

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

COMMISSION
CLERK

-M-E-M-O-R-A-N-D-U-M-

DATE: August 11, 2011

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Mouring, Cicchetti, Draper, Maurey, Salnova, Springer) *CMK*
Office of the General Counsel (Klancke, Barrera, Young) *MSB* *EDD* *ALM* *NS*

RE: Docket No. 110138-EI – Petition for increase in rates by Gulf Power Company.

AGENDA: 08/23/11 – Regular Agenda – Decision on Interim Rates – Participation is at the Discretion of the Commission

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: 09/06/11 (60-Day Suspension Date)

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\110138.RCM.DOC

Case Background

This proceeding commenced on July 8, 2011, with the filing of a petition for a permanent rate increase by Gulf Power Company (GPC or Company). The Company is engaged in business as a public utility providing electric service as defined in Section 366.02, Florida Statutes (F.S.), and is subject to the jurisdiction of the Commission. GPC serves more than 431,000 retail customers in 8 counties in Northwest Florida.

GPC requested an increase in its base rates and charges to generate \$93,504,000 in additional gross annual revenues. The Company based its request on a projected test year ending December 31, 2012. GPC stated that this test year is the appropriate period to be utilized because it represents the conditions to be faced by the Company, and is representative of the

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FPSC-COMMISSION CLERK

customer base, investment requirements, and overall cost of service to be realized for the period when the new rates will be in effect.

GPC has also requested an interim rate increase in its base rates and charges to generate \$38,549,000 in additional gross annual revenues. The Company based its interim request on a historical test year ended March 31, 2011.

On July 12, 2011, the Office of Public Counsel (OPC), filed its notice of intervention in this proceeding.¹ A hearing has been scheduled for December 12-16, 2011.²

This recommendation addresses the interim rate increase request and the suspension of the requested permanent rate increase. The Commission must take action to suspend the permanent rates and act on the interim request within 60 days of the filing, which is on or before September 6, 2011. The Commission has jurisdiction over this request for a rate increase and interim rate increase under Sections 366.06 and 366.071, F.S.

¹ On July 13, 2011, OPC's Notice of Intervention was acknowledged by the Commission via Order No. PSC-11-0302-PCO-EI.

² See Order No. PSC-11-0307-PCO-EI, issued July 21, 2011, in Docket No. 110138-EI, In re: Petition for oncrease in rates by Gulf Power Company.

Discussion of Issues

Issue 1: Should the \$93,504,000 permanent base rate increase and the associated tariff revisions requested by GPC be suspended pending a final decision in this docket?

Recommendation: Yes. The \$93,504,000 permanent base rate increase and the associated tariff revisions requested by GPC should be suspended pending a final decision in this docket. (Mouring)

Staff Analysis: GPC filed its petition, testimony, and MFRs on July 8, 2011. The Company has requested a total permanent base rate increase of \$93,504,000 based on a projected test year ending December 31, 2012.

Historically, the Commission has suspended the requested permanent base rate schedules in order to adequately and thoroughly examine the basis for the new rates. The suspension of the rate increase is authorized by Section 366.06(3), F.S., which provides:

Pending a final order by the commission in any rate proceeding under this section, the commission may withhold consent to the operation of all or any portion of the new rate schedules, delivering to the utility requesting such increase, within 60 days, a reason or written statement of good cause for withholding its consent.

Staff recommends that the Commission suspend the requested permanent rate schedules to allow staff and any intervenors sufficient time to adequately investigate whether the request for permanent rate relief is appropriate.

Issue 2: Is GPC's proposed March 2011 interim test year rate base of \$1,544,185,000 appropriate?

Recommendation: Yes. The appropriate March 2011 interim test year rate base for GPC is \$1,544,185,000. (Mouring)

Staff Analysis: In its filing, the Company proposed an interim test year thirteen month average rate base of \$1,544,185,000 for the period ended March 31, 2011. Staff has reviewed the rate base adjustments made in the current interim filing for consistency with the Commission approved adjustments in the Company's last rate case proceeding.² Based on staff's review, it appears that GPC has made the applicable and appropriate adjustments that are consistent with the last Order. Staff's recommendation of whether GPC is entitled to the proposed interim increase is discussed in Issue 6. If it is determined that interim relief should be granted to GPC in this case, staff agrees that \$1,544,185,000 is the appropriate amount of rate base for the March 2011 interim test year. The calculation is shown on Attachment A.

