weide	Gulf	46
Lee P. Evans	Gulf	87
Michael T. O'Sheasy	Gulf	84, 86
Robert L. McGee, Jr.	Gulf	3, 88-91, 102-104
James M. Garvie	Gulf	36, 59-61, 63
Susan D. Ritenour	Gulf	26, 27, 36, 60, 61, 74
Janet J. Hodnett	Gulf	64, 65, 72
Richard M. Markey	Gulf	31, 32
Jarl T. Young	Gulf	7, 71

## **VII. BASIC POSITIONS**

**Gulf:** Gulf Power Company's current rates and charges will not provide Gulf a reasonable opportunity to earn a fair and reasonable rate of return for the period January 2017 through December 2017 and beyond. Gulf filed this case seeking an annual increase in its rates and charges of approximately \$106.8 million. The most reasonable period on which to base new rates and charges for Gulf is January 2017 through December 2017. The use of a projected test year that includes information related to rate base, net operating income, and capital structure for the time that new rates would be in effect is consistent with the Florida Public Service Commission's (FPSC or Commission) long standing practice of approving projected test years. The purpose of a test year in retail ratemaking is to allow the Commission to make a reasonable determination as to whether existing rates are adequate on a going forward basis given the expectations of conditions Gulf will experience during the period new rates will be in effect. Although there are known changes between the projected test year as presented in the MFRs and testimony filed by Gulf in this case and actual experience since the filing, the aggregate of these changes would



not reduce the total revenue deficiency that should be addressed through the requested increase in base rates. None of the adjustments to the test year identified through intervenor testimony filed in these proceedings warrant a change in the amount of rate relief that should be granted, particularly in light of the known changes to Gulf's revenue forecast for the test year. Nothing presented in intervenor testimony suggests that the 2017 test year as filed fails to provide a reasonable and appropriate basis on which to quantify the revenue deficiency that must be addressed through an increase in Gulf's base rates and charges. The requested increase based on test year data is necessary in order to provide Gulf a reasonable opportunity both to continue to provide reasonable and adequate service to its customers and simultaneously to recover the costs of providing that service including a reasonable and adequate rate of return on invested capital commensurate with the federal and Florida constitutions and the regulatory compact.

The Company's adjusted 13-month average jurisdictional rate base for the period January 2017 through December 2017 (the "test year") is projected to be \$2,418,917,000; and the jurisdictional achieved net operating income is projected to be \$80,723,000 using the rates currently in effect. The resulting adjusted achieved jurisdictional rate of return on average rate base is projected to be 3.34 percent, while the achieved return on common equity is projected to be 4.27 percent for the projected test year. Such a return is so low that it would severely jeopardize the Company's ability to finance future operations. The continued compulsory application of Gulf's present rates and charges will result in the unlawful taking of the Company's property without just compensation, resulting in confiscation of the Company's property in violation of the guarantees of the state and federal constitutions.

As a provider of retail electric service to the people of Northwest Florida, Gulf is obligated by statute to provide such service in a reasonable, "sufficient, adequate, and efficient" manner. Gulf has a similar obligation to provide its shareholders with a reasonable and adequate return on their investment. Without the revenue increase requested, Gulf cannot meet its obligations to either constituency in the long run. If Gulf is rendered unable to meet its obligations to the customers and shareholders due to inadequate rates, both stakeholder groups will suffer. The customers will suffer from less reliable service and eventually higher costs of electricity than would otherwise be the case, while the shareholders will suffer from an inadequate and confiscatory return on investment and will seek other places to invest their money.

Rates approved in Gulf's 2013 base rate case are not projected to be adequate to cover Gulf's cost of providing electric service. Gulf continues

to invest heavily in infrastructure required for us to serve our customers. One important driver of the need for a rate increase is the rededication to retail service of 160 MW of Gulf's ownership interest in Plant Scherer Unit 3 (Scherer 3). This rededication occurred on January 1, 2016 (110 MW) and June 1, 2016 (50 MW) as the most recent contracts committing this capacity to off-system wholesale sales expired. Since the rededication, this capacity has been used and useful in providing service to retail customers. The 160 MW of Scherer 3 represents five percent of Gulf's capacity that serves retail customers today and since mid-2016, this capacity has supplied six percent (over 400,000 MWH) of the energy needs of those retail customers.

Scherer 3 was originally planned, acquired and built – with the encouragement of the Commission – to serve retail customers as a more cost-effective alternative to the construction of a coal-fired unit known as Caryville Unit 1. The Caryville unit had been found by the Commission to be needed to serve retail customers and had been certified for construction by the Governor and Cabinet under the Florida Electrical Power Plant Siting Act. When the more cost-effective option of purchasing an interest in Plant Scherer became available, the Commission allowed Gulf to recover cancellation charges associated with Caryville Unit 1, but required Gulf to hold those revenues subject to refund pending the consummation of an agreement to purchase the Scherer capacity. Prior to entering into such an agreement, Gulf informed the Commission that, due to changes in load forecasts, there would not be an immediate retail need for the capacity on the unit's in-service date, but that Gulf expected to be able to enter into off-system wholesale contracts to temporarily relieve retail customers of cost responsibility for the capacity. The Commission recognized that purchase of an interest in Scherer remained a good option for retail customers and it continued to require Gulf to hold the Caryville cancellation charge revenues subject to refund until the agreement to purchase Scherer was finally approved by the Securities and Exchange Commission and Gulf actually closed on the purchase transaction.

Under the regulatory compact that exists between a utility and its regulator, a utility is entitled to the opportunity to earn a fair rate of return on prudent investments made for the benefit of its customers. The initial acquisition of Scherer 3 was consistent with the regulatory compact and the off-system sales contracts were appropriately designed to temporarily relieve retail customers of cost responsibility. Beginning on its 1987 in-service date, with the full knowledge and assent of the Commission, a majority of Gulf's interest in Scherer 3 was committed to long-term off-system wholesale contracts, and from 1995 until 2016, all of Gulf's interest in Scherer 3 was so committed under a series of such contracts. At each decision point where Gulf had the flexibility to return the capacity to

retail service or to continue to sell it at wholesale, planning projections showed that returning the unit to retail service did not match up with the type and timing of a retail capacity need and a wholesale market existed that enabled Gulf to continue to temporarily relieve retail customers of cost responsibility for the capacity. Gulf's decisions to continue to sell into the wholesale market were both consistent with the regulatory compact and in the best interests of Gulf's retail customers.

Gulf has rededicated the portion of Scherer 3 previously committed to long-term off-system sales to serving the retail customers for whom it was original planned, acquired and built. Returning Scherer 3 to retail service is a more cost-effective option to retail customers than divesting the unit and constructing an equivalent amount of combustion turbine capacity to meet Gulf's anticipated capacity needs. In addition to this economic benefit, continued ownership and operation of the unit to serve retail customers complements Gulf's resource plans by offsetting a portion of the lost fuel diversity associated with recently retired coal-fired units and serving as a form of protection from the volatility of natural gas prices.

Gulf is requesting that the Commission now include in retail rates the portion of Scherer 3 that is no longer committed under long-term off-system wholesale contracts. This action is necessary to honor the regulatory compact that contemplates that Gulf is entitled to the opportunity to earn a fair return on prudent investments that are used and useful in the public service. In the circumstances of Scherer 3, the prudence determination was made over 35 years ago and, contrary to assertions by the intervenors, should not now be revisited. The failure to include Scherer 3 in retail rates would have devastating financial consequences for Gulf. If the Commission were to deny recovery in this case, Gulf would have no choice but to diligently pursue an immediate disposition of the asset. This would deprive retail customers of the benefits of continuing to operate Scherer 3, while leaving them responsible for any stranded costs that result from the disposition. Such a result would not be in their best interests.

For these and other reasons detailed in the testimony and exhibits of Gulf's witnesses filed with its petition in this case, Gulf is respectfully requesting an increase in rates and charges that will produce an increase in total annual revenues of at least \$106.8 million.

**OPC:**

Gulf Power Company's \$107 million rate increase request is unwarranted. Instead of the rate increase Gulf asks for, a rate decrease of at least \$2,087,000 should be approved. Gulf's request is inflated due, among other things, to an unrealistic cost of equity, an artificially swollen equity ratio, phantom budgeted employment positions, excessive bonuses,

unjustified affiliate transactions with its parent company and excessive land and storm repair costs, in addition to other excessive and unsupported costs. In addition, Gulf is asking the Commission to let it put a 30 year-old coal plant in retail rate base after its shareholders had wrung out all of the profit from it in the wholesale market place since it was acquired but never needed for retail rates. The Commission should not allow Gulf to reap a windfall of up to \$28 million annually if a proposal to reduce the federal corporate income tax rate becomes effective before or after the effective date of rates in this case. The Commission should hold Gulf to its burden of proof and find that the requested rate increase is unwarranted and order a reduction in rates.

**FEA:**

FEA filed testimony on return on equity, embedded cost of debt, and proposed capital structure that will provide Gulf Power Company (“Gulf Power”) with an opportunity to realize cash flow financial coverage ratios and balance sheet strength that conservatively supports Gulf Power’s current bond rating. The FEA recommendation represents fair compensation for Gulf Power’s investment risk and will preserve the Company’s financial integrity and credit standing while finding an equitable balance between the rates paid by customers and the shareholders’ right to fair compensation.

FEA filed testimony stating that Gulf Power overstated its depreciation rates for several transmission, distribution, general, and transportation plant (“TDG”) accounts. FEA believes that Gulf Power underestimated the average service life for nine of the 28 accounts studied; therefore FEA is recommending increasing the lives of these nine accounts. These rates produce an excessive amount of depreciation expense and overstate the test year revenue requirement. FEA believes that the lives for the TDG accounts should be based on more recent retirement history relative to that which has been relied on by Gulf Power. The more recent retirement history will provide a better indication of future retirements of utility property, than will reliance on much older history.

FEA filed testimony supporting the Company’s proposal to continue using the Minimum Distribution Study method to functionalize distribution costs, but FEA opposes the Company’s proposal to include an energy weighting in development of the production cost allocation method. FEA finds the underlying data used by Gulf Power to develop the retail class production cost allocators to be inconsistent with the utility’s previously filed load research studies, and therefore questions the accuracy of the Company’s proposed production cost allocation across the retail classes. Because of the lack of supportable data available, FEA proposes that the spread of the revenue increase across customer classes be adjusted to use a

1.1 times gradualism constraint as opposed to the Company's proposed 1.5 times gradualism constraint.

FEA positions are based on materials filed by the parties. FEA final positions will be based upon all the evidence in the record and may differ from the preliminary positions stated herein.

**FIPUG:**

Gulf's rate request is overstated and should not be granted as requested. Gulf's request to saddle Gulf's customers with a portion of the thirty year old Plant Scherer coal-fired power plant should be rejected. Put simply, the Plant Scherer facility is not needed. Gulf's requested return on equity is inflated and any return on equity should be 10% or less.

**LWVF/SACE:**

Gulf Power Company is proposing a radical increase in rates for low energy users as part of its standard residential rate. It proposes to increase its base charge from \$18 per month, already the highest among the investor-owned utilities, by 155% to \$48 per month. Gulf has almost 15,000 residential customers who use 300 kWh of energy per month or less and over 20,000 that use between 300 kWh and 500 kWh per month. These customers, many of whom have invested money in energy efficiency and energy conservation measures, would face an approximately 50% increase and a 20% increase respectively in their bills under Gulf's proposal. The customers on the lower end of the energy usage spectrum of those 15,000 residential customers face a more than doubling of their bill. This will particularly hit lower income and fixed income customers hard, essentially punishing them for doing the right thing – striving to lower their energy use to save money on bills. This kind of rate increase is punitive, backwards, unfair, unjust, and unreasonable to those people who have done the most to reduce their energy usage.

Gulf's misplaced justification for this radical increase is its desire to apportion approximately half of demand costs into the customer charge. Gulf's desire to include demand related costs into the base charge would be an unprecedented shift from the standard residential two-part rate structure on which this Commission has historically relied upon. In doing so, Gulf seeks to change the way it collects its allowable demand costs in order to reduce the ability of customers to reduce their bills by reducing their use. Gulf's own data shows that low energy users do not contribute much to demand costs, and such users already equitably pay their fair share of demand costs under current rates.

Rather, Gulf's own data demonstrates that by increasing the customer charge, Gulf will be forcing low energy users who stay on the default residential rate to subsidize high energy users. This result is directly

contrary to state policy, which prioritizes the “[r]eduction in, and control of, the growth rates of electric consumption and of weather-sensitive peak demand.” § 366.81, Fla. Stat. The Legislature further directs that “in exercising its jurisdiction, the commission shall not approve any rate or rate structure which discriminates against any class of customers on account of the use of such facilities, systems, or devices,” which include “solar energy, renewable energy sources, highly efficient systems, cogeneration, and load-control.” § 366.81, Fla. Stat. By moving approximately half of the demand costs into the customer charge, and imposing that cost on low energy customers who do not incur much demand costs, Gulf is proposing a rate structure which discriminates against low energy users by having low energy users, who have invested in high efficiency systems, subsidize high energy users. Such a proposal violates state policy, is punitive, unfair, and unreasonable. The Commission should reject Gulf’s proposed residential rate restructure.

SACE and LWVF also believe that Gulf’s proposed revenue requirement should be significantly lower than the company is requesting, that Gulf’s proposed return on equity, given the current access and cost of capital, is simply too high. One major reason the revenue requirement is excessive is that the Scherer Unit 3 is not needed to meet customer demand. Gulf customers should not have to bear the burden of paying for an unnecessary power plant that has previously been sold into the wholesale market at market-based rates authorized by FERC. Gulf’s choice to seek market-based rates, with consequentially higher profits, is consistent with free market opportunities to own and operate an asset, and to assume the risks associated with such market activity. Gulf’s participation in the free market, in competition with unregulated power developers, is not consistent with its position in this docket that its customers are obligated to guarantee cost recovery for Scherer Unit 3 when market-based rates for that power drop below Gulf’s purported costs.

**Sierra Club:**

The Commission should deny Gulf Power Company’s request to saddle customers with the costs and risks of an aging coal plant in Georgia (Issue Nos. 19, 20). Likewise, the Commission should deny Gulf’s request to overhaul residential rates (Issue Nos. 88-91, 95-97). These requests lack support in the record and the legal standards governing rates cases.

**Walmart:**

The ultimate issue to be addressed by the Commission in this proceeding is whether Gulf Power Company ("Gulf") *needs* any additional revenues in order to provide safe, adequate, reliable service, to recover its legitimate costs of providing such service, and to have an opportunity to earn a fair and reasonable return on its legitimate investment in assets used and useful in serving Gulf’s retail customers. The evidence offered by intervenor parties, including the Citizens of the State of Florida, the

Federal Executive Agencies representing the United States military, and Walmart shows that, in total, the answer to this question is that Gulf can indeed fulfill its duty to provide safe, adequate, reliable service with no rate increase at all, and probably with a modest overall rate reduction of approximately \$2 million per year. The evidence further shows that, with its base rates thus fixed by the Commission, Gulf will in fact recover all of its legitimate costs of providing service and have the opportunity to earn a fair and reasonable return on its legitimate investment in assets used and useful in serving its retail customers.

Gulf's requested after-tax return on equity of 11.0 percent equates to a before-tax return of nearly 18 percent. This is excessive and unjustified relative to current capital market conditions and relative to the minimal risks that Gulf faces as the monopoly provider of a necessity – electric service – pursuant to regulation by the Florida Public Service Commission under applicable Florida Statutes. The fact that Gulf recovers approximately 61 percent of its total revenues through “cost recovery clauses” greatly reduces the risks that Gulf faces, thus rendering its requested 11.0 percent ROE unreasonable and overreaching. Further, the Intervenor's witnesses have provided evidence showing Gulf has overstated its expenses in many areas.

In summary, the combined evidence submitted by the consumer parties in this case shows that Gulf can provide safe, adequate, and reliable service, recover all of its legitimate costs of doing business, and have the opportunity to earn a reasonable rate of return on its investment in property used and useful in serving Gulf's customers, with no base rate increase at all.

**Staff:**

Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions stated herein.

**VIII. ISSUES AND POSITIONS**

See Section X of this Order for the proposed stipulations of the stipulated issues identified below.

**Legal/Threshold Issues**

**ISSUE 1:**           **Should the Commission address Gulf's requests related to electric vehicle charging stations in this case (Issue 13 and Issue 22)?**

**POSITIONS**

**Gulf:**                   Yes. Gulf Power has requested Commission approval of a depreciation rate for electric vehicle chargers which Gulf intends to install and maintain at commercial customers' requests behind their electric meters. Gulf has also requested to include \$1,072,000 in Plant in Service for the 2017 test year for these chargers and included a net operating income adjustment of \$239,000 reflecting revenues Gulf projects to receive in the test year from customers who have requested the chargers. Gulf's requests are reasonable and appropriate. There is no impediment, legal or otherwise, to the Commission addressing or granting Gulf's requests in this proceeding. While there is statutory authority which grants non-utilities the right to offer electric vehicle charging to the public, this statutory authority does not implicitly or explicitly prohibit utilities from offering such services on a regulated basis. This service is one that Gulf's customers are requesting Gulf to provide and, much like outdoor lighting and other services Gulf presently provides, Gulf is well-positioned to serve its customers' needs. (Young)

**OPC:**                   At this time the OPC believes that, given the novel and nascent aspect of this issue, the Commission does not have enough information to establish a policy regarding the final, appropriate accounting and regulatory treatment of the EVCS (electric vehicle charging stations). OPC witness Ramas has removed the impact of the EVCS from the filing. OPC supports this approach. However, to the extent that Gulf effectively imputes up to the minimum revenue requirement of the EVCS (in the event the customer base does not materialize) to insulate the general body of ratepayers from risks of the un-tested approach to the product, while recognizing any revenues that exceed the costs in both the setting of rates and in the surveillance process, the OPC would not object to such a modified approach. (Ramas)

**FEA:**                   No position.

**FIPUG:**                No, this issue should not be addressed in this docket.

**LWVF/SACE:**        No position.

**Sierra Club:**        Depending on the evidence adduced at the hearing, Sierra Club may be open to the Commission addressing these requests in this case.



**Walmart:** No position.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**Test Year Period and Forecasting**

**ISSUE 2:** **Is Gulf's projected test year period of the 12 months ending December 31, 2017 appropriate?**

**POSITIONS**

**Gulf:** Yes. The 12 months ending December 31, 2017 as presented in Gulf's MFRs filed in this case is the most appropriate test period, as it is representative of future operations. It properly matches Gulf's projected revenues with the projected costs and investment required to provide service during the period following the effective date of new base rates in this case. This issue is not addressed in the testimony of any intervenor witness. Since this issue is not contested in testimony, it appears it could and should be stipulated. (Liu, Ritenour)

**OPC:** No position.

**FEA:** No position.

**FIPUG:** No. Gulf has not met its burden.

**LWVF/SACE:** No position.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** Walmart does not oppose the use of calendar year 2017 as the test year for this case.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 3:** **Are Gulf's forecasts of Customers, kWh, and kW by rate class, for the 2017 projected test year appropriate? If not, what adjustments should be made?**

**POSITIONS**

**Gulf:** Yes. Gulf's forecasts of customers and energy sales (kWh) by rate class and demand (kW) for the 2017 projected test year are based on sound

methods which consistently produce accurate results, have been relied on by Gulf and the Commission in a number of other proceedings, and are appropriate for use in this proceeding. (Park, McGee)

**OPC:** Gulf has the burden to demonstrate the correctness of its forecast and that it is reasonably representative of going-forward operations and circumstances. Gulf has not met its burden on this issue.

**FEA:** No position.

**FIPUG:** No. Gulf has not met its burden.

**LWVF/SACE:** No. Gulf has continued to have errors in its forecasting that should be corrected.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** Agree with OPC.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 4:** Are Gulf's forecasts of billing determinants by rate schedule for the 2017 projected test year appropriate? If not, what adjustments should be made?

