BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 110138-EI

PETITION FOR INCREASE IN RATES BY GULF POWER COMPANY.
_____/

VOLUME 5

Pages 728 through 900

PROCEEDINGS:	HEARING
COMMISSIONERS PARTICIPATING:	CHAIRMAN ART GRAHAM COMMISSIONER LISA POLAK EDGAR COMMISSIONER RONALD A. BRISÉ COMMISSIONER EDUARDO E. BALBIS COMMISSIONER JULIE I. BROWN
DATE:	Tuesday, December 13, 2011
TIME:	Commenced at 11:06 a.m. Concluded at 12:57 p.m.
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	LINDA BOLES, RPR, CRR Official FPSC Reporter (850) 413-6732
APPEARANCES:	(As heretofore noted.)

I N D E X

WITNESSES

EXHIBITS

NUMBER:		ID.	ADMTD.
17			818
190	Gulf Power 2011 TYSP	780	819

P R O C E E D I N G S

CHAIRMAN GRAHAM: Get you to call your next witness.

MR. GUYTON: Call Mr. Burroughs.

MICHAEL L. BURROUGHS

was called as a witness on behalf of Gulf Power Company and, having been duly sworn, testified as follows:

EXAMINATION

BY MR. GUYTON:

Q Mr. Burroughs, have you previously been sworn?

A I have.

Q Would you please state your name for the record.

A Michael L. Burroughs.

Q And what is your position?

A I am Vice President of Power Generation for Gulf Power Company.

Q Mr. Burroughs, did Gulf file with the Commission on July 8th, 2011, your direct testimony, consisting of 29 typewritten pages?

A That's correct.

Q And do you have any corrections to your direct testimony?

A I do.

Q Would you share those with the Commission

slowly so that we can all keep up with the changes? Thank you.

A Sure. The first change, page 8, line 5, change improvement to incentive.

Also we had several changes regarding removing intransient fuel related to Scherer, and those changes are on page 15, line 1. Change 86,804,000 to 86,454,000.

On line -- on page 15, line 5, change 86,804,000 to 86,454,000.

Page 15, line 2, change 10,718,000 to 10,368,000.

Page 20, line 2, change 10,718,000 to 10,368,000.

On page 21, line 2, change 2.21 MCF to 2.27.

Related to my exhibit, on Schedule 7, under the column Budget 2015, the entry for baseline other should be changed to 55,973, from that to 49,933. The entry for total baseline should be changed from 99,670 to 93,630. The total for, total actual budget should be changed from 120,607 to 114,567.

Also the average shown on the bottom of Schedule 7 should be changed from 113,223 to 112,015.

Q Mr. Burroughs, if I were to ask you today the same questions that appear in your direct testimony,

would your answers, as amended by the changes you've given this morning, be the same?

A Correct, sir.

MR. GUYTON: We ask that Mr. Burroughs' direct testimony be inserted into the record as though read.

CHAIRMAN GRAHAM: We'll insert Mr. Burroughs' direct testimony into the record as though read.

BY MR. GUYTON:

Q Mr. Burroughs, with the correction to Schedule 7 of your Exhibit MLB-1 and the revised Schedule 8 that was previously filed with the Commission, is the information in your exhibit true and correct, to the best of your knowledge and belief?

A That's correct.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony of
Michael L. Burroughs
Docket No. 110138-EI
In Support of Rate Relief
Date of Filing: July 8, 2011

Q. Please state your name and business address.

A. My name is Michael L. Burroughs. My business address is One Energy Place, Pensacola Florida, 32520.

Q What is your position?

A. I am Vice President of Gulf Power Company (Gulf or the Company) with responsibility for Power Generation, and in that capacity I am Senior Production Officer.

Q. What are your responsibilities as Vice President of Power Generation and Senior Production Officer?

A. I am responsible for Power Generation, Fuel, Supply Side Renewable Development and Generation Planning. This includes responsibilities for all of Gulf's wholly owned and jointly owned plants and all power purchase agreements.

Q. Please state your prior work experience and responsibilities.

A. I was hired by Alabama Power Company in 1991 as a Junior Engineer at Plant Barry in Mobile, Alabama. I progressed through various positions

until I transferred to Gulf, assuming the role of Planning and Engineering Manager at Plant Smith in Panama City, Florida in 1999. During the following eight years, I held positions of Maintenance Manager as well as Compliance and Engineering Manager. In May 2006, I was selected to be the Assistant to the Executive Vice President and Chief Production Officer of Southern Company Generation and Alabama Power Company. In September 2007, I was named Plant Manager of Yates Generating Plant in Newnan, Georgia with Georgia Power Company. I assumed my current position as Vice President of Power Generation and Senior Production Officer of Gulf Power in August 2010.

Q. What is your educational background?

A. I graduated with a Bachelor of Science degree in Mechanical Engineering from the University of Alabama – Birmingham in 1990.

Q. What is the purpose of your testimony?

A. My testimony discusses Gulf's generation resources used and useful in the provision of electric service to our customers. My testimony also addresses the operation of Gulf's Power Generation Fleet, including Production Safety Performance and Plant Performance. My testimony explains Gulf's Production capital additions, Operation & Maintenance (O&M) expense and fuel inventory levels necessary for Gulf's continued provision of reliable generation. My testimony explains and justifies Gulf's decision to purchase a generating unit site that preserves a prospective nuclear plant option for Gulf's customers. Finally, my

testimony sets forth Gulf's approach to renewable generation. Gulf Witness Grove provides more detail regarding Gulf's generation resources, Production investment, Production O&M expenses and the resource planning process.

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exhibit MLB-1, Schedules 1 through 8. Exhibit MLB-1 was prepared under my direction and control, and the information contained therein is true and correct to the best of my knowledge and belief.

Q. Are you sponsoring any of the Minimum Filing Requirements (MFRs) submitted by Gulf?

A. Yes. A list of MFRs I sponsor or co-sponsor is included on Schedule 1 of my Exhibit MLB-1. The information contained in the MFRs I sponsor or co-sponsor is true and correct to the best of my knowledge and belief.

I. GULF'S GENERATION RESOURCES

Q. Please describe Gulf's generating resources.

A. Gulf generates or purchases electricity from a diverse group of resources, including: (a) units owned solely by Gulf; (b) units owned jointly with other Operating Companies within the Southern Electric System (SES); (c) units in the SES available to Gulf through the SES Intercompany Interchange

Contract (IIC); and (d) units available to Gulf under power purchase agreements (PPAs). The fuels used for the generation resources available to Gulf include coal, oil, natural gas, landfill gas and municipal solid waste.

Q. Please describe the generation forecasted to be owned, operated and used by Gulf Power Company to serve its retail customers in 2012.

A. Exhibit MLB-1, Schedule 2 provides a list of the units owned and operated or co-owned by Gulf. With the exception of the new Perdido landfill gas-to-energy facility (Perdido), which was placed in service in October of 2010, all of these generating facilities were included in Gulf's rate base in its last rate case proceeding, and most of their O&M expenses were considered in computing Gulf's net operating income in Gulf's last rate case.

Q. Please briefly describe the Perdido facility.

A. The Perdido facility has two 1.6 megawatt (MW) generators connected to internal combustion engines that burn landfill methane gas as their fuel. Gulf submitted a bid for the purchase of methane gas from the landfill in August 2008. The project began commercial operation in October 2010. The investment in the Perdido project will be in service in 2012 and will be used and useful in providing electric service to Gulf's customers. The associated O&M expenses will be necessary and reasonable to provide

retail electric service to Gulf's customers. Mr. Grove will provide a discussion of the analysis used to develop the Perdido project.

Q. What PPAs will Gulf have in place and use to provide electric service in 2012?

A. Schedule 3 of Exhibit MLB-1 provides a list of the power purchase resources available to Gulf during 2012 and information regarding the fuels and technologies used by these generating resources. Mr. Grove, who is responsible for Gulf's planning process and who assisted in the negotiation of these contracts, will discuss these contracts in detail in his testimony. All of these agreements have been approved by the Florida Public Service Commission (FPSC or the Commission).

Q. Other than the environmental capital projects addressed through Gulf's Environmental Cost Recovery Clause (ECRC), what major changes have been made to Gulf's generation resources since Gulf's last base rate proceeding?

A. Since Gulf's last rate case, Gulf retired Units 1, 2, and 3 at Plant Crist, added four PPAs, and added the Perdido project. Mr. Grove will provide a detailed discussion of each of these items.

Q. What effect have the changes in your generation resources had on Gulf's customers?

A. The retirement of Units 1, 2, and 3 at Plant Crist reduced Gulf's reserve margin by 80 MW. However, there was no discernable impact related to

energy production, since these units had very high operating costs and were not routinely run. Each of the four PPAs that were added since the last rate case provides benefits to Gulf's customers in the form of capacity, energy and fuel diversity. In addition, these contracts avoided capital investments for additional generating capacity that Gulf would have otherwise been required to construct to reach an acceptable capacity reserve margin. Lastly, the Perdido project was constructed at or below avoided cost and has a neutral cost impact on our customers. In addition, Perdido is a renewable resource that enhances fuel diversity and has a positive environmental impact.

II. GULF'S PRODUCTION SAFETY PERFORMANCE

Q. Please address Production safety at Gulf Power.

A. Safety is the first priority for every employee at Gulf Power. Safety is a core value, and it is our desire that we work every day and every job safely. The overall objective of our safety program is zero accidents.

The Power Generation organization is very proud of our safety record. For the ten-year period ended 2010, Power Generation experienced only 28 Occupational Safety and Health Administration (OSHA) recordable incidents, with Plant Scholz having experienced no recordable incidents for over ten years. This compares favorably with the ten-year period ending 1990, when Power Generation experienced 255 recordable

incidents, or to the ten-year period ending in 2000, when Power Generation experienced 162 recordable incidents. Over the course of the last two decades, Gulf's Power Generation Safety record has improved by 89 percent.

Gulf's Production safety performance has not only improved internally but also compares favorably with the industry. Since 2003 Gulf's OSHA Recordable Incident Rate (RIR) has been 0.77 compared to the industry average RIR of 1.596. Stated differently, Gulf's RIR has been 51.74 percent better than the industry for the period 2003 through 2010.

Gulf's remarkable improvement in safety performance in Power Generation is shown graphically on Exhibit MLB-1, Schedule 4. The success we have experienced is driven by our philosophy that management at Gulf will provide an environment where we send every employee home every day as healthy as when they reported to work. This provides benefits to our employees and our customers through greater productivity.

III. GULF'S PLANT PERFORMANCE

Q. Please address the performance of Gulf Power's power plants since Gulf's last base rate proceeding.

A. Gulf uses a number of indicators to measure the performance of its units/plants. They include Equivalent Availability Factor (EAF), heat rate, Equivalent Forced Outage Rate (EFOR) (both annual and peak season), and OSHA recordable incidents. Both EAF and heat rate are tracked in the Commission's Generation Performance ~~Improvement~~ Incentive Factor (GPIF) program. Gulf considers heat rate and EFOR to be the primary indicators of efficiency and reliability, respectively, and uses them to evaluate the effectiveness of our planned outage and maintenance programs.

Q. What does EFOR measure?

A. EFOR measures a generating unit's inability to provide electricity when dispatched and is the primary tool used by Gulf to track unit reliability. EFOR is reported in terms of the hours when a generating unit could not deliver electricity as a percentage of all the hours during which that unit was called upon to deliver electricity. Our customers directly benefit from Gulf's efforts to minimize EFOR. Whenever a generating unit is forced off line, the energy lost must be replaced, which often increases fuel expense recovered through the fuel clause. Gulf focuses maintenance and outage planning efforts to ensure our units do not experience forced outages and instead remain available for economic dispatch to meet the needs of our customers.

Q. What is economic dispatch?

A. Economic dispatch is the process of dispatching units based on cost. Gulf has units committed and on line to serve existing load in addition to

spinning reserves. The spinning reserves are units that are on line (running at less than full load) to support the loss of another unit in the event a unit is forced off line. Spinning reserves are a critical part of ensuring the reliability of the system. As customer demands increase, Gulf commits additional resources to serve those demands. As customer demands decrease, Gulf takes the highest cost units off line first. Economic dispatch is designed to ensure the customers receive the benefits of the least cost units, that is, the units with the lowest incremental operating costs.

Q. Why is it important to ensure units are available for economic dispatch?

A. By dispatching the least-cost units first, Gulf ensures our customers receive the lowest cost resources. This is why it is critical to maintain a low EFOR, particularly in the peak months. Whenever a low cost unit is forced off line, the replacement energy will likely be more expensive, and this impacts our customers through higher fuel costs.

Q. What EFOR measures does Gulf track, and why?

A. Gulf tracks both Annual EFOR and Peak Season EFOR. Plant performance goals are set around Peak Season EFOR. This is the period from May 1 through September 30 each year when the demand for electricity is the highest.

Q. What is a heat rate?

A. Heat rate is a measure of a unit's ability to convert fuel to energy. It is a measure of the amount of fuel required to generate a kilowatt hour (kWh). The lower a unit's heat rate, the more efficiently it converts fuel to energy.

Q. Please address why EFOR and heat rate performance are important to customers.

A. Again, EFOR is a measure of a unit's reliability. A low EFOR ensures that the lowest cost units are producing electricity when called upon to meet the demands of customers. Also, maintaining a low EFOR ensures that units are available to make wholesale power sales when opportunities arise. This results in a reduced fuel cost to our retail customers since more than 80 percent of the gain from these sales is applied as a credit to fuel expense. As discussed earlier in my testimony, heat rate is an efficiency measure. The lower the heat rate, the less fuel consumed to generate electricity. The customer benefits by paying less in fuel costs and having lesser amounts of fuel required in inventory.

Q. What are the Annual and Peak Season EFOR for Gulf's generating units?

A. Exhibit MLB-1, Schedule 5 shows Gulf's Annual and Peak Season EFOR.

Q. How does Gulf's EFOR compare to others in the industry?

A. As shown on Schedule 5, Gulf's Annual and Peak EFOR performances compare extremely favorably with peer utilities. Schedule 5, pages 1 and 2 show graphically how Gulf's actual Annual and Peak Season EFOR

compare to the peer group averages from 2002 through 2009. Schedule 5, pages 3 and 4 show where Gulf's actual average performance for the same period compares to each of the peer utilities. Gulf's results are exceptional, despite three major hurricane events that impacted our plants. Gulf's excellent performance is indicative of a well managed organization, with great employees, all committed to serving our customers.

Q. What is the source of the data Gulf has used to compare its EFOR performance to that of other utilities?

A. Gulf obtained Annual and Peak Season EFOR data from the North American Electric Reliability Council (NERC). This data became available approximately 12 to 15 months after the end of 2009 and is the latest data currently available. Gulf participates in a NERC benchmark analysis with 19 comparable utilities that have a minimum of 4,000 MW of generation excluding nuclear.

IV. GULF POWER'S PRODUCTION INVESTMENT

Q. Gulf Witness McMillan shows a total of $2.6 billion of plant in service investment in Gulf's 2012 rate base in this case. Other witnesses have testified that these costs are properly recorded consistent with the Uniform System of Accounts and generally accepted accounting principles. Are

the Production assets associated with these costs used and useful in the provision of electric service to the public?

A. Yes. The Production assets, which comprise a total of $1,043,349,000 of plant in service in Gulf's 2012 rate base in this case, are used and useful in Gulf's provision of electric service.

Q. Were these Production costs reasonably and prudently incurred?

A. Yes. They were incurred pursuant to our capital budget process as discussed in Mr. Grove's testimony. These Production investments are also subject to cost controls used to govern budgeted expenditures. The investment in Production plant is reasonable, prudent and necessary to ensure continued excellent reliability.

Q. What is Gulf's projected Production capital additions budget for 2011 and 2012, excluding Plant Scherer and environmental projects recovered through the ECRC?

A. Gulf Power Company's Production non-ECRC capital additions budget for 2011 is $68,334,000 and for 2012 is $43,738,000.

Q. Are the Production capital additions, excluding ECRC, for 2012 reflective of the level of capital additions for the five-year budget cycle that began in 2011?

A. No, they are markedly lower. The amount of Production capital additions projected in the 2012 test year is conservative when compared to the five-

year budget cycle. Mr. Grove will provide a summary of major capital expenditures for 2011 and 2012.

V. GULF'S 2012 PRODUCTION O&M BUDGET

Q. What is Gulf's Production O&M budget for 2012?

A. Gulf's Production O&M budget of $110,888,000 for 2012 is set forth on Schedule 6 of my exhibit.

Q. Is Gulf Power's projected level of Production O&M expenses of $110,888,000 million in 2012 reasonable and prudent?

A. Yes.

Q Is Gulf Power's projected level of Production O&M expenses of $110,888,000 in 2012 representative of a going forward level of Production O&M expenses beyond 2012?

A. Yes. Schedule 7 clearly shows the dollars requested in 2012 are representative of expenses expected through our current budget period (2011 through 2015).

Q. Please explain your conclusion that Gulf Power's projected level of Production O&M expense of $110,888,000 for 2012 is reasonable and prudent.

A. As addressed by Mr. Grove in more detail, Gulf's 2012 projected level of Production O&M expenses is the result of a rigorous multi-level budgeting process, and these O&M expenses are subjected to demanding cost control programs.

Unlike Gulf's 2012 Production capital additions budget, which is lower than 2010 or 2011, Gulf's 2012 Production O&M expense has risen relative to historical expenses. As Mr. Grove explains in detail in his testimony, this is necessary. In 2009 and 2010, Gulf responded to the economic downturn and held Production O&M expenses below budgeted levels in an effort to forestall a base rate increase. While appropriate at the time, these temporary reductions cannot be sustained over the long term. More Production O&M dollars have to be spent in 2012 and future years to avoid a predictable decline in the unit reliability.

Mr. Grove's testimony addresses in detail the numerous drivers of Production O&M cost escalation and justifies Production O&M benchmark variances.

VI. GULF'S 2012 FUEL INVENTORY

Q. What recovery amount is Gulf requesting for total fuel inventory, including fuel stock and in-transit fuel?

A. Gulf is requesting a total fuel inventory of ~~$86,804,000~~ $86,454,000 to be included in its 2012 rate base. This includes $76,086,000 for fuel stock and ~~$10,718,000~~ $10,368,000 for in-transit fuel.

Q. How does the request for $86,804,000 in inventory compare to the inventory levels since the last rate case?

A. Exhibit MLB-1, Schedule 8 clearly shows that since 2005, Gulf's inventory levels have exceeded the inventory level in working capital allowed in Gulf's last rate case. In fact, since 2008 the inventory levels have been at least twice the amount allowed in the prior rate case.

Q. Please describe Gulf's coal inventory policy.

A. Gulf's policy is to maintain coal inventory levels sufficient to safeguard against disruptions in supply, inconsistencies in delivery of coal due to weather conditions and other factors affecting the coal transportation sector. Coal inventory levels for each generating plant are evaluated, and targets are established based on a number of factors such as: plant specific coal handling and storage limitations; market intelligence on coal supply availability; coal transportation/logistics information; and the historical perspective obtained through considerable experience in coal stockpile management in the Southern Company fuel organization. Collectively, the Operating Companies of the Southern Company are among the largest coal consumers in the nation and have a long history of successfully operating coal fired generating plants.

These established coal stockpile targets are further evaluated using the Utility Fuel Inventory Model (UFIM) developed by the Electric Power Research Institute and the electric utility industry. The UFIM model evaluates, among other factors, the economic cost of not being able to serve customer load if coal inventory is depleted and the economics associated with being forced to procure coal and/or replacement energy in the spot market during periods when coal supply is disrupted compared to the financial costs associated with carrying various levels of coal inventory. The economic cost results derived from the UFIM model runs are then evaluated along with specific plant coal logistics issues and other coal market inputs to determine the most economical target plant coal inventory level for a specific plant.

Once the target coal inventory levels are validated, they are formally approved by the Vice President of Power Generation for use as an input into the SES fuel budgeting model, FUELPRO, to develop a fuel cost of generation budget for all plants in the SES. The fuel burn derived from the hourly load dispatch of each generating unit in the SES fleet and the current fuel price forecast for each fuel type, including transportation rates, are also inputs to the FUELPRO model. The output of FUELPRO is a fuel budget for each plant, which includes monthly fuel purchases, burn and ending inventory expressed in units of measure (quantity), total dollars, and dollars per unit. For the test year the coal inventory evaluation resulted in inventory targets for Gulf's barge-served coal fired plants of

approximately 40 normal full load (NFL) burn days and for Gulf's rail-served plants (excluding Scherer), a range from 20 to 40 NFL burn days.

Q. What is a normal full load (NFL) burn day?

A. A NFL burn day is the normal maximum consumption of fuel at a specific generating facility over a 24 hour period. Normal maximum consumption does not include output maximums that can be achieved for short periods by using supplemental firing to operate at "full pressure" on traditional steam and combined cycle units. The use of NFL burn days allows for the expression of inventory units in common terms so that fuel inventories of generating plants with various capacity sizes and capacity factors can be compared on an "apples to apples" basis. A NFL burn day is calculated by multiplying the total daily energy output (in kilowatt hours or kWh) of a generating plant by the weighted average heat rate (British Thermal Units per kWh or BTU/kWh) of the units at that generating plant. Both the total daily energy output and the unit heat rates are determined by actual plant performance measurements over a period of time. The resulting calculated BTUs per day are then converted to standard units for each fuel type such as tons for coal and gallons or barrels for oil. This method explicitly recognizes Gulf's heat rate performance in establishing its required fuel inventory levels.

