

GULF POWER COMPANY

Before the Florida Public Service Commission  
Direct Testimony of  
Ernest C. Conner, Jr.  
In Support of Rate Relief  
Docket No: 891345-EI  
Date of Filing: December 15, 1989

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Q. Please state your name, address and occupation.

A. My name is Ernest C. Conner, Jr., and my business address is 500 Bayfront Parkway, Pensacola, Florida 32501. I am Manager of General Services of Gulf Power Company.

Q. Please describe your educational and business background.

A. I graduated from Auburn University, Auburn, Alabama, in 1973 with a Bachelor of Science degree in Building Construction. In 1985, I completed a Master of Science degree in Management from Troy State University, Florida Region, Pensacola, Florida. Following completion of my Master's degree, I served as an adjunct instructor at the University of West Florida from 1986 through 1988 teaching a senior level course in construction administration. From June of 1973 until April of 1982, I worked for two general contracting firms in Auburn, Alabama, managing various commercial and industrial construction projects. In

1 April of 1982, I joined Gulf Power Company as  
2 Supervisor of General Plant Services. In February of  
3 1984, I became Supervisor of Buildings. My title was  
4 changed to Manager of Buildings in January of 1989. I  
5 became Manager of General Services in June of 1989.

6

7 Q. Have you prepared an exhibit that contains information  
8 to which you will refer in your testimony?

9 A. Yes. This exhibit was prepared under my supervision  
10 and direction.

11

12 Counsel: We ask that Mr. Conner's Exhibit  
13 be marked for identification  
14 as Exhibit \_\_\_ (ECC-1).

15

16 Q. What are your areas of responsibility within Gulf  
17 Power Company?

18 A. I have responsibility for providing budgeting,  
19 planning, design, construction, operations,  
20 maintenance, and administrative support to all Company  
21 buildings supporting Division operations and the  
22 Corporate Office.

23

24 Q. What is the purpose of your testimony in this  
25 proceeding?

1 A. The purpose of my testimony is to provide information  
2 relating to the Corporate Headquarters project and the  
3 Graceville and Bonifay buildings.  
4

5 Q. Can you summarize the need for the new Corporate  
6 Office Building?

7 A. The decisions made to build a new office building were  
8 based upon a long-term process of careful review of  
9 all factors affecting the Company's space requirements  
10 and their cost impacts. A summary of this process  
11 begins with the 1958 decision to construct Gulf  
12 Power's General Office building at 75 North Pace  
13 Boulevard to support its 89,860 customers.

14 The four story Pace Boulevard structure originally  
15 housed not only General Office functions, but also  
16 the administrative, engineering, marketing, customer  
17 service, and appliance sales operations of the Western  
18 Division. Over the years, customer growth and  
19 increasing governmental regulation brought the need  
20 for increases in the number of employees. By the mid-  
21 1970s, available space in the building was not  
22 adequate to meet the Company's requirements of  
23 supporting 174,000 customers.

24 Consideration was given to alternatives for  
25 facility expansion. Constructing a second four-story

1 building northwest of and adjacent to the existing  
2 Pace Boulevard building was one alternative.  
3 Overcrowding at the Pace site and the opportunity to  
4 provide a more centralized location for Western  
5 Division line service work led to the decision in 1976  
6 to purchase land at Pine Forest near Interstate 10 for  
7 the construction of support facilities for the  
8 functions of the Western Division. The Pine Forest  
9 facility was constructed to house the Western  
10 Division's engineering, line service, and garage  
11 functions. The old line service and garage building  
12 which was vacated behind the 75 N. Pace Boulevard  
13 building was then renovated to allow relocation of the  
14 Western Division's administrative, customer service,  
15 marketing, and appliance sales functions from the 75  
16 N. Pace building. This relocation project was  
17 completed in 1979.

18 With the construction of the Pine Forest project  
19 completed and the relocation of other Western Division  
20 functions in process, work was begun in 1979 to  
21 provide for space needs within the General Office. By  
22 renovating the existing 75 N. Pace building and  
23 implementing an open office concept, available space  
24 was used to accommodate more employees in the  
25 building. Remodeling took place on a floor by floor

1 basis and was completed in 1981.

2 By 1982, employee growth had resulted in the  
3 building once again being filled to capacity. Gulf's  
4 management commissioned a study, titled "Corporate and  
5 Western Division Survey," which in April, 1982, found  
6 that this situation was brought on in large part by  
7 the Company's hiring of 60 new employees to meet  
8 the expanding needs brought on by increases in  
9 regulatory activity. These new employees were in  
10 addition to those that had been included in the  
11 planning for remodeling which was completed in 1981.  
12 The 1982 study also found that existing employees had  
13 been crowded into unproductive, below average work  
14 spaces in order to accommodate as much growth within  
15 the existing building as possible. The study  
16 identified the net result of this new growth as a  
17 combined deficiency of 30,000 square feet of  
18 office space for the General Office and Western  
19 Division functions.

