

One Energy Place
Pensacola, Florida 32520

Tel 850.444.6111



January 22, 2002

Ms. Blanca S. Bayo, Director
Division of the Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0870

Dear Ms. Bayo:

RE: Docket No. 010949-EI

Enclosed are an original and fifteen copies of Gulf Power Company's Rebuttal Testimony to be filed in the above docket consisting of the following witnesses:

Robert A. Bell
Charles A. Benore
Francis M. Fisher, Jr.
M. W. Howell
J. Thomas Kilgore, Jr.
Ronnie R. Labrato
Richard J. McMillan
Robert G. Moore
Margaret D. Neyman
Donald S. Roff
R. Michael Saxon
Tony A. Silva and Scott C. Twery

*DNS 00774-02 thru
00785-02*

Sincerely,

A handwritten signature in cursive script that reads "Susan D. Ritenour".

Susan D. Ritenour
Assistant Secretary and Assistant Treasurer

lw

Enclosure

cc: Beggs and Lane
Jeffrey A. Stone, Esquire

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Request for rate increase by)
Gulf Power Company)
_____)

Docket No. 010949-EI

Certificate of Service

I HEREBY CERTIFY that a copy of the foregoing has been furnished
this 22nd day of January 2002 by U.S. Mail to the following:

Marlene Stern, Esquire
Staff Counsel
FL Public Service Commission
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Tallahassee FL 32399-0863

Douglas A. Shropshire, Lt. Col. USAFR
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Tallahassee FL 32303

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117 S. Gadsden Street
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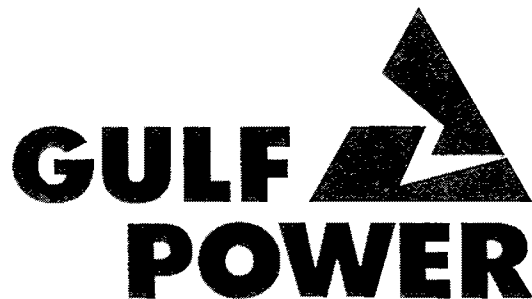


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Attorneys for Gulf Power Company

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

DOCKET NO. 010949-EI

**REBUTTAL TESTIMONY AND EXHIBIT
OF
RONNIE R. LABRATO**



A SOUTHERN COMPANY

DOCUMENT NUMBER DATE

00779 JAN 22 8

FPSC-COMMISSION CLERK

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission
3 Rebuttal Testimony and Exhibit of
4 Ronnie R. Labrato
5 Docket No. 010949-EI
6 In Support of Rate Relief
7 Date of Filing: January 22, 2002

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

9 A. My name is Ronnie R. Labrato. My business address is One Energy
10 Place, Pensacola, Florida, 32520. I am Vice President, Chief Financial
11 Officer and Comptroller of Gulf Power Company.

12 Q. Are you the same Ronnie R. Labrato who provided direct testimony on
13 Gulf Power's behalf in this docket?

14 A. Yes.

15 Q. What is the purpose of your rebuttal testimony?

16 A. The purpose of my testimony is to respond to the testimony of Helmuth
17 W. Schultz, III, and James E. Breman on certain issues raised in this
18 proceeding. I will also quantify some adjustments to depreciation and
19 dismantlement as a result of Mr. Roff's rebuttal to witnesses Majoros and
20 Zaetz.

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

23 A. Yes. Exhibit (RRL-2) was prepared under my supervision and direction.
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Counsel: We ask that Mr. Labrato’s Exhibit (RRL-2), comprised of three schedules, be marked as Exhibit No. ____.

Q. On Mr. Schultz’s Schedule A-1, he calculates that the Company’s revenue deficiency is \$15,014,000. Please comment on his recommendation.

A. A major driver in this case is the construction of Smith Unit 3, for which the Florida Public Service Commission (FPSC) certified the need in Docket No. 990325-EI. The projected capital expenditures for the project total \$220.5 million. The total annual revenue requirement for the new unit is approximately \$48 million. Clearly the \$15 million suggested by Mr. Schultz does not come close to covering the revenue requirements of Smith Unit 3, much less the other increases in operation and maintenance expenses and capital additions that are anticipated for the test year. Obviously, if Mr. Schultz’s recommendations were adopted, the Company’s financial position would be severely weakened. A weakened financial position would prevent the Company from being able to attract capital on reasonable terms and make it difficult for the Company to maintain an adequate level of financial integrity in order to continue to provide reliable service at reasonable costs to our customers.