Q. How does the current coal inventory policy compare to the policy used in Gulf's last case?

A. There is no change in coal inventory policy from Gulf's last rate case.

Q. Based on this policy, what is Gulf's forecasted coal inventory level for the test year?

A. For all Gulf plants (excluding Scherer), the 13 month average of the monthly ending coal inventory levels, not including in-transit coal, for the test year, is a stockpile of 693,196 tons ($67,958,000) or 34 days NFL burn supply. This compares to a total of 695,829 tons ($26,800,000) or 36 days NFL burn supply allowed in the last rate case. The increase in coal inventory value (dollars) is due to an increase in the delivered market price of coal since the last rate case.

Q. The Commission previously established a generic fuel inventory guideline in Order No. 12645 in Docket No. 830001-EU which may apply if a utility fails to justify its own inventory policy. For coal inventory, that guideline is 90 days projected burn plus base coal volumes. How does Gulf's requested coal inventory target expressed in NFL burn days compare to the same quantity of coal expressed in projected burn days?

A. Gulf's requested coal inventory target for the test year expressed in projected burn days is 64 days, which is less than the Commission approved 90 day burn guideline.

Q. How does the average unit cost of coal inventory compare to the amount used in Gulf's last rate case?

A. In Gulf's last rate case, the weighted average unit cost of coal in inventory was $38.51 per ton. Since the last rate case the market prices of coal and coal transportation have increased significantly. The current weighted

average unit cost of coal used to project the total cost of Gulf coal inventory in the test year is $98.04 per ton. The increase in the market price of coal is due to a general decline in coal supply combined with higher worldwide market demands for coal (primarily from developing nations), higher production costs associated with domestic coal mining, and higher rail and barge transportation rates charged by coal shippers.

Q. Why does Gulf include an amount in working capital for in-transit coal inventory?

A. Gulf pays its coal suppliers upon loading of the coal into Gulf's transportation equipment at the coal supplier's originating facility. Therefore, capital is invested in coal that has not yet been received at the destination generating plants. A major portion of Gulf's coal supply is delivered by rail and ship (import sources) to an intermediate coal blending/transfer facility located in Mobile, Alabama and then by barge to the Crist and Smith generating plants. A considerable amount of time is involved in the process of transporting coal from the origin mine to the intermediate blending and barge loading location and then transporting the coal to the final destination plant stockpile. This investment in coal that is in-transit should be included in the working capital component of Gulf's rate base.

Q. How does the amount for in-transit coal you have included in your request for working capital compare to the amount included in the previous rate case?

A. The amount of in-transit coal included in the 2012 test year fuel inventory request is ~~$10,718,000~~ $10,368,000. This compares to roughly $13,000,000 included in Gulf's last rate case. The decrease is due to a reduction in the average quantity of coal that is projected to be in-transit during the test year.

Q. What is Gulf's natural gas inventory forecast for the test year?

A. Gulf's policy is to maintain a certain portion of its natural gas requirements in storage to provide for pipeline balancing and natural gas supply interruptions caused by pipeline and compressor station failures, hurricanes, well freezes, etc. Gas storage for balancing is necessary to avoid penalties imposed by pipelines for large swings in daily and hourly demands when the generating unit is economically dispatched or when other sudden changes, like plant outages, cause a swing in demand. Currently, for Smith Unit 3, a target inventory level of approximately ten NFL burn days supply, or 835,702 MCF (thousand cubic feet), has been set. Gulf has included $4,759,000 in working capital for gas storage.

Q. How does this target natural gas inventory compare to the approved inventory from the last case?

A. There is no change in natural gas inventory target from Gulf's last rate case.

Q. How does the average unit cost of natural gas inventory compare to the amount used in the last rate case?

A. In the last rate case the average unit cost of natural gas in inventory was ~~$2.21~~ $2.27 per MCF. Since the last rate case the market price of natural gas has increased due to higher demand, primarily from the electric generating sector. The current average unit cost of natural gas used to project the total cost of Gulf natural gas inventory in the test year is $5.69 per MCF.

Q. What is Gulf's forecast distillate oil inventory level for the test year?

A. Gulf's projected distillate oil inventory level, including both lighter oil and combustion turbine generating fuel, for the test year (excluding Scherer) is 49,850 barrels. An amount of $3,370,000 has been included in working capital for distillate oil inventory.

Q. How does this distillate oil inventory request compare to the oil inventory amount approved in Gulf's last rate case?

A. The amount of distillate oil inventory included in the last rate case was 16,105 barrels, which was primarily for lighter oil inventory. Since the last rate case Gulf has executed three PPAs in which Gulf has the fuel supply responsibility. While the units associated with these PPAs are primarily natural gas fired, Gulf is including combustion turbine generating fuel oil in the 2012 test year inventory amount to allow for the continued operation of these PPA generating units during times of natural gas supply disruption. Natural gas supply is typically disrupted during periods of high demand for natural gas when incremental gas pipeline transportation is unavailable. Gulf will maintain an oil inventory level that will allow the PPA units to operate at full load for approximately 30 hours.

Q. How does the average unit cost of distillate oil inventory compare to the amount used in the last rate case?

A. In Gulf's last rate case, the average unit cost of distillate oil in inventory was $30.23 per barrel. Since the last rate case the market price of distillate oil has increased due to higher worldwide demand for all oil products. The current average unit cost of distillate oil used to project the total cost of Gulf's distillate oil inventory in the 2012 test year is $67.60 per barrel.

VII. LAND HELD FOR FUTURE USE

Q. Please explain Gulf's approach to land held for future use.

A. As part of its normal, ongoing planning processes, Gulf Power evaluates a variety of generation resources to meet future needs. Prudence dictates that Gulf consider all viable technology types that have the potential to provide the greatest benefit to customers with regard to economy and reliability. This broad technology evaluation has implications in Gulf's approach to land held for future use. It provides no value to the customer to have a broad evaluation of resources in the resource planning process if land is unavailable for some of the options being considered. Thus, in order for Gulf to fully consider all types of resource options, we must make appropriate investments in land that would support any or all of those options.

Q. Have Gulf's recent generating resource additions required the use of Gulf owned power plant sites?

A. No. As Mr. Grove discusses in detail, Gulf has had some unique opportunities related to our most recent generation additions. Neither Gulf's 2009 to 2014 PPAs nor the recent agreement with Shell Energy North America (SENA) required use of a Gulf-owned plant site. As a result of the PPA with SENA, Gulf's next planned addition for capacity as reflected in our most recent Ten Year Site Plan is in 2022. One of the many benefits provided by this agreement is the flexibility it provides from a planning perspective.

Q. How has this planning flexibility served Gulf's customers?

A. The primary benefit of that planning flexibility has been Gulf's ability to avoid having to commit to specific generation technologies during a time of high uncertainties associated with potential environmental requirements. There are major environmental initiatives being proposed that could change the face of the electric utility industry. Regulations regarding greenhouse gases emissions, hazardous air pollutants (HAPS MACT), coal combustion byproducts, ozone, particulate matter, industrial boilers and water intake structures are all in various stages of the regulatory process. Gulf's prospective need for new generation may not be limited to just system growth, but could involve the retirement of existing resources driven by regulatory changes. These potential environmental regulatory requirements could drive new generation additions.

Over the past several years Gulf has had to consider many different scenarios related to the potential impacts of carbon legislation, other pending environmental regulatory proposals and fluctuating fuel prices. Although there are many uncertainties, it is clear that there are situations in which nuclear could be a cost-effective solution for meeting our long-term generation additions. For instance, Florida's 2008 Energy and Climate Change Action Plan identified nuclear as a means to reduce imported fossil fuel, diversify the state's fuel supply and reduce greenhouse gas emissions. Gulf Power agrees with this assessment and believes that nuclear technology is a viable option that benefits customers under a range of scenarios.

Q. What has Gulf done to preserve a potential nuclear option for its customers?

A. For all generation technologies, the pool of potential sites is limited. This is especially true of nuclear technology for which there are significantly greater technical requirements to fulfill before a site can be considered suitable.

In order to preserve the option of meeting future capacity needs with nuclear generation, Gulf began the process of evaluating potential nuclear sites in Northwest Florida. Gulf performed exploration across the region and investigated multiple locations in Northwest Florida to determine sites suitable for nuclear technology. This search was an exhaustive effort that

included site specific assessment of geology, geotechnical factors, seismic conditions, water supply, transmission, transportation, topography, environmental factors, emergency planning issues, land availability and other factors.

Gulf considered over two dozen unique locations across our service area. A subset of these were actively drilled and evaluated for subsurface conditions to determine those that could potentially meet the geological requirements as well as water requirements for a potential nuclear site.

After careful evaluation, Gulf identified a site in North Escambia County as the only suitable site for a nuclear plant; this site is also suitable for other generation technologies such as coal, gas, or renewable. The site is in relative proximity to transmission, natural gas pipelines, railroad, major highways and access to water, all suitable to meet new generation needs. An additional consideration was the potential number of individuals and home owners impacted by our purchase of their land. This site had only 35 property owners, some of whom owned multiple properties. By far the largest portion of the land was held by timber companies.

Gulf made the decision to begin the process of procuring this site, and at the end of 2012 we will have procured 100 percent. The site is 4,000 acres and includes property located directly on the Escambia River to support the water supply needs for any future generating facility. Gulf has included $27,687,000 for this site in land held for future use in the 2012

test year rate base. Mr. McMillan discusses in detail the accounting and amount to be included in land held for future use associated with this site.

Gulf's decision to purchase land as a site suitable for new generation, including possible nuclear generation, is reasonable, prudent and necessary to continue to provide our customers with the most cost-effective generating resources in the future.

Q. Please describe any other land held for future generating sites.

A. Gulf currently has two additional sites being held as potential future generating sites:

(1) Approximately 2,200 acres of property in Holmes County, Florida (Caryville) with a book value of $1,356,000.

(2) Approximately 250 acres of property in Walton County, Florida (Mossy Head) with a book value of $296,000.

Q. Please discuss the value the Caryville site provides to Gulf's customers.

A. Caryville is certified under the Power Plant Siting Act and remains one of the few suitable sites in Northwest Florida for a steam electric generating plant to meet Gulf's future generation needs. Gulf's customers benefit by having a certified site ready for use when new generation is needed. The geological and other site work which was previously completed will be utilized when a unit is built in the future. It should be noted that Caryville was evaluated for nuclear and determined not to be viable for that option. The Commission agreed with Caryville's inclusion in rate base as plant

held for future use in Docket Nos. 800001-EI, 810136-EU, 820150-EU, 840086-EI, 891345-EI, and 010949-EI.

Q. Please discuss the value the Mossy Head site provides to Gulf's customers.

A. The Mossy Head site is uniquely located in Walton County in close proximity to both natural gas transportation and transmission. The site was purchased in 1998 and 1999 as a potential future site for simple cycle combustion turbines. Mossy Head was included as plant held for future use in Gulf's prior rate case and was approved in Docket No. 010949-EI.

VIII. RENEWABLE GENERATION

Q. Since Gulf's last rate case, the Legislature has passed statutes encouraging the development of renewable energy within Florida. What has Gulf Power's approach been to encouraging renewable generation?

A. Renewable energy continues to be an important topic in Florida and across the nation. Gulf receives inquiries concerning potential providers of renewable energy on a regular basis. Recognizing the importance of minimizing the upward pressure on rates charged to customers, Gulf has chosen not to pursue projects in excess of avoided costs. Gulf will continue this policy until there are clearer rules or requirements. It should be noted that Gulf has successfully added renewable generation at or

below avoided cost through its PPA with the Bay County municipal solid waste facility and its Perdido landfill gas-to-energy facility.

IX. CONCLUSION

Q. Please summarize your testimony.

A. Gulf maintains and operates a diverse set of generation resources designed to serve our customers economically and reliably. Gulf has made sound generation planning decisions that are clearly in the best interest of our retail customers.

At a time when customer demand has increased, Gulf's Production operation has continued to provide low cost, reliable electricity to our customers. The reliability of Gulf's generating units and low EFOR are clear indications that Gulf has executed an effective maintenance program that continues to provide our customers with reliable service. Gulf is committed to maintaining our generating facilities through the effective use of resources that focuses not only on reliability but also efficiency.

Gulf's Production O&M expenses are carefully controlled and incurred in a manner to ensure high availability. The $110,888,000 budgeted for Production O&M in the test year is reasonable, prudent, and necessary, and it is representative of the levels of costs that will continue to be incurred in the future when new rates resulting from this case are in effect.

Gulf's Production capital additions are also carefully controlled and are designed to ensure high availability of our generating units. The $43,738,000 budgeted for Production capital additions in the test year are reasonable, prudent and necessary.

The fuel inventory requested by Gulf is reasonable, prudent and necessary to provide fuel inventory levels that will ensure Gulf's units are prepared to meet the needs of our customers with the lowest cost generation available.

Over the past several years, Gulf has had to consider many different scenarios related to the potential impacts of carbon legislation, other pending environmental proposals and fluctuating fuel prices. Although there are many uncertainties, it is clear that there are situations in which nuclear could be a cost-effective solution for meeting our long-term need for generation additions. In order to preserve the nuclear option, it was necessary and prudent for Gulf to find and procure a site suitable for nuclear generation.

Q. Does this conclude your testimony?

A. Yes.

BY MR. GUYTON:

Q Mr. Burroughs, would you please summarize your testimony for the Commission.

A Sure.

Good morning, Commissioners. My name is Michael Burroughs, and I'm the Vice President of Power Generation for Gulf Power. I have oversight responsibility for all aspects of power production at Gulf Power, including safety, plant performance, operations, maintenance, production capital additions, fuel, resource planning, and renewable energy.

First let me say safety is the first priority of every employee at Gulf Power. In fact, safety is a core value, and it's our desire that every day we work every job safely.

The overall objective of our safety program is zero accidents. Since 1990 we've reduced recordable accidents by 89%, and our recordable incident rate has been more than 50% better than the industry between 2003 and 2010.

Gulf measures plant performance in terms of reliability, that's EFOR (phonetic), equivalent forced outage rate; efficiency, heat rate; both of which can have a profound effect on our customers.

Gulf's plant performance metrics have been

excellent since our last rate case, and compares very favorably to our industry peers. In fact, Gulf's reliability has consistently been in the top quartile during this time frame.

While it is recognized that our past performance has been superior, appropriate capital and O&M budgets are necessary to ensure we continue to maintain reliable and efficient operation of our generation fleet.

Both the capital and O&M budgets are developed using a rigorous multilevel process that ensures the most critical issues are addressed. Again, our past performance is evidence of this fact. The budgeted dollars for both capital and O&M are representative of the expenditures that Gulf expects in 2012 and beyond.

Gulf's philosophy regarding to fuel inventory has not changed since our last rate case. Our request for coal and gas inventory is almost identical from our last rate case with regard to volume. However, prices have increased significantly.

Gulf's request for distillate oil has increased since our last rate case. That is due to a contractual obligation for Gulf to maintain fuel oil inventories relative to our three purchased power agreements.

As part of our planning process, Gulf evaluates a variety of generation resources to meet future needs. Regulations regarding greenhouse gas emissions, hazardous air pollutants, hazmat, coal combustion by-products, ozone, particulate matter, are all in the various stages of the regulatory process.

Given the uncertainty of the effect on our generating fleet and future generation decisions, Gulf made a strategic decision to purchase land in north Escambia County that would meet the requirements of a nuclear generation, of a generation facility. This decision was made to preserve a nuclear option for our customers. By making this strategic decision, Gulf now has property for all types of generating capacity, including nuclear, gas, clean coal, and renewables.

An option is most valuable when uncertainty is at its highest. I submit to you that our industry is confronted with great uncertainty, and we must be strategically positioned to make the best decision for our customers.

Gulf recognizes the importance of a diverse portfolio of generating options, and we proactively evaluate all renewable generation projects. We also recognize the importance of minimizing upward pressure on rates charged to our customers. As a result, Gulf

continues to evaluate all projects against our avoided costs.

In conclusion, Gulf customers expect and deserve a reliable and efficient generating fleet. We've provided reliable and efficient generation for our customers since our last rate case in 2002. Our performance indicators are a testament to that fact. Every short and long-term decision we make has the customer as our focal point.

However, our costs related to fuel, materials, and services have increased significantly. In order to continue to maintain our outstanding performance and provide excellent reliability for our customers, we must have a rate increase. Approval of this rate request will ensure that Gulf can meet the needs of its customers in the future.

That concludes my summary.

MR. GUYTON: We tender Mr. Burroughs.

CHAIRMAN GRAHAM: I think this is a good -- we're coming up on a two-hour mark for the court reporter, so I think it's a good time for us to take about a five-minute break.

(Recess taken.)

Mr. McGlothlin, you have control.

EXAMINATION

FLORIDA PUBLIC SERVICE COMMISSION

BY MR. McGLOTHLIN:

Q Mr. Burroughs, I'm Joe McGlothlin with the Office of Public Counsel. My questions relate to page 26 of your testimony, if you have that available to you.

A I didn't hear the last part.

Q Page 26, if you have that available to you.

A Okay.

Q In the middle of that page you referred to the additional land that is being held as potential future generating sites, did you not?

A You got a particular line you're referring to?

Q Yes. Lines 9 through 15.

A That would be correct.

Q And one of those sites is the site we commonly refer to as Caryville; correct?

A That's correct.

Q And you've indicated that there's 2,200 acres of property there?

A That's correct.

Q And also that this particular property has been through the process under the Power Plant Siting Act; correct?

A That's correct.

Q And as part of that process, is it correct that the applicant can ask the siting board to approve

not only an individual proposed plant, but also to review and establish the maximum capacity for which the site is certified?

A I can't speak to the accuracy of that.

Q Is it true that the certification order issued for the Caryville site certifies that site for 3000 megawatts of capacity?

A I'm not aware of that.

MR. McGLOTHLIN: Well, in that case I want to distribute a document, Mr. Chairman.

CHAIRMAN GRAHAM: Please.

MR. McGLOTHLIN: We may have to take a quick time-out. The individual who has the documents is not in the room apparently.

CHAIRMAN GRAHAM: Well, we'll move on to Ms. Kaufman and come back to you.

MS. KAUFMAN: Okay.

EXAMINATION

BY MS. KAUFMAN:

Q Good morning, Mr. Burroughs.

A Good morning.

Q I'm Vicki Gordon Kaufman. I'm here on behalf of the Florida Industrial Power Users Group, some of the very largest users in your territory.

You are the Vice President for Power

Generation; is that correct?

A That's correct.

Q And you've described your duties a little bit in your, in your remarks, but would I be correct in assuming that you're intricately involved in planning what units Gulf will add to its system as we move forward?

A You're asking me to assume what you mean by intricately. But would I be involved? That would be, that answer would be yes, I would be involved.

Q And certainly, I am assuming that meetings are held and analyses are performed regarding what the next generation addition should be; correct?

A That is correct.

Q Okay. Do you know what the next planned generation units are for Gulf in, say, the next ten years?

A We don't have any particular units planned for development in the next ten years at Gulf Power.

Q Okay. Take a look at Schedule 2, if you wouldn't mind, in your exhibits.

A Okay.

Q And what you've depicted there are the current units on the Gulf system, correct, as well as their retirement dates, whether owned totally by Gulf or

jointly owned.

A Yes. It depicts the units owned by Gulf, owned jointly, yes.

Q Okay. And all of those units, as I read this chart, are going to be in service past the 2012 test year; correct?

A That would be correct.

Q Okay. Can you tell us how many megawatts Gulf needs in the test year to serve its customer base?

A How many megawatts we need in 2012?

Q Uh-huh. Yes.

A I can't --

Q Approximately.

A I can't give you an approximate number. I would tell you the units, the megawatts we have at this moment is sufficient to serve our customers in 2012.

Q And you don't know what that number is ballpark?

A I can tell you what number we, as a, we have at our disposal, but the exact number that's needed to serve our customers, no. It varies, depending on the weather, loading, et cetera, et cetera.

Q Sure. So can you give me a ballpark? I understand it varies from hour to hour.

A I cannot give you a ballpark, but -- no, I

can't give you a ballpark number.

Q Is there another witness that could tell me that?

A We could get that number, but you feel -- I would ask you to refer to Ray Grove.

Q To who? I'm sorry.

A Witness Ray Grove.

Q Okay. I will do that. Thank you.

I don't want to take the wind out of Mr. McGlothlin's sails, but I did have a few questions about the Caryville site as well.

And my first question is, do you know how long the Caryville site has been in rate base?

A I can't tell you how long it's been in rate base.

Q Okay. Certainly would you agree since your last rate case ten years ago?

A I would say it has been in rate base since 2002.

Q Okay. And would you agree that all that time Gulf Power has been earning a return on that site?

A Again, if you're going to get into earning returns and those kinds of things, I refer you to Witness McMillan.

Q Okay. As we sit here today, there is no power

plant on that site, is there?

A That is correct.

Q And I understand that, as we sit here today, Gulf doesn't have any plans to put a power plant on that site; correct?

A We don't have any plans in the present or in the near future to put a facility on the Caryville site. It is an option for us, and we will use it depending on what loading is, what the economic growth is, and whatever environmental regulations that come down in the near future that will force us into one direction or the other. So it serves as an option. It is not planned at this purpose for any particular type of facility.

Q And it's, I think you testified earlier it's certainly not an option that you're planning at this point to exercise in the next ten years.

A I don't plan, nor do I not plan. The issue is we don't have a situation at this moment that requires us to use that particular land site. It's an option for us and it will be available for us to use it in whatever capacity is needed in the near future or in the further out distant future.

Q But I think you did testify that Gulf doesn't have any plans in the next ten years to add plant.

A We don't have plans.

MR. GUYTON: Objection. Asked and answered.

CHAIRMAN GRAHAM: I agree.

Move on, Ms. Kaufman.

BY MS. KAUFMAN:

Q Let's talk for a minute about the proposed nuclear site that you mentioned in your summary. And, as I understand it, you're asking the Commission to include $28 million in rate base, which is the cost of these 4,000 acres. Is that right?

