BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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| In re: Petition for Increase in Rates by | ) | |
| Gulf Power Company | ) | DOCKET NO. 110138-EI |
| | ) | Filed October 14, 2011 |

# DIRECT TESTIMONY OF

# DONNA RAMAS, CPA

# ON BEHALF OF THE CITIZENS

# OF THE STATE OF FLORIDA

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EXHIBITS

**DIRECT TESTIMONY**
**OF**

**DONNA RAMAS**

On Behalf of the Office of Public Counsel

Before the

Florida Public Service Commission

Docket No. 110138-EI

INTRODUCTION

**Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?**

A. My name is Donna Ramas. I am a Certified Public Accountant licensed in the State of Michigan and a senior regulatory consultant at the firm Larkin & Associates, PLLC, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

**Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.**

A. Larkin & Associates, PLLC, is a Certified Public Accounting and Regulatory Consulting Firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.). Larkin & Associates, PLLC has extensive experience in the utility regulatory field as expert witnesses in over 600 regulatory proceedings, including numerous electric, water and wastewater, gas and telephone utility cases.

**Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION?**

A. Yes, I have testified before the Florida Public Service Commission on several prior occasions. I have also testified before several other state regulatory commissions.

**Q. HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR QUALIFICATIONS AND EXPERIENCE?**

A. Yes. I have attached Exhibit__(DR-2), which is a summary of my regulatory experience and qualifications.

**Q. ON WHOSE BEHALF ARE YOU APPEARING?**

A. Larkin & Associates, PLLC, was retained by the Florida Office of Public Counsel ("OPC") to review the rate request of Gulf Power Company ("Gulf" or "Company"). Accordingly, I am appearing on behalf of the Citizens of the State of Florida ("Citizens").

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

A. I am presenting the OPC's overall recommended revenue requirement in this case. I also sponsor several adjustments to the Company's proposed rate base and operating income, and discuss the deferred income tax component of the capital structure.

**Q. ARE ANY ADDITIONAL WITNESSES APPEARING ON BEHALF OF THE FLORIDA OFFICE OF PUBLIC COUNSEL IN THIS CASE?**

A. Yes. Helmuth W. Schultz, III, also of Larkin & Associates, PLLC, is presenting testimony. Kimberly Dismukes and Dr. Randy Woolridge are also presenting testimony.

**Q. HOW WILL YOUR TESTIMONY BE ORGANIZED?**

A. I first present the overall financial summary, presenting the overall revenue requirement recommended by Citizens in this case. The overall financial summary presents the results of the recommendations of each of the Citizens witnesses in this case. I then address various adjustments I am sponsoring in this proceeding, followed by a discussion of the deferred tax component of the capital structure.

OVERALL FINANCIAL SUMMARY

**Q. HAVE YOU PREPARED AN EXHIBIT IN SUPPORT OF YOUR TESTIMONY?**

A. Yes. I have prepared Exhibit__(DR-1), consisting of Schedules A, A-1, B-1 through B-3, C-1 through C-8 and D. The schedules presented in Exhibit__(DR-1) are also consecutively numbered at the bottom of each page.

**Q. WHAT DOES SCHEDULE A, TITLED "REVENUE REQUIREMENT" PRESENT?**

A. Schedule A presents the revenue requirement calculation, at this time, giving effect to all of the adjustments I am recommending in this testimony, along with the impacts of the recommendations made by Citizens' witnesses Schultz, Dismukes and Woolridge. The calculation of the net operating income multiplier (or gross revenue conversion factor) is presented on my Schedule A-1. The adjustments presented on Schedule A which impact rate base can be found on Schedule B-1. Schedules B-2 and B-3 provide supporting calculations for rate base adjustments I am sponsoring, which are presented on Schedule B-1. The OPC adjustments to net operating income are listed on Schedule C-1.

Schedules C-2 through C-8 provide supporting calculations for the adjustments I am sponsoring to net operating income, which are presented on Schedule C-1.

**Q. WOULD YOU PLEASE BRIEFLY DISCUSS SCHEDULE D?**

A. Schedule D presents Citizens' recommended capital structure and overall rate of return based on the recommendations of Citizens' witness Dr. Woolridge. The capital structure ratios are based on the ratios recommended by Dr. Woolridge; however, the capital structure dollar amounts differ as I have applied the adjustments to the capital structure necessary to synchronize Citizens' recommended rate base with the overall capital structure. On Schedule D, I then applied Dr. Woolridge's recommended cost rates to the recommended capital ratios, resulting in Dr. Woolridge's overall recommended rate of return of 5.89%.

**Q. WHAT IS THE RESULTING REVENUE REQUIREMENT FOR GULF POWER COMPANY?**

A. As shown on Schedule A, the OPC's recommended adjustments in this case result in a revenue increase for Gulf Power Company of $11,812,000. This is $81.7 million less than the $93.5 million increase in base rates requested by Gulf in its filing.

<u>NET OPERATING INCOME MULTIPLIER</u>

**Q. ARE YOU RECOMMENDING ANY MODIFICATIONS TO THE NET OPERATING INCOME MULTIPLIER PROPOSED BY THE COMPANY?**

A. Yes, I am recommending a revision to the net operating income multiplier (i.e., gross revenue conversion factor) proposed by Gulf. In determining its proposed factor, Gulf included a bad debt rate of 0.3321%. Later in this testimony, under the heading of "Uncollectible Expense," I am proposing a bad debt rate for the 2012 projected test year of 0.3056%. On Schedule A-1, I replace the Company's proposed bad debt rate of 0.3321% with a more appropriate rate of 0.3056% in determining the net operating income multiplier. This revision results in a net operating income multiplier of 1.634173 as compared to Gulf's proposed multiplier of 1.634607. The revised multiplier is used in calculating the Citizens' proposed revenue deficiency on Schedule A.

<u>RECOMMENDED ADJUSTMENTS</u>

**Q. WOULD YOU PLEASE DISCUSS EACH OF THE ADJUSTMENTS TO GULF'S FILING YOU ARE SPONSORING?**

A. Yes, I will address each adjustment I am sponsoring below.

<u>Transmission Plant Additions</u>

**Q. WHAT LEVEL OF TRANSMISSION RELATED CAPITAL ADDITIONS HAS THE COMPANY BUDGETED FOR 2011 AND 2012?**

A. The Company budgeted transmission related capital additions of $66,748,000 for 2011 and $70,902,000 for 2012. The budgeted 2011 transmission capital additions of $66,748,000 includes $17,098,000 of transmission infrastructure replacement projects; $38,025,000 of transmission planning generated projects; $6,810,000 of distribution planning generated projects; and $4,815,000 of Smart Grid Investment Grant program projects. The 2012 budgeted transmission capital additions of $70,902,000 includes $6,180,000 of transmission infrastructure replacement projects; $56,107,000 of transmission planning generated projects; $2,975,000 of distribution planning generated projects; and $5.64 million associated with the Smart Grid Investment Grant program.

**Q. WHAT DIFFERENTIATES THE TRANSMISSION AND DISTRIBUTION PLANNING GENERATED PROJECTS FROM THE TRANSMISSION INFRASTRUCTURE REPLACEMENT PROJECTS?**

A. According to the testimony of Gulf witness P. Chris Caldwell, the transmission and distribution planning generated projects are the results of the transmission planning process which is described in his testimony. Under the transmission planning process, Gulf develops a 10-year plan that is based on load forecasting and other operational considerations. The 10-year plan is updated on an annual basis. According to Mr. Caldwell, the transmission planning process meets the North American Electric Reliability Corporation ("NERC") standards as well as the applicable Southeastern Electric Reliability Corporation ("SERC") standards. The projected 2011 and 2012 budgeted transmission capital additions in the transmission planning generated projects category are composed of a few large projects, such as the Smith-Laguna Beach-Santa Rosa transmission line and substation improvements, as well as the Slocomb-Holmes Creek-Highland City transmission line and substation improvements.

The transmission infrastructure replacement projects are for routine replacements of poles, transformers, voltage regulation equipment, switches, conductors and other assets. These would be the transmission capital expenditures for infrastructure replacement projects, but would not have been considered as part of the transmission planning process discussed above.

**Q. YOU INDICATED THAT THE 2011 AND 2012 TRANSMISSION CAPITAL ADDITIONS BUDGET INCLUDED $4,815,000 AND $5,640,000, RESPECTIVELY, ASSOCIATED WITH THE SMART GRID INVESTMENT GRANT PROGRAM. WHAT IS THIS PROGRAM?**

A. This program is discussed only briefly in Mr. Caldwell's testimony. Beginning at page 17 and continuing through page 18 of his testimony, Mr. Caldwell addresses the Smart Grid Investment Grant Program ("SGIG") projects that are included in the transmission capital additions budget as follows:

> As part of the American Recovery and Reinvestment Act, Congress allocated funding to the Department of Energy (DOE) for grants to increase the rate of Smart Grid equipment deployment across the United States. The transmission portion of this grant has been dedicated to replacing protection and control equipment in substations with new technologies which allow for better operation and control of the transmission network. These devices facilitate communication between remote field locations and the transmission control center as well as allowing more advanced protection schemes to be implemented throughout Gulf.

The amount addressed in Mr. Caldwell's testimony associated with the SGIG projects is limited to the transmission area. Other witnesses address the SGIG projects for which Gulf has budgeted in their respective testimonies. At page 27 of Gulf witness R. Scott Moore's testimony, he indicates that the Smart Grid Investment Grant is being conducted in conjunction with the Department of Energy and the Southern Company, or Gulf's parent company. Mr. Moore indicates that Gulf's capital investment dollars are matched by 50% with DOE SGIG funds.

**Q. DO YOU HAVE ANY INFORMATION REGARDING THE AMOUNT OF THE SMART GRID INVESTMENT GRANT OR THE PORTION OF THAT GRANT THAT WILL APPLICABLE TO GULF'S OPERATIONS?**

A. According to information available on Southern Company's website, Southern Company signed a Smart Grid Investment Grant agreement with the U.S. Department of Energy in 2010 in which it accepted a $165 million award that will be used throughout the Company's four-state service territory over a three-year period. The website indicates that the federal funding will be matched by Southern Company and will allow for investment in the Company's transmission and distribution infrastructure. Based on the information I have been able to review to date, I was unable to determine how much of the $165 million grant from the Department of Energy would be allotted to the Gulf Power System. I was also unable to determine how Gulf has accounted for its allotment of the grant funds. However, the Company has identified some transmission and distribution related capital additions for the 2011 and 2012 budget period that would fall under this program.

**Q. FOR THE SGIG PROJECTS INCLUDED IN GULF'S BUDGETED 2011 AND 2012 PLANT ADDITIONS IN THIS CASE, IS THE AMOUNT BASED ON THE TOTAL CAPITAL EXPENDITURES FOR THE PROJECT OR ONLY THE AMOUNT NET OF THE GRANT THAT WAS RECEIVED BY GULF'S PARENT, SOUTHERN COMPANY?**

A. Based on the extremely limited information on the grant provided by the Company in its filing and supporting workpapers in this case, it appears that the capital additions budgets for 2011 and 2012 include the full projected capital expenditures for the SGIG projects. There is nothing in any of the witnesses' testimony in this case discussing the SGIG projects that indicates that the amount included is net of or excludes the portion that is being paid for with the grant from the Department of Energy.

**Q. SHOULD THE SGIG PROJECTS INCORPORATED IN THE 2011 AND 2012 TRANSMISSION PLANT ADDITIONS IN THIS CASE REMAIN IN RATE BASE?**

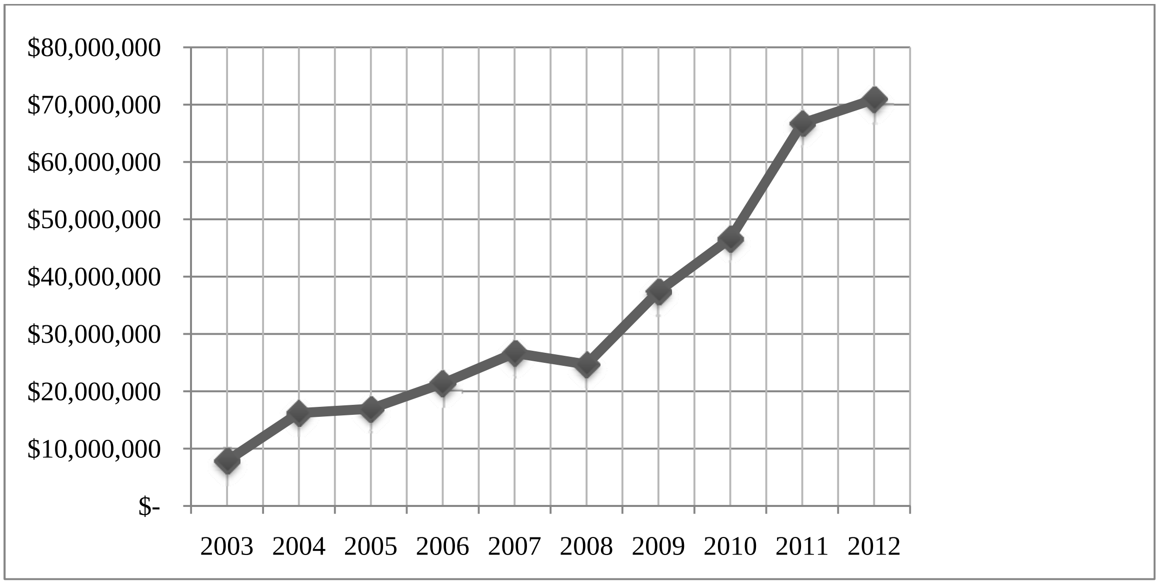
A. No. Presumably these projects would be at least partially covered by the DOE grant that was received by Southern Company; therefore, it would not be appropriate to charge the full cost of the project and incorporate those costs in rate base charged to customers. At this time I am recommending that the budgeted 2011 and 2012 transmission related Smart Grid Investment Grant project costs be excluded from rate base. I have removed the projected 2011 and 2012 SGIG grant program projects in the transmission area on Schedule B-2, page 1 of 3, line 4. This results in a $7,635,000 reduction to the projected 2012 test year average plant in service balances.

The Company's direct testimony in this case is silent on how those grants that are being received from the Department of Energy are being accounted for by Gulf in its rate case filing and the accounting treatment of these grants. If there are remaining areas of SGIG plant additions in this case (beyond those I am removing in this testimony) which Gulf has included in the balance for the capital additions in the 2012 average test year plant in service, those balances should also be removed. The benefit of the SGIG grant funding should be flowed to the ratepayers, and ratepayers should not be paying a return on investments that are being reimbursed in part to Gulf Power by the Department of Energy. The Commission routinely removes CIAC from rate base. In the case of the SGIG, the U.S. Taxpayer contributed these monies, and Gulf should not earn a return on these investments.

**Q. HOW DO THE REMAINING NON-SGIG PROGRAM TRANSMISSION RELATED CAPITAL ADDITIONS THAT GULF HAS BUDGETED FOR 2011 AND 2012 COMPARE TO HISTORIC CAPITAL EXPENDITURES IN THE TRANSMISSION AREA?**

A. The amount of transmission capital additions incorporated in its filing, excluding SGIG projects, are substantially higher than historic expenditure levels. The graph presented below shows the annual level of transmission related capital expenditures made by Gulf for each year, 2003 through 2010, as well as the budgeted transmission related capital expenditures for 2011 and 2012. As shown on the graph, the level of transmission-related capital expenditures sharply increased from 2008 to 2010, and is projected to have another substantial increase in annual expenditures in the 2011 and 2012 budget periods.

Gulf Transmission-Related Capital Expenditures
2003 – 2010 Actual and 2011/2012 Budgeted




Over the period 2003 through 2010, the average total transmission capital expenditures were $24,718,767. On Schedule B-2, page 2 of 3, I provide a breakout of the actual transmission related capital expenditures by cost type, such as infrastructure replacement projects and planning generated projects, for each year 2003 through 2010. The total amounts by transmission expenditure category for the period 2003 through 2010 equaled the amounts for each of these categories for that same period (2003 to 2010) that is presented on page 15 of Gulf witness P. Chris Caldwell's direct testimony in this case. As shown on Schedule B-2, page 2 of 3, the 2003 through 2010 average transmission capital expenditures of $24.7 million are similar to the $24.7 million level actually incurred by Gulf during 2008. As can also be seen from this table, the capital expenditures significantly increased by over 51% between 2008 and 2009, going from approximately $24.7 million to $37.4 million. The table also shows that between 2009 and 2010 the annual transmission related capital expenditures escalated another 24.74% to $46.6 million.