It should be noted that the historical test year ended March 31, 2011, was utilized in part to develop the December 2012 projected test year for the requested permanent base rate increase. The historical test year data is currently being audited as part of the normal ratemaking review process in this docket.

² Order No. PSC-02-0787-FOF-EI, issued June 10, 2002, in Docket No. 010949-EI, In re: Request for rate increase by Gulf Power Company.

Issue 3: Are GPC's proposed return on equity of 10.75 percent and its overall cost of capital of 6.45 percent reasonable for the purpose of determining interim rates?

Recommendation: Yes. GPC's proposed return on equity of 10.75 percent and overall cost of capital of 6.45 percent are reasonable for purposes of determining interim rates. (Springer, Cicchetti)

Staff Analysis: For purposes of its interim rate request, GPC used an overall cost of capital of 6.45 percent based on a return on equity (ROE) of 10.75 percent and the capital structure for the historical test year ended March 31, 2011. Pursuant to Section 366.071(2)(a), F.S., the appropriate ROE for purposes of determining an interim rate increase is the minimum of the Company's currently authorized ROE range. Staff believes that both the ROE and the adjustments recognized in the capital structure are consistent with GPC's last rate case approved in 2002 by Order No. PSC-02-0787-FOF-EI.³

Staff agrees that the capital structure for the historical test year ended March 31, 2011, and an ROE of 10.75 percent results in an overall cost of capital of 6.45 percent. Attachment B details the calculation of the Company's overall cost of capital.

³ Order No. PSC-02-0787-FOF-EI, Issued June 10, 2002, in Docket No. 010949-EI, In re: Request for rate increase by Gulf Power Company.

Issue 4: Is GPC's proposed March 2011 interim test year net operating income of \$76,009,000 appropriate?

Recommendation: Yes. The appropriate March 2011 interim test year net operating income for GPC is \$76,009,000. (Mouring)

Staff Analysis: The proposed interim test year net operating income of \$76,009,000 is the twelve month amount for the test year ended March 31, 2011. Staff has reviewed the net operating income adjustments made in the current interim filing for consistency with the Commission approved adjustments in the Company's last rate case proceeding. Based on staff's review, it appears that GPC has made the applicable and appropriate adjustments that are consistent with the last Order. Staff's recommendation of whether GPC is entitled to the proposed interim increase is discussed in Issue 6. If it is determined that interim relief should be granted to GPC in this case, staff agrees that \$76,009,000 is the appropriate amount of net operating income for the March 2011 interim test year. The calculation is shown on Attachment A.

It should be noted that the historical test year ended March 31, 2011, was utilized in part to develop the December 2012 projected test year for the requested permanent base rate increase. The historical test year data is currently being audited as part of the normal ratemaking review process in this docket.

Issue 5: Is GPC's proposed interim net operating income multiplier of 1.634048 appropriate?

Recommendation: Yes. GPC's proposed interim net operating income multiplier of 1.634048 is appropriate. (Mouring)

Staff Analysis: On MFR Schedule G-18, the Company calculated a net operating income multiplier of 1.634048 using a 35 percent federal income tax rate and a 5.5 percent state income tax rate. Additionally, the Company applied a .072 percent factor for regulatory assessment fees. Staff has reviewed the Company's calculation of the net operating income multiplier and is not proposing any adjustments. Therefore, staff recommends that 1.634048 is the appropriate net operating income multiplier. The calculation is shown below.