A The approximate number is correct.

Q Okay. What is -- do you have an understanding of generally the amount of megawatts that are necessary to construct a nuclear power plant?

A I don't understand your question.

Q Okay. Well, generally when you build a power plant, would you agree that there's a threshold number of megawatts to be generated that you need to look at in order for the plant to be cost-effective?

A That's one thing I could agree with you on.

Q Okay. Do you know what amount of megawatts you typically see when you, when a nuclear plant is built?

A For the sake of discussion, I will give you the number 11 to 1200.

Q Okay. So would you agree with me that

certainly Gulf's system doesn't have the need for 11 to 1200 megawatts of nuclear power?

A At this moment we do not have the need for 11 or 1200 megawatts of power.

Q Have you discussed with anyone, whether it be your sister companies or others, any sort of sharing of the cost of this potential nuclear site?

A We have not entered in any discussions with an affiliate utility or our sister utilities about sharing that site related to any kind of generating facility. We do not have plans specifically to use that site to build a nuclear plant at this time. It is an option for us to use as needed in the future.

Q Thank you. And I guess I can assume from that last comment that certainly you haven't filed a determination of need for that site?

A I'm not aware of that. If you want more details about that, I refer you to Witness Rhonda Alexander.

Q Okay. Have you had any -- has anyone had any discussions with the NRC in regard to building a nuclear plant on that site?

A I'm not aware. If you want more details on that, I refer you to Witness Rhonda Alexander.

Q Would you be aware if those discussions had

occurred?

A If they had happened since I've been back at Gulf, then I would be aware.

Q Okay. So as -- sorry.

A You may not be aware, but my return to Gulf was in August of 2010.

Q Okay. Welcome back.

A So I'm speaking, I'm speaking to my time frame.

Q Okay. So in your time frame you are not aware of any discussions?

A I am not. So, again, if you want any details outside of that time frame, again, I refer you to Witness Rhonda Alexander.

Q Have you followed in any way the nuclear projects of Florida Power & Light and Progress Energy in the state?

A I do not follow those projects closely. I do from time to time read blurbs in technical magazines and I glance through them. But for detail I don't. I'm busy enough, I don't have time to follow them.

Q Do you have a general understanding that the two proposed nuclear projects, one by Florida Power & Light at Turkey Point, and one by Progress, Levy site, have encountered delays?

A I have heard that.

Q Okay. And you would agree with me, would you not, that licensing a nuclear plant is a very complex and difficult process?

A Not having been involved in one before, I would be speculating. But if I speculated, I would say yes, it does. But, again, I wouldn't compare Southern Company, Gulf Power to other utilities. We consider ourselves a very superior performing company, and we don't generally compare ourselves to others.

MS. KAUFMAN: That's all I have, Mr. Chairman. Thank you.

CHAIRMAN GRAHAM: Thank you.

Mr. McGlothlin.

MR. McGLOTHLIN: Mr. Guyton, I wonder if this is something we could accomplish by stipulation. My understanding of the review of the certification order and conditions of certification was that the certification order approved the Caryville site for an ultimate capacity of 3000 megawatts. Is there any dispute about that?

MR. GUYTON: I understand that that's correct.

MR. McGLOTHLIN: With that stipulation on the record, I have no further questions.

CHAIRMAN GRAHAM: No further questions?

Major Thompson.

MAJOR THOMPSON: No questions.

CHAIRMAN GRAHAM: Mr. Wright.

MR. WRIGHT: Thank you, Mr. Chairman. If I may just ask before I start, the Public Counsel distributed an exhibit. Do I understand that's not going to be proffered?

CHAIRMAN GRAHAM: I believe so.

MR. WRIGHT: Thank you.

EXAMINATION

BY MR. WRIGHT:

Q Good morning, Mr. Burroughs.

A Good morning, sir.

Q We met, I think, for the first time in Pensacola. I'm Schef Wright, and I represent the Retail Federation.

A I remember.

Q Good. Me too.

I have a few questions for you.

First, at page 23, lines 7 and 8 of your direct testimony, you make the statement, "Gulf's next planned addition for capacity as reflected in our most recent Ten-Year Site Plan is in 2022."

Are you familiar with that statement?

A That's correct.

Q Okay. Now isn't it true that you do not have a specific planned capacity addition in 2022 or any other year reflected in your Ten-Year Site Plan?

A I hate to parse words with you, but, I mean, that's what you do, so that's what I do. When you say a planned addition, what do you mean by that? Or do we have a facility designed on the board for 2022? The answer to that is no.

But we do have a need development in 2022, and we will have a power purchase agreement for 885 megawatts that will expire in May of 2023. As such, we will have to do something during that time frame.

Q I understand that. Like, the follow-up question I would ask you is do you know what plant you would build in 2022 or 2023?

A Of course not, not with environmental regulations that are being proposed. We cannot determine at this time what that facility needs to be.

And I will reiterate again, just at the end of this week, the environmental regulations that are supposed to come out on December 16th, that we're in this moment preparing for how do we respond to them. And if we have to shut down a majority of our coal-fired units, it's going to affect our decision that we make at that time frame.

So, again, for me to be able to project out, we can't do that. But we know we will have to make a decision come 2022, '23, and we can't wait 'til then to do it. We have to be prepared in the next two, three, four years to make a decision what we're going to do.

Q I understand. That's what planning is all about. Do you agree?

A We have to plan.

MR. WRIGHT: Mr. Chairman, Mr. McGlothlin has kindly agreed to distribute an excerpt from the company's Ten-Year Site Plan that I would like to have marked for identification as, I believe, Exhibit 190.

CHAIRMAN GRAHAM: That is correct. We'll mark it as Exhibit 190.

MR. WRIGHT: Thank you.

CHAIRMAN GRAHAM: Do you have a title for it?

MR. WRIGHT: Gulf Power 2011 TYSP Excerpt.

And if the company wants the whole plan in, I'm happy to put it in. If so, I would prefer to do so electronically as opposed to killing a few more trees.

CHAIRMAN GRAHAM: Go ahead. We'll let them ask if they need it.

MR. WRIGHT: Pardon?

CHAIRMAN GRAHAM: We'll let them ask if they want it all in.

MR. WRIGHT: Thank you, sir.

(Exhibit 190 marked for identification.)

BY MR. WRIGHT:

Q Are you involved in preparing the company's Ten-Year Site Plan, Mr. Burroughs?

A I am not the sole responsible person for developing it. That is generally developed by Ray Grove and some folks that he work with. But, of course, I am involved.

Q You'll agree that the excerpt I distributed, which includes page 68 of text and also Schedule 9, that page 68 represents the company's preferred and potential sites for capacity additions over the planning horizon; correct?

A Yes.

Q And I'm sure you'll also agree that the sites identified here are Plant Crist, Plant Smith, and Plant Scholz, as well as a greenfield site at Shoal River in Walton County; correct?

A That's correct.

Q Now I note that the Caryville site is not included here; correct?

A That is correct.

Q You've used the phrase both, I guess, in your testimony and in this document, the Ten-Year Site Plan,

about your need beginning to develop. Can you give me some bounds about what that means? Does it mean you're going to have a need for sure in 2023 or 2022, or sometime in that general time frame, or what?

A When you see the statement, "because the company's next need for capacity does not begin to develop until 2022," in 2022 our latest analyses show that we have about a 30-megawatt need. We have about a 30-megawatt need that develops in 2022.

Q Thank you.

A In 2023 you will add 885 megawatts to that due to Central Alabama Power purchase agreement expiring. So that's when we first start to see the need develop, and it's going to accelerate dramatically about five months later.

Q So other things equal, and in particular let's assume for the purposes of this question that the environmental regulations of which you just spoke do not cause the company to shut down your coal fleet, other things equal, in, like, 2013 I should expect to see a need in 2023 of 800 odd megawatts showing up in the out year 2023, that site plan?

A So you're assuming that the economy is not going to bounce back in a great way. You're assuming that the housing industry may not pick up. So you're,

making -- you're asking me to make a lot of assumptions to assume that we'll have in the neighborhood of a 920-megawatt need.

But, you know, since you're asking me to assume, I'll assume the economy is going to start to pick up between now and ten years from now. And as such, the need is going to be even greater. And if we have to shut down coal-fired units, then you can add a lot of additional megawatts on top of that.

So, again, the need is going to develop. The question is how much. And also the question is, which direction do we take to fill that need?

Q Thank you. I want to ask you a few questions about the company's consideration of nuclear options. If Gulf were to build a nuclear plant, do you have any idea what it would be?

A I don't understand that question.

Q Well, for example, in response to a question by Ms. Kaufman, you said the typical size, in your understanding, the typical size for a nuclear power plant is in the range of 1100 to 1200-megawatts. Now you did testify to that; correct?

A Oh, yes, I did.

Q Okay. That's, in my understanding that's pretty consistent with the size of a couple of current

different models that are available, including the Westinghouse AP1000; correct?

A That's correct.

Q Would it be your thought that if Gulf were to build a nuclear power plant, would it be something like an AP1000, 1100, 1200-megawatt unit?

A If you're asking me to assume ten years out, based on what we know today, then we would most likely look at something like the AP1000, because, as part of Southern Company, we've already evaluated that particular technology. And it is in fact being constructed over at one of our sister companies, and we understand that technology and we think it is going to be something that's going to be very successful for the future.

So there is no reason why we would take a different direction, if you ask me to assume ten years out.

Q Do you have any idea how much a one-unit station would cost? And you can answer that in terms of overnight construction costs today or what you think the in-service cost would be in 2025, or whatever, however else you want to specify your answer.

MR. GUYTON: Commissioners, we're going beyond the scope of this witness's testimony. I mean, all that

he is addressing is a potential plant site held for future use, not the potential construction of a nuclear unit. It's just simply an option of land for a potential build. We're into plant design cost, matters that go well beyond his direct.

CHAIRMAN GRAHAM: I'll allow the witness to answer the question, just to get a ballpark.

THE WITNESS: A ballpark cost would be, oh, 70, 7,500 to 7,800 dollars per kilowatt hour.

BY MR. WRIGHT:

Q I think you meant a kilowatt?

A Per kilowatt.

Q Would you have an EPC contractor to stand behind that cost?

A No, I don't. And, again, that's not something that I testify to. I don't know where you're going there.

CHAIRMAN GRAHAM: You're going a little deep now, Mr. Wright.

MR. WRIGHT: Pardon?

CHAIRMAN GRAHAM: I said you're going a little too deep now.

MR. WRIGHT: Okay.

BY MR. WRIGHT:

Q Who ultimately -- what entity ultimately

decides what plants Gulf would build?

A What entity decides what plant we build?

Q Yes, sir. That's my question.

A Well, I'm trying to get some clarification. So, again, let me -- ask me specifically what you, what you want me to answer, because I don't get the question.

Q Well, let me ask you this. If Gulf were going to consider building a nuclear power plant that's going to cost in the range of 8 or $9 billion, would that have to be approved by the Southern Company board of directors?

A I can't tell you that.

Q What corporate entity within the Southern system would have to sign off on such an expenditure?

A Well, first of all, Gulf Power would have to sign off on it. And something that large, of course we would collaborate with Southern Company on it. But I can't tell you that the Southern Company board is going to have to sign off on that.

Q Okay.

A Furthermore, I don't understand what that has to do with us maintaining an option to build a nuclear plant in the future.

MR. WRIGHT: Well, Mr. Chair, in our view, it has to do with whether preserving that option is

reasonable and prudent for the interest of Gulf's customers.

BY MR. WRIGHT:

Q If you know, how much, if any, of the existing Plant Vogtle costs, the existing nuclear units at Plant Vogtle, do Gulf and its customers pay for?

A I'm not aware of any --

MR. GUYTON: Objection. Goes beyond scope of this witness's testimony.

CHAIRMAN GRAHAM: I'll allow it. I, I think the witness's testimony is the possibility of a nuclear plant being built on the piece of property that you have an option on, and I think he's just asking some probing questions.

THE WITNESS: Repeat the question.

BY MR. WRIGHT:

Q Yeah. The question was how much, if any, of the existing Plant Vogtle nuclear units do Gulf and its customers pay for?

A I'm not aware of any.

Q Do you know whether any of Plant Vogtle's costs are factored into the Southern Company intercompany interchange contract?

A I'm not aware of any.

Q If you know, how much, if any, of the proposed

additional, the two new units at Plant Vogtle would Gulf and its customers pay for upon completion?

A I'm not aware of any.

Q Is there another witness in this case who might know?

A No, I don't.

Q Okay. Thanks.

If Gulf were to build an 1100 or 1200-megawatt nuclear plant, do you have an idea of how much of its output would stay in Florida as opposed to going to other Southern operating companies?

MR. GUYTON: I object.

CHAIRMAN GRAHAM: I think you're going, I think you're going a bit too far.

MR. WRIGHT: Mr. Chairman, yes, sir. I am -- the proffer is this. They represent that this option has value to Gulf's customers. If they're going to build a plant, I think it's fair for us to know how much of the value of that plant is going to stay in Florida versus going to Alabama, Georgia, or Mississippi.

CHAIRMAN GRAHAM: But I think from the testimony I've heard so far, you're asking him to speculate to things that are quite a bit down the road.

BY MR. WRIGHT:

Q A follow-up question regarding your Exhibit 2.

This is a follow-up -- well, a question about your Exhibit 2. Whether it's a follow-up or not is up for grabs.

Am I correct that there are no significant, and when I say significant, I mean in terms of megawattage, no significant retirements before about 20 -- about 2030? You've got a couple of 75-megawatt units that are scheduled to retire in '24 and '26 and some little ones that are scheduled to retire in '18. Is that right?

A I show that we have several units scheduled to retire between now and 2018. Your statement was, do we have any significant retirements prior to 2030?

Q That was my question. Yes, sir.

A We don't have significant retirements planned between now and 2030.

Q Thank you.

So just to wrap up a loop of our earlier conversation, the real driver for your -- drivers for your need, say, over the next 15 years are going to be the environmental regulations and the expiration of your Shell PPA; is that correct?

A The need that's going to -- big need that's going to develop is going to be ten years out, and the primary driver is the Central Alabama PPA.

Q And, again, subject to the possible impacts of the environmental regulations that you discussed; correct?

A The PPA has nothing to do with environmental regulations.

Q I apologize if my question was ambiguous.

A Okay.

Q I certainly understand that. What I was meaning to ask is doesn't your need over the next ten years depend on whether the environmental regulations cause Gulf to decommission one or more of its significant coal plants?

A That is incorrect.

Q Please tell me why.

A Well, as I previously stated, we've got a 30-megawatt need that's developing in 2022. The following year, in May of 2023, the Central Alabama PPA will expire, 885 megawatts. So if you just do the math there, you're in the neighborhood of 915 megawatts, assuming nothing else happened. And that is a large assumption by anybody's part right now, that nothing is going to happen in the environmental arena that's not going to accelerate that.

So, again, retirements, environmental regulation has nothing to do with the 915-megawatt need

that's going to develop in 2023.

Q Thank you. I understand that.

What I was trying to ask is would -- is it possible that environmental regulations kicking in in 2015 or so could accelerate a need to an earlier date than 2022 or 2023?

A The answer to that question is yes.

MR. WRIGHT: Okay. Thank you. That's all I had.

CHAIRMAN GRAHAM: Staff?

MS. BARRERA: Just a few questions.

CHAIRMAN GRAHAM: Is your mike on?

MS. BARRERA: Pardon?

CHAIRMAN GRAHAM: Is your mike on?

MS. BARRERA: Oh. Sorry. I always do that.

EXAMINATION

BY MS. BARRERA:

Q Mr. Burroughs, as Vice President of Power Generation and Senior Production Officer, you're Gulf's witness regarding issues number 23 and 24; is that correct?

A I believe you're correct, but let me turn to that and make sure.

Q Issue number 23 is, "Should an adjustment be made to plant held for future use for the Caryville

plant site?"

And then Issue 24 is, "Should the north Escambia County nuclear plant site and associated costs identified by Gulf be included in plant held for future use? And if not, should Gulf be permitted to continue to accrue AFUDC on the site?"

A I am responsible for both of those issues.

Q Okay.

MR. GUYTON: In addition to other witnesses.

MS. BARRERA: Yes.

BY MS. BARRERA:

Q And these issues refer also -- well, to land held for future use, as we stated.

As Gulf's vice president, your duties include power generation for fuels, for resource planning, for renewables; is that correct?

A That is correct.

Q And do you recall having your testimony taken in deposition on Thursday, November 17th, 2011, in this case?

A I do.

Q And as vice president and senior production officer, you were Gulf's corporate representative at this deposition; is that correct?

A That's correct.

Q And before you should be the transcript of your deposition identified in the Composite Exhibit List as Staff's Exhibit No. 147.

A I don't have that.

MS. BARRERA: Okay. Excuse me for a second. They were supposed to be handed out.

MR. GUYTON: We'll stipulate that that's been identified as Exhibit 147.

MS. BARRERA: Okay. Thank you.

BY MS. BARRERA:

Q And is this deposition transcript -- is this the deposition transcript which you signed a true and correct transcript of the questions you were asked and the answers you gave at the deposition?

A It appears to be.

MS. BARRERA: Okay. Mr. Chair, at this time I ask that Exhibit 147 be moved into the record.

CHAIRMAN GRAHAM: We'll wait until after we're done with the witness before we move the exhibits into the record.

MS. BARRERA: Okay. Which I thought we were.

CHAIRMAN GRAHAM: You want to move -- this is just a deposition?

MS. BARRERA: Yes, sir.

CHAIRMAN GRAHAM: Okay. We'll move the

deposition.

MR. McGLOTHLIN: I object, Mr. Chairman. At the appropriate point I want to register an objection and explain the basis for it.

CHAIRMAN GRAHAM: Please continue.

MR. McGLOTHLIN: During the conversation yesterday regarding the use of depositions, Mr. Young referred to Rule 1.330 as governing the consideration of depositions. And I agree that that is the appropriate rule, but I disagree that so far the Commission has considered that rule in full context.

The basis for our objection to this and similar depositions is that it doesn't fit those occasions prescribed by the Supreme Court of Florida through its rules of court, which are applicable to this situation in terms of what the court permits as the appropriate use of depositions.

And to, to expedite your consideration of that, I've highlighted the language in 1.330 that I would like for you and the other Commissioners to see as I make my argument. It would just take a second to distribute.

CHAIRMAN GRAHAM: Okay.

(Pause.)

MR. McGLOTHLIN: Mr. Chairman and

Commissioners, as you see, Rule 1.330 of the *Florida Rules of Civil Procedure* promulgated by the Florida Supreme Court states those occasions when the use of the deposition is permitted if in accordance with any of the following provisions.

The first one is that a deposition may be used by any party for the purpose of contradicting or impeaching the testimony of the deponent as a witness. That is not the situation in this case.

The second one refers to someone who has been designated under 1.310(b)(6) to testify on behalf of a public or private corporation. In that situation, the party may be used by an adverse party for any purpose.

There are two dimensions of this particular provision. First of all, the designation of a deponent under 1.310(b)(6) is a subset of the larger universe of depositions, and that's why I handed out the second document, which is Rule 1.310.

You'll see that this particular avenue for asking for a deposition is highlighted in subsection (6), and that is a special use deposition. And it arises when the person requesting a deposition can only specify the subject matter and cannot identify the individual who should respond.

And by way of illustration, perhaps an

attorney for someone who has an employment issue might issue a notice of deposition asking the corporation to designate someone in human resources who can respond to questions about employee evaluations or termination criteria. And in that situation the corporation would identify someone, designate someone to respond at the deposition.

Again, that isn't the case here. I'm sure that Mr. Burroughs is, was deposed because he's a witness in the case and the notice of deposition identified him as such.

Further, the other dimension of this is that, even if one has been designated, the full use of the deposition, as prescribed by the court, is a party may be used by an adverse party for any purpose. And I question whether the Commission Staff is an adverse party for that purpose.

I understand Staff -- Staff has described to me their, their role as building the record for the Commission's consideration and being neutral. The idea of Staff being an adverse party seems not to fit that circumstance. And for those two reasons, sub (2) doesn't seem to fit.

The third paragraph identifies those occasions which are more typical, and the court has said that the

deposition can be used in any of these situations: The witness is dead. Thankfully that's not the case. The witness is at a greater distance than 100 miles. That's not the case; he's here and available to answer questions. Unable to testify because of age, illness, infirmity, or imprisonment. Mr. Burroughs looks like a very fit individual to me.

(E) describes some discretion that the presiding officer has, and it's important to look at the standard that the court established for exercising that discretion. Upon application and notice that such exceptional circumstances exist as to make it desirable, in the interest of justice and with due regard to the importance of presenting the testimony of witnesses orally in open court, to allow the deposition to be used.

I want to mention two things about this. First of all, we Intervenors are not the only parties who regard the value of live testimony in open proceedings as important. The Supreme Court has established that as, as important also. And so the court is looking for exceptional circumstances as reasons to overcome the desirability of having live testimony.

As I understand it, the situation here is that

Staff would prefer to put the deposition in as opposed to asking the same questions, which they have the ability and opportunity to do here. I don't think that constitutes exceptional circumstances that would satisfy the standard that the court has laid down here.

The next one is that the deposition can be used if the witness is an expert or skilled witness. And here two comments are, I think, called for. First of all, by expert or skilled witness, I believe the rule has in mind someone who is here in a consulting capacity offering opinion testimony. If someone who's in a profession or even in a craft trade is considered as skilled and expert by virtue of training and experience in the occupation, then that would be so commonplace as to render this criterion a nullity.

As a matter of fact, I'm sure he didn't have this distinction in mind when he proffered the testimony, but in his introductory remarks, Mr. Crosswhite noted that Gulf Power is going to sponsor several witnesses, some of them employees and others are consultants who have a special expertise in particular areas. So I think that same distinction holds -- is applicable to here.