On page 3 of Schedule B-2, I present by transmission project type a comparison of the average 2003 through 2010 capital expenditures, the actual 2009 and actual 2010 capital expenditures, as well as the budgeted 2011 and budgeted 2012 transmission capital expenditures that are included in this case. As shown on this page, Gulf has projected that the 2010 expense level of $46.6 million will escalate substantially further to $66.7 million in 2011 and $70.9 million in 2012. Even if the Smart Grid Investment Grant program expenditures are excluded from the budgeted 2011 and 2012 amounts, there is still a substantial and sharp increase in the budgeted transmission related capital expenditures. In fact, the budgeted 2011 capital expenditures are 150.6% higher than the average level for the period 2003 through 2010, and the budgeted 2012 capital expenditures are 164% higher than that historic level. Also, excluding the SGIG projected expenditures, the budgeted 2011 and 2012 capital expenditures are 65.7% and 74.6%, respectively, higher than the actual 2009 expenditures.

**Q. ARE YOU ABLE TO COMMENT ON WHAT IS CAUSING THE SHARP AND SIGNIFICANT INCREASE IN THE BUDGETED TRANSMISSION RELATED CAPITAL EXPENDITURES THAT IS INCORPORATED BY GULF IN THE MFRS?**

A. A large portion of the sharp and significant increase in transmission capital expenditures is associated with the transmission planning generated projects category. The Company’s workpapers show a few large transmission projects are budgeted for 2011, and Mr. Caldwell’s testimony specifically references two other large transmission projects for 2012 (Caldwell, p.18). Since a large portion of the sharp and significant increase in transmission costs are tied to specific projects developed through Gulf Power's transmission planning generated projects process, at this time I am not recommending any adjustments associated with those specific transmission line projects in the transmission planning generated projects category.

**Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO THE REMAINING PROJECTED TRANSMISSION CAPITAL EXPENDITURES THAT DO NOT FALL IN THE PLANNING GENERATED PROJECT CATEGORY?**

A. Yes. Gulf has also budgeted for a sharp increase in the costs of the transmission infrastructure replacement projects in 2011. As shown on Schedule B-2, page 3 of 3, the average annual amount of transmission infrastructure replacement projects for the period 2003 through 2010 was $7,252,301. The Company has budgeted for 2011 that the infrastructure replacement projects in the transmission area will be $15,948,000, which is more than double the average historic level. During the historic period for which the average was calculated, 2003 through 2010, there were several hurricanes that impacted Gulf's service territory and would have resulted in a higher level of transmission replacement projects during that period. Thus, the 2003 through 2010 average historic replacement level of $7.3 million may be high compared to normal operating conditions. I am recommending that the budgeted 2011 and 2012 transmission infrastructure replacement project expenditures be reduced.

**Q. WHAT ADJUSTMENT DO YOU RECOMMEND?**

A. As shown on Schedule B-2, page 1 of 3, I recommend that the budgeted 2011 and budgeted 2012 transmission infrastructure replacement projects be replaced with the average actual cost associated with these types of projects during the period 2003 through 2010. This recommendation results in an $8,695,699 reduction to the budgeted 2011 transmission capital additions and a $2.4 million increase in the 2012 level. As shown on page 1 of Schedule B-2, line 3, this results in a recommended reduction in the 2012 average test year plant in service balance of $7.5 million. In determining the amount of adjustment to plant in service, I have assumed that the projected 2012 expenditures are added evenly throughout the year.

**Q. WHAT IS YOUR OVERALL RECOMMENDED ADJUSTMENT TO THE TRANSMISSION RELATED PLANT IN SERVICE IN THIS CASE?**

A. As shown on Schedule B-2, page 1 of 3, line 5, I recommend that the transmission plant in service balance be reduced by $15,137,049. This is the result of reducing the 2011 transmission related capital additions by $13.51 million and reducing the 2012 capital additions by approximately $3.25 million, resulting in an impact on the average test year plant in service of $15.14 million. This adjustment removes the Smart Grid Investment Grant projects which should be at least partially funded by the DOE, as well as reduces the transmission infrastructure replacement projects down to an average historic level. Even larger adjustments may be warranted, given the significant spike in the transmission capital additions forecasted by Gulf Power in this rate case.

**Q. WHAT IMPACT DOES YOUR RECOMMENDED REDUCTION TO TRANSMISSION RELATED PLANT IN SERVICE HAVE ON DEPRECIATION EXPENSE AND ACCUMULATED DEPRECIATION?**

A. As shown on Schedule B-2, page 1 of 3, transmission related depreciation expense incorporated in the test year should be reduced by $389,865 and accumulated depreciation should be reduced by $389,865, incorporating the average test year impact of the depreciation.

**Q. HAVE YOU SEEN ANY INFORMATION THAT WOULD LEAD YOU TO BELIEVE THAT YOUR RECOMMENDED ADJUSTMENT IS CONSERVATIVE?**

A. Yes. As part of its response to Citizens' First Request to Produce Documents, Question 12, the Company provided its capital budget variance report for the six month period ended June 2011. Based on the 2011 capital expenditure report, Gulf had budgeted for "Other transmission" projects of $37,963,984 for the first six-months of 2011. The actual year-to-date expenditures as of that date were $30,048,011. In other words, the other transmission related capital expenditures were $7,915,973 or 20.85% under budget by the mid-point of 2011. As shown on my Schedule B-2, page 1 of 3, I have recommended a $13.5 million reduction to the budgeted 2011 capital expenditures incorporated in the Company's filing. This adjustment is reasonable, particularly considering that the Company was already $7.9 million below its budgeted expenditures as of June 2011. The same capital expenditure report also shows that as of June 2011 Gulf's total power delivery capital expenditures, which would include both transmission and distribution, were $12,235,605 or 16.19% below budget. It is highly unlikely that the Company would make up by year end the full amount that it is under budget as of the mid-point of the current year.

Distribution Plant Additions – SGIG Projects

**Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO BUDGETED DISTRIBUTION CAPITAL ADDITIONS?**

A. Yes. Gulf's budgeted capital additions include $1,980,000 in both 2011 and 2012 for distribution plant additions associated with the Smart Grid Investment Grant program projects. There is no indication in the testimony or workpapers on this issue that the amount excludes the portion funded through the grants. At this time, I recommend that these additions be excluded as at least partial funding for these projects would be provided for through the SGIG proceeds received by Southern Company from the DOE. As shown on Schedule B-3, removal of the distribution related SGIG projects incorporated in the distribution plant additions in this case results in a $2,970,000 reduction to average test year plant in service, a $103,915 reduction to test year depreciation expense based on the average distribution plant depreciation rate, and a $103,915 reduction to the average test year accumulated depreciation balance. As mentioned previously, additional adjustments may be needed to ensure that the projects funded with the grant proceeds are not included in Gulf's rate base in this case.

Construction Work in Progress

**Q. HAS GULF INCLUDED CONSTRUCTION WORK IN PROGRESS ("CWIP") IN ITS RATE BASE REQUEST?**

A. Yes. While Gulf has removed the CWIP associated with costs recovered through its various clauses and interest bearing CWIP that accrues an Allowance for Funds Used During Construction ("AFUDC"), the non-AFUDC CWIP remains in rate base. Gulf MFR B-1 shows that $62,617,000 ($60,912,000 jurisdictional) remains in rate base for CWIP.

**Q. IS THE CWIP THAT REMAINS IN RATE BASE A SUBSTANTIAL PORTION OF THE TOTAL PROJECTED TEST YEAR CWIP OR PLANT IN SERVICE BALANCES?**

A. No, it is not. The majority of Gulf's forecasted test year projects qualify for AFUDC accrual. In its filing, Gulf has removed $232,012,000 of interest bearing CWIP from its average test year CWIP balances. It has also removed $22,229,000 that is associated with projects that fall under the Environmental Cost Recovery Clause ("ECRC"). Thus, the non-interest bearing CWIP remaining after removal of the ECRC projects is only 19% of the total projected average test year CWIP balance. Gulf clearly is permitted to earn a return through AFUDC on the vast majority of its projected test year CWIP balances.

**Q. SHOULD THE COMMISSION ALLOW THE NON-INTEREST BEARING CWIP TO BE INCLUDED IN RATE BASE AS PROPOSED BY GULF?**

A. No, it should not. Construction Work in Progress, by its very nature, is plant that is not completed and is not providing service to customers. It is not used or useful in delivering electricity to Gulf's customers. Under the ratemaking process, utilities are permitted to earn a return on the assets that are used and useful in providing service to a utility's customers. Assets that are still undergoing construction clearly are not used in providing service to customers during the construction period. The ratemaking process in most jurisdictions therefore excludes CWIP from being included in rate base, requiring that assets be used and useful in serving customers prior to a return on those assets being recovered from ratepayers. As a general regulatory principle, CWIP should be excluded from rate base and excluded from costs being charged to customers until such time as it is providing service to those customers.

Additionally, the assets being constructed whose costs are included in CWIP are being built to serve both current customers and new customers that will be added to the system when the projects are completed. It is not appropriate to require current customers to pay a return on uncompleted assets that will also be used to serve customers that come on line after those assets are constructed and placed into service, particularly as the revenues from those future customers are not factored into the ratemaking process. Allowing inclusion of CWIP in rate base will result in a mismatch in the ratemaking process as some of those assets are being built to serve new customers yet the revenues from the future new customers are not included in the revenue requirement calculation during the period that the assets are being constructed.

**Q. DOES GULF ASSERT IN TESTIMONY THAT THE INCLUSION OF CWIP IN RATE BASE IS NECESSARY TO SHORE UP OR SAFEGUARD ITS FINANCIAL INTEGRITY?**

A. No.

**Q. WILL GULF'S FINANCIAL INTEGRITY BE NEGATIVELY IMPACTED IF THE NON-INTEREST BEARING CWIP IS EXCLUDED FROM RATE BASE?**

A. No, it should not. As previously mentioned, the majority of Gulf's projects included in the projected test year CWIP forecasts qualify for AFUDC. Less than 20% of the projected test year CWIP balances do not qualify for AFUDC. Excluding those non-AFUDC CWIP projects from rate base should have minimal impact on Gulf's financial integrity.

**Q. DOES COMMISSION RULE 25-6.0141 ON THE ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION DETERMINE WHETHER OR NOT PROJECTS ARE INCLUDED IN RATE BASE IN A RATE PROCEEDING?**

A. No, it does not. The rule allows that long-term construction projects, i.e., projects over a year in length, of a certain magnitude will accrue AFUDC and that shorter term projects will not. It also allows for special circumstances in which larger projects that would not normally qualify under the rule may accumulate AFUDC if desired by the Commission. The rule does not specify that non-AFUDC qualifying CWIP will be included in rate base in a rate case proceeding.

Short term projects that last less than one year will still provide the Company a return by either increasing sales or decreasing operating costs and therefore do not require an AFUDC return. Long-term projects may require the accrual of AFUDC because of the length of time it takes to complete the projects. However, the length of the project should not dictate whether or not that project that is not yet used and useful in serving customers is appropriate for inclusion in rate base.

**Q. HAVE YOU MADE AN ADJUSTMENT TO REMOVE THE REMAINING NON-INTEREST BEARING CWIP FROM RATE BASE?**

A. Yes, I have removed the remaining CWIP from rate base on Schedule B-1, page 2 of 2 for the reasons identified above. The primary reasons, however, are because ratepayers should not be charged a return on assets that are not yet completed and not yet being used to serve them, and Gulf has not demonstrated any justification for departing from this principle.

<u>Uncollectible Expense</u>

**Q. WHAT AMOUNT HAS THE COMPANY INCLUDED IN THE FILING FOR UNCOLLECTIBLE EXPENSE?**

A. Gulf included $4,137,000 of uncollectible expense in its 2012 test year. The amount is based on a projected bad debt factor of 0.3321%, resulting in uncollectible expense of $4,343,000, which was then reduced by $206,000 to reflect projected reductions resulting from Gulf's anticipated increase in collection efforts. The Company also included the projected 0.3321% bad debt factor in determining its net operating income multiplier.

**Q. IS THE 0.3321% BAD DEBT FACTOR USED BY GULF IN PROJECTING THE FUTURE RATE YEAR AMOUNT CONSISTENT WITH HISTORIC BAD DEBT RATES REALIZED BY GULF?**

A. No, it is not. Gulf's MFR Schedule C-11 provided the bad debt factor, calculated as the net uncollectible write-offs to gross revenues from retail sales of electricity, for each year, 2007 through 2010. I have presented the bad debt factor and the amounts used by Gulf to calculate those factors, for each year 2007 through 2010 on Schedule C-2, attached to this testimony. As shown on the schedule, the bad debt factors vary from year to year and range from a low of 0.2804% to a high of 0.3323% in 2009. For the most recent calendar year of 2010, the year of the BP Oil Spill, the bad debt factor was 0.2937%, which is lower than the 2009 rate.

**Q. HOW DID THE COMPANY DETERMINE ITS PROJECTED TEST YEAR FACTOR OF 0.3321%?**

A. There is no explanation in Gulf's filing of how the factor was determined. The actual calculations of the projections for 2011 and 2012 presented in MFR Schedule C-11 were not provided, nor was any testimony provided describing how the amount was determined. Witness Erickson testifies about uncollectible accounts and provides Schedule 4 of CJE-1 to reflect the projected revenues, write-offs and bad debt factors for 2011 through 2015, but there is no support to show how the projections were made or what assumptions were used.

**Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO THE PROJECTED AMOUNT OF UNCOLLECTIBLE EXPENSE AND THE PROJECTED BAD DEBT FACTOR?**

A. Yes. As shown on Schedule C-2, the bad debt factor for Gulf varies from year to year. I recommend that Gulf's projected 2012 bad debt factor be replaced by the four-year average factor calculated using the years 2007 through 2010, resulting in a bad debt factor of 0.3056%. This is higher than the 2010 rate realized by Gulf of 0.2937%. As the level of bad debt expense to revenues varies from year to year, use of an average rate is appropriate to reflect a normalized level in rates going forward. As shown on Schedule C-2, replacing Gulf's proposed 0.3321% factor with my recommended factor of 0.3056% results in projected net write-offs of $3,997,000 which is a $346,000 reduction to the amount included in the filing. I am not removing the $206,000 uncollectable expense adjustment reflected by Gulf its filing as the reduction is projected to be the result of increased collection efforts that were not present in the historic period from which the uncollectibles rate is derived. As shown on Schedule A-1, I have also replaced Gulf's bad debt factor with my recommended bad debt factor for purposes of calculating the net operating income multiplier in this case.

Payroll Expense

**Q. WHAT AMOUNT DID GULF INCORPORATED IN ITS FILING ASSOCIATED WITH PROPOSED INCREASES IN ITS EMPLOYEE COMPLEMENT?**

A. As part of its filing, Gulf has projected a substantial increase in its employee complement. Gulf's filing includes the impact of its assumption that the actual December 31, 2010 employee count of 1,330 employees will increase by 159 employees to 1,489 employees by the start of the 2012 test year. This is a projected increase in the employee complement of 12% within a one year period (i.e., from December 31, 2010 to January 1, 2012).

**Q. WHAT IMPACT DOES THIS PROJECTED 12% INCREASE IN THE EMPLOYEE COMPLEMENT HAVE ON TEST YEAR EXPENSES CONTAINED IN GULF'S RATE REQUEST?**

A. Total projected 2012 base payroll costs include $7,765,817 for the 159 additional employees. Gulf has projected that much of these costs will be either capitalized or will be associated with the various rate clauses. Once the portion that is projected to be capitalized is removed, as well as the portion related to costs recovered through clauses and removed in the adjustments in Gulf's filing, $4,387,786 for base payroll associated with new positions remains in the adjusted test year expenses.

In addition to the base payroll costs, other costs are factored into Gulf's request associated with the 159 new employees. In its response to Citizens' Interrogatory 184(b), Gulf provided the following information in table form showing the amounts included in its MFR Schedule C-35 associated with the 159 additional employee positions as well as the amounts included in the adjusted test year Operation & Maintenance Expenses:

| Costs for New Employees | Total Amount | NOI Adjs./ Clauses/Capital | Net Amount In Test Year |
|---|---|---|---|
| Base Payroll | $ 7,765,817 | $ (3,378,031) | $ 4,387,786 |
| Variable Pay (Incentive Comp.) | 702,387 | (168,888) | 533,499 |
| Medical and Other Group Insurance | 956,289 | | 956,289 |
| Employee Savings Plan | 242,687 | | 242,687 |
| | $ 9,667,180 | $ (3,546,919) | $ 6,120,261 |

As shown in the above table, Gulf's request to recover costs associated with 159 additional employees results in a $6,120,261 increase in Operation and Maintenance expense in its filing.

**Q. WHAT ASSUMPTIONS HAS GULF MADE REGARDING THE AMOUNT OF VACANCIES DURING THE 2012 TEST YEAR?**

A. Gulf has assumed that it will have zero employee vacancies during the entire 2012 test year in this case. In other words, Gulf has projected as part of its filing that 100% of its budgeted employee positions will be filled by the start of the 2012 test year and that level will be maintained throughout the test year.