<u>Description</u>	
Revenue Requirement	100.0000%
Regulatory Assessment Fee	(0.0720)%
Bad Debt Rate	<u>(0.2980)%</u>
Net Before Income Tax	99.6300%
Combined State/Federal Income Tax @ 38.575%	<u>(38.4323)%</u>
Revenue Expansion Factor	<u>61.1977%</u>
NOI Multiplier (100/61.1977)	<u>1.634048</u>

Issue 6: Should GPC's requested interim revenue increase of \$38,549,000 and percentage increase factor of 8.882 be granted?

Recommendation: Yes. GPC's requested interim revenue increase of \$38,549,000 and percentage increase factor of 8.882 should be granted. (Mouring, Draper)

Staff Analysis: GPC requested interim rate relief of \$38,549,000 for the historical test year ended March 31, 2011. This would allow the Company to earn an overall rate of return of 6.45 percent and the minimum of the range of return on equity of 10.75 percent. After a determination of the permanent rate increase has been made, the interim rate increase will be reviewed to determine if any portion should be refunded to the ratepayers.

The calculation of the \$38,549,000 of interim rate relief and the percentage increase factor is shown below.

Jurisdictional Adjusted Rate Base	\$1,544,185,000
Overall Rate of Return Requested	<u>× 6.45%</u>
Jurisdictional Net Operating Income Requested	\$99,600,000
Jurisdictional Adjusted Net Operating Income	<u>– \$76,009,000</u>
Revenue Deficiency	\$23,591,000
Net Operating Income Multiplier	<u>× 1.634048</u>
Interim Revenue Increase	\$38,549,000
Base Rate Revenues	<u>÷ \$434,014,000</u>
Percentage Increase Factor	<u>8.882%</u>

Issue 7: How should the interim revenue increase for GPC be distributed among the rate classes?

Recommendation: The percentage increase factor approved in Issue 6 should be applied uniformly to all existing base rates and charges to derive the interim base rates and charges, as required by Rule 25-6.0435, Florida Administrative Code (F.A.C.). The interim rates should be made effective for all meter readings made on or after thirty days from the date of the vote approving any interim increase. GPC should file tariff sheets for administrative approval that reflect the Commission-approved interim base rates and charges. If the Commission approves a different percentage increase factor, GPC shall refile Schedule G-22, for staff review, to show the calculation of all base rates and charges based on the Commission-approved percentage increase factor. The Company should also give notice to customers of the interim increase commencing with the first bill for service that reflects the increase. (Draper)

Staff Analysis: In Issue 6, staff has recommended an interim increase of \$38,549,000 and a percentage increase factor of 8.882 percent. Rule 25-6.0435, F.A.C., requires that any percentage increase factor be applied uniformly to all existing base rates and charges to derive interim base rates and charges. Attachment C shows the proposed interim revenue increase to the various rate classes. MFR Schedule G-22 shows present rates and proposed interim rates for all rate classes. If the Commission approves a different percentage increase factor, GPC shall refile Schedule G-22, for staff review, to show the calculation of all base rates and charges based on the Commission-approved percentage increase factor. GPC should also file tariff sheets for administrative approval that reflect the Commission-approved interim base rates and charges.

Attachment D contains present rates and proposed interim rates for the major rate classes. Attachment E contains monthly residential bills at various usage levels that show the impact of the interim rates. A residential customer using 1,000 kilowatt-hours would see their bill increase by \$4.49 per month from \$122.67 to \$127.16 (including Gross Receipts Taxes).

The interim rates should be effective for all meter readings made on or after thirty days from the date of the Commission vote approving any interim increase. GPC should be required to give appropriate notice to customers commencing with the first bill for service that reflects the approved interim increase that explains the nature, purpose, and effect of the increase. A copy of the notice should be submitted to staff for approval prior to its issuance.

Issue 8: What is the appropriate security to guarantee the amount collected subject to refund?

