GULF POWER COMPANY

Before the Florida Public Service Commission

Prepared Direct Testimony of

Mark A. Crosswhite

Docket No. 110138-EI

In Support of Rate Relief

Date of Filing: July 8, 2011

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

A. My name is Mark Crosswhite. My business address is One Energy Place, Pensacola, Florida, 32520. I am President and Chief Executive Officer of Gulf Power Company (Gulf or the Company).

Q. Please summarize your educational and professional background.

A. I graduated with a Bachelor of Arts from the University of Alabama at Huntsville in 1984. In 1987, I graduated from the University of Alabama School of Law with a Juris Doctorate degree. That same year, I began working in Birmingham, Alabama with the law firm of Balch & Bingham. I remained at the law firm until 2004 when I was named Senior Vice President and General Counsel of Southern Company Generation, the business unit that oversees the generating fleet of Gulf Power and the other operating companies that make up the Southern electric system. In 2006, I moved to Alabama Power Company as Senior Vice President and Counsel, where I oversaw compliance and legal matters. In 2008, I became the Executive Vice President for External Affairs at Alabama Power, with responsibility for economic development, public relations, environmental affairs and governmental affairs. In November 2010, I was

elected President and Chief Executive Officer of Gulf Power, effective January 1, 2011.

Q. What is the purpose of your testimony?

A. The primary purpose of my testimony is to emphasize Gulf’s need to receive an adequate increase in the level of its base rates in a timely manner. I will provide an overview of Gulf’s filing in this case, including the major factors causing the need for such rate relief and the impact these factors have on Gulf’s ability to achieve a reasonable rate of return on the investment used to serve our customers. I will also review our efforts to control costs and discuss programs we have put into place that have resulted in efficient and reliable electric service to our customers as evidenced by high customer satisfaction ratings.

Q. Would you please provide a brief overview of the case that will be presented by Gulf’s witnesses?

1. Our case will be presented by a number of witnesses testifying in detail on behalf of the Company. These witnesses include Company officers and employees, as well as consultants from outside the Company with expertise on certain specific subject matters. Collectively, these witnesses will demonstrate that Gulf’s costs of providing retail service have far outpaced Gulf’s revenues, that Gulf’s actual and projected earned rate of return is well below any reasonable level necessary to attract capital and serve customers, and that the rates that Gulf has proposed to achieve

necessary rates of return are just and reasonable. Simply stated, they

show that a base rate increase is necessary if Gulf is to maintain customer

satisfaction and the quality of service Gulf’s customers desire.

Mr. Teel, Gulf’s Chief Financial Officer, will address the overall need for rate relief, actions taken to avoid a base rate increase over the previous ten years, Gulf’s capital structure and related cost of capital, and other financial matters pertinent to our request for rate relief.

Mr. McGee will address Gulf’s forecast methodologies and results for customers, energy sales, peak demands and base rate revenues. Mr. McGee will also address the load research performed by and used by Gulf in this proceeding.

Mr. Buck will provide an overview of Gulf’s planning and budgeting process, which results in the production of Gulf’s financial forecast.

Mr. Burroughs, Gulf’s Senior Production Officer, will address the operation and performance of Gulf’s generation fleet. Mr. Burroughs will also review generation capital additions and fuel inventory levels necessary for Gulf’s continued provision of reliable generation.

Mr. Grove will discuss Gulf’s generation resources used in the production of electricity for our customers. He will also address Gulf’s resource

planning process, production investment, and our 2012 production O&M budget.

Mr. Jacob, Gulf’s Vice President over Customer Operations, will provide an overview of that department and discuss Gulf’s commitment to customer service and satisfaction. Customer Operations includes the following business functions: Transmission, Distribution, Customer Service, and Customer Operations Support.

Mr. Caldwell will discuss Gulf’s transmission system, including Gulf’s transmission system performance. Mr. Caldwell will also discuss our current transmission investment and cover Gulf’s projected transmission capital expenditures and O&M expenses for the 2012 test year.

