

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for increase in rates by Gulf
Power Company.

DOCKET NO. 110138-EI
ORDER NO. PSC-11-0382-PCO-EI
ISSUED: September 12, 2011

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
LISA POLAK EDGAR
RONALD A. BRISÉ
EDUARDO E. BALBIS
JULIE I. BROWN

ORDER SUSPENDING PROPOSED FINAL RATES
AND APPROVING INTERIM RATES

BY THE COMMISSION:

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 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. A hearing has been scheduled for December 12-16, 2011.¹

This order addresses the interim rate increase request and the suspension of the requested permanent rate increase. We 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. We have

¹ See Order No. PSC-11-0307-PCO-EI, issued July 21, 2011, in Docket No. 110138-EI, In re: Petition for Increase in rates by Gulf Power Company.

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jurisdiction over this request for a rate increase and interim rate increase under Sections 366.06 and 366.071, F.S.

SUSPENSION OF RATES

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, we have 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.

We find that the requested permanent rate schedules shall be suspended to allow our staff and any intervenors sufficient time to adequately investigate whether the request for permanent rate relief is appropriate.

INTERIM TEST YEAR RATE BASE

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. We have reviewed the rate base adjustments made in the current interim filing for consistency with our approved adjustments in the Company's last rate case proceeding.² Based on our staff's review, it appears that GPC has made the applicable and appropriate adjustments that are consistent with the last Order. Thus, we find that the proposed interim test year rate base in the amount of \$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.

RETURN ON EQUITY

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

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.

Company's currently authorized ROE range. We find 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

We further find 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.

INTERIM TEST YEAR NET OPERATING INCOME

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. Our staff has reviewed the net operating income adjustments made in the current interim filing for consistency with our approved adjustments in the Company's last rate case proceeding. Based on our staff's review, it appears that GPC has made the applicable and appropriate adjustments that are consistent with the last order. Thus, we find 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.

INTERIM NET OPERATING MULTIPLIER

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. Our staff has reviewed the Company's calculation of the net operating income multiplier and is not proposing any adjustments. Therefore, we find 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	(0.2980)%
Net Before Income Tax	99.6300%
Combined State/Federal Income Tax @ 38.575%	(38.4323)%
Revenue Expansion Factor	<u>61.1977%</u>

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.

NOI Multiplier (100/61.1977) 1.634048

INTERIM REVENUE INCREASE

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>

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 interim rates for all rate classes. GPC shall refile Schedule G-22, for our review, to show the calculation of all base rates and charges based on the Commission-approved percentage increase factor. GPC shall 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 shall be effective for all meter readings made on or after thirty days from the date of our vote approving any interim increase. GPC shall 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 shall be submitted to staff for approval prior to its issuance.

GPC 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. We 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, we have 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. Our 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.

We believe GPC has adequate resources to support a corporate undertaking in the amount requested. Based on this analysis, a corporate undertaking of \$19,274,500 is hereby approved. Our 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 our position on other issues in this proceeding.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Gulf Power Company's requested permanent rate increase is suspended pending further review. It is further

ORDERED that Gulf Power Company's request for interim rates is granted as set forth in the body of this Order. It is further

ORDERED that all matters contained in the schedules and attachments to this Order are incorporated herein by reference. It is further

ORDERED that the interim revenues shall be collected subject to refund be secured by a corporate undertaking as discussed in the body of this Order. It is further

ORDERED that each finding in the body of this Order is hereby approved in every respect. It is further

ORDERED that the appropriate percentage increase factor is 8.882 percent. It is further

ORDERED Gulf Power Company shall re-file Schedule G-22, for our review, to show the calculation of all base rates and charges based on the Commission-approved percentage increase factor. It is further

ORDERED that Gulf Power Company shall file revised tariff sheets to reflect our decision herein. It is further

ORDERED that this docket shall remain open pending our final action on Gulf Power Company's requested rate increase.

By ORDER of the Florida Public Service Commission this 12th day of September, 2011.



ANN COLE
Commission Clerk
Florida Public Service Commission
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Tallahassee, Florida 32399
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CMK

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by this order, which is non-final in nature, may request (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code, or (2) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Office of Commission Clerk, in the form prescribed by Rule 25-22.0376, Florida Administrative Code. Citizens of the State of Florida v. Mayo, 316 So.2d 262 (Fla. 1975), states that an order on interim rates is not final or reviewable until a final order is issued. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

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

<u>Rate Base</u>	<u>Adjusted Test Year Per Utility</u>	<u>Adjustments</u>		<u>Interest Synchron- ization</u>	<u>Total Adjustments</u>	<u>Commission Approved Rate Base</u>
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
<u>Income Statement</u>						
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	4.92%					4.92%
Return on Equity	6.83%					6.83%

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

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