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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 130140-EI

PETITION FOR RATE INCREASE
BY GULF POWER COMPANY.

_____ /

PROCEEDINGS: COMMISSION CONFERENCE AGENDA
ITEM NO. 6A

COMMISSIONERS
PARTICIPATING: CHAIRMAN RONALD A. BRISÉ
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER ART GRAHAM
COMMISSIONER EDUARDO E. BALBIS
COMMISSIONER JULIE I. BROWN

DATE: Tuesday, December 3, 2013

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: LINDA BOLES, CRR, RPR
JANE FAUROT, RPR
Official FPSC Reporters
(850) 413-6734/413-6732

P R O C E E D I N G S

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3 **CHAIRMAN BRISÉ:** We're going to reconvene at
4 this time, move to item 6A. Mr. Maurey.

5 **MR. MAUREY:** Chairman, Commissioners, on
6 November 22nd Gulf Power Company and the parties to its
7 rate case in Docket 130140-EI filed a joint motion for
8 approval of stipulation and settlement agreement.

9 Item 6A pertains to your consideration of this
10 joint motion. Representatives of Gulf Power, Office of
11 Public Counsel, Florida Industrial Power Users Group,
12 Florida Executive Agencies, Wal-Mart Stores East, and
13 Sam's East are available to address you. Staff is also
14 available for any questions.

15 **CHAIRMAN BRISÉ:** All right. Thank you.

16 Mr. Stone, we'll hear from you.

17 **MR. STONE:** Thank you, Mr. Chairman.

18 At the outset I'd like to point out that while
19 I am the counsel for Gulf Power Company, I'm actually
20 here today as a representative of the joint parties, the
21 joint movants, the parties to the stipulation and
22 settlement agreement. And I will make some brief
23 preliminary remarks and then my colleagues in the
24 settlement will also have some brief remarks. And with
25 your permission, I'd like to have an opportunity to make

1 some wrap-up remarks after each of my colleagues have
2 spoken.

3 First of all, I'd like to say we're pleased to
4 have this opportunity to appear before the Commission in
5 support of our joint motion for approval of the
6 Stipulation and Settlement Agreement. It has been
7 entered into among all the parties to our rate case and
8 that, that makes it something that I think is very
9 important to you to recognize that we are here as a
10 consensus. As with any successful settlement, all sides
11 have given and all sides have received. In return for
12 the mutual benefits that flow from this comprehensive
13 settlement that resolves all issues outstanding in the
14 case, the parties have exchanged their right for
15 purposes of today to advocate their respective
16 individual positions for a mutual obligation to advocate
17 the collective position, that of the settlement itself.
18 And if it's approved, that will end the case. We are
19 all united in support of this settlement and urge its
20 approval, and our commitment is to each other to make
21 this settlement work.

22 And before I yield to my colleagues, I have a
23 few more comments that I want to make. First of all, I
24 want to tell you how much we appreciate the work that
25 your staffs, both in your individual offices, the staff

1 in general, the Executive Director, the General
2 Counsel's Office, everyone has worked to get us here
3 today procedurally. We recognize that we came to you
4 almost two weeks ago with the comprehensive settlement
5 document. We announced a week prior to that that we
6 had, in fact, reached agreement, and we spent a week
7 from the time that we made that verbal announcement to
8 the time we were able to file it opening of business one
9 week later.

10 And I can tell you that the degree of
11 cooperation among my colleagues to help bring that
12 written document together in that short order is
13 unprecedented in my own personal experience in almost 30
14 years practicing before this Commission. They really
15 worked hard, met regularly despite distances involved,
16 and we came together on an agreement that we're all
17 comfortable with. But you have to recognize that it's
18 an agreement we're comfortable with intact as it exists.
19 It is, it is a delicate instrument in that regard. And
20 so we are here united in support of the settlement
21 agreement that we have presented to you.

22 Now last Monday, the weekend, intervening
23 weekend from the time we filed the agreement to last
24 Monday we had a prehearing conference, and the
25 Prehearing Officer opened the prehearing conference and

1 then continued that effort until after today's decision,
2 if needed. And that allowed the parties to maintain the
3 status quo of where we existed at the time we entered
4 into our settlement agreement so that we did not have to
5 continue down a path, parallel path of adversarial
6 litigation, but rather, as the public policy supports,
7 present a united front in support of a negotiated
8 agreement. And that is in the best interest of all
9 parties and we believe best interest of our customers,
10 and that is why we're here today united.

11 Now speaking again on behalf of the parties, I
12 want to point out that there's a significant factor in
13 the agreement, and that is the timing of its review and
14 approval. And that is it's to take effect with billing
15 month January 2014. And it turns out that the first
16 billing cycle, billing month, January 2014, is exactly
17 30 days from today, which is consistent with your normal
18 policy for wanting new rates to be effective 30 days
19 after the vote.

20 It is also critical to the parties that we
21 preserve the status quo amongst us, and that's why the
22 hearing that is set for next Monday is still on the
23 books until, unless and until the Commission votes to
24 approve this settlement today. And we have, in order to
25 maintain that status quo, we've basically placed our

1 final efforts at discovery and the prehearing process on
2 hold because that's an adversarial relationship and we
3 did not want to put ourselves in a posture where we're
4 having to simultaneously continue to be adversaries in
5 litigation when we are indeed united behind this
6 settlement.

7 We, the adversarial parties to Gulf's rate
8 case, all of us collectively are before you today in
9 support of this Stipulation and Settlement Agreement.
10 It's an agreement by all the parties to our case and
11 resolves all the issues in this case. The agreement
12 itself is clear and straightforward, and we note that it
13 represents give and take by each of us. It is the
14 result of intense negotiations over an extended period
15 of time. And although no party to this agreement got
16 everything they wanted, each party received important
17 benefits from their perspective that allowed us to reach
18 a collective agreement.

19 It's embraced by all the parties, and we
20 believe it is fair for all affected persons and is in
21 the public interest and urge you to approve it.

22 Now I am going to speak now specifically on
23 behalf of Gulf Power Company. My previous comments were
24 on behalf of all of my colleagues. But on behalf of
25 Gulf Power Company, we want to state our profound

1 appreciation for the conduct, the demeanor, the
2 professionalism and the civility exhibited by all the
3 parties and their representatives throughout our
4 discussions over the past several months. We, we have
5 been heated adversaries up until the point we reached
6 this agreement, and it is, it is with that in mind that
7 the fact that we're all here together speaking in a
8 united voice for this settlement that I think it is a
9 testament to the process before this Commission that the
10 public interest is best served by approval of this
11 agreement.

12 Now that concludes my opening remarks. As
13 I've indicated, my colleagues on the settlement are here
14 to make brief remarks for your consideration, and then I
15 have some brief closing remarks I'd like to make. And
16 if it is the desire of the Commission, I can walk you
17 through the agreement or answer questions. But thank
18 you for the opportunity to present today.

19 **CHAIRMAN BRISÉ:** Thank you, Mr. Stone.

20 Mr. Rehwinkel.

21 **MR. REHWINKEL:** Thank you, Mr. Chairman and
22 Commissioners.

23 My name is Charles Rehwinkel. I'm appearing
24 here on behalf of the citizens of Florida, and with me
25 also is Joe McGlothlin and J. R. Kelly.

1 Commissioners, the Public Counsel respectfully
2 requests your approval of this settlement. The
3 agreement is in the public interest and is intended to
4 generate fair, just, and reasonable rates. I do concur
5 with Mr. Stone that the agreement is the product of a
6 lengthy and arduous negotiation between fierce
7 adversaries. This negotiation extended over many
8 months, and significantly the parties have also
9 submitted three full rounds of expert testimony and have
10 conducted extensive discovery, which optimizes the
11 exchange of information among the parties and with the
12 Commission and staff.

13 The settlement represents a compromise of all
14 positions by all parties and is in its entirety a
15 representation of a fair outcome of this case.

16 The Public Counsel's signature on the document
17 represents his statutorily established determination
18 that the settlement is in its entirety an outcome that
19 is in the public interest and in the best interest of
20 the customers he represents, given all the factors that
21 he considered and weighed in representing those
22 customers, and we ask your approval of the agreement.
23 Thank you.

24 **CHAIRMAN BRISÉ:** Thank you.

25 Mr. Moyle.

1 **MR. MOYLE:** Thank you, Mr. Chairman.

2 Jon Moyle on behalf of the Florida Industrial
3 Power Users Group. And I would echo the comments of my,
4 of my colleagues and just make a, make a couple of
5 points.

6 First, I want to thank you and your office for
7 working to hear us today on this. We had a prehearing
8 last week and, you know, this is being considered at an
9 agenda conference, but thank you for doing so because
10 otherwise we have, you know, a hearing scheduled for
11 next week. So thank you for accommodating us.

12 I also want to indicate to Gulf Power that
13 FIPUG very much appreciated the tenor, tone, and
14 professionalism of the negotiations. The bar that
15 practices before the Commission is not that widespread
16 and everyone, you know, was very professional. We don't
17 get into the details on, you know, the particulars of
18 the negotiations, but I think it's appropriate to
19 publicly comment on the professionalism and character
20 and integrity with which the people on the other side of
21 the table, in this situation, Gulf Power, handled
22 themselves. So I wanted to do that.