Mr. Moore will address Gulf’s electric distribution system, including Gulf’s distribution performance, and describe Gulf’s service area. Mr. Moore will also address Gulf’s current distribution system investment, as well as related capital and O&M budgets for the 2012 test year.

Ms. Neyman will discuss Gulf’s Customer Service & Information, Customer Accounts and Sales expenses contained in the 2012 test year. Ms. Neyman will also describe the Company’s commitment to customer service, conservation and energy efficiency, and the associated benefits for our customers. Lastly, Ms. Neyman will discuss the Company’s economic development activities and expenses.

Ms. Erickson, Gulf’s Comptroller, will explain Gulf’s 2012 O&M budget associated with the Administrative and General (A&G) function. She will outline the need to increase Gulf’s property damage reserve and support the depreciation and tax expenses included in the test year. Ms. Erickson will also explain Gulf’s projected test year expense for uncollectible accounts.

Mr. Twery and Ms. Crumlish, consultants to Gulf from Aon Hewitt, a global market leader in human resource consulting, will discuss the reasonableness of the Company’s benefits program amid the rising costs of retirement and medical benefits.

Dr. Vander Weide, Research Professor of Finance and Economics at Duke University and President of Financial Strategy Associates, will discuss Gulf’s cost of common equity.

Mr. O’Sheasy, a vice president of Christensen Associates, will address the cost of service study.

Mr. Thompson will address rate design and other tariff issues. He will set forth all proposed changes in rate design and discuss the development of the proposed rates in light of the results from the cost of service study.

Mr. McMillan will discuss the development of the test year jurisdictional adjusted rate base, net operating income, capital structure, and the resulting retail base rate revenue deficiency.

Q. How long has it been since Gulf last filed for an increase to base rates?

A. Gulf’s last base rate case was Docket No. 010949-EI filed in September 2001. That last case was based on a fully projected test period comprised of the twelve months ending May 31, 2003 and resulted in an increase to Gulf’s base rates that was placed into effect with meter readings beginning June 7, 2002.

Q. Are you saying that Gulf has not had price increases since 2002?

A. No. This requested increase to our base rates is not the first time our prices will have increased since our last rate case. There have been annual adjustments to our prices through the cost recovery clauses each year to cover such items as fuel to run our generating plants, conservation programs to help our customers manage their energy use, and the costs of compliance with an ever increasing array of environmental regulations.

The price increases that our customers have experienced due to the operation of the cost recovery clauses are restricted to those specific items of cost which are the subject of the annual fuel, conservation and environmental proceedings and do not address increasing costs in the areas of our business that are covered through our base rates. While the focus of this case is solely on that portion of our business that is not addressed through the cost recovery clauses, I assure you that we work diligently to control costs in all areas of our business.

Q. What are the major factors that cause the current need for rate relief?

A. Since our last request for base rate relief, the costs of continuing to provide reliable electric service to our customers have increased at a rate that outpaces the growth in our revenues. Gulf is requesting rate relief in order to continue to fulfill the public service requirements set forth in the statutes and to fulfill the needs and expectations of our customers in a reliable, safe and efficient manner.

During the years between 2002 and 2011, numerous factors have increased the cost of providing electric service. Among these are the addition of more than 850 miles of new distribution and transmission lines; replacing and repairing the Company’s existing electrical infrastructure; increased spending to harden the electrical infrastructure to mitigate potential storm damage and facilitate restoration following storms; and the cumulative effect of inflation on the materials, goods and services we must purchase in order to provide service to our customers. Gulf’s base rate revenues have not kept pace with these increases in our operating and capital costs. As shown on Mr. Teel’s Exhibit RST-1, Schedule 2, this mismatch between the growth of capital and O&M relative to revenues has become particularly pronounced since 2007.

Q. What actions has Gulf taken since its last base rate case to control costs and avoid requesting rate relief?

A. As detailed by Gulf’s other witnesses, the Company has taken a number of steps since its last base rate case to control the costs that are addressed through base rates. One such example involves our generation resource decisions. Rather than build and operate new generating plants in the near term for which we would be entitled to earn a return, we have made arrangements to purchase power from existing generating assets owned by other companies. In each instance the cost of the contract was less than what Gulf’s customers would have paid if Gulf had built a unit. The most recently signed contract was determined by the Commission to save Gulf customers more than half a billion dollars on a net present value basis through 2023. This decision saved money for Gulf’s customers, improved Gulf’s fuel diversity and helped defer a base rate proceeding.

