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Regulatory & Pricing Manager

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October 12, 2016

VIA ELECTRONIC FILING

Ms. Carlotta Stauffer  
Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

Re: Petition for an increase in rates by Gulf Power Company, Docket No. 160186-EI

Re: Petition for approval of 2016 depreciation and dismantlement studies, approval of proposed depreciation rates and annual dismantlement accruals and Plant Smith Units 1 and 2 regulatory asset amortization by Gulf Power Company, Docket No. 160170-EI

Dear Ms. Stauffer:

Attached is the Direct Testimony of Gulf Power Company Witness  
S. W. Connally, Jr.

(Document 4 of 29)

Sincerely,

A handwritten signature in blue ink that reads "Robert L. McGee, Jr.".

Robert L. McGee, Jr.  
Regulatory & Pricing Manager

**BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION**

**DOCKET NO. 160186-EI**



**Gulf Power**

**TESTIMONY  
OF  
S. W. CONNALLY, JR.**

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GULF POWER COMPANY  
Before the Florida Public Service Commission  
Prepared Direct Testimony of  
S. W. Connally, Jr.  
Docket No. 160186-EI  
In Support of Rate Relief  
Date of Filing: October 12, 2016

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

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

Q. Please summarize your educational background and professional experience.

A. I graduated with a Bachelor of Mechanical Engineering from The Georgia Institute of Technology in 1993. In 2004, I completed the Goizueta Executive Education Program at Emory University. I began my career with the Southern Company in 1989 as a co-op student at Georgia Power's Plant Yates. Since that time, I have held positions of increasing responsibility in Customer Operations, Sales and Marketing, and Power Generation at Georgia Power, Alabama Power, and Mississippi Power. Immediately prior to coming to Gulf Power, I served as the Senior Vice President of Generation and Senior Production Officer at Georgia Power. In July 2012, I assumed my current role at Gulf Power.

1 Q. What is the purpose of your testimony?

2 A. My testimony is primarily intended to provide an overview of our filing and to  
3 introduce our witnesses and case. I will summarize Gulf's need for timely  
4 and adequate rate relief and describe the major factors causing this need.

5  
6 Q. As the leader of Gulf Power Company, please describe the core values of  
7 the Company and its employees.

8 A. Our core values begin with safety. We want our employees to work safely  
9 every day in every job so that they can go home to their families at the end  
10 of the day in the same condition they were in when they came to work. A  
11 safe work environment also creates a productive work environment which  
12 benefits the Company, the employees and certainly our customers.

13  
14 Further, as you will hear over and over again from the testimony of our  
15 witnesses, customers are at the center of everything we do. The decisions  
16 we make and the actions we take every single day are a reflection of that  
17 belief. This belief drives us to maintain reliable service, to be responsive  
18 and effective in our customer contacts, and to deliver value through the  
19 services we provide.

20  
21 We cannot achieve our customer-focused business objectives without our  
22 employees and our investors. We have an obligation to continue staffing  
23 our business with qualified and experienced personnel dedicated to fulfilling  
24 our mission of service to our customers. We must continue to maintain a  
25 competitive compensation and benefits program that allows us to attract

1 and retain our talented and experienced work force to meet the service  
2 requirements and evolving expectations of our customers.

3  
4 Lastly, in order to ensure that our customers' needs are securely met now  
5 and into the future, we have a responsibility to provide an adequate return  
6 to our shareholders who provide us with the funds necessary to build and  
7 service our growing infrastructure and customer base.

8  
9 Q. Why has Gulf initiated this rate review proceeding by petitioning the  
10 Commission to approve an increase in Gulf's retail base rates beginning  
11 July 1, 2017?

12 A. Our business as an investor-owned electric utility is capital intensive and  
13 requires long-term investments to provide an essential service to  
14 customers. Timely and adequate revenues through rates are a key  
15 component of our ability to attract capital at reasonable rates in order to  
16 continue to make these long-term investments.

17  
18 We simply cannot put off the need for permanent rate relief any longer.  
19 Since 2012, the test year of our last fully litigated case, Gulf will have made  
20 more than \$900 million of additional investment in generation, transmission,  
21 distribution and general plant in order to continue providing reliable service  
22 to our customers. These necessary investments along with reasonable  
23 growth in expenses and working capital must be covered by rates.  
24 Unfortunately, Gulf's revenue growth since 2012 has not kept pace with  
25 these increases in investment and expenses. Gulf is requesting rate relief

1 in order to continue to fulfill the public service requirements set forth in the  
2 statutes and to meet the needs and expectations of our customers.