23 And then also with respect to the agreement
24 itself, you know, the Commission has a history of
25 encouraging parties to try to get together and work out

1 their disagreements when we can. We bring them to you
2 for review and ask for approval, which is what we're
3 doing today. And FIPUG wholeheartedly supports the
4 agreement and asks that you act favorably on it today.

5 The agreement is, is a fair agreement. I
6 think you'll see when you've reviewed it -- you probably
7 have seen that there are a lot of provisions that are
8 similar, maybe even identical to provisions in
9 settlement agreements you've already seen. So you're
10 not seeing stuff for the first time. A lot of the
11 provisions came from the TECO agreement that you've
12 previously reviewed, and there were some other
13 agreements. So it's not whole cloth before you today,
14 which hopefully will make, you know, review and any
15 questions you have easier for us to handle.

16 So, again, thank you for accommodating us. We
17 would ask that you approve the agreement today, and
18 happy to answer any questions you might have.

19 **CHAIRMAN BRISÉ:** Thank you.

20 Major Thompson.

21 **MAJOR THOMPSON:** Yes. It's Major Chris
22 Thompson from the Federal Executive Agencies. And I'd
23 like to say that we agree with the Intervenors and Gulf
24 Power, and we believe it is in the best interest for the
25 Federal Executive Agencies and our six large military

1 bases to enter into this settlement agreement. And I
2 also wanted to echo Mr. Moyle's statement that I work in
3 a handful of other states, and working with Mr. Stone
4 and staff and all the Intervenors plus the Commission
5 was above professional in all, in all facets of this
6 settlement. So I want to thank you guys.

7 **CHAIRMAN BRISÉ:** Thank you.

8 Mr. Wright.

9 **MR. WRIGHT:** Thank you, Mr. Chairman,
10 Commissioners, for the opportunity to address you on
11 this good settlement. And thank you specifically for
12 taking this up today, like Mr. Moyle said. We hope that
13 you'll rule on this today, thereby obviating the need
14 for a hearing next week.

15 This is a fair settlement in which all parties
16 have significantly compromised their positions. The
17 settlement well and fairly balances the interests of
18 customers and Gulf Power Company. I want to join in
19 what everyone else has said: Sometimes these
20 negotiations were intense and somewhat arduous, but
21 overall they were extraordinarily professional, civil,
22 and courteous. We all kept our eyes on the prize of
23 getting a deal that would work for everybody and we made
24 it happen.

25 Now I'll repeat to you something I said a

1 couple of months ago in a similar circumstance. You've
2 heard me say many times that it's our belief as a
3 representative of customers that utilities should have
4 need -- legitimately need sufficient money to do their
5 job of providing safe, adequate, reliable service at the
6 lowest possible cost. They need enough, but only
7 enough. This agreement accomplishes exactly this
8 result. It fairly balances the interests of customers
9 and the company. And we join Gulf Power, the Public
10 Counsel, the industrial power users and the Federal
11 Executive Agencies in requesting that you approve this
12 agreement in its entirety today. Thank you very much.

13 **CHAIRMAN BRISÉ:** Thank you, Mr. Wright.

14 Mr. Stone.

15 **MR. STONE:** Thank you, Mr. Chairman.

16 As you've, as you've heard from all of my
17 colleagues in this settlement, we are all united in
18 support of its, of its approval and we urge its approval
19 as being in the public interest. I would remind the
20 Commission that public policy favors negotiated
21 solutions when they can be achieved over contested,
22 adversarial litigation. And, in fact, the Commission
23 has recognized this policy when it sends -- in fact, in
24 our case the first letter we received from the
25 Commission after filing our test year notification was a

1 letter from the Clerk that reminded us that mediation is
2 available, and that suggests to us that negotiated
3 settlements are preferred.

4 In fact, the first order that was issued in
5 this case, the Order Establishing Procedure, has a
6 statement in it reminding us that mediation is
7 available, again suggesting that negotiated settlements
8 are preferable to adversarial litigation.

9 Well, I can tell you that while we did not
10 resort to mediation, we achieved a negotiated settlement
11 without the, without the need for a mediator. We were
12 able to compromise our positions and cooperate to work
13 on a solution that we can join in and support together.
14 And when, when parties negotiate a solution, it is a
15 solution that works for the parties and they are much
16 more likely to be able to live within that agreement.

17 And this agreement does carry with it
18 important benefits for our customers. The stability of
19 our base rates for the next 42 months, if it is
20 approved, is important. But also important is the
21 ability for us to be assured that needed improvements to
22 our transmission system will be recoverable in rates at
23 some future point, and in the meantime will be available
24 for service to our customers is a very important thing
25 for us in our commitment to our customers.

1 The mutuality approach that has been taken to
2 get us here today is one that the Commission should
3 encourage, and it should encourage through approval of
4 this agreement that is before you today and thereby
5 eliminating the need for further adversarial litigation
6 between these parties, and we can get on with the task
7 of making this agreement work for the benefit of all.

8 Now if this agreement is not approved today,
9 we are on a track that takes us back to adversarial
10 litigation to start next Monday. We have to conduct an
11 extensive prehearing tomorrow and we have to complete
12 some extensive outstanding remaining discovery before
13 Monday. Literally I believe it is more than a hundred
14 people that would be involved in trying to make sure
15 that everything was ready to start the hearing on
16 Monday. And so while I recognize that bringing a
17 settlement of this nature to the Commission and asking
18 for an approval in a short timeframe is asking an awful
19 lot, I also point out that not approving it is asking an
20 awful lot. And, quite frankly, the time frames that
21 have been involved in considering this settlement have
22 been longer than have been involved in past settlements
23 from the time that they were approved -- filed for
24 approval and the time that they were ultimately
25 approved.

1 And, as pointed out by my colleagues, the
2 provisions in this agreement are very similar to
3 provisions you've recently approved, and all of the
4 provisions in this agreement are using tried and true
5 regulatory mechanisms that will help Gulf make sure this
6 agreement lasts through its full intended term by
7 allowing Gulf the opportunity for the first time in more
8 than 40 months to have an achieved return on equity that
9 falls within the range established by this Commission.

10 And so with that I conclude my remarks by
11 saying we urge you to consider and approve this
12 settlement today and allow Gulf Power Company the
13 opportunity to regain its strength and continue its
14 commitment. And you have heard and you will continue to
15 hear that the customer is at the center of all that we
16 do, and that is why we're here before you today. Thank
17 you, Commissioners.

18 Again, if you desire, I can walk through the
19 major topics of the agreement or I can answer questions.
20 And if there happens to be a question that you stump me
21 with, I have resources here in the room that will help
22 me answer those questions.

23 **CHAIRMAN BRISÉ:** Thank you, Mr. Stone. And I
24 will leave it up to my colleagues to see what we want to
25 do, whether we just want to go right into the questions,

1 or is there a need for, for Mr. Stone to sort of walk
2 through the document.

3 Commissioner Graham.

4 **COMMISSIONER GRAHAM:** I wouldn't mind having
5 him walk through the document.

6 **CHAIRMAN BRISÉ:** All right. Mr. Stone, if you
7 could walk through the document.

8 **MR. STONE:** Certainly. And when I say I'm
9 walking through the document, I've actually organized my
10 remarks around eight major --

11 **CHAIRMAN BRISÉ:** Sure.

12 **MR. STONE:** -- areas or aspects of the
13 agreement. It doesn't necessarily track the order they
14 find them in the agreement, but I think it will help you
15 to understand the comprehensive nature and how it's all
16 interrelated. And it's, it's not something that you can
17 pick and choose but you have to take it as a whole.

18 The first area, of course, is the term of the
19 agreement. And as I mentioned a moment ago, it
20 starts -- well, I didn't mention it starts, but it will
21 start January 1 of 2014 and extend through the end of
22 June 2017, and that gives us 42 months of rate
23 stability. During that period of time Gulf cannot file
24 for new base rates that would be effective prior to
25 July 2017 except under the limited exceptions provided

1 for in the agreement. Similarly, the consumer parties
2 are not able to petition for us to change our base rates
3 during that same period of time except under the limited
4 exceptions in the agreement. And those exceptions are
5 typical of these types of agreements and they are
6 intended only if we are outside the range. But there
7 are elements within this agreement to help ensure that
8 we stay within the range, so it should not be a problem.

9 The second area concerns the rates themselves.
10 There's a phased-in approach to the agreed-upon rate
11 increases. There's an initial \$35 million increase that
12 will be effective billing month of January 2014, and the
13 second and final phase is an additional \$20 million
14 increase effective billing month January 2015.

15 Now you will note that that, those two
16 increases bookend the 2014 test year, and so I want you
17 to recognize that that overall \$50 million increase is
18 spread out in two separate phases but they bookend the
19 test year.