#### **POSITIONS**

**Gulf:** Yes. Gulf's forecasts of billing determinants by rate schedule for the 2017 projected test year are based on sound methods, include all billing components necessary for the development of the base revenue forecast, and are appropriate for use in this proceeding. (Park)

**OPC:** Gulf has the burden to demonstrate the correctness of its billing determinants and that they are reasonably representative of going-forward operations and circumstances. Gulf has not met its burden on this issue.

**FEA:** No position.

**FIPUG:** No. Gulf has not met its burden.

**LWVF/SACE:** No position.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** Agree with OPC.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 5:** **Are Gulf's estimated revenues from sales of electricity by rate class at present rates for the projected 2017 test year appropriate? If not, what adjustments should be made?**

**POSITIONS**

**Gulf:** Yes. Gulf appropriately applied present rates to forecast billing determinants, resulting in estimated revenues from sales of electricity by rate class at present rates for the projected 2017 test year that are appropriate for use in this proceeding. (Park)

**OPC:** Gulf has the burden to demonstrate the correctness of its estimated revenue from sales of electricity and that it is reasonably representative of going-forward operations and circumstances. Gulf has not met its burden on this issue.

**FEA:** FEA's evidence shows that Gulf Power's proposed 2017 revenue requirement is overstated and not reasonable.

**FIPUG:** No. Gulf has not met its burden.

**LWVF/SACE:** No position.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** Agree with OPC.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 6:** **What are the appropriate inflation, customer growth, and other trend factors for use in forecasting the 2017 projected test year budget?**

**POSITIONS**

**Gulf:** The inflation, customer growth and other trend factors shown on MFR F-8 are appropriate for use as needed in calculating a reasonable and appropriate forecast of the 2017 projected test year budget. These factors were based on the most current information available at the time the 2017 test year budget was prepared. (Mason, Park, Young, Smith, Burroughs, Hodnett)

**OPC:** Projected costs in the filing based on Gulf's 3.7% inflation factor should be adjusted to recognize the most recently provided inflation factor of

2.5%. A minimum adjustment to reduce O&M expense by \$121,000 (\$118,000 jurisdictional) should be made with the recognition that Gulf must demonstrate that only 3.2% of the 2017 forecasted O&M expense is based on inflation. A greater adjustment may be warranted if, and to the extent that, Gulf fails to meet this burden. (Ramas)

**FEA:** No position.

**FIPUG:** Adopt the position of OPC.

**LWVF/SACE:** No position.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** Agree with OPC.

**Staff:** Staff has no position pending evidence adduced at the hearing.

### **Quality of Service**

**ISSUE 7:** Is the quality and reliability of electric service provided by Gulf adequate?

### **POSITIONS**

**Gulf:** Yes. Gulf's quality and reliability of electric service is more than adequate, as evidenced by Gulf's low customer complaint activity with the Florida Public Service Commission and numerous performance measures. In the Production area, Gulf's Equivalent Forced Outage Rate is well-below the industry average and even the average for the top decile performers. Gulf's Production safety performance has been 33.65 percent better than the performance of the industry from 2006 – 2015. Gulf's Transmission and Distribution SAIDI and SAIFI performance has markedly improved from 2012 through 2015, evidencing improved reliability. Additionally, Gulf's service and reliability attributes in customer surveys are consistently among the best in the industry. This issue is not addressed in the testimony of any intervenor witness. Since this issue is not contested in testimony, it appears it could and should be stipulated. (Burroughs, Smith, Young)

**OPC:** The Commission is still taking evidence from customers on the issue of customer service. Gulf's burden is to demonstrate that it provides adequate and reliable customer service at the lowest cost. At this point the OPC cannot take a position pending receipt of all customer comments and complaints and company responses to such.

**FEA:** No position.

**FIPUG:** Adopt the position of OPC.

**LWVF/SACE:** No position.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** Agree with OPC.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**Depreciation and Dismantlement**

**ISSUE 8:** CATEGORY 2 STIPULATION – See Section X, Proposed Stipulations.

**ISSUE 9:** What are the appropriate depreciation parameters (remaining life [including the production unit retirement date or life span and the interim retirement ratio for production plant accounts], net salvage percentage [including interim net salvage percent for production plant accounts], and reserve percentage) and resulting depreciation rates for each production unit and each production plant account?

**POSITIONS**

**Gulf:** All appropriate parameters and rate components are included within the depreciation study filed by Gulf and modified in Gulf Witness Watson's rebuttal testimony as shown on Appendix A-1 and D-2 of Exhibit DAW-4. Gulf's depreciation rates for production plant are based upon the depreciation study performed by Alliance Consulting Group (Alliance), a well-respected and independent third party with significant experience in depreciation matters related to utility companies. Intervenors' attacks on selective elements of Gulf's production depreciation rates are without merit. (Watson)

**OPC:** The OPC proposed depreciation parameters and depreciation rates shown on Exhibit RMM-1 as WDA Proposed are appropriate for Gulf's production unit and production plant account. (McCullar)

**FEA:** No position.

**FIPUG:** Adopt the position of OPC.

**LWVF/SACE:** No position.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** No position.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 10:** **What are the appropriate depreciation parameters (average service life, remaining life, net salvage percentage and reserve percentage) and resulting depreciation rates for each transmission, distribution, and general plant account?**

**POSITIONS**

**Gulf:** All appropriate parameter and rate components are included within the depreciation study filed and modified in Gulf Witness Watson's rebuttal testimony as shown on Appendix A-3 of exhibit DAW-4. The depreciation study filed by Gulf was performed by Alliance in accordance with the customary and standard practices historically relied upon by this Commission. It should be used to set Gulf's depreciation rates. Intervenor's witnesses apparently agreed with significant portions of Gulf's depreciation study, and the limited attacks on selective elements of Gulf's comprehensive study are without merit. (Watson)

**OPC:** The OPC proposed depreciation parameters and depreciation rates shown on Exhibit RMM-1 as WDA Proposed are appropriate for Gulf Power's transmission, distribution, and general plant accounts. (McCullar)

**FEA:** FEA takes the position that is advocated in the direct testimony of Brian C. Andrews and presented in his Exhibit BCA-1. The appropriate depreciation parameters are shown in the table below. Sponsoring witness: Brian C. Andrews.

<b>Account</b>	<b>Average Service Life</b>	<b>Remaining Life</b>	<b>Net Salvage Percentage</b>	<b>Depreciation Rate</b>
350.1	65-R5	27.66	0%	1.53%
352	55-R3	46.65	-5%	1.72%
353	40-L0.5	34.36	-10%	2.81%
354	56-R3	33.06	-25%	2.00%
355	41-S0	35.62	-75%	4.56%
356	50-R1	42.14	-30%	2.55%
358	55-R5	28.31	0%	1.47%
359	55-SQ	42.09	0%	1.85%

<b>Account</b>	<b>Average Service Life</b>	<b>Remaining Life</b>	<b>Net Salvage Percentage</b>	<b>Depreciation Rate</b>
360.1	55-SQ	44.59	0%	1.82%
361	52-R2.5	38.99	-5%	1.89%
362	38-R1	28.04	-10%	3.12%
364	38-R1	27.52	-75%	4.30%
365	45-R1	32.53	-50%	3.57%
366	67-R5	27.34	0%	1.13%
367	41-R2	30.52	-15%	2.44%
368	33-R0.5	24.97	-22%	3.40%
369.1	42-R1	29.46	-75%	3.85%
369.2	45-R2.5	32.87	-20%	2.58%
370.0	16-R1	11.46	10%	7.92%
370.1	15-R1	11.82	0%	4.75%
373	23-R0.5	15.85	-20%	4.13%
390	48-R1.5	33.59	-5%	2.01%
392.1	7-R4	3.59	15%	8.24%
392.2	12-R4	2.21	5%	17.57%
392.3	13-L4	3.18	15%	8.95%
392.4	22-L2.5	10.26	8%	3.73%
396	18-R4	5.80	20%	1.37%
397	17-L1.5	11.48	0%	5.22%

**FIPUG:** Adopt the position of OPC.

**LWVF/SACE:** No position.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** No position.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 11:** Based on the application of the depreciation parameters that the Commission has deemed appropriate to GPC's data, and a comparison of the theoretical reserves to the book reserves, what are the resulting imbalances, if any?

**POSITIONS**

**Gulf:** There are no material reserve imbalances. Any immaterial balances are appropriately adjusted prospectively in future depreciation studies. (Watson)

**OPC:** Based on the OPC proposed depreciation parameters and depreciation rates shown on Exhibit RMM-1 as WDA Proposed, there is a reserve deficiency of \$175 million. (\$1,472 million book reserve as of 12/31/2016 less \$1,647 million theoretical reserve as of 12/31/2016 based on Exhibit RMM-1 proposed depreciation parameters and depreciation rates). (McCullar)

**FEA:** The comparison of the book reserves to theoretical reserves and the resulting imbalances associated with the depreciation parameters shown in Issue 11 are presented below. Sponsoring witness: Brian C. Andrews.

<b>Account</b>	<b>Book Reserve</b>	<b>Theoretical Reserve</b>	<b>Imbalance</b>
350.1	7,310,897	7,270,194	40,703
352	6,029,828	3,890,209	2,139,619
353	33,409,988	38,782,427	(5,372,439)
354	24,879,312	21,659,251	3,220,061
355	28,946,820	52,900,799	(23,953,979)
356	27,851,093	25,290,442	2,560,651
358	8,392,435	6,988,786	1,403,649
359	51,951	55,396	(3,445)
<b>Total Transmission</b>	<b>136,872,325</b>	<b>156,837,504</b>	<b>(19,965,179)</b>
360.1	38,383	38,642	(259)
361	8,307,855	6,937,867	1,369,988
362	48,190,373	61,457,066	(13,266,693)
364	79,425,237	67,776,229	11,649,008
365	52,068,507	63,640,015	(11,571,509)
366	802,585	686,400	116,185
367	63,904,565	46,475,682	17,428,882
368	104,889,760	83,881,394	21,008,366
369.1	38,141,620	32,386,834	5,754,786
369.2	20,106,639	18,471,837	1,634,802
370.0	(288,419)	9,335,914	(9,624,333)
370.1	18,329,633	8,858,910	9,470,723
373	41,162,451	28,174,468	12,987,983
<b>Total Distribution</b>	<b>475,079,189</b>	<b>428,121,259</b>	<b>46,957,929</b>
390	31,641,511	26,561,318	5,080,193
396	671,383	505,337	166,046
397	9,823,909	7,959,834	1,864,074
<b>Total General</b>	<b>42,136,803</b>	<b>35,026,489</b>	<b>7,110,313</b>
392.1	16,553	12,372	4,181
392.2	4,220,267	5,826,354	(1,606,087)
392.3	13,863,301		(1,882,397)



<b>Account</b>	<b>Book Reserve</b>	<b>Theoretical Reserve</b>	<b>Imbalance</b>
		15,745,698	
392.4	709,817	648,547	61,270
<b>Total Transportation</b>	<b>18,809,939</b>	<b>22,232,971</b>	<b>(3,423,032)</b>
<b>Total TDG</b>	<b>672,898,255</b>	<b>642,218,224</b>	<b>30,680,031</b>

**FIPUG:** Adopt the position of OPC.

**LWVF/SACE:** No position.

**Sierra Club:** Sierra Club adopts OPC’s position.

**Walmart:** No position.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 12:** **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations.

**ISSUE 13:** **What is the appropriate depreciation rate for Gulf’s electric vehicle charging stations?**

**POSITIONS**

**Gulf:** A 15-year life for electric vehicle charging infrastructure and a net salvage of zero percent are appropriate. (Hodnett, Watson)

**OPC:** No position.

**FEA:** No position.

**FIPUG:** As set forth in Issue 1, this issue should not be addressed in this docket.

**LWVF/SACE:** No position.

**Sierra Club:** Sierra Club adopts OPC’s position.

**Walmart:** No position.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 14:**                    **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations.

**ISSUE 15:**                    **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations.

**ISSUE 16:**                    **What, if any, corrective dismantlement reserve allocations should be made?**

**POSITIONS**

**Gulf:**                            No specific set of reserve allocation adjustments is necessary. To reduce costs to the customer, Gulf proposes a single reserve balance for funding needed dismantling activities. Gulf’s dismantlement study provides an illustration of the benefits to this approach. (Hodnett)

**OPC:**                            Dismantlement accruals should reflect a credit to the cost of service occasioned by any surplus in the dismantlement reserve caused by Gulf’s inability to use the Other Cost of Removal amortization provided for in Paragraph 11(d) of the 2013 Stipulation and Settlement as a result of any change in the federal corporate income tax rate.

**FEA:**                            No position.

**FIPUG:**                        Adopt the position of OPC.

**LWVF/SACE:**                No position.

**Sierra Club:**                Sierra Club adopts OPC’s position.

**Walmart:**                    No position.

**Staff:**                         Staff has no position pending evidence adduced at the hearing.

**ISSUE 17:**                    **Based on the decisions in Issues 15 and 16, what is the appropriate annual accrual for dismantlement?**

**POSITIONS**

**Gulf:**                            Gulf’s recommended base rate annual dismantlement accrual is zero. (Hodnett)

- OPC:** Dismantlement accruals should reflect a credit to the cost of service occasioned by any surplus in the dismantlement reserve caused by Gulf's inability to use the Other Cost of Removal amortization provided for in Paragraph 11(d) of the 2013 Stipulation and Settlement as a result of any change in the federal corporate income tax rate.
- FEA:** No position.
- FIPUG:** Adopt the position of OPC.
- LWVF/SACE:** No position.
- Sierra Club:** Sierra Club adopts OPC's position.
- Walmart:** No position.
- Staff:** Staff has no position pending evidence adduced at the hearing.
- ISSUE 18:** **CATEGORY 1 STIPULATION** – See Section X, Proposed Stipulations.

**Rate Base**

- ISSUE 19:** **Should the Commission allow recovery through retail rates any portion of Scherer Unit 3? If so, what adjustments, if any, should be made to the treatment of Scherer Unit 3 in the Company's filing?**

**POSITIONS**

- Gulf:** Yes. As described in Gulf's statement of basic position, Gulf's interest in Scherer 3 was originally planned, acquired and built to serve retail customers as a cost-effective alternative to the continued development of a Gulf-owned unit at the Caryville site that had been certified under the Florida Electrical Power Plant Siting Act to meet a retail need. With the encouragement of the Commission, Gulf pursued the acquisition of an interest in Scherer 3 and entered into long-term off-system wholesale contracts to temporarily relieve retail customers of cost responsibility for the unit. Seventy-six percent of Gulf's interest in Scherer 3 has now been rededicated to serve the retail customers for whom the unit was originally planned, acquired and built. Since mid-2016, this portion of Scherer 3 has represented five percent of Gulf's generating capacity and has provided six percent (more than 400,000 MWH) of the energy consumed by Gulf's retail customers. Gulf's decision to use Scherer 3 to serve retail customers – and its earlier decisions to temporarily cover the unit's revenue requirements through off-system wholesale contracts – have all been

prudent, in the best interests of retail customers, and consistent with the regulatory compact. The Commission should allow recovery of the portion of the unit that has been rededicated to retail service and no adjustment should be made to the treatment requested for Scherer 3 in Gulf's filing. (Burlison, Deason, Liu, Connally)

**OPC:**

No. For the reasons stated in the Direct Testimony of OPC Witness James Dauphinais, Gulf has not met its burden to demonstrate why the costs of its share of Scherer 3 should be included in the rates paid by its retail customers. The plant was not needed to serve retail load in Florida from the time Gulf entered into an agreement to own a 25% share of the unit. It has never been needed. In the ensuing 30-plus years, Gulf's shareholders profited from placing the unit into the wholesale market. Only when the coal plant became uneconomical in the wholesale market place did Gulf seek to thrust it upon retail customers who did not need it in the past and do not need it in the foreseeable future. Gulf has not met its burden to show that inclusion of the costs of Scherer Unit 3 are appropriately included in the retail cost of service for its customers. The \$19 million base rate retail revenue requirement related to Scherer should be removed as shown in DMR-2 (Dauphinais, Ramas)

**FEA:**

FEA adopts the position of the OPC.

**FIPUG:**

No. No need exists for a portion of Plant Scherer. Ratepayers should not be saddled with these unnecessary costs.

**LWVF/SACE:**

No, Gulf Power has chosen to market Scherer Unit 3 at market-based rates authorized by FERC, and the Commission should disallow the request to obligate customers to resume responsibility of cost recovery for Scherer Unit 3 now that market-based rates for its power have declined.

**Sierra Club:**

No. The Commission should deny such recovery because Section 366.06, F.S., limits recovery to expenses that are "prudently invested" in property that is "used and useful" to customers. Gulf's portion of Scherer Unit 3 does not qualify, as Sierra Club Witness Mosenthal explained:

1. Gulf itself projects no need for Scherer Unit 3 capacity until 2023, and even this projected capacity need is not reliable.
2. Assuming a capacity need beginning in 2023, it is premature to burden customers with the costs and risks of an aging coal plant now, when they will see no concrete benefits from Scherer Unit 3 for seven years or more, and there is a significant risk that the costs will outweigh any long-term benefits.

3. Approval of Gulf's proposal would result in an undiversified resource portfolio that is dangerously dependent on coal, exposing customers to unnecessary risk, and missing opportunities that would improve diversity and offer a better hedge value.

4. Gulf has not evaluated alternative options to meet its projected 2023 reliability need, nor shown that Scherer Unit 3 is a least cost option, and there is ample evidence that lower-cost and lower-risk options are available in today's market and more than likely in the 2023 market as well.

**Walmart:** Agree with OPC.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 20:** **CATEGORY 1 STIPULATION** – See Section X, Proposed Stipulations.

**ISSUE 21:** **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations.

**ISSUE 22:** **What is the appropriate amount, if any, to include in Plant in Service for Gulf's electric vehicle charging stations?**

### **POSITIONS**

**Gulf:** The appropriate amount of Plant in Service for Gulf's electric vehicle charging stations is \$1,042,000 (\$1,072,000 system) for the 2017 projected test year. (Young)

**OPC:** See position on Issue 1. OPC's primary position as stated in the testimony of witness Ramas is that the amount is \$-0-. However, to the extent that Gulf holds customers' harmless while crediting the revenues equal to the cost in the overall revenue requirement, then the amount proposed by Gulf is acceptable. (Ramas)

**FEA:** No position.

**FIPUG:** Nothing. This issue should not be addressed in this docket.

**LWVF/SACE:** No position.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** No position.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 23:**                    **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations.