Recommendation: The appropriate security to guarantee the funds collected subject to refund is a corporate undertaking. (Salnova)

Staff Analysis: Gulf Power Company has requested that all funds collected subject to refund be secured by a corporate undertaking. The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Staff reviewed the financial statements of the Company to determine if GPC can support a corporate undertaking for its potential refund obligation. Based on an estimated six-month collection period of interim rates for GPC, staff has determined the maximum amount of revenues that may need to be protected is \$19,274,500. GPC's 2008, 2009 and 2010 financial statements were used to determine the financial condition of the Company. Staff's analysis shows GPC experienced a slight decline in its equity ratio in 2010, but the 44.9 percent equity ratio is still sufficient. Further, net income has been on average 6 times greater than the requested corporate undertaking amount. GPC's financial performance over time has demonstrated adequate levels of profitability, liquidity, interest coverage, and equity capitalization to support a corporate undertaking in the amount requested.

Staff believes GPC has adequate resources to support a corporate undertaking in the amount requested. Based on this analysis, staff recommends that a corporate undertaking of \$19,274,500 be approved. Staff's brief financial analysis is only appropriate for deciding if the Company can support a corporate undertaking in the amount proposed and should not be considered a finding regarding staff's position on other issues in this proceeding.

Docket No. 110138-EI
Date: August 11, 2011

Issue 9: Should this docket be closed?

Recommendation: No. This docket should remain open pending the Commission's final resolution of the Company's requested rate increase. (Klancke, Young, Barrera)

Staff Analysis: This docket should remain open pending the Commission's final resolution of the Company's requested rate increase.

**Gulf Power Company
Docket No. 110138-EI
Interim Test Year
March 31, 2011**

Rate Base	Adjusted Test Year Per Utility	Adjustments		Interest Synchron- ization	Total Adjustments	Staff Adjusted Rate Base
Plant In Service	\$2,378,711,000	\$0	\$0	\$0	\$0	\$2,378,711,000
Accumulated Depreciation	(1,081,802,000)	0	0	0	0	(1,081,802,000)
Net Plant In Service	1,296,909,000	0	0	0	0	1,296,909,000
Plant Held For Future Use	5,487,000	0	0	0	0	5,487,000
Construction Work In Progress	49,978,000	0	0	0	0	49,978,000
Net Utility Plant	1,352,374,000	0	0	0	0	1,352,374,000
Working Capital Allowance	191,811,000	0	0	0	0	191,811,000
Total Rate Base	\$1,544,185,000	\$0	\$0	\$0	\$0	\$1,544,185,000
Income Statement						
Operating Revenue	\$460,190,000	\$0	\$0	\$0	\$0	\$460,190,000
Operating Expenses:						
Operation & Maintenance - Other	249,307,000	0	0	0	0	249,307,000
Depreciation & Amortization	83,117,000	0	0	0	0	83,117,000
Amort. of Investment Credit	(1,134,000)	0	0	0	0	(1,134,000)
Taxes Other Than Income	25,909,000	0	0	0	0	25,909,000
Income Taxes - Current	(58,898,000)	0	0	0	0	(58,898,000)
Income Taxes - Deferred	85,880,000	0	0	0	0	85,880,000
Total Operating Expenses	384,181,000	0	0	0	0	384,181,000
Net Operating Income	\$76,009,000	\$0	\$0	\$0	\$0	\$76,009,000
Overall Rate of Return	<u>4.92%</u>					<u>4.92%</u>
Return on Equity	<u>6.83%</u>					<u>6.83%</u>

Gulf Power Company
Docket No. 110138-EI
Interim Test Year
March 31, 2011
(\$000s)

<u>Capital Component</u>	<u>Jurisdictional Capital Structure</u>	<u>Ratio</u>	<u>Adjusted Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost Rate</u>
Long-term Debt	\$ 662,246	42.89%	42.90%	4.48%	1.921%
Short-term Debt	16,530	1.07%	1.07%	0.31%	0.003%
Preferred Stock	53,364	3.46%	3.46%	6.40%	0.221%
Common Equity	602,271	39.00%	39.02%	10.75%	4.193%
Customer Deposits	22,178	1.44%	1.40%	6.30%	0.090%
Deferred Income Taxes	183,351	11.87%	11.88%	0.00%	0.000%
Investment Tax Credits	4,245	0.27%	0.28%	7.42%	0.020%
Total	\$1,544,185	100.00%	100.00%		6.45%