3  
4 The timing of this request is driven by two additional factors. The first is the  
5 expiration of two long-term off-system sales agreements from our  
6 investment in Plant Scherer Unit 3 (Scherer 3) – agreements that have  
7 insulated our retail customers from supporting this investment made on their  
8 behalf nearly 30 years ago. The second is the upcoming end of the period  
9 covered by the 2013 Stipulation and Settlement Agreement (2013  
10 Settlement Agreement or Settlement). The combination of all these factors  
11 results in an immediate need for permanent rate relief.

12  
13 Gulf initiated a rate review proceeding in 2013 because the rate relief we  
14 had been granted by order in early 2012 was not sufficient to cover our  
15 costs of providing reasonable and adequate service to our customers and  
16 simultaneously fulfill our obligations to our employees and shareholders. As  
17 we stated at the time, the base rate increase we requested in 2013 was  
18 needed to maintain customer satisfaction and the quality of service our  
19 customers expect and deserve.

20  
21 Gulf and all of the intervenors reached a settlement agreement that  
22 provided a mixture of limited rate relief and other mechanisms that  
23 facilitated postponement of further changes in base rates for the period  
24 covered by the Settlement. The Settlement and the mechanisms it provided  
25 allowed us to complete the critical transmission projects that were a major

1 component of our need for rate relief at the time of our 2013 rate review  
2 proceeding. However, the 2013 Settlement Agreement stopped short of  
3 providing the permanent rate relief needed to support those investments  
4 beyond the end of the period covered by the Settlement. Now that the  
5 projects undertaken within the scope of the Settlement are complete and in  
6 service, the period covered by the Settlement is coming to a close, and a  
7 majority of Gulf's investment in Scherer 3 has been rededicated to serving  
8 our native load customers, the time has come that permanent rate relief  
9 must be provided for the long-term best interests of our customers.  
10

11 Q. Would you please provide an overview of the case that will be presented by  
12 Gulf's witnesses?

13 A. Our case will be presented by a number of witnesses testifying in detail on  
14 behalf of the Company. These witnesses include Company officers and  
15 employees, as well as consultants from outside the Company with expertise  
16 on specific subject matters. Collectively, these witnesses will demonstrate:  
17 that our focus continues to be on our customers; that Gulf's costs of  
18 providing retail service are reasonable, prudent, and have outpaced Gulf's  
19 revenues; that without rate relief Gulf's projected rate of return will fall well  
20 below any reasonable level necessary to serve customers and attract  
21 capital for the long term; and that the rates Gulf has proposed in this case  
22 are just and reasonable.  
23

24 During the presentation of our case, you will hear from a group of witnesses  
25 who manage operational areas within our company that focus directly on

1 service to our customers. Bentina Terry, our Vice President of Customer  
2 Service and Sales, discusses Gulf's commitment to customer service and  
3 its measurement of customer satisfaction, as well as the Company's  
4 marketing and economic development activities. Wendell Smith, our Vice  
5 President of Power Delivery, will address Gulf's power delivery systems and  
6 the Company's performance and investment in these systems. Michael  
7 Burroughs, our Vice President of Power Generation and Senior Production  
8 Officer, discusses the continued diversification of Gulf's generating  
9 resources, resource planning for the future needs of our customers, and  
10 closure-related activities for the coal-fired assets at Plants Scholz and  
11 Smith. These witnesses will also discuss their operations and maintenance  
12 budgets for the 2017 test year.

13  
14 In addition, Gulf will present a number of other professionals who provide  
15 testimony related to the Company's finances and financial needs which are  
16 also critical to our ability to serve our customers. Jun Park, our Supervisor  
17 of Forecasting, will address the Company's forecast methodologies and  
18 results for customers, energy sales, peak demand and base rate revenue.  
19 Josh Mason, our Financial Planning and Budgeting Manager and Assistant  
20 Treasurer, will describe the Company's rigorous planning and budgeting  
21 process. Xia Liu, our Vice President and Chief Financial Officer, will  
22 address the overall need for rate relief, the importance of maintaining the  
23 Company's financial integrity and the resulting benefit to customers, Gulf's  
24 capital structure and related cost of capital, and other financial matters  
25



1           pertinent to our request for rate relief. Dr. Vander Weide, President of  
2           Financial Strategy Associates, discusses Gulf's cost of common equity.