**ISSUE 24:**                    **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations.

**ISSUE 25:**                    **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations.

**ISSUE 26:**                    **CATEGORY 1 STIPULATION** – See Section X, Proposed Stipulations.

**ISSUE 27:**                    **Are Gulf’s projected capital expenditures associated with maintenance outages for 2016 and 2017 appropriate? If not, what adjustments should be made?**

**POSITIONS**

**Gulf:**                            Yes. The projected capital expenditures that formed the basis for the investment included in Gulf’s 2017 test year are appropriate and representative of costs of future operations. The Commission should not consider attempts by any party to interject selective updates to projected costs included in the projected test year; allowing such selective updates is inconsistent with the use of a projected test year. No adjustment to the 2017 test year is necessary or appropriate. (Burroughs, Ritenour)

**OPC:**                            No. The 2016 maintenance capital expenditures are projected to be \$7,053,551 (\$6,857,000 jurisdictional) lower than the budgeted amount included in the filing. Test year plant in service should be reduced by this amount and corresponding adjustments (reductions) made to depreciation expense for \$280,407 (\$272,000 jurisdictional) and accumulated depreciation for \$140,204 (\$136,000 jurisdictional). (Ramas)

**FEA:**                            No position.

**FIPUG:**                        Adopt the position of OPC.

**LWVF/SACE:**                No position.

**Sierra Club:**                Sierra Club adopts OPC’s position.

**Walmart:**                    Agree with OPC.

**Staff:**                            Staff has no position pending evidence adduced at the hearing.

**ISSUE 28:**           **Is Gulf’s requested level of Plant in Service for the 2017 projected test year appropriate? If not, what is the appropriate amount? (Fallout Issue)**

**POSITIONS**

**Gulf:**                   Yes. Gulf’s requested level of Plant in Service in the amount of \$3,457,741,000 (\$3,521,584,000 system) is appropriate, once adjusted for Gulf’s position on Issue 26. (Ritenour)

**OPC:**                   No. After appropriate adjustments, the amount should be no greater than \$3,290,358,000. (Ramas)

**FEA:**                   No position.

**FIPUG:**               Adopt the position of OPC.

**LWVF/SACE:**       No position, except with respect to disallowance of Plant Scherer Unit 3.

**Sierra Club:**       Sierra Club adopts OPC’s position.

**Walmart:**         Agree with OPC.

**Staff:**               Staff has no position pending evidence adduced at the hearing.

**ISSUE 29:**           **Is Gulf’s requested level of Accumulated Depreciation for the 2017 projected test year appropriate? If not, what is the appropriate amount? (Fallout Issue)**

**POSITIONS**

**Gulf:**                   Yes. Gulf’s requested level of Accumulated Depreciation in the amount of \$1,350,342,000 (\$1,374,660,000 system) is appropriate, once adjusted for Gulf’s position on Issue 26. (Hodnett, Ritenour)

**OPC:**                   No. After appropriate adjustments, the amount should be no greater than \$1,258,995,000. (McCullar, Ramas)

**FEA:**                   No position.

**FIPUG:**               Adopt the position of OPC.

**LWVF/SACE:**       No position.

**Sierra Club:**       Sierra Club adopts OPC’s position.

**Walmart:** Agree with OPC.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 30:** **Is Gulf's requested level of Construction Work in Progress for the 2017 projected test year appropriate? If not, what is the appropriate amount?**

**POSITIONS**

**Gulf:** Yes. Gulf's requested level of Construction Work in Progress (CWIP) is not eligible to accrue an Allowance for Funds Used during Construction (AFUDC) and should be allowed in rate base consistent with Commission policy. CWIP in the amount of \$40,163,000 (\$41,006,000 system), once adjusted for Gulf's position on Issue 26, is appropriate in order to continue to maintain reliability and meet the service needs of our customers. (Ritenour)

**OPC:** No. After appropriate adjustments, the amount should be no greater than \$34,410,000. (Ramas)

**FEA:** No position.

**FIPUG:** Adopt the position of OPC.

**LWVF/SACE:** No position.

**Sierra Club:** Adopts OPC's position.

**Walmart:** Agree with OPC.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 31:** **Is Gulf's requested level of Property Held for Future Use for the 2017 projected test year, including the North Escambia site, appropriate? If not, what is the appropriate amount?**

**POSITIONS**

**Gulf:** Yes. Gulf's requested level of Plant Held for Future Use (PHFU) in the amount of \$14,345,000 (\$14,757,000 system) for the 2017 projected test year is appropriate. The only parcel of PHFU that has been contested by any witness is the North Escambia site.



The North Escambia site is the best site available for new generation necessary to serve Gulf's customers. Gas-fired generation at that site is lower cost than generation at any other site available to Gulf. The entire 2,728 acres at the site will be necessary to mitigate risks, including adequate water supply, associated with the site. Gulf's customers are fortunate that Gulf's management has held this site for their benefit, but it cannot be reasonably assumed that the site will remain available if it is not included in PHFU in this case.

OPC Witness Ramas's arguments against including this site in PHFU are not compelling. The Commission's disallowance for a larger, more costly site for a nuclear unit is inapplicable. The preliminary site investigation costs that Gulf seeks do not include any nuclear-specific costs and are limited to the costs that can and will be used for siting gas-fired generation. The entire existing site is necessary for water supply and risk mitigation. Finally, it is not necessary for Gulf to have final plans to build at the site for the site to be included in PHFU; Gulf has shown that it has a forecasted need for capacity by 2023 and that this site is the single best site available to develop Gulf's self-build option to meet that need. Gulf should employ its lowest cost self-build option to assess properly any third party options such as potential PPAs or asset purchases. If Gulf's lowest cost self-build option is to be preserved for Gulf's customers, the North Escambia site needs to be included in PHFU. (Burroughs, Markey, Ritenour)

This issue is duplicative of the subsequent issue. Issue 31 can be dropped.

**OPC:**

No. After appropriate adjustments, including exclusion of the North Escambia site, the amount should be no greater than \$1,666,000. The Commission has already disallowed this site from rate base. OPC witness Ramas recommends that the land included in PHFU be excluded from rate base. There are many additional sites already included in rate base that are available to be used to site future facilities. Gulf has not met its burden of demonstrating that, for this site which has been expressly disallowed, that it has actual plans to construct facilities on the North Escambia site to meet its forecasted 2023 energy needs. Nor has Gulf demonstrated that the entire 2,728 acres it acquired for a future potential nuclear facility will be needed to fill its forecasted 2023 energy needs. The full \$13,043,000 (\$12,679,000 jurisdictional) of North Escambia land costs should be excluded from PHFU in rate base. (Ramas)

**FEA:**

No position.

- FIPUG:** No. The North Escambia site should not be put into rate base. The Commissions' prior decision to not permit the North Escambia site to be placed into rate base should be upheld and affirmed.
- LWVF/SACE:** No. The North Escambia site should not be included.
- Sierra Club:** Sierra Club adopts OPC's position.
- Walmart:** No. The North Escambia site, which has already been rejected by the Commission, should be excluded. The maximum amount of PHFFU is \$1,666,000.
- Staff:** Staff has no position pending evidence adduced at the hearing.
- ISSUE 32:** **DROPPED**
- ISSUE 33:** **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations.
- ISSUE 34:** **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations.
- ISSUE 35:** **Is Gulf's proposed Deferred Return on Transmission Investments and the amortization thereof consistent with the terms of the 2013 Settlement Agreement in Docket No. 130140-EI, correctly calculated, and appropriate? If not, what is the appropriate amount?**

**POSITIONS**

- Gulf:** Yes. The appropriate amount of the Deferred Return to be recovered is \$25,422,000 (\$26,099,000 system). The appropriate period of recovery of the Deferred Return is four years. The amortization period should not be the remaining life of the transmission assets as suggested by OPC Witness Ramas, since the deferred return reflects dollars that under normal ratemaking would have already been recovered from customers through base rates. (Ritenour, Deason)
- OPC:** This question is not whether the amortization is consistent with the 2013 Settlement Agreement, since the document is silent on the amortization period. The Commission should require amortization over a period that is in the best interest of the customers while allowing Gulf to preserve and recover the deferred return as agreed to in the Settlement Agreement. Ramas has described the nature of the return as being similar to AFUDC, which is recovered over the life of the associated asset through depreciation expense. In this case such a recovery period would be approximately 40 years. Under this time frame, annual amortization expense should be \$652,000 (\$634,000 jurisdictional) instead of the

proposed \$6,525,000 (\$6,343,000 jurisdictional) Gulf has requested consistent with its proposed four-year amortization period. This adjustment would require a further change to working capital in the form of a \$2,936,000 (\$2,860,000 jurisdictional) increase. (Ramas)

**FEA:** No position.

**FIPUG:** Adopt the position of OPC.

**LWVF/SACE:** No position.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** Agree with OPC.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 36:** **CATEGORY 1 STIPULATION** – See Section X, Proposed Stipulations

**ISSUE 37:** **Is Gulf's proposed level of Working Capital for the 2017 projected test year appropriate? If not, what is the appropriate amount? (Fallout Issue)**

### **POSITIONS**

**Gulf:** Yes. Gulf's requested level of Working Capital in the amount of \$256,171,000 (\$262,068,000 system) for the 2017 projected test year is appropriate once adjusted for Gulf's position on Issue 36.

Gulf's balance for in-transit coal at the McDuffie terminal has been contested by OPC Witness Ramas. Gulf Witness Burroughs addressed why in-transit coal should be included in working capital - it is paid for upon loading at the supplier's originating point; therefore, it belongs to Gulf for use of its customers and should earn a return. This is consistent with prior Commission treatment of in-transit coal (Ritenour, Burroughs)

**OPC:** No. After appropriate adjustments, working capital should be no more than \$214,631,000. Gulf has included in-transit coal in its working capital request. The amount of in-transit coal included in Gulf's working capital request that is in excess of the target level should be disallowed for the reasons stated below. The amount of the McDuffie Coal Terminal inventory included in working capital should be reduced from the \$19,826,081 incorporated in the Company's filing to \$7,820,596, which is a reduction of \$12,005,486 (\$11,660,000 jurisdictional). The recommended balance of \$7,820,596 is based on the average projected

inventory cost provided in the Company's workpapers for the period August 2017 through December 2017. The recommended quantity associated with the \$7,820,596 balance of 104,417 tons shown on Exhibit DMR-2 at Schedule B-4 is also consistent with Gulf's 10-burn day inventory target for the McDuffie coal terminal. Witness Ramas has made this adjustment to reduce working capital. (Ramas)

- FEA:** No position.
- FIPUG:** No. The amount of the McDuffie Coal Terminal inventory included in working Capital should be reduced.
- LWVF/SACE:** No position.
- Sierra Club:** Sierra Club adopts OPC's position.
- Walmart:** No.
- Staff:** Staff has no position pending evidence adduced at the hearing.
- ISSUE 38:** **Is Gulf's requested rate base for the 2017 projected test year appropriate? If not, what is the appropriate amount? (Fallout Issue)**

**POSITIONS**

- Gulf:** Yes. Gulf's requested level of rate base in the amount of \$2,418,917,000 (\$2,465,619,000 system) for the 2017 projected test year is appropriate. (Ritenour)
- OPC:** No. After appropriate adjustments to reflect the most recent information provided in Gulf's rebuttal filing, the allowed rate base should be no more than \$2,281,405,000. (Ramas)
- FEA:** No position.
- FIPUG:** Adopt the position of OPC.
- LWVF/SACE:** No position, except with respect to disallowance of Plant Scherer Unit 3.
- Sierra Club:** Sierra Club adopts OPC's position.
- Walmart:** Agree with OPC.
- Staff:** Staff has no position pending evidence adduced at the hearing.

**Cost of Capital**

**ISSUE 39:** What is the appropriate amount of accumulated deferred taxes to include in the capital structure for the 2017 projected test year?

**POSITIONS**

**Gulf:** Gulf's requested level of accumulated deferred taxes in the amount of \$568,999,000 (\$580,097,000 system) for the 2017 projected test year is appropriate. (Ritenour, Hodnett)

**OPC:** The following amounts of accumulated deferred taxes should be included in the capital structure before reconciliation with rate base adjustments. (Woolridge)

	<b>Capitalization Amounts (Thousands of Dollars)</b>	<b>Cost Rate</b>
<b>Deferred Income Taxes</b>	<b>603,001</b>	<b>0.00</b>
<b>ASC 740 Deferred Taxes</b>	<b>(34,002)</b>	<b>0.00</b>

Furthermore, any excess ADITs caused by a change in the federal corporate income tax rate should be deferred in their entirety to the next base rate proceeding to be flowed-back to customers over a period to be determined at that time.

**FEA:** No position.

**FIPUG:** Adopt the position of OPC.

**LWVF/SACE:** No position.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** Agree with OPC.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 40:**           **What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure for the 2017 projected test year?**

**POSITIONS**

**Gulf:**                   Gulf’s requested level of unamortized investment tax credits in the amount of \$721,000 (\$735,000 system) for the 2017 projected test year is appropriate. The appropriate cost rate is 8.05% for purposes of calculating the weighted average cost of capital. (Ritenour, Hodnett)

**OPC:**                   The following unamortized investment tax credits should be included in the capital structure before reconciliation with rate base adjustments. (Woolridge)

	<b>Capitalization Amounts (Thousands of Dollars)</b>	<b>Cost Rate</b>
<b>Investment Credit – Weighted Cost</b>	<b>721</b>	<b>6.71</b>

**FEA:**                   No position.

**FIPUG:**               Adopt the position of OPC.

**LWVF/SACE:**       No position.

**Sierra Club:**       Sierra Club adopts OPC’s position.

**Walmart:**           Agree with OPC.

**Staff:**               Staff has no position pending evidence adduced at the hearing.

**ISSUE 41:**           **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations.

**ISSUE 42:**           **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations.

**ISSUE 43:**           **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations.

**ISSUE 44:**           **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations.

**ISSUE 45:**            **What is the appropriate capital structure for the 2017 projected test year?**

**POSITIONS**

**Gulf:**                    The appropriate capital structure is 53.1% common equity, 41.7% debt, and 5.2% preferred stock for Gulf’s investor-supplied sources of capital. In January 2017, Gulf issued \$175 million of common stock to achieve these ratios.

Gulf’s equity ratio of 53.1% will still be below the average of the last approved equity ratio of other major Florida investor-owned utilities, and its weighted average cost of capital will be among the lowest in the state. (Liu)

**OPC:**                    Dr. Woolridge adjusted the Company’s capital structure so as to provide a capitalization from investor-provided capital with a 50.0% common equity ratio. The resulting capital structure from investor-provided capital consists of 1.67% short-term debt, 42.80% long-term debt, 5.53% preferred stock, and 50.00% common equity. This capital structure includes a common equity ratio (50.0%) that is above the averages of the two proxy groups (46.8% and 46.0%) utilized by OPC witness Woolridge and Gulf witness Vander Weide. When other capital sources are included, OPC’s recommended capital structure is as follows. (Woolridge)

<b>Capital</b>	<b>Capitalization Ratios</b>
<b>Short-Term Debt</b>	<b>1.26%</b>
<b>Long-Term Debt</b>	<b>32.29%</b>
<b>Preferred Stock</b>	<b>4.17%</b>
<b>Common Equity</b>	<b>37.72%</b>
<b>Customer Deposits</b>	<b>1.01%</b>
<b>Deferred Income Taxes</b>	<b>24.93%</b>
<b>ASC 740 Deferred Taxes</b>	<b>-1.41%</b>
<b>Investment Credit - Weighted Cost</b>	<b>0.03%</b>
<b>Totals</b>	<b>100.00%</b>

Furthermore, any excess ADITs caused by a change in the federal corporate income tax rate should be deferred in their entirety to the next base rate proceeding to be flowed-back to customers over a period to be determined at that time.

**FEA:** Gulf's capital structure has an excessive amount of common equity and unnecessarily inflates the cost to retail customers. FEA witness Gorman recommends that the Commission should award a balanced capital structure that preserves Gulf's credit rating and access to capital but at a more competitive cost to customers than the capital structure proposed by Gulf. Sponsoring witness: Michael P. Gorman.

**FIPUG:** No change from the current capital structure is warranted.

**LWVF/SACE:** No more than 50% equity.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** 50% equity from investor-provided capital.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 46:** **What is the appropriate return on equity (ROE) to use in establishing Gulf's revenue requirement?**

### **POSITIONS**

**Gulf:** The appropriate ROE to use in establishing Gulf's revenue requirement is 11.0%. Gulf estimates the appropriate ROE by applying several cost of equity methods to a large group of comparable-risk publicly-traded utilities. On the basis of its cost of equity studies, Gulf finds that the cost of equity for the comparable-risk publicly-traded utilities is 10.4%. However, the 10.4% cost of equity for the proxy companies must be adjusted to reflect the higher financial risk associated with Gulf's ratemaking capital structure, which is based on book value, compared to the financial risk associated with the average market value capital structure for the comparable-risk electric utilities. Making this adjustment produces a cost of equity for Gulf equal to 11.0%. (Vander Weide, Liu)

**OPC:** The appropriate ROE is 8.875%. Gulf's requested 11% ROE is excessive under current market conditions. Both interest rates and awarded ROEs have decreased since 2012. Applying the Discount Cash Flow (DCF) method checked by the Capital Asset Pricing Model (CAPM) method with a proposed capital structure of 50% and also applying the electric proxy groups, the appropriate ROE for Gulf is 8.875%. Utilizing an 8.875%



ROE would result in an approximately \$38.9 million reduction from Gulf's 2017 request. (Woolridge)

**FEA:** The appropriate ROE for Gulf is 9.20%, which is the approximate midpoint of FEA witness Gorman's recommended range of 8.80% to 9.50%. Sponsoring witness: Michael P. Gorman.

**FIPUG:** A return on equity of 10% or less should be provided.

**LWVF/SACE:** Less than 9%.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** Agree with FEA that the appropriate ROE is 9.20%.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 47:** **What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure for the 2017 projected test year? (Fallout Issue)**

## **POSITIONS**

**Gulf:** Based on an 11.0% cost of equity, and 53.1% common equity ratio, the appropriate weighted average cost of capital for Gulf Power for the 2017 projected test year is 6.04%. (Ritenour, Liu)

**OPC:** 5.09% (Woolridge)

**FEA:** The appropriate weighted average cost of capital for Gulf is 5.20% as recommended by FEA witness Gorman. Sponsoring witness: Michael P. Gorman.

