

One Energy Place  
Pensacola, Florida 32520

Tel 850.444.6111



January 22, 2002

Ms. Blanca S. Bayo, Director  
Division of the Commission Clerk and Administrative Services  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee FL 32399-0870

Dear Ms. Bayo:

RE: Docket No. 010949-EI

Enclosed are an original and fifteen copies of Gulf Power Company's Rebuttal Testimony to be filed in the above docket consisting of the following witnesses:

Robert A. Bell  
Charles A. Benore  
Francis M. Fisher, Jr.  
M. W. Howell  
J. Thomas Kilgore, Jr.  
Ronnie R. Labrato  
Richard J. McMillan  
Robert G. Moore  
Margaret D. Neyman  
Donald S. Roff  
R. Michael Saxon  
Tony A. Silva and Scott C. Twery

*DNS 00774-02 thru  
00785-02*

Sincerely,

A handwritten signature in cursive script that reads "Susan D. Ritenour".

Susan D. Ritenour  
Assistant Secretary and Assistant Treasurer

lw

Enclosure

cc: Beggs and Lane  
Jeffrey A. Stone, Esquire

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Request for rate increase by )  
Gulf Power Company )  
\_\_\_\_\_ )

Docket No. 010949-EI

Certificate of Service

I HEREBY CERTIFY that a copy of the foregoing has been furnished  
this 22nd day of January 2002 by U.S. Mail to the following:

Marlene Stern, Esquire  
Staff Counsel  
FL Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee FL 32399-0863

Douglas A. Shropshire, Lt. Col. USAFR  
AFCESA/Utility Litigation Team  
6608 War Admiral Trail  
Tallahassee FL 32309

Stephen Burgess, Esquire  
Office of Public Counsel  
c/o The Florida Legislature  
111 W. Madison St., Room 812  
Tallahassee FL 32399-1400

Michael A. Gross  
Vice President  
Florida Cable Telecommunications Assn  
246 East 6<sup>th</sup> Avenue, Suite 100  
Tallahassee FL 32303

Vicki Kaufman, Esquire  
McWhirter Reeves, P.A.  
117 S. Gadsden Street  
Tallahassee FL 32301

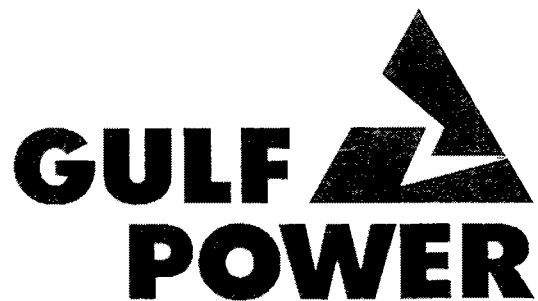


JEFFREY A. STONE  
Florida Bar No. 325953  
RUSSELL A. BADDERS  
Florida Bar No. 0007455  
Beggs & Lane  
P. O. Box 12950  
Pensacola FL 32576  
850 432-2451  
Attorneys for Gulf Power Company

**BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION**

**DOCKET NO. 010949-EI**

**REBUTTAL TESTIMONY  
OF  
RICHARD J. MCMILLAN**



**A SOUTHERN COMPANY**

DOCUMENT NUMBER DATE  
00780 JAN 22 88  
FPSC-COMMISSION CI FRM

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission  
3 Rebuttal Testimony of  
4 Richard J. McMillan  
5 Docket No. 010949-EI  
6 In Support of Rate Relief  
7 Date of Filing: January 22, 2002

8 Q. Please state your name, address, and occupation.

9 A. My name is Richard J. McMillan, and my business address is One Energy  
10 Place, Pensacola, Florida 32520. My title is General Accounting Manager.

11 Q. Are you the same Richard J. McMillan who provided direct testimony on  
12 Gulf Power's behalf in this docket?

13 A. Yes.

14 Q. What is the purpose of your testimony?

15 A. The purpose of my testimony is to respond to the testimony of Helmuth W.  
16 Schultz, III, pertaining to the proposed adjustment to the property  
17 insurance reserve accrual and the testimony of Kimberly H. Dismukes  
18 pertaining to the proposed adjustments related to affiliated transactions  
19 and wholesale related costs.

20 Q. On page 31 of Mr. Schultz's testimony, he recommends an adjustment to  
21 reduce the level of property insurance expense in the test year. Is this  
22 adjustment appropriate?

23 A. No. As stated by Mr. Schultz and also reflected on MFR C-28, the  
24 Company has projected a property insurance reserve balance of only  
25

1           \$16.5 million at May 31, 2003 using very conservative estimates for the  
2           charges to the reserve (for example, no costs for hurricanes were  
3           included). As stated in MFR C-28, the target level for the property  
4           damage reserve is \$25.1 million to \$36 million. The target level was  
5           approved by the Commission in Docket No. 951433-EI, based upon a  
6           storm damage study the Commission required Gulf to file in Order No.  
7           PSC-96-0023-FOF-EI. Based upon its review of the study, the  
8           Commission approved the \$3.5 million reserve accrual and the reserve  
9           target level of \$25.1 million to \$36 million in Order No. PSC-96-1334-FOF-  
10          EI. The projected reserve balance is still significantly below the approved  
11          target level, and obviously one significant hurricane could easily wipe out  
12          the entire projected reserve balance.

13

14    Q.    Have there been any changes since Gulf's MFR filing that would affect the  
15          projected property insurance expenses?