Q. On page 10 of Mr. Schultz’s testimony related to the amortization of the deferred return on the third floor of the corporate office, he states that “Gulf did not make such an election in the time frame established by the stipulated revenue sharing, or as part of the revenue sharing.” Is this true?

1 A. No, Mr. Schultz's statement is not true. Gulf did record amortization of the
2 accumulated balance of the deferred return of \$1 million in each of the
3 years 2000 and 2001 as provided for in the stipulation approved by Order
4 No. PSC-99-2131-S-EI. Our requested amortization of the remaining
5 balance over a period of three years is consistent with the approved
6 stipulation.

7

8 Q. Should there be an adjustment to the amortization requested?

9 A. Yes. In developing the Company's forecast for the test year, the
10 amortization booked in the year 2000 was taken into account. However,
11 the 2001 amortization had not yet been booked at the time of the filing
12 and the third floor investment was still not in rate base; therefore, the
13 Company continued to defer a return and no additional amortization was
14 assumed in the periods prior to the test year. To take into account the
15 2001 amortization, the Company is revising its request related to the
16 amortization of the deferred return in the test year from \$1,157,000 to
17 \$815,000. An adjustment should also be made to reduce total company
18 rate base in the amount of \$855,000 to take into account the change in
19 the accumulated balance of the deferred return. Schedule 1 of my
20 rebuttal exhibit provides a detailed calculation of these adjustments.

21

22 Q. Mr. Schultz is recommending the removal of the third floor investment and
23 accumulated depreciation reserve from rate base. Please comment on
24 his recommendation.

25

- 1 A. The third floor investment should be included as part of the rate base and
2 should begin to be depreciated. This space is extensively used for
3 records retention, spare office furniture, miscellaneous supplies, and other
4 storage for the print shop, safety and health, and power delivery functions.
5 It also contains a workshop for building maintenance. The investment
6 made in the third floor was a prudent investment decision, which has
7 allowed for convenient, secure, and humidity-controlled storage space for
8 items that are used in the corporate office. Also, the Commission has
9 allowed the Company to earn a deferred return on the third floor
10 investment in anticipation of future recovery. The conclusion reached by
11 an FPSC auditor in 1999 that over 90 percent of the square feet of space
12 is being utilized was reaffirmed by the audit staff conducting the rate case
13 audit in this proceeding. As described in the rate case audit report
14 Disclosure No. 2, which is attached as Exhibit EDB-1 to the direct
15 testimony of Edward Bass, after the audit staff toured the third floor of the
16 corporate office, they concurred with the Company's statement made in
17 1999 that over 90 percent of the 52,000 square feet of office space is
18 utilized. The Company currently utilizes 100 percent of the square feet of
19 space. If this space were not available for storage, the Company would
20 be required to build or lease additional space for storage. Gulf's
21 ratepayers receive a benefit from the Company's use of the third floor for
22 storage and maintenance.
23
- 24 Q. Please discuss Mr. Schultz's proposed adjustment to legal expenses
25 related to Gulf's rate case.

1 A. Mr. Schultz used data from MFR C-24 related to Gulf's last rate case to
2 calculate a revised estimate for legal expenses related to the current rate
3 case. In reviewing MFR C-24, an error was discovered in the breakdown
4 of costs for Gulf's last rate case by category. Gulf's actual legal fees
5 associated with its last rate case in Docket No. 891345-EI were \$448,054
6 instead of the \$188,953 shown on MFR C-24. I have prepared a revision
7 to MFR C-24 to correct the information regarding Gulf's last rate case,
8 which I have attached as Schedule 2 of my rebuttal exhibit. To estimate
9 legal fees for the current rate case, Gulf escalated the actual amount of
10 legal fees from the last rate case of \$448,054 by a CPI inflation factor to
11 derive the projected legal fees of \$603,000 shown on MFR C-24. The
12 escalation factor used by Mr. Schultz in his calculation includes both
13 inflation and customer growth. Using the correct amount for actual legal
14 fees in Gulf's last rate case, Mr. Schultz's recommended methodology
15 would yield an estimate of \$820,409 for legal fees in Gulf's current rate
16 case. Gulf's estimate is much lower than this, and no reduction in the
17 estimate for legal fees is appropriate.