**FIPUG:** 5.09%

**LWVF/SACE:** No position, except as stated in prior issues.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** 5.20%.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**Net Operating Income**

**ISSUE 48:** CATEGORY 2 STIPULATION – See Section X, Proposed Stipulations.

**ISSUE 49:** CATEGORY 2 STIPULATION – See Section X, Proposed Stipulations.

**ISSUE 50:** CATEGORY 2 STIPULATION – See Section X, Proposed Stipulations.

**ISSUE 51:** CATEGORY 2 STIPULATION – See Section X, Proposed Stipulations.

**ISSUE 52:** Is Gulf's projected level of Total Operating Revenues for the 2017 projected test year appropriate? If not, what is the appropriate amount? (Fallout Issue)

**POSITIONS**

**Gulf:** Yes. Gulf's projected level of Total Operating Revenues in the amount of \$596,666,000 (\$615,397,000 system) for the 2017 projected test year is appropriate. (Ritenour)

**OPC:** No. After appropriate adjustments Test Year revenues, and prior to the impacts of the recommended rate reduction, should be at least \$592,699,000. (Ramas)

**FEA:** No position.

**FIPUG:** Adopt the position of OPC.

**LWVF/SACE:** No position, except with respect to disallowance of Plant Scherer Unit 3 and limits to capital structure and ROE.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** No.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 53:**           **Is Gulf’s proposed electric vehicle charging station expense for the 2017 projected test year appropriate? If not, what adjustment should be made?**

**POSITIONS**

**Gulf:**                   Gulf did not include O&M expenses in the 2017 test year for charging stations. Gulf is proposing to install and maintain charging stations behind the electric meters of commercial customers who request this service. Payment agreements will be established with the requesting customers such that O&M expenses, along with all other revenue requirements associated with the chargers, are recovered in their entirety from the requesting customers. (Young)

**OPC:**                   See position on Issue 1. (Ramas)

**FEA:**                   No position.

**FIPUG:**               No. This issue should not be addressed in this docket.

**LWVF/SACE:**       No position.

**Sierra Club:**       Sierra Club adopts OPC’s position.

**Walmart:**           No position.

**Staff:**               Staff has no position pending evidence adduced at the hearing.

**ISSUE 54:**           **DROPPED**

**ISSUE 55:**           **DROPPED**

**ISSUE 56:**           **DROPPED**

**ISSUE 57:**           **DROPPED**

**ISSUE 58:**           **DROPPED**

**ISSUE 59:**           **Is Gulf’s proposed Incentive Compensation (also referred to by Gulf as variable pay or at-risk pay) included in the 2017 projected test year appropriate? If not, what adjustment should be made?**

**POSITIONS**

**Gulf:**                   Yes. Gulf’s proposed \$23,148,000 (\$23,506,000 system) of total at-risk compensation [consisting of \$15,481,000 (\$15,720,000 system) of Gulf at-risk compensation and \$7,667,000 (\$7,786,000 system) of at-risk compensation allocated to Gulf] for the 2017 projected test year is appropriate. At-risk pay is determined by subtracting a portion of each position’s median total target compensation and allocating it to at-risk pay based on goals that benefit our customers. Gulf’s total compensation that includes at-risk pay is comparable to and competitive with utility peers as noted by Willis Towers Watson, a nationally recognized compensation and benefits firm. The at-risk pay component is a necessary component of Gulf’s total compensation program, allowing Gulf to cost-effectively attract, retain, engage, and motivate employees to deliver safe and reliable service to our customers. OPC’s proposal to disallow at-risk compensation tied to financial goals is not based on a claim that the amount of the expense is not market competitive. Instead, it is based on the erroneous premise that at-risk compensation tied to financial performance does not benefit our customers. It is essential to Gulf’s customers that both Gulf and Southern Company achieve financial goals and maintain financial integrity so that they can raise in the financial market the capital necessary to serve customers at a reasonable cost. Gulf’s total compensation program benefits customers by balancing operational and financial goals (both annual and long term) and motivating employees to deliver high levels of customer service at reasonable costs to our customers in the current year and later years. (Garvie, Liu, Deason)

**OPC:**                   No. The commission should make several adjustments to long term and short term incentive based compensation, including compensation embedded in affiliate charges, totaling \$14,191,000 (\$13,974,000 jurisdictional), as recommended in the testimony of OPC witness Ramas. These adjustments are as follows:

Earnings based incentive compensation or (long-term incentive compensation) in the amount of \$3,798,496 (\$3,740,000 jurisdictional). OPC witness Ramas recommends that 100% of the PSP (Performance Share Plan) expenses, Stock Option expenses and “Other” incentive compensation expenses be removed from the test year. The costs of the PSP, as well as the Stock Options expense, should be removed from adjusted test year O&M expenses since the goals under the plan are tied to

the Southern Company total shareholder return, Southern Company earnings per share, and Southern Company equity weighted return on equity. This means that the plan is focused on aligning the interests of the upper level executives that participate in the plan with Southern Company's shareholders, not Gulf's Florida ratepayers. Therefore test year O&M expenses should be reduced by \$2,143,000 (\$2,110,000 jurisdictional). Further, test year O&M expenses should also be reduced by an additional \$1,655,496 (\$1,630,000 jurisdictional) to remove the projected test year affiliates' charges to Gulf associated with: (1) PSP in the amount of \$1,579,617, (2) stock options of \$65,410 and (3) "other" variable pay of \$10,469. (Ramas)

Excessive short-term incentive compensation in the amount of \$7,334,756 (\$7,223,000 jurisdictional).

- Incentive compensation associated with vacant positions (\$1,124,141). Gulf's Performance Pay Plan (PPP) expenses should be reduced by \$1,124,141 to remove the portion associated with the 120-position vacancy adjustment addressed in Issue 60. (Ramas)
- Short-term incentive compensation associated with artificially low targets (\$3,089,703). Gulf has assumed that the payouts under the PPP will exceed the PPP targets in the test year by 33%, which suggests that the targets are being set artificially low in order to increase pay or to overstate the revenue requirement. Accordingly test year PPP expenses remaining in the test year, after removal of the costs associated with the 120 vacant positions, should be reduced by \$3,089,703 to reflect only the targeted payout level in base rates. (Ramas)
- Short-term incentive compensation associated with shareholder earnings goals (\$3,120,912). Since the goal of the PPP is partially focused on increasing shareholder earnings, or Southern Company EPS goals, one-third of the remaining PPP expense (i.e., amount remaining after removal of vacant positions and reduction to reflect payout at target level) should be removed from the test year, resulting in an additional \$3,120,912 reduction to the PPP expense. (Ramas)

Excessive short-term incentive compensation embedded in affiliate's charges in the amount of \$3,057,713 (\$3,011,000 jurisdictional). OPC witness Ramas further recommended an adjustment that consistently removes excessive short-term incentive costs related to artificially low targets and shareholder earnings goals, amounting to \$3,057,713 of the PPP expenses charged to Gulf by affiliated entities. (Ramas)

- FEA:** No position.
- FIPUG:** No. Incentive compensation should not be borne by ratepayers, but by company shareholders.
- LWVF/SACE:** No, it should be lowered.
- Sierra Club:** Sierra Club adopts OPC's position.
- Walmart:** Agree with OPC.
- Staff:** Staff has no position pending evidence adduced at the hearing.
- ISSUE 60:** **Are Gulf's proposed employee levels and salary and wage expenses included in the 2017 projected test year appropriate? If not, what adjustments should be made?**

**POSITIONS**

**Gulf:** Yes. Gulf's proposed employee levels were developed from the bottom up in a rigorous budget process. The business units developing the budget know and understand the labor requirements necessary to provide service to Gulf's customers at a reasonable cost. Gulf's salary and wage expenses were developed to reflect the market median. It is essential for Gulf to be able to retain existing employees and attract new employees, and offering wages, salary and benefits at the market median and including appropriate at-risk compensation consistent with the industry assures Gulf being able to retain and attract employees essential to providing service to Gulf's customers.

OPC Witness Ramas's adjustments to lower the employee headcount have several significant flaws and are thoroughly rebutted. The mathematical calculation she employs is erroneous and overstated. It is also duplicative of the hiring lag adjustment the Company proposed. Significantly, it fails to account for employees that the Company is in the process of hiring. Finally, as Gulf Witness Liu points out, making such an excessive headcount adjustment would create a challenge for the Company in attempting to achieve and maintain the full work force necessary to serve Gulf's customers. (Ritenour, Liu, Garvie, Young, Smith, Burroughs, Hodnett)

**OPC:** No. As OPC witness Ramas recommends that the most recent number of vacant positions, or 120 positions, be removed from the 2017 test year at the average per employee O&M expense of \$64,448, resulting in a recommended reduction to test year labor O&M expense of \$7,733,760

(\$7,616,000 jurisdictional). This results in the adjusted test year labor costs, exclusive of the incentive compensation portion (See position on Issue 59), being based on the most recent employee levels coupled with Gulf's anticipated employee reductions for 2017, such as the employee reductions associated with Gulf's implementation of the self-service kiosks for which the associated capital expenditures are incorporated in the Company's filing. Corresponding fallout adjustments to payroll taxes for this adjustment should also be made. (Ramas)

**FEA:** No position.

**FIPUG:** No.

**LWVF/SACE:** No, it should be lowered.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** Agree with OPC.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 61:** **CATEGORY 1 STIPULATION** – See Section X, Proposed Stipulations.

**ISSUE 62:** **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations.

**ISSUE 63:** **Is Gulf's proposed employee benefit expenses for the 2017 projected test year appropriate? If not, what adjustment should be made?**

### **POSITIONS**

**Gulf:** Yes. Gulf's proposed employee benefit expense projected for the 2017 test year is appropriate. The requested employee benefit expenses are necessary for Gulf to remain at the median of the market and to attract, retain, engage and motivate employees with a focus on customer service. Based on assessments by nationally recognized compensation and benefits firms Aon Hewitt and Willis Towers Watson, the benefits programs and relative value of the benefits Gulf provides its employees are at the median of the market. (Garvie)

**OPC:** SERP costs (\$2,655,000). To the extent the Company decides to provide additional benefits that exceed the generous IRS limitations on qualified pension plans, the shareholders should fund the cost of the additional non-qualified plans. Witness Ramas recommends that test year expenses be reduced by \$2,655,000 (\$2,615,000 jurisdictional) to remove the SERP expense from the test year. (Ramas)

Unsubstantiated Other Employee Benefits (\$268,432). Witness Ramas recommends that the 58% increase projected in the test year expense be held at the actual 2015 expense level of \$461,749. The Company has not supported the substantial projected increase in these costs. Other Employee Benefits costs should be reduced by \$268,432 (\$264,000 jurisdictional). (Ramas)

**FEA:** No position.

**FIPUG:** No.

**LWVF/SACE:** No position.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** No position.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 64:** **Is Gulf's proposed annual storm damage accrual for the 2017 projected test year appropriate? If not, what is the appropriate amount?**

### **POSITIONS**

**Gulf:** Yes. Gulf's proposed annual property damage accrual of \$8,760,000 (\$8,900,000 system) for the 2017 projected test year is appropriate. Gulf's property damage accrual request is based on a storm study required by this Commission along with an amount to cover non-hurricane property damage. The storm study uses a statistical model to consider a range of potential hurricane characteristics and corresponding losses and then computes Gulf's expected annual damage from hurricanes. OPC's proposal to maintain the annual property damage accrual at its current level of \$3,500,000, which was set by the Commission in 1996, inappropriately ignores in its entirety the results of the storm study filed with the Commission in 2016 and would not allow Gulf to reach even the bottom of the property damage reserve target. Maintaining the annual accrual at its current level would also result in higher storm surcharges to customers when the inevitable destructive hurricanes hit. Those larger surcharges will come when those same customers are paying for their personal storm losses. For Gulf to achieve the Commission-approved property damage reserve target and reduce reliance on customer surcharges when losses occur, its property damage accrual must be



increased per both Gulf's storm study and Gulf's experience with non-hurricane related losses. (Harris, Hodnett)

**OPC:** No. Gulf's current accrual of \$3.5 million, experience and reserve balance, coupled with mechanisms available to Gulf, create a strong presumption against any increase in the annual storm accrual. Gulf has not demonstrated an entitlement to any increase in the annual accrual. (Ramas)

**FEA:** No position.

**FIPUG:** No.

**LWVF/SACE:** No position.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** Agree with OPC.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 65:** **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations.

**ISSUE 66:** **Is Gulf's proposed expense related to Directors and Officers Liability Insurance appropriate? If not, what adjustment should be made?**

**POSITIONS**

**Gulf:** Yes. Gulf's \$117,000 (\$119,000 system) expense for Directors and Officers Liability Insurance premiums is a necessary and reasonable expense for insurance coverage that directly benefits customers. The premiums are negotiated by Gulf's parent company, resulting in substantial savings compared to the approximately \$600,000 in annual premiums that Gulf would have to pay for a stand-alone policy. Furthermore, the requested expense of \$119,000 should not be reduced any further to reflect a cost to the shareholders because the \$119,000 was calculated by first reducing 48 percent of the total premiums as an allocation to shareholders. (Hodnett)

**OPC:** No. Directors and Officers' liability insurance expense should be shared equally between Gulf's shareholders and the customers, consistent with Gulf's last adjudicated rate case order.

**FEA:** No position.

**FIPUG:** No.

**LWVF/SACE:** No position.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** No position.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 67:** **Is Gulf's proposed Rate Case Expense for the 2017 projected test year appropriate? If not, what adjustment should be made?**

**POSITIONS**

**Gulf:** Yes. Gulf's requested amount of rate case expense of \$6,700,000 is reasonable and appropriate. The appropriate amortization period for rate case expense is four years, which is consistent with the amortization period approved by the Commission in Gulf's last rate case. The appropriate amortization period for rate case expense is four years, which is consistent with the amortization period approved by the Commission in Gulf's last four rate cases. (Hodnett, Ritenour)

**OPC:** No. The Commission should apply a downward adjustment to rate case expense based on all information that becomes available – in reliable form – at the hearing.

**FEA:** No position.

**FIPUG:** No.

**LWVF/SACE:** No position.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** No position.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 68:**                    **Is Gulf’s proposed Bad Debt Expense for the 2017 projected test year appropriate? If not, what adjustment should be made?**

**POSITIONS**

**Gulf:**                            Yes. Gulf’s proposed Bad Debt Expense for the 2017 projected test year of \$3,994,000 (\$3,994,000 system) is appropriate. (Young)

**OPC:**                            No. Based on the four-year average bad debt rate, the appropriate test year uncollectible expense should be \$3,149,000, resulting in an expense reduction of \$845,000. (Ramas)

**FEA:**                            No position.

**FIPUG:**                        No.

**LWVF/SACE:**                No position.

**Sierra Club:**                Sierra Club adopts OPC’s position.

**Walmart:**                    No position.

**Staff:**                         Staff has no position pending evidence adduced at the hearing.

**ISSUE 69:**                    **DROPPED**

**ISSUE 70:**                    **DROPPED**

**ISSUE 71:**                    **DROPPED**

**ISSUE 72:**                    **What adjustment, if any, should be made to account for affiliated activities/transactions for the 2017 projected test year?**

**POSITIONS**

**Gulf:**                            No adjustments should be made for affiliate activities or transactions. (Hodnett)

**OPC:**                            In addition to adjustments for allocated compensation costs (Performance Share Plan, Performance Pay Plan, Stock Option and the “Other” unidentified variable pay charges) related to Issue 59, further adjustments, totaling \$8,375,000, are required to account for Gulf’s failure to meet its burden to explain or justify certain costs proposed to be charged to Gulf or to accurately account for reallocation of common costs to newly acquired businesses and account for changes in allocation factors.

Failure to explain or justify affiliate costs, adjustments of \$2,013,000 (\$1,975,000 jurisdictional):

- Aviation costs: Given the lack of documentation and evidence demonstrating that the use of owned and leased aircraft is more cost effective than publicly available air transportation, 50% of the costs should be disallowed, resulting in an \$884,810 reduction to the forecasted test year expenses. (Ramas)
- Unexplained Budget Work Orders: Given the only documentation provided upon request was “Amount represents permanent tax differences for SCS income taxes,” Gulf’s request for recovery in the amount of \$351,672 should be denied based on its failure to meet its burden of proof in its filing. (Ramas)
- Energy Innovation Center: Gulf has failed, in its filing, to demonstrate a benefit to Gulf’s Florida customers in the forecasted test year associated with Southern Company’s new Energy Innovation Center, nor has it demonstrated that the costs of the center that are forecasted to be charged to Gulf will be outweighed by the benefits to Gulf’s Florida customers. Test year expenses should be reduced by \$626,080. (Ramas)
- Gulf has testified that it has no plans to build a nuclear reactor to serve Florida customers. Therefore Research & Development costs of \$149,968 related to “next generation nuclear” should not be recovered from Gulf’s customers. (Ramas)

Failure to allocate common affiliate costs to new business units, adjustments of \$6,362,000 (\$6,243,000 jurisdictional). As demonstrated by OPC witness Ramas, a reduction factor of 11% should be applied to the applicable allocation-driven O&M expenses forecasted to be charged from SCS in the amount of \$57,834,000 (does not include the cost centers that are subject to incentive compensation adjustments and adjustments identified above). This results in a recommended adjustment of \$6,362,000 (\$6,243,000 jurisdictional) to account for the impacts of the recent Southern Company acquisitions and other impacts of changes to SCS allocation factors used to charge costs to Gulf. To the extent the Commission does not adjust the remaining affiliate costs for the compensation adjustments proposed by the OPC under Issue 59, those categories should also be adjusted by the same 11% factor. (Ramas)

**FEA:** No position.

**FIPUG:** Adopt the position of OPC.

**LWVF/SACE:** No position.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** No position.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 73:** **Is Gulf's requested level of O&M Expense for the 2017 projected test year appropriate? If not, what is the appropriate amount? (Fallout Issue)**

**POSITIONS**

**Gulf:** Yes. Gulf's requested level of O&M Expenses in the amount of \$313,820,000 (\$319,813,000 system), once adjusted for Gulf's position on Issue 61, for the 2017 projected test year is appropriate. (Ritenour)

**OPC:** No. O&M expenses included in the test year, after appropriate adjustments, should be no more than \$266,614,000. (Ramas)

**FEA:** No position.

**FIPUG:** Adopt the position of OPC.

**LWVF/SACE:** No position, except with respect to disallowance of Plant Scherer Unit 3 and incentive/salary reductions.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** Agree with OPC.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 74:** **What is the appropriate amount of depreciation and fossil dismantlement expense for the 2017 projected test year?**

**POSITIONS**

**Gulf:** The appropriate amount of depreciation and fossil dismantlement expense for the 2017 projected test year is \$136,278,000 (\$138,870,000 system), once adjusted for Gulf's position on Issue 26. (Hodnett, Ritenour)

**OPC:** After appropriate adjustments, depreciation and amortization (including fossil dismantlement) expenses should be no more than \$125,195,000. (McCullar) Dismantlement accruals should reflect a credit to the cost of service occasioned by any surplus in the dismantlement reserve caused by

Gulf's inability to use the Other Cost of Removal amortization provided for in Paragraph 11(d) of the 2013 Stipulation and Settlement as a result of any change in the federal corporate income tax rate. (Ramas)

**FEA:** No position.

**FIPUG:** Adopt the position of OPC.

**LWVF/SACE:** No position.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** No position.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 75:** **What is the appropriate amount of Taxes Other Than Income Taxes for the 2017 projected test year? (Fallout Issue)**

**POSITIONS**

**Gulf:** The appropriate amount of Taxes Other Than Income Taxes for the 2017 projected test year is \$34,362,000 (\$35,063,000 system). (Hodnett)

**OPC:** After appropriate adjustments, Taxes Other Than Income Taxes should be no more than \$32,732,000. (Ramas)

**FEA:** No position.

**FIPUG:** Adopt the position of OPC.

**LWVF/SACE:** No position.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** No position.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 76:**            **Should the current amortization of investment tax credits (ITCs) and flow back of excess deferred income taxes (EDITs) be revised to reflect the approved depreciation rates and amortizations?**

**POSITIONS**

**Gulf:**                    Yes, once new depreciation rates and amortizations have been approved. (Hodnett)

**OPC:**                    Yes, all appropriate adjustments should be included in the amortization of investment tax credits (ITCs) and flow back of excess deferred income taxes (EDITs). Furthermore, any excess ADITs caused by a change in the federal corporate income tax rate should be deferred in their entirety to the next base rate proceeding to be flowed-back to customers over a period to be determined at that time.

**FEA:**                    No position.

**FIPUG:**                 Adopt the position of OPC.

**LWVF/SACE:**         No position.

**Sierra Club:**         Sierra Club adopts OPC's position.

**Walmart:**            Agree with OPC.

**Staff:**                 Staff has no position pending evidence adduced at the hearing.

**ISSUE 77:**            Is it appropriate to make a parent debt adjustment per Rule 25-14.004, Florida Administrative Code? If so, what adjustment should be made?

**POSITIONS**

**Gulf:**                    No. Gulf has rebutted the presumption in the rule by demonstrating that Gulf has paid more in dividends to Southern than the amount of Southern's equity investments in Gulf since 2003, including the period from 2011 through 2017. Therefore, Gulf effectively provides the funding for Southern's equity investment in Gulf with its own internally generated funds. This is the same basis on which the Commission rejected a parent debt adjustment in Gulf's 2012 test year rate case. This issue is not addressed in the testimony of any intervenor witness. Since this issue is not contested in testimony, it appears it could and should be stipulated. (Liu)

**OPC:** Yes. Gulf has not met its burden to rebut the presumption that the equity investments by its parent are not supported in part by debt from the parent company. The parent debt adjustment should be \$7,030,000 subject to the corporate income tax rate remaining at 35% (see OPC position on Issue 1A).