20 The third area concerns the authorized return
21 on equity. The settlement continues the 10.25% midpoint
22 ROE that was first set for Gulf by this Commission in
23 its 2012 order on our last rate case. Now this is, this
24 is in fact the same ROE that was established anew for
25 TECO in their settlement and it carries with it the same

1 type of provision that was provided for in the TECO
2 agreement, that there is a potential for an increase to
3 a 2.5% midpoint ROE that's tied to the changes in the
4 Treasury, United States Treasury Bond yield. In all
5 cases, the authorized range would continue to be from a
6 bottom end that is 100 basis points below the applicable
7 midpoint and to a top end that's 100 basis points above
8 the applicable midpoint. And, again, that applicable
9 midpoint is either going to be the 10.25% that exists
10 today, or if that Treasury bond yield rate, we refer to
11 it as a kicker in our discussions, occurs, then it would
12 be the 10.5% ROE with 100 basis points on either end
13 setting the band width.

14 The fourth area concerns rate schedules and
15 rate design. Although there are a number of rate design
16 issues that are addressed in the agreement, I'm only
17 intending to touch on one in particular, and that is
18 this agreement includes approval of three economic
19 development riders that are designed for different sizes
20 of customers or customer load, and they are going to be
21 used by Gulf to encourage business growth within the
22 area that Gulf Power serves. The three riders are
23 approved for a pilot enrollment period that's up to
24 three years or a subscription limit of up to
25 100 megawatts of combined eligible load from all three

1 of the riders.

2 The riders, very similar to other economic
3 development riders you've approved for other utilities
4 in Florida, provide discounts to base demand, base rate
5 demand in energy charges for new and expanded
6 businesses. We take that obligation very seriously. We
7 recognize that spreading out more of our fixed costs
8 against additional billing elements of demand and energy
9 benefits all of our customers. But not only does it
10 benefit customers from the ability to spread our fixed
11 costs over more elements, but, more importantly,
12 economic development in our area benefits our customers
13 in a much broader sense than just their electric utility
14 rates. And that's why we believe very strongly in
15 partnering with our community to support economic
16 development.

17 The fifth area of the agreement concerns a
18 provision for storm damage recovery. There is a
19 provision in this agreement that will provide for rapid
20 establishment of a storm cost recovery surcharge if
21 needed. And that is it's if needed in the event of a
22 named storm and our reserve as it exists today, which is
23 approximately \$35 million, if that's depleted, then we
24 will go to the form of storm surcharge and it
25 actually -- that particular provision is identical to

1 the provision you approved for Tampa Electric Company
2 earlier this year. It's very similar in concept to the
3 storm surcharge that was implemented for Gulf when its
4 reserve was depleted -- and severely depleted, I might
5 add -- following the storms of 2004 and 2005. We
6 actually had a surcharge, and then, because of the
7 second round of storms, we had to amend that surcharge.

8 But we hope to not resort to a surcharge
9 mechanism, and for that reason our storm accrual will
10 remain at its current level, the level that was set for
11 Gulf in 1995 when, following Gulf having been hit by
12 both Hurricanes Erin and Opal and our reserve was
13 depleted in that occasion, the Commission ordered a
14 study, determined that the appropriate accrual at that
15 time was \$3.5 million annually, and set a target range
16 at that time that had a cap of approximately
17 \$35 million.

18 Now in our last case you approved a higher cap
19 in recognition that in the intervening 28 years --
20 that's not right, it's not 28 years, but you'll pardon
21 my math -- since 1995, and I'll let you do the math, in
22 that time frame we've recognized that the costs incurred
23 to restore our system are larger and so the target range
24 has been raised but the amount of the accrual has not.
25 And we're leaving our accrual as it is.

1 And the other thing I would point out is
2 although we refer to it as a storm accrual, it's not
3 accurate. It's really an accrual to the uninsured, the
4 reserve for uninsured property damage and it is used for
5 far more than just storm damage. And that's why we
6 think it's appropriate to leave the accrual in place as
7 it has been since 1995.

8 The sixth area of the agreement concerns
9 depreciation and fossil generating plant dismantlement
10 costs. Similar to what has been done in a couple of
11 other settlements approved this year, the agreement
12 specifies that the time frame for when the company will
13 be filing its next depreciation dismantlement study, it
14 also freezes the current depreciation and dismantlement
15 rates at the level they were set in the last time we did
16 a represcription. So we're essentially skipping a
17 cycle, and that's important for rate stability.

18 The company will file its next study prior to
19 its next base rate case for rates to be effective
20 billing month July 2017 or later, or by December 31,
21 2018, whichever comes first. I think that's a point
22 that's -- it's good to note. We're not compelled to
23 file another rate case for new rates to take effect
24 July 2017, and it is our fervent hope that we will not
25 need to file such a rate case. But we recognize that

1 open-ended, never-changing depreciation rates or
2 dismantlement rates would not be in the best interest of
3 our customers, and so we have a time certain that we
4 will get back on the represcription schedule established
5 by this Commission's policy. And once we file that
6 study, we will be back on that every four-year cycle for
7 depreciation and dismantlement rate represcription
8 irrespective of whether there's a base rate case at the
9 time.

10 The seventh area of the agreement addresses
11 the reasonableness of 15 specific transmission system
12 improvement projects identified through the course of
13 our proceedings in this docket, a docket that was
14 consolidated into this docket, and also, quite frankly,
15 in the course of some negotiations between the parties.
16 These 15 projects are projects that Gulf has already
17 begun to undertake. They're in the, not just the
18 long-range planning, they are actually in the design and
19 implementation phase, the procurement of equipment. And
20 we've gotten pretty far down the road and still have
21 this uncertainty of whether or not it's reasonable or
22 appropriate for us to proceed, and that's a significant
23 factor in the pressure that Gulf faces for rate relief.
24 But through this agreement we have been assured that the
25 reasonableness of going ahead with those 15 projects has

1 been blessed by our colleagues, the consumer parties,
2 and so we are able to represent to the investment
3 community that we are reasonably assured of recovery of
4 those costs.

5 Now there are some interactions in this
6 agreement that are very important to note, and they're,
7 they're separate and apart from the -- and I will use
8 the term "prudence" but that may not be as good a word
9 to use, but that's, that's essentially what we're
10 talking about here. These projects are essential in
11 order for us to continue to reliably serve our customers
12 in light of changing an environment -- an environment
13 that's changing because of new rules and regulations
14 placed on us that change the way we're going to have to
15 operate our system. Without these projects, quite
16 frankly, our customers are at jeopardy of rolling
17 interruptions, and that's why we couldn't wait to
18 implement these projects and that's why we needed to get
19 some sort of proceeding to bless these projects.

20 And while it doesn't fit neatly to have a
21 construction period that extends beyond a test year, it
22 does fit neatly to have a comprehensive settlement among
23 the consumer parties where you have a free exchange of
24 information and they are comfortable that the projects
25 themselves are reasonable and appropriate to proceed in

1 the context of this overall settlement agreement.

2 Now in that regard it is important to note
3 that we are not being given a blank check for these
4 projects. And if in the aggregate we were to spend more
5 money on these 15 projects than what has been identified
6 in the settlement agreement, my colleagues will hold me
7 to the task and they will get the right to challenge
8 that increment above that target and we will be called
9 upon to defend the increment above that target and you
10 will have to make the determination. And you can
11 imagine that that puts a substantial incentive on us to
12 be sure we control our expenditures and keep it well
13 under the target established in the comprehensive
14 settlement agreement.

15 But beyond that, Gulf is motivated not to
16 spend money on transmission projects needlessly, so it's
17 going to manage those projects as effectively as
18 possible to ensure that the lowest overall investment
19 for those 15 projects is realized. Because when they
20 eventually go into rates, we recognize the upward
21 pressure on the prices we charge our customers and we
22 want our prices to be as low as we can possibly be.

23 So what we're seeking is what Mr. Wright
24 described, is the revenues necessary to support needed
25 infrastructure improvements. But we're even deferring

1 that revenue need by the next mechanism, and that's the
2 eighth area of the agreement.

3 The eighth area of the agreement concerns
4 several special accounting mechanisms that are
5 incorporated into the agreement to provide Gulf with
6 necessary and appropriate flexibility to manage its
7 business in a manner intended to help us achieve the
8 maximum life of this agreement, the full 42 months.
9 These mechanisms provide for adjustments that will allow
10 Gulf to achieve base rate returns as shown on its
11 monthly surveillance reports that are within the
12 authorized ROE range. And again I reiterate, we have
13 been operating below our authorized range for more than
14 40 months. So the opportunity through this settlement
15 to get back in the range is, is an important signal to
16 send to the investment community.

17 Now among these mechanisms are the deferred
18 earnings treatment for the identified transmission
19 projects, and that is perhaps the, the area of the
20 agreement that has a nuance to it, if you will, that is
21 maybe most unfamiliar to you. But we modeled that part
22 of the agreement on the treatment that the Commission
23 ordered for Gulf Power Company on the third floor of its
24 corporate headquarters in our 1990 rate order. And so
25 we had a deferred earnings return on that investment.