Q. Please describe some of the major programs that Gulf has implemented since its last base rate case to improve its operations and customer service.

A. Gulf is focused on making it easy for customers to do business with us by identifying meaningful and relevant options that fit our customers’ lifestyles. Through our website, GulfPower.com, we offer innovative solutions to help serve our customers more effectively. Customers can conduct an energy audit of their own home, pay bills or complete other account services such as connects and disconnects through our website. In 2005, the Company enhanced the voice response unit used by customers when calling Gulf’s Customer Service Center. This improvement gives customers the option of using their voice to make

selections from the menus, thereby simplifying the experience for customers.

As part of our effort to bring efficiencies to Gulf’s transmission and distribution system, we have partnered with the Department of Energy through the Smart Grid Investment Grant program. Participation in this program enabled Gulf to enhance our grid through the installation of intelligent electronic devices on our transmission and distribution infrastructure. The transmission devices will improve the monitoring, protection and control of the transmission system through remote monitoring devices and electronic relays for our transmission substations. Our distribution enhancements will include automated line devices which will provide automatic fault isolation and service restoration. These smart grid features increase reliability, assist with power restoration and fault location, and provide new avenues to interact with our customers through detailed usage and pricing information.

The implementation of Advanced Metering Infrastructure (AMI) is another way we are creating efficiencies for our customers. AMI meters will allow Gulf to read and remotely check meters without visiting customer premises, help identify power quality issues, and eliminate the need for estimated meter readings.

Our generation group has continued to look for ways to more effectively manage costs while continuing to maintain system reliability. As a direct result of our effective maintenance practices we are also projecting longer lives for our fleet of generating units, which reduces depreciation rates and consequently the level of annual depreciation expense that must be supported by our base rates.

These are samples of the programs discussed by Gulf’s other witnesses undertaken to improve operations and customer service.

Q. Please describe Gulf’s focus on providing value to its customers.

A. Maintaining and improving the value of our service to our customers is among the highest priorities of every employee at Gulf, where we believe in putting the customer at the center of everything we do. We are in constant contact with our customers through our customer service, energy efficiency, engineering and other field representatives and through all our employees who are active members in our communities. Personal visits, letters, e-mails and telephone calls are all methods that customers use to let us know how we are doing. In addition, we have developed a survey process to give us critical feedback on how our customers rank us in comparison to the rankings of peer utilities by their customers.

Q. How does Gulf rank in customer value as compared to its peer utilities?

A. When measured against a peer group of utilities, Gulf was in the top quartile of overall performance for 2010 and has been every year since 2000. Our goal is to be among the best utilities in regards to customer service, and we are proud of our performance when compared to the top utilities across the country. This outstanding performance is a testament to the continued efforts of Gulf’s employees to exceed our customers’ expectations each and every day. Ms. Neyman will explain in detail how we develop this information for use in comparing Gulf to our utility peers.

Q. How has this concern for your customers been reflected in this rate case?

A. First and foremost, our concern for our customers is reflected in the timing of this case. We worked hard to delay this case for as long as possible to keep from seeking a base rate increase during what we refer to as the Great Recession, the period between 2007 and 2010. This meant prioritizing our spending in order to do what was absolutely necessary to provide efficient and reliable service in the near term and still operate within the revenues produced by our existing rates. As part of this effort, we also slowed the hiring of new employees who are needed for the long term health and operation of our system.

While such steps are possible for short periods of time on a well maintained and operated system, we cannot sustain such restrictions on capital investment or O&M expenses over long periods of time without a detrimental effect on the system and the reliability of our service to customers. As our local economy emerges from the Great Recession, we must be ready to provide the levels of service required by our customers to meet and sustain economic growth. In order to be ready, we have been making additional necessary capital investments and performing necessary O&M activities that have caused our achieved rate of return during each of the months since June 2010 to fall below the minimum of our authorized rate of return as determined by the Commission. Such low achieved rates of return are simply not fair to Gulf’s investors and are not in the best interests of Gulf’s customers.