**Q. IS THIS A REASONABLE ASSUMPTION?**

A. Absolutely not. Employee vacancies are common for all utilities, including Gulf. It is not the norm for a company to experience a 0% vacancy rate and to have filled its full budgeted employee complement for any given month, let alone an entire year. In fact, Gulf's vacancy rate has been very high since the time of its last rate case, which covers the past nine years. Schedule C-3, page 2 of 2 presents the average actual employee count as well as Gulf's budgeted employee count for each year, 2002 through 2010, and for the six month period ended June 30, 2011. The schedule also presents the percentage variance or vacancy factor for each of these years. As shown on the schedule, Gulf's employee complement has consistently been below the level budgeted by Gulf. For the nine-year period 2002 through 2010, the average vacancy factor was 5.08%. Over the last five years, 2006 through 2010, the average vacancy factor was 6.10%. Using just the six month period ended June 30, 2011, Gulf's average employee complement was 9.81% below the budgeted level.

**Q. HOW DOES GULF'S PROJECTED INCREASE IN THE EMPLOYEE COMPLEMENT COMPARE TO THE ACTUAL CHANGES IN EMPLOYEE COMPLEMENT EXPERIENCED BY GULF OVER THE PERIOD SINCE THE LAST RATE CASE?**

A. As shown on Schedule C-3, page 2 of 2, the average employee count at Gulf has fluctuated over the period 2002 through 2010, ranging from a 12 employee increase in 2009 to a 9 employee reduction in 2006. The highest annual increase in the average employee complement during the period was 12 employees in 2006. In this case, Gulf has projected that its employee complement will increase by 159 employees from 1,330 as of December 31, 2010 to 1,489 employees before the start of the test year in this case. This increase results from a combination of assuming that 100% of the positions will be filled with zero vacancies as well as a request to add many additional employee positions.

**Q. OF THE 159 ADDITIONAL POSITIONS, HOW MANY ARE THE RESULT OF INCREASING THE BUDGETED NUMBER OF POSITIONS?**

A. During 2010, Gulf's budgeted employee complement was 1,442 employees. The test year budgeted employee complement is 1,489 employees representing a 47 position increase in the budget level. Thus, the 159 employee increase projected by Gulf is the result of both adding new positions and of filling 100% of its budgeted positions for the entire test year. The proposed new positions are addressed in the testimony of several Gulf witnesses in this case.

**Q. HAS GULF ACTUALLY STARTED FILLING POSITIONS SINCE DECEMBER 31, 2010?**

A. Yes. The employee count has increased by 33 employees to 1,365 as of June 30, 2011. While the employee level has increased, it was still 124 employees below the budgeted level as of June 30, 2011.

**Q. FOR THE FIRST SIX MONTHS OF 2011, HOW HAVE THE ACTUAL REGULAR AND OVERTIME PAYROLL COSTS COMPARED TO THE BUDGETED AMOUNTS?**

A. Gulf's response to Citizens' Interrogatory 1 shows that the actual regular and overtime payroll costs for the period January 2011 through June 2011 were $49,763,086, and the actual costs for that same six month period were $45,696,630. Therefore, for the first six months of 2011, the actual regular and overtime payroll costs incurred by Gulf was $4,066,465 below the budgeted amount.

**Q. SHOULD GULF'S PROPOSED TEST YEAR LABOR COSTS BE REDUCED IN THIS CASE?**

A. Yes. As mentioned previously, it is unrealistic and unreasonable to assume that Gulf will fill 100% of its budgeted employee positions by the start of the January 1, 2012 start of the test year or that Gulf will maintain a 0% vacancy factor throughout the entire 2012 test year. Given the large projected increase in employee positions contained in Gulf's filing compared to historic employee levels, the assumption of 0% vacancy is even more unlikely to occur. In order to reach the level of labor costs incorporated in its filing, Gulf would need to hire 124 additional employees between July1, 2011 and January 1, 2012 and retain all 124 new employees along with 100% of its June 30, 2011 employee complement throughout the 2012 test year. This is highly unlikely, if not impossible, scenario.

**Q. WHAT LEVEL OF EMPLOYEES DO YOU RECOMMEND BE REFLECTED IN THE 2012 TEST YEAR?**

A. I recommend that Gulf's proposed 159 employee increase from the actual December 31, 2010 level be reduced by 91 positions thereby allowing 68 additional positions, or 42.8% (68 recommended / 159 proposed additions) of the proposed employee increase level. This would allow for the inclusion in the projected test year costs of 1,398 employees, which is 5% higher than the December 31, 2010 employee level. This also results in the allowance of 33 additional employees beyond the actual June 30, 2011 employee complement for a net increase of 68 positions during 2011. This takes into consideration the various new employee positions discussed by Gulf in its testimonies, but also considers the vacancy factor that has been experienced by Gulf.

**Q. HOW DID YOU DETERMINE THE RECOMMENDED TEST YEAR EMPLOYEE LEVEL?**

A. As shown on Schedule C-3, page 2 of 2, I applied the average vacancy factor actually experienced by Gulf during the five-year period 2006 through 2010 of 6.10% to Gulf's budgeted 2012 test year employee complement of 1,489, resulting in a recommended test year employee complement of 1,398 employees. This is 68 employees above the actual December 31, 2010 employee level, 33 of which have already been filled by June 30, 2011.

**Q. WHAT REDUCTION NEEDS TO BE MADE TO GULF'S ADJUSTED TEST YEAR OPERATION AND MAINTENANCE EXPENSES TO IMPLEMENT YOUR RECOMMENDED REDUCTION IN THE PROPOSED TEST YEAR EMPLOYEE COMPLEMENT?**

A. As shown on Schedule C-3, page 1 of 2, Gulf's adjusted 2012 test year expenses should be reduced by $3,195,627. This removes the base payroll, medical and other group insurance costs, and employee savings plan costs included by Gulf in its adjusted test year operation and maintenance expense for the positions I recommend be removed. I have not removed the incentive compensation costs included by Gulf in the test year as part of this adjustment because those costs are being removed elsewhere in my schedules.

<u>Incentive Compensation Program Costs</u>

**Q. WHAT AMOUNT HAS GULF INCLUDED IN ITS 2012 PROJECTED TEST YEAR FOR INCENTIVE COMPENSATION PROGRAM COSTS?**

A. Total projected 2012 costs included $16,464,470 associated with five separate incentive compensation programs. The table below provides a breakdown of the $16,464,470 by each of the five separate programs:

| Incentive Compensation Programs | 2012 Amounts |
|---|---|
| Performance Pay Program | $ 13,632,643 |
| Stock Option Expense | 724,990 |
| Performance Share Program | 1,097,321 |
| Performance Dividend Program | 1,007,516 |
| Cash/Spot Awards | 2,000 |
| | 16,464,470 |

Of the total costs, $594,954 was removed by the Company as part of its net operating income adjustments and exclusions, resulting in $15,869,516 being incorporated in the adjusted 2012 test year. The table below presents a breakdown of the total cost of $16,464,470 and the adjusted $15,869,516 between operating and maintenance expenses, capital, clearing accounts, and below the line ("BTL") costs.

| Incentive Program Costs in Test Year: | Total Amount | NOI Adjs./ Exclusions | Net Amount In Test Year |
|---|---|---|---|
| Operation & Maintenance Expenses | $ 12,893,352 | $ (497,410) | $ 12,395,942 |
| Capital | 2,978,595 | | 2,978,595 |
| Clearing | 494,979 | | 494,979 |
| BTL | 97,544 | (97,544) | - |
| Total | $ 16,464,470 | $ (594,954) | $ 15,869,516 |

As shown above, of the total projected incentive compensation plan costs, $12,395,942 remains in operation and maintenance expenses in the filing. Additionally, the clearing costs of $494,979 are allocated between operating and maintenance expenses and capital in the test year.

**Q. WHAT IS THE TOTAL AMOUNT OF INCENTIVE COMPENSATION PLAN COSTS REMAINING IN THE ADJUSTED TEST YEAR OPERATION AND MAINTENANCE EXPENSES AND THE ADUSTED TEST YEAR CAPITAL OR PLANT IN SERVICE BALANCES?**

A. On Schedule C-4, page 2 of 2, I provide a calculation showing the total amount of incentive program cost charged to O&M expense, as well as the total incentive program costs that were charged to capital in the 2012 test period. The result is that $12,623,632 is included in the adjusted test year O&M expenses and $3,245,884 is in the 2012 capital costs.

**Q. WOULD YOU PLEASE DISCUSS THE FOUR SEPARATE INCENTIVE COMPENSATION PLANS THAT MAKE UP THE VAST MAJORITY OF THE 2012 PROJECTED INCENTIVE COMPENSATION PLAN COSTS?**

A. Yes. In this testimony I am not addressing the cash/spot awards as the amount is minimal resulting in only $2,000 of costs. Thus, in this testimony I will address the four remaining plans.

**Q. WOULD YOU PLEASE FIRST ADDRESS THE STOCK OPTION PROGRAM?**

A. Yes. In response to Citizens' Interrogatory 6, Gulf provides the following description of the Stock Option Program:

> **Stock Option Program**
> Stock options reward price increases in Southern Company common stock over the market price on date of grant, over a 10-year term. A long-term performance target percentage of base pay is established for each eligible employee based on his/her grade level. This target percentage may be allocated between stock options and performance shares. The number of stock options granted is dependent on this long-term performance target percentage and allocation, and on the fair value of a stock option on the date of grant.

The incentive compensation program costs budgeted by the Company for 2012 for the Stock Option Program is $724,990. A portion of those costs remain in the adjusted test year expenses and capital in this case.

**Q. SHOULD THE COSTS ASSOCIATED WITH THE STOCK OPTION PROGRAM BE PASSED ON TO THE COMPANY'S RATEPAYERS?**

A. No, they should not. Clearly, the entire focus of this program is on Southern Company's common stock price. It is a long-term incentive program which encourages certain senior level employees of Southern Company and its subsidiaries, including Gulf, to strive to increase the stock price of Southern Company on behalf of the Company's investors. Clearly, the full focus of this program is on shareholders and not customers. According to the response to Citizens' Request to Produce Documents, Question 14, only exempt employees of Southern Company and its subsidiaries in salary grades of seven and above are eligible for this plan. Non-exempt employees, exempt employees in salary grades below seven and bargaining unit employees are not permitted to participate in this stock option program. Because these benefits provide direct benefits to Southern Company shareholders and not Gulf's ratepayers, I recommend the full costs associated with this program be disallowed and not be passed on to customers.

**Q. WOULD YOU PLEASE NOW DISCUSS THE PERFORMANCE SHARE PROGRAM?**

A. Gulf's 2012 forecast includes Performance Share Program costs of $1,097,321. In response to Citizens' Interrogatory 6, Gulf provided the following description of the Performance Share Program:

> **Performance Share Program**
> The Performance Shares reward achievement of total shareholder return goals. Employees may receive shares of Southern Company stock dependent on three-year total shareholder return versus industry peers. A target percentage of base pay is established for each eligible employee based on his/her grade level for target level performance. This target percentage may be allocated between stock options and performance shares. The original number of performance shares granted is dependent on the date of the grant. This program was new beginning in 2010. The first possible payout occurs in March, 2013.

Eligibility for this program is the same as the eligibility requirements associated with the Stock Option Program.

**Q. SHOULD THE COSTS ASSOCIATED WITH THE PERFORMANCE SHARE PROGRAM BE PASSED ONTO GULF'S CUSTOMERS?**

A. No, they should not, for the same reasons as discussed above regarding the Stock Option Program. Clearly, the total goal associated with the program is focused on shareholder returns. The payout calculation is based on a three-year total shareholder return for Southern Company as compared to its industry peers. Clearly, the complete focus of this program is on benefiting shareholders and not ratepayers. Thus, I recommend these costs be disallowed.

**Q. WHAT IS THE PERFORMANCE DIVIDEND PROGRAM?**

A. The Performance Dividend Program is being phased out and is being replaced with the Performance Share Program previously discussed. Gulf's response to Citizens' Interrogatory 6 provides the following description of the Performance Dividend Program:

> **Performance Dividend Program**
> Performance dividends reward the achievement of total shareholder return goals. Employees may receive case compensation dependent on the number of stock options held at year-end, Southern Company's dividends paid during the year and four-year total shareholder return versus industry

> peers. Employees with outstanding stock options – granted prior to 2010 – are eligible. This program is being phased out with the last possible payment in March 2013.

Clearly, the focus on this program is again on shareholder returns as it is based entirely on Southern Company's dividend paid during the year and the four-year total shareholder return goals as compared to industry peers. The eligibility requirements are consistent with the requirements for the Stock Option Plan and the Performance Share Program.

**Q. CONSISTENT WITH YOUR RECOMMENDATION REGARDING THE STOCK OPTION PLAN AND THE PERFORMANCE SHARE PROGRAM, SHOULD THE COSTS INCLUDED IN THE TEST YEAR FOR THE PERFORMANCE DIVIDEND PROGRAM ALSO BE DISALLOWED?**

A. Yes, I recommend that the full projected costs of $1,007,516 be disallowed. This program does not benefit ratepayers; thus, these costs should not be passed on to ratepayers. The costs should be funded by the Southern Company's shareholders who are the beneficiaries and prime focus of the goals within the plans.

**Q. WOULD YOU PLEASE DISCUSS THE PERFORMANCE PAY PROGRAM?**

A. The bulk of the projected incentive compensation plan cost fell within this category, representing approximately $13.6 million of the $16.5 million total incentive compensation program projections. The Performance Pay Program ("PPP") is Gulf's annual incentive compensation plan. It is short-term in nature. The performance measures that are used to determine the performance of the employees under the PPP are the same for all Gulf employees; however, the level of compensation that falls under the program varies among the employees.

**Q. WHICH EMPLOYEES ARE ELIGIBLE FOR THE PPP PROGRAM AND WHAT ARE THE PAYOUT TARGETS BY EMPLOYEE TYPE?**

A. All regular full-time employees and most part-time employees, with a few exceptions, are eligible to participate in the PPP. The Target Award as a percentage of an employee's base salary varies depending on the employee category. For Gulf Power International Brotherhood of Electric Workers ("IBEW") bargaining unit employees, the Target Award is 5% of base pay. For the remaining non-exempt employees, the Target Award is 10% of base salary. This 10% level is also applicable to the exempt employees who fall within salary grades 1 through 5. For salary grade 6 employees, the Target Award increases to 12.5% of base salary. For employees falling within grade levels 7 through 15, the Target Award percentage ranges from 25% to 60%, depending on the grade. For each participant the Target Award is determined as a percentage of that employee's base pay.

**Q. WHAT ARE THE PERFORMANCE GOALS THAT ARE USED TO EVALUATE THE PAYOUT LEVELS FOR THE PPP?**

A. One-third of the plan weighting is based on Gulf's achieved return on equity, one-third of the payout weighting is based on Southern Company's earnings per share, and the remaining one-third is based on the Business Units' operational goals. Gulf Power's operation goals would be specific to Gulf Power. However, prior to any Performance Pay Program awards being made, Southern Company's earnings per share must exceed the prior year's dividends; otherwise, there will be no PPP opportunity. As a result, the key trigger or the key focus of the plan is Southern Company's earnings per share.

**Q. WHAT IS THE SOUTHERN COMPANY'S EARNINGS PER SHARE GOALS UNDER THE PPP?**

A. The table below presents the targeted Southern earnings per share under the plan and the actual Southern earnings per share for each year 2007 through 2010, as well as the target under the 2011 PPP.

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| Target | $ 2.16 | $ 2.32 | $ 2.38 | $ 2.33 | $ 2.52 |
| Result | $ 2.21 | $ 2.37 | $ 2.32 | $ 2.37 | N/A |

**Q. PLEASE COMPARE THE HISTORIC RETURN ON EQUITY GOALS UNDER THE PPP WITH THE RESULTS THAT WERE ACTUALLY ACHIEVED.**

A. The table below provides for each year, 2007 through 2011, the PPP target for Gulf's return on equity as well as the actual achieved Gulf return on equity for each year 2007 through 2010. The 2007 through 2010 amounts were provided by Gulf in response to Citizens' Interrogatory 191, and the 2011 target was provided in the Company's response to Citizen's Interrogatory 4.

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| Target | 13.50% | 13.25% | 12.70% | 11.90% | 12.00% |
| Result | 13.25% | 12.66% | 12.18% | 11.69% | N/A |

As seen from these results, Gulf fared well on its return on equity results, as measured under its PPP plan. Even during the last few years of economic turmoil, Gulf showed returns of 12.18% in 2009 and 11.69% in 2010.

**Q. IS THERE A PROBLEM WITH THE WAY THE COMPANY'S PERFORMANCE PAY PROGRAM IS STRUCTURED AND DESIGNED?**

A. Yes. The primary drivers and key focus of the program are financial goals that benefit Southern Company's shareholders but not Gulf's ratepayers in the state of Florida. As previously mentioned, in order for a payout to even occur under the plan, Southern Company's earnings per share must exceed the prior year's dividends. This places the participants' primary emphasis on increasing Southern Company's earnings. The large amount of emphasis and weighting on Gulf's return on equity as well as Southern Company's earnings per share shifts the focus of the plan to areas that benefit shareholders and could be detrimental to the level of service provided to customers.