**FEA:** No position.

**FIPUG:** Adopt the position of OPC.

**LWVF/SACE:** No position.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** Yes. Agree with OPC as to the adjustment.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 78:** **What is the appropriate amount of Income Tax expense for the 2017 projected test year? (Fallout Issue)**

**POSITIONS**

**Gulf:** The appropriate amount of Income Tax expense for the 2017 projected test year is \$31,810,000 (\$35,176,000 system). (Hodnett, Ritenour)

**OPC:** After appropriate adjustments, Income Tax expense for the test year should be no more than \$53,644,000, subject to the corporate income tax rate remaining at 35% (see OPC position on Issue 1A). To the extent that the income tax rate changes the Commission should direct that rates and customer credits are adjusted consistent with the OPC's position on Issue 1A. (Ramas)

**FEA:** No position.

**FIPUG:** Adopt the position of OPC.

**LWVF/SACE:** No position.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** Agree with OPC.

**Staff:** Staff has no position pending evidence adduced at the hearing.



**ISSUE 79:**           **Is Gulf's requested level of Total Operating Expenses for the 2017 projected test year appropriate? If not, what is the appropriate amount? (Fallout Issue)**

**POSITIONS**

**Gulf:**                   Yes. Gulf's requested level of Total Operating Expenses in the amount of \$515,943,000 (\$528,589,000 system) for the 2017 projected test year is appropriate. (Ritenour)

**OPC:**                   No. After appropriate adjustments, subject to the corporate income tax rate remaining at 35% (see OPC position on Issue 1A), the Total Operating Expenses should be no more than \$478,047,000. (Ramas)

**FEA:**                   No position.

**FIPUG:**                Adopt the position of OPC.

**LWVF/SACE:**        No position, except with respect to disallowance of Plant Scherer Unit 3 and incentive/salary reductions.

**Sierra Club:**        Sierra Club adopts OPC's position.

**Walmart:**           Agree with OPC.

**Staff:**                Staff has no position pending evidence adduced at the hearing.

**ISSUE 80:**           **Is Gulf's projected Net Operating Income for the 2017 projected test year appropriate? If not, what is the appropriate amount? (Fallout Issue)**

**POSITIONS**

**Gulf:**                   Yes. Gulf's projected Net Operating Income in the amount of \$80,723,000 (\$86,808,000 system) for the 2017 projected test year is appropriate. (Ritenour)

**OPC:**                   No. After appropriate adjustments, subject to the corporate income tax rate remaining at 35% (see OPC position on Issue 1A), Net Operating Income should be at least \$114,652,000. (Ramas)

**FEA:**                   No position.

**FIPUG:**                Yes, provided a mechanism is in place to capture and recognize changes in the federal corporate tax rate made during 2017.

**LWVF/SACE:** No position, except with respect to disallowance of Plant Scherer Unit 3 and incentive/salary reductions.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** Agree with OPC.

**Staff:** Staff has no position pending evidence adduced at the hearing.

### **Revenue Requirements**

**ISSUE 81:** What are the appropriate revenue expansion factor and the appropriate net operating income multiplier, including the appropriate elements and rates for Gulf? (Fallout Issue)

### **POSITIONS**

**Gulf:** The appropriate revenue expansion factor is 61.2273 and the appropriate net operating income multiplier is 1.633258. This issue is not addressed in the testimony of any intervenor witness. Since this issue is not contested in testimony, it appears it could and should be stipulated. (Ritenour)

**OPC:** The revenue expansion factor and net operating income multiplier should be based upon the corporate income tax rate remaining in effect over the entire period for which rates are to be effective (see OPC position on Issue 1A)

**FEA:** No position.

**FIPUG:** Adopt the position of OPC.

**LWVF/SACE:** No position, except with respect to disallowance of Plant Scherer Unit 3 and incentive/salary reductions.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** Agree with OPC.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 82:**           **Is Gulf’s requested annual operating revenue increase for the 2017 projected test year appropriate? If not, what is the appropriate amount? (Fallout Issue)**

**POSITIONS**

**Gulf:**                   Yes. Gulf’s requested annual operating revenue increase of \$106,782,000 for the 2017 projected test year is appropriate. (Ritenour)

**OPC:**                   No. After appropriate adjustments, subject to the corporate income tax rate remaining at 35% (see OPC position on Issue 1A), annual operating revenue should be reduced by at least (\$2,087,000). (Ramas)

**FEA:**                   No position.

**FIPUG:**               No.

**LWVF/SACE:**       No position, except with respect to disallowance of Plant Scherer Unit 3 and incentive/salary reductions.

**Sierra Club:**       Sierra Club adopts OPC’s position.

**Walmart:**           No. As demonstrated by the witnesses for the Citizens of the State of Florida, the Federal Executive Agencies, and Walmart, Gulf has not met its burden of demonstrating that it requires any additional revenues in order to provide safe, reliable service. Accordingly, no revenue increase is appropriate.

**Staff:**               Staff has no position pending evidence adduced at the hearing.

**Cost of Service and Rate Design**

**ISSUE 83:**           **CATEGORY 2 STIPULATION – See Section X, Proposed Stipulations.**

**ISSUE 84:**           **What is the appropriate treatment of production costs within the cost of service study?**

**POSITIONS**

**Gulf:**                   The appropriate treatment of production investment cost is the use of the 12-MCP (demand) & 1/13 kWh (energy) allocator to Rate Classes. It is superior to 4 CP and 4 summer/1 winter production allocator as it properly reflects the Company’s need to serve customers in all months of the year, considers the need to schedule maintenance, and the fact that Gulf must

satisfy reliability (CP) needs, but must also importantly strive to do so in a least cost manner. This allocator has been accepted by this Commission in numerous Gulf Power filings including the Company's last two base rate proceedings. It has a sound cost basis reflecting Gulf's cost to serve its customers and produces reasonable, stable results. (O'Sheasy).

**OPC:** No position.

**FEA:** FEA finds the Company's proposed 12 CP & 1/13<sup>th</sup> allocation method illogical and not tied to the Company's production capacity planning metrics. FEA proposes an allocation method using a 100% demand method, based either on the 4 summer CP or 4 summer / 1 winter CP. FEA also finds unexplained inconsistencies between the class demands used to develop the Company's production cost allocation factors and those demands provided in the Gulf Power 2015 Cost of Service Load Research Study filed in 2016. (Alderson)

**FIPUG:** Adopt the position of FEA.

**LWVF/SACE:** Production costs should be allocated between demand costs and energy costs.

**Sierra Club:** Sierra Club adopts SACE and LWVF's position.

**Walmart:** Walmart neither supports nor opposes the Company's proposed production cost allocation methodology.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 85:** **What is the appropriate treatment of transmission costs within the cost of service study?**

### **POSITIONS**

**Gulf:** Transmission costs are either assigned, where possible, or allocated to Rate Class. Demand-related transmission costs at Level 2 are allocated on a Level 2 Coincident Peak Demand (CP) allocator. Demand-related transmission costs at Level 3 are allocated on a Level 3 Coincident Peak Demand (CP) allocator. An example of an account with both Level 2 and Level 3 Transmission Common Demand-related cost is Account 350 Substation-Land and Land Rights. Account 350 Transmission Common Demand cost at Level 2 is allocated on a Level 2 CP Demand allocator. Account 350 Transmission Common Demand cost at Level 3 is allocated on a Level 3 CP Demand allocator. (O'Sheasy)

- OPC:** No position.
- FEA:** FEA has found no reason at this time to oppose the Company's proposed transmission cost allocation method. (Alderson)
- FIPUG:** Adopt the position of FEA.
- LWVF/SACE:** Transmission costs should be allocated between demand costs and energy costs.
- Sierra Club:** Sierra Club adopts SACE and LWVF's position.
- Walmart:** No position.
- Staff:** Staff has no position pending evidence adduced at the hearing.
- ISSUE 86:** **What is the appropriate treatment of distribution costs within the cost of service study?**

**POSITIONS**

- Gulf:** Distribution costs are either assigned, where possible, or allocated to Rate Class. Demand-related distribution costs at Level 3 are allocated on a Coincident Peak Demand (CP) Level 3 allocator. An example of a Level 3 Distribution Common Demand-related cost is Account 362 - Station Equipment, which is allocated to Rate Class on a Level 3 CP demand allocator. Demand-related distribution costs at Levels 4 and 5 are allocated on, their respective level, Non-Coincident Peak Demand (NCP) allocator. NCP is a well-respected and commonly used utility allocator for primary and secondary demand-related cost. An example of a Level 4 and Level 5 Common Distribution Demand-related cost is Account 365 - Overhead Conductors. This account has both Level 4 and Level 5 Common cost as well as Level 4 and Level 5 customer-related cost. The Level 4 Common cost is allocated to Rate Class on a Level 4 NCP demand allocator, and the Level 5 Common is allocated to Rate Class on a Level 5 NCP demand allocator. Customer-related Distribution costs occur at both Level 4 and Level 5. These customer-related costs are allocated on their respective level average number of customers' allocator which is also a well-respected and commonly used utility allocator for primary and secondary customer-related cost. An example of Level 4 and 5 Distribution Customer-related cost is Account 365 - Overhead Conductors. This customer-related cost at Level 4 is allocated to Rate Class on the Level 4 Customer allocator and the customer-related cost at Level 5 is allocated to Rate Class on the Level 5 Customer allocator. Where cost must be divided into demand and customer components, the

Minimum Distribution System (MDS) is appropriate in order to adhere more closely with sound cost causative principles. This MDS methodology has its foundation in cost-causation, is in use in many states including Florida, approved by NARUC, and approved within Gulf's two most recent rate case stipulations. (O'Sheasy)

**OPC:** No position.

**FEA:** FEA supports the Company's use of the Minimum Distribution Study method for functionalizing distribution costs. (Alderson)

**FIPUG:** Adopt the position of FEA.

**LWVF/SACE:** Distribution costs should be allocated between demand costs and energy costs. As explained by Witness Rábago, Gulf's methods and use of allocators is inappropriate for allocating costs.

**Sierra Club:** Sierra Club adopts SACE and LWVF's position.

**Walmart:** No position.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 87:** **How should any change in the revenue requirement approved by the Commission be allocated among the customer classes?**

## **POSITIONS**

**Gulf:** The increase should be spread among the rate classes as shown in MFR E-8 of Gulf's filing. This allocation gives consideration to cost-of-service, moving rate classes toward parity, fairness and value. All of these are important and appropriate considerations. (Evans)

**OPC:** No position.

**FEA:** FEA proposes, due to the questions surrounding the production cost allocators in the Company's cost of service study that the revenue increase allocated to customer classes be done on a more equal basis than that proposed by the Company. Specifically, FEA proposes no class receive greater than a 1.1 times the system average increase in base rate revenue. (Alderson)

- FIPUG:** Adopt the position of FEA.
- LWVF/SACE:** Equitably, with no customer class bearing a disproportionate increase.
- Sierra Club:** Sierra Club adopts OPC's position.
- Walmart:** No position.
- Staff:** Staff has no position pending evidence adduced at the hearing.
- ISSUE 88:** **Should Gulf's proposed new methodology to design the residential base and energy charges for the residential rate schedules RS, RSVP, FLAT-RS, and RSTOU that results in an increase from \$0.62 to \$1.58 per day, or approximately \$48 per month, in the base charge and corresponding reduction in the energy charge be approved?**

## **POSITIONS**

**Gulf:** Yes. Gulf's proposed new methodology to design residential base charges and energy charges will more equitably align residential rates with costs, a primary tenet of utility ratemaking. This issue, along with Issues 89, 90, 91, 102, 103, and 104, which together make up Gulf's proposed Advanced Pricing Package, better serves our residential customers by providing more equitable alignment of rates with costs, more rate options, less month-to-month bill variability, a more efficient subsidy for customers who need it most, and more cost-effective energy efficiency.

The new methodology for designing two-part non-demand rates (the B&G methodology) is built on a strong foundation of traditional, time-tested demand rates. It is a cost-based, objective, methodology for better allocating demand-related (distribution, transmission, and generation) costs between the two components of a two-part residential rate. The B&G methodology, applied to Gulf's customer data, results in a higher base charge (cents per day) and a lower energy charge (cents per kWh). Customers who would rather pay for demand-related costs in direct proportion to the demand they place on Gulf's system, can choose one of the optional demand rates, thereby avoiding the higher base charge. Under the new two-part rate structure, low-use customers are no longer subsidized by high-use customers, but Gulf's proposed new low-income credit will more directly and efficiently provide assistance to those customers who need it most—based on an income standard. Stated simply, the energy charge in Gulf's existing two-part residential rates is too large because all demand-related costs are allocated to it. This misaligned structure results in some customers paying more than they should for demand-related costs and others paying less than they should.

The cost-based, objective criteria of the B&G methodology rectifies this, indicating that about half of residential demand-related costs should be left in the energy charge, and the other half should be put into the base charge to appropriately align residential rates with costs. (McGee)

**OPC:** No position.

**FEA:** No position.

**FIPUG:** Adopt the position of FEA.

**LWVF/SACE:** No. Gulf's proposed methodology results in a 155% hike in the base charge and leads to a radical increase in bills on low energy users. It penalizes low energy users for making investments in energy efficiency and conservation and will disproportionately impact lower income and fixed income customers. The inclusion of demand charges in the base charge is unfair, unreasonable and inconsistent with the standard two part rate structure historically relied upon by this Commission. It will cause low energy users to subsidize high energy users. Such a subsidization of high energy use is contrary to state policy and law which requires and encourages energy conservation.

**Sierra Club:** No. Gulf's proposal to more than double its fixed charges while decreasing energy charges is unfair, unjust, and unreasonable. As Sierra Club Witness Loiter explained, the proposal does not recover demand-related costs more appropriately than do current rates. The methodology used by Gulf support this base charge increase has never been properly vetted or applied in any previous rate-making proceeding and begins with the incorrect assumption that a customer's individual maximum demand is a reasonable representation of her cost causation.

Increased fixed charges also have serious drawbacks. They disproportionately harm low-use customers, who are more likely to be low- and fixed-income customers. Furthermore, increasing the base charge while decreasing the energy charge deprives all customers of control over their bills, discourages energy efficiency, and penalizes those customers who have already made investments in energy efficiency. Gulf Power already has the highest fixed charges of any investor-owned utility in the state, and an increase like the one requested would be unprecedented.

**Walmart:** No position.

**Staff:** Staff has no position pending evidence adduced at the hearing.



**ISSUE 89:**           **Is the proposed new optional Residential Service – Demand (RSD) rate schedule appropriate?**

**POSITIONS**

**Gulf:**                    Yes, especially when coupled with the rate restructure in Issue 88. The RSD three-part demand rate would give customers an option, allowing them to pay only customer-related costs in their base charge and to pay directly for the amount of demand they place on Gulf’s system, while also enjoying a lower energy charge which is more in line with our cost to produce and deliver electric service. Assuming approval of Issue 88, many customers will find rate RSD economically beneficial without making any change to their usage or behavior. Gulf will actively promote this time-tested, equitable rate option and will provide customers with the information necessary to make an informed choice. Participation in rate RSD is expected to be significantly lower without approval of the rate restructure in Issue 88. (McGee, Evans)

**OPC:**                    No position.

**FEA:**                    No position.

**FIPUG:**                Adopt the position of FEA.

**LWVF/SACE:**        No. Gulf’s own documents demonstrate that the customer charge in the proposed rate is too high.

**Sierra Club:**        No. As discussed by Witness Loiter, charges based on individual peak demand do not appropriately reflect cost causation by customers. Demand charges, which have traditionally been used for larger industrial customers, are a bad fit for residential customers as they can be difficult to understand and nearly impossible for the typical residential customer to respond to, especially given that Gulf customers have no access to detailed information about their individual demand. As such, residential demand charges function more like an increased fixed charge, with all of the associated drawbacks.

**Walmart:**            No position.

**Staff:**                 Staff has no position pending evidence adduced at the hearing.

**ISSUE 90:**                   **Is the proposed new optional Residential Service – Demand Time-of-use (RSDT) rate schedule appropriate?**

**POSITIONS**

**Gulf:**                               Yes, especially when coupled with the rate restructure in Issue 88. The RSDT time-of-use demand rate would give customers yet another option that even more closely aligns rates with the costs customers impose on Gulf's system. This rate offers a lower off-peak demand charge for those customers whose usage patterns or their installed equipment (such as rooftop solar PV) may reduce the burden these customers place on Gulf's system during on-peak hours. Like rate RSD, RSDT customers would pay only customer-related costs in their base charge and would pay directly for the amount of demand (off-peak and on-peak) they place on Gulf's system, while also enjoying a lower energy charge which is more in line with our cost to produce and deliver electric service. Customers with rooftop solar PV who maintain zero-usage during on-peak hours will find this rate economically beneficial. Gulf will actively promote this time-tested, equitable rate option and will provide customers with the information necessary to make an informed choice. Participation in rate RSDT is expected to be significantly lower without approval of the rate restructure in Issue 88. (McGee, Evans)

**OPC:**                               No position.

**FEA:**                               No position.

**FIPUG:**                           Adopt the position of FEA.

**LWVF/SACE:**                   No. Gulf's own documents demonstrate that the customer charge in the proposed rate is too high.

**Sierra Club:**                   No. As discussed by Witness Loiter, charges based on individual peak demand do not appropriately reflect cost causation by customers. Demand charges, which have traditionally been used for larger industrial customers, are a bad fit for residential customers as they can be difficult to understand and nearly impossible for the typical residential customer to respond to, especially given that Gulf customers have no access to detailed information about their individual demand. As such, residential demand charges function more like an increased fixed charge, with all of the associated drawbacks.

**Walmart:**                       No position.

**Staff:**                               Staff has no position pending evidence adduced at the hearing.

**ISSUE 91:**            **Is the proposed new optional Customer Assistance Program Rider (Rate Rider CAP) appropriate? (Moot if Issue 88 is not approved)**

**POSITIONS**

**Gulf:**                    Yes, if Issue 88 is approved. The rate restructure in Issue 88 removes an existing subsidy for low-use customers (some of whom are not low-income customers). Gulf's proposed low-income credit (Rate Rider CAP) replaces the low-use subsidy with a smaller, more focused, income-based subsidy to help those customers who need it most. The new low-income credit is specifically designed to offset the incremental increase in the proposed higher base charge for qualifying low-income customers. Gulf has proposed using Supplemental Nutrition Assistance Program (SNAP) participation as a qualifying criteria for participation in Gulf's CAP Rate Rider for two reasons: (1) SNAP is the largest public assistance program administered by the Florida Department of Children and Families (and also is the largest qualifying program for Lifeline participation), and (2) it simplifies Gulf's role in determining income status of customers. (McGee, Evans)

**OPC:**                    No position.

**FEA:**                    No position.

**FIPUG:**                Adopt the position of FEA.

**LWVF/SACE:**        No. The proposed program does not properly help low income people who need assistance with their power bills, and does not adequately compensate for the radical rate increases proposed on low energy users.

**Sierra Club:**        Not as proposed. Sierra Club does not oppose the Rate Rider CAP in concept, however, the Company's proposal to use the program to offset the harm caused to low- and fixed-income customers is inadequate. As Witness Loiter explained, Gulf's proposed Customer Assistance Program is limited to SNAP recipients who are customers of record and apply for the rider, and thus does not sufficiently protect all of the vulnerable customers who are likely to be negatively impacted by Gulf Power's proposal.

**Walmart:**            No position.

**Staff:**                    Staff has no position pending evidence adduced at the hearing.

**ISSUE 92:**                    **Is Gulf’s proposal to remove the critical peak option for the General Service Demand Time-of-use (GSDT) rate schedule appropriate?**

**POSITIONS**

**Gulf:**                            Yes. The option has been available since April 2012 and no customer has ever requested service under the critical peak option from Rate Schedule GSDT. (Evans)

**OPC:**                            No position.

**FEA:**                            No position.

**FIPUG:**                        No.

**LWVF/SACE:**                No position.

**Sierra Club:**                Sierra Club adopts OPC’s position.

**Walmart:**                    No.

**Staff:**                            Staff has no position pending evidence adduced at the hearing.

**ISSUE 93:**                    **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations.

**ISSUE 94:**                    **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations.

**ISSUE 95:**                    **What are the appropriate base charges?**

**POSITIONS**

**Gulf:**                            The appropriate base charges based on Gulf’s original filing are shown below. These proposed charges reasonably reflect customer-related costs, and for residential non-demand rates, an appropriate amount of demand-related costs as justified by the B&G methodology addressed in Issue 88. (Evans)

Rate Schedule	Base Charge
RS, RSVP, RSTOU	\$1.58 per day
RSD, RSdT	\$0.73 per day
GS	\$31.78 per month
GSD, GSDT, GSTOU	\$50.00 per month
LP, LPT	\$262.80 per month
PX, PXT	\$925.24 per month
RTP	\$1,000.00 per month

SBS Contract Level	
100 – 499 kW	\$261.68 per month
500 – 7,499 kW	\$261.68 per month
above 7,499 kW	\$623.10 per month

**OPC:** The OPC takes no position on the specific design of Gulf’s rates and charges; however, in total, the rates and charges should be designed to allow Gulf an opportunity to recover no more than the revenue requirement established by this Commission at the time rates go into effect.