20 The 1982 study evaluated several alternatives in  
21 response to the space problems identified:

22 ALTERNATIVE I

23 Maintain both the Western Division and  
24 General Office functions at the Pace  
25 Boulevard site. This alternative involved

1 major construction additions to the two  
2 existing buildings.

3 ALTERNATIVE II

4 Construct a new Western Division Headquarters  
5 Building on a different site and maintain  
6 the General Office functions at Pace  
7 Boulevard. This alternative would not have  
8 avoided construction additions to the 75 N.  
9 Pace building.

10 ALTERNATIVE III

11 Construct a new Corporate Headquarters  
12 Building at a new site to house the General  
13 Office functions and relocate Western  
14 Division personnel to the 75 N. Pace  
15 building. This alternative eliminated the  
16 need for office construction additions on  
17 the Pace Boulevard site.

18 Alternative III was approved by the Company as being  
19 the most cost effective solution for meeting the  
20 Company's space needs. This decision immediately  
21 produced two needs for action. Recognizing that the  
22 planning and construction of a new building would take  
23 years to accomplish, the Company began planning to  
24 meet its short term space needs through providing  
25 temporary office space relief. Also, the Company

1 began the process of determining the best site for the  
2 new Corporate Office building.

3 A spin-off from the 1982 space requirements study  
4 was the recognition of the Company's deficiencies in  
5 providing adequate facilities to meet its training  
6 needs. A 1983 training study, titled "Gulf Power  
7 Company Training Center," evaluated several alterna-  
8 tives. Recognizing the plan had already begun to  
9 provide space for the General Office functions and the  
10 Western Division, the training study recommended  
11 utilizing the Chase Street building at the Pace  
12 Boulevard site as the Company's training center. This  
13 use would be achieved after the Western Division  
14 relocated from this building to the 75 N. Pace  
15 building. These three projects were all  
16 interdependent requiring timely coordination and  
17 scheduling.

18 Another factor affected these three projects.  
19 Along with the growth of office space needs over the  
20 years, other functions on the Pace Boulevard site were  
21 also experiencing the response to the Company's  
22 increased requirements which comes with customer  
23 growth. The General Warehouse, General Repair  
24 Shop, and Communications Shop were all located at the  
25 Pace Boulevard site and were all growing and further

1        impacting the site. An automotive rebuild center and  
2        general garage were also planned for the site to con-  
3        solidate all company-wide industrial functions at one  
4        location. Resulting additional land purchases were  
5        made to support the present and future needs of these  
6        Company functions. The land parcels purchased  
7        contained a mix of open land and residential  
8        structures.

9                The temporary office space needs of the Company  
10        were addressed in a 1982 study titled "Space  
11        Allocation Plan." This study identified the need to  
12        secure 62,000 square feet of temporary office space  
13        and recommended that the space be obtained as leased  
14        office space in the Pensacola market. In order to  
15        hold the line on costs for such a temporary measure,  
16        the Company's budget committee rejected this  
17        alternative. Employees were asked to endure crowded  
18        substandard office space conditions until the new  
19        Corporate Headquarters building could be constructed.  
20        As an alternative to the leased space study  
21        recommendation, the decision was made to take the  
22        residences located on land recently purchased at the  
23        Pace Boulevard site for the growth needs of the  
24        industrial functions and convert them into temporary  
25        office space. In all, 15 such structures were



1 used together with the lease of two other buildings to  
2 provide approximately 40,000 square feet of temporary  
3 space relief. While inadequate in many respects as  
4 office space, and thus not an appropriate long term  
5 solution, the overall costs to the Company for this  
6 temporary means of providing office space were  
7 significantly less than leasing available office space  
8 to fully meet the Company's needs in Pensacola.