The large emphasis on return on equity and earnings could shift focus away from operations in order to help the Company achieve its earnings targets. While one-third of the plan targets Gulf Powers operational goals, which could benefit the ratepayers, the operational goals are far outweighed by Southern Company's financial goals.

**Q. SHOULD THE PPP COSTS BE RECOVERED FROM GULF'S RATEPAYERS IN THE STATE OF FLORIDA?**

A. No, they should not. I recommend that the PPP program costs be disallowed in its entirety. Many of the ratepayers in the state of Florida, particularly along the Gulf coast which was impacted by both the significant economic downturn and the oil spill, remain in precarious financial positions. It is not reasonable to expect ratepayers to fund incentive plans that almost entirely benefit the shareholders of Southern Company.

**Q. HAS THE COMMISSION PREVIOUSLY DISALLOWED THE RECOVERY OF INCENTIVE COMPENSATION FROM RATEPAYERS?**

A. Yes. In Order No. PSC-10-0131-FOF-EI issued on March 5, 2010, at page 115, the Commission disallowed recovery from ratepayers of Progress Energy Florida's incentive compensation plan costs. Specifically, the Order found as follows:

> We believe that incentive compensation provides no benefit to the ratepayers and constitutes nothing more than added compensation to employees. Especially in light of today's economic climate, we believe that PEF should pay the entire cost of incentive compensation, as its customers do not receive a significant benefit from it. Accordingly, we find that the 2010 allowance for incentive compensation shall be reduced by $32,854,378 jurisdictional ($37,465,650 system).

Additionally, in Order No. PSC-09-0283-FOF-EI, issued April 30, 2009, the Commission disallowed part of Tampa Electric Company's incentive compensation expense, specifically stating that ". . . the incentive compensation should be directly tied to the results of TECO and not to the diversified interest of its parent Company TECO Energy." As a result, the Commission disallowed the portion of the incentive compensation that was tied to the parent company's results. Additionally, while the economic conditions in the State of Florida may have stabilized somewhat since the Commission disallowed Progress Energy Florida's incentive compensation plan costs, economic conditions within Gulf Power's service area since the end of the "Great Recession" have not significantly improved, due in large part to the continued impact of the BP Gulf Oil Spill.

**Q. IN DETERMINING THE BUDGETED 2012 PPP COSTS INCORPORATED IN THE COMPANY'S FILING, DID THE COMPANY ASSUME THAT THE PAYOUTS WOULD BE AT THE PPP TARGET LEVEL?**

A. No. The Company's response to Citizens' Interrogatory 184, at page 4, shows that the Company has assumed a total result of 125% of target levels. The 125% was calculated assuming that: 1) the Southern Company earnings per share goal, which is given one-third weighting, would be at target; 2) the Gulf return on equity goal with a one-third weighting would be at 125% of target; and 3) the operational goals would be at 150% of target. Thus, the Company is attempting to incorporate into base rates an assumption that Gulf will exceed its PPP goals and that it will achieve a return on equity for Gulf that is at 125% payout level, or above the target goal. Additionally, if the Company is assuming that it can greatly exceed the operational goals (achieve 150% of target), then clearly those goals are not set at a level that would cause the employees to stretch to achieve the goals. If the Company is already assuming that its employees will greatly exceed the goals, one has to question whether or not the 2012 operation goals are truly incenting exceptional employee performance.

**Q. WHAT IS YOUR OVERALL RECOMMENDATION WITH REGARDS TO THE TOTAL INCENTIVE COMPENSATION COSTS INCLUDED IN THE 2012 TEST YEAR?**

A. I recommend that 100% of these costs be disallowed and be funded by shareholders for the reasons discussed above. None of these costs, with possibly the exception of the $2,000 included for the spot/cash awards, should be passed onto the Company's captive ratepayers. As shown on Schedule C-4, page 1 of 2, Gulf's adjusted test year expenses should be reduced by $12,623,632 to remove the incentive compensation costs and plant in service should be reduced by $1,217,206. Similarly, depreciation expense and accumulated depreciation should be reduced by $42,967.

**Q. WHY ARE YOU ALSO REDUCING RATE BASE AS A RESULT OF YOUR RECOMMENDATION TO REMOVE THE INCENTIVE COMPENSATION COSTS FROM THE TEST YEAR?**

A. A portion of the incentive compensation costs is projected to be capitalized by the Company during the test year. The purpose of my reduction to rate base is to remove the estimated incentive plan costs that are capitalized as part of plant in service in the Company's filing. In response to Citizen's Interrogatory 184, at pages 15 and 16, Gulf indicated that a portion of its capitalized incentive plan costs will affect the 13-month average rate base and the resulting revenue requirement; however, the extent to which rate base is impacted is also influenced by the portion of the costs that would go to clause related projects and that which would go to CWIP. In the response the Company indicated that it is difficult to quantify the precise amount of test year capitalized labor costs that is included in the 13-month average plant in service balance. It did not provide an estimate. Since the Company failed to provide such an estimate, I have assumed that 75% of the capitalized costs would be booked to plant in service in the Company's filing. In making my adjustment, after applying the 75% factor I then applied a 50% factor as the test year is based on a 13-month average rate base balance. The result is my recommended reduction to plant in service to remove the impact of incentive compensation costs of $1,217,206. If these costs are not removed from rate base, then the Company would earn a return on and of those costs for many years into the future.

**Q. DO THE PROJECTED TEST YEAR CHARGES TO GULF FROM SOUTHERN COMPANY SERVICES INCLUDE AMOUNTS ASSOCIATED WITH THE INCENTIVE COMPENSATION PROGRAMS THAT YOU RECOMMEND BE REMOVED IN THIS CASE?**

A. At this time I do not know if the charges from SCS include costs associated with Southern Company Services employees' participation in the PPP or other incentive programs. If any of the charges from SCS or other affiliates that are incorporated in Gulf's adjusted

2012 test year expenses include costs associated with the PPP, the various stock option plans or other incentive compensation plans, those costs should also be removed and not passed on to Gulf's ratepayers.

**Q. SHOULD PAYROLL TAX EXPENSE ALSO BE ADJUSTED TO REMOVE THE IMPACT OF THE INCENTIVE COMPENSATION COSTS ON PAYROLL TAX EXPENSE?**

A. Yes. I Schedule C-5 I have estimated the impact on test year payroll tax expense resulting from my recommended removal of the incentive compensation plan costs, reducing Gulf's adjusted test year payroll tax expense by $799,606.

<u>Other Employee Benefits</u>

**Q. MFR SCHEDULE C-35 SHOWS "OTHER EMPLOYEE BENEFITS" COSTS INCREASING FROM $610,136 IN 2010 TO PROJECTED COSTS OF $815,104 IN THE 2012 TEST YEAR, RESULTING IN AN INCREASE OF 33.59%. HAVE YOU REVIEWED THE COSTS INCLUDED IN THE 2012 TEST YEAR FOR "OTHER EMPLOYEE BENEFITS"?**

A. Citizens' Interrogatory 184 asked the Company to provide a breakdown of the projected 2012 test year Other Employee Benefits costs of $815,104 and to explain the increase above the test year level. As part of its response, Gulf provided a breakdown of the items included in the 2012 expense. Based on a review of the response, I recommend that the costs associated with the following Other Employee Benefits be removed: 1) Interest on Deferred Compensation of $362,309; 2) Executive Financial Planning of $61,452; and, 3) SCS Early Retirement of $50,340.

**Q. AT PAGE 12 OF HIS TESTIMONY, GULF WITNESS MCMILLAN INDICATES THAT THE EXPENSE RELATED TO MANAGEMENT FINANCIAL PLANNING SERVICES HAVE BEEN REMOVED "CONSISTENT WITH THE COMMISSION'S DECISION IN GULF'S LAST RATE CASE." DID GULF REMOVE ALL OF THE FINANCIAL PLANNING SERVICES COSTS CONSISTENT WITH THE COMMISSION'S PRIOR DECISION?**

A. No, it did not. On McMillan's Exhibit__(RJM-1), Schedule 4, page 3, he removes $13,000 from test year expenses for "Management Financial Planning." However, based on the response to Citizens' Interrogatory 184(c), test year expenses include $61,452 for amounts paid to financial planning vendors for the executive financial planning services. All of these costs should be removed. On Schedule C-1, page 2, I have removed the $48,000 of executive financial planning costs remaining in the 2012 test year. Gulf's executives receive adequate compensation to provide for their own financial planning consultants, and ratepayers should not be required to fund any of these costs in rates.

**Q. WOULD YOU PLEASE DISCUSS THE REMAINING OTHER EMPLOYEE BENEFIT COSTS THAT YOU RECOMMEND BE REMOVED?**

A. Yes. The response to Citizens' Interrogatory 184(c) shows the "Interest on Deferred Compensation" of $362,309 as the result of applying a 6.78% interest rate on projected 2012 year end compensation deferral balances of $5,343,788. There is no discussion of why interest is being paid on these deferred compensation balances or how the deferred compensation amounts resulted. Presumably this pertains to compensation that executives or senior level employees of Gulf have elected to defer with a generous interest rate being applied. These interest costs, which are being applied at an estimated 2012 prime rate of 6.78%, have not been justified and should not be passed on to Gulf's ratepayers. There was also no discussion of why such a high interest rate (6.78%) is being applied or why such a high interest rate is justified.

The same response shows $50,340 being included for “SCS Early Retirement.” It is described as follows: “Monthly 2010 actual accrual amount was $4,195. Assumed no change and budgeted $50,340 for 2012.” There is no further discussion regarding what the “SCS Early Retirement” accrual was for or why it should be passed on to Gulf’s ratepayers. I recommend this amount be removed.

Each of these items is removed on my Schedule C-1, page 2.

<u>Rate Case Expense</u>

**Q. PLEASE EXPLAIN THE COMPANY’S ADJUSTMENT TO RATE CASE EXPENSE.**

A. As discussed in the Direct Testimony of Company witness Constance J. Erickson, Gulf has estimated rate case expenses totaling $2,800,000, which it proposes to amortize over a four-year period beginning in 2012. As shown on MFR Schedule C-10 from the Company’s filing, this adjustment increases Gulf’s projected 2012 test year O&M expense by $700,000. In addition, as shown on MFR Schedule B-17, page 1, line 25, Gulf proposes to include the 13-month average unamortized balance of rate case expense in the working capital component of rate base.

**Q. DO YOU AGREE THE COMPANY’S RATE CASE EXPENSE ADJUSTMENT IS REASONABLE?**

A. Not entirely. There are several amounts included in the Company's projected rate case expense that are questionable, including the Company's estimate for Meals and Travel expenses which total $175,000, as well as many of the items included in Other Expenses which total $425,000. As I explain below, I believe that the Company's estimates for these two items are excessive and/or unsupported.

**Q. WHAT TYPES OF COSTS ARE INCLUDED IN GULF'S ESTIMATE FOR MEALS AND TRAVEL EXPENSES?**

A. Citizens' Interrogatory 172 requested that Gulf provide a breakout of the $175,000 included in rate case expense for Meals and Travel costs. In response, the Company provided the data shown in the following table:

**Estimated Meals and Travel Expenses**

| Category | Amount |
|---|---|
| Hotels | $ 90,000 |
| Transportation | $ 24,500 |
| Food | $ 44,000 |
| Miscellaneous | $ 16,500 |
| | $ 175,000 |

Source: OPC-4-172

The Company provided a further breakout of the costs listed in the table above in the workpapers provided in Citizens' First Request to Produce Documents Nos. 4 and 5 for MFR Schedule C-10[1]. One such workpaper, titled Estimate of Rate Case Travel Expenses ("Estimate"), broke out the estimated meals and travel expenses between the following categories: Hearing, PreHearing, Depositions, Mock Hearings and

[1] This response was referred to in the response to Citizens' Second Request to Produce Documents No. 77, which requested documentation which supports the Company's estimated rate case expense of $2.8 million.

Meetings/OT. It should be noted that the estimates listed on this workpaper totaled $187,951, or $12,951 higher than the $175,000 reflected in the Company's rate case request for meals and travel expenses. As shown in the table below, when compared to the amounts provided in response to Citizens' Interrogatory 172 (which are the amounts reflected in Gulf's filing), the majority of this variance falls under the Miscellaneous category.

| **Category** | **Per Gulf Workpaper** | **Per OPC-4-172** | **Difference** |
|---|---|---|---|
| Hotels | $ 90,066 | $ 90,000 | $ 66 |
| Transportation | $ 22,968 | $ 24,500 | $ (1,532) |
| Food | $ 45,985 | $ 44,000 | $ 1,985 |
| Miscellaneous | $ 28,932 | $ 16,500 | $ 12,432 |
| | $ 187,951 | $ 175,000 | $ 12,951 |

**Q. WHICH CATEGORIES OF GULF'S ESTIMATED MEALS AND TRAVEL EXPENSES DO YOU BELIEVE ARE EXCESSIVE?**

A. The categories of Gulf's estimated meals and travel expenses that I believe are excessive are the Company's estimates for hotel rooms, food and transportation. Specifically, the Company has estimated that 60 people will travel to and attend 10 days of hearings in this proceeding. As shown in the table below, which reflects the estimates shown on the Estimate workpaper, this translates to estimated lodging expenses of $85,980 and estimated food expense totaling $39,000 over a ten-day period.

| Hearing | No. of Days | Cost/Day /Fillup | | # of People /Vehicles | Total | |
|---|---|---|---|---|---|---|
| Hotel Rooms | 10 | $ | 141 | 54 | $ | 76,140 |
| Suites | 10 | $ | 164 | 6 | $ | 9,840 |
| Total Lodging | | | | | $ | 85,980 |
| | | | | | | |
| Breakfast | 10 | $ | 15 | 60 | $ | 9,000 |
| Lunch | 10 | $ | 15 | 60 | $ | 9,000 |
| Dinner | 10 | $ | 35 | 60 | $ | 21,000 |
| | | | | | $ | 39,000 |

**Q. WHY DO YOU BELIEVE THESE AMOUNTS ARE EXCESSIVE?**

A. The amounts are excessive as they include an unreasonable number of people attending hearings as well as an incorrect assumption regarding the number of hearing days. Since there are 17 Gulf witnesses sponsoring testimony in this proceeding, for the Company to include 60 people as attending hearings on its behalf is excessive. This is especially true when one considers that the Company's estimates reflect that all 60 people will each be attending ten days of the hearings. The likelihood that 60 people will each attend all hearing days seems questionable and unreasonable. Therefore, the Company's estimate for hotels, meals and travel expenses should be adjusted.

**Q. PLEASE EXPLAIN YOUR RECOMMENDED ADJUSTMENT.**

A. My recommend adjustment is presented on Schedule C-6. As shown on page 2 of Schedule C-6, I began with Gulf's workpaper calculating its estimated hotel, travel and meal costs. I provide a side by side comparison of the various amounts per Gulf's workpapers and per my recommendation. In the per OPC column, I broke out the public hearings from the technical hearings. It is my understanding that both public hearings in this case occurred on the same day and that approximately six people attended the public hearings on Gulf's behalf. As shown on Schedule C-6, page 2, lines 32 – 37, I have assumed that six people would require one night of lodging and meals associated with the public hearings, and that three vehicles would be rented.

The Commission has set aside five days for the technical hearings in this case. Thus, I have reduced the hearing days contained in Gulf's workpaper from 10 days to 5 days. In order to address the excessive number of people Gulf projected as attending every day of hearings on its behalf (i.e., 60 people), I recommend that the Company's estimate be adjusted to reflect one member of support personnel for each of the Company's 17 witnesses in this proceeding, or 34 people. This adjustment reduces the number of people attending the hearings from 60 to 34, which appears to be a more reasonable estimate. Even the 34 people may be over-estimated. While certain people, such as legal counsel, some senior management personnel and a few witness would likely be needed to attend all five hearing days, it is unlikely that every witness will need to attend all five days of technical hearings in this case. I also reduce the amount of needed rental vans and cars to correspond to the reduction in the number of people attending the hearings on Gulf's behalf. This adjustment reduces the estimated meals and travel expenses by $102,273 as shown on Schedule C-6, page 2, line 39. This reduction flows through to page 1 of Schedule C-6, line A.4.

**Q. YOU STATED THAT SEVERAL ITEMS INCLUDED IN GULF'S ESTIMATE FOR OTHER EXPENSES ARE ALSO QUESTIONABLE. PLEASE ELABORATE.**

A. In the Other Expenses category of Gulf's projected rate case expense, the Company included estimated expenses from Southern Company Services ("SCS") which totaled

$321,000[2] as well as $59,000 of overtime labor. I have removed these amounts from the Company's projected test year rate case expense.