But even if a particular witness is deemed to be skilled and expert for purposes of this avenue for

entering a deposition, notice that there are other conditions which indicate to me, and I hope to you, that the use of depositions instead of live testimony should not be a matter of course.

For instance, under sub (c), the introduction in evidence of the deposition or any part of it for any purpose other than contradicting or impeaching the deponent makes the deponent the witness of the party introducing the deposition. In other words, that would make the witness who has been deposed Staff's witness, when I think that is not appropriate in and of itself.

But in addition, by making the deponent the Staff's witness, that creates the effect of introducing additional testimony that has not been prefiled. And you'll notice that the final sentence that I've highlighted says, "At the trial or hearing, any party may rebut any relevant evidence contained in a deposition, whether introduced by that party or by any other party."

That suggests to me and I think would suggest to you that the notion that the use of depositions is going to be something that is an expedient or economizing feature may not be valid if any party feels prejudiced by the introduction of that and says I invoke my right to rebut that by, by appropriate means.

And for those reasons, again, I hope I'm not coming across as being obstructive. That certainly isn't the case. And I want to make the point that these apply in the absence of stipulations, and we and other Intervenors have participated in many of those, including stipulated depositions. But we contend that where no stipulation is in effect and where the witness is available, the court has prescribed the, the uses that are permitted, and we have not yet heard from Staff any justification that satisfies these criteria.

And that's the nature of the objection, and I appreciate your allowing me to develop it.

CHAIRMAN GRAHAM: Ms. Kaufman?

MS. KAUFMAN: Mr. Chairman, I'm not going to belabor the point. I think that Mr. McGlothlin has ably taken you through the rule and the limited circumstances under which depositions can be used, and so FIPUG would join in his argument, and we also object to the use of depositions in this manner.

MR. WRIGHT: We join in Mr. McGlothlin's argument. Thank you. Citizen's argument.

CHAIRMAN GRAHAM: I have a question before I go to Staff for comment.

If Staff were to ask the same questions that they asked in deposition here of this witness right now,

would that make that testimony sufficient?

MR. McGLOTHLIN: As a matter of fact, I believe that is the better course. That is a part of the reason for the objection, so that the triers of fact can assess credibility and so that the importance of the live testimony that the court reflected in its limitations for depositions can be given effect.

CHAIRMAN GRAHAM: But explain to me how that would be different than if the Staff asked the questions before or asked the questions now, how does that make it any different?

MR. McGLOTHLIN: Well, the difference would be that it is in live testimony before the triers of fact, and with all the other appurtenances to the desirability of live testimony.

CHAIRMAN GRAHAM: So you're adding a lot of credibility to the fact that it's live testimony and just not something that we're reading in, something that we're reading in the record later?

MR. McGLOTHLIN: Well, I am. But with respect, I believe the court has, has done that. And I'm citing the standard established by the court, in addition to the other measures that I indicated, such as the fact that by, by virtue of doing this the Staff is making the deponent the Staff's own witness. And, and

the possibility, not the certainties, I agree, but the possibility that there may be something in this deposition or others that are likely to follow that would lead a party to, to wish to rebut it, in which case you have that procedural complication.

CHAIRMAN GRAHAM: Gulf, any comments?

MR. GUYTON: Mr. Chairman, I think the, the objection is somewhat misguided. The rule being invoked has to do with use of depositions in court proceedings. That's the title of Rule 1.330. The applicable provision for this Commission doesn't look to the use of the *Florida Rules of Civil Procedure*. It looks to the Administrative Procedures Act. And it's a statute that I read to you yesterday.

The standard there is irrelevant, immaterial, unduly repetitious evidence shall be excluded, but all other evidence of a type commonly relied upon by reasonably prudent persons in the conduct of their affairs shall be admissible, whether or not such evidence would be admissible in a trial in the courts of Florida. That is the standard before the Commission today in terms of ruling on this.

I would respectfully submit that even under Rule 1.330 there is opportunity for the Commission to decide upon, on Section (a)(3)(E), that there are

exceptional circumstances here that make it desirable, or, under subsection (F), the witness is an expert or skilled witness. There is no question that every witness that Gulf is offering in this case has expertise and skill, as is defined by the evidence code.

The only argument that I've heard that has been offered by Public Counsel is that you're not going to have the benefit of assessing the witness's credibility. I think you've had plenty of opportunity to assess this witness's credibility through cross-examination up 'til now. I don't think the consideration of a deposition is going to make -- I think the conclusions are drawn.

So, from our perspective, we think the motion is misguided. We have no opposition to the inclusion of a deposition.

CHAIRMAN GRAHAM: Staff?

MR. McGLOTHLIN: Could I respond to Mr. Guyton very briefly?

CHAIRMAN GRAHAM: Okay.

MR. McGLOTHLIN: Mr. Guyton referred to the Administrative Procedures Act. That act also is the source of the ability of parties to an administrative proceeding to engage in discovery. And the standard there is that the party can engage in discovery using

the tools prescribed by and in the manner prescribed by rules of court, and that is, that is the nexus between the rule of court that I cited to you and its use in this proceeding.

CHAIRMAN GRAHAM: Staff?

MS. BARRERA: To address the last issue brought up by Mr. McGlothlin, I do want to explain that in several trials that I have been in, when we do discovery depositions and we ask the corporation to provide the person with the most knowledge on the specific subject, it's because we don't know who that person is. In this situation, the person with the most knowledge to represent the corporation in a specific issue has been already provided by Gulf, so that we don't need to do a special notice of taking deposition for that purpose.

It still does not take away the issue that this is a corporate representative and speaks for a corporate entity, and that is the rule -- that's allowable under Rule 1.330. The exceptional circumstances, as counsel for Gulf has pointed out, are that these proceedings in front of the Public Service Commission are way different than anything, frankly, that I've ever done.

These proceedings, for example, allow the

filing of prefiled testimony. There are several witnesses even here today that are not going to be shown to the Commission whose testimony has been stipulated to. So you won't have the chance to observe their credibility. This witness is before you at this point in time, and you've had the opportunity to observe the witness.

I also want to respond to the argument, while Mr. McGlothlin and Intervenors have very carefully reviewed the Rule 1.330, they have not cited any authority to interpret that rule. I have two cases, *Castaneda v. Redlands Christian Migrant Association*, and also *Kelley v. Lorrell H. Webb*. In both of those cases, the court, the trial court decided that, not to admit the depositions because they wanted to see the witness present.

In one case the witness was standing right there in the courtroom, or sitting right there in the courtroom, and the judge said, you know, I'm not going to admit the deposition into evidence. Both the 5th DCA and the 4th DCA overruled those decisions of the trial court, insofar as they allowed the introduction of the deposition as evidence in the proceeding.

And let me quote from -- "The deposition of a party" -- interpreting 1.330(a)(2). "The deposition of

a party or of anyone who at the time of taking a deposition was an officer, director, or managing agent of a person designated under 1.310(b)(6) or 1.320(a) to testify on behalf of a public or private corporation, a partnership, or association of a governmental agency may be used for any purpose.

"While we appreciate the trial court's preference for appellee's in-court testimony and commend its obvious desire, we feel that the court's concern with these matters could have unfairly influenced appellant to prematurely rest her case.

"The deposition may be used by any party for any purpose and such a deposition may be used, notwithstanding that the deponent is available to testify at trial."

There's also the case of *Monsalvatge & Company of Miami, Inc., versus Ryder Leasing*. It's a 3rd DCA case from 1963, saying the adverse party use of deposition of party, or officer, director or managing agent of public or private corporation is not conditioned upon availability of the deponent.

In this situation, Mr. McGlothlin has stated that Staff is not an adverse party. That's my understanding in the short time that I've been here, that we obtain evidence in order for the Commission to

make its ruling based on the big -- the most record that is available.

Under the *Rules of Administrative Procedure*, this is the exigent circumstance and this is the reason that you're allowed to go beyond the strictures of the evidence code and beyond the strictures of the *Florida Rules of Civil Procedure*. So at this time I would like to move again the deposition into evidence.

MR. McGLOTHLIN: Very brief comment on the case law citations. I believe both of those involved situations in which the deposition was performed pursuant to the designation criterion. And I disagree with the statement that the deposition of this witness and others in this case occurred pursuant to that. There are, it's a separate provision that provides the deposition of a person, and that is invoked when you know who you want to talk to. And that differs from and is distinct from the designation criteria, which is the one under which both those cases occurred.

MS. KAUFMAN: Chairman Graham, could I make a brief comment?

CHAIRMAN GRAHAM: Please.

MS. KAUFMAN: Thank you. I just wanted to focus for a minute on the adverse party criteria in subsection (a)(2) of the rule that we've been

discussing. And I have two, two comments. And that is if you go forward and allow the depositions to be entered by Staff, then I think you'll have to consider Staff to be an adverse party, and you would have to allow the other parties the opportunity to conduct cross-examination after Staff does theirs.

And I also would suggest to you that subsection (2) is a very limited and specific situation involving the designation of a corporate representative, which has not been done in this case at all, and it is not related to section (3), and it certainly does not create an exceptional circumstance that would overcome the explicit criteria that's set out in the rule.

Staff has, has, as Ms. Barrera said, often said that they are not an adverse party, and I think that they can't have it both ways. So I would suggest to you that both of those rules provide a strong basis for not proceeding with introducing depositions.

CHAIRMAN GRAHAM: Ms. Helton?

MS. HELTON: There's one rule that no one has mentioned to you today. It's found in the *Uniform Rules of Procedure*, in 28-106.211, Conduct of Proceedings. And for purposes of this, you are the presiding officer today as the Chairman. "The presiding officer before whom a case is pending may issue any orders necessary to

effectuate discovery, to prevent delay, and to promote the just, speedy, and inexpensive determination of all aspects of the case."

I believe that by admitting the deposition transcripts you are doing just that. You have -- are promoting the just, speedy, and inexpensive determination of all aspects of the case.

As has already been stated on the record today, you have had a chance to watch this witness in action. You have had a chance to judge this witness's credibility.

I hear the arguments with respect to whether Staff is an adverse party. You have heard me say, and you will hear me say again, Staff is not a true party in ratemaking proceedings. I still believe that.

However, I believe that the spirit of the rule can be met by allowing the depositions in. I believe that this witness is an expert witness. The Commission's practice is to view all witnesses that appear before it as expert witnesses, unless the witness is clearly a fact witness. That is not the case here.

I believe that it would be appropriate to allow the deposition into the record, as requested by Ms. Barrera and as agreed to by Gulf Power.

CHAIRMAN GRAHAM: Now according to this Rule

1.330, it's got to be an expert witness or a skilled witness. So even if he didn't designate himself as an expert witness, the company has put him forward as a skilled witness. Is that correct?

MS. HELTON: Well, there's several components to the rule. I believe whether he is an expert or a skilled witness, and I think he -- I can't speak for what, how the company is bringing him forward, but I believe, based on the discussion today, that he is an expert witness. There has been nothing done here in this proceeding to, to call him anything but that.

CHAIRMAN GRAHAM: Okay.

Commissioner Balbis.

COMMISSIONER BALBIS: Thank you, Mr. Chairman. And I just want to give my personal opinion on this matter. It certainly is not a legal opinion by any means.

But one thing that Mr. Moyle, I believe, mentioned yesterday was that this is a fact-finding body. And our job, one of our jobs is to find out the facts and enter information into the record. And my assumption is that, you know, the various tools, whether it's the *Administrative Procedures Act*, whether it's the *Rules of Civil Procedure, Uniform Rules of Procedure*, any one of those tools are used to have an efficient

process, an efficient hearing process.

I doubt that this Commission, however long ago, that agreed or the Legislature agreed to use these tools looked at it as a way to find technicalities to keep information from being entered into the record. We have restraints here on, on information we can get. We have manpower issues, we have a lot of issues we have to deal with, but the main purpose and main goal of us today is to get as much information into the record so we can make a decision.

And my concern is, and maybe it's the nonlawyer in me, is that we're spending a lot of time and energy on looking for technicalities to keep information out of the record, and I think it could be better spent on moving forward with this process.

CHAIRMAN GRAHAM: Thank you, Mr. Balbis.

The deposition comes in.

Staff.

MS. BARRERA: We have no further questions of this witness.

CHAIRMAN GRAHAM: Commissioners?

Commissioner Brown.

COMMISSIONER BROWN: I just have a quick clarification question about the north Escambia County land. Is it being held as an option solely for nuclear

or for other generation needs? I got a little confused during the testimony.

THE WITNESS: Okay. Yes, Commissioner.

The north Escambia site primary function, primary usage is an option for a nuclear plant site, if needed. It also has the capability to support a coal-fired, a combined cycle, and other things, if needed. But if it wasn't for the fact that we wanted to and needed to preserve a nuclear option, then the north Escambia County site would not be an item of discussion. So that's its primary use, but it has other uses also.

COMMISSIONER BROWN: Okay. Thank you.

CHAIRMAN GRAHAM: Commissioner Brisé.

COMMISSIONER BRISÉ: Thank you, Mr. Chairman.

I have one -- or maybe two questions, and I'm not certain if you would be the most appropriate witness or if Mr. Grove might be more appropriate.

We've heard testimony about Gulf's avoidance of a rate case due to its energy procurement program with other providers. Would an expansion of that model provide better savings for customers moving forward, or are you at the point -- I'm sure you've all done some breakeven analysis with respect to how that's working. Are you at the point where you need to be considering other options?

THE WITNESS: I apologize. I just, I didn't completely understand the question about energy. I just didn't completely understand the question. I want to make sure I answer it correctly.

COMMISSIONER BRISÉ: Sure. No problem.

It is my understanding that you all purchased power from other producers.

THE WITNESS: Okay.

CHAIRMAN GRAHAM: All right. So obviously you all have done some analysis to determine how long you could sustain that practice before you actually have to go out and build your own plant. So my question is are you at the point now where that is becoming an issue, or can you expand on that, elaborate on that for me?

THE WITNESS: Okay. All right. I understand now. I apologize I didn't get it the first time.

COMMISSIONER BRISÉ: No, no problem. Sometimes I'm unclear, I guess.

THE WITNESS: When we entered into the power purchase agreement with Dahlberg and with Coral Baconton, that was between 2009 and 2014, they allowed us to bridge a gap. And then we entered into the power purchase agreement with Central Alabama that allowed us to bridge a gap through 2023.

And the reason those power purchase agreements

were so important is because there is so much uncertainty regarding environmental regulations that we did not feel where we were in the optimum position to make the best decision for our customers, not knowing what was going to happen. So these power purchase agreements were available to us, and so that's why we entered into them.

Now those expire. They may not even be available at the time that we're ready to make a decision. So, again, if it's the best option at that time, we will enter into other power purchase agreements or renew those. But not knowing whether those will be available when they expire, we can't make that decision at this point.

COMMISSIONER BRISÉ: Okay. A more general question. If you can talk about the fuel mix that Gulf currently employs or has.

THE WITNESS: At this point we feel like we have a fairly good mixture. You know, we have the combined cycle, CC unit over at Plant Smith, and then we have the coal units, and we have a CT.

Our concern is if we have to start shutting down multiple coal units, or just, say, most if not all of it, we're concerned about relying strictly on gas.

The reason is, as we all know, the price of

gas is very volatile. And we feel like that will expose our customers to dramatic shifts in fuel prices that we don't feel like is the best thing for them, which is one of the reasons, one of the reasons we were looking at a nuclear site, and why it's a real viable option for our customers in the future, because the fuel is very stable. You don't have wild swings in fuel prices.

So, with that said, we feel like we need to -- our CEO of the whole Southern Company uses this phrase, we need to have all quivers -- all arrows in the quiver, so to speak. We need clean coal, we need gas, we need nuclear, we need renewables, we need all of it so that we can mitigate the impact on our customers when there are price shifts in different types of fuel types.

So, again, we don't know exactly what that mix needs to be, but we don't feel like it's all gas. That's too much of a potential impact to our customers.

COMMISSIONER BRISÉ: And I think you answered the next question which I was going to pose, and I think I'll frame it a little bit differently. If I'm a Gulf customer, how does keeping that nuclear option benefit me today?

THE WITNESS: Today, while we understand that any cost is a cost to someone, any increase impacts customers, and we understand that. But for 26 cents on

a thousand-kilowatt-hour residential bill, we're able to reserve, preserve a nuclear option for our customers so that we're able to move in that direction, if necessary, if hazmat, which may roll out December 16th, if all of these other issues with coal combustion by-products and 316(b) and ozone and additional greenhouse gas regulations, if those things develop such that coal becomes nonexistent or minimally existent in our territory, then nuclear would be the best option.

Rhonda Alexander can get into a lot of analysis on this, but we've done our evaluation, and there are eight out of nine scenarios that show that nuclear is a great option for our customers. When you look at low, medium, and high gas prices, 10, 20, and $30 CO2 prices, nuclear is a great option for our customers in eight out of those nine scenarios.

So, for 26 cents, we feel like we've done the right thing to reserve that option for our customers.

COMMISSIONER BRISÉ: Thank you, Mr. Burroughs, and I certainly appreciate your testimony and the fact that you quantified what that actually means to consumers on a move-forward basis. Thank you.

CHAIRMAN GRAHAM: Mr. Burroughs, a quick question for you. What is that land currently being used for right now?

THE WITNESS: The north Escambia site? We're in the process of continuing to purchase the remaining land sites, but it is being used as an option for our customers.

CHAIRMAN GRAHAM: I know, but is it just vacant land, is it timberland, is there cattle on there? I mean, what's currently on the land? What is it being used for right now?

THE WITNESS: Well, there are homesites. There's a church campground. There are timber. A lot of it, a significant portion of it, was timberland. So you've got homesites, you've got a church campground, you've got timber sites, and a lot of it is just hunting ground. So those are generally the type things that are on that site right now.

CHAIRMAN GRAHAM: So is the site currently generating some sort of revenue?

THE WITNESS: I'm not aware of that. Richard McMillan can give you an exact answer, or we can get it for you before the day is out. But I'm not aware of it being used to generate any particular revenue.

CHAIRMAN GRAHAM: Okay. Thank you.

Commissioner Balbis.

COMMISSIONER BALBIS: Thank you, Mr. Chairman. Thank you, Mr. Burroughs. I just have two

questions concerning the north Escambia site. When was the decision made to purchase portions or all of that site?

THE WITNESS: We made the decision to purchase the north Escambia site on August the 26th, 2008.

COMMISSIONER BALBIS: And were you involved with that decision?

THE WITNESS: No, sir. I was at Georgia Power at the time.

COMMISSIONER BALBIS: Okay. Thank you.

CHAIRMAN GRAHAM: Redirect.

MR. GUYTON: Just a couple of questions.

EXAMINATION

BY MR. GUYTON:

Q Mr. Burroughs, when you gave your errata to your exhibit on Schedule 7, you gave values in thousands. Did you mean to give that in thousands or did you mean to give that in millions of dollars?

A I meant to give that in millions of dollars, and I misspoke.

Q Thank you.

You were asked from the bench about Gulf's current fuel mix, and you made reference to gas, coal, and oil. Are there any other fuels in use on Gulf's system besides those three fuels?

A Yes, it is. I misspoke again. We do have a landfill gas renewable site that's 3 megawatts that we -- that actually went into service October of 2010.

Q And how does the cost of that fuel compare to other fuels on Gulf's system?

A The fuel at the Perdido landfill gas site is the lowest. It's about $2.47 per million Btu. It is the lowest fuel source for our customers.

MR. GUYTON: That's all we have. We would move Exhibit 17.

CHAIRMAN GRAHAM: Page 6, Exhibit 17, we'll move into the record.

(Exhibit 17 admitted into the record.)

MR. WRIGHT: Mr. Chairman, I move Exhibit 190.

MR. GUYTON: Is that the Ten-Year Site Plan?

MR. WRIGHT: It's the Ten-Year Site Plan excerpt.

MR. GUYTON: We'd ask that the entire Ten-Year Site Plan be inserted into the record rather than just the excerpt. We'll be happy to provide copies to the Commission.

CHAIRMAN GRAHAM: Are you going to provide the Ten-Year Site Plan then?

MR. GUYTON: Yes.

CHAIRMAN GRAHAM: Okay. Well, so do it.

(Exhibit 190 admitted into the record.)

MR. WRIGHT: Just so I'm clear, then will Exhibit 190 then become the complete Gulf Power Ten-Year Site Plan?

CHAIRMAN GRAHAM: That's correct.

MR. WRIGHT: Thank you, Mr. Chairman.

MR. McGLOTHLIN: Mr. Chairman, I wanted to thank you and the Commissioners for allowing us to express our objection in full context of the rule on which we rely. Probably there will be other depositions offered. At that point I'll reduce my objection to a single sentence and refer back to this, this argument.

I would like to inquire. At some point in discussing this with Staff, there was some thought of offering only the Staff portion of the deposition. I wonder what is the status of that?

MS. KLANCKE: Staff is amenable to accommodating the parties. Our, our desire with respect to these depositions is to have the questions that Staff asked, as they, as we believe they are pertinent with regard to our issues and our analysis for your benefit. However, to the extent that we can accommodate the parties to exclude or identify certain pages of their cross-examination, as long as Gulf doesn't have an objection to it, we'd be happy to accommodate them.

CHAIRMAN GRAHAM: On a go-forward basis; correct?

MS. KLANCKE: Going forward, certainly.

To date, I do not believe that there was any identified pages with respect to, with particularity specified to Staff. But in going forward, to the extent possible, feasible, we can accommodate them.

MR. McGLOTHLIN: To the extent there is agreement on that, that would be preferable to OPC.

CHAIRMAN GRAHAM: Okay.

MR. GUYTON: Gulf would propose to have, if the depositions are going to go in, to have the entire deposition transcript inserted into the record.