9 While temporary office space problems were being  
10 resolved, Daniels Realty conducted a study in 1982 to  
11 examine feasible sites for the new Corporate  
12 Headquarters building. Their study evaluated two  
13 sites: the Hawkshaw site located in downtown Pensacola  
14 and a site in the University Mall area outside the  
15 city. Location criteria were determined by  
16 addressing the function of the Corporate Office work  
17 and analyzing sites against cost considerations. The  
18 need to locate the new building in, or very near,  
19 downtown Pensacola grew out of the combined existence  
20 of land use regulations, a substantial transportation  
21 network system, adequate supporting utilities,  
22 proximity to the central business district, and  
23 adequate fire and police protection. Gulf's ownership  
24 of a 1.2 acre former substation site in the  
25 underdeveloped Hawkshaw area of the city, combined

1 with below average land prices in the surrounding  
2 area, made the Hawkshaw area an ideal location for the  
3 building. Because this location is within the City of  
4 Pensacola's newly established Gateway Redevelopment  
5 District, created to provide a positive image for  
6 Pensacola at the eastern entrance into the city,  
7 the Company was also provided with the opportunity to  
8 be a leading corporate citizen in the community. By  
9 designing its building in full compliance with the  
10 developing guidelines for construction in the area,  
11 Gulf has helped set the stage for the city's  
12 revitalization of the underdeveloped area of  
13 Pensacola. In addition to all of these advantages,  
14 land costs in the Hawkshaw area were comparable to  
15 acquisition costs at the current Pace Boulevard site  
16 and the northeast section of Pensacola.

17 Upon evaluating the Daniels study, Gulf Power  
18 approved the Hawkshaw site and began acquisition of  
19 additional property in 1982. In 1984, Marshall  
20 Associates, Inc., an independent appraisal consultant,  
21 was employed to reevaluate the chosen Hawkshaw  
22 location prior to the initiation of final building  
23 design. This study reviewed the actual costs incurred  
24 versus current costs for land in other locations  
25 considered previously in the Daniels study. The

1 conclusions were that the Hawkshaw site was still the  
2 best alternative since it could be obtained at cost  
3 comparable with the other prospective locations, and  
4 it provided the ideal corporate site.

5 The new building most economically meets the  
6 needs of the Company and the 285,000 customers we  
7 now serve through providing adequate space for the  
8 Company's employees to work productively. Efficient  
9 operations were also once again achieved by combining  
10 under one roof, corporate functions which had been  
11 spread out to 17 different locations. The new  
12 Corporate Office building represents Gulf Power's  
13 strong commitment to the City of Pensacola in aiding  
14 its revitalization efforts. This leadership role  
15 helps to set the tone and pace of the future  
16 redevelopment of the Pensacola Gateway District,  
17 helping to enhance the largest community we serve  
18 through wise implementation of our Corporate Office  
19 investment.

20  
21 Q. What were the total investment costs of building,  
22 furnishing, and moving into the new Corporate Office  
23 building?

24 A. The total costs for the building, design fees, site  
25 work, plant-in-service land, building equipment,

1           overheads, and furnishings were \$31,645,000.

2

3   **Q.   How has the Company provided for future needs in the**  
4           **Corporate Headquarters?**

5   **A.   Gulf developed a phased approach to the building.**  
6           Phase I included construction of the present five-  
7           story structure, providing its growth space both in  
8           vacant workstation spaces on the first, second,  
9           fourth, and fifth floors, and through a future  
10          duplicate of the fourth floor layout on the third  
11          floor. The third floor was left unfinished in order  
12          that it could be used as a maintenance and storage  
13          area until needed by Gulf for office space. This  
14          approach postponed the need for construction of a  
15          warehouse to house building storage needs and a  
16          building maintenance shop to support the needs of the  
17          Company. Exhibit ECC-1 details the present use of the  
18          building.

19

20   **Q.   Has the Commission staff reviewed Gulf's need for and**  
21           **use of the Corporate Office building and associated**  
22           **land?**

23   **A.   Yes. The Commission staff thoroughly reviewed these**  
24           **aspects of the building and land resulting in the**  
25           **document entitled "Final Report on Corporate Office**

1 Building, Gulf Power Company Project PE-872 (3336) AW  
2 408 951 (E-84-14)." This report is dated May 23,  
3 1989. In virtually all respects, this report is  
4 supportive of my testimony.

5

6 Q. Should the total cost of the Bonifay and Graceville  
7 offices be allowed in rate base?

8 A. Yes. The total cost of the Bonifay and Graceville  
9 offices should be allowed in the rate base. The cost  
10 per square foot adjustment made in the 1984 rate case  
11 decision did not represent a valid method for  
12 determining a reasonable cost for these small  
13 buildings.

14 Both of these buildings were competitively bid.  
15 The resulting contract costs for construction  
16 represent the true market value for construction of  
17 the building in the given market and economic  
18 conditions, given economies of scale for such small  
19 commercial construction, geographic location, and  
20 functional needs of the facility as reflected in the  
21 building design. The 1984 adjustment did not consider  
22 these relevant facts.