**Q. WHY HAVE YOU REMOVED THESE ITEMS FROM RATE CASE EXPENSE?**

A. I am removing the estimated rate case costs projected to be charged to Gulf from SCS for several reasons. First, the Information Technology, Human Resources and Accounting functions are already performed in-house at Gulf and there has been no showing that additional support from SCS specific to the rate case in these areas are needed. Gulf has included $99,000 in its projected rate cases costs for these types of charges from SCS. The projected charges from SCS also include $222,000 for Cost of Service Study assistance. This is in addition to amounts from outside consultants for assistance in the rate case. There has also been no showing that the costs shown as coming from SCS are incremental to costs already projected to be allocated or charged to Gulf from SCS during the test year. I recommended that the full $321,000 of charges from SCS that are included in the projected rate case expense be removed.

As it relates to removing the estimated overtime labor costs, Gulf's internal labor costs should already be provided for in Gulf's 2012 budget and are thus already incorporated in the filing. Thus, to include these overtime labor costs in rate case expense constitutes a double count, so it has been removed.

**Q. WHAT IS YOUR OVERALL ADJUSTMENT TO GULF'S PROJECTED TEST YEAR RATE CASE EXPENSE?**

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[2] The response to Citizens' Interrogatory 172 breaks out this amount as follows: Cost of Service Study - $222,000; IT/Computers - $20,000; and Other Areas (HR, Accounting, etc.) - $79,000.

A. As shown on Schedule C-6, my recommended adjustments, which total $482,273, decreases Gulf's projected rate case costs to $2,317,727. The annual amortization of these costs, using Gulf's proposed four-year amortization period, is $579,432, which is $120,568 less than the amount proposed by Gulf. Thus, test year amortization expense should be reduced by $120,568.

<u>Unamortized Rate Case Expense</u>

**Q. HAS THE COMPANY INCLUDED THE PROJECTED 2012 BALANCE OF UNAMORTIZED RATE CASE EXPENSE IN ITS WORKING CAPITAL REQUEST IN THIS CASE?**

A. Yes. The working capital component of rate base for the 2012 test year includes $2,450,000 for Gulf's projected unamortized rate case expense associated with this case.

**Q. SHOULD GULF BE PERMITTED TO INCREASE RATE BASE FOR THE UNAMORTIZED RATE CASE EXPENSE BALANCE?**

A. No, it should not. The Commission has consistently disallowed the inclusion of unamortized rate case expense in working capital. This long standing Commission policy was recently reaffirmed in Commission Order No. PSC-10-0131-FOF-EI involving Progress Energy Florida. At pages 71 to 72 of the order in that case, the Commission stated as follows with regard to unamortized rate case expense:

> We have a long-standing policy in electric and gas rate cases of excluding unamortized rate expense from working capital, as demonstrated in a number of prior cases. The rationale for this position was that ratepayers and shareholders should share the cost of a rate case: i.e., the cost of the rate case would be included in the O&M expenses, but the unamortized portion would be removed from working capital. It espouses the belief that customers should not be required to pay a return on funds expended to increase their rates.

> While this is the approach that has been used in electric and gas cases, water and wastewater cases have included unamortized rate case expense in working capital. The difference stems from a statutory requirement that water and wastewater rates be reduced at the end of the amortization period (Section 367.0816,F.S.). While unamortized rate case expense is not allowed to earn a return in working capital for electric and gas companies, it is offset by the fact that rates are not reduced after the amortization period ends.
>
> We agree with the long-standing policy that the cost of the rate case should be shared, and therefore find that the unamortized rate case expense amount of $2,787,000 shall be removed from working capital.

In a footnote on page 71 of the order, the Commission identified the following cases which demonstrate its long-standing policy in electric and gas cases of excluding the unamortized rate case expense from working capital:

> Order No. 23573, issued October 3, 1990, in Docket No. 891345-EI, In re: Application of Gulf Power Company for a rate increase; Order No. PSC-09-0283-FOF-EI, issued April 30, 2009; in Docket No. 08317-EI, In re: Petition for rate increase by Tampa Electric Company; Order No. PSC-09-0375-PAA-GU, issued May 27, 2009, in Docket No. PSC-09-0375-PAA-GU, In re: Petition for rate increase by Florida Public Utilities Company.

**Q. DO YOU RECOMMEND THAT THE UNAMORTIZED RATE CASE EXPENSE BE EXCLUDED FROM RATE BASE IN THIS CASE?**

A. Yes, I recommend that the Commission continue to follow its long-standing policy in electric cases of not allowing inclusion of the unamortized rate case expense in rate base. Consistent with the Commission's finding in the Progress Energy Florida case it would be unfair to customers to pay a return on the costs accrued by the Company in this case that were used by Gulf to increase those rates charged to customers. On Schedule B-1, page 2, I have removed the full amount of the unamortized balance of rate case expense from working capital in this case, reducing rate base by $2,450,000.

Income Tax Expense

**Q. HAVE YOU ADJUSTED INCOME TAX EXPENSE TO REFLECT THE IMPACT OF THE ADJUSTMENTS SPONSORED BY CITIZENS' WITNESSES TO NET OPERATING INCOME?**

A. Yes. On Schedule C-7, I calculate the impact on income tax expense, including both federal and state, resulting from the recommended adjustments to operating expenses. The result is carried forward to the Net Operating Income Summary on Schedule C-1, page 2.

Interest Synchronization

**Q. WHAT IS THE PURPOSE OF YOUR INTEREST SYNCHRONIZATION ADJUSTMENT ON SCHEDULE C-8?**

A. The interest synchronization adjustment synchronizes the adjusted rate base and cost of capital with the income tax calculation. On Gulf Exhibit__(RJM-1), Schedule 11, Gulf included an adjustment to synchronize its proposed rate base and cost of debt with the interest expense included in its income tax expense calculation.

Citizens' proposed rate base and weighted cost of debt differ from the Company's proposed amounts. Thus, our recommended interest deduction for determining rate year income tax expense will differ from the interest deduction used by Gulf in its filing. Schedule C-8 shows the calculation of the impact on income tax expense which would be experienced as a result of the interest deduction being lower for tax purposes based on Citizens' proposed rate base and weighted cost of debt.

Parent Debt Adjustment

**Q. ARE CITIZENS RECOMMENDING A PARENT DEBT ADJUSTMENT BE MADE IN THIS CASE?**

A. Yes. Dr. Woolridge addresses the Company's position that the adjustment should not be made in this case and explains why, in fact, it should be made. I am sponsoring the amount of the adjustment.

**Q. ON MFR SCHEDULE C-24, GULF PROVIDES THE CALCULATION OF THE PARENT DEBT ADJUSTMENT. WAS THE AMOUNT OF ADJUSTMENT CALCULATED CORRECTLY BY GULF IN ITS FILING?**

A. Based on my review of MFR C-24, page 1 of 2, it appears that the Company has correctly calculated the amount of reduction to income tax expense that will result from the Parent Debt Adjustment. While on that same MFR schedule the Company indicates that a Parent Debt Adjustment is not appropriate, it has none the less presented the information needed to calculate the adjustment. The Company has calculated the adjustment as the weighted cost of Parent Debt times the consolidated tax rate times the equity of the subsidiary, or Gulf Power, excluding retained earnings. This results in the 2012 Parent Debt Adjustment, which is a reduction to income tax expense of $2,126,000. The calculation of the adjustment presented by Gulf is consistent with the Parent Debt Adjustment rule, Rule 25-14.004(4), F.A.C., which states:

> The adjustment shall be made by multiplying the debt ratio of the parent by the debt cost of the parent. This product shall me multiplied by the statutory tax rate applicable to the consolidated entity. These results shall be multiplied by the equity dollars of the subsidiary, excluding its retained earnings. The resulting dollar amount shall be used to adjust the income tax expense of the utility.

Based on a review of the Company's calculation, it appears it has followed the methodology specified within the Commission rule.

**Q. WHAT IS THE RESULTING ADJUSTMENT?**

A. The result is a $2,126,000 reduction to income tax expense. After application of the jurisdictional separation factor associated with income taxes of .8305076, the result is a $1,766,000 reduction to Florida jurisdictional income tax expense. I have reflected this adjustment on Schedule C-1, page 2 of 2.

<u>DEFFERED TAXES</u>

**Q. THE DEFERRED TAX COMPONENT OF THE CAPITAL STRUCTURE INCREASES SIGNIFICANTLY BETWEEN THE 2010 HISTORIC PERIOD AND THE 2012 TEST YEAR. COULD YOU PLEASE DISCUSS THIS INCREASE?**

A. Yes. MFR Schedule D-1a shows that the deferred tax component of the jurisdictional capital structure goes from $170,937,000 in the 2010 historic year to $257,098,000 in the 2012 test year. The schedule also shows that the percentage of the jurisdictional capital structure associated with deferred taxes increases from 11.27% in 2010 to 15.34% in 2012. As the deferred taxes are included in the capital structure at zero cost, the increase in the percentage of the capital structure associated with deferred taxes is a benefit to ratepayers as it reduces the overall required rate of return.

**Q. WHAT WOULD CAUSE SUCH A LARGE INCREASE IN THE DEFERRED TAX BALANCE IN THE JURSIDICATIONAL CAPITAL STRUCTURE DURING THE TWO YEAR PERIOD?**

A. *The Small Business Jobs Act of 2010*, signed into law on September 27, 2010, included provisions extending 50 percent bonus depreciation allowances on qualifying investments in new business equipment and assets placed into service in 2010. Subsequently, *The Reid-McConnell Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010* signed into law on December 17, 2010 extended and temporarily increased this bonus depreciation provision for qualifying investments in new business equipment. For investments placed in service after September 8, 2010 and through December 31, 2011, the bill provides for 100 percent bonus depreciation. For investments placed in service after December 31, 2011 and through December 31, 2012, the bill provides for 50 percent bonus depreciation. The bonus depreciation allowed for under these acts substantially increases the accumulated deferred income tax balances on Gulf's books. Gulf's filing would have included the impacts of the 50% and 100% bonus depreciation.

**Q. ARE YOU AWARE OF ANY EVENTS THAT COULD CAUSE THE BONUS DEPRECIATION ALLOWANCE TO INCREASE FURTHER BETWEEN NOW AND THE END OF THE 2012 TEST YEAR IN THIS CASE?**

A. Yes. On September 8, 2011, President Obama presented *The American Jobs Act of 2011* to Congress for approval. Under President Obama's proposal, the 100% bonus depreciation provision would be extended through December 31, 2012 thereby increasing the current 50% bonus depreciation rate for 2012 to 100%. At this time, President Obama's proposal has not been acted upon by the U.S. Congress.

**Q. ARE YOU RECOMMENDING AN ADJUSTMENT ASSOCIATED WITH THE PROPOSED ACT?**

A. Since the current law allows for 50% bonus depreciation in 2012, I am not recommending an adjustment at this time. However, if an act is signed into law increasing the bonus depreciation provisions for 2012 from 50% to 100% prior to the completion of hearings in this case, then I recommend that the impacts be reflected in this case. If the bonus depreciation is increased to 100% for 2012, which may be known by the time the Commission decides Gulf's rate case, then the deferred tax component of the capital structure should be increased to reflect the impacts.

**Q. DOES THIS COMPLETE YOUR PREFILED TESTIMONY?**

A. Yes, it does.

GULF POWER COMPANY
Docket No. 110138-EI

Exhibit__(DR-1)
Schedules of Donna Ramas

Table of Contents

GULF POWER COMPANY
Projected Test Year Ended December 31, 2012

Revenue Requirement
(Thousands of Dollars)

Docket No. 110138-EI
Exhibit No.__(DR-1)
Donna Ramas Schedules
Schedule A

| Line No. | Description | Per Company Amount (A) | Per OPC Amount (B) | Col. (B) Reference |
|---|---|---|---|---|
| 1 | Jurisdictional Adjusted Rate Base | $ 1,676,004 | $ 1,567,366 | Schedule B-1 |
| 2 | Required Rate of Return | 7.05% | 5.89% | Schedule D |
| 3 | Jurisdictional Income Required | 118,158 | 92,255 | Line 1 x Line 2 |
| 4 | Jurisdictional Adj. Net Operating Income | 60,955 | 85,027 | Schedule C-1 |
| 5 | Income Deficiency (Sufficiency) | 57,203 | 7,228 | Line 3 - Line 4 |
| 6 | Earned Rate of Return | 3.64% | 5.42% | Line 4 / Line 1 |
| 7 | Net Operating Income Multiplier | 1.634607 | 1.634173 | Schedule A-1 |
| 8 | Revenue Deficiency (Sufficiency) | $ 93,504 | $ 11,812 | Line 5 x Line 7 |

Source/Notes:
Col. (A): MFR Schedule A-1

GULF POWER COMPANY
Projected Test Year Ended December 31, 2012

Net Operating Income Multiplier

Docket No. 110138-El
Exhibit No.__(DR-1)
Donna Ramas Schedules
Schedule A-1

| Line No. | Description | Percent Per Company (A) | Percent per Citizens |
|---|---|---|---|
| 1 | Revenue Requirement | 100.0000% | 100.0000% |
| 3 | Regulatory Assessment Rate | 0.0720% | 0.0720% |
| 4 | Bad Debt Rate | 0.3321% | 0.3056% |
| 5 | Net Before Income Taxes | 99.5959% | 99.6224% |
| 6 | State Income Tax Rate (Effective) | 5.5000% | 5.5000% |
| 7 | State Income Tax | 5.4778% | 5.4792% |
| 8 | Net Before Federal Income Tax | 94.1181% | 94.1431% |
| 9 | Federal Income Tax Rate (Effective) | 35.0000% | 35.0000% |
| 10 | Federal Income Tax | 32.9413% | 32.9501% |
| 11 | Revenue Expansion Factor | 61.1768% | 61.1930% |
| 12 | Net Operating Income Multiplier | 1.634607 | 1.634173 |

GULF POWER COMPANY
Projected Test Year Ended December 31, 2012

Adjusted Rate Base
(Thousands of Dollars)

Docket No. 110138-EI
Exhibit No.__(DR-1)
Donna Ramas Schedules
Schedule B-1
Page 1 of 2

| Line No. | Rate Base Components | Adjusted Juris. Total Amount per Company (A) | Citizens Adjustments (B) | Adjusted Juris. Total Amount per Citizens (C) |
|---|---|---|---|---|
| 1 | Plant in Service | $ 2,612,073 | $ (19,049) | $ 2,593,024 |
| 2 | Accumulated Depreciation & Amortization | (1,179,823) | 524 | (1,179,299) |
| 3 | Net Plant in Service | 1,432,250 | | 1,413,725 |
| 4 | Plant Held for Future Use | 32,233 | (26,751) | 5,482 |
| 5 | Construction Work in Progress | 60,912 | (60,912) | - |
| 6 | Plant Acquisition Adjustment | - | | - |
| 7 | Total Net Plant | 1,525,395 | | 1,419,207 |
| 8 | Working Capital Allowance | 150,609 | (2,450) | 148,159 |
| 9 | Total Rate Base | $ 1,676,004 | $ (108,638) | $ 1,567,366 |

Source/Notes
Col. A: Company MFR Schedule B-1
Col. B: See Schedule B-1, page 2

GULF POWER COMPANY
Projected Test Year Ended December 31, 2012

Adjusted Rate Base-Summary of Adjustments
(Thousands of Dollars)

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Exhibit No.__(DR-1)
Donna Ramas Schedules
Schedule B-1
Page 2 of 2

| Line No. | Adjustment Title | Witness Reference | Total Adjustment | Jurisdictional Separation Factor | Jurisdictional Amount |
|---|---|---|---|---|---|
| | **Plant in Service Adjustments** | | | | |
| 1 | Reduction to Transmission Plant in Service | D. Ramas, Sch. B-2 | $ (15,137) | 0.9680584 | $ (14,654) |
| 2 | Reduction to Distribution Plant in Service - SGIG Projects | D. Ramas, Sch. B-3 | (2,970) | 1.0000000 | (2,970) |
| 3 | Remove Incentive Compensation from PIS | D. Ramas, Sch. C-4 | (1,217) | 0.9788452 | (1,191) |
| 4 | Disallowance for SCS Work Orders - Wireless Systems | K. Dismukes | (201) | 0.9662214 | (194) |
| 5 | Disallowance for SCS Work Orders - LINC Charges | K. Dismukes | (41) | 0.9662214 | (40) |
| 6 | *Total Plant in Service* | | $ (19,324) | | $ (19,049) |
| | **Accumulated Depreciation Adjustments** | | | | |
| 7 | Reduction to Transmission Accumulated Depreciation | D. Ramas, Sch. B-2 | $ 390 | 0.9680082 | $ 378 |
| 8 | Reduction to Distribution Accumulated Depreciation | D. Ramas, Sch. B-3 | 104 | 1.0000000 | 104 |
| 9 | Remove Incentive Compensation from PIS - Accum. Deprec. | D. Ramas, Sch. C-4 | 43 | 0.9770686 | 42 |
| 10 | *Total Accumulated Depreciation* | | $ 537 | | $ 524 |
| | **Plant Held for Future Use** | | | | |
| 11 | Remove PHFFU - Nuclear Site Costs | H. Schultz | $ (27,687) | 0.9662105 | $ (26,751) |
| 12 | *Total Plant Held for Future Use* | | $ (27,687) | | $ (26,751) |
| | **Construction Work in Progress** | | | | |
| 13 | Remove CWIP from Rate Base | D. Ramas, Testimony | $ (62,617) | 0.9727710 | $ (60,912) |
| 14 | *Total Construction Work in Progress* | | $ (62,617) | | $ (60,912) |
| | **Working Capital Adjustments** | | | | |
| 15 | Remove Unamortized Rate Case Expense | D. Ramas, Testimony | $ (2,450) | 1.0000000 | $ (2,450) |
| 16 | *Total Working Capital* | | $ (2,450) | | $ (2,450) |
| 17 | Total Rate Base Adjustments | | $ (111,541) | | $ (108,638) |