CHAIRMAN GRAHAM: Well, we'll see if there's objections to specifics, what those objections are.

But, Mr. McGlothlin, I, I listened to the argument again today, because you had new facts or a new position, and I appreciate the position you're coming from. Me being the, the layman, I depend a lot on my, on my staff as far as legal matters, and I think that from what the Staff says we're legally sufficient on where we were.

And so I always err on the, on the side of getting more information into the record rather than less information into the record, but I do appreciate

your arguments.

MR. McGLOTHLIN: Thank you, sir.

CHAIRMAN GRAHAM: Okay. Next witness.

MR. GUYTON: May Mr. Burroughs be excused?

CHAIRMAN GRAHAM: Is he here for rebuttal?

MR. GUYTON: He does not have rebuttal.

CHAIRMAN GRAHAM: The only concern I have is there was one or two witnesses that he said can answer questions that he chose not to answer. If for some reason those witnesses cannot answer those questions, we may have to recall him.

MR. GUYTON: We will keep him available.

CHAIRMAN GRAHAM: Thank you. Unless you can guarantee me those witnesses can answer those questions.

MR. GUYTON: There's only two things in life that are guaranteed, and I'm not --

(Laughter.)

CHAIRMAN GRAHAM: Okay. Next witness.

MR. MOYLE: Mr. Chairman, just a quick inquiry. For planning purposes, is it your plan, like we did yesterday, to break at 1:00 for lunch, or --

CHAIRMAN GRAHAM: Give or take 15 minutes or so.

MR. MOYLE: Okay. Thanks.

MR. GUYTON: Gulf calls Mr. Grove.

CHAIRMAN GRAHAM: And before you get started with Mr. Grove, I believe the witness that Mr. Burroughs referred to was McMillan, and he is not the next witness, the one after that. So after McMillan is done, if those questions are answered, we can release Mr. Burroughs.

MR. GUYTON: Thank you, Mr. Chair.

RAYMOND W. GROVE

was called as a witness on behalf of Gulf Power Company and, having been duly sworn, testified as follows:

EXAMINATION

BY MR. GUYTON:

Q Mr. Grove, have you previously been sworn?

A Yes, sir, I have.

Q Would you please state your name and position for the record.

A Yes. My name is Raymond W. Grove, and I am the Manager of Power Generation Services for Gulf Power company.

Q Mr. Grove, did you or did Gulf have occasion to file with the Commission on July 8th, 2011, your direct testimony, containing 68 typewritten pages?

A Yes, sir, they did.

Q And do you have any corrections to that testimony as filed?

A Yes, I do.

Q Would you present those to the Commission, please.

A On page 27, line 6, please change 113,000,223 to 112,015,000.

On page 61, line 15, add the words "allocation of" before the word "personnel."

CHAIRMAN GRAHAM: One more time. Which line?

THE WITNESS: I'm sorry. On page 61, line 15, add the word "allocation of" before the word "personnel."

CHAIRMAN GRAHAM: Got you.

THE WITNESS: Also on line 61 -- I'm sorry, on page 61, line 16, please strike the word "new."

And on page 65, line 5, change the word "six" to "seven."

BY MR. GUYTON:

Q Mr. Grove, with those changes to your direct testimony, if I were to ask you the same questions today as are contained in your direct testimony, would your answers be the same?

A Mr. Guyton, I still have some additional changes.

Q I'm sorry.

A Thanks for your help.

On Schedule 7, page 1, several values in the schedule are going to change, because Gulf is going to make some changes to Baseline Other, and you'll see how that flows through. It's similar to what Mr. Burroughs did.

On Baseline Other, please change --

CHAIRMAN GRAHAM: I'm sorry. What page are you on, sir?

THE WITNESS: I'm sorry. It's Schedule 7.

CHAIRMAN GRAHAM: Okay.

THE WITNESS: Under Baseline Other, please change the amount for 2015 from 55,973 to 49,933.

Also for 2015, change the total from 99 -- total baseline, I'm sorry -- from 99670 to 93630.

And then change the actual budget, the total actual budget amount from 120,607 to 114,567. Change the average from 113,223 to 112,015.

And lastly, on Schedule 11, in the column entitled 2011, move the 39,000, or the number 39 from Scholz Common to Scholz 2.

In the column entitled 2012, move the 39,000 from Scholz Common to Scholz 1.

And finally, in 2013, move the 40,000 from Scholz Common to Scholz Unit 2.

BY MR. GUYTON:

Q Mr. Grove, if I were to ask you the same questions today as are contained in your prefiled testimony, would your answers be the same as amended?

A Yes, sir, they would.

Q And is the information in your Exhibit RWG-1, consisting of Schedules 1 through 12, true and correct to the best of your knowledge and belief?

A Yes, sir.

(***REPORTER'S NOTE: For ease of the record, Witness Grove's prefiled direct testimony was inserted into the record.)

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony of
Raymond W. Grove
Docket No. 110138-EI
In Support of Rate Relief
Date of Filing: July 8, 2011

Q. Please state your name and business address.

A. My name is Ray Grove. My business address is One Energy Place, Pensacola Florida, 32520.

Q By whom are you employed?

A. I am employed by Gulf Power Company (Gulf or the Company). I am the Manager of Power Generation Services.

Q. What are your responsibilities as Manager of Power Generation Services?

A. I am responsible for Generation Planning, including the Ten Year Site Plan and the Renewable Standard Offer Contract, reporting plant performance through the Generation Performance Incentive Factor, supply side renewable energy development, Operations and Maintenance (O&M) budgeting for Production, and capital budgeting for Production.

Q. Please state your prior work experience and responsibilities.

A. I was hired by Gulf in January 1982 as a district accountant responsible for accounting and budgeting for the Western District. In 1984, I transferred to Internal Auditing, with primary responsibility for auditing

Power Generation and Fuel. I transferred to Power Generation in 1998, with responsibility for accounting and budgeting for Power Generation. I assumed the additional responsibility for Generation Planning in 2002 and supply side renewable generation in 2008.

Q. What is your educational background?

A. I graduated with a Bachelor of Arts in Accounting from the University of West Florida in 1981.

Q. What are the purposes of your testimony?

A. My testimony discusses Gulf's generation resources used and useful in the provision of electric service to our customers. These resources include Gulf-owned resources, jointly-owned generation resources, the Southern electric system (SES) resources available pursuant to the Intercompany Interchange Contract (IIC), and power purchase agreements (PPAs) with independent generators, including renewable generators. My testimony also addresses Gulf's resource planning process, Production investment, and 2012 Production O&M budget.

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exhibit RWG-1, Schedules 1 through 12. Exhibit RWG-1 was prepared under my direction and control, and the information contained therein is true and correct to the best of my knowledge and belief.

Q. Are you sponsoring any of the Minimum Filing Requirements (MFRs) filed by Gulf?

A. Yes. A list of MFRs I sponsor or cosponsor is included on Exhibit RWG-1, Schedule 1. The information contained in the MFRs I sponsor or co-sponsor is true and correct to the best of my knowledge and belief.

I. GULF'S GENERATION RESOURCES

Q. Please describe Gulf's generating resources during the 2012 test year.

A. Gulf will generate or purchase electricity from a diverse group of resources in 2012. These resources will include: (a) units owned solely by Gulf, (b) units owned jointly with other operating companies within the SES, (c) units in the SES available to Gulf through the SES IIC, and (d) units available to Gulf under PPAs. The fuels used for the generation resources available to Gulf include coal, oil, natural gas, landfill gas and municipal solid waste.

Q. Please describe Gulf's projected capacity mix by fuel type for 2012.

A. In the summer of 2002 at the beginning of the test year in Gulf's last rate case, Gulf had 2,625 megawatts (MW) of capacity available to serve our customers, as shown on Schedule 2, page 1 of 2, of Exhibit RWG-1. The resources available to Gulf were primarily coal generation, which made up 75.7 percent of the resources owned or available through PPAs. For the summer of 2012, Gulf will have 3,852 MW of capacity available for our

customers. Exhibit RWG-1, Schedule 2, page 2 of 2, shows that the resources available to Gulf will be made up of 48.4 percent coal, 50.4 percent gas, 0.8 percent oil, and 0.4 percent renewable. Since our last rate case, Gulf has increased its fuel diversity and reduced its reliance on coal.

Through an effective planning process, Gulf has a generation mix which will allow us to provide our customers energy from whichever resources are most economical. When coal prices are high, more gas resources can be utilized; when gas prices are high, more coal resources can be utilized. In addition, as a party to the SES IIC, Gulf takes advantage of making purchases or sales through the Southern Company Power Pool (the Pool) that further benefit our customers.

Q. Please describe the generation resources forecasted to be owned, operated and used by Gulf to serve its retail customers in 2012.

A. Exhibit RWG-1, Schedule 3 provides a list of the units owned and operated or co-owned by Gulf and used to provide retail service. The list includes Gulf's ownership in Plant Daniel located in Mississippi. A summary of these units, fuel type, and capacity is as follows:

- Plant Crist has four coal units totaling 906 MW;
- Plant Smith has two coal units, a gas fired Combined Cycle (CC), and an oil fired Combustion Turbine (CT) totaling 945 MW;
- Plant Scholz has two coal units totaling 92 MW;

- Plant Daniel has two coal units of which Gulf owns 510 MW;
- Pea Ridge has three gas fired units totaling 12 MW; and
- Perdido has two landfill gas units totaling 3.2 MW.

Q. What PPAs will Gulf have in place and use to provide electric service in 2012?

A. Exhibit RWG-1, Schedule 4 provides a list of the power purchase resources available to Gulf during 2012 and information regarding the fuels and technologies used by these generating resources.

Q. You mentioned the SES Intercompany Interchange Contract, or IIC. Please summarize that arrangement.

A. The IIC is a contract among Alabama Power Company, Georgia Power Company, Mississippi Power Company, Gulf Power Company and Southern Power Company (collectively the Operating Companies).The IIC is designed to provide for the continued operation of the electrical system of the Operating Companies in such a manner as to achieve the maximum possible economies consistent with the highest practical reliable service, the reasonable utilization of natural resources, and the equitable sharing among the Operating Companies of the costs associated with the operation of facilities that are for the mutual benefit of the Operating Companies and their customers.

Q. How does the SES IIC work to the benefit of Gulf's customers?

A. Gulf's customers benefit tremendously from Gulf's participation in this pooling arrangement. Benefits include, but are not limited to, the following:

1. Economic dispatch production cost savings,
2. Economic sharing of generating reserve capacity,
3. Lower reserve margin requirements,
4. Ability to install large, efficient generating units,
5. Reduced requirements for operating reserves,
6. Pool market for temporary surpluses of capacity and energy on Gulf's system,
7. Ready supply of energy for purchase when Gulf is short,
8. Peak-hour load diversity, and
9. Opportunity energy sales and purchases.

In summary, Gulf's decision to enter into and participate in the SES IIC was reasonable and prudent, and the benefits justify that Gulf's participation in the IIC is in the best interest of our customers.

Q. Besides the environmental capital projects addressed through Gulf's Environmental Cost Recovery Clause (ECRC), what major changes have been made to Gulf's generation resources since Gulf's last base rate proceeding?

A. Since our last rate case, there have been five major changes to Gulf's generating fleet unrelated to ECRC projects.

(1) Plant Crist Units 1, 2, and 3 (80MW) were retired as part of an agreement with the Florida Department of Environmental Protection (FDEP). The retirement of Plant Crist Units 1, 2, and 3 was approved in Docket No. 020943-EI, Order No. PSC-02-1396-PAA-EI.

(2) In 2006, Gulf signed two PPAs for a total of 488 MW of peaking capacity that took effect in June 2009 and will last for five years through May 2014. The contracts are with Shell Energy North America for the electrical output from four units at the Coral Baconton facility and with Southern Power Company (an affiliate) for the electrical output from four units at their Dahlberg facility. These PPAs were approved in Docket No. 060811-EI, Order No. PSC-07-0329-PAA-EI. In addition, the contract with Southern Power Company was approved by the Federal Energy Regulatory Commission (FERC).

(3) In 2008, Gulf signed a 6-year PPA with Bay County in Florida to purchase the electrical output from its 11 MW waste-to-energy facility. The PPA with Bay County was approved in Docket No. 080612-EI, Order No. PSC-09-0012-PAA-EI.

(4) In 2009, Gulf signed a 14-year PPA with Shell Energy North America for 885 MW of intermediate capacity from its Central Alabama facility. The contract took effect in November 2009. This PPA was approved in Docket No. 090169-EI, Order No. PSC-09-0534-PAA-EI.

(5) In 2010 Gulf finished construction of a 3.2 MW landfill gas-to-energy facility (Perdido) in Escambia County, Florida.

Each of these changes to Gulf's generating resources is discussed later in my testimony.

II. GULF'S RESOURCE PLANNING PROCESS

Q. Please provide an overview of Gulf's resource planning process.

A. The resource planning process utilized by Gulf to determine its future needs is coordinated within the SES Integrated Resource Planning (IRP) process. Gulf participates in the IRP process along with the other SES retail operating companies (Alabama Power, Georgia Power, and Mississippi Power). Gulf receives a number of benefits from being part of a large system planning process. Since Gulf comprises only about 6.9 percent of the total SES summer peak demand, its needs are relatively small compared to the entire system. This collaborative planning allows Gulf to coordinate its capacity additions to meet its demand and reserve requirements in a manner that utilizes the temporary surpluses of capacity available on the SES or shares our temporary surpluses of capacity with the other retail operating companies.

This ability to coordinate capacity additions and rely temporarily on any surplus system reserves also allows Gulf to defer capacity addition

decisions until the timing allows consideration of (a) larger blocks of need that might justify less costly addition alternatives, (b) emerging technologies that might not have been available earlier, and (c) emerging environmental requirements that might affect unit addition choices. Another benefit to Gulf is the advantage gained from planning a large system such as the SES without the costs of a large planning staff of its own.

As discussed in Gulf's Ten Year Site Plan (TYSP), the SES IRP process employs a 15 percent reserve margin target for long range planning. Gulf, as a member of the SES, has access to all the reserves of Southern Company, which at a 15 percent reserve margin represents approximately 5,000 MW. A 15 percent reserve margin in 2012 for Gulf represents 396 MW. If Gulf were required to carry a 20 percent reserve margin (as other Florida utilities are required to carry) Gulf would need to add 132 MW of capacity. Assuming Gulf purchased or constructed CT capacity to meet this increased reserve requirement, Gulf's customers would be subjected to, at least, an additional $12.5 million in annual revenue requirements. As I discussed earlier in my testimony, the ability for Gulf to carry lower reserve margins is one of the many benefits of Gulf's participation in the IIC.

The generation mix process employed by the SES uses PROVIEW (a computer model) to screen available technologies in order to produce a listing of preferred capacity resources from which to select the most cost-

effective plan for the system. The resulting SES resource needs are allocated among the operating companies based on reserve requirements. Each operating company then determines the resources that will best meet its capacity and reliability needs.

Gulf's long-range goal is to have economical, reliable generating capacity available to meet our customers' needs. In order to meet the anticipated demand that often develops irregularly and in increments much smaller than the capacity of a large, efficient generating unit, and to realize the economies of scale inherent in large units, most electric utilities will construct "blocks" of generating capacity which are temporarily in excess of the requirements anticipated at the time the unit is initially brought on line. If the utility were to satisfy only the annual increase in demand, these small blocks would be much higher in cost on a per unit basis and much lower in efficiency.

In planning generating capacity additions, Gulf has certain advantages that greatly benefit its customers. Gulf Power, Alabama Power, Georgia Power, and Mississippi Power operate as an integrated generation and transmission network over a four-state area. Coordinated planning with our Southern system affiliates allows for the staggered construction of larger, more efficient generating units spread throughout the Southern electric system.

Q. Is this the same planning process used in Gulf's last rate case and the same process described in Gulf's TYSP?

A. Yes.

Q. Please address the relationship of Gulf's major generating resource changes since its last rate proceeding to Gulf's generation resource planning process.

A. Since Gulf's last rate case, Gulf entered into four PPAs, which were the result of Gulf's effective resource planning process. Each of these agreements has been reviewed and approved by the Florida Public Service Commission (FPSC or the Commission). In addition, Gulf constructed a 3.2 MW landfill gas-to-energy facility which began operation in 2010, and this resource addition was evaluated within Gulf's generation resource planning process. The retirements of Plant Crist Units 1, 2 and 3 were the result of an agreement negotiated with the FDEP. While the retirement decision was not the product of Gulf's resource planning process, the effect of the retirements was incorporated into Gulf's resource planning process.

Q. Please address Gulf's decision to retire Plant Crist Units 1, 2 and 3.

A. In 2002, Plant Crist Units 1, 2, and 3 were the oldest units on Gulf's system and were scheduled for retirement in 2011. On August 28, 2002, Gulf entered into an agreement with the FDEP for the purpose of ensuring compliance with new air quality standards for ozone. The agreement required Gulf to undertake various activities at Plant Crist in order to

reduce overall plant-wide air emissions of nitrogen oxides. The Commission approved this settlement with the FDEP, including the early retirement of Crist Units 1, 2, and 3, in Docket No. 020943-EI, Order No. PSC-02-1396-PAA-EI.

Q. Please address Gulf's decision to enter into 488 MW of five-year power purchase contracts from June 2009 through May 2014.

A. In the 2005 TYSP, Gulf forecasted that its reserve margins in 2009 would, absent construction or purchase of resources, be below its reserve margin criterion of 15 percent. The forecasted reserve deficiency was approximately 400 MW.

Confronted with a need for additional peaking capacity, Gulf determined, for a variety of reasons, to look to the market rather than self-build alternatives to meet its additional short-term needs. First, Gulf's assessment of the competitive wholesale market suggested there was likely capacity available that could be obtained through a Request for Proposals (RFP) process. Second, Gulf desired, if the costs were appropriate, to diversify its portfolio of resources. Third, Gulf desired the flexibility associated with deferring a decision that would involve consideration of a self-build alternative. Deferring consideration of a self-build alternative at this time of great uncertainty about prospective environmental compliance costs provided several advantages. The type and timing of Gulf's 2009 need suggested an addition of CT capacity if Gulf's need were to be met by a self-build option in 2009. However,

deferring that need to 2014 would allow Gulf to consider other types of technologies and allow Gulf to defer capital investment. As a result, the deferral allowed more time for the emergence of technology improvements that might enhance performance and/or reduce costs.

To meet its projected 2009-2014 reserve margin shortfall, Gulf conducted a capacity solicitation in 2005. The RFP was conducted consistent with the Commission's rule regarding capacity solicitations, even though the rule was inapplicable because Gulf was not considering a self-build option.

Gulf received three bids in response to the RFP, and after careful analysis, Gulf selected two bids that best fit Gulf's needs. The contract negotiations resulted in Gulf submitting two executed PPAs to the Commission for approval. The contracts were approved by the Commission in Docket No. 060811-EI, in Order No. PSC-07-0329-PAA-EI. In addition, because one of the contracts was with an affiliate (Southern Power), that contract was reviewed and approved by the FERC.

Q. Please address Gulf's decision to enter into a power purchase agreement with Bay County for the electrical output from its Municipal Solid Waste Facility.

A. Bay County owns and operates a Solid Waste Facility in Panama City, Florida. Gulf is committed to obtaining cost-effective energy supplies for our customers and to obtaining the benefits of fuel diversity wherever practical. Gulf is also committed to encouraging and promoting renewable

energy pursuant to several sections of Chapter 366, including Sections 366.82, 366.91, and 366.92, Florida Statutes. This negotiated contract provides renewable energy produced by an existing in-state facility with a proven performance record. It also enhances Gulf's fuel diversity. The resulting contract between Gulf and Bay County was reviewed and approved by the Commission in Docket No. 080612-EI, Order No. PSC-09-0012-PAA-EI.

Q. Please address Gulf's decision to enter into the 14-year PPA with Shell Energy North America (SENA) for the capacity and energy from its Central Alabama facility.

A. The PPA with SENA was also the result of Gulf's generation resource planning process. Anticipating the expiration of the 2009 PPAs, Gulf began the process of developing an RFP for 2014. The primary drivers of Gulf's need to add generation resources in 2014 were the expiration of two PPAs totaling 488 MW and projected load growth. Gulf's 2009 TYSP indicated that Gulf's 2014 generation resource need was expected to be 976 MW, and Gulf anticipated issuing an RFP with a self-build option.

Just prior to the date scheduled for issuing the final RFP, Gulf learned that SENA desired to enter into a bilateral negotiation for a PPA with Gulf for the output of its facility located in Central Alabama. Initial review indicated that the SENA resource might be an extraordinary opportunity for Gulf's customers. Therefore, Gulf decided not to proceed with its RFP.

Further cost-benefit analysis revealed a net present value (NPV) cost savings to customers of $587 million in 2014 dollars associated with the PPA compared to the self-build resource. Therefore, Gulf entered into a PPA with SENA.

The resulting contract between Gulf and SENA was reviewed and approved by the Commission in Docket No. 090169-EI, Order No. PSC-09-0534-PAA-EI. It should be noted that the forecasted $587 million NPV savings to customers did not reflect the additional benefits of having the capacity and energy of the unit available to Gulf prior to 2014. Every time the unit is dispatched prior to June 2014, Gulf's customers benefit from additional energy savings.

Q. Please address Gulf's decision to construct a landfill gas-to-energy facility at the Perdido landfill.

A. In July 2008, Escambia County, Florida issued an RFP for the sale of landfill methane gas from its Perdido landfill. Landfill gas is defined as a renewable energy resource pursuant to Section 366.91(2), Florida Statutes. The Florida Legislature has repeatedly recognized that it is in the public interest to promote the development of renewable energy resources in the state in order to, among other things, reduce dependence on natural gas, minimize volatility of fuel costs, encourage investment in the state and improve environmental conditions. Given these facts, Gulf began to evaluate the possibility of developing a project to utilize the gas being offered through this RFP.