Gulf Power Company
ALLOCATION OF INTERIM RATE INCREASE
DOCKET NO. 110138-EI
MEASURED IN \$000'S

(1)	(2)	(3)	(4)	(5)
RATE SCHEDULE	TOTAL BASE REVENUE AT PRESENT RATES	\$ INTERIM INCREASE	% INCREASE	TOTAL BASE REVENUE AT INTERIM RATES
RESIDENTIAL	\$258,759	\$22,983	8.882%	\$281,742
GENERAL SERVICE - NON-DEMAND	\$18,766	\$1,667	8.882%	\$20,433
GENERAL SERVICE - DEMAND	\$89,229	\$7,925	8.882%	\$97,154
LARGE POWER SERVICE	\$42,336	\$3,760	8.882%	\$46,096
MAJOR ACCOUNTS	\$13,757	\$1,222	8.882%	\$14,979
OUTDOOR SERVICE	\$12,037	\$1,069	8.882%	\$13,106
Unbilled Revenue	(\$870)	(\$77)	8.882%	(\$947)
TOTAL	<u>\$434,014</u>	<u>\$38,549</u>	<u>8.882%</u>	<u>\$472,563</u>

GULF POWER COMPANY
 PRESENT AND INTERIM RATES
 DOCKET NO. 110138-EI

RATE CODE	RATE SCHEDULE	PRESENT RATES	INTERIM INCREASE	INTERIM RATES
RS	<u>RESIDENTIAL</u>			
	CUSTOMER CHARGE	\$10.00	\$0.89	\$10.89
	ENERGY CHARGE (cents/kWh) 0-1000 kWh	3.930	0.349	4.279
GS	<u>GENERAL SERVICE - NON-DEMAND</u>			
	CUSTOMER CHARGE	\$13.00	\$1.15	\$14.15
	ENERGY CHARGE (cents/kWh)	4.637	0.412	5.049
GSD	<u>GENERAL SERVICE - DEMAND</u>			
	CUSTOMER CHARGE	\$35.00	\$3.11	\$38.11
	ENERGY CHARGE (cents/kWh)	1.396	0.124	1.520
	DEMAND CHARGE (\$/kW)	\$5.42	\$0.48	\$5.90
LP	<u>LARGE POWER SERVICE</u>			
	CUSTOMER CHARGE	\$155.00	\$13.77	\$168.77
	ENERGY CHARGE (cents/kWh)	0.668	0.059	0.727
	DEMAND CHARGE (\$/kW)	\$8.75	\$0.78	\$9.53

GULF POWER COMPANY
BILL COMPARISONS - PRESENT VS. INTERIM RATES
DOCKET NO. 110138-EI

RESIDENTIAL SERVICE

PRESENT RATES

INTERIM RATES

Customer Charge
 \$10.00

Customer Charge
 \$10.89

Energy Charge (c/kWh)
 3.930

Energy Charge (c/kWh)
 4.279

Fuel Factor (c/kWh)
 5.131

Fuel Factor (c/kWh)
 5.131

Conservation Factor (c/kWh)
 0.080

Conservation Factor (c/kWh)
 0.080

Capacity Factor (c/kWh)
 0.476

Capacity Factor (c/kWh)
 0.476

Environmental Factor (c/kWh)
 1.343

Environmental Factor (c/kWh)
 1.343

kwh Usage	Present Monthly Bill	Interim Monthly Bill	Percent Increase	Dollar Increase
750	\$94.56	\$98.16	3.80%	\$3.60
1,000	\$122.67	\$127.16	3.66%	\$4.49
1,200	\$145.15	\$150.36	3.59%	\$5.21
1,500	\$178.87	\$185.15	3.51%	\$6.28
1,750	\$206.97	\$214.15	3.47%	\$7.18
2,000	\$235.08	\$243.15	3.43%	\$8.07
2,500	\$291.28	\$301.14	3.39%	\$9.86
3,000	\$347.49	\$359.14	3.35%	\$11.65

Bills include Gross Receipts Taxes