1 Now in that case it was open ended. This case
2 is not open ended. The opportunity for this deferred
3 return only extends through the end of 2016, at which
4 point the accumulated investment and deferred return
5 will be moved into rate base and we'll be back on a
6 traditional path with monthly surveillance with regard
7 to those transmission projects.

8 Now make no mistake, that will put upward
9 pressure on the need for rate relief in 2017, which
10 cannot occur any earlier than July of 2017. But it is
11 our hope that in this pause, this 42-month period, with
12 these economic development riders we've talked about,
13 that perhaps we will be in a posture where we can stave
14 off that day for new base -- additional increases in
15 base rates as long as possible. And so this is giving
16 us the opportunity to try and structure ourselves to be
17 in that position.

18 But there's another element of this eighth
19 area of the agreement that's important to recognize, and
20 that is there is a discretionary mechanism that allows
21 us to credit depreciation expense up to a total over the
22 life of the agreement of \$62.5 million. Now this, this
23 recovery of this \$62.5 million, if it is actually used,
24 will be dealt with through future represetation of
25 depreciation dismantlement rates. But it is that

1 discretion that helps us, that combined with the
2 deferred earnings treatment for the transmission
3 projects, and I failed to note the deferred accounting
4 treatment afforded for our rate case expense incurred in
5 this proceeding, that it gives us the reasonable
6 opportunity to actually move into our authorized range
7 for the first time in more than 40 months. All of these
8 special regulatory accounting mechanisms have been
9 modeled on similar approaches authorized by the
10 Commission in past cases, including Gulf or the other
11 electric utilities that are subject to rate of return
12 regulation by this Commission.

13 Commissioners, that concludes my walk-through
14 of the agreement. I'm happy to answer any questions.
15 But I would urge you once again to recognize that this
16 agreement is very tightly interwoven. It is a
17 comprehensive agreement that requires all of its
18 elements to maintain the delicate balance and that we
19 urge you to approve it in its entirety today.

20 **CHAIRMAN BRISÉ:** Thank you, Mr. Stone.

21 Commissioners, questions.

22 Commissioner Edgar.

23 **COMMISSIONER EDGAR:** Thank you, Mr. Chairman.

24 A couple of brief comments and then a question, I think.

25 **CHAIRMAN BRISÉ:** Sure.

1 **COMMISSIONER EDGAR:** I did have the
2 opportunity to serve as Prehearing Officer on this case,
3 and I thank you for that assignment, Mr. Chairman. I,
4 as the parties have described, they were -- they and our
5 staff were, I know, working hard and dutifully with all
6 of the pieces that need to go to be prepared for this
7 Commission to go into hearing a week from today. And
8 those dates, those hearing dates are still on the
9 schedule, on the calendar, and are available to us
10 should they be necessary.

11 I admit, just speaking of course for myself
12 and my office, that when this Commission was notified
13 jointly by the parties that they had reached a
14 settlement agreement amongst all parties, I was pleased,
15 and then, of course, certainly, as always, reserved the
16 right individually and, of course, that the Commission
17 would take a very close look at that agreement section
18 by section and as a whole.

19 I, as Prehearing Officer, as soon as was able,
20 sat down with my staff and with our legal and technical
21 staff to go over that agreement after the actual
22 document had been filed with the Commission. And one of
23 the questions I asked directly to our staff was if this
24 item was in a position to come before us at this
25 scheduled Agenda Conference, would they have the time

1 needed to do the review and analysis that they needed
2 and that we needed them to be able to do so that they
3 could answer our questions. And I received assurance
4 that, that made me feel that this was an appropriate
5 path for us to proceed on and that all due diligence
6 could be and would be achieved. So two different
7 opportunities I have sat down with our legal and
8 technical staff to go over the agreement in detail, and
9 I know that my colleagues have done similarly.

10 I do, and I've made the statement many times,
11 appreciate when all parties that are involved in pending
12 litigation do work together and do attempt to reach a
13 negotiated settlement. Sometimes that can work and
14 sometimes it can't, and we are here and available to
15 proceed with litigation in those instances when it
16 doesn't. But I do commend the parties for working
17 together and for bringing a document this comprehensive
18 before us for our consideration.

19 I also would like to point out just for the
20 record, and I know that we all know this, but when we
21 make the legal statements that all parties have agreed
22 to the settlement, I would point out that one of those
23 parties is the Office of Public Counsel, and
24 Mr. Rehwinkel has addressed us on behalf of that office,
25 and that they are the advocate statutorily for

1 ratepayers and customers in these types of proceedings
2 before us. And so the ratepayers and customers are a
3 part of the group that has brought this document before
4 us.

5 I would like to ask, with that in mind, Mr.
6 Rehwinkel, if you would a little more specifically
7 address the section of the agreement that does have the
8 transmission projects and how that will unfold and how
9 that, that will work. Again, I have met with staff on
10 it and I do think I understand it, but I would like to
11 ask you to speak specifically to that, recognizing, of
12 course, that Mr. Stone teed that section up as well.

13 **MR. REHWINKEL:** Thank you, Commissioner. And
14 specifically this is paragraph 10 of the agreement.

15 **COMMISSIONER EDGAR:** I believe so, yes.

16 **MR. REHWINKEL:** On pages 14 through 16.

17 First of all, I have to say this, is that this
18 is a provision that was negotiated and the resolution of
19 it is taken part and parcel with the entire agreement.
20 So it is in that vein that I answer this question.

21 But the Public Counsel perceives these -- this
22 provision as being one that we're comfortable with for a
23 number of reasons. A, it's part of this comprehensive
24 settlement, but it's also the product of, as I've
25 referenced in my opening remarks, significant testimony.

1 Not only did, did Gulf file two rounds of testimony in
2 this docket addressing these issues, but they also filed
3 testimony in the, I guess it's 130092 docket, which was
4 also related to the 0007 ECRC docket addressing this.

5 And they also, as part of the record, as part
6 of the testimony, they, they received a letter from DEP
7 saying that these projects were in essence a reasonable
8 resolution of the environmental issues that they had.

9 So we are very comfortable that Gulf will be,
10 will follow through on these projects and that we'll
11 abide by the limitations on them that is set out in the
12 agreement. The provisions in here that are negotiated
13 that have kind of a staggered AFUDC treatment we think
14 are a fair and creative way to balance the customers'
15 need for reliable service, fair and reasonable rates,
16 and the company's need for certainty with the, I guess,
17 the cash flow that comes with, with AFUDC treatment that
18 will be provided. Some of these projects will, will not
19 accrue any AFUDC or special AFUDC because of the time
20 they go into service. Others will have a limited AFUDC
21 treatment because of the next step increase that comes
22 in in the beginning of '15. And then other projects
23 will have a limited duration of AFUDC at the time
24 that -- up until the expiration point that's provided
25 for in the agreement.

1 Finally, there is a provision in here that
2 gives us a two-year window for Gulf to be subject to
3 challenge if they exceed the \$197 million cap. Our
4 expectations are not -- are that Gulf will not exceed
5 that cap. But if they do, we will have a two-year
6 window of opportunity, the parties will have that
7 opportunity that will expire two years beyond that point
8 in July or June 30th of 2019.

9 To the extent Gulf stays out and does not come
10 in, our opportunity would expire. But that would also
11 be in our view a kind of a de facto stay-out provision
12 extension in that regard.

13 Finally, we're also comforted by the fact that
14 that restriction only applies to the parties, and the
15 Commission will retain its full oversight of these
16 projects and the ability to review them in cases
17 independently of any challenges that are brought by any
18 of the parties. So we're very comfortable with this
19 provision. It is a unique and creative resolution, but
20 I think it is also part of the fair balance that
21 encompass the whole agreement.

22 **COMMISSIONER EDGAR:** Thank you, Mr. Rehwinkel.
23 And I would like to follow up with that or on that issue
24 very briefly with our staff. And I did ask this in our
25 briefing, but while we are all gathered together and to

1 get it on the record from the perspective of our expert
2 staff, do you consider these provisions to be at all an
3 erosion of the Commission's discretion and authority?

4 **MR. WILLIS:** No, Commissioner, I do not
5 because it is in the form of a stipulation. It's a
6 unique method of allowing the company to forego putting
7 these projects in base rates by having AFUDC accrued
8 after the commercial in-service date up to the point in
9 time where that would end, but that's the uniqueness of
10 the settlement and I do not see it eroding any of the
11 Commissioners' authority.

12 **COMMISSIONER EDGAR:** Thank you. And just one
13 more. And in keeping with that, our -- do you believe
14 that there are sufficient protections built in for the
15 ratepayers as far as the costs and the need for these
16 specific projects?

17 **MR. WILLIS:** Yes, Commissioner, I do. It does
18 have a cap of \$197 million as far as all 15 projects in
19 total, not separately but in total. So there is a cap
20 that the Intervenors have agreed to as well as the
21 company. So it does provide, I believe, sufficient
22 protection.

23 **COMMISSIONER EDGAR:** All right. Thank you.
24 Thank you.