18

19 Q. What is the appropriate amortization period for rate case expense?

20 A. Gulf's filing reflects the Company's position that the appropriate
21 amortization period for rate case expense is four years. This is consistent
22 with the amortization period approved by the Commission in Gulf's last
23 rate case.

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1 Q. Have you quantified the adjustment to depreciation and dismantlement
2 discussed in Mr. Roff's rebuttal testimony?

3 A. Yes. While Gulf made adjustments to net operating income and rate base
4 in its MFR filing to reflect the proposed rates in its 2001 Depreciation
5 Study, the FPSC Staff Report on Gulf's Study as discussed in Mr. Roff's
6 rebuttal testimony require that additional adjustments be made.

7

8 Q. What are the additional adjustments that should be made as a result of
9 the Staff Report on Gulf's Depreciation Study as discussed in Mr. Roff's
10 rebuttal testimony?

11 A. An additional adjustment to expense in the amount of \$1,257,000 is
12 required to reflect an increase in depreciation expense and dismantlement
13 costs based on the Staff Report. An adjustment should also be made to
14 reduce total company rate base in the amount of \$1,122,000 to take into
15 account the change in the 13-month average accumulated depreciation
16 balance. Schedule 3 of my rebuttal exhibit shows the calculation of these
17 adjustments.

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19 Q. Please comment on Mr. Breman's proposal to provide an incentive to Gulf
20 Power Company to maintain reliable service.

21 A. I agree that the Company should be rewarded if it provides superior
22 service. However, as Mr. Fisher discusses in his rebuttal testimony,
23 Mr. Breman's proposal actually penalizes the Company for not meeting
24 one particular standard with no opportunity for reward.

25

1 Q. What would be a more appropriate way to establish an incentive?

2 A. If the Commission were to adopt an incentive program, it should look at
3 the overall quality of service instead of looking only at one particular
4 standard.

5

6 Q. How should the Commission address this issue in this case?

7 A. Gulf Power Company has demonstrated that it has provided high quality
8 service to its customers at low rates with excellent customer satisfaction
9 ratings through the testimony of several witnesses in this case, including
10 customer testimony at Gulf's service hearings. I believe it would be
11 appropriate for the Commission to reward the Company for its high level
12 of service by increasing the return on equity for purposes of setting rates
13 and/or expanding the allowed return on equity range.

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15 Q. Does this conclude your testimony?

16 A. Yes.

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**Gulf Power Company
Adjustments Related to Regulatory Assets
Corporate Office Third Floor**

Amortization of Regulatory Asset

	Adjusted Amortization	Amortization As Filed	Difference
Jun-02	67,915.50	96,405.42	(28,489.92)
Jul-02	67,915.50	96,405.42	(28,489.92)
Aug-02	67,915.50	96,405.42	(28,489.92)
Sep-02	67,915.50	96,405.42	(28,489.92)
Oct-02	67,915.50	96,405.42	(28,489.92)
Nov-02	67,915.50	96,405.42	(28,489.92)
Dec-02	67,915.50	96,405.42	(28,489.92)
Jan-03	67,915.50	96,405.42	(28,489.92)
Feb-03	67,915.50	96,405.42	(28,489.92)
Mar-03	67,915.50	96,405.42	(28,489.92)
Apr-03	67,915.50	96,405.42	(28,489.92)
May-03	67,915.50	96,405.42	(28,489.92)
	<u>814,986.00</u>	<u>1,156,865.04</u>	<u>(341,879.04)</u>

Balance of Regulatory Asset

	Adjusted Balance	Balance As Filed	Difference
May-02	2,444,958.00	3,470,595.00	(1,025,637.00)
Jun-02	2,377,042.50	3,374,189.58	(997,147.08)
Jul-02	2,309,127.00	3,277,784.16	(968,657.16)
Aug-02	2,241,211.50	3,181,378.74	(940,167.24)
Sep-02	2,173,296.00	3,084,973.32	(911,677.32)
Oct-02	2,105,380.50	2,988,567.90	(883,187.40)
Nov-02	2,037,465.00	2,892,162.48	(854,697.48)
Dec-02	1,969,549.50	2,795,757.06	(826,207.56)
Jan-03	1,901,634.00	2,699,351.64	(797,717.64)
Feb-03	1,833,718.50	2,602,946.22	(769,227.72)
Mar-03	1,765,803.00	2,506,540.80	(740,737.80)
Apr-03	1,697,887.50	2,410,135.38	(712,247.88)
May-03	1,629,972.00	2,313,729.96	(683,757.96)
13-Month Average	<u>2,037,465.00</u>	<u>2,892,162.48</u>	<u>(854,697.48)</u>

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION:

Provide a comparison of rate case expenses incurred or anticipated for the current and most recent prior case with explanation of any changes which exceed 10% on an individual item basis. Also provide an amortization schedule of rate case expense amounts and rate case expense as a percentage of rate base and operating revenues and the dollar amount per average customer.