In order to minimize or negate any impact to our customers, Gulf used the avoided cost of the unit contained in its Renewable Standard Offer Contract (RSOC) as the basis for determining the price Gulf would be willing to pay to Escambia County for its landfill methane gas. Using the established avoided cost concepts, Gulf submitted a bid for the procurement of the gas being offered under this RFP.

After submitting a winning bid in response to the RFP, Gulf entered into a twenty-year agreement with Escambia County to purchase landfill gas necessary to fuel a 3.2 MW landfill gas to energy facility to be located adjacent to the Perdido landfill. The total price to construct the project was $5.5 million, including the associated connection to Gulf's distribution system.

The facility's investment and expenses are included in Gulf's base rate request. The O&M expense included in the test year is $770,000. The fuel savings associated with this project are already being passed to customers through the fuel clause. At the time Gulf conducted its analysis of the Perdido project, Gulf estimated that it would result in approximately $23.5 million in fuel savings to Gulf's customers over its twenty-year life.

As Gulf continues to evaluate technologies available to provide renewable energy, it has become clear that the ability for a renewable energy provider to develop a project at or below avoided cost will be very challenging. Landfill gas may be the most cost-effective renewable

resource available at this time. This confirms that Gulf's decision to develop this project was prudent and in the best interest of our customers.

Q. Are the major changes to Gulf's generating resources since its last rate case proceeding reasonable and prudent?

A. Yes. The changes in Gulf's generating fleet since our last rate case were driven by Gulf's desire to provide economical and reliable generating capacity to our customers. The retirement of Crist Units 1, 2 and 3 was required by an agreement that Gulf entered into with the FDEP as part of a plan to ensure compliance with new air quality standards for ozone. These retirements accelerated Gulf's projected need to add capacity to meet our customers' rising demands.

Gulf's subsequent decision to solicit intermediate-term PPAs to defer its 2009 capacity need was also reasonable and prudent. Indeed, the Commission determined the reasonableness of that capacity solicitation in approving the contracts that were the products of the RFP. Gulf went beyond legal requirements in soliciting alternatives and ultimately purchased power at a cost less than the cost of a self-build option.

As noted in the Commission order approving the agreement, the contract between Gulf and Bay County provides Gulf with a viable source of electric energy from a renewable fuel source. It also meets all the requirements and rules governing Qualified Facilities and small power producers, including purchases at or below avoided cost. It was

reasonable and prudent for Gulf to enter into the Bay County agreement consistent with the Commission's policy to encourage Qualifying Facilities.

Gulf's decision to enter into a 14-year PPA with SENA for the output of gas-fired combined cycle units from 2010 through 2023 was also reasonable and prudent, as the Commission determined in Order No. PSC-09-0534-PAA-EI. Gulf seized the opportunity to use a market resource which was available at a cost well below the cost at which Gulf could have built comparable combined cycle units. These cost savings will flow entirely to Gulf's customers, who at the same time avoid having to pay carrying costs on an additional investment. This decision also forestalled Gulf from having to make other generating addition decisions at a time of great uncertainty about prospective environmental compliance costs.

Gulf's decision to develop the landfill gas project in Escambia County was reasonable and prudent. The methodology employed to determine cost effectiveness was sound and in compliance with Gulf's RSOC that was approved by the Commission.

In each instance, Gulf Power clearly had an eye on the future and considered the effect of these decisions on prospective Gulf Power capacity decisions. Each decision met Gulf's long-range resource planning goal to have economical, reliable generating capacity available to

meet our customers' needs. Each decision was reasonable, prudent and in the best interests of our customers.

III. GULF'S PRODUCTION INVESTMENT

Q. Mr. Grove, Gulf Witness McMillan shows a total of $2.6 billion of plant in service investment in Gulf's 2012 rate base in this case. Other witnesses have testified that these costs are properly recorded consistent with the Uniform System of Accounts and generally accepted accounting principles. Are the Production assets associated with these costs used and useful in the provision of electric service to the public?

A. Yes. The Production assets, which comprise a total of $1,043,349,000 of plant in service in Gulf's 2012 rate base in this case, are used and useful in Gulf's provision of electric service.

Q. Were these Production costs reasonable and prudently incurred?

A. Yes. They were incurred pursuant to our capital budget process. I will discuss that process later in my testimony. They also were subject to cost controls used to govern budgeted expenditures. These cost controls are also discussed later in my testimony.

Q. What is Gulf's projected Production Capital Additions Budget for 2011 and 2012 excluding Plant Scherer and items recovered through the ECRC?

A. Gulf's Production non-ECRC Capital Additions Budget for 2011 is $68,334,000. As shown on Exhibit RWG-1, Schedule 5 page 1 of 2, there are 75 projects scheduled for 2011.

Gulf's Production, non-ECRC Capital Additions Budget for 2012 is $43,738,000. The major items included in the Production non-ECRC Capital Additions Budget for the test year are:

- Crist Unit 6 Spring Boiler/Turbine Outage ($6,200,000);
- Crist Unit 7 Fall Boiler/Turbine Outage ($14,000,000);
- Static Exciter and Voltage Regulators on Crist Units 6 & 7 ($5,000,000)
- Smith Unit 2 & 3 Spring Boiler Outages ($3,400,000); and
- Daniel Unit 1 Spring Boiler Outage ($800,000).

All of these budgeted projects are needed to address safety issues, to maintain efficiency (heat rate), or to sustain reliability. As shown in Exhibit RWG-1, Schedule 5, page 2 of 2, there are 58 capital projects in 2012.

Q. Please address how Gulf's Production Capital Additions Budget is formulated.

A. The Production Capital Additions Budget process is a multi-step process that begins at the plant level and is ultimately approved by Gulf's Executive Management Team, which is made up of the CEO and the four Vice Presidents of Gulf. All capital projects are evaluated to ascertain the necessity of performing the work.

Plant personnel begin the Production budgeting process by evaluating existing plant equipment performance and maintenance costs. Where performance has degraded or is forecasted to degrade to an unacceptable level and maintenance costs are increasing, replacement of the equipment becomes necessary. As part of this evaluation process, plant personnel review the information provided by Gulf to the North American Electric Reliability Corporation Generation Availability Data System (NERC GADS) to evaluate events that have triggered unplanned outages or unit derates. Gulf develops plans to address GADS events that continue to be problematic and makes decisions to repair or replace existing equipment. Once plant personnel have identified specific projects, the Group Managers at each plant review the proposed project list to determine which projects will be submitted to the Plant Management Team (the Plant Manager and his direct reports). The Plant Management Team meets to discuss each proposed project to determine which projects will be submitted for the next level of review to be included for consideration in the final budget.

Each plant presents its proposed list of capital projects to the Power Generation Leadership Team (the Vice President of Power Generation and his direct reports). The Plant Managers then meet with the Power Generation Leadership Team to prioritize all projects at the Power Generation Level to ensure the most critical projects are included in the budget submitted for final review by Gulf's executives.

Lastly, the Production Capital Additions Budget request is presented to Gulf's executives. The Vice President of Power Generation is required to explain and justify the Production Capital Additions Budget, and the final Capital Additions Budget is ultimately approved by executive management.

Q. How does Gulf control capital costs after the Capital Additions Budget is developed?

A. Once the Capital Additions Budget is approved, each project is assigned a project manager who is responsible for all aspects of the project. The project manager will develop documentation outlining the scope of the project and work with Supply Chain Management to develop a bid package. From start to finish, the project manager is responsible for all on-site management, including contractor performance and invoice review. The plant manager receives a report from the Manager of Power Generation Services each month detailing capital project expenditures and any budget variance for all projects. The plant manager is responsible for explaining all budget variances. At the Company level, the Corporate Planning group requires a detailed explanation quarterly of all budget variances greater than 10 percent or $250,000 (whichever is lower). Variances less than $10,000 do not require a variance explanation.

Q. How are new capital projects or changes to existing projects incorporated in the current year budget?

A. In the event a new project or an increase in expenditures associated with an existing project is necessary, the planning unit must submit a justification letter to the Vice President with functional responsibility. If approved by the functional Vice President, the letter is also reviewed and approved by the Chief Financial Officer. Finally, the letter is sent to Corporate Planning where the change is documented and added to the financial plan.

Q. Was Gulf's Production non-ECRC Capital Additions Budget of $68,334,000 in 2011 and $43,738,000 in 2012 developed by this budget and cost control process?

A. Yes. The projects included in Gulf's Production Capital Additions Budget were approved pursuant to this rigorous evaluation and approval process. Gulf's effective capital budgeting and spending program has helped ensure our generating fleet has continued to provide reliable and efficient generation. The dollars included in the test year non-ECRC Capital Additions Budget for Production are reasonable, prudent, and necessary. Gulf will continue to evaluate the benefits of additional capital projects in the future to ensure that we are able to provide our customers with reliable, cost-effective and efficient generating capacity.

IV. GULF'S 2012 PRODUCTION O&M BUDGET

Q. What are Gulf's Production O&M budgets for 2011 and 2012?

A. Gulf's Production O&M budget for 2012 is set forth on Exhibit RWG-1, Schedule 6 and Schedule 7. Gulf's Production O&M budget for 2012 is $110,888,000, including Steam Production, Other Production, and Other Power Supply expenses.

Gulf's Production O&M budget for 2011 is set forth on Exhibit RWG-1, Schedule 7. Gulf's Production O&M budget for 2011 is $110,435,000, including Steam Production, Production Other, and Other Power Supply expenses.

Q. Are Gulf's projected levels of Production O&M expenses of $110,435,000 in 2011 and $110,888,000 in 2012 reasonable and prudent?

A. Yes. My conclusion is based primarily on the fact that Gulf's 2011 and 2012 Production O&M budget are the product of a rigorous budget process implemented by experienced employees who know their jobs and their facilities. Each year, Gulf's Power Generation Organization develops a five-year O&M budget based on historical results, projected maintenance and outage planning. As we develop the budget request, we focus on planned outages and baseline expenses.

Over the years, Gulf's plant personnel have gained valuable knowledge relating to the maintenance of our equipment. Our experience indicates

that each unit should have a regularly scheduled planned outage to inspect and repair fuel handling equipment, boilers, turbine valves and auxiliary equipment every 18 to 24 months. In addition, a major planned outage is scheduled on each unit every 8 to 10 years, which includes work on the turbine and generator equipment in addition to the equipment listed above.

Baseline expenses are costs required to conduct the day-to-day operation and maintenance of the generating equipment and auxiliary equipment and facilities. Baseline expenses include all labor, material and other expenses, such as contracts for maintaining grounds, janitorial services, and other services.

The five-year O&M budgets are developed at the plant level with the goal of maintaining high reliability and efficiency. As discussed in Gulf Witness Burroughs' testimony, Gulf has done an exceptional job of maintaining high unit reliability and efficiency while at the same time fostering an environment where employee safety is our number one priority.

As each plant develops a five-year O&M budget, the Plant Management Team seeks input from system owners and unit owners to ensure the most critical issues receive attention. Each plant assigns a system owner (expert) over major systems such as boiler, turbine or generator. In addition, each unit has an individual assigned as the unit owner with the expectation that the individual will be the coordinator of any work related

to the assigned unit. As the O&M budget is developed, the Plant Management Team, which includes the plant manager and his direct reports, meets to discuss all aspects of the equipment maintenance requirements.

Once the Plant Management Teams are satisfied that their O&M budgets meet the plant's needs, the Power Generation Leadership Team (the Vice President of Power Generation and his direct reports) meets to discuss the overall Power Generation O&M budget. In the event that there are resource (labor, physical, or financial) constraints, the Power Generation Leadership Team discusses risks associated with projects and prioritizes projects to help ensure the most critical activities are included in the budget. Lastly, the Power Generation budget is submitted to Gulf's Corporate Planning group. Gulf Witness Buck discusses the budget process that takes place after Corporate Planning receives the Power Generation O&M budget request.

The $110,888,000 2012 Production O&M budget was developed using teams from the plants whose expertise and understanding of plant equipment and plant operations has been clearly demonstrated by the continued high performance indicators of the units. Their budgets were then reviewed and modified by Plant Management Team, the Vice President of Power Generation and his leadership team, and ultimately Gulf's Executive Management Team. The 2012 Production O&M budget is the product of this robust budgeting process.

Q. Is Gulf's projected level of Production O&M expenses of $110,888,000 in 2012 representative of a going forward level of Production O&M expenses beyond 2012?

A. Yes. As shown on Schedule 7 of Exhibit RWG-1, the average Production O&M budget for the five year period (2011 – 2015), which includes the prior year and the test year, is ~~$113,223,000~~ $112,015,000. The Production O&M expense for 2011 and the 2012 test period are consistent with this average, and they are representative of the ongoing level of expense necessary to maintain generation performance and reliability.

Q. Production O&M expenses in 2012 are higher than the five year historical average for the period 2006 through 2010. Why is the 2012 Production O&M Budget representative of the ongoing level of expenses necessary to maintain generation performance and reliability?

A. The historical average levels of Production O&M expense for the years 2006 through 2010 are not representative of Gulf's going forward level of Production O&M expenses. If Gulf were held to such a level of expenses, necessary and essential maintenance would have to be foregone, and generation unit performance would likely suffer significantly. There are a number of factors that have led to the increase in Production O&M expenses for the period 2011-2015 relative to the period 2006-2010.

Q. Please address the factors that are driving Gulf's Production O&M expense level up in the period 2011-2015.

A. There are at least five primary factors that are driving the Production O&M expense increase. First, despite the retirement of old units and the addition of new units, the age of Gulf's generation fleet is increasing, and with age, greater levels of maintenance are necessary to maintain or improve generating unit performance. Second, there are a number of costs in the Production function that are simply increasing at a rate higher than the Consumer Price Index (CPI), the general measure of inflation. Third, Gulf has a generating unit (Smith Unit 3) that was relatively new in the 2006-2010 time-periods and required very little O&M expense. Fourth, Gulf has one new unit (Perdido) that was not constructed and operational until October 2010. Fifth, Gulf worked very hard during the 2009-2010 time frames to avoid asking for base rate relief when customers were struggling during the worst economic downturn since the Great Depression. The lower O&M expenses incurred during this historical period helped Gulf avoid asking for base rate relief without affecting the reliability or efficiency of our generating fleet. However, the historical level of expenses is not sustainable without affecting the reliability and efficiency of our fleet.

Q. Mr. Grove, please address the effect of Gulf's aging generation fleet on its Production O&M budget in 2012.

A. This is best explained by comparing the ages of Gulf's generating units at the time of its last rate case with the age of Gulf's generating units in 2012, and comparing the amount of Production O&M expense allowed in

the last rate case with not only the levels of actual expenses in 2006-2010, but also the budgeted levels of Production O&M expense in 2011-2015.

All of Gulf's generating units that were in-service at the end of 2002 are now 9.5 years older. Exhibit RWG-1, Schedule 8 shows the age of the fleet in 2002 compared to 2012.

When one examines the trend of Production O&M expenses over both the 2006-2010 periods and the projected 2011-2015 period, the trend is generally upward. This is shown on Exhibit RWG-1, Schedule 7. As the age of the generating fleet increases, so does the cost necessary to maintain and repair the fleet. There are only two years during this period in which that relationship has not held true: 2009 and 2013. In each of those years, factors other than age cause a slight deviation from this discernable trend of cost increases. In 2009, the Production O&M expense declined from the 2008 level because Gulf made a conscious decision to avoid requesting a rate increase during a severe economic recession. In 2013, the projected O&M level of expenses is only modestly below projected 2012 levels, due primarily to a decrease in planned outage expense from $23,149,000 in 2012 to $18,886,000 in 2013. This reduction in planned outage expense in 2013 is driven by a smaller scope of outages. When these differences are explained, the general relationship between aging units and levels of operation and maintenance expenses is clear – as units age, more must be spent on maintenance to maintain or improve reliability.

Q. Since Gulf's last rate case has the projected useful life of your generating fleet changed?

A. Yes. Based on Gulf's effective ongoing maintenance practices, we have been able to extend the projected retirement dates on many of Gulf's units by up to 20 years. Exhibit RWG-1, Schedule 9 shows the estimated retirement dates included in the 2002 TYSP and the 2012 TYSP.

Q. What are the expected benefits of extending the projected lives of these units?

A. There are two major benefits. First, extending the lives of the units reduces the effective depreciation rate of the assets. This, in turn, reduces the need for rate relief. In addition, extending the lives of units allows Gulf to postpone the procurement or construction of additional resources. That also reduces or defers Gulf's need for rate relief.

Q. Mr. Grove, the second reason you gave for projected O&M expenses for 2011-2015 being higher than historical expenses in the 2006-2010 period was an increase of certain costs at a rate greater than the rate of inflation. Please explain your observation.

A All other things being equal, if the same work was performed in 2002 and in 2012, one would expect the cost of the work to have risen close to the rate of inflation. However, that has not been the case; costs for the same scope of work have risen much faster than inflation. For example, in 2005, Plant Crist replaced the Lower Economizer on Unit 6 at a cost of $1,127,667 for material. The same work was performed again in 2010,

and the cost of the material was $2,050,120. That is an increase of 81 percent, or a 16.4 percent increase each year. In comparison, the CPI rose cumulatively by only 11.64 percent between 2005 and 2010.

In its O&M benchmark calculations, the Commission uses CPI, which is a general measure of inflation for consumers. However, the rate of inflation for the work performed on generating units is better captured in other measures of inflation. The Producer Price Index (PPI) is a better overall measure for inflation than CPI when it comes to addressing Production O&M expense inflation. From the test year in Gulf's last rate case through the 2012 test year requested in this case, CPI has risen 25.34%, while:

PPI - Turbine & Generator set manufactures has risen 37.4%;

PPI - Commodities - Metals and Metal Products has risen 64.3%;

PPI - Commodities - Iron and Steel has risen 95.2%; and

PPI - Industrial - Valve Manufacturing has risen 48.8%.

These escalation rates, which are more closely tied to Production O&M expenses than CPI, explain some of the increase in Production O&M expense between test periods.

Q. The third reason you gave for the increase of Production O&M expenses between 2006-2010 historical periods and the 2011-2015 projected period was the aging of a generator (Smith 3) that was relatively new in the historical period. Please address how that affects the relative levels of Production O&M expenses in those time periods.

A. In our prior rate case, Plant Smith Unit 3 was in its first full year of operation. As discussed later in the benchmark variance justification for Production Other, the budget for Plant Smith has risen significantly since the last rate case. Similarly, the average projected cost associated with Smith 3 in the period 2011-2015 of $7.3 million is $1.7 million higher than the average cost in the historical period 2006 through 2010 of $5.6 million. Once again, this increase is being driven by an increase in maintenance expense that is directly related to repairing equipment that was relatively new in the historical period.

Q. The fourth reason you gave for the increase of Production O&M expenses between the 2006-2010 historical period and the 2011-2015 projected period was the addition of new generating units (Perdido). Please address how this affects the relative levels of Production O&M expenses in those time periods.

A. Gulf added new generation at Perdido in October 2010. There were no O&M expenses associated with this facility in the years 2005 through 2009. In addition, there was less than a full year of expenses in 2010; however, the years 2011 through 2015 fully reflect the annual O&M expense associated with the Perdido facility.

Q. The final reason you gave as to why the 2012 level of Production O&M expenses is more representative of ongoing levels of Production O&M levels than the levels of Production O&M levels during the period 2006-2010 relates to Gulf's efforts to control expenses to avoid asking for a

base rate increase at a time when Gulf's customers were struggling through the worst economic downturn since the Great Depression. Please address that point in more detail.

A. This is best explained by looking at the allowed Production O&M expenses in the 2002/2003 test year, the actual Production O&M expenses in 2006 through 2010 and the budget levels of Production O&M expenses for 2011 through 2015. There was a clear trend of an increase in Production O&M expenses from the 2002/2003 test year level of $76,996,000 in Gulf's last rate case through the actual level in 2008 of $88,424,000. (Actual Production O&M expense for 2006 through 2010 is shown on Exhibit RWG-1, Schedule 7). Then, in 2009, Gulf decreased its Production O&M expenses to $84,209,000. This $4,215,000 reduction in Production O&M expenses was part of the effort that Gulf undertook to defer its need to ask for base rate relief.

This reduction in Production O&M expenses in 2009 was not done without careful deliberation. We prioritized our maintenance decisions to address critical issues. We took the approach of trying to perform as much maintenance as we could on our larger units that are dispatched more often, and we did not perform selective maintenance on smaller units which, if they experienced forced outages, would not as severely impact overall reliability.

A similar effort was undertaken in 2010, but in that year we could no longer drive down Production O&M costs. They had to increase.

Although our internal budget process had developed and submitted a Production budget of $94,665,000, we were able to hold actual expenses to $92,889,000. Once again, we prioritized maintenance, but we did it to avoid having to ask for a base rate increase during a time of weak economic recovery and high unemployment. We made calculated risk assessments of what maintenance had to be performed. Our EFOR performance indicator shows Gulf was able to make these reductions while we continued to maintain excellent performance.

Q. Does the level of Gulf's actual expenses in 2009 and 2010 indicate that it is not necessary for Gulf to spend Production O&M at the levels suggested by its 2011 budget process?

A. Absolutely not. A well maintained system such as Gulf's can forego some scheduled maintenance for a limited period of time without a severe risk of adverse consequences. However, it cannot forego scheduled maintenance over an extended period of time without predictable adverse consequences in unit performance, system reliability and ultimately customer satisfaction. Gulf has no prudent choice other than to increase Production O&M expenses to avoid these adverse consequences. Continued operation at these levels of Production O&M is simply too risky for our customers. It is time to increase Gulf's Production O&M expenses and recognize those levels on a going forward basis.