**FEA:** No position.

**FIPUG:** Adopt the position of FEA.

**LWVF/SACE:** For residential rates, the appropriate base charges should be decreased to be in-line with what is considered fair and equitable for the rest of the State of Florida, and should certainly not be increased.

**Sierra Club:** Base charges should not be increased at this time.

**Walmart:** No position.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 96:** **What are the appropriate demand charges?**

**POSITIONS**

**Gulf:** The appropriate demand charges based on Gulf’s original filing are listed below. (Evans)

Rate Schedule	Monthly Demand Charge
RSD	\$ 5.00
RSDT	\$ 3.66 (On-Peak) \$ 2.17 (Maximum)
GSD	\$ 7.92
LP	\$13.94
PX	\$13.50
GSDT	\$ 4.23 (On-Peak) \$ 3.77 (Maximum)
LPT	\$ 11.20 (On-Peak) \$ 2.85 (Maximum) \$ 11.20 (Critical Peak Option On-Peak) \$ 2.85 (Critical Peak Option Maximum)
PXT	\$12.52 (On-Peak) \$ 1.11 (Maximum)
SBS Contract Level	\$ 3.33 (Local Facilities)
100 – 499 kW	\$ 4.23 (On-Peak) \$ 1.56 (Reservation) \$ 0.74 (Daily On-Peak Standby)
500 – 7,499 kW	\$ 2.99 (Local Facilities) \$11.20 (On-Peak) \$ 1.56 (Reservation) \$ 0.74 (Daily On-Peak Standby)
above 7,499 kW	\$ 1.09 (Local Facilities) \$12.52 (On-Peak) \$ 1.59 (Reservation) \$ 0.75 (Daily On-Peak Standby)

**OPC:**

The OPC takes no position on the specific design of Gulf’s rates and charges; however, in total, the rates and charges should be designed to allow Gulf an opportunity to recover no more than the revenue requirement established by this Commission at the time rates go into effect.

**FEA:**

No position.

**FIPUG:** Adopt the position of FEA.

**LWVF/SACE:** For RS and other non-demand residential rates, there should be no demand charges.

**Sierra Club:** Demand charges are not appropriate for residential customers. As discussed by Witness Loiter, charges based on individual peak demand do not appropriately reflect cost causation by customers. Demand charges, which have traditionally been used for larger industrial customers, are a bad fit for residential customers as they can be difficult to understand and nearly impossible for the typical residential customer to respond to, especially given that Gulf customers have no access to detailed information about their individual demand. As such, residential demand charges function more like an increased fixed charge, with all of the associated drawbacks.

**Walmart:** No position.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 97:** **What are the appropriate energy charges?**

**POSITIONS**

**Gulf:** The appropriate energy charges based on Gulf's original filing are listed below. (Evans)

Rate Schedule	Energy Charge
RS, RSVP, RSTOU	3.298 ¢/kWh
RSD, RSDT	2.334 ¢/kWh
GS	5.319 ¢/kWh
GSD, GSDT	2.036 ¢/kWh
LP, LPT	1.055 ¢/kWh
PX, PXT	0.496 ¢/kWh
GSTOU	21.802 ¢/kWh (Summer On-Peak) 8.139 ¢/kWh (Summer Intermediate) 3.384 ¢/kWh (Summer Off-Peak) 4.737 ¢/kWh (Winter All-Hours)

Rate Schedule	Energy Charge
SBS Contract Level 100 – 499 kW 500 – 7,499 kW above 7,499 kW	3.957 ¢/kWh 3.957 ¢/kWh 3.957 ¢/kWh

**OPC:** The OPC takes no position on the specific design of Gulf’s rates and charges; however, in total, the rates and charges should be designed to allow Gulf an opportunity to recover no more than the revenue requirement established by this Commission at the time rates go into effect.

**FEA:** No position.

**FIPUG:** Adopt the position of FEA.

**LWVF/SACE:** For RS and other non-demand residential rates, the energy charges should include all energy and demand costs.

**Sierra Club:** Energy charges should not be decreased at this time.

**Walmart:** No position.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 98:** **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations.

**ISSUE 99:** **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations.

**ISSUE 100:** **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations.

**ISSUE 101:** **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations.



**Other Issues**

**ISSUE 102:**           **Should the Commission approve Gulf's proposed modifications to the existing residential HVAC Improvement program in its Demand-Side Management Plan? (Moot if Issue 88 is not approved)**

**POSITIONS**

**Gulf:**                    Yes. Gulf's residential rate restructure (Issue 88) increases the cost-effectiveness of residential DSM programs. As a result, Gulf has proposed these DSM program modifications. These modifications will complement a number of existing equipment maintenance measures that improve the performance of existing and new HVAC systems, resulting in more energy and peak demand savings. The modifications include similar equipment measures to those that were included as part of Gulf's 2010 DSM Plan and were well received by customers and participating contractors.

Alternatively, in light of Staff's desire to consider Gulf's proposed new/modified DSM programs in the context of final decisions in this case, including the disposition of Issue 88, Gulf does not object to this issue being spun off to another docket as appropriate. (Floyd, McGee)

**OPC:**                    No position.

**FEA:**                    No position.

**FIPUG:**                No. This is not the proper docket in which to consider such changes.

**LWVF/SACE:**        SACE and LWVF support increased implementation of energy efficiency programs to help customers reduce energy use and save money on bills, and do not oppose the proposed modifications. However, SACE and LWVF oppose the proposed rate restructure on which Gulf has made the proposed programs contingent upon. The programs are inadequate to make low income and other deserving customers whole again after the impact a 155% increase in the fixed customer charge.

**Sierra Club:**        Sierra Club adopts OPC's position.

**Walmart:**            No position.

**Staff:**                The resolution of this issue is dependent upon the final rates and charges ultimately established by the Commission. As such, staff does not believe the issue is ripe for a final decision at this time.

**ISSUE 103:**           **Should the Commission approve Gulf’s proposed modifications to the existing Residential Building Efficiency program in its Demand-Side Management Plan? (Moot if Issue 88 is not approved)**

**POSITIONS**

**Gulf:**                   Yes. Gulf’s residential rate restructure (Issue 88) increases the cost-effectiveness of residential DSM programs. As a result, Gulf has proposed this DSM program modification. This modification will increase the maximum incentive for the reflective roofing measure in order to increase participation, and demand and energy savings, associated with this program.

Alternatively, in light of Staff’s desire to consider Gulf’s proposed new/modified DSM programs in the context of final decisions in this case, including the disposition of Issue 88, Gulf does not object to this issue being spun off to another docket as appropriate. (Floyd, McGee)

**OPC:**                   No position.

**FEA:**                   No position.

**FIPUG:**               No. This is not the proper docket in which to consider such changes.

**LWVF/SACE:**       Same as Issue 102.

**Sierra Club:**       Sierra Club adopts OPC’s position.

**Walmart:**           No position.

**Staff:**                The resolution of this issue is dependent upon the final rates and charges ultimately established by the Commission. As such, staff does not believe the issue is ripe for a final decision at this time.

**ISSUE 104:**           **Should the Commission approve Gulf’s proposed new residential Insulation Improvement program to be added to its Demand-Side Management Plan? (Moot if Issue 88 is not approved)**

**POSITIONS**

**Gulf:**                   Yes. Gulf’s residential rate restructure (Issue 88) increases the cost-effectiveness of residential DSM programs. As a result, Gulf has proposed this new DSM program. This program is targeted to customers with little or no existing ceiling insulation –many of whom may also be low-income

customers. Adding ceiling insulation is one of the most cost-effective measures a customer can take to reduce heating and cooling expenses.

Alternatively, in light of Staff's desire to consider Gulf's proposed new/modified DSM programs in the context of final decisions in this case, including the disposition of Issue 88, Gulf does not object to this issue being spun off to another docket as appropriate. (Floyd, McGee)

**OPC:** No position.

**FEA:** No position.

**FIPUG:** No. This is not the proper docket in which to consider such changes.

**LWVF/SACE:** Same as Issue 102.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** No position.

**Staff:** The resolution of this issue is dependent upon the final rates and charges ultimately established by the Commission. As such, staff does not believe the issue is ripe for a final decision at this time.

**ISSUE 105:** **Should the Commission approve the following modifications to the Critical Peak Option for the Large Power Time-of-Use (LPT) rate schedule:**

- a) **Establish the Critical Peak Option as a Demand-Side Management Program;**
- b) **Reduce the minimum critical peak demand notification from one business day to one hour;**
- c) **Eliminate the restrictions on the frequency and duration of the critical peak period.**

## **POSITIONS**

**Gulf:** Yes. The primary function of the Critical Peak Option (CPO) is to provide peak demand savings. It is, therefore, a natural fit within Gulf's existing DSM Plan which also serves to reduce peak demand and energy consumption. Establishing the CPO as a DSM Program will provide for annual opportunities through the Energy Conservation Cost Recovery process to adjust the On-Peak Demand Charge and the Critical Peak Demand Charge to ensure that the rate option remains cost-effective for all of Gulf's customers. Moreover, reduction of the notification requirement

and eliminating the restrictions on the frequency and duration of the critical peak periods will enable the Company to utilize the CPO program in a manner which is more consistent with its objective –to provide demand reduction during peak load conditions. (Floyd, Evans)

**OPC:** No position.

**FEA:** No position.

**FIPUG:** No.

**LWVF/SACE:** No position.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** No.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**ISSUE 106:** **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations.

**ISSUE 107:** **Should this docket be closed?**

**POSITIONS**

**Gulf:** Yes.

**OPC:** No.

**FEA:** No position.

**FIPUG:** Yes.

**LWVF/SACE:** No position.

**Sierra Club:** Sierra Club adopts OPC's position.

**Walmart:** Yes, after the time to file an appeal of the Commission's final order has expired, this docket should be closed.

**Staff:** Staff has no position pending evidence adduced at the hearing.

**CONTESTED ISSUES**

See Section XIV – Rulings.

**IX. EXHIBIT LIST**

<u>Witness</u>	<u>Proffered By</u>		<u>Description</u>
<b><u>Direct</u></b>			
Various	Gulf		Minimum Filing Requirement (MFR) Schedules - Sections A, B, C, D, E and F
Jarl T. Young (Adopting the prefiled direct testimony of Bentina C. Terry)	Gulf	BCT-1	MFR responsibility; Customer Value Benchmark Results; Customer Accounts Expense; Customer Service and Information Expense; Sales Expense; Test Year Benchmark vs. 2017 Budget; Service Fees; Gulf's FPSC Complaint Activity 2002-2015
Wendell E. Smith	Gulf	WES-1	MFR responsibility; Map of Wind Field Standards; Vaisala's National Lightning Detection Network Cloud-to-Ground Lightning 2005-2014; Transmission Capital Additions Budget; Transmission O&M Budget; Distribution Capital Additions Budget; Corporate General Plant Budget; Distribution O&M Budget; Distribution Reliability 2012-2015; Transmission Reliability 2012-2015

<b><u>Witness</u></b>	<b><u>Proffered By</u></b>		<b><u>Description</u></b>
Michael L. Burroughs	Gulf	MLB-1	MFR responsibility; Owned and Operated or Jointly Owned Generating Capacity; Power Purchase Agreements; Annual EFOR; Peak Season EFOR; Gulf EFOR Compared to Peer Group; 2013-2015 Major Production Non-ECRC Capital Additions; 2016 Non-ECRC Production Capital Additions Budget; 2017 Non-ECRC Production Capital Additions Budget; Benchmark Comparison; Production O&M Expense Budget; Smith Unit 3 Benchmark and Average Historical and Forecast O&M Expenses; Natural Gas Inventory
Jeffrey A. Burleson	Gulf	JAB-1	Joint Exhibit with J. T. Deason. Chronology of Key Planning and Regulatory Events Regarding Gulf's Purchase and Ownership in Scherer 3.
Jeffrey A. Burleson	Gulf	JAB-2	1976 Certification of Gulf's Caryville Site under Florida Electrical Power Plant Siting Act (PPSA)
J. Terry Deason	Gulf	JTD-1	Curriculum Vitae
J. Terry Deason	Gulf	JTD-2	Reference Compendium of Documents Related to Gulf's Acquisition of Scherer 3

<b><u>Witness</u></b>	<b><u>Proffered By</u></b>		<b><u>Description</u></b>
J. Terry Deason	Gulf	JAB-1	Co-Sponsored with J.A. Burleson-Chronology of Key Planning and Regulatory Events Regarding Gulf's Purchase and Ownership in Scherer 3.
Xia Liu	Gulf	XL-1	MFR responsibility; Base Retail ROE; Retail Energy Sales 2012-2017; 2017 Test Year Revenue Request; Residential and Commercial Use Per Customer; Equity Percentages and Return on Equity for Florida Investor-Owned Utilities; Parent Debt Adjustment Rule; Gulf Dividends Compared to Southern Company Capital Contributions 2003-2017
Jun K. Park	Gulf	JKP-1	MFR responsibility; Residential Use per Customer and Customer Growth Trends; Commercial Use per Customer and Customer Growth Trends; Residential Regression Model-Predicted vs. Actual and Statistics; Small Commercial Regression Model-Predicted vs. Actual and Statistics; Large Commercial Regression Model-Predicted vs. Actual and Statistics

<b><u>Witness</u></b>	<b><u>Proffered By</u></b>		<b><u>Description</u></b>
Joshua J. Mason	Gulf	JJM-1	MFR responsibility; Financial Planning Process Chart; Budget Process; 2017 Test Year Capital Additions Budget by Function; 2017 Test Year Operation and Maintenance Expense by Function; Financial Model Flowchart; Gulf Power Company Balance Sheet December 2016 through December 2017; Gulf Power Company Income Statement for Twelve Months Ending December 31, 2017; Gulf Power Company Utility Plant Balances for the Periods Ended December 2016 through December 2017



<b><u>Witness</u></b>	<b><u>Proffered By</u></b>	<b><u>Description</u></b>
James H. Vander Weide	Gulf	JVW-1
		Summary of Discounted Cash Flow Analysis for Electric Utilities; Comparison of the DCF Expected Return on an Investment in Electric Utilities to the Interest Rate on Moody's A-Rated Utility Bonds; Comparative Returns on S&P 500 Stock Index and Moody's A-Rated Bonds 1937—2016; Comparative Returns on S&P Utility Stock Index and Moody's A-Rated Bonds 1937—2016; Using the Arithmetic Mean to Estimate the Cost of Equity Capital; Calculation of Capital Asset Pricing Model Cost of Equity Using an Historical Risk Premium; Comparison of Risk Premiums on S&P 500 and S&P Utilities 1937 – 2016; Calculation of Capital Asset Pricing Model Cost of Equity Using an Historical Risk Premium and a 0.90 Utility Beta; Calculation of Capital Asset Pricing Model Cost of Equity Using DCF Estimate of the Expected Rate of Return on the Market Portfolio; Calculation of Cost of Equity Required for the Company to Have the Same Weighted Average Cost of Capital as Comparable Electric Utilities

<b><u>Witness</u></b>	<b><u>Proffered By</u></b>		<b><u>Description</u></b>
James H. Vander Weide	Gulf	JVW-2	Qualifications of James H. Vander Weide; Derivation of the Quarterly DCF Model; Adjusting for Flotation Costs in Determining a Public Utility's Allowed Rate of Return on Equity; Ex Ante Risk Premium Method; Ex Post Risk Premium Method
Dane A. Watson	Gulf	DAW-1	Gulf Power's 2016 Depreciation Study filed on September 20, 2016 in Docket No. 160170-EI
Dane A. Watson	Gulf	DAW-2	Comparison of Annual Depreciation Accrual Expense; Interim Net Salvage; Comparison of Net Salvage Percentages; Proposed Interim Retirement Ratios, Comparison of Life Parameters
Dane A. Watson	Gulf	DAW-3	Previous Testimony
Steven P. Harris	Gulf	SPH-1	Selected Charts from the CoreLogic Storm Study
Steven P. Harris	Gulf	SPH-2	Revised 2016 Hurricane Loss and Reserve Performance Analysis filed on April 8, 2016

<b><u>Witness</u></b>	<b><u>Proffered By</u></b>		<b><u>Description</u></b>
James M. Garvie	Gulf	JMG-1	Total Compensation Mix between Base and At-Risk Pay; Base Salary and Total Compensation to Market Median; Willis Towers Watson Memorandum on Audit of Gulf Power Company's Compensation Programs; Willis Towers Watson Comparison of Employer-Paid Benefit Value; Aon Hewitt Comparison of Employer-Paid Benefit Value
Janet J. Hodnett	Gulf	JJH-1	MFR responsibility; Administrative and General (A&G) O&M; A&G Benchmark Variance; Non-Hurricane Charges to Property Damage Reserve 2011 – August 2016; Depreciation and Dismantlement; Gulf Power's 2016 Dismantlement Study filed July 14, 2016
Susan D. Ritenour	Gulf	SDR-1	MFR responsibility; 13-Month Average Rate Base; 13-Month Average Working Capital; Net Operating Income; Fuel Revenues and Expenses; Purchase Power Capacity Cost Recovery Clause Revenues and Expenses; Energy Conservation Cost Recovery Clause Revenues and Expenses; Environmental Cost Recovery Clause Revenues and Expenses; Smith 1 and 2 Investment Amortization; Deferred Return on Transmission Investment

**Witness**

**Proffered By**

**Description**

Amortization; FPSC  
Assessment Fees; Income Tax  
Adjustments; Interest  
Synchronization Adjustment;  
13-Month Average  
Jurisdictional Cost of Capital;  
Proration of Accumulated  
Deferred Income Taxes  
Activity Associated with  
Book/Tax Depreciation; FPSC  
Adjusted Achieved Rate of  
Return and Return on  
Common Equity; Calculation  
of Revenue Deficiency;  
Revenue Expansion Factor  
and NOI Multiplier; Operation  
and Maintenance Expenses  
Benchmark Variance by  
Function; Benchmark Year  
Recoverable Operation and  
Maintenance Expenses by  
Function; Operation and  
Maintenance Expenses 2017  
Test Year Adjustments by  
Function; Hiring Lag; General  
Plant Capital Additions for the  
Prior Year ended 12/31/2016  
and the Test Year  
ended 12/31/2017; Investment  
and Net Operating Income  
Associated with Scherer 3  
Off-System Sales for the  
period ended December 31,  
2017

<b><u>Witness</u></b>	<b><u>Proffered By</u></b>		<b><u>Description</u></b>
Robert L. McGee, Jr.	Gulf	RLM-1	Residential Rates Summary- Current/Proposed; Graphic Representation of Rate Structures and Their Relationships to Costs; Bill Variability; Residential Customer Load Factors; Blank and Gegax Methodology; Bill Comparison; Low Income Rider Credit
John N. Floyd	Gulf	JNF-1	Insulation Improvement Program; HVAC Efficiency Improvement Program; Annual Energy and Demand Savings of New/Modified Residential DSM Programs; Critical Peak Option (CPO) Program
Michael T. O'Sheasy	Gulf	MTO-1	MFR responsibility; Illustration of Simple Distribution Network; MDS Customer/Demand Percentages by FERC Account
Michael T. O'Sheasy	Gulf	MTO-2	Analysis and Results of Cost of Service Study
Lee P. Evans	Gulf	LPE-1	MFR responsibility; Allocation of Revenue Increase; Proposed Tariff Sheets