Type of Data Shown:

XX Projected Test Year Ended 05/31/03

____ Prior Year Ended 05/31/02

____ Historical Test Year Ended 12/31/00

Witness: R. R. Labrato

COMPANY: GULF POWER COMPANY

DOCKET NO.: 010949-EI

COMPARISON OF CURRENT RATE CASE EXPENSES WITH PRIOR CASE

LINE	ITEM	CURRENT CASE	PRIOR CASE	PERCENT CHANGE	EXPLANATION
1	Outside Consultants	\$ 200,000	\$ 257,692	-22.39%	
2	Legal Services	\$ 603,000	\$ 448,054	34.58%	Increase due to greater billable hours and inflation over 12 years
3	Meals and Travel	\$ 125,000	\$ 77,499	61.29%	Increase due to inflation over 12 years
4	Paid Overtime	\$ 40,000	\$ 18,706	113.84%	Increase due to inflation over 12 years
5	Other Expenses *	\$ 415,500	\$ 234,250	77.37%	
	Total	\$ 1,383,500	\$ 1,036,201	33.52%	

* Includes SCS expenses, postal charges, printing costs and transcripts.

SCHEDULE OF RATE CASE EXPENSE AMORTIZATION

LINE	RATE CASE	TOTAL EXPENSES (C-39)	RATE ORDER DATE	AMORTIZATION PERIOD	TEST YEAR AMORTIZATION
1	Current Docket No. 010949-EI	\$ 1,383,500		2002 - 2006	\$ 345,875
2	Prior Docket No. 891345-EI	\$ 1,036,201	10/3/1990	1990 - 1994	\$ -

	Current Rate Case	Prior Rate Case
Rate Case Expense Allowed as a Percentage of Jurisdictional Rate Base	0.12%	0.13%
Rate Case Expense Allowed as a Percentage of Jurisdictional Revenues	0.37%	0.48%
Rate Case Expense Allowed per Average Customer	7.5¢ (1)	8.3¢ (1)

(1) Average Customer per month for 4 years

Supporting Schedules:

Recap Schedules:

**Adjustments Needed
For Staff's Recommended Changes in Depreciation Rates/Dismantlement
For the Test Year Ending May 31, 2003**

	<u>With Staff Proposal</u>	<u>Rate Filing</u>	<u>Inc/(Dec)</u>
Depreciation			
Steam	31,384	31,384	0
Other Production	7,547	7,547	0
Transmission	6,078	6,078	0
Distribution	25,677	25,047	630
Other	2,860	2,852	8
JDIC/FPSC	0	0	0
Total Depr. Exp. to Income Statement	<u>73,546</u>	<u>72,908</u>	<u>638</u>
Amortization			
Steam	289	289	0
Daniel Cooling Lake	387	387	0
Other	2,684	2,684	0
Total Amort. Exp. to Income Statement	<u>3,360</u>	<u>3,360</u>	<u>0</u>
Total Depr. & Amort. Expense	76,906	76,268	638
Transportation (Recovered thru O&M)	2,099	2,099	0
Dismantlement			
Steam	5,911	5,352	559
Other production	<u>347</u>	<u>287</u>	<u>60</u>
	6,258	5,639	619
Adjustment to Expense	<u><u>85,263</u></u>	<u><u>84,006</u></u>	<u><u>1,257</u></u>

Rate Base Adjustment Calculation

	<u>Accumulated Depreciation Balance</u>
January 2002	99
February	199
March	297
April	396
May 2002	496
June	601
July	706
August	811
September	916
October	1,021
November	1,127
December	1,217
January 2003	1,324
February	1,431
March	1,538
April	1,645
May	1,753

Adjustment to Accumulated Depreciation Balance 13-Month Average 1,122