25 **CHAIRMAN BRISÉ:** Okay. Commissioner Brown.

1 **COMMISSIONER BROWN:** Thank you, Mr. Chairman.

2 And I'm very thankful that we're familiar with a lot of
3 these provisions. It was certainly a very clear,
4 straightforward settlement agreement. And, you know, we
5 heard from your customers, Gulf. You know, it's clear
6 to me that Gulf strives for excellent quality of
7 service, you're a good corporate citizen. So I wanted
8 to just acknowledge that here. And, again, thank the
9 parties for a collaborative effort and the
10 professionalism that you've all indicated. I think that
11 in a non-adversarial setting it's nice for us to
12 consider something like this, although I don't shy away
13 from the adversarial setting by any means. But I
14 appreciate it and I'm happy to consider it today. And
15 I've reviewed it amply, and I want to thank the
16 Prehearing Officer too for her handling of this docket
17 throughout the assignment. So I'm happy that we're at
18 this stage today.

19 That being said, Mr. Stone, talking about your
20 storm reserves, it's something that I really focused on,
21 and I couldn't get a clear, from the MFRs I couldn't get
22 a clear understanding of today what the storm reserves
23 are right now.

24 **MR. STONE:** The current balance -- and when I
25 say current, it's actually the balance as of

1 October 31 because I don't have the figures for November
2 that we haven't yet closed out the accounting -- but the
3 current amount is approximately \$35 million. And as I
4 indicated, we'll continue to make our normal annual
5 accrual. It's actually -- even though it's an annual
6 amount of \$3.5 million, it's done monthly. So that
7 balance --

8 **COMMISSIONER BROWN:** Will grow.

9 **MR. STONE:** -- will grow. I don't remember
10 the exact target that was set in our 2012 order, but
11 it's substantially higher than that.

12 **COMMISSIONER BROWN:** Is it 60? Is it 60?

13 **MR. STONE:** If you'll bear with me a moment.

14 **COMMISSIONER BROWN:** Sure.

15 **CHAIRMAN BRISÉ:** 55.

16 **COMMISSIONER BROWN:** Okay. Thank you.

17 **MR. WILLIS:** It's a range, Commissioners, of
18 48 to \$55 million.

19 **COMMISSIONER BROWN:** Thank you.

20 **MR. STONE:** I accept that.

21 **COMMISSIONER BROWN:** Okay.

22 **MR. STONE:** My, my folks in the back will say
23 he'll never get away with that for accepting it, but I
24 will accept that. But --

25 **COMMISSIONER BROWN:** So you think the

1 annual -- what I'm getting at, do you think, and I know
2 all of these terms are negotiated and there's a lot of
3 give and take here, but do you think that the annual
4 accruals are adequate to safely meet your, your needs?

5 **MR. STONE:** Commissioner, it is a negotiated
6 settlement. We obviously had a position different than
7 that in the case, but we are comfortable with the
8 provisions taken as a whole, the combination of the
9 ability, in this regard, the ability to have a storm
10 surcharge if we deplete our reserve and to keep the
11 existing accrual amount that was established for us back
12 in 1995.

13 And there's actually another provision that
14 was also in 1995 that gave us the discretion, when the
15 opportunity presents itself, to make additional
16 discretionary accruals to the reserve, and I believe
17 that's still intact as well. And so we believe the
18 combination of those three mechanisms will help protect
19 our customers in the event another series of storms such
20 as what we experienced in 1995 with Erin and Opal and in
21 2004 and '05 with Hurricanes Ivan, Dennis, and parts of
22 Katrina.

23 So, yes, I think we can make do. We obviously
24 are doing so in the context of this settlement, and we
25 reserve the right to again, after the settlement period

1 is over, to reevaluate our situation and urge a
2 different position.

3 **COMMISSIONER BROWN:** Thank you. And I do
4 think there are a lot of concessions, there are a lot of
5 favorable beneficial benefits going to the customers:
6 The rate case expense, the annual storm accrual remains
7 the same, the term of the agreement. So I think it's
8 overall a very balanced and favorable settlement
9 agreement for the consumers.

10 **CHAIRMAN BRISÉ:** Commissioner Balbis.

11 **COMMISSIONER BALBIS:** Thank you, Mr. Chairman.
12 I have a few questions.

13 Mr. Stone, is there someone from the company
14 that is here that can answer some specific questions
15 about return on equity and also O&M costs?

16 **MR. STONE:** Commissioner, I expected you to
17 ask me a question about transmissions and I had an
18 expert available for the answer to the transmission
19 system.

20 **COMMISSIONER BALBIS:** I have those as well.
21 We can do that.

22 **MR. STONE:** We certainly can try to field your
23 question and we'll have people here to address it. If
24 you don't mind asking the question, I'll try to find out
25 if I've got the right person here.

1 **COMMISSIONER BALBIS:** Well, one of the things
2 that I, I did enjoy in the last rate case, and not only
3 Gulf Power but other companies, is that they always
4 provided witnesses that are living, breathing, and
5 dealing with the technical issues. So it's always good
6 to ask the right person. So I'm more than happy to ask
7 the question, and I think they're simple questions, but
8 if there's anyone in the audience that you can call up,
9 I would appreciate it.

10 And the first thing I want to start off with
11 is that you had indicated that for the past, I believe
12 it was, 40 months Gulf Power has earned less than their
13 authorized range of return; is that correct?

14 **MR. STONE:** As reported on the monthly
15 surveillance report to the Commission, our returns have
16 been below the authorized range for more than the past
17 30 -- 40 months. Well, the reports for the, for 40
18 months, consecutive months have been below the range.
19 We have a couple of months that have not yet been
20 reported, and we will, when we make those reports, we
21 will be below the range.

22 **COMMISSIONER BALBIS:** Okay. And I don't know
23 if there's someone here from management that just -- the
24 question I have is that recently we approved a
25 significant increase in revenues to the company and yet

1 still you have not been able to earn within the
2 authorized range, and then in the settlement agreement
3 you're asking for the same midpoint. So the question is
4 what happened and why aren't you able to earn within the
5 authorized range of return with the increase we granted
6 in 2012?

7 **MR. STONE:** Why weren't we able to?

8 **COMMISSIONER BALBIS:** Yes.

9 **MR. STONE:** Commissioner, that, I believe that
10 was addressed extensively in testimony. Quite frankly,
11 the revenues that were anticipated as a result of
12 customer growth and customer usage did not materialize.
13 And so, therefore, our, our rates, our prices were based
14 on a projected revenue or a, I'm sorry, kilowatt hour
15 consumption that did not materialize. So that was a
16 significant factor in why we have not been able to
17 operate within the range, given the rates that were
18 allowed in our last order. So that's part of the answer
19 to your question.

20 We're also facing increasing costs, and that's
21 part of the reason we were here before the Commission
22 with a new case. The invest, additional investment in
23 infrastructure is a significant factor in why we had to
24 be here. I hope that addresses your question. If I
25 haven't, I will certainly see if I can draw on other

1 resources to be more particular.

2 **COMMISSIONER BALBIS:** No. And I think that's
3 a good start, you know, because at the end of the day
4 customers need to know why they need to pay \$55 million
5 more, you know, in total. And so I'm just trying to get
6 to the bottom of that as we address whether or not this
7 agreement is in the public interest.

8 So you mentioned infrastructure improvements
9 and also you started with a not realizing the revenue,
10 the revenues that you had anticipated in the past rate
11 case. So of the 55 million -- or do you know what was
12 the, the deficit in revenue that you anticipated and
13 what you received in the test year?

14 **MR. STONE:** I'm reminded that in fact missing
15 the load forecast is 55 million in the 2014 test year.

16 **COMMISSIONER BALBIS:** Okay. And then you also
17 indicated significant investment in infrastructure, and
18 I'll get into the transmission issues since you've asked
19 for it.

20 The 15 projects that are mentioned, and I
21 appreciate OPC indicating that they're warranted,
22 they're needed, and there are some protections in place,
23 and that gives me comfort.

24 The question I have is in looking at the
25 descriptions it becomes apparent it will allow the

1 wheeling or transmission of power around the power
2 plants, et cetera, and different areas. Will this
3 provide interconnection with other utilities? And, if
4 so, is there any benefit to those utilities that perhaps
5 they should pay for some of those costs?

6 **MR. STONE:** Commissioner, obviously our
7 transmission system is interconnected with our
8 neighbors. But all of these improvements and all of
9 these dollars represent improvements internal to our
10 system. They do not directly affect the
11 interconnections with our neighbors. They're our costs
12 for our, our, our facilities in order to get power to
13 our load centers. So there, there are no benefits to
14 our neighbors that they're not paying for with the
15 improvements on their side of the border.

16 **COMMISSIONER BALBIS:** Okay. And I want to
17 shift gears and ask Mr. Rehwinkel, did -- and I
18 understand that you're putting in the settlement as a
19 whole, but, you know, at least what I have to do is look
20 through each piece of it and then put it all together
21 and see if it's in the public interest.