Q. Mr. Grove, the Commission has historically employed an O&M benchmark calculation in base rate proceedings. How does Gulf's 2012 Production O&M expense forecast compare to the O&M expense benchmark?

A. The O&M benchmark for Production is $96,507,000, as provided to me by Mr. McMillan. Gulf's projected 2012 Production O&M expenses for 2012 are $110,888,000, which results in a benchmark variance of $14,381,000. This is shown on Exhibit RWG-1, Schedule 10.

Q. Does Gulf's O&M benchmark variance for 2012 undermine your conclusion that Gulf's 2012 Production O&M expenses are reasonable and prudent?

A. No. The O&M benchmark has never been, nor is it meant to be, a budgeting tool. It is a regulatory mechanism used to provide a reference point to reflect CPI growth between rate cases. As discussed by Mr. McMillan, benchmark variations may be explained by a variety of different factors. For example, an O&M increase due to the cost of compliance with a new regulatory requirement would be totally unrelated to inflation. Gulf's projected 2012 Production O&M budget is the result of a sophisticated and robust budgeting process, and it is that process that assures that those projected expenses are reasonable and prudent. Indeed, that process has been used to justify Gulf's entire Production O&M budget, not just the O&M benchmark variance.

Q. Please break down the $14,381,000 Production benchmark variance into Production Steam, Production Other, and Production Other Power Supply.

A. As shown on Exhibit RWG-1, Schedule 10, Production Steam is $9,965,000 over the benchmark, Production Other is $2,940,000 over the benchmark and Production Other Power Supply is $1,476,000 over the benchmark.

Q. Please justify Gulf's $9,965,000 Production Steam O&M benchmark variance.

A. Gulf's Production Steam O&M benchmark variance justification consists of two general categories. First, there are certain Production Steam O&M expenses in the 2012 test period that were not included in the test year of Gulf's last rate case; therefore, these costs are not captured by the O&M benchmark calculation. These expenses total $3,559,000. Second, certain Production Steam expenses have grown faster than inflation since Gulf's last rate case. This growth is explained both by increased scope of work and underlying costs that have risen faster than inflation as measured by CPI. This second group of Steam Production O&M expenses totals $7,565,000.

Q. Please justify the $3,559,000 of Production Steam O&M expenses that are new or incremental and therefore not captured in the O&M benchmark calculation.

A. None of the following Production Steam O&M expenses projected for 2012 were included in the Steam Production O&M expenses allowed in Gulf's last rate case. Therefore, they are not captured in the O&M benchmark calculation. They are all new or incremental activities, and all

of them are necessary for Gulf to provide continued reliable service to our customers.

• Genguard cyber security	$ 550,000
• Research and Development (R&D)	370,000
• Renewable energy manager	150,000
• O&M improperly attributed to Scherer Unit 3	2,489,000
Total	$3,559,000

Q. Please justify the $550,000 of O&M expenses associated with Gulf's Genguard cyber security programs that were not projected to be incurred in Gulf's last rate case.

A. The Genguard Cyber Security program is Gulf's response to the need to ensure protection and reliability of the grid and to ensure compliance with the NERC Cyber Security policies of 2009. Gulf is required by law to comply with these policies, subject to penalties. Failure to comply with these policies would also expose Gulf's system to reliability risks. The project improves cyber security and control for selected units whose loss potentially could impact the reliability of the grid. This is an entirely new activity that is necessary to meet requirements that have been imposed since Gulf's last rate case.

Q. Please justify the $370,000 of O&M expenses associated with R&D projects that were not projected to be incurred in Gulf's last rate case.

A. The test year of Gulf's last rate case included $867,000 of R&D expenses. Escalating that amount by CPI (25.34 percent) results in an O&M

benchmark for Steam Production O&M R&D expenses of $1,087,000. Gulf projects it will spend $1,457,000 on Steam Production O&M R&D expenses in 2012, resulting in a $370,000 benchmark variance.

This 2012 Steam Production O&M R&D expense benchmark variance is primarily due to Gulf's participation in three ongoing projects: (1) Flue Gas Treatment, (2) the Power System Development Facility at Wilsonville, and (3) the 25 MW Carbon Capture center at Plant Barry in Alabama. As I discuss below, these projects are important to Gulf's customers. Gulf, indeed the entire Southern system, relies heavily on coal generation, and efforts to control emissions in the face of new environmental emission regulations will be critical to keeping these units operating to serve customers.

The Flue Gas Treatment project screens, develops, and tests new technologies for more cost effective compliance with new and future power plant emission regulations. Power plant flue gas is treated with emissions control equipment, including the scrubber and Selective Catalytic Reduction system currently installed at Plant Crist. With proper development and testing, these technologies can be used to increase the collection of other emissions that are the subject of new regulations. These emissions include particulates, mercury and hydrochloric acid aerosols. However, other new technologies such as baghouses, activated carbon and wet electrostatic precipitation may still be required. Gulf's customers benefit as a result of the knowledge gained through the

program, which helps provide a foundation on which our decisions are made relative to the types of technologies that best suit our generating fleet. In our prior rate case, Gulf included $75,897 in our requested O&M expenses for this project. When escalated by CPI, the benchmark for this project is $95,000. Our request of $221,000 in the 2012 test year for Gulf's share of the project creates a benchmark variance of $126,000.

Southern Company manages and operates the U.S. Department of Energy's National Carbon Capture Center (NCCC), a focal point of the national effort to develop advanced technologies to reduce greenhouse gas emissions from coal-fired power plants. Working with scientists and technology developers, the NCCC, located at the Power Systems Development Facility in Alabama, screens, develops, and tests emerging technologies to capture carbon dioxide from coal-based power plants. The center accelerates carbon dioxide technology by offering infrastructure that bridges the gap between lab-scale research and large demonstration projects, providing a testing ground for the next generation of more cost effective, higher-performing carbon capture technologies. In 2012, Gulf's portion of this R&D demonstration project is $178,000.

A portfolio of solutions is needed to provide timely and least cost reductions in carbon dioxide emissions from power generation sources. Accordingly, Southern Company, Mitsubishi Heavy Industries and the Electric Power Research Institute began construction of a 25 MW carbon dioxide capture and storage demonstration at Alabama Power's Plant

Barry. The demonstration involves the construction and operation of a 500 ton per day carbon capture plant. The captured carbon dioxide will be transported through an 11 mile pipeline and injected into a deep geologic formation near the Citronelle Oil Field. Extensive geologic formations like that found in the Citronelle area are common in the Southeast U.S. providing a large carbon dioxide storage capacity. In 2012, Gulf projects O&M R&D expenses of $219,000 for its portion of this demonstration project. If EPA's carbon control rule is adopted or carbon control legislation is adopted, carbon capture and sequestration will become critically important and may be necessary for Gulf to preserve any coal fired generation.

Q. Please justify the $150,000 of 2012 Production Steam O&M expenses associated with Gulf's Renewable Energy Manager that were not included in Gulf's last rate case.

A. As I discussed earlier, Gulf is committed to obtaining cost-effective energy supplies for our customers and to obtaining the benefits of fuel diversity wherever practical. Gulf is also committed to encouraging and promoting renewable energy pursuant to several sections of Chapter 366, including Sections 366.82, 366.91, and 366.92, Florida Statutes. In order to effectively manage the continuous inquiries related to renewable energy projects and to develop cost effective supply side renewable projects, Gulf has created a Renewable Energy Manager position to deal with all issues associated with supply-side renewable energy. This position will play a critical role in developing Gulf's overall renewable energy program in a

manner that maximizes the benefits of emerging technologies while at the same time ensuring the impacts to our customers are minimized.

Q. You also mentioned that another $2,489,000 of 2012 Production Steam O&M expenses are projected for Gulf's retail operations that were not included in Gulf's Production Steam O&M expenses in the last rate case. Please explain.

A. In the 2012 test year, all expenses associated with Plant Scherer have been removed from the retail base rate calculation due to the fact that Gulf uses the output from Plant Scherer to serve wholesale contracts. In our prior rate case, Gulf also removed all expenses associated with Plant Scherer from our base rate calculation. However, in making that adjustment Gulf made an error and removed $1,986,000 of Steam Production expenses greater than the Steam Production expenses included in the financial projection for Plant Scherer. As a result of this error, Gulf's request for Steam Production O&M expense in the prior rate case was $1,986,000 below what was actually needed for maintenance of Gulf's territorial units. Since Gulf's retail rates were set including this error, Gulf's retail customers have received the benefit of this error for the past ten years. For 2012, only those O&M expenses specifically associated with Plant Scherer have been removed from Gulf's request for Production Steam O&M expense.

The error discussed above accounts for $2,489,000 of the benchmark variance in 2012. Without this error in Production O&M expenses in Gulf's last test year, Gulf's 2012 Steam Production O&M benchmark would have been $91,098,000 million rather than $88, 609,000. Consequently, Gulf's benchmark variance would have been $7,476,000 instead of $9,965,000. Gulf's error, which has worked to the benefit of Gulf's customers for almost a decade, should not be perpetuated into the future.

Q. Earlier you mentioned another type of Production Steam O&M expenses that was part of Gulf's O&M benchmark justification – expenses that have grown faster than inflation as measured by CPI. Why have these expenses exceeded the O&M benchmark?

A. There are two reasons that these expenses (listed below) have exceeded inflation as measured by CPI. First, Gulf has expanded the scope of this work in 2012 relative to the scope of the work performed in the last test year of 2002/03 in Gulf's last rate case. This expansion of scope is necessary and is representative of the expenses Gulf will incur on a going forward basis. Second, the costs associated with these types of expenses have escalated at a rate faster than the rate of inflation reflected in CPI, the measure of inflation used in the O&M benchmark calculation. These increases are beyond Gulf's control.

The Production Steam O&M expenses that share these justifications are:

• Planned outage expenses	$4,422,000
• Enterprise Solutions	587,000
• Fuels Management expenses	1,135,000
• Ash disposal and sales	1,421,000
Total	$7,565,000

Q. Please discuss Gulf's approach to planned outages.

A. Gulf has 12 generating units, and in 2012 there are 8 planned outages. A total of 40 planned outage weeks are scheduled across the fleet. The planned outage schedule varies from year to year based on the maintenance requirements of each generating unit and the need for adequate generating capacity in service to meet demand throughout the year. The planned maintenance forecast for 2012 is typical of the expected future planned outage requirements.

In general, Gulf plans outages on each unit every 18 to 24 months, unless conditions indicate a planned outage is needed sooner. Outage planning begins as soon as the previous outage is completed. Plant management, system owners, and unit owners continually evaluate unit performance and determine what items need to be addressed at the next outage. Prior to the unit outage the team meets to determine what specific items need to be addressed while the unit is off-line. The major equipment evaluated for each outage includes boilers, pulverizers, condenser systems, turbine valves and other auxiliary equipment.

Q. Please address why Gulf's request for $22,016,000 for planned outages in Production Steam in the test year is representative of planned outage expenses in the future.

A. Exhibit RWG-1, Schedule 11 provides a detailed analysis of planned outage expense in Production Steam for the five-year period beginning with 2011. The planned outage expenses for the 2012 test year are $22,016,000. The prior year (2011) is budgeted for $21,923,000.

Q. How does Gulf's 2012 Production Steam O&M planned outage expenses compare with Gulf's planned outage expenses allowed in its last rate case?

A. Exhibit RWG-1, Schedule 11, page 2 of 2 shows the total outage expense requested for Production Steam in the last rate case was $14,037,000, which escalates to a benchmark amount of $17,594,000. The Gulf Production Steam request for the test year is $22,016,000, for a variance of $4,422,000.

Q. Why do Gulf's 2012 planned outage O&M expenses for Production Steam exceed the O&M benchmark level of $17,594,000 based upon Gulf's allowed level of planned outage expenses from its last rate case?

A. As I noted earlier in my testimony, there are two primary reasons. First, Gulf's scheduled planned outages in the 2012 test year are much broader in scope than the planned outages in Gulf's 2002/2003 test year. Even though Gulf will be performing fewer planned outages in 2012 than in the last test year, the dollars associated with the planned outages is much

greater due to the increased scope of work needed to maintain reliability on an aging fleet.

Second, the cost of planned outages and the equipment and materials used in these outages have risen much faster than inflation as measured by CPI. These cost increases are beyond Gulf's control and are not captured in the O&M benchmark calculation. For instance, turbine and generator set manufacturing costs, a critical part of the planned outages in 2012 at Plant Crist on Units 6 and 7, have risen 37.4 percent since the last test year, although CPI has risen only 25.34 percent. Similarly, industrial-valve manufacturing costs have risen 48.8 percent since Gulf's last rate case whereas CPI has risen only 25.34 percent. Industrial valves are critical equipment in almost every outage. In each of Gulf's planned outages in 2012, iron and steel will comprise component parts. The price of iron and steel commodities has risen 95.2 percent since Gulf's last rate case, whereas the rate of inflation in the CPI benchmark calculation has risen only 25.34 percent. Similarly, the cost of metals and metal products, also used in Gulf's planned outages in 2012, have risen 64.3 percent since Gulf's last rate case, instead of the CPI increase of only 25.34 percent.

Q. Please address why the scope of planned outages assumed in the 2012 test year is appropriate.

A. As I have discussed throughout my testimony, Gulf has worked hard to maintain our fleet of generators in a manner that ensures high reliability.

Our success is demonstrated in the testimony of Mr. Burroughs. We achieved this success while controlling cost to prevent Gulf from having to ask for a base rate increase at a time when our customers were recovering from a major hurricane and a major recession. However, we have reached a point where additional dollars are needed to maintain the reliability of our fleet. As one can see from the outages discussed below, the work we are planning simply includes the normal type of maintenance that is required to maintain our fleet of generation. Moreover, the work described below is indicative of the work we plan to continue on our entire fleet in the future. The following is a list of the outages planned for the test-year:

- Plant Crist Unit 6 has a 72-day planned outage to address turbine, turbine valves, generator, Selective Catalytic Reduction (SCR) tie-in, boiler inspection/repairs, fan/air preheater, pulverizers, and ash handling systems.
- Plant Crist Unit 7 has a 79-day planned outage to address turbine, turbine valves, generator, boiler inspection/repairs, fan/air preheater, condensate pumps, pulverizers, and ash handling systems.
- Plant Scholz Unit 1 has a 22-day planned outage to address off-line work orders and general boiler inspection.
- Plant Smith Unit 2 has a 23-day planned outage to address turbine valves, fans/ductwork, ash handling, boiler inspection/repairs, and boiler feed pumps.

- Plant Daniel Unit 1 has a 58-day planned outage to address turbine valves, fans/air preheater, pulverizers, ash handling, boiler inspection/repairs, and boiler feed pumps.
- Plant Daniel Unit 2 has a 9-day planned outage to address common equipment and install ductwork isolation blanks.
- Plant Daniel Unit 2 has an additional 7-day planned outage to address common equipment and remove ductwork isolation blanks.

Q. How do the planned outages scheduled in the 2012 test year compare to the prior test year planned outages?

A. The scope of the work on an outage has a direct impact on the cost of the outage. In the prior test year Gulf had outages scheduled on Crist Units 6 and 7, Smith Unit 2, and Daniel Unit 1. Gulf has scheduled outages on these same units in the current test year; however, the scope of the work in 2012 is much larger.

In the prior test year, the outage on Plant Crist Unit 6 included work on the boiler, pulverizers, precipitator and cooling towers. In 2012 Gulf will perform work on the boiler, pulverizers, and precipitator. However, Gulf will also perform significant work on the turbine ($2,400,000) and the generator ($2,200,000). The total benchmark variance for Plant Crist Unit 6 is $5,098,000.

In the prior test year, the outage on Plant Crist Unit 7 included work on the boiler, pulverizers, precipitator, turbine valves, and cooling towers. In

2012 Gulf will again perform work on the boiler, pulverizers, and precipitator. However, Gulf will also perform significant work on the turbine ($750,000) and the generator ($2,300,000). The total benchmark variance for Plant Crist Unit 7 is $3,899,000.

In the prior test year, the outage on Plant Smith Unit 2 included work on the boiler, ash handling, and pulverizers. In 2012 Gulf will again perform work on the boiler and pulverizers. However, Gulf will also perform significant work on the turbine valves ($750,000). The total benchmark variance for Plant Smith Unit 2 is $986,000.

In the prior test year, the outage on Plant Daniel Unit 1 included work on the boiler, pulverizers, generator and turbine. In 2012, Gulf will again perform work on the boiler and pulverizers. However, Gulf will also perform significant work on the nose arch of the boiler ($3,200,000). The total benchmark variance for Plant Daniel Unit 1 is $1,626,000.

Q. Mr. Grove, you justified Steam Production O&M outage expense benchmark variances totaling $11,609,000 for outages associated with four units due to increased scope of work and increased cost of materials since the last rate case. Why do you use only $4,422,000 of that benchmark variance in your benchmark variance justification?

A. All of the $11,609,000 of increased outage related Steam Production O&M expenses for these four units is justified by the increased scope of work and increased costs in 2012 relative to the last test year. However, there

were some Steam Production outages in the last test year that are not scheduled again for 2012. So, to be conservative in my approach, I have netted the benchmark escalated costs of the projects that do not reoccur in 2012 against the $11,609,000 variance justification.

Q. Please justify the $587,000 of Production Steam O&M related to Enterprise Solutions forecast in 2012 that were not projected to be incurred in Gulf's last test year and so are not in the O&M benchmark calculation.

A. As described by Gulf Witness Erickson, the Enterprise Solutions project consisted of the installation of Oracle and Maximo to replace the aging accounting, supply chain, and generation systems. Oracle and Maximo are used to input, process, and summarize accounting information. In addition, the system allows users to procure and pay for materials and services as well as manage work orders. Many of the previous systems were old, highly customized, and were becoming increasingly expensive to maintain. The expenses of $587,000 are the portion of Enterprise Solution expenses being charged directly to Production Steam that are above the level of expense charged for the old systems.

Q. Please address the $1,135,000 of Production Steam O&M fuels management expenses forecasted in the 2012 test year that are above the benchmark.

A. Gulf's fuels management expenses have exceeded the benchmark as a result of a variety of changes in these activities:

- Railcar lease and management
- Fuel Services management and oversight
- Crist Scrubber limestone and gypsum management, and
- Plant Daniel fuel unloading expenses.

Since Gulf's last rate case Plant Daniel has begun using Powder River Basin (PRB) Coal. This has increased the management oversight associated with this new coal supply and transportation requirement. Gulf has also changed the delivery mode for a majority of its coal supply from an exclusive barge transportation mode to rail and barge transportation. This shift in transportation mode has required Gulf to lease a fleet of open hopper railcars for the movement of coal from the coal's origin to the Alabama State Docks in Mobile, Alabama. This fleet of railcars requires both logistic support and maintenance by our Fuel Services organization. Additional personnel were needed to perform these railcar management functions, and the labor, overhead, and expenses of these new employees are being included in Gulf's O&M expenses. In 2012 these expenses will be $351,000 over the benchmark. The increased cost of managing the PRB coal is more than offset by associated fuel savings.

Since Gulf's last rate case a new fuel accounting system (COMTRAC) was purchased to replace the original fuel accounting system (FAACS). This was necessary because the FAACS system software was no longer being technically supported due to outdated source code. In addition, more stringent accounting controls adopted as a result of Sarbanes-Oxley

requirements made changes to the fuel accounting process necessary. As a result of accounting system upgrades and new accounting control requirements, additional O&M costs associated with management of software system and accounting oversight have been incurred by Fuel Services. Additional personnel were needed to perform these fuel accounting management functions, and the labor, overhead, and expenses of these new employees are being included in Gulf's O&M expenses. In 2012 these expenses will be $355,000 over the benchmark.

Since the last rate case Gulf has added Flue Gas Desulfurization (scrubber) equipment at Plant Crist for the reduction of sulfur emissions. The scrubber uses limestone as a feedstock to react with sulfur in the gas stream which produces a synthetic gypsum product. The procurement and delivery of the limestone feedstock and the associated contract administration is being managed by Fuel Services, but it is not being recovered by Gulf in either the Fuel or ECRC clauses. In addition, the synthetic gypsum product is required to be disposed of in a beneficial use under an agreement between Gulf and the FDEP. This cost is not being recovered through ECRC. Fuel Services also manages the marketing and sales of Gulf's synthetic gypsum to end users in the wallboard, cement, and agricultural industries. Additional personnel were needed to perform these limestone and gypsum management functions, and the labor, overheads, and expenses of these new employees are being included in Gulf's O&M budget. In 2012 these expenses will be $264,000 over the benchmark.

Since our last rate case Mississippi Power Company (MPC) contracted with a third party to unload coal trains at Plant Daniel. This work was previously performed by MPC employees. Plant Daniel has leased additional equipment to handle the increased requirements of managing PRB coal inventory. In 2012 these expenses will be $367,000 over the benchmark. This increased cost is more than offset by fuel savings associated with burning PRB coal.

Other Fuel expenses increased at less than the O&M benchmark. Collectively, these expenses are $202,000 below the benchmark.

Q Please address why the cost of ash disposal and sales has increased beyond the benchmark.

A. In the prior test year, Gulf budgeted $918,000 for ash disposal and sales. Using the CPI adjustment, the benchmark for ash disposal and sales is $1,150,000. Gulf's current request for ash disposal and sales is $2,571,000, resulting in a benchmark variance of $1,421,000.

Q. What has caused the cost of managing ash to increase beyond the CPI benchmark?

A. The ash disposal expense included in the test year, which is above the benchmark by $1,421,000, is necessary to manage ash and meet all environmental requirements at our four coal electric generating facilities. The major change in ash handling expense is not driven by an increase in volume as one might expect. The ash contracts (which are competitively

bid) are renegotiated every three or four years, and the contract price to handle ash has exceeded CPI growth. As an example, in 2002 the contract for managing ash at Plant Crist was $339,000; in 2012 the contract is $800,000, or an increase of 136 percent. This is far beyond the 25.34 percent increase used in the benchmark calculation. Another contributing factor is that in the prior test period Plant Daniel was able to dispose of ash by selling the ash in the market. Such sales are no longer available. The change in the market for ash sales has reduced revenues which previously were credited against ash disposal costs.