GULF POWER COMPANY
Projected Test Year Ended December 31, 2012

Transmission Capital Expenditures

Docket No. 110138-EI
Exhibit No.__(DR-1)
Donna Ramas Schedules
Schedule B-2
Page 1 of 3

| | Description | 2011 (A) | 2012 (B) | Estimated Test Year Adjustment (C) |
|---|---|---|---|---|
| | ADJUSTMENT TO PLANT IN SERVICE: | | | |
| | Transmission Infrastructure Replacement Projects: | | | |
| 1 | Transmission Infrastructure Replacement Projects - Budgeted | $ 15,948,000 | $ 4,865,000 | |
| 2 | Transmission Infra. Replacement Projects - Actual Avg 2003 - 2010 | 7,252,301 | 7,252,301 | |
| 3 | Per OCS Adjustment to Reflect Average Level | (8,695,699) | 2,387,301 | $ (7,502,049) |
| 4 | Remove Smart Grid Investment Grant Program Projects | (4,815,000) | (5,640,000) | (7,635,000) |
| 5 | Reduction to Transmission Plant in Service | (13,510,699) | (3,252,699) | (15,137,049) |
| | ADJUSTMENT TO DEPRECIATION EXPENSE | | | |
| 6 | Per OCS Reduction to Transmission Plant in Service | | | (15,137,049) |
| 7 | Average Test Year Transmission Depreciation Rate (1) | | | 2.58% |
| 8 | Reduction to Transmission Depreciation Expense | | | (389,865) |
| | ADJUSTMENT TO ACCUMULATED DEPRECIATION | | | |
| 9 | Depreciation on 2011 Plant Additions @ 2.58% | (173,989) | (347,977) | (347,977) |
| 10 | Depreciation on 2012 Plant Additions@ 2.58% | | (83,775) | (41,888) |
| 11 | Reduction to Transmission Accumulated Depreciation | | | $ (389,865) |

Source/Notes:
Col. ( C): Estimated Plant in Service impact assumes all of 2011 and 50% of 2012 capital expenditures are in test year PIS.

(1) Based on total transmission depreciation accrued in test year of $10,322,000 from MFR Sch. B-9, p. 2, divided by average test year transmission plant in service of $400,766,000 from MFR Sch. B-7, p. 2. ($10,322,000 / $400,766,000 = 2.58%)

GULF POWER COMPANY
Projected Test Year Ended December 31, 2012

Transmission Capital Expenditures
- Actual Expenditures 2003 - 2010 by Category

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Exhibit No.__(DR-1)
Donna Ramas Schedules
Schedule B-2
Page 2 of 3

| | | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | Total 2003 - 2010 | Average |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Transmission Infrastructure Replacement Projects | | | | | | | | | | |
| 1 | - Transmission | $ 3,245,476 | $ 6,081,268 | $ 6,372,581 | $ 6,885,449 | $ 6,261,869 | $ 7,312,302 | $ 8,306,758 | $ 13,552,702 | $ 58,018,405 | $ 7,252,301 |
| 2 | - Distribution Substation | 622,031 | 1,231,081 | 1,768,793 | 1,604,779 | 2,759,763 | 1,882,969 | 1,522,243 | 1,338,501 | 12,730,160 | 1,591,270 |
| | Transmission Planning Generated Projects | | | | | | | | | | |
| 3 | - Transmission Line Improvements | 594,882 | 4,926,794 | 1,665,047 | 8,493,598 | 4,415,004 | 2,253,703 | 10,169,790 | 12,243,498 | 44,762,316 | 5,595,290 |
| 4 | - New Transmission Substations | 12,214 | 318,328 | 1,763,213 | 622,151 | 7,589,891 | 5,431,049 | 81,820 | 15,101,881 | 30,920,547 | 3,865,068 |
| 5 | - Substation Equipment Upgrades | - | 440,046 | 1,128,471 | 485,740 | 603,850 | 7,813,963 | 7,951,228 | 240,569 | 18,663,867 | 2,332,983 |
| | Distribution Planning Generated Projects | | | | | | | | | | |
| 6 | - New Distribution Substations | 2,861,424 | 2,389,549 | 3,230,475 | 2,139,252 | 273,057 | (96,654) | 7,640,318 | 876,863 | 19,314,284 | 2,414,286 |
| 7 | - Distribution Substation Equipment Upgrades | 536,846 | 812,576 | 1,015,343 | 1,134,016 | 4,754,304 | 92,409 | 1,713,400 | 3,281,666 | 13,340,560 | 1,667,570 |
| 8 | Total Transmission Capital Expenditures | $ 7,872,873 | $ 16,199,642 | $ 16,943,923 | $ 21,364,985 | $ 26,657,738 | $ 24,689,741 | $ 37,385,557 | $ 46,635,680 | $ 197,750,139 | $ 24,718,767 |
| 9 | Percentage Change from Prior Year | | 105.77% | 4.59% | 26.09% | 24.77% | -7.38% | 51.42% | 24.74% | | |

Source:
2003 through 2010 Actual Amounts from response to OPC POD 6 and 8, Workpapers for P. Chris Caldwell, file titled "T Capital 2003-2011 Actuals". Totals tie to Testimony of P. Chris Caldwell, page 15, lines 13 - 22.

Transmission Capital Expenditures
- Budgeted 2011 and 2012 Expenditures Compared to Historic Levels

| | | Average 2003 - 2010 (A) | Actual 2009 (B) | Actual 2010 ( C) | Budgeted 2011 (D) | Budgeted 2012 (E) |
|---|---|---|---|---|---|---|
| | Transmission Infrastructure Replacement Projects | | | | | |
| 1 | - Transmission | $ 7,252,301 | $ 8,306,758 | $ 13,552,702 | $ 15,948,000 | $ 4,865,000 |
| 2 | - Distribution Substation | 1,591,270 | 1,522,243 | 1,338,501 | 1,150,000 | 1,315,000 |
| | Transmission Planning Generated Projects | | | | | |
| 3 | - Transmission Line Improvements | 5,595,290 | 10,169,790 | 12,243,498 | 28,125,000 | 47,507,000 |
| 4 | - New Transmission Substations | 3,865,068 | 81,820 | 15,101,881 | | |
| 5 | - Substation Equipment Upgrades | 2,332,983 | 7,951,228 | 240,569 | 9,900,000 | 8,600,000 |
| | Distribution Planning Generated Projects | | | | | |
| 6 | - New Distribution Substations | 2,414,286 | 7,640,318 | 876,863 | 3,155,000 | 2,000,000 |
| 7 | - Distribution Substation Equipment Upgrades | 1,667,570 | 1,713,400 | 3,281,666 | 3,655,000 | 975,000 |
| | Smart Grid Investment Grant Program | | | | | |
| 8 | - Transmission | | | | 4,795,000 | 5,135,000 |
| 9 | - Distribution Substations | | | | 20,000 | 505,000 |
| 10 | Total Transmission Capital Expenditures | $ 24,718,767 | $ 37,385,557 | $ 46,635,680 | $ 66,748,000 | $ 70,902,000 |
| | Including Smart Grid Investment Grant Program | | | | | |
| 11 | Percentage over 2003 - 2010 Average Level | | | | 170.0% | 186.8% |
| 12 | Percentage over actual 2009 Expenditures | | | | 78.5% | 89.7% |
| 13 | Percentage over actual 2010 Expenditures | | | | 43.1% | 52.0% |
| | Excluding Smart Grid Investment Grant Program | | | | | |
| 14 | Percentage over 2003 - 2010 Average Level | | | | 150.6% | 164.0% |
| 15 | Percentage over actual 2009 Expenditures | | | | 65.7% | 74.6% |
| 16 | Percentage over actual 2010 Expenditures | | | | 32.8% | 39.9% |

Source:
Col. (A), (B) and ( C): See page 2 of 3.
Col. (D) and (E): Exh No.__(PCC-1), Schedule 5.

GULF POWER COMPANY
Projected Test Year Ended December 31, 2012

Distribution Capital Expenditures - SGIG Projects

Docket No. 110138-EI
Exhibit No.__(DR-1)
Donna Ramas Schedules
Schedule B-3

| | Description | 2011 (A) | 2012 (B) | Estimated Test Year Adjustment (C) |
|---|---|---|---|---|
| | ADJUSTMENT TO PLANT IN SERVICE: | | | |
| 1 | Remove Smart Grid Investment Grant Program Projects | $ (1,980,000) | $ (1,980,000) | $ (2,970,000) |
| 2 | Reduction to Distribution Plant in Service | (1,980,000) | (1,980,000) | (2,970,000) |
| | ADJUSTMENT TO DEPRECIATION EXPENSE | | | |
| 3 | Per OCS Reduction to Distribution Plant in Service | | | $ (2,970,000) |
| 4 | Average Test Year Distribution Depreciation Rate (1) | | | 3.50% |
| 5 | Reduction to Distribution Depreciation Expense | | | $ (103,915) |
| | ADJUSTMENT TO ACCUMULATED DEPRECIATION | | | |
| 6 | Depreciation on 2011 Plant Additions @ 3.50% | $ (34,638) | $ (69,277) | $ (69,277) |
| 7 | Depreciation on 2012 Plant Additions @ 3.50% | | (69,277) | (34,638) |
| 8 | Reduction to Distribution Accumulated Depreciation | | | $ (103,915) |

Source/Notes:
Col. ( C): Estimated Plant in Service impact assumes all of 2011 and 50% of 2012 capital expenditures are in test year PIS.

(1) Based on total distribution depreciation accrued in test year of $36,589,000 from MFR Sch. B-9, p. 2 divided by average test year distribution plant in service of $1,045,751 from MFR Sch. B-7, p. 3. ($36,589,000 / $1,045,751,000 = 3.50%)

GULF POWER COMPANY
Projected Test Year Ended December 31, 2012

Docket No. 110138-EI
Exhibit No.__(DR-1)
Donna Ramas Schedules

Adjusted Net Operating Income
(Thousands of Dollars)

Schedule C-1
Page 1 of 2

| Line No. | Description | Adjusted Jurisdictional Total per Company (A) | Citizens Adjustments (B) | Adjusted Jurisdictional Total per Citizens (C) |
|---|---|---|---|---|
| 1 | Sales of Electricity | $ 455,068 | | $ 455,068 |
| 2 | Other Operating Revenues | 26,841 | $ 2,110 | 28,951 |
| 3 | **Total Operating Revenues** | $ 481,909 | | $ 484,019 |
| | **Operating Expenses** | | | |
| 4 | Other Operation & Maintenance | $ 282,731 | $ (36,599) | $ 246,132 |
| 5 | Depreciation & Amortization | 95,180 | (524) | 94,656 |
| 6 | Amortization of Investment Credit | (954) | | (954) |
| 7 | Taxes Other Than Income | 28,763 | (786) | 27,977 |
| | **Income Taxes:** | | | |
| 8 | Federal & State Income Taxes | (66,936) | 15,947 | (50,989) |
| | **Deferred Income Taxes:** | | | |
| 10 | Deferred Federal Income Taxes | 77,058 | | 77,058 |
| 11 | Deferred State Income Taxes | 5,112 | | 5,112 |
| 12 | **Total Operating Expenses** | $ 420,954 | | $ 398,992 |
| 13 | **Net Operating Income** | $ 60,955 | | $ 85,027 |

Source/Notes:
Col. (A): Company MFR Schedule C-1
Col. (B): See Schedule C-1, Page 2

GULF POWER COMPANY
Projected Test Year Ended December 31, 2012

Net Operating Income-Summary of Adjustments
(Thousands of Dollars)

Docket No. 110138-EI
Exhibit No.__(DR-1)
Donna Ramas Schedules
Schedule C-1
Page 2 of 2

| Line No. | Adjustment Title | Witness/Reference | Total Adjustment | Jurisdictional Separation Factor | Jurisdictional Amount |
|---|---|---|---|---|---|
| | **Other Operating Revenue Adjustments** | | | | |
| | Revenue Adjustments for Non-Regulated Operations | | | | |
| 1 | & Compensation Adj. for Affiliate Benefits (Combined) | K. Dismukes | $ 2,110 | 1.0000000 | $ 2,110 |
| | **Operation & Maintenance Expense** | | | | |
| 2 | Uncollectible Expense | D. Ramas, Sch. C-2 | $ (346) | 1.0000000 | $ (346) |
| 3 | Payroll Expense | D. Ramas, Sch. C-3 | (3,196) | 0.9800918 | (3,132) |
| 4 | Remove Incentive Compensation Expense | D. Ramas, Sch. C-4 | (12,624) | 0.9800918 | (12,373) |
| 5 | Remove Remaining Executive Financial Planning Expenses | D. Ramas, Testimony | (48) | 0.9821740 | (47) |
| 6 | Remove Interest on Deferred Compensation | D. Ramas, Testimony | (362) | 0.9799896 | (355) |
| 7 | Remove SCS Early Retirement Costs | D. Ramas, Testimony | (50) | 0.9799896 | (49) |
| 8 | Reduction to Rate Case Expense Amortization | D. Ramas, Sch. C-6 | (121) | 1.0000000 | (121) |
| 9 | Reduction to Storm Reserve Accrual | H. Schultz, Sch. C-1 | (6,200) | 0.9616311 | (5,962) |
| 10 | Tree Trimming Expense | H. Schultz, Sch. C-2 | (387) | 1.0000000 | (387) |
| 11 | Pole Line Inspection Expense | H. Schultz, Sch. C-3 | (372) | 1.0000000 | (372) |
| 12 | Fossil Plant Maintenance Expense | H. Schultz, Sch. C-4 | (11,675) | 0.9671290 | (11,291) |
| 13 | Directors & Officers Liability Insurance Expense | H. Schultz, Testimony | (59) | 0.9799869 | (58) |
| 14 | Adjustments for Affiliate Allocation Factor Changes | K. Dismukes | (847) | various | (832) |
| 15 | Disallowances for SCS Work Orders | K. Dismukes | (1,374) | various | (1,274) |
| 16 | subtotal | | | | $ (36,599) |
| | **Depreciation & Amortization** | | | | |
| 17 | Reduction to Transmission Depreciation Expense | D. Ramas, Sch. B-2 | $ (390) | 0.9680631 | $ (378) |
| 18 | Reduction to Distribution Depreciation Expense | D. Ramas, Sch. B-3 | (104) | 1.0000000 | (104) |
| 19 | Remove Incentive Comp. from PIS - Deprec. Impact | D. Ramas, Sch. C-4 | (43) | 0.9798128 | (42) |
| 20 | subtotal | | | | $ (524) |
| | **Taxes Other Than Income** | | | | |
| 21 | Reduction to Payroll Tax Expense | D. Ramas, Sch. C-5 | $ (800) | 0.9824645 | $ (786) |
| 22 | subtotal | | | | $ (786) |
| | **Income Taxes** | | | | |
| 23 | Parent Debt Adjustment | (1) | $ (2,126) | 0.8305076 | $ (1,766) |
| 24 | Impact of Other Adjustments | D. Ramas, Sch. C-7 | | Various | 15,437 |
| 25 | Interest Synchronization Adjustment | D. Ramas, Sch. C-8 | | Various | 2,276 |
| 26 | subtotal | | | | $ 15,947 |

Notes

Jurisdictional Separation Factors from MFR Schedule C-4 or other schedules within the Company's filing or data responses.