3  
4           Two witnesses focus upon the rededication of Scherer Unit 3 to retail  
5           customers. Jeff Burleson, the Vice President of Commercial Services and  
6           Planning for Southern Company Services, provides an overview of Gulf's  
7           resource planning, including the decision over 30 years ago to purchase an  
8           ownership interest in Plant Scherer. Terry Deason, a special consultant for  
9           the Radey Law Firm, discusses the history of Gulf's ownership interest in  
10          Plant Scherer Unit 3 and addresses the appropriate regulatory treatment of  
11          that asset.

12  
13          Two other third-party professionals address necessary and essential costs  
14          associated with storm cost recovery and depreciation. Steven Harris,  
15          Senior Manager with CoreLogic, Inc. Insurance & Spatial Services,  
16          Consulting Services Group, will present the results of the Company's recent  
17          storm study that focuses on the risk of uninsured loss to Gulf's transmission  
18          and distribution assets. Dane Watson, Managing Partner in Alliance  
19          Consulting Group, will describe and support the depreciation study recently  
20          conducted for Gulf.

21  
22          Jan Hodnett, our Comptroller, will outline the need to increase the annual  
23          property damage accrual, provide support for the depreciation,  
24          dismantlement and rate case expenses included in the test year and  
25          discuss how the Company utilizes Southern Company Services. James

1 Garvie, Compensation, Benefits & Human Resources Operations Vice  
2 President for Southern Company Services, discusses Gulf's compensation  
3 and benefit programs which are designed as a total compensation package  
4 to attract, engage, retain and motivate a highly trained, skilled and  
5 customer-focused workforce that delivers safe and reliable electric service.  
6 Susan Ritenour, our Corporate Secretary, Treasurer and Corporate  
7 Planning Manager, will present the calculation of the rate relief requested in  
8 this case including the calculation of Gulf's O&M expense benchmark and  
9 the general plant capital additions budget and investment.

10  
11 Another group of witnesses will present testimony on Gulf's cost-of-service  
12 study, conservation programs, and rate design. Mike O'Sheasy, Vice  
13 President with Christensen Associates, Inc., will address the cost-of-service  
14 study presented in this case. Bob McGee, our Regulatory and Pricing  
15 Manager, presents proposed improvements to the Company's residential  
16 rates. John Floyd, our Energy Efficiency and Renewables Manager,  
17 discusses new and modified conservation programs. Lee Evans, our  
18 Pricing Supervisor, discusses rate design and other tariff issues.

19  
20 Q. Please describe some of the steps that Gulf has taken to improve its  
21 operations and customer service.

22 A. Keeping our system reliable continues to be a strong driver of customer  
23 satisfaction, and our ongoing investments in the system are bringing value  
24 to customers. Additional transmission lines were constructed and  
25 substations were rebuilt and upgraded to higher voltage to provide

1 additional reliability to our customers. Mr. Smith discusses power delivery  
2 investments and their benefit to our customers.

3  
4 As discussed by Ms. Terry, Gulf is focused on providing service to our  
5 customers that fits their lives by giving them convenience, customization  
6 and control. In recognizing that the way we serve customers continues to  
7 evolve, we now provide expanded options for customers to access their  
8 information and pay their bill.

9  
10 While we continue to provide in-person services through our local offices,  
11 customers can now pay their bill, view and report outages and receive  
12 energy efficiency tips and recommendations through our website,  
13 GulfPower.com or through the Gulf Power app for on-the-go access.  
14 Customers can also view their usage data and set up customized alerts  
15 when their usage exceeds their defined thresholds at GulfPower.com.

16  
17 Based on customer feedback, we now offer a wide variety of methods to  
18 make payments including via U.S. mail, in person at our local offices,  
19 through our payment kiosks, online or by telephone, and through new  
20 alternate payment locations, such as MoneyGram or Western Union.

21  
22 These are just a few examples of the actions Gulf has taken to improve  
23 operations and customer service. These efforts are described in greater  
24 detail by Gulf's other witnesses.