Plant Crist has increased the budget for removing solids from the ash pond settling basins by approximately $250,000 in order to meet the more stringent water quality standards required by Gulf's National Pollution Discharge Elimination System industrial wastewater permits. The stringent water quality-based copper effluent limitations included in Chapter 62 Part 302, Florida Administrative Code, became effective in May 2002.

The ash disposal expense included in the 2012 test year is necessary to manage ash and meet all environmental requirements at our four coal electric generating facilities.

Q. Please justify Gulf's $2,940,000 Production Other O&M benchmark variance.

A. Expenses in this area relate mainly to the Plant Smith Unit 3 Combined Cycle and the Perdido Landfill gas to energy project. The following is a list of projects that have caused Gulf to exceed the benchmark calculation:

• Plant Smith Unit 3 planned outage	$830,000
• Plant Smith Unit 3 maintenance	845,000
• Gas Fuel Management	593,000
• Perdido	770,000
Total Other Production	$3,038,000

Q. How old was Smith Unit 3 at the time of Gulf's last rate case?

A. Smith Unit 3 went into commercial service in April 2002, approximately two months earlier than projected. The test year for the last rate case was June 2002 through May 2003, which corresponded with the first twelve months that Smith Unit 3 was projected to be in service. At the end of 2002, Smith Unit 3 had been in service nine months.

Q. How old will Smith Unit 3 be at the midpoint of the 2012 test year?

A. At the midpoint of the 2012 test year, Plant Smith Unit 3 will be ten years old.

Q. How has the relative age of Smith Unit 3 affected the level of Production Other O&M expenses in the projected test year versus the test year in Gulf's last rate case and the O&M benchmark calculation?

A. Because Smith Unit 3 was a new unit in Gulf's last rate case and will be over a decade old in the 2012 projected test year in this case, there are far

more O&M expenses projected for Smith Unit 3 in the 2012 test year. Since the O&M expenses associated with Smith Unit 3 comprise a significant portion of Gulf's Other Production O&M expenses, a major portion of the O&M benchmark variance for Other Production is justified by examining the Smith Unit 3 O&M expenses.

Q. What is the O&M benchmark level of Smith Unit 3 planned outage expenses escalated from the last test year to 2012?

A. Exhibit RWG-1, Schedule 11, page 2 of 2 shows the total outage expense requested for Production Other in the last rate case was $242,000. That escalates to an O&M benchmark amount of $303,000. Gulf's Smith Unit 3 planned outage expense for the test year is $1,133,000, which results in a benchmark variance of $830,000.

Q. Why is the 2012 Smith Unit 3 planned outage expenses of $830,000 over the O&M benchmark?

A. This is due to a combination of factors. First, Smith Unit 3 is no longer new. It has aged, and like other units, with the passage of time, more O&M expenses are required. Second, the scope of the planned outage at Smith Unit 3 in 2012 is appreciably larger than the scope of the Smith Unit 3 planned outage included in the 2002/03 test period. In Gulf's last rate case, most of the $241,000 was budgeted for work on the turbine system and the heat recovery steam generator. In the current test year, the planned outage scope includes work on the gas supply system, generator system, cooling towers, condenser/hotwell system, boiler feed

pumps, air and gas system, combustion turbine system, heat recovery steam generator valves and piping, and the control system.

The scope of the planned outage at Smith Unit 3 in 2012 has been developed based upon the manufacturer's recommended maintenance schedule, the expertise of the capable people at Gulf who operate and maintain Smith Unit 3 and Gulf's Production Management Team. This scope of work is necessary to preserve the reliability and performance of this valuable generating asset.

Q. Please discuss the $845,000 O&M expenses over the benchmark for maintenance related to the Smith Unit 3.

A. There are three major systems at Smith Unit 3 that are causing maintenance to exceed the O&M benchmark. Those three systems are the feedwater system, the combustion turbine system and the heat recovery steam generator system.

The feedwater system includes a vast amount of transport piping, drains and valves. All of this is insulated and much of the piping is elevated above ground level. We have been steadily replacing components as needed to prevent reliability issues. The majority of the work requires scaffold and insulation removal and reinstallation. Components are being changed from carbon steel to stainless steel to increase longevity while helping to control future costs. This work represents $130,000 of the benchmark variance.

The combustion turbine system also contains piping, drains, and valves. Additionally, multiple platforms, enclosures, exposed motor and electrical boxes are being replaced. Where possible, components are being replaced with stainless steel to increase longevity while helping to control future costs. This work represents $370,000 of the benchmark variance.

The heat recovery steam generator requires the same type of ongoing maintenance as the feedwater and combustion turbine systems. Piping, valves, platforms, and handrails are commonly replaced. Various paint coatings are also being applied to assess their impact on longevity and the future cost control. This work represents $670,000 of the benchmark variance.

Other maintenance that will be performed on Smith Unit 3 will increase at less than the O&M benchmark. Collectively, these expenses are $325,000 below the benchmark.

Q. Please discuss the $593,000 of Production Other O&M expenses related to the gas procurement program.

A. Smith Unit 3 was Gulf's first large scale gas asset, and in the prior rate case no dollars were requested to support the gas program. The $593,000 of Production Other O&M expenses for the gas procurement program covers procuring gas, managing the transportation contract, and managing the hedging program for Smith Unit 3. In addition, these dollars

include the gas procurement program for Gulf's three PPAs totaling over 1,350 MW.

Q. Please justify the $770,000 of 2012 Production Other O&M expenses associated with the Perdido landfill gas to energy facility that were not included in Gulf's last test year.

A. As I discussed earlier, in July 2008, Escambia County, Florida issued an RFP for the sale of landfill gas from its Perdido landfill. Landfill gas is defined as a renewable energy resource pursuant to section 366.91(2), Florida Statutes. The Florida Legislature has repeatedly stated that it is in the public interest to promote the development of renewable energy resources in the state. They recognized that renewable energy reduces dependence on natural gas, minimizes volatility of fuel costs, encourages investment in the state and improves environmental conditions. To address these legislative concerns, Gulf began to evaluate the possibility of developing a project to utilize the gas being offered within this RFP.

In order to minimize or negate any impact to our customers, Gulf used the RSOC as the basis for determining the price Gulf would be willing to pay the County for its gas. Using the established avoided cost concepts, Gulf submitted a bid for the procurement of the landfill gas being offered under this RFP.

The O&M dollars used in this evaluation were part of the overall assessment of avoided cost for the Perdido project. As a result, the cost is prudent, necessary and reflective of expenses going forward.

Q. Please justify Gulf's $1,476,000 Production Other Power Supply O&M benchmark variance.

A. Expenses in Production Other Power Supply that exceed the benchmark are related to the following:

• Energy Management Systems	$486,000
• Resource Planning	79,000
• Fleet Operations and Trading	700,000
• Financial and Contract Services	277,000
Production Other Power Supply	$1,542,000

Q. Please justify the $486,000 of 2012 Production Other Power Supply O&M expenses associated with the Energy Management Systems that are over the Benchmark calculation.

A. Energy Management System budget increases over the last 10 years are a reflection of expanding industry regulations as well as increasing complexities in managing the bulk electric system. Bulk Power Operations (BPO) is responsible for ensuring a reliable and economic operation of the bulk electric system and as such provides direct benefit to Gulf. The Sarbanes-Oxley Act of 2002 and the Energy Policy Act of 2005 (along with the resulting establishment of the Electric Reliability Organization and mandatory reliability standards) have resulted in additional processes,

procedures, application features, new tools, and resources to maintain and demonstrate compliance with the industry regulations. In addition to the regulatory requirements, new business requirements related to power purchase agreements at Plant Dahlberg, Coral Baconton, and Central Alabama that directly benefit Gulf Power have been implemented.

The additional complexity related to the bulk electric system stems from a need to continuously improve our ability to collect and manage supervisory control and data acquisition assets in compliance with regulatory requirements and support business requirements. Over the past 10 years, BPO and Energy Management Systems (EMS) have continued to enhance current systems and implemented new systems, such as operator training simulators, N-1 contingency analysis, situational awareness, and transient stability analysis. Implementation of these technologies has a direct benefit to Gulf Power associated with operating the transmission system at an increased level of reliability due to the advancements of these technologies. The operator training simulators are a benefit because they afford our Power Systems Coordinators (PSCs) the opportunity to participate in training that provides Continuing Education Hours, thus helping the PSCs maintain their NERC Certification. Without such technology and training improvements, Gulf's ability to manage its increasingly complex bulk electric system would decline, system reliability would deteriorate and customer satisfaction would drop. As a direct result of these additional technologies and business requirements, BPO and EMS have increased their need for

resources and have increased their reliance on application/tools to increase efficiency and reduce risk of errors.

Q. Please justify the $79,000 of 2012 Production Other Power Supply O&M expenses associated with the Resource Planning that are over the Benchmark calculation.

A. The Resource Planning Organization is responsible for developing generation mix studies, Integrated Resource Planning, environmental compliance evaluations and supporting RFP development for supplying generation resources to meet our retail customers' growing demands. In addition, they support the eventual development of contracts (PPAs) and contract negotiations that develop as a result of an RFP. The complexities associated with planning at a time with so much uncertainty related to potential environmental legislation have also resulted in additional expenses. Additional allocation of personnel are needed to support the overall planning process, and the labor, overhead, and expenses of these ~~new~~ employees are being included in Gulf's O&M expenses.

The prior test year budget for planning was $124,000, resulting in a benchmark of $155,000. In the 2012 test year Gulf has budgeted $234,000 for Resource Planning. This results in a variance of $79,000. The O&M dollars budgeted for generation planning are prudent and necessary to insure the Company has adequate generation to meet our customers' needs.

Q. Please justify the $700,000 of 2012 Production Other Power Supply O&M expenses associated with the Fleet Operations and Trading that are over the Benchmark calculation.

A. Fleet Operations and Trading (FOT) is responsible for ensuring a reliable and economic generation supply for the Pool. Budget increases in FOT over the last 10 years reflect the ever-increasing complexity in managing the generation Pool and growing compliance requirements.

The additional complexity related to the Pool stems from an increased reliance on third-party generation and contract implementation for those resources, as well as managing new challenges in operations. FOT has implemented numerous new contracts including Gulf's PPAs for facilities located at Plant Dahlberg, Coral Baconton, and Central Alabama.

With respect to regulatory and compliance requirements, FOT responsibilities have increased in areas such as NERC requirements, energy auction, market based rates and generation dominance analysis. As a direct result of these additional complexities, FOT has increased its reliance on application/tools to increase efficiency and reduce the risk of errors.

Q. Please justify the $277,000 of 2012 Production Other Power Supply O&M expenses associated with the Financial and Contract Services that are over the Benchmark calculation.

A. Financial and Contract Services manages the billings for capacity and energy purchases (PPAs), which ultimately provide energy to our retail customers. This includes Gulf's PPAs for power from the facilities located at Plant Dahlberg, Coral Baconton and Central Alabama. The costs associated with these contracts are incremental to our prior rate case, and each of these contracts provides value to our retail customers. The other services provided by the Financial and Contract Services group include (a) wholesale fuel and emission reconciliations which document the wholesale portions of these costs to ensure retail customers do not subsidize the wholesale customers, (b) administration of the Intercompany Interchange Contract, (c) and Pool Billing. The increase in expenses associated with the Financial and Contract Services group are a direct result of additional workload associated with an increase in the number and complexities of contracts used to support Gulf's retail customers. The benchmark variance of $277,000 is prudent and necessary to effectively support Gulf's PPAs.

V. 2012 PRODUCTION WORKFORCE

Q. Mr. Grove, at the end of 2010, Gulf had 342 full time equivalent (FTE) employees in the Production function. In the test year Gulf has budgeted labor costs equivalent to 394 FTE employees in Production. Why does Gulf need to add 52 FTEs in Production by 2012?

A. At the end of 2010, three years of holding the line on Production O&M expenses to help avoid asking for a base rate increase had taken a toll on Gulf's Production labor force. It was clear that it was necessary to hire additional employees in the Production function to be able to perform not only baseline maintenance, but also a broader scope of unit outages. This increased personnel requirement was reflected in the 2011 O&M budget cycle.

Q. What is the status of Gulf filling the 52 FTE positions budgeted for 2012 that were vacant at the end of 2010?

A. We are in the process of filling the positions with the exception of the positions at Plant Scholz. We plan to have the majority of the positions filled by the end of 2011. I will discuss the status of the positions as they relate to the Power Generation Office, Plant Crist, Plant Smith and Plant Scholz.

Q. Please address the projected additional workforce at the Power Generation Office.

A. As of December 2010, there was one vacant position, the Renewable Energy Manager, at the Power Generation Office. The previous incumbent took a position at Alabama Power at the end of 2010, and Gulf hired a replacement in March 2011. I have previously justified this incremental position in the O&M benchmark justification section.

Q. Please address the projected additional workforce at Plant Crist.

A. At Plant Crist, there were 15 vacancies at the end of 2010 that we are in the process of filling. These 15 vacancies, as well as five new positions at Plant Crist, are set forth by position and budget type on Exhibit RWG-1, Schedule 12. Seven of the positions at Plant Crist will either be charged to capital projects or the Environmental Cost Recovery Clause. Also note that five of the positions are for Utilitypersons. These are entry level positions that form the pool for future mechanics, electricians, or operators. It is our intent to fill all 20 of these positions. A complete work force capable of performing all necessary operation and maintenance at this site is in the best interest of Gulf's customers.

Q. Please address the projected additional workforce at Plant Smith.

A. At Plant Smith, there were 23 vacancies at the end of 2010 that are included in Gulf's 2012 O&M budget. These 23 vacancies are set forth by position and budget type on Exhibit RWG-1, Schedule 12. Gulf has filled or is in the process of filling all except 2 of these 23 vacancies. There are two positions that are open. An Instrument and Control (I&C) Specialist position is currently on hold pending resolution of uncertainty regarding environmental regulation. This open position is included in Gulf's 2012 O&M budget. The second open position is for an Operations Team Leader, and that position is being used as a developmental position. That position will be filled by the end of 2011. Eight of the 23 positions are for entry level Utilitypersons. These are entry level positions that form the pool for future mechanics, electricians, or operators. With the exception of

the I&C Specialist, all other positions at Plant Smith that were vacant at year end 2010 are scheduled to be filled.

Q. Please address the vacancies at Plant Scholz at year end 2010 and whether those positions are likely to be filled by 2012.

A. At year end 2010 there were 26 filled positions at Plant Scholz, and in 2012 Gulf has budgeted a full complement or 34 positions at Plant Scholz. The eight vacancies at Plant Scholz are set forth by position and budget type on Exhibit RWG-1, Schedule 12.

Due to current uncertainty associated with environmental regulations, Gulf has not begun to fill these eight vacant positions at Plant Scholz. Contract labor and temporary reassignments from Plant Smith have been used to supplement the workforce at Plant Scholz. Although Gulf has chosen not to fill those positions until there is more clarity about prospective environmental regulations, the labor expenses included in the 2012 test year are appropriate for the ongoing operation of this plant.

VI. SUMMARY

Q. Please summarize your testimony.

A. Gulf maintains and operates a diverse set of generation resources designed to serve our customers economically and reliably. Since our last rate case, Gulf has made sound generation planning decisions that were

clearly in the best interest of our customers. In the case of the Central Alabama PPA, the Company was able to defer potentially large construction expenditures with a solid contract that is expected to provide over $500 million (NPV) in savings to our customers.

Gulf's Production operation continues to provide low cost, reliable electric service to our customers to meet their increasing demand for electricity. The reliability of Gulf's generating units and low EFOR are clear indications that Gulf has executed an effective maintenance program that continues to provide our customers with reliable service. Gulf is committed to maintaining our generating facilities through the effective use of resources that focuses not only on reliability but also efficiency.

Gulf's entire Production, Other Production, and Other Power Supply investment should be included in Gulf's rate base. This property is used and useful in providing service to Gulf's customers. Moreover, the investment has been reasonably and prudently incurred and managed.

Gulf's Production capital additions and O&M expenses are carefully controlled and utilized in a manner to ensure high availability and low EFOR. The $110,888,000 budgeted for Power Production O&M and $43,738,000 budgeted for Capital Additions in the test year are reasonable, prudent, and necessary expenditures and should be included in establishing Gulf's base rates.

Q. Does this conclude your testimony?

A. Yes, it does.

BY MR. GUYTON:

Q Have you prepared a summary of your testimony?

A Yes, sir, I have.

Q Would you present that summary to the Commission, please.

A Yes, I will.

Good morning, Commissioners. My name is Raymond Grove, and I am the Manager of Power Generation Services for Gulf Power Company.

I want to thank you for this opportunity to summarize my testimony, because I recognize that providing you with clarifications to any questions you may have concerning the production organization is critical in filling the record in order to help you make a fully informed decision in this proceeding, as the production organization represents a significant portion of the increase Gulf is asking for.

At stake is Gulf's ability to continue to provide reliable and efficient generating resources to our customer.

My testimony touches on four subjects: Gulf's generation resources, the production capital additions, the production O&M budget, and the production workforce.

Since our last rate case, Gulf has executed four purchased power agreements, and each has been

approved by this Commission. Each of these purchased power agreements was designed to ensure our system reliability and to provide value to our customers, who ultimately pay for those contracts.

In addition, Gulf constructed the Perdido landfill gas to energy facility, and in developing that project Gulf used the Commission's approved 2008 renewable standard offer contract as the basis for all decisions.

As discussed by Witness McMillan, Gulf has $2.6 billion of plant-in-service in the 2012 rate base, and the production assets represent approximately $1 billion, or over 40% of Gulf's total plant-in-service.

The production capital additions test year budget in each year since the last rate case was developed using a rigorous multilevel review and approval process. Every project must pass this rigorous review before it is ultimately included in Gulf's approved capital additions budget.

Gulf is keenly aware of the pressures in terms of revenue requirements that each capital addition triggers and the potential effect it has on our customers.

The production organization is the single

largest O&M budget at Gulf Power Company. The O&M request for production in this case is $110 million, and we have justified this request using three approaches.

First, all the dollars included in the budget have passed this multilevel review and approval process. Next, we have provided an outline of the drivers behind the change from the historical period to the forecast period. And lastly, using the Commission's approved benchmark methodology, we have justified all expenses and explained all in excess of the benchmark.

Once again, we recognize the pressures that the increased O&M requirements put on our customers, and we have taken steps to hold those costs down. But we have reached a point where we can no longer sustain historical spending without affecting reliability and efficiency of our generating fleet.

Lastly, the production organization is requesting 394 full-time equivalents spread across northwest Florida in our three generating plants and the corporate office. And although there is a variance between the 2010 year-end actual FTEs and the 2012 budgeted FTEs, the main driver has been that we've held filling those jobs in order to avoid, in order to avoid spending those dollars at a time when our customers were struggling.

In conclusion, the dollars included in the production budget are critical in Gulf's ability to continue to provide reliable and efficient generating resources to our customers. It is our desire to provide our customers with what they deserve, a reliable and efficient generating fleet that minimizes cost.

Thank you very much.

MR. GUYTON: We tender Mr. Grove.

CHAIRMAN GRAHAM: Mr. Sayler, how long do you think you have questions for this witness?

MR. SAYLER: Potentially, depending upon his answers, probably ten, 15 minutes, maybe 20.

However, I also had an inquiry regarding schedule for today, because we still have witnesses later on. We're not sure how far we're going to get through all the witnesses and whether we're going to get into the Intervenor witnesses, and we still have even witnesses that are traveling today and some won't even arrive until this evening. So I wanted to raise that question at the appropriate time as well.

CHAIRMAN GRAHAM: Okay. What is your question?

MR. SAYLER: Our question is, do you think --

CHAIRMAN GRAHAM: I think we're going to be done today.

MR. SAYLER: Huh?

CHAIRMAN GRAHAM: I said, "I think we're going to be done today."

(Laughter.)

MR. SAYLER: Well, I guess my question would be do you think we will at least start into the Intervenor witnesses and get through all the Intervenor witnesses or a portion? Because we have one, one of our witnesses arriving tonight after 7:00.

CHAIRMAN GRAHAM: Well, it's all right if your witnesses don't appear in order. I mean, I didn't set the order, that was the Prehearing Officer. But if one is not here, we can move on to the next one.

MR. SAYLER: Okay.

CHAIRMAN GRAHAM: I mean, we're not going to say since they're not here that we're not going to hear from them.

MR. SAYLER: Okay.

CHAIRMAN GRAHAM: But we'll move on to the next one, and hopefully they'll be here by the time you're done answering your -- asking your questions, or your witnesses.

MR. SAYLER: Certainly. I was just inquiring as well if we were still planning to go to 7:00, or if we're getting time off for good behavior today.

CHAIRMAN GRAHAM: We plan on going to 7:00. If we get time off for good behavior, it will be on Friday.

MR. SAYLER: All right. Would you like me to start my cross-examination?

CHAIRMAN GRAHAM: No. I think we're close enough to lunch.

MR. SAYLER: Okay.

CHAIRMAN GRAHAM: Let's go ahead and break for lunch, and reconvene at 1:45, if that's possible.

MR. SAYLER: All right. Thank you.

(Recess taken.)

(Transcript continues in sequence with Volume 6.)

STATE OF FLORIDA)
: CERTIFICATE OF REPORTER
COUNTY OF LEON)

I, LINDA BOLES, RPR, CRR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 16th day of December, 2011.

Linda Boles

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