(1) The amount of adjustment is discussed by D. Ramas, and the reason for the adjustment is addressed by Dr. Woolridge

GULF POWER COMPANY
Projected Test Year Ended December 31, 2012

Uncollectible Expense
(Thousands of Dollars)

Docket No. 110138-EI
Exhibit No.__(DR-1)
Donna Ramas Schedules
Schedule C-2

| Line No. | Year | Net Write-Offs | Adjusted Gross Revenues | Bad Debt Factor |
|---|---|---|---|---|
| 1 | 2007 | $ 2,883 | $ 1,028,209 | 0.2804% |
| 2 | 2008 | 3,416 | 1,080,602 | 0.3161% |
| 3 | 2009 | 4,029 | 1,212,400 | 0.3323% |
| 4 | 2010 | 3,806 | 1,295,892 | 0.2937% |
| 5 | 4 year Average Bad Debt Factor | | | 0.3056% |
| 6 | 2012 Gross Retail Revenues, per Company | | | $ 1,307,803 |
| 7 | OPC Recommended Bad Debt Rate | | | 0.3056% |
| 8 | OPC Recommended Bad Debt Expense | | | 3,997 |
| 9 | Bad Debt Expense (Net Write-Offs), per Company | | | $ 4,343 |
| 10 | Reduction to Bad Debt Expense | | | $ (346) |

Source:
Amounts from Company MFR Sch. C-11

GULF POWER COMPANY
Projected Test Year Ended December 31, 2012

Payroll Expense

Docket No. 110138-EI
Exhibit No.__(DR-1)
Donna Ramas Schedules
Schedule C-3
Page 1 of 2

| | Description | | Amount | Reference |
|---|---|---|---|---|
| 1 | OPC Recommended Increase in Employees from December 31, 2010 level (see page 2) | | 68 | Page 2 of 2 |
| 2 | Per Company Increase in Employees from December 31, 2010 level | | 159 | |
| 3 | Percentage of Requested to OPC Recommended Allowance | | 42.8% | Line 1 / Line 2 |
| | Amounts Included in Test Year Expenses from Increase in Employees, per Gulf: | | | |
| 4 | - Base Payroll | $ | 4,387,785 | (1) |
| 5 | - Medical and Other Group Insurance | | 956,289 | (1) |
| 6 | - Employe Savings Plan | | 242,687 | (1) |
| 7 | Total Increase in Expenses in Filing from Additional Employees | $ | 5,586,761 | |
| 8 | Percentage of Requested to OPC Recommended Allowance | | 42.8% | Line 3 |
| 9 | OPC Recommended Increase in Labor Costs for 68 Additional Employees | $ | 2,391,134 | |
| 10 | Reduction to Test Year Labor Costs to Reflect Average Employee Vacancy Level, per OPC | $ | (3,195,627) | Line 9 - Line 7 |

Source/Notes:
(1) Amounts from Gulf's response to OPC Interrogatory 184(b), page 17 of 30. Total amounts are higher as they include amounts charged to clauses and/or capitalized. Above amounts only include impact on Gulf's test year O&M expense.

Proposed Test Year O&M Expense in Gulf's filing also includes $533,499 for incentive compensation costs associated with the requested new employees. These are removed as part of the OPC recommended incentive compensation adjustment.

GULF POWER COMPANY
Projected Test Year Ended December 31, 2012

Payroll Expense
- Workpapers to Adjustment

Docket No. 110138-EI
Exhibit No.__(DR-1)
Donna Ramas Schedules
Schedule C-3
Page 2 of 2

| | Vacancy Analysis: | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | Six months June 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Average Actual Employees | 1,324 | 1,331 | 1,332 | 1,339 | 1,330 | 1,332 | 1,340 | 1,352 | 1,348 | 1,343 |
| 2 | Budget Employees | 1,386 | 1,383 | 1,355 | 1,413 | 1,426 | 1,415 | 1,412 | 1,443 | 1,442 | 1,489 |
| 3 | Difference | (62) | (52) | (23) | (74) | (96) | (83) | (72) | (91) | (94) | (146) |
| 4 | % Variance / Vacancy Factor | -4.47% | -3.76% | -1.70% | -5.24% | -6.73% | -5.87% | -5.10% | -6.31% | -6.52% | -9.81% |
| 5 | Annual Increase/(Decrease) in Average # of Employees | | 7 | 1 | 7 | (9) | 2 | 8 | 12 | (4) | (5) |

| | | | |
|---|---|---|---|
| 6 | Nine-Year Average Vacancy Rate, 2002 - 2010 | -5.08% | |
| 7 | Five-Year Average Vacancy Rate, 2006 - 2010 | -6.10% | |
| 8 | Budgeted 2012 Test Year Employee Compliment | 1,489 | |
| 9 | Five-Year Average Vacancy Rate, 2006 - 2010 | -6.10% | (Line 7, above) |
| 10 | OPC Recommended Test Year Allowance | 1,398 | Line 8 * (1 + Line 9) |
| 11 | Actual 2010 Year End Employee Count, per Gulf | 1,330 | |
| 12 | OPC Recommended Increase in Employees | 68 | Line 10 - Line 11 |
| 13 | Gulf Requested Increase in Employees (zero vacancy assumption) | 159 | Line 8 - Line 11 |

Source/Notes:
Lines 1 - 4: 2002 - 2010 from response to Citizens' Interrogatory 185. 2011 average amount derived from response to Citizens' Interrogatory 1.

GULF POWER COMPANY
Projected Test Year Ended December 31, 2012

Incentive Compensation Expense

Docket No. 110138-EI
Exhibit No.__(DR-1)
Donna Ramas Schedules
Schedule C-4
Page 1 of 2

| | Description | Amount | Reference: |
|---|---|---|---|
| | Adjustment to O&M Expense: | | |
| 1 | Remove Incentive Compensation Costs from Test Year | $ (12,623,632) | See Page 2, Line 17 |
| | Adjustment to Plant in Service: | | |
| 2 | Test Year Incentive Compensation Costs Charged to Capital | $ 3,245,884 | See Page 2, Line 18 |
| 3 | Estimate of Percentage Not Clause or CWIP-Related | 75% | |
| 4 | Estimated Incentive Compensation Costs Remaining in Test Year Capital | 2,434,413 | |
| 5 | Reduction to Plant in Service under Average Test Year | $ (1,217,206) | Line 4 x 50% |
| | Adjustment to Depreciation Expense: | | |
| 6 | Per OCS Reduction to Average Test Year Plant in Service | $ (1,217,206) | |
| 7 | Average Test Year Depreciation Rate | 3.53% | (a) |
| 8 | Reduction to Depreciation Expense | $ (42,967) | |
| 9 | Reduction to Accumulated Depreciation | $ (42,967) | |

Source/Notes:
(a) Based on total depreciation accrued in test year of $143,683,000 from MFR Sch. B-9, p. 3, divided by average test year plant in service of $4,070,412,000 from MFR Sch. B-7, p. 4. ($143,683,000 / $4,070,412,000 = 3.53%)

GULF POWER COMPANY
Projected Test Year Ended December 31, 2012

Incentive Compensation Expense

Docket No. 110138-EI
Exhibit No.__(DR-1)
Donna Ramas Schedules
Schedule C-4
Page 2 of 2

| | Incentive Compensation Plan Components: | 2012 Test Year Amount | | |
|---|---|---|---|---|
| 1 | - Performance Pay Program | $ 13,632,643 | | |
| 2 | - Stock Option Expense | 724,990 | | |
| 3 | - Performance Share Program | 1,097,321 | | |
| 4 | - Performance Dividend Program | 1,007,516 | | |
| 5 | - Cash/Spot Awards | 2,000 | | |
| 6 | Total Incentive Program Costs in Test Year | $ 16,464,470 | | |
| | **Breakdown of Incentive Program Costs in Test Year:** | **Total Amount** | **NOI Adjs./ Exclusions** | **Net Amount In Test Year** |
| 7 | Operation & Maintenance Expenses | $ 12,893,352 | $ (497,410) | $ 12,395,942 |
| 8 | Capital | 2,978,595 | | 2,978,595 |
| 9 | Clearing | 494,979 | | 494,979 |
| 10 | BTL | 97,544 | (97,544) | - |
| 11 | Total | $ 16,464,470 | $ (594,954) | $ 15,869,516 |
| | **Breakdown of Clearing Amounts Between Capital and O&M Expense:** | | | |
| 12 | Total Incentive Program Costs Charged to Clearing Accounts, Per Company (Line 9) | | | $ 494,979 |
| 13 | Percentage Charged to O&M, per Gulf | | | 46% |
| 14 | Incentive Program Costs Charged to Clearing and then Charged to O&M (L. 12* L. 13) | | | $ 227,690 |
| 15 | Percentage Charged to Capital, per Gulf | | | 54% |
| 16 | Incentive Program Costs Charged to Clearing and then Charged to Capital (L. 12* L. 15) | | | $ 267,289 |
| 17 | Total Incentive Program Costs Charged to O&M Expense (Line 7 + Line 14) | | | $ 12,623,632 |
| 18 | Total Incentive Program Costs Charged to Capital (Line 8 + Line 16) | | | $ 3,245,884 |

Source:
Company's response to Citizens' Interrogatory 184, pages 15 and 16 of 30.

GULF POWER COMPANY
Projected Test Year Ended December 31, 2012

Payroll Tax Expense

Docket No. 110138-EI
Exhibit No.__(DR-1)
Donna Ramas Schedules
Schedule C-5
Page 1 of 1

| | Description | | Amount | Reference: |
|---|---|---|---|---|
| 1 | Adjustment to Remove Incentive Compensation Expense | $ | (12,623,632) | Schedule C-4 |
| 2 | Portion Applicable to Performance Pay Program | | 82.8% | (a) |
| 3 | Estimate of Incentive Compensation Exp. Adjustment to which FICA applies | $ | (10,452,368) | |
| 4 | FICA Employer Rate | | 7.65% | |
| 5 | Reduction to Payroll Tax Expense | $ | (799,606) | |

Source/Notes:
(a) Calculated as test year PPP costs / total incentive compensation costs ($13,632,643 / $16,464,470).

GULF POWER COMPANY
Projected Test Year Ended December 31, 2012

Rate Case Expense

Docket No. 110138-EI
Exhibit No.__(DR-1)
Donna Ramas Schedules
Schedule C-6
Page 1 of 2

| Line No. | Description | Amount | Reference |
|---|---|---|---|
| 1 | Amortization of Test Year Rate Case Expense Per Company | $ 700,000 | (1) |
| 2 | OPC Recommended Amortization of Test Year Rate Case Expense | 579,432 | (2) |
| 3 | Adjustment to Test Year Rate Case Expense | $ (120,568) | |

Notes and Source

(1): MFR Schedule C-10 from Gulf filing

(2): OPC recommended amortization of Rate Case Expense calculated as follows:

| | | Rate Case Expense Per MFR C-10 | OPC Adjustment | Rate Case Expense Per OPC |
|---|---|---|---|---|
| A.1 | Outside Consultants (Cost of Capital, Rate Design, Cost of Service, Other) | $ 725,000 | | $ 725,000 |
| A.2 | Outside Legal Services | 1,475,000 | | 1,475,000 |
| A.3 | Meals & Travel (See page 2 of 2 for OPC Adjustment) | 175,000 | (102,273) | 72,727 |
| A.4 | Other (see below) | 425,000 | (380,000) | 45,000 |
| A.5 | Total Rate Case Expense | $ 2,800,000 | $ (482,273) | $ 2,317,727 |
| A.6 | Amortization Period (years) | 4 | | 4 |
| A.7 | Test Year Amortization of Rate Case Expense | $ 700,000 | | $ 579,432 |

| | Per OPC Reductions to "Other" Rate Case Expenses: | Other Expenses | |
|---|---|---|---|
| A.8 | Gulf Estimated Charges from SCS being removed by OPC: | | |
| A.9 | - Cost of Service Study | $ (222,000) | Citizens' Interrogatory 172 |
| A.10 | - IT/Computers | (20,000) | Citizens' Interrogatory 172 |
| A.11 | - Other Areas (HR, Accounting, etc.) | (79,000) | Citizens' Interrogatory 172 |
| A.12 | Total Estimated SCS expenses | (321,000) | |
| A.13 | Remove Gulf Labor (Overtime Pay) Applied to Rate Case Expense | (59,000) | Citizens' Interrogatory 172 |
| A.14 | Total Reduction to "Other" Rate Case Expenses, per OPC | $ (380,000) | |

GULF POWER COMPANY
Projected Test Year Ended December 31, 2012

Docket No. 110138-EI
Exhibit No.__(DR-1)
Donna Ramas Schedules
Schedule C-6
Page 2 of 2

Rate Case Expense
- Workpaper

**Per Gulf Power Workpaper**

| Line No. | EVENT | No. of Days | Cost/Day /Fillup | # of People /Vehicles | Total |
|---|---|---|---|---|---|
| | **Hearing** | | | | |
| 1 | Hotel Rooms | 10 | $ 141 | 54 | $ 76,140 |
| 2 | Suites | 10 | $ 164 | 6 | $ 9,840 |
| 3 | Vans - 15 | 10 | $ 150 | 2 | $ 3,000 |
| 4 | Vans-Rental (8) | 10 | $ 80 | 5 | $ 4,000 |
| 5 | Cars-Rental | 10 | $ 64 | 20 | $ 12,800 |
| 6 | Fuel | 2 | $ 50 | 25 | $ 2,500 |
| 7 | Breakfast | 10 | $ 15 | 60 | $ 9,000 |
| 8 | Lunch | 10 | $ 15 | 60 | $ 9,000 |
| 9 | Dinner | 10 | $ 35 | 60 | $ 21,000 |
| 10 | Meeting Room | 14 | $ 200 | 1 | $ 2,800 |
| 11 | Snacks | 1 | $ 300 | 1 | $ 300 |
| 12 | IT Costs | 1 | $ 20,923 | 1 | $ 20,923 |
| 13 | Copiers | 1 | $ 2,109 | 1 | $ 2,109 |
| 14 | Xerox Personnel | 10 | $ 150 | 1 | $ 1,500 |
| 15 | Consultant Airfare | 1 | $ 400 | 4 | $ 1,600 |
| | | | | | $ 176,512 |
| | **PreHearing** | | | | |
| 16 | Hotel Room | 1 | $ 141 | 8 | $ 1,128 |
| 17 | Suites | 1 | $ 164 | 2 | $ 328 |
| 18 | Vans-Rental | 2 | $ 80 | 2 | $ 320 |
| 19 | Cars-Rental | 0 | $ - | 0 | $ - |
| 20 | Fuel | 1 | $ 15 | 2 | $ 30 |
| 21 | Breakfast | 1 | $ 15 | 10 | $ 150 |
| 22 | Lunch | 1 | $ 15 | 10 | $ 150 |
| 23 | Dinner | 1 | $ 35 | 10 | $ 350 |
| | | | | | $ 2,456 |
| | **Depositions** | | | | |
| 24 | Hotel Room | 2 | $ 141 | 7 | $ 1,974 |
| 25 | Suites | 2 | $ 164 | 2 | $ 656 |
| 26 | Vans-Rental | 1 | $ 80 | 2 | $ 160 |
| 27 | Cars-Rental | 1 | $ 64 | 2 | $ 128 |
| 28 | Fuel | 1 | $ 15 | 2 | $ 30 |
| 29 | Breakfast | 1 | $ 15 | 9 | $ 135 |
| 30 | Lunch | 2 | $ 15 | 9 | $ 270 |
| 31 | Dinner | 2 | $ 35 | 9 | $ 630 |
| | | | | | $ 3,983 |
| 32 | | | | | |
| 33 | | | | | |
| 34 | | | | | |
| 35 | | | | | |
| 36 | | | | | |
| 37 | | | | | |
| | **Mock Hearings** | | | | |
| 38 | Food | 2 | $ 500 | 1 | $ 1,000 |
| | **Meetings/OT** | | | | |
| 39 | Food | 20 | $ 200 | 1 | $ 4,000 |
| 40 | Total | | | | $ 187,951 |

| Line No. | Category | Per Gulf Workpaper | Per OPC-4-172 | Difference |
|---|---|---|---|---|
| 41 | Hotels | $ 90,066 | $ 90,000 | $ 66 |
| 42 | Transportation | $ 22,968 | $ 24,500 | $ (1,532) |
| 43 | Food | $ 45,985 | $ 44,000 | $ 1,985 |
| 44 | Miscellaneous | $ 28,932 | $ 16,500 | $ 12,432 |
| 45 | Total | $ 187,951 | $ 175,000 | $ 12,951 |