22 Was the Office of Public Counsel comfortable
23 that with these transmission and distribution projects
24 that the benefit was going to be limited primarily to
25 Gulf Power customers?

1 **MR. REHWINKEL:** Commissioner, yes, to the
2 extent that that was our concern in the testimony that
3 we filed. I think that, that that was, that was an
4 issue that we explored and were satisfied that the
5 benefits were allocated appropriately. We really looked
6 at it more from the standpoint of the affiliates,
7 Alabama Power and the rest of the Southern system, and I
8 think that was not a concern that was manifested in the
9 way we looked at the case. And that's outside of the
10 settlement agreement.

11 Within the settlement agreement I think we
12 would look at it from the standpoint of there are, I
13 guess, tariffs on file with FERC that will address the,
14 the appropriate allocation of costs and benefits. So it
15 wasn't a salient concern of ours in the agreement, and
16 we're comfortable.

17 **COMMISSIONER BALBIS:** Okay. Thank you. And
18 that -- I'm glad you have that comfort level, as it
19 gives me comfort as well.

20 And, Mr. Stone, going into -- okay. So we've
21 gone over the T&D projects and the costs associated with
22 that and I'm comfortable with that. There's also -- you
23 indicated there were also increases in costs. I assume
24 that would be O&M costs. What are some of those costs
25 and why have you realized those increases?

1 **MR. STONE:** Commissioner, when I was referring
2 to increase in cost, I was mainly referring to the
3 increased cost of the investment. This is not an O&M
4 case. It is an investment case. There were some minor
5 areas of, where there were some O&M changes. But the
6 overall driver in this case literally was the failure of
7 revenues to materialize that were expected when rates
8 were last set, and the additional investment that was
9 outside of the test year when rates were last set. And
10 the increased cost I was referring to was the, was the
11 cost of supporting that additional investment.

12 **COMMISSIONER BALBIS:** Okay. Something jumped
13 out at me in reviewing what staff put together of
14 Schedule C35 of the MFRs, and it just shows, you know, a
15 number increase from a pension standpoint. Could you
16 explain why there was such a discrepancy over, you know,
17 the track record? Even outside the test year it just
18 seems to kind of jump up and down and that's just
19 something that piqued my curiosity.

20 **MR. STONE:** I'm going to give you a high-level
21 answer to that. And if, if we need to go deeper than
22 that, I'll have to draw on some others to help me.

23 But the high-level answer to that is, quite
24 frankly, our pension program is still a victim of, of,
25 of the, of the stock market, and we've not fully

1 recovered from the downgrade in the stock market that
2 occurred, although there's been major improvements.

3 For many years our pension program was
4 essentially self-supporting because of the returns in
5 the marketplace, and that's just simply no longer the
6 case. We hope some day it'll get back to that point,
7 but right now we're not. And I think that's the major
8 driver of that increase that you see in that MFR.

9 **COMMISSIONER BALBIS:** Do you expect those
10 significant fluctuations to continue?

11 **MR. STONE:** I knew you were going to reach the
12 end of my comfort zone, so I will draw on someone to
13 help me with that.

14 **MR. TEEL:** Good morning, Commissioners. My
15 name is Scott Teel. I'm the Vice-President and Chief
16 Financial Officer.

17 One additional thing I would point out to
18 Mr. Stone's comments is that really, as much as the
19 market conditions and the stock market returns, really a
20 bigger driver is the interest rates. And the factor in
21 the calculation of the accounting pension expense is the
22 interest rate that you must use to discount the future
23 costs of your pension payments. As that interest rate
24 has declined, then the present value of those pension
25 costs increase. So as interest rates have decreased,

1 that has actually been a big factor in the increase in
2 the pension expense that we needed to recognize.

3 **COMMISSIONER BALBIS:** Okay. So as far as
4 continued fluctuation, do you expect that to continue?
5 Because there's significant deltas between year-to-year.
6 And let me preface the line of questioning is really
7 because we just went through this a couple years ago,
8 and that the company still has yet to earn within their
9 range. And you're showing significant increases in your
10 costs, and in some years a decrease; just trying to
11 flesh out so we are in this same position a couple of
12 years from now.

13 **MR. TEEL:** Yes.

14 **COMMISSIONER BALBIS:** So do you expect the
15 fluctuation to continue?

16 **MR. TEEL:** The fluctuation of the --

17 (Simultaneous conversation.)

18 **MR. TEEL:** -- and the pension costs. It's
19 hard to say. I mean, quite frankly, the economic
20 conditions and the volatility and the slow recovery is,
21 as Mr. Stone mentioned, is a big driver for the reason,
22 you know, we are back now is the economic recovery has
23 been slower than anticipated which was the biggest
24 factor in the revenues not being realized.

25 So the expectation, you know, as it was two

1 years ago is that the economy is going to recover. As
2 the economy recoveries, then, yes, you would expect our
3 sales to also increase. It's a matter of -- in terms of
4 the pension expense, then it's a matter of your
5 expectations on the returns and interest rates. And I
6 think we do, I don't have those numbers, but the
7 expectation is for an increase in the interest rates
8 which would have some impact on the pension expense even
9 in the test year.

10 **COMMISSIONER BALBIS:** Okay. Thank you. And
11 that does explain that, at least to my satisfaction. I
12 have a couple of other questions, Mr. Chairman, on the
13 depreciation reserve --

14 **CHAIRMAN BRISÉ:** Go right ahead.

15 **COMMISSIONER BALBIS:** -- different
16 methodologies, et cetera. One of the issues that I
17 looked into very closely in other settlement agreements
18 was the use of depreciation reserve for any reason. So
19 my question is the \$62.5 million that this agreement
20 will allow Gulf Power to access, do you expect that it
21 will be used to hit the low end of the ROE range or the
22 upper limit of the ROE range?

23 **MR. STONE:** By the terms of the agreement, we
24 can only use so much of it as to get to the midpoint at
25 any time. So, I mean, if we're reporting a 12-month

1 achieved -- otherwise we are reporting a 12-month
2 achieved return that is below our midpoint, we can use
3 up to \$62.5 million over the life of the agreement to
4 get to that midpoint.

5 Now there is also a provision in here that
6 because that's a 12-month rolling movement, if we then
7 start going above the midpoint and get to the top of the
8 range, if we were to exceed the top of the range without
9 an adjustment, we can replenish that 62.5 to the extent
10 we have used it in the previous 12 months. So, this is,
11 again, a mechanism that has got some levers, if you
12 will, that will help us to manage and stay within our
13 range and extend this agreement through its intended
14 term.

15 **COMMISSIONER BALBIS:** Is there a surplus in
16 depreciation reserve or dismantlement reserve?

17 **MR. STONE:** That was a hotly contested item in
18 the case. And there were a variety of opinions on
19 whether the cost of removal aspect of our depreciation
20 reserve was a surplus or adequate. There was also a
21 hotly contested item with regard to our provision for a
22 terminal dismantlement of our fossil generating plants
23 and whether it was sufficient or surplus. And those are
24 aspects of our current studies, the depreciation
25 dismantlement studies, that will be better informed the

1 next time we have a represcription, as when we submit a
2 new study, better informed by actual experience in the
3 intervening period of time. And we believe that we will
4 be able to resolve that dispute amongst the parties in
5 the next litigation. And that this provision to use a
6 portion of the amount that is above the asset retirement
7 obligation for this discretion gives us the necessary
8 flexibility.

9 We believe that ultimately, given the life of
10 our facilities and the long-term nature of our business,
11 using \$62.5 million, if it becomes necessary to use it
12 over the next 42 months, will not have a significant
13 detrimental effect to our customers regardless of how
14 that controversy between the parties may eventually turn
15 out.

16 **COMMISSIONER BALBIS:** Okay. But with this
17 rate case, and submitted with your MFRs, did you not
18 include a depreciation and dismantlement study?

19 **MR. STONE:** We filed a
20 depreciation/dismantlement study in May of this year.
21 It was on a separate track until a motion to consolidate
22 moved it in with the rate case. Normally
23 depreciation/dismantlement represcriptions are on their
24 own independent track every four years. It is -- when
25 rate cases are coincident with them, it is important to

1 reflect and capture the result of whatever
2 represcription takes place in those
3 depreciation/dismantlement study dockets in the rates
4 that are being set, but they are not tied in the fact
5 that they weren't filed simultaneously, they weren't
6 filed, you know --

7 **COMMISSIONER BALBIS:** I understand that. I'm
8 just trying to get a handle about, around this aspect of
9 the settlement agreement. So in what was filed and
10 ultimately combined with this rate case, did your
11 testimony request that customers pay an additional
12 amount into the depreciation/dismantlement reserve?

13 **MR. STONE:** On balance, our overall rates
14 remain the same in base rates. The most dramatic change
15 in terms of costs to our customers resulting from the
16 new studies would have occurred in the cost-recovery
17 clauses. But, again, we have frozen and avoided that
18 necessary increase, and so we are not actually
19 changing -- because of the settlement agreement,
20 whatever it was we proposed in May is not taking place.