<u>Witness</u>	<u>Proffered By</u>		<u>Description</u>
<b><u>Intervenor &amp; Staff – Direct</u></b>			
James R. Dauphinais	OPC	JRD-1	Composite Exhibit Discovery Responses
Roxie McCullar	OPC	RMM-1	Proposed Depreciation Rates and Annual Accrual
Roxie McCullar	OPC	RMM-2	Impact on Revenue Requirement
Roxie McCullar	OPC	RMM-3	Remaining Life for Account 365.00
Roxie McCullar	OPC	RMM-4	Remaining Life for Account 369.10
Roxie McCullar	OPC	RMM-5	Pages 2-4 of Appendix E-1 to Depreciation Rate Study
Roxie McCullar	OPC	RMM-6	Corrected IRR Calculation for Accounts 312, 314, and 315
Roxie McCullar	OPC	RMM-7	Pages 11 and 12 of Appendix E-2 to Depreciation Rate Study
Roxie McCullar	OPC	RMM-8	Schedule C-29 from Docket No. 110138-EI
Roxie McCullar	OPC	RMM-9	Selected Pages from 2008 Q4 FERC Form No. 1
Roxie McCullar	OPC	RMM-10	Corrected Net Salvage for Account 390
Roxie McCullar	OPC	RMM-11	Selected Pages from Public Utility Depreciation Practices

<b><u>Witness</u></b>	<b><u>Proffered By</u></b>		<b><u>Description</u></b>
Roxie McCullar	OPC	RMM-12	FERC USOA Sections Referenced
Roxie McCullar	OPC	RMM-13	Discovery Responses Referenced
Donna Ramas	OPC	DMR-1	Qualifications of Donna Ramas
Donna Ramas	OPC	DMR-2	OPC Revenue Requirement Exhibits
Donna Ramas	OPC	DMR-3	Composite Exhibit: Discovery and Other References
J. Randall Woolridge	OPC	JRW-1	Recommended Cost of Capital
J. Randall Woolridge	OPC	JRW-2	Interest Rates
J. Randall Woolridge	OPC	JRW-3	Public Utility Bond Yields
J. Randall Woolridge	OPC	JRW-4	Summary Financial Statistics for Proxy Groups
J. Randall Woolridge	OPC	JRW-5	Capital Structure Ratios and Debt Cost Rates
J. Randall Woolridge	OPC	JRW-6	The Relationship Between Estimated ROE and Market-to-Book Ratios
J. Randall Woolridge	OPC	JRW-7	Utility Capital Cost Indicators
J. Randall Woolridge	OPC	JRW-8	Industry Average Betas

<u>Witness</u>	<u>Proffered By</u>		<u>Description</u>
J. Randall Woolridge	OPC	JRW-9	DCF Model
J. Randall Woolridge	OPC	JRW-10	DCF Study
J. Randall Woolridge	OPC	JRW-11	CAPM Study
J. Randall Woolridge	OPC	JRW-12	Gulf Power's Proposed Cost of Capital
J. Randall Woolridge	OPC	JRW-13	Gulf Power Company's ROE Results
J. Randall Woolridge	OPC	JRW-14	GDP and S&P 500 Growth Rates
J. Randall Woolridge	OPC		Deposition Transcript of J. Randall Woolridge, taken on March 2, 2017. <i>(Per agreement of all Parties)</i>
Michael P. Gorman	FEA	App A	Qualifications of Michael P. Gorman
Michael P. Gorman	FEA	MPG-1	Rate of Return
Michael P. Gorman	FEA	MPG-2	Valuation Metrics
Michael P. Gorman	FEA	MPG-3	Gulf's Capital Structure, Standard & Poor's Credit Metrics, and Rate of Return
Michael P. Gorman	FEA	MPG-4	Proxy Group
Michael P. Gorman	FEA	MPG-5	Consensus Analysts' Growth Rates
Michael P. Gorman	FEA	MPG-6	Constant Growth DCF Model
Michael P. Gorman	FEA	MPG-7	Payout Ratios
Michael P. Gorman	FEA	MPG-8	Sustainable Growth Rate



<u>Witness</u>	<u>Proffered By</u>		<u>Description</u>
Michael P. Gorman	FEA	MPG-9	Constant Growth DCF Model
Michael P. Gorman	FEA	MPG-10	Electricity Sales Are Linked to US Economic Growth
Michael P. Gorman	FEA	MPG-11	Multi-Stage Growth DCF Model
Michael P. Gorman	FEA	MPG-12	Common Stock Market/Book Ratio
Michael P. Gorman	FEA	MPG-13	Equity Risk Premium - Treasury Bond
Michael P. Gorman	FEA	MPG-14	Equity Risk Premium - Utility Bond
Michael P. Gorman	FEA	MPG-15	Bond Yield Spreads
Michael P. Gorman	FEA	MPG-16	Treasury and Utility Bond Yields
Michael P. Gorman	FEA	MPG-17	Value Line Beta
Michael P. Gorman	FEA	MPG-18	CAPM Return
Michael P. Gorman	FEA	MPG-19	Standard & Poor's Credit Metrics
Michael P. Gorman	FEA	MPG-20	Vander Weide DCF
Michael P. Gorman	FEA	MPG-21	Accuracy of Interest Rate Forecasts
Michael P. Gorman	FEA		Deposition Transcript of Michael P. Gorman, taken on January 27, 2017. <i>(Per agreement of all Parties)</i>
Brian C. Andrews	FEA	App A	Qualifications of Brian C. Andrews
Brian C. Andrews	FEA	BCA-1	BCA Depreciation Study
Brian C. Andrews	FEA	BCA-2	Simulated Plant Record Analysis

<b><u>Witness</u></b>	<b><u>Proffered By</u></b>		<b><u>Description</u></b>
Amanda M. Alderson	FEA	App A	Qualifications of Amanda M. Alderson
Amanda M. Alderson	FEA	AMA-1	Gulf Power System Peaks
Amanda M. Alderson	FEA	AMA-2	Southern Company System Peaks
Amanda M. Alderson	FEA	AMA-3	Alternative COSS Results
Amanda M. Alderson	FEA	AMA-4	Load Research and Allocator Data
Karl Rábago	LWVF/SACE	KRR-1	Resume of Karl Rábago
Karl Rábago	LWVF/SACE	KRR-2	Table of Previous Testimony by Karl Rábago
Karl Rábago	LWVF/SACE	KRR-3	Principles of Public Utility Rates, by James C. Bonbright
Karl Rábago	LWVF/SACE	KRR-4	The Specter of Straight Fixed/Variable Rate Designs and the Exercise of Monopoly Power, by Jim Lazar
Karl Rábago	LWVF/SACE	KRR-5	What's so Great about Fixed Charges? By Severin Borenstein
Karl Rábago	LWVF/SACE	KRR-6	Residential Rates
Karl Rábago	LWVF/SACE	KRR-7	Order in Illinois Commerce Commission Docket 14-0224

<b><u>Witness</u></b>	<b><u>Proffered By</u></b>		<b><u>Description</u></b>
Karl Rábago	LWVF/SACE	KRR-8	Disruptive Challenges: Financial Implications and Strategic Responses to a Changing Retail Electric Business, by Peter Kind
Karl Rábago	LWVF/SACE	KRR-9	Pathway to a 21st Century Electric Utility, by Peter Kind
Karl Rábago	LWVF/SACE	KRR-10	Caught in a Fix, prepared for Consumers Union
Karl Rábago	LWVF/SACE	KRR-11	Gulf Response to Staff POD 30, Docket No. 160186-EI
Karl Rábago	LWVF/SACE	KRR-12	Utility Rate Design: How Mandatory Monthly Customer Fees Cause Disproportionate Harm, U.S. Region: FL, by National Consumer Law Center
Karl Rábago	LWVF/SACE	KRR-13	Gulf 2013 Annual FEECA Program Progress Report
Karl Rábago	LWVF/SACE	KRR-14	Gulf 2015 Annual FEECA Program Progress Report
Jeffrey Loiter	Sierra Club	JML-1	Resume of Jeffrey M. Loiter.
Jeffrey Loiter	Sierra Club	JML-2	Sponsors of the Center for Public Utilities, New Mexico State University
Jeffrey Loiter	Sierra Club	JML-3	Lazar, J., <i>Use Great Caution in Design of Residential Demand Charges, Natural Gas &amp; Electricity</i> , Vol. 32, Issue 7 (Feb. 2016).

<b><u>Witness</u></b>	<b><u>Proffered By</u></b>		<b><u>Description</u></b>
Jeffrey Loiter	Sierra Club	JML-4	Whited, M. et al, <i>Caught in a Fix: The Problem with Fixed Charges for Electricity</i> , (Feb. 2016).
Jeffrey Loiter	Sierra Club	JML-5	Southern Environmental Law Center, <i>A Troubling Trend in Rate Design: Proposed Rate Design Alternatives to Harmful Fixed Charges</i> (Dec. 2015).
Jeffrey Loiter	Sierra Club	JML-6	Ros, A. J., <i>An Econometric Assessment of Electricity Demand in the United States using Panel Data and the Impact of Retail Competition on Prices</i> , NERA Economic Consulting (June 2015)
Jeffrey Loiter	Sierra Club	JML-7	Paul, A. et al, <i>A Partial Adjustment Model of U.S. Electricity Demand by Region, Season, and Sector, Resources for the Future Discussion Paper</i> , RFF DP 08-50 (Apr. 2009).
Jeffrey Loiter	Sierra Club	JML-8	McGee, R., <i>Gulf Power Company's 2015 Annual FEECA Program Progress Report</i> (Mar. 2016).
Jeffrey Loiter	Sierra Club	JML-9	Washington Utilities and Transportation Commission, <i>Order 08 Final Order Rejecting Tariff Sheets, Resolving Contested Issues, Authorizing And Requiring Compliance Filings</i> , issued March 25, 2015, in Dockets UE-140762, UE-140617, UE-131384 and UE-140094.

<u>Witness</u>	<u>Proffered By</u>		<u>Description</u>
Jeffrey Loiter	Sierra Club	JML-10	Missouri Public Service Commission, Report and Order, issued April 29, 2015, in Case No. ER-2014-0258, <i>In the Matter of Union Electric Company, d/b/a Ameren Missouri's Tariff to Increase Revenues for Electric Service.</i>
Jeffrey Loiter	Sierra Club	JML-11	National Consumer Law Center, <i>Utility Rate Design: How Mandatory Monthly Customer Fees Cause Disproportionate Harm</i> (2015) (prepared using data sourced from the U.S. Energy Information Administration's Residential Energy Consumption Survey, 2009).
Jeffrey Loiter	Sierra Club	JML-12	Minnesota Public Utilities Commission, <i>Findings of Fact, Conclusions, and Order</i> , issued May 8, 2015, in Docket No. E-002/GR 13-868, In re: Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota.
Jeffrey Loiter	Sierra Club	JML-13	United States Department of Agriculture, <i>Characteristics of Supplemental Nutrition Assistance Program Households: Fiscal Year 2014</i> , Report No. SNAP-15-CHAR (Dec. 2015).
Jeffrey Loiter	Sierra Club	JML-14	United States Department of Agriculture, <i>Supplemental Nutrition Assistance Program FY 2016 Income Eligibility Standards</i> (Sept. 2015).

<b><u>Witness</u></b>	<b><u>Proffered By</u></b>		<b><u>Description</u></b>
Jeffrey Loiter	Sierra Club	JML-15	Florida Public Service Commission, <i>2016 Facts &amp; Figures of the Florida Utility Industry</i> (April 2016).
Philip Mosenthal	Sierra Club	PHM-1	Resume of Philip H. Mosenthal.
Philip Mosenthal	Sierra Club	PHM-2	OPC Interrogatory No. 130.
Philip Mosenthal	Sierra Club	PHM-3	Staff Interrogatory No. 64.
Philip Mosenthal	Sierra Club	PHM-4	OPC Interrogatory 174.
Philip Mosenthal	Sierra Club	PHM-5	<i>Sierra Club, Inc. et. al v. Richard E. Dunn</i> , CV #: 2017CV284719, Petition for Writ of Mandamus (Jan. 12, 2017).
Philip Mosenthal	Sierra Club	PHM-6	Marcy, Cara. "Renewable generation capacity expected to account for most 2016 capacity additions." U.S. Energy Information Administration, Jan. 2017,
Philip Mosenthal	Sierra Club	PHM-7	Utility-Scale Solar 2014: An Empirical Analysis of Project Cost, Performance, and Pricing Trends in the United States (Sept. 2015).
Philip Mosenthal	Sierra Club	PHM-8	Utility-Scale Solar 2015: An Empirical Analysis of Project Cost, Performance, and Pricing Trends in the United States (Aug. 2016).
Philip Mosenthal	Sierra Club	PHM-9	2015 Wind Technologies Market Report, (Aug. 2016).
Philip Mosenthal	Sierra Club	PHM-10	Georgia Power Company Stipulation.

<b><u>Witness</u></b>	<b><u>Proffered By</u></b>		<b><u>Description</u></b>
Steve W. Chriss	Walmart	SWC-1	Witness Qualifications Statement
Steve W. Chriss	Walmart	SWC-2	Estimated Impact of Gulf's Proposed Increase in ROE from 10.25 Percent to 11.0 Percent
Steve W. Chriss	Walmart	SWC-3	Calculation of Proposed Test Year Jurisdictional Revenues Collected Through Base Rates
Steve W. Chriss	Walmart	SWC-4	Reported Authorized Returns on Equity, Electric Utility Rate Cases Completed, 2014 to 2016
Steve W. Chriss	Walmart	SWC-5	Estimated Revenue Requirement Impact of Difference in ROE Between 9.81 Percent and 11.0 Percent
Rhonda L. Hicks	Staff	RLH-1	Summary of Customer Complaints received by Commission
Donna D. Brown	Staff	DDB-1	Auditor's Report – Rate Case
Judy G. Harlow	Staff	JGH-1	Historic Residential Base Charge
Judy G. Harlow	Staff	JGH-2	Typical Residential Electric Bill—IOWs
Judy G. Harlow	Staff	JGH-3	Typical Residential Electric Bill—Municipals
Judy G. Harlow	Staff	JGH-4	Typical Residential Electric Bill—Cooperatives
Judy G. Harlow	Staff	JGH-5	Gulf Bill Comparison
Judy G. Harlow	Staff	JGH-6	Impact of Proposed Residential Rate Structure

**Rebuttal**

Jeffrey A. Burleson	Gulf	JAB-3	Gulf 2003 Integrated Resource Plan Incremental Additions; Comparative Analysis of Scherer 3 and Replacement CT
Jeffrey A. Burleson	Gulf	JAB-4	Clarification and Correction of Intervenor Statements
Xia Liu	Gulf	XL-2	Corporate and Base Retail Return on Equity (2002 to June 2017)
Dane A. Watson	Gulf	DAW-4	Revised Appendices to Depreciation Rate Study
Dane A. Watson	Gulf	DAW-5	Simulated Plant Record Analysis for Distribution Account 364 - Poles, Towers and Fixtures
Dane A. Watson	Gulf	DAW-6	Simulated Plant Record Analysis for Distribution Account 364 - Poles, Towers and Fixtures
Dane A. Watson	Gulf	DAW-7	Simulated Plant Record Analysis for Distribution Account 365 - Overhead Conductors and Devices
Dane A. Watson	Gulf	DAW-8	Simulated Plant Record Analysis for Distribution Account 369.1 – Overhead Services



Dane A. Watson	Gulf	DAW-9	Retirements, Gross Salvage, and Cost of Removal for Account 390 - Structures and Improvements (Pace Blvd. Building)
Steven P. Harris	Gulf	SPH-3	Comparison of \$3.5 Million vs. \$8.9 Million Annual Storm Accrual
James H. Vander Weide	Gulf	JVW-3	Research Literature that Studies the Efficacy of Analysts' Earnings Forecasts
James H. Vander Weide	Gulf		Deposition Transcript of Dr. James H. Vander Weide, taken on January 27, 2017.
Lee P. Evans	Gulf	LPE-2	Rate Schedule ECC Cost Recovery Clause Energy Conservation
Robert L. McGee, Jr.	Gulf	RLM-2	Residential Rate Structure and Clause Effects on Solar PV Payback; Advisory Council for the Center for Public Utilities; Effect of Customers Choosing Optional RSD Rate; Factors to Consider in Implementing the Advanced Pricing Package
James M. Garvie	Gulf	JMG-2	January 24, 2017, Aon Pension Cost Letter; Gulf Tax-Qualified Pension Plan Scenarios
Susan D. Ritenour	Gulf	SDR-2	Vacancy Analysis; Additional Pension Funding; Smart Energy Center

Janet J. Hodnett	Gulf	JJH-2	SCS Cost Decreases due to 2016 Southern Company Mergers and Acquisitions
Richard M. Markey	Gulf	RMM-3	Late-Filed Exhibit No.3 to the Deposition of Michael Burroughs (Redacted); North Escambia Preliminary Well Field Location (Confidential); North Escambia Summary of PS&I Costs

Parties and Staff reserve the right to identify additional exhibits for the purpose of cross-examination.

## **X. PROPOSED STIPULATIONS**

As referenced in Section VIII above, the parties have reached stipulations on several issues. These stipulations fall within one of two categories, as listed below. “Category 1” stipulations reflect the agreement of Gulf, Staff, and at least one of the intervenors in this proceeding. Intervenors who have not affirmatively agreed with a particular Category 1 stipulation, but otherwise take no position on the issue are included in the proposed Category 1 stipulation. “Category 2” stipulations reflect the agreement of Gulf and Staff where no other party has taken a position on the issue.

### **CATEGORY 1 STIPULATIONS:**

**ISSUE 18:**            **What should be the implementation date for revised depreciation rates, capital recovery schedules, dismantlement accruals, and amortization schedules?**

**Stipulation:**        The implementation date should coincide with the effective date of the base rates set in this docket.

**ISSUE 20:**            **Should costs currently approved by agreement and stipulation for recovery through the Environmental Cost Recovery Clause associated with Scherer Unit 3 be included in base rates for Gulf? If so, what adjustments, if any, should be made?**

**Stipulation:**        No.

**ISSUE 26:**           **Should the Commission allow recovery through rates of the costs associated with the proposed new Gulf Smart Energy Center? What adjustments, if any, should be made to the Gulf Smart Energy Center costs included in the 2017 projected test year?**

**Stipulation:**           No. The Smart Energy Center is no longer planned for the 2017 test year. The following rate base and expense items should be reduced to reflect the removal of this project: Plant in Service \$2,120,000 (\$2,154,000 system); Accumulated Depreciation \$11,000 (\$11,000 system); CWIP \$1,017,000 (\$1,038,000 system) and Depreciation Expense \$41,000 (\$42,000 system).

**ISSUE 36:**           **Is Gulf's December 19, 2016 pension contribution impacting the 2017 projected test year appropriate? If not, what is the appropriate amount?**

**Stipulation:**           Yes. The actual pension contribution of \$54,339,000 (\$55,816,000 system) is appropriate for inclusion in setting rates. The contribution was in the best interests of customers. Compared to what it would have been if no contribution had been made, the contribution reduces Gulf's 2017 revenue requirement by \$100,000, and it reduces Gulf's revenue requirement by almost \$4 million on a net present value basis over the next 10 years. Because the final contribution was less than the amount originally projected, Gulf Witness Ritenour provides in Schedule 2 of Rebuttal Exhibit SDR-2 the appropriate rate base and NOI adjustments that should be made to Gulf's original filing.