25

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

2 A. When measured against a peer group of utilities, Gulf has consistently been  
3 ranked in the top quartile for customer value every year since 2000. Our  
4 goal is to be among the best utilities in the country in regard to customer  
5 value, and we are proud of our performance when compared to these  
6 peers. This outstanding performance is a testament to the focus Gulf's  
7 employees maintain on exceeding our customers' expectations each and  
8 every day. Ms. Terry discusses Gulf's customer service strategy and  
9 provides more detail on how we compare the Company's performance to  
10 our utility peers.

11  
12 Q. Does Gulf monitor other operational measures as part of the Company's  
13 commitment to performance, reliability, and ultimately customer  
14 satisfaction?

15 A. Yes. For example, the reliability of our generation fleet is critical to our  
16 ability to deliver electricity to our customers. Mr. Burroughs describes in his  
17 testimony the excellent performance achieved by Gulf's generation fleet  
18 during the last several years. Limiting the number and duration of outages  
19 on the distribution and transmission systems also helps us to maintain or  
20 improve reliability from the perspective of our customers. Mr. Smith  
21 discusses the importance of grid reliability and how the value and quality of  
22 Gulf's Power Delivery systems are measured. These are examples of how  
23 we use operational measures monitored on a continuous basis to ensure  
24 we are meeting our commitment to maintaining the reliability of our electric  
25 system, strong customer service and high customer satisfaction.

1 Q. How does Gulf's requested increase compare to Gulf's revenues before  
2 consideration of the increase?

3 A. Gulf is requesting a base rate increase of \$106.8 million over the total base  
4 rate revenues produced by today's rates. Gulf's other witnesses in this  
5 case provide details regarding how and why many of our costs of doing  
6 business continue to increase. We are only asking for recovery of those  
7 costs necessary to provide safe and reliable service and maintain customer  
8 satisfaction over the long term.

9

10 Q. What is Gulf's projected return on equity for the test year without rate relief?

11 A. As shown on Ms. Liu's Exhibit XL-1, Schedule 2, based on current  
12 projections, Gulf's projected return on equity will fall to approximately 7.30  
13 percent, well below the bottom of its authorized range, before rates from this  
14 case can be put into effect on July 1, 2017. Without rate relief, Gulf's return  
15 would continue to decline.

16

17 Q. Please summarize your testimony.

18 A. Our objective at Gulf is to provide safe, reliable and efficient electric service  
19 to customers, while working to improve the communities we serve. We are  
20 very proud of our commitment to our customers and Northwest Florida. Our  
21 successes are a result of the dedicated employees who serve our  
22 customers all across the region.

23

24 We understand that price increases can place an economic burden on our  
25 customers; however, our inability to meet our customers' service

1 requirements would place an even greater burden on Gulf's customers and  
2 our local economy. Gulf has made and must continue to make capital  
3 investments in the infrastructure and equipment necessary to maintain  
4 reliability and to strengthen our ability to serve customers both now and in  
5 the future.

6  
7 We are not able to defer our request for this increase in base revenues.  
8 Under current rates, Gulf's earned return on equity will be well below the  
9 level the Commission found to be fair and reasonable in approving the 2013  
10 Settlement Agreement. Without rate relief, Gulf's ability to continue to raise  
11 the capital necessary to serve its customers will be jeopardized.

12  
13 This price adjustment will provide Gulf the ability to continue providing safe,  
14 reliable, and efficient service at the levels our customers have come to  
15 expect. Keeping Gulf financially healthy by granting the requested  
16 increases in retail revenues is in the best interest of our customers.

17  
18 Q. Does this conclude your testimony?

19 A. Yes.

20

21

22

23

24

25

AFFIDAVIT

STATE OF FLORIDA )  
 )  
COUNTY OF ESCAMBIA )

Docket No. 160186-EI

Before me the undersigned authority, personally appeared S. W. Connally, Jr., who being first duly sworn, deposes, and says that he is the Chairman, 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.

s/ *S. W. Connally, Jr.*  
S. W. Connally, Jr.  
Chairman, President and Chief Executive Officer

Sworn to and subscribed before me this 5<sup>th</sup> day of October, 2016.

*Melissa Darnes*  
Notary Public, State of Florida at Large

Commission No. FF 912698

My Commission Expires December 17, 2019



**MELISSA DARNES**  
MY COMMISSION # FF 912698  
EXPIRES: December 17, 2019  
Bonded Thru Budget Notary Services