21 **COMMISSIONER BALBIS:** Oh, I understand that.
22 But if your study showed that customers are going to
23 need to pay more into this reserve account at some
24 point, then logically that means that that account is,
25 there is no surplus. In fact, there is a deficit in

1 that account, because at some point the company is going
2 to have to pay for the dismantlement of these units. So
3 I'm just trying to understand how allowing you to access
4 \$62.5 million of that account when your testimony
5 indicates you need even more than that, how is that not
6 going to just result in customers having to pay more as
7 soon as this next study comes into place?

8 **MR. STONE:** Well, again, Commissioner, that
9 was hotly contested whether to approve the -- and I
10 think you're referring now to simply the fossil, the
11 terminal fossil generating plant dismantlement accrual
12 in that reserve, and you are not referring to the cost
13 of removal that is for routine interim retirements. And
14 if I'm correct that you are referring to that fossil
15 dismantlement, there was a wide disparity between the
16 positions of the parties on what was the appropriate
17 amount. We were advocating one number, and I believe
18 the Public Counsel with the concurrence of the other
19 parties was advocating a number that would have reduced
20 that to less than a million dollars a year.

21 **COMMISSIONER BALBIS:** Well, let me change
22 gears and maybe ask Mr. Rehwinkel to comment on this,
23 because I don't think -- maybe the Prehearing Officer
24 during the handling of this case understands what was
25 hotly contested and what was not, but I certainly do not

1 know which one was.

2 So, Mr. Rehwinkel, instead of repeating the
3 line of questioning, do you know where I'm going with
4 this? I mean, how is this in the public interest to
5 have access to \$62.5 million if it has to be replaced at
6 the end?

7 **MR. REHWINKEL:** Okay. I appreciate your
8 question, and I think I understand what you're looking
9 for. First of all, Mr. Stone is correct that there was
10 a fairly wide gulf, no pun intended, between the parties
11 on depreciation. We offered the testimony of a
12 preeminent expert, and if our view of the case were to
13 bear out with respect to depreciation expense, there
14 would be a significant surplus. So this depreciation
15 reserve deficiency surplus is all theoretical. It's
16 based on, you know, all of these factors that go into
17 determining the lives and that result in the expense
18 accruals and the reserves. So we believe that there was
19 one, the company believed that there was not one. This
20 is a compromise that puts to another day the final
21 determination or a more specific determination of the
22 full status of that reserve, whether it's a surplus or a
23 deficiency.

24 So based on the way we litigated the case, a
25 surplus would exist and it would be sufficient to cover

1 this. And it essentially puts off for that next study
2 and the next determination by the Commission what the
3 correct rates are.

4 So I would say that, A, that's a fair
5 question, but it's also a fair question as to whether
6 and to what extent there is a surplus or deficiency. B,
7 we don't expect that the company will actually use this.
8 It's there for them if they need it for the reasons that
9 Mr. Stone has stated. But there is a specific provision
10 here. They don't have to take it. They can only take
11 it for the reasons to get to the midpoint and not for
12 any other reasons. That's the difference between some
13 of the other provisions that the Commission has
14 approved. So that's a protection that we see in there
15 for that, if that answers your question.

16 **COMMISSIONER BALBIS:** That does. Thank you.
17 I mean, that definitely alleviates my concerns.

18 Then one last question, and it's kind of a out
19 of left field one. There has been a lot of discussion,
20 and I believe the environmental protection agency had a
21 listening tour, if you will, on discussing proposed
22 carbon dioxide limits. And one of the issues out there
23 that may result eventually in the accelerated shutting
24 down of coal plants. I believe Gulf Power has eight
25 coal units. How does this play into it, because

1 obviously it will be a deficit at that point if you are
2 having to shutdown coal plants ahead of time, and did
3 you take that into consideration, or is it something too
4 far out to really address?

5 **MR. STONE:** Commissioner, we are in the
6 process of evaluating the continued viability of our
7 coal units in light of existing regulations. It's hard
8 to anticipate what future regulations might be, and I
9 don't believe this Commission would encourage us to
10 prematurely retire our fleet based on anticipated
11 regulations.

12 We want our fleet to be available to serve our
13 customers cost-effectively as long as we can possibly
14 make it. We have an awful lot of money tied up in that
15 fleet, but we continue to evaluate it and reevaluate it
16 in light of changing conditions to make sure that we
17 maintain and have available to us the most
18 cost-effective resources, generating resources.

19 With that in mind, I will tell you that the
20 improvements we are making to the transmission system
21 improve our flexibility to adopt to those changing
22 requirements as they may come down the pike. We are
23 hopeful that whatever regulations come down that we will
24 still have a viable cost-effective generation fleet as
25 it exists today. But if it doesn't, we'll have to build

1 replacement generation. And that is, you know, one of
2 those things that we will have to do in the best
3 interests of our customers.

4 **COMMISSIONER BALBIS:** Okay. Thank you.

5 I was just curious about that. And just a few
6 more questions. I want to shift gears a little bit on
7 the cost-of-service methodology. I know in the last
8 rate case, and I believe there was a stipulation, I
9 don't think I voted for it. In fact, I know I didn't.
10 And there was some concern that there wasn't enough
11 information on the MDS methodology that was used. There
12 was concern about whether the appropriate pole sizes
13 were used to accurately assess what is the minimum
14 system.

15 Have those issues been resolved? And I will
16 turn it to staff at this point so that there is enough
17 information to support that it is an effective
18 cost-of-service methodology. Maybe I'll go to staff
19 with that one first.

20 **MR. DEAN:** Jim Dean. As far as staff, I was
21 not here at the Gulf hearing previously. I know staff
22 looked -- the former staff manager that had that section
23 under their authority looked at that issue pretty
24 closely. I don't remember what staff's position was on
25 it at that time.

1 Since that time, we are aware that MDS is
2 being used. Essentially the same cost-of-service
3 methodology they used last time. Staff has generally
4 moved in the direction of believing MDS is an
5 appropriate new cost-of-service technique, if you will,
6 and so recommended in the TECO case.

7 In this specific case, we did not revisit the
8 methodology, MDS, that was used in the last rate case.
9 We just generally think it's the right direction, but I
10 can't speak to the specifics of how it differs from
11 TECO's or what was recommended last time.

12 **COMMISSIONER BALBIS:** Okay. Maybe one of the
13 other signatories can take a shot at it. Mr. Rehwinkel,
14 did you review that information? Do you feel that it's
15 accurate and doesn't result in an undue burden to
16 certain rate classes?

17 **MR. REHWINKEL:** Commissioner, there was no
18 information that we were provided that gave us any
19 concern about that with respect to the agreement.
20 Again, this was an overall negotiated agreement. I
21 believe that the information that we looked at indicated
22 that there was not an undue or unwarranted shift of
23 costs to the residential customers. And I believe that
24 the relationships that result in this agreement are
25 consistent with the policy that the Commission has

1 adopted and has protected all these years.

2 **COMMISSIONER BALBIS:** Okay. Thank you.

3 And, Mr. Moyle, would you agree with that
4 assessment?

5 **MR. MOYLE:** We were advocates of the MDS
6 approach previously and think it's a good approach to
7 distribute costs. I mean, in sum, I think I used the
8 analogy to say if, you know, you've got 100 acres and
9 you're going to develop it and put in houses on one-acre
10 lots, that's a lot more distribution cost to go in in a
11 residential setting than if your 100 acres was going to
12 be used to develop an industrial center that's going to
13 take energy off of the transmission line. And, you
14 know, kind of at a high level, that is what the MDS, I
15 think, tried to recognize. So we're very comfortable
16 with the approach.

17 **COMMISSIONER BALBIS:** Okay. And I'll just go
18 do the line, if I may.

19 **MAJOR THOMPSON:** FEA is also an MDS fan. The
20 last few rate cases they tried to get the MDS, and so we
21 approve of that method.

22 **COMMISSIONER BALBIS:** It's my understanding
23 that some of your bases are looking to privatize utility
24 service and go from a master meter, if you will, at the
25 beginning of the base to individual meters to encourage

1 conservation. How does this play into it? Did you take
2 this into account in signing off on this?

3 **MAJOR THOMPSON:** I'll have to look into that.
4 I have heard that is the case for a couple of the bases,
5 but I don't know how that would affect this deal in
6 particular.

7 **COMMISSIONER BALBIS:** Okay. And, Mr. Wright?

8 **MR. WRIGHT:** Thank you, Mr. Chairman,
9 Commissioner.

10 Wal-Mart generally supports the use of the
11 interim distribution system. I do want to point out
12 some information that I think puts us on context, and
13 this is contained in Exhibit B to the settlement
14 agreement. It shows the percent increases by class, and
15 I think one of the reasons that all of us can be
16 comfortable, and particularly my friends at the Public
17 Counsel's Office is that the residential NGS, small
18 general service classes, get smaller increases than the
19 large power and major accounts do. They get 5.4 and 7.0
20 versus 9.8 and 10.5 percent for those.

21 So all things considered, again, this is,
22 really, a completely fair cost of service result, even
23 looked at from the specific perspective of the
24 residential customers.