16    A.    Yes. Property insurance costs have actually increased as a result of the  
17          terrorist events of September 11. The premiums for the Company's all-  
18          risk property insurance policy, which covers our generating plants and  
19          general plant, have increased \$380,000 or 60 percent; and the deductible  
20          increased from \$1 million to \$10 million. Additionally, due to the inability to  
21          procure lower deductible amounts in the external insurance market,  
22          Southern has elected to self-insure through a captive insurance company  
23          for any property losses between \$2 million and \$10 million, at an  
24          estimated cost to Gulf of approximately \$243,000 a year. The \$1 million  
25          increase in uninsured deductibles will also result in increased charges to

1 the reserve in the future.

2 Based on the actual costs for renewing our all-risk policy alone, the  
3 property insurance expenses in the test year are understated by  
4 \$623,000. Therefore, the test year expenses should be increased  
5 \$623,000, not decreased as proposed by Mr. Schultz.

6

7 Q. Are there also problems with Mr. Schultz's calculations related to his  
8 proposed adjustment to property insurance?

9 A. Yes. There are errors in his calculations. These errors include improperly  
10 using the 2000 index on a five-year average and using the wrong test year  
11 amount for the property insurance reserve accrual.

12

13 Q. Beginning on page two of Ms. Dismukes' testimony, she discusses affiliate  
14 transactions and proposes a significant adjustment to the test year related  
15 to Southern Company Services (SCS) allocated costs. Is this  
16 appropriate?

17 A. No. The SCS expenses included in the test year are reasonable and  
18 representative of future costs. Her proposed adjustment is based upon a  
19 reallocation of SCS costs to include Southern Power Company (SPC), a  
20 new Southern subsidiary. Although SPC will receive some SCS allocated  
21 costs, increases in SCS's total costs and changes to the other affiliates'  
22 statistics and allocations may offset most if not all of this impact. The  
23 more relevant question is whether the test year level of SCS costs is  
24 reasonable and representative of future periods when the rates will be in  
25 effect. I looked at the following two scenarios to test the reasonableness

1 of the test year amounts. First, I applied the 2002 budget allocation ratios  
2 (which reflect the inclusion of SPC) to the SCS budget data used in  
3 preparing this filing, and Gulf's allocated costs actually increased  
4 \$312,000. Next, I compared the test year SCS O & M amounts to the  
5 recently completed SCS 2002 Budget, and Gulf's test year O & M amount  
6 increased by \$1.5 million. This demonstrates that not only is the test year  
7 estimate reasonable, but based upon the most recent SCS budget, the  
8 test year O & M amounts are \$1.5 million understated.

9  
10 Q. Are there other problems you discovered in Ms. Dismukes' affiliated  
11 transaction testimony and proposed calculations?

12 A. Yes. The non-regulated percentages she calculates on her Schedule 1  
13 are calculated incorrectly and are overstated due to a math error. The  
14 math error is caused by incorrectly using the regulated subtotal, instead of  
15 the total, as the denominator. This overstates the non-regulated amounts  
16 and results in the total percentages exceeding 100 percent. Also, her  
17 breakdown of regulated to non-regulated is actually a comparison of the  
18 electric core subsidiaries to all other subsidiaries. Several of the  
19 subsidiaries listed under the non-regulated section are regulated, such as  
20 Southern Company Services, Southern Nuclear, and Southern Electric  
21 Generating Company (SEGCO). As a result of these errors,  
22 Ms. Dismukes significantly overstates the non-regulated percentages.

23 Also, as stated on page 9, Ms. Dismukes adjusts numerous  
24 allocators using projected or estimated 2003 data for SPC. This is flawed  
25 for numerous reasons. For example, all of the other subsidiary statistics

1 would also be increasing during this period and would have to be updated  
2 to the same period. Ms. Dismukes uses a factor of seven to estimate  
3 several statistics without any support for a correlation in this relationship.  
4 Her use of calendar year 2003 goes beyond the test year, which ends in  
5 May of 2003. Also, she assumes SPC should receive allocations for all  
6 SCS allocated activities other than those allocated based on customers,  
7 which is incorrect. This last error alone results in an overstatement of  
8 approximately \$600,000 in her adjustment. Finally, according to page 10  
9 of her testimony, Ms. Dismukes modifies or adjusts numerous allocation  
10 methods and these changes alone result in an overstatement of  
11 approximately \$450,000 in her adjustment. The SCS allocation methods  
12 are approved by the Securities and Exchange Commission (SEC) and  
13 cannot be arbitrarily changed.

14 The SCS amounts included in the test year are conservative and  
15 were based upon the best estimates available at the time of the filing.  
16 Based upon the most recent SCS budget estimates, which include SPC in  
17 the allocations, Gulf's O & M costs are projected to be \$1.5 million higher  
18 than the test year amounts included in this filing.

19  
20 Q. On page 11 of Ms. Dismukes' testimony she also proposes an adjustment  
21 of \$1.2 million related to wholesale energy. Is this adjustment  
22 appropriate?

23 A. No. Ms. Dismukes has proposed disallowing the total costs related to the  
24 SCS wholesale energy marketing function, Southern Company Generation  
25 and Energy Marketing (GEM). The primary responsibility and purpose of



1 GEM is to provide energy at the lowest possible cost to meet the territorial  
2 needs of Gulf and the other Southern electric system operating  
3 companies. This is accomplished by securing the most economical  
4 energy from the off-system markets and maximizing wholesale energy  
5 sales from temporary surplus generating capacity. These activities benefit  
6 all territorial customers, resulting in lower fuel and purchased power  
7 energy and capacity costs for both the retail and wholesale customers.  
8 The retail customers receive over 96 percent of these benefits through the  
9 fuel and capacity cost recovery clauses.

10 The GEM costs related specifically to the wholesale customers  
11 were \$243,000 in the test year. Mr. Labrato has properly removed these  
12 costs in the calculation of jurisdictional adjusted net operating income.

13

14 Q. Does this conclude your testimony?

15 A. Yes.

16

17

18

19

20

21

22

23

24

25