23

24 Q. Can you summarize your testimony?

25 A. Yes. Gulf Power Company's management philosophy is to

1 provide adequate facilities to meet the needs of our  
2 customers and to provide a productive work environment  
3 for our employees. The Company utilizes long range  
4 planning to prudently acquire the necessary property  
5 to support needed facilities. Such property additions  
6 help to ensure that our facilities provide long term  
7 solutions to our Company and customer needs. Concern  
8 for our customers is also exhibited through wisely  
9 implementing our facility investments in a method  
10 which enhances the communities that we serve. Great  
11 pride is taken in the contribution made in helping to  
12 revitalize downtown Pensacola through our Corporate  
13 Office building. On a much smaller scale, but no less  
14 important, the local offices in Bonifay and Graceville  
15 also serve to enhance those communities. Long range  
16 planning together with a facility design which  
17 enhances the community at reasonable costs all combine  
18 for an effective facilities planning program.

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Q. Does this conclude your testimony?

A. Yes.

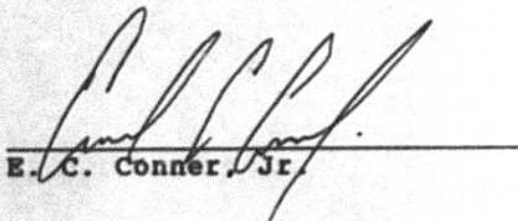
**AFFIDAVIT**

STATE OF FLORIDA     )

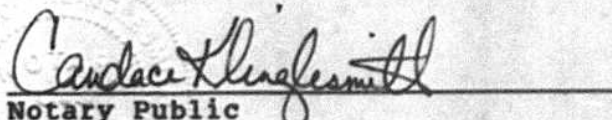
COUNTY OF ESCAMBIA   )

Before me the undersigned authority personally appeared E. C. Conner, Jr. who first being duly sworn, says that he is the witness named in the testimony to which the Affidavit is attached; that he prepared said testimony and any exhibits included therein on behalf of Gulf Power Company in support of its petition for an increase in rates and charges in Florida Public Service Commission Docket No. 891345-EI; and that the matters and things set forth herein are true to the best of his knowledge and belief.

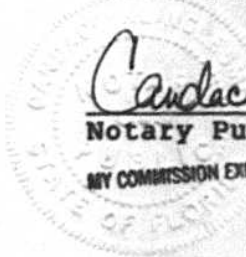
Dated at Pensacola, Florida this 11<sup>th</sup> of December, 1989.

  
E. C. Conner, Jr.

Sworn to and subscribed before me  
this 11<sup>th</sup> day of December, 1989.

  
Notary Public

MY COMMISSION EXPIRES MAY 18, 1991



SPACE ALLOCATIONS

BUILDING FLOOR AREAS:

<u>Floor</u>	<u>Allocated Space</u>	<u>Gross Area</u>
Basement	54,889	57,057
First Floor	43,531	46,094
Second Floor	39,794	41,962
Third Floor	49,395	51,563
Fourth Floor	49,395	51,563
Fifth Floor	49,395	51,563
Roof Equipment Room	<u>6,664</u>	<u>8,832</u>
Total	293,063	308,634

ALLOCATED SPACE BREAKDOWN:

<u>1st Floor</u>	<u>Square Footage</u>
Security	1,548
Economic Development	1,423
Government Affairs	634
General Services	9,327
*Common Area (includes Lobby)	12,509
Public Relations	3,911
Ready Room	3,266
Test Rooms	242
Records	2,206
Cafeteria	<u>8,365</u>
Total	43,531

\*Includes Area Adjacent to Maintenance #155 & Parts Storage #156

<u>2nd Floor</u>	<u>Square Footage</u>
Auditorium	3,764
Common Area (includes Lobby)	8,084
*Power Delivery	3,941
Electrical Operation Services	4,457
Customer Accounting	4,308
Information Services	<u>15,240</u>
Total	39,794

\*Includes Rooms #212 thru #216



<u>3rd Floor</u>	<u>Square Footage</u>
Furniture Storage	25,100
Building Storage	3,968
Maintenance Shop	10,640
Departmental Storage	<u>9,687</u>

Total 49,395

<u>4th Floor</u>	<u>Square Footage</u>
Purchasing & General Services	9,627
Controller	9,357
Common Area	9,778
Corporate Secretary	2,810
Marketing & Load Management	7,644
Rates & Regulatory Matters	2,172
Internal Accounting Controls	2,099
Treasury	1,814
Corporate Planning	<u>4,094</u>

Total 49,395

<u>5th Floor</u>	<u>Square Footage</u>
Power Delivery	9,205
Electric Operation Services	8,329
Common Area	9,478
Power Generation	4,847
Employee Relations	7,706
Executive Offices	<u>9,830</u>

Total 49,395