**ISSUE 61:**           **Is Gulf's proposed Pension Expense for the 2017 projected test year appropriate? If not, what adjustment should be made?**

**Stipulation:**           Yes. Gulf's proposed Pension Expense for the 2017 projected test year in the negative amount of \$324,000 (\$328,000 system) is appropriate and necessary to retain and attract the employees needed to deliver safe and reliable service to Gulf's customers at reasonable cost, once adjusted for Gulf's position on Issue 36.

**CATEGORY 2 STIPULATIONS:**

**ISSUE 8:**           **What are the appropriate capital recovery schedules?**

**Stipulation:**           None. Gulf has proposed no capital recovery schedules.

**ISSUE 12:**           **What, if any, corrective depreciation reserve measures should be taken with respect to the imbalances identified in Issue 11?**

**Stipulation:**       No corrective depreciation reserve measures should be taken with respect to the imbalances identified in Issue 11.

**ISSUE 14:**           **What is the appropriate recovery period for the regulatory asset related to the retirement of Plant Smith Units 1 and 2 approved in Docket No. 160039-EI?**

**Stipulation:**       The regulatory asset related to the retirement of Plant Smith Units 1 and 2 approved in Docket No. 160039-EI should be amortized over 15 years commencing with the date new rates become effective.

**ISSUE 15:**           **What is the appropriate current total estimated cost of dismantling Gulf Power Company's generation fleet?**

**Stipulation:**       Gulf's dismantlement study projects a current cost to dismantle of \$79,824,000 in year-end 2016 dollars. Based on the plant life estimates and adjusted for inflation, the estimated cost would be \$130,425,384.

**ISSUE 21:**           **Are there any capital costs currently being recovered by Gulf through cost recovery clauses that should be moved from the cost recovery clauses to base rates? If so, what capital costs should be moved to base rates and what adjustments should be made, if any?**

**Stipulation:**       No. The capital items currently approved for recovery through cost recovery clauses should continue to be recovered in those clauses. In this filing, Gulf removed from rate base all investment currently approved for cost recovery in a clause; therefore, no additional adjustment is necessary.

**ISSUE 23:**           **What is the appropriate amount of Plant in Service for Gulf's Transmission Capital Additions?**

**Stipulation:**       The appropriate amount of Plant in Service for Gulf's Transmission function is \$697,815,000 (\$716,388,000 system) for the 2017 projected test year. This includes the 13 transmission projects identified in the 2013 Stipulation and Settlement Agreement that were completed prior to the 2017 test year. The recovery period for the deferred transmission return provided for in the Stipulation and Settlement Agreement is separately addressed in Issue 35.

**ISSUE 24:**           **Has Gulf made the appropriate test year adjustments to remove from rate base costs recovered under the Environmental Cost Recovery Clause?**

**Stipulation:**       Yes.

**ISSUE 25:**           **Has Gulf made the appropriate test year adjustments to remove from rate base costs recovered under the Energy Conservation Cost Recovery Clause?**

**Stipulation:**       Yes.

**ISSUE 33:**           **Should any adjustments be made to Gulf's fuel inventories for the projected 2017 test year?**

**Stipulation:**       No adjustment is necessary. The fuel inventories for 2017 were developed pursuant to Gulf's fuel inventory policy that has been reviewed and approved in the last several rate cases. The balance for in-transit coal is addressed separately in Issue 37 as a proposed component of working capital.

**ISSUE 34:**           **What is the appropriate treatment of the remaining equipment inventory balance resulting from the closure of Plant Scholz?**

**Stipulation:**       The balance of \$593,000 (\$609,000 system) remains after Gulf took appropriate measures to minimize equipment inventory at Plant Scholz. This investment was prudently incurred in providing electric service to Gulf's customers from Plant Scholz; therefore, the remaining equipment inventory balance should be transferred to a regulatory asset and amortized over four years.

**ISSUE 41:**           **What is the appropriate cost rate for customer deposits for the 2017 projected test year?**

**Stipulation:**       The appropriate cost rate for customer deposits for the 2017 projected test year is 2.30%.

**ISSUE 42:**           **What is the appropriate cost rate for short-term debt for the 2017 projected test year?**

**Stipulation:**       The appropriate cost rate for short-term debt for the 2017 projected test year is 3.02%.

**ISSUE 43:**           **What is the appropriate cost rate for long-term debt for the 2017 projected test year?**

**Stipulation:**       The appropriate cost rate for long-term debt for the 2017 projected test year is 4.40%.

**ISSUE 44:**           **What is the appropriate cost rate for preference stock for the 2017 projected test year?**

**Stipulation:**       The appropriate cost rate for preference stock for the 2017 projected test year is 6.15%.

**ISSUE 48:**           **Has Gulf made the appropriate test year adjustments to remove fuel revenues and fuel expenses recoverable through the Fuel Cost Recovery Clause?**

**Stipulation:**       Yes. Gulf has made the appropriate test year adjustments to remove fuel revenues and fuel expenses recoverable through the Fuel Cost Recovery Clause.

**ISSUE 49:**           **Has Gulf made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Energy Conservation Cost Recovery Clause?**

**Stipulation:**       Yes. Gulf has made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Energy Conservation Cost Recovery Clause.

**ISSUE 50:**           **Has Gulf made the appropriate test year adjustments to remove capacity revenues and capacity expenses recoverable through the Capacity Cost Recovery Clause?**

**Stipulation:**       Yes. Gulf has made the appropriate test year adjustments to remove capacity revenues and capacity expenses recoverable through the Capacity Cost Recovery Clause.

**ISSUE 51:**           **Has Gulf made the appropriate test year adjustments to remove environmental revenues and environmental expenses recoverable through the Environmental Cost Recovery Clause?**

**Stipulation:**       Yes. Gulf has made the appropriate test year adjustments to remove environmental revenues and environmental expenses recoverable through the Environmental Cost Recovery Clause.

**ISSUE 62:**           **Is Gulf’s proposed Other Post Employment Benefits Expense for the 2017 projected test year appropriate? If not, what adjustment should be made?**

**Stipulation:**       Yes. Gulf’s proposed \$1,964,000 (\$1,996,000 system) Other Post Employment Benefits expense for retirement medical care and life insurance benefits is appropriate and necessary to retain and attract the employees needed to deliver safe and reliable service to Gulf customers at reasonable cost.

**ISSUE 65:**           **Is Gulf’s property damage reserve target appropriate? If not, what is the appropriate property damage reserve target?**

**Stipulation:**       Yes. Gulf is not proposing any changes to the property damage target reserve range previously established for Gulf by the Commission. Gulf’s current target range of \$48 to \$55 million as set by the Commission in Gulf’s 2012 test year rate case remains appropriate.

**ISSUE 83:**           **Is Gulf’s proposed separation of costs and revenues between the wholesale and retail jurisdictions appropriate?**

**Stipulation:**       Yes; however, fall-out adjustments may be made to the separation of costs and revenues between the wholesale and retail jurisdictions based on the Commission’s decision on other issues.

**ISSUE 93:**           **Is Gulf’s proposed new Extra-Large Business Incentive Rider (Rate Rider XLBIR) appropriate?**

**Stipulation:**       Yes. The Extra-Large Business Incentive Rider (XLBIR) builds upon the success Gulf has had with its existing small, medium, and large Business Incentive Riders. While the existing riders have proven useful, Gulf believes the XLBIR will help better attract large business prospects (5MW or larger) to Northwest Florida. Gulf has learned that competition to secure large business prospects is particularly high and that these prospects are aggressively seeking long-term commitments from communities in which they choose to locate. Gulf’s proposed offering, with its attendant ten-year declining credit schedule, will be an especially effective tool for securing large business prospects.

**ISSUE 94:**                    **Are Gulf’s proposed changes to its small, medium, and large Business Incentive Riders appropriate?**

**Stipulation:**                    Yes. Gulf’s proposed changes are based on Gulf’s experience during the pilot phase of these offerings and will improve the effectiveness of the riders. Gulf’s proposed improvements provide certainty that the riders will be available when customers are ready to take service and make the riders more attractive to existing customers wishing to expand operations and customers, such as data centers and high-tech manufacturing, with high loads but fewer numbers of employees.

**ISSUE 98:**                    **What are the appropriate transformer ownership discounts?**

**Stipulation:**                    The appropriate transformer ownership credits are shown below, and were developed using the Commission’s approved methodology.

Rate Schedule	Voltage Discount (\$/mo/kw)
GSD, GSdT	(\$ 0.36) Primary Voltage Level
LP, LPT	(\$ 0.48) Primary Voltage Level (\$ 0.72) Transmission Voltage Level
PX, PXT	(\$ 0.18) Transmission Voltage Level
SBS Contract Level	
100 – 499 kW	(\$ 0.06) Primary Voltage Level
500 – 7,499 kW	(\$ 0.06) Primary Voltage Level (\$ 0.07) Transmission Voltage Level
above 7,499 kW	(\$ 0.08) Transmission Voltage Level

Fall-out adjustments may be made to the separation of costs and revenues between the wholesale and retail jurisdictions based on the Commission’s decision on other issues.

**ISSUE 99:**                    **What are the appropriate lighting charges?**

**Stipulation:**                    The appropriate charges for the outdoor service (OS) are those shown in the Rate Schedule OS found in Schedule 3 of Exhibit LPE-1, attached to the testimony of Gulf Witness Evans.



**ISSUE 100:**           **Should the Commission approve the following modifications to the Outdoor Service (OS) tariff and lighting pricing methodology that have been proposed by Gulf:**

- a)     **Remove certain fixtures from the tariff;**
- b)     **Close all Metal Halide, 21 High Pressure Sodium, and 16 LED fixtures for new installations;**
- c)     **Revisions to the pole options; and**
- d)     **Modification to the Outdoor Service Lighting Pricing Methodology contained in Form 4.**

**Stipulation:**           Yes. These lighting fixtures have either been rendered obsolete by technology advances or are being phased out by manufacturers in favor of customers' preference for LED fixtures. The poles referenced have been rendered obsolete by cheaper or more reliable options. The modifications referenced to Form 4 are solely to update the labor rates and overhead rates, as Gulf has done in prior cases, and to include Revenue Tax in the Maintenance Charge for LED Fixtures.

**ISSUE 101:**           **What is the appropriate effective date for Gulf's revised rates and charges?**

**Stipulation:**           The revised rates and charges should be effective for meter readings made on or after 30 days from the date of the Commission's vote, but no sooner than the first billing cycle for July 2017.

**ISSUE 106:**           **Should Gulf be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case?**

**Stipulation:**           Yes.

## **XI.   PENDING MOTIONS**

There are no pending motions at this time.

**XII. PENDING CONFIDENTIALITY MATTERS**

<b>Document No.</b>	<b>Request</b>	<b>Date Filed</b>
09260-16	GPC (Badders) - Request for confidential classification [of DN 09261-16].	12/12/2016
00589-17 (x-ref DN 02875-17)	GPC (Griffin) - Amended request for confidential classification [of DN 00590-17] and motion for temporary protective order; includes redacted version; [x-ref DN 02876-17, GPC (Griffin) – Amended request for confidential classification for Citizens’ 3 <sup>rd</sup> set of interrogatories (Item Nos. 88, 90, 91, 96) and production of documents (Item Nos. 80, 81)].	01/18/2017 (x-ref 03/03/17)
02298-17	GPC (Badders) - Request for confidential classification [of DN 02299-17] and motion for temporary protective order; includes redacted version.	02/27/2017
03101-17	GPC (Griffin) – Request for confidential classification Request for confidential classification for Citizens’ Production of documents Item Nos. 44, 116, and 131 and Interrogatory Item No. 73	03/06/2017
03099-17	GPC (Griffin) –Amended request for confidential classification and temporary protective order for Staff’s 11 <sup>th</sup> Set of Interrogatories and 10 <sup>th</sup> Request to Produce Documents	03/06/2017
03097-17	GPC (Griffin) – Request for confidential classification and temporary protective order pertaining to Citizens’ response to Gulf’s 1 <sup>st</sup> Request to Produce Documents.	03/06/2017
03524-17	GPC (Griffin) - Request for confidential classification and motion for temporary protective order [of DN 03525-17]; includes redacted version.	03/14/2017

**XIII. POST-HEARING PROCEDURES**

If no bench decision is made, each party shall file a post-hearing statement of issues and positions, no later than March 31, 2017 at 5:00 p.m.. A summary of each position on each issue, is limited to no more than 75 words, set off with asterisks, shall be included in that statement. However, each party will be allowed to select up to 7 issues for which the summary of each position may be expanded to no more than 180 words, set off with asterisks. If a party's position has not changed since the issuance of this Prehearing Order, the post-hearing statement may simply restate the prehearing position; however, if the prehearing position is longer than 75 words for general issues, and 180 words for the 7 selected issues, it must be reduced to no more than 75 and 180 words respectively. If a party fails to file a post-hearing statement, that party shall have waived all issues and may be dismissed from the proceeding. If a party uses the 180 word limitation on more than 7 selected issues, it will result in the Commission accepting the first 7 position statements and a reduction of the words to 75 words for any remaining position statements beyond the first 7 selected issues.

Pursuant to Rule 28-106.215, F.A.C., a party's proposed findings of fact and conclusions of law, if any, statement of issues and positions, and brief, shall together total no more than 125 pages and shall be filed at the same time.

#### **XIV. RULINGS**

##### ECRC Testimony

Pursuant to an agreement of the parties, the testimony and exhibits of Gulf witnesses Boyett, Burluson, Deason, Liu, Markey and Vick, which were filed in Docket No. 160007-EI and were included in this proceeding by Order No. PSC-16-0535-FOF-EI, shall not be included in the record of this proceeding because all parties agreed and acknowledged that the necessary content is already included in the direct testimony of Gulf's rate case witnesses.

##### Contested Issues

OPC, FIPUG and Walmart proposed additional issues for inclusion upon which the parties could not agree. Prior to the Prehearing Conference, Gulf, OPC, FIPUG, LWVF/SACE, Sierra Club and Walmart filed comments in support of and/or in opposition to the inclusion of the proposed additional issues. Upon consideration of the comments and further discussion by the parties at the Prehearing Conference, I find that the proposed additional issues can either be addressed in other issues previously identified or are inappropriate for inclusion in this proceeding. Accordingly, the following proposed issues were removed from Section VII of this Order for the reasons listed below:

##### OPC ISSUE 1A:

In the event federal legislation is passed and signed into law between now and a reasonable period after new base rates become effective that results in a change in the corporate income tax rate to which Gulf is subject, or changes in the depreciation allowance for tax purposes associated with plant additions incorporated in test year rate base, what adjustments or provisions, if any, should the Commission make to address such changes? Should the Order in this case require a limited reopening within a reasonable period after new base rates become effective to address income tax expense as well as the accumulated deferred income taxes in the capital structure in the event such legislation is passed that would impact Gulf's revenue requirements?

Ruling: I find the issue is premature and not ripe for consideration at this time. Should federal tax changes occur in the future, the issue may be addressed at the appropriate time in a separate proceeding. Parties who wish to modify their position on another issue identified herein based on this ruling, shall file their position revisions no later than 5:00 p.m. on Wednesday, March 15, 2017.

FIPUG ISSUE 1B: Must Gulf demonstrate by carrying its burden of proof that Scherer 3 is needed in order to serve retail customers, and should those costs be recovered in base rates?

FIPUG ISSUE 19A: What need exists, if any, for Scherer Unit 3 to serve Gulf's retail customers?

Ruling: To the extent that FIPUG's Proposed Issues 1B and 19A are relevant, the issues are subsumed within previously identified Issue 19. Parties who wish to modify their position on Issue 19 based on this ruling, shall file their position revisions no later than 5:00 p.m. on Wednesday, March 15, 2017.

WALMART ISSUE 105A: Should the Commission require Gulf to initiate a stakeholder process involving Gulf and its customers with the purpose of collaboratively developing additional energy supply options for Gulf and its customers, with particular emphasis on renewable energy measures and initiatives?

Ruling: Issue 105A is not germane to an electric rate case proceeding. Parties who wish to modify their position on another issue identified herein based on this ruling, shall file their position revisions no later than 5:00 p.m. on Wednesday, March 15, 2017.

OPC Motion to Strike

By Order No. PSC-17-0096-PCO-EI, issued on March 14, ~~2015~~, in this matter, OPC's Motion to Strike a Portion of Rebuttal Testimony Filed by Jeffery A. Burleson was denied.

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Gulf's Request for Official Recognition

Gulf's Notice of Intent to Seek Official Recognition of Chapter 403, F.S. (1976) is hereby acknowledged.

### Hearing Procedures

Opening statements, if any, shall be limited to 10 minutes for Gulf, 7 minutes for OPC, and 5 minutes for each of the other intervenors. If LWVF and SACE choose to make a joint opening statement, their joint opening statement shall be limited to 7 minutes. Summaries of witness testimony, if any, shall be limited to 5 minutes on direct and rebuttal. All parties shall bring 25 copies of all exhibits they wish to enter into evidence to the technical hearing and abide by the rules for any confidential materials contained therein.

The Order Establishing Procedure issued on October 20, 2016, requires parties who wish to *voir dire* witnesses at the final hearing to identify the witnesses the party wishes to *voir dire* in their Prehearing Statements and “state with specificity the portions of that witness’ pre-filed testimony, by page and line number, and/or exhibits, by page and line number, to which the party objects.” Failure to do so waives the party’s right to *voir dire* absent a showing of good cause at the time the witness is offered for cross-examination at hearing. Because no party indicated that it wished to *voir dire* witnesses in their Prehearing Statements as required by the Order Establishing Procedure, I find that all parties shall be prohibited from *voir dire* at the technical hearing. The prohibition of formal *voir dire* at hearing does not prevent the parties from questioning a witness on the basis of his/her opinion, as it relates to the witnesses’ credibility on a particular issue, during the parties cross-examination of the witness at hearing.

In addition, the Order Establishing Procedure requires parties wishing to request the sequestration of witnesses at hearing, indicate so in their Prehearing Statements. Because no party requested sequestration of witnesses in their Prehearing Statements as required by the Order Establishing Procedure, the parties have, therefore, waived the right to request sequestration of witnesses at the hearing in this proceeding pursuant to Section 90.616, F.S.

### Post-Hearing Procedures

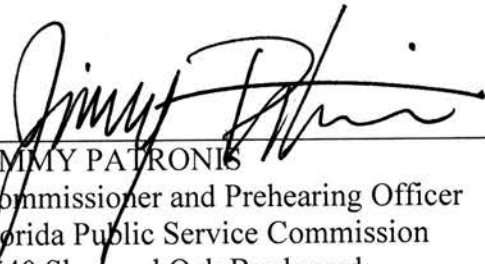
Post-hearing statements, if any, shall be limited to 125 pages, and are due on March 31, 2017. Post-hearing statement position summaries shall be limited to 75 words for each position (set off with an asterisks). In addition, the parties are permitted to choose up to 7 issues, in which position summaries shall be limited to 180 words, for each of the 7 positions (set off with an asterisks). If a party uses the 180-word limitation in more than 7 position summaries, the Commission shall accept the first 7 position summaries with 180 words, and the other position summaries shall be reduced to 75 words. If a party’s position has not changed since the issuance of the pre-hearing order, the post-hearing statement shall restate the pre-hearing position, reduced to 75 or 180 words respectively. If a party fails to file a post-hearing statement, that party waives all issues and may be dismissed from the proceeding.

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It is therefore,

ORDERED by Commissioner Jimmy Patronis, as Prehearing Officer, that this Prehearing Order shall govern the conduct of these proceedings as set forth above unless modified by the Commission.

By ORDER of Commissioner Jimmy Patronis, as Prehearing Officer, this 14th day of March, 2017.



JIMMY PATRONIS  
Commissioner and Prehearing Officer  
Florida Public Service Commission  
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Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

KFC

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Office of Commission Clerk, in the form prescribed by Rule 25-22.0376, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.