25 **COMMISSIONER BALBIS:** Okay. Thank you.

1 And just my last question for Gulf Power. The
2 economic development tariffs or programs indicate a
3 100-megawatt limit which seems like a big number. What
4 types of industry or businesses do you expect to attract
5 with these programs?

6 **MR. STONE:** Commissioner, they are designed --
7 there are three different riders. They are for
8 different levels of customer. They are from small
9 businesses to large industrial businesses. We hope to
10 be able to attract significant investment in our area
11 both from our existing businesses that are expanding,
12 but also from new businesses coming to our area and
13 providing new jobs. And so that's the reason for these
14 riders.

15 It's a wide variety of what we hope to be able
16 to achieve. I don't have any specifics about the types
17 of businesses. I will say the 100 megawatt limit was a
18 negotiated number. Quite frankly, I don't think the
19 consumer parties would be alarmed to hear me say that
20 we'd love a larger number, but we wanted everyone to be
21 comfortable with the number. But, quite frankly, if we
22 were to realize 100 megawatts of additional load through
23 these riders, we would consider the program a wild
24 success.

25 **COMMISSIONER BALBIS:** Okay. Thank you, Mr.

1 Chairman. That's all I have.

2 **CHAIRMAN BRISÉ:** Any further questions,
3 Commissioners, or comments? Okay.

4 I think that this is a good settlement. I
5 think it addresses the immediate needs of the company
6 and sets a horizon to deal with some long-term
7 associated needs, particularly when we look at the
8 transmission projects and so forth.

9 I certainly appreciate the fact that all the
10 parties have come to an agreement. And it is quite
11 obvious when you look at the litigated case and what is
12 requested and all the positions that this is definitely
13 an agreement that from my perspective makes sense, and
14 there was solid give and take here.

15 I want to also take this time to thank the
16 Prehearing Officer. As time progressed and we got into
17 crunch time, particularly with the settlement coming in,
18 that we were able to get to this point. And so I'm glad
19 that we were able to put it on today's agenda, so that
20 we can address it with the opportunity that if it would
21 get some sort of a hiccup that we still have the other
22 dates in place to go back to the litigated case.

23 I am prepared to move forward in terms of a
24 decision on this, and I'm looking at my colleagues. And
25 based upon the questions that I heard this morning, I

1 think we might be in that posture at this time, so I'm
2 ready to entertain a motion.

3 Commissioner Edgar.

4 **COMMISSIONER EDGAR:** Thank you, Mr. Chairman.

5 As I stated earlier, I have had the
6 opportunity to go over the details of the settlement
7 with staff in detail. I, again, am appreciative of all
8 of the parties helping to get us to this point, and our
9 staff, which did do some quick turnaround thorough work,
10 but also on some quick turnaround and realizing the
11 deadlines that we have.

12 I did feel that it was part of my role as
13 Prehearing Officer on this docket that when the
14 settlement agreement came in that we would establish
15 dates and a plan that would work, should there be
16 contingencies. And that is, indeed, the case.

17 However, with the discussion that we have had
18 today, I would like very much to make a motion that we
19 approve the proposed settlement and stipulation
20 agreement as it is, as it has been filed in its
21 entirety. And if that motion carries with the majority
22 of Commissioners and support, then I would have two very
23 small procedural matters that I would ask you to take
24 up.

25 **CHAIRMAN BRISÉ:** Sure.

1 **COMMISSIONER BROWN:** Second.

2 **CHAIRMAN BRISÉ:** Okay. It has been moved and
3 seconded.

4 Any further discussion? Okay.

5 Commissioner Balbis.

6 **COMMISSIONER BALBIS:** Thank you, Mr. Chairman.

7 I am in full support of the motion. I think
8 this is a comprehensive settlement agreement that is in
9 the public interest. And the main selling point for me
10 was the fact that Gulf Power, even with their
11 cost-savings programs that they have implemented since
12 their last rate case, they still have earned below the
13 authorized rates, and that caused concern with me. So
14 with that, it was obvious that they needed some rate
15 relief. And the fact that the projections of revenue
16 equated to \$55 million, that gives me some comfort. And
17 in addition to that, the customers get the benefit of
18 investment in infrastructure which is a true benefit to
19 all the customers. There is also economic development
20 programs in place that I think are good, and I believe
21 and hope that it results in the appropriate revenues for
22 the company and the customers.

23 **CHAIRMAN BRISÉ:** All right. Thank you.

24 Any further comments? Seeing none, ready for
25 the question. All in favor say aye.

1 (Vote taken.)

2 **CHAIRMAN BRISÉ:** All right. Thank you.

3 Commissioner Edgar, there were a couple of
4 other procedural issues that --

5 **COMMISSIONER EDGAR:** Yes, sir, two procedural
6 points. The first is we did hold the prehearing
7 conference from a week ago kind of in a continuation
8 mode, should it be necessary, and so we had that
9 tentatively scheduled for tomorrow. I would ask you,
10 Mr. Chairman, to declare that moot and that there would
11 be no prehearing conference tomorrow because it is no
12 longer needed.

13 **CHAIRMAN BRISÉ:** Okay. So it's done.

14 **COMMISSIONER EDGAR:** Okay. Thank you very
15 much.

16 And then the second is because we were getting
17 ready to go into the next stages of hearing and
18 litigation when the proposed settlement and stipulation
19 was filed with the Commission, we, working with our
20 staff and all the parties, did not get to the point of
21 kind of finalizing some of the exhibits and all of that.
22 So from purely a procedural posture, I would ask that
23 the document that is in the docket file that is
24 described as Revised Draft Comprehensive Exhibit List be
25 entered into the settlement record, the list, and then

1 also all of the exhibits that are on it, I believe it is
2 1 through 146, as backup information and as part of the
3 settlement agreement.

4 And I believe that all of the parties are fine
5 with that, but if you want to verify --

6 **MR. STONE:** I can confirm that yesterday at
7 the behest of my colleagues, the Joint Movants, that we
8 did submit a letter to Ms. Helton and Ms. Brownless
9 confirming our agreement with supplementing the
10 settlement record as you've indicated.

11 **CHAIRMAN BRISÉ:** All right. Thank you.

12 **COMMISSIONER EDGAR:** And, Mr. Chairman, I
13 think as presiding officer you could just make that so.

14 **CHAIRMAN BRISÉ:** Sure. So we can move the
15 comprehensive list and the exhibits to the settlement,
16 specifically to the settlement into the record for the
17 settlement.

18 **MR. REHWINKEL:** Mr. Chairman. Go ahead.

19 **CHAIRMAN BRISÉ:** Yes, Ms. Brownless.

20 **MS. BROWNLESS:** Commissioner, just for the
21 record, we do have CDs that we will provide to the
22 Clerk's Office that contain those documents.

23 **CHAIRMAN BRISÉ:** All right. Thank you.

24 Mr. Rehwinkel.

25 **MR. REHWINKEL:** I would, first of all, like to

1 thank the Commission for your facilitation, and the
2 staff especially for making this possible today. I have
3 kind of a strange request, but I'd like to make a
4 statement on the record. And it's kind of bizarre, but
5 I have a very unusual last name that's spelled very
6 distinctively. And I think right about the time, maybe
7 the day after we signed this agreement there was an
8 article in the paper. Because we are here so publicly,
9 there was an individual that was elected to Gulf Power's
10 board, his name is Michael Rehwinkel, and I want to
11 state for the record I do not know this person, and as
12 far as I know I am not related to him. (Audience
13 laughter.)

14 But because I have been talking here on behalf
15 of the customers, I felt it was important, in all
16 seriousness, for appearances to make that statement on
17 the record. And I thank you for your indulgence.

18 **CHAIRMAN BRISÉ:** Thank you. And as people, I
19 guess, that are in public light, we recognize the
20 importance of those type of statements. All right.
21 Well, thank you very much.

22 **MR. REHWINKEL:** Thank you.

23 * * * * *

24 (Agenda item concluded.)

1 STATE OF FLORIDA)

2 : CERTIFICATE OF REPORTERS

3 COUNTY OF LEON)

4 WE, JANE FAUROT, RPR, and LINDA BOLES, RPR,
5 CRR, Official Commission Reporters, do hereby certify
6 that the foregoing proceeding was heard at the time and
place herein stated.

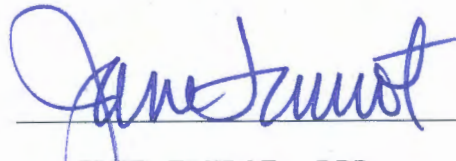
7 IT IS FURTHER CERTIFIED that we
8 stenographically reported the said proceedings; that the
9 same has been transcribed under our direct supervision;
and that this transcript constitutes a true
transcription of our notes of said proceedings.

10 WE FURTHER CERTIFY that we are not a relative,
11 employee, attorney or counsel of any of the parties, nor
12 are we a relative or employee of any of the parties'
attorneys or counsel connected with the action, nor are
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14 DATED THIS 10th day of December, 2013.

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