 Our concern for our customers is also reflected in the processes we use to set our capital and O&M budgets. We plan our systems to serve the long term needs of our customers as efficiently and reliably as possible. We work diligently to identify and implement in a timely manner new systems and programs that bring value to our customers. We work hard to ensure that we get the most benefit for our customers in our capital and O&M spending. We are mindful that reliable and efficient electric service is very important to our customers, and therefore we continue to work hard to spend our resources wisely.

Q. How does Gulf’s requested increase compare to Gulf’s total revenues before consideration of the increase?

A. Gulf is requesting a base rate increase of $93.5 million, which is less than 7.5 percent of the projected total retail revenues for 2012 using existing base rates. As a proportion of the revenue from base rates, the increase is slightly less than 21 percent. In comparison, through 2012 the Consumer Price Index (CPI) will have grown by more than 25 percent since our last change in base rates. Gulf’s other witnesses in this case provide details regarding how and why many of our costs of doing business have increased at a rate that is larger than the rate of inflation as measured by the overall change in the CPI. And yet, we have been able to control our overall base rate revenue requirements such that our rate request is lower than the cumulative overall change in the CPI. Gulf has managed to delay its request for a base rate increase for nearly ten years, and is only now seeking an overall increase for prospective application.

Q. What is Gulf’s projected rate of return for the test year without rate relief?

A. As shown on Mr. Teel’s Exhibit RST-1, Schedule 3, the Company’s rate of return has been below the minimum of our authorized rate of return since mid-2010. Without rate relief, Gulf’s return on common equity associated with base rates for the 12 months ending December 31, 2012 is projected to be 2.83 percent. This is clearly not adequate when compared to the 11.7 percent cost of common equity that Dr. Vander Weide has determined to be reasonable and appropriate for Gulf. Without timely rate relief, Gulf will continue to endure a weakening financial condition which will adversely affect our ability to provide reliable electric service to customers.

Q. Please summarize your testimony.

A. Gulf’s mission is to safely provide affordable, reliable and environmentally responsible electric service to our customers, while working to improve the communities we serve. We are very proud of our commitment to this mission. Our successes are a result of the dedicated employees who serve our customers across Northwest Florida. Through the efforts of these employees, we have been successful in avoiding, over the last ten years, the necessity to request an adjustment to our base rates. We have done so while keeping operating budgets lean in the face of increasing costs to build, operate and maintain our system.

We understand that price increases can place an economic burden on our customers. However, an inability of Gulf to meet customers’ reasonable service requirements as we emerge from this recession would place an even greater burden on our customers and our local economy. We are not able to continue to defer our request for this increase in base revenues.

This price adjustment will provide Gulf the reasonable opportunity to earn a fair return, enable us to maintain access to capital markets at a reasonable cost and, most importantly, help to ensure that we are able to continue providing safe, affordable and reliable service at the levels our customers have come to expect. Keeping Gulf financially healthy by

granting us the requested increase in retail revenues is in the best

interests of our customers.

Q. Does this conclude your testimony?

A. Yes.

AFFIDAVIT

STATE OF FLORIDA ) Docket No. 110138-EI

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COUNTY OF ESCAMBIA )

 Before me the undersigned authority, personally appeared Mark A. Crosswhite, who being first duly sworn, deposes, and says that he is the President and Chief Executive Officer of Gulf Power Company, a Florida corporation, and that the foregoing is true and correct to the best of his knowledge, information, and belief. He is personally known to me.

 The signed original affidavit is attached to the

 Original testimony on file with the FPSC

 /s\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

 Mark A. Crosswhite

 President and Chief Executive Officer

 Sworn to and subscribed before me this \_\_\_\_\_\_ day of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, 2011.

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Notary Public, State of Florida at Large

Commission No. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

My Commission Expires \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_