**Per OPC**

| EVENT | No. of Days | Cost/Day /Fillup | # of People /Vehicles | Total |
|---|---|---|---|---|
| **Technical Hearing** | | | | |
| Hotel Rooms | 5 | $ 141 | 28 | $ 19,740 |
| Suites | 5 | $ 164 | 6 | $ 4,920 |
| Vans - 15 | 5 | $ 150 | 2 | $ 1,500 |
| Vans-Rental (8) | 5 | $ 80 | 3 | $ 1,200 |
| Cars-Rental | 5 | $ 64 | 10 | $ 3,200 |
| Fuel | 2 | $ 50 | 13 | $ 1,300 |
| Breakfast | 5 | $ 15 | 34 | $ 2,550 |
| Lunch | 5 | $ 15 | 34 | $ 2,550 |
| Dinner | 5 | $ 35 | 34 | $ 5,950 |
| Meeting Room | 6 | $ 200 | 1 | $ 1,200 |
| Snacks | 1 | $ 300 | 1 | $ 300 |
| IT Costs | 1 | $ 20,923 | 1 | $ 20,923 |
| Copiers | 1 | $ 2,109 | 1 | $ 2,109 |
| Xerox Personnel | 5 | $ 150 | 1 | $ 750 |
| Consultant Airfare | 1 | $ 400 | 4 | $ 1,600 |
| | | | | $ 69,792 |
| **PreHearing** | | | | |
| Hotel Room | 1 | $ 141 | 8 | $ 1,128 |
| Suites | 1 | $ 164 | 2 | $ 328 |
| Vans-Rental | 2 | $ 80 | 2 | $ 320 |
| Cars-Rental | 0 | $ - | 0 | $ - |
| Fuel | 1 | $ 15 | 2 | $ 30 |
| Breakfast | 1 | $ 15 | 10 | $ 150 |
| Lunch | 1 | $ 15 | 10 | $ 150 |
| Dinner | 1 | $ 35 | 10 | $ 350 |
| | | | | $ 2,456 |
| **Depositions** | | | | |
| Hotel Room | 2 | $ 141 | 7 | $ 1,974 |
| Suites | 2 | $ 164 | 2 | $ 656 |
| Vans-Rental | 1 | $ 80 | 2 | $ 160 |
| Cars-Rental | 1 | $ 64 | 2 | $ 128 |
| Fuel | 1 | $ 15 | 2 | $ 30 |
| Breakfast | 1 | $ 15 | 9 | $ 135 |
| Lunch | 2 | $ 15 | 9 | $ 270 |
| Dinner | 2 | $ 35 | 9 | $ 630 |
| | | | | $ 3,983 |
| **Public Hearing** | | | | |
| Hotel Room | 1 | $ 141 | 6 | $ 846 |
| Cars-Rental | 1 | $ 64 | 3 | $ 192 |
| Fuel | 1 | $ 50 | 3 | $ 150 |
| Breakfast | 1 | $ 15 | 6 | $ 90 |
| Lunch | 1 | $ 15 | 6 | $ 90 |
| Dinner | 1 | $ 35 | 6 | $ 210 |
| | | | | $ 1,578 |
| **Mock Hearings** | | | | |
| Food | 2 | $ 500 | 1 | $ 1,000 |
| **Meetings/OT** | | | | |
| Food | 20 | $ 200 | 1 | $ 4,000 |
| Total | | | | $ 82,809 |

| Category | Per OPC | Per Gulf Filing | Difference |
|---|---|---|---|
| Hotels | $ 29,592 | $ 90,000 | $ (60,408) |
| Transportation | $ 8,210 | $ 24,500 | $ (16,290) |
| Food | $ 18,425 | $ 44,000 | $ (25,575) |
| Miscellaneous | $ 16,500 | $ 16,500 | $ - |
| Total | $ 72,727 | $ 175,000 | $ (102,273) |

GULF POWER COMPANY
Projected Test Year Ended December 31, 2012

Docket No. 110138-EI
Exhibit No.__(DR-1)
Donna Ramas Schedules
Schedule C-7

Income Tax Expense
(Thousands of Dollars)

| Line No. | Description | Amount |
|---|---|---|
| 1 | Jurisdictional Operating Income Adjustments (1) | $ 40,019 |
| 2 | Composite Income Tax Rate (2) | 38.575% |
| 3 | Adjustment to Income Tax Expense | $ 15,437 |

Source:
(1) Schedule C-1, Page 2
(2) Calculated using Florida state income tax rate of 5.50% and Federal income tax rate of 35%

GULF POWER COMPANY
Projected Test Year Ended December 31, 2012

Docket No. 110138-EI
Exhibit No.__(DR-1)
Donna Ramas Schedules
Schedule C-8

Interest Synchronization Adjustment
(Thousands of Dollars)

| Line No. | Description | Amount | Reference |
|---|---|---|---|
| 1 | Adjusted Jurisdictional Rate Base, per Citizens | $ 1,567,366 | Schedule B-1 |
| 2 | Weighted Cost of Debt | 2.04% | Note (1) |
| 3 | Interest Deduction for Income Taxes | $ 31,918 | |
| 4 | Jurisdictional Interest Deduction, per Company | 37,818 | Exh__(RJM-1), Sch. 11 |
| 5 | Increase in Deductible Interest | $ (5,900) | |
| 6 | Consolidated Income Tax Rate | 38.575% | |
| 7 | Reduction (Increase) to Income Tax Expense | $ (2,276) | |

Source/Notes:
(1) Based on weighted cost of debt and weighted cost of customer deposits, as shown on Schedule D.

GULF POWER COMPANY
Projected Test Year Ended December 31, 2012

Cost of Capital
(Thousands of Dollars)

Docket No. 110138-EI
Exhibit No.__(DR-1)
Donna Ramas Schedules
Schedule D

| | | Jurisdictional Capital Structure Per Company | OPC Rate Base Adjustments | Per Citizens Adjusted Amounts | Ratio | Cost Rate per OPC | Per OPC Weighted Cost Rate |
|---|---|---|---|---|---|---|---|
| | | (A) | (B) | (C ) | (D) | (E) | (F) |
| 1 | Long Term Debt | 658,459 | (42,681) | 615,778 | 39.29% | 4.98% | 1.96% |
| 2 | Short Term Debt | 17,955 | (1,164) | 16,791 | 1.07% | 0.35% | 0.00% |
| 3 | Preferred Stock | 73,077 | (4,737) | 68,340 | 4.36% | 6.40% | 0.28% |
| 4 | Common Equity | 645,222 | (41,823) | 603,399 | 38.50% | 9.25% | 3.56% |
| 5 | Customer Deposits | 21,264 | (1,378) | 19,886 | 1.27% | 6.00% | 0.08% |
| 6 | Deferred Taxes | 257,098 | (16,665) | 240,433 | 15.34% | 0.00% | 0.00% |
| 7 | Investment Credit - Zero Cost | 2,929 | (190) | 2,739 | 0.17% | 5.45% | 0.01% |
| 8 | Total | 1,676,004 | (108,638) | 1,567,366 | 100.00% | | 5.89% |

Source/Notes:

Cols. (A) and (D): Amounts from MFR Sch. D-1a. Dr. Woolridge has agreed with the Company's capital structure ratios.

Col. (B): Total adjustments from Schedule B-1. Amounts allocated to capital categories based on per Company capital structure ratios.

Col. (E): Cost Rates recommended by Citizens' witness Dr. Randall Woolridge.

EXHIBIT__(DR-2)
QUALIFICATIONS OF DONNA RAMAS

Q. WHAT IS YOUR OCCUPATION?

A. I am a certified public accountant, licensed in the State of Michigan, and senior regulatory consultant in the firm of Larkin & Associates, PLLC, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan.

Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

A. I graduated with honors from Oakland University in Rochester, Michigan in 1991. I have been employed by the firm of Larkin & Associates, PLLC, since 1991.

As a certified public accountant and regulatory consultant with Larkin & Associates, PLLC, my duties have included the analysis of utility rate cases and regulatory issues, researching accounting and regulatory developments, preparation of computer models and spreadsheets, the preparation of testimony and schedules and testifying in regulatory proceedings. I have also developed and conducted five training programs on behalf of the Department of Defense - Navy Rate Intervention Office on measuring the financial capabilities of firms bidding on Navy assets and one training program on calculating the revenue requirement for municipal owned water and wastewater utilities. Additionally, I have served as an instructor at the Michigan State University - Institute of Public Utilities as part of their Annual Regulatory Studies programs.

I have prepared and submitted expert testimony and/or testified in the following cases, most of which were filed under the name of Donna DeRonne:

**Arizona:** Ms. Ramas prepared testimony on behalf of the Staff of the Arizona Corporation Commission in the following case before the Arizona Corporation Commission: Southwest Gas Corporation (Docket No. G-01551A-00-0309).

**California:** Ms. Ramas prepared testimony on behalf of the Division of Ratepayer Advocates of the California Public Utilities Commission in the following cases before the California Public Utilities Commission:

San Gabriel Valley Water Company, Fontana Water Division (Docket No. A.05-08-021), Request for Order Authorizing the Sale by Thames GmbH of up to 100% of the Common Stock of American Water Works Company, Inc., Resulting in Change of Control of California-American Water Company (Application 06-05-025), California Water Services Company (Docket No. 07-07-001*), and Golden State Water Company (Docket No. 08-07-010).

Ms. Ramas also prepared testimony on behalf of the Department of Defense in the following cases before the California Public Utilities Commission: San Diego Gas and Electric Company (Docket No. 98-07-006) and Southern California Edison Company and San Diego Gas & Electric Company (Docket No. 05-11-008*).

Additionally, Ms. Ramas prepared testimony on behalf of the City of Fontana in the following rate cases before the California Public Utilities Commission: San Gabriel Valley Water Company, Fontana Water Division (Docket No. A.08-07-009) - Phases 1 and 2; and San Gabriel Valley Water Company, Los Angeles Division (Docket No. A.10-07-019*).

Ms. Ramas also prepared testimony on behalf of The Utilities Reform Network in the following rate case before the California Public Utilities Commission: California American Water Company (Docket No. 10-07-007).

**Connecticut:** Ms. Ramas has prepared testimony on behalf of the Connecticut Office of Consumers Counsel in the following cases before the State of Connecticut, Department of Public Utility Control:

Connecticut Light & Power Company (Docket No. 92-11-11), Connecticut Natural Gas Corporation (Docket No. 93-02-04), Connecticut Natural Gas Corporation ( Docket No. 95-02-07), Southern Connecticut Gas Company (Docket No. 97-12-21), Connecticut Light & Power Company (Docket No. 98-01-02), Southern Connecticut Gas Company (Docket No. 99-04-18 Phase I), Southern Connecticut Gas Company (Docket No. 99-04-18 Phase II), Connecticut Natural Gas Corporation (Docket No. 99-09-03 Phase I), Connecticut Natural Gas Corporation (Docket No. 99-09-03 Phase II), Connecticut Light & Power Company (Docket No. 00-12-01), Yankee Gas Services Company (Docket No. 01-05-19), United Illuminating Company (Docket No. 01-10-10), Connecticut Light & Power Company (Docket No. 03-07-02), Southern Connecticut Gas Company (Docket No. 03-11-20), Yankee Gas Services Company (Docket No. 04-06-01*), The Southern Connecticut Gas Company (Docket No. 05-03-17PH01), The United Illuminating Company (Docket No. 05-06-04), Connecticut Natural Gas Corporation (Docket No. 06-03-04* Phase I), Yankee Gas Services Company (Docket No. 06-12-02PH01*), Aquarion Water Company of Connecticut (Docket No. 07-05-19), Connecticut Light & Power Company (Docket No. 07-07-01), The United Illuminating Company (Docket No. 08-07-04), Connecticut Light & Power Company (Docket No. 09-12-05), and Yankee Gas Services Company (Docket No. 10-12-02).

Ms. Ramas also assisted the Connecticut Office of Consumer Counsel by conducting cross-examination of utility witnesses in the following cases: Southern Connecticut Gas Company (Docket No. 08-12-07), Connecticut Natural Gas Corporation (Docket No. 08-12-06) and UIL Holdings Corporation and Iberdrola USA, Inc. (Docket No. 10-07-09).

**District of Columbia:** Ms. Ramas prepared testimony on behalf of the Office of the People's Counsel of the District of Columbia in the following case before the Public Service Commission of the District of Columbia: Washington Gas Light Company (Formal Case No. 1016) and Potomac Electric Power Company (Formal Case No. 1076).

**Florida:** Ms. Ramas prepared testimony on behalf of the Florida Office of Public Counsel in the following cases before the Florida Public Service Commission:

Southern States Utilities (Docket No. 950495-WS), United Water Florida (Docket No. 960451-WS), Aloha Utilities, Inc. – Seven Springs Water Division (Docket No. 010503-WU), Florida Power Corporation (Docket No. 000824-EI*), Florida Power & Light Company (Docket No. 001148-EI**), Tampa Electric Company d/b/a Peoples Gas System (Docket No. 020384-GU*), The Woodlands of Lake Placid, L.P. (Docket No. 020010-WS), Utilities, Inc. of Florida (Docket No. 020071-WS), Florida Public Utilities Company (Docket No. 030438-EI*), The Woodlands of Lake Placid, L.P. (Docket No. 030102-WS), Florida Power & Light Company (Docket No. 050045-EI*), Progress Energy Florida, Inc. (Docket No. 050078-EI*), Florida Power & Light Company (Docket No. 060038-EI), and Water Management Services, Inc. (Docket No. 100104-WU).

**Louisiana:** Ms. Ramas prepared testimony on behalf of various consumers in the following case before the Louisiana Public Service Commission: Atmos Energy Corporation d/b/a Trans Louisiana Gas Company (Docket No. U-27703*).

**Massachusetts:** Ms. Ramas prepared testimony on behalf of the Massachusetts Attorney General's Office of Ratepayer Advocacy in the following cases before the Massachusetts Department of Public Utilities: New England Gas Company (DPU 10-114), Fitchburg Electric Company (DPU 11-01), Fitchburg Gas Company (DPU 11-02) and NStar/Northeast Utilities Merger (DPU 10-170).

**New York:** Ms. Ramas prepared testimony on behalf of the New York Consumer Protection Board in the following cases before the New York Public Service Commission:

New York State Electric & Gas Corporation (Case No. 05-E-1222), KeySpan Energy Delivery New York and KeySpan Energy Delivery Long Island (Case Nos. 06-G-1185 and 06-G-1186*), Consolidated Edison Company of New York, Inc. (Case No. 06-G-1332*), and Consolidated Edison Company of New York, Inc. (Case No. 07-E-0523).

**Nova Scotia:** Ms. Ramas prepared testimony on behalf of the Nova Scotia Utility and Review Board – Board Counsel in the following case: Halifax Regional Water Commission (W-HRWC-R-10); Nova Scotia Power Incorporated (NSPI-P-892); Heritage Gas Limited (NG-HG-R-11); and NPB Load Retention Rate Application – NewPage Port Hawkesbury Corp. and Bowater Mersey Paper Company Ltd. (NSPI-P-202).

**North Carolina:** Ms. Ramas assisted Nucor Steel-Hertford, A Division of Nucor Corporation in the review of an application filed by Dominion North Carolina Power for an Increase in rates (Docket no. E-22, Sub 459**). The case was settled prior to the submittal of intervenor testimony.

**Utah:** Ms. Ramas prepared testimony on behalf of the Utah Committee of Consumer Services in the following cases before the Public Service Commission of Utah:

PacifiCorp dba Utah Power & Light Company (Docket No. 99-035-10), PacifiCorp dba Utah Power & Light Company (01-035-01*), PacifiCorp dba Utah Power & Light Company (Docket No. 01-035-23 Interim (Oral testimony)), PacifiCorp dba Utah Power & Light Company (Docket No. 01-035-23**), Questar Gas Company (Docket No. 02-057-02*), PacifiCorp (Docket No. 04-035-42*), PacifiCorp (Docket No. 06-035-21*), Rocky Mountain Power (Docket Nos. 07-035-04, 06-035-163 and 07-035-14), Rocky Mountain Power (Docket No. 07-035-93), Questar Gas Company (Docket No. 07-057-13*), Rocky Mountain Power (Docket No. 08-035-93*), Rocky Mountain Power (Docket No. 08-035-38*), Rocky Mountain Power Company (Docket No. 09-035-23), Questar Gas Company (Docket No. 09-057-16**), Rocky Mountain Power Company (Docket No. 10-035-13), Rocky Mountain Power Company (Docket No. 10-035-38), Rocky Mountain Power Company (Docket No. 10-035-89), and Rocky Mountain Power Company (Docket No. 10-035-124*).

**Vermont:** Ms. Ramas prepared testimony on behalf of the Vermont Department of Public Service in the following cases before the Vermont Public Service Board: Citizens Utilities Company – Vermont Electric Division (Docket No. 5859), Central Vermont Public Service Corporation (Docket No. 6460*), and Central Vermont Public Service Corporation (Docket No. 6946 & 6988).

**Washington:** Ms. Ramas prepared testimony on behalf of the Public Counsel Section of the Washington Attorney General's Office in the following case before the Washington Utilities and Transportation Commission: PacifiCorp (Docket No. UE-090205**).

**West Virginia:** Ms. Ramas has prepared testimony on behalf of the West Virginia Consumer Advocate Division in the following cases before the Public Service Commission of West Virginia: Monongahela Power Company (Case No. 94-0035-E-42T), Potomac Edison Company (Case No. 94-0027-E-42T), Hope Gas, Inc. (Case No. 95-0003-G-42T*), and Mountaineer Gas Company (Case No. 95-0011-G-42T*).

* Case Settled
** Testimony not filed/submitted due to settlement