BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for Increase in Rates by Gulf Power Company	))))	**Docket No. 110138-EI**

Direct Testimony of

Greg R. Meyer

On behalf of

Federal Executive Agencies

Project 9517
October 14, 2011

BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

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In Re: Petition for Increase in Rates by Gulf Power Company	**Docket No. 110138-EI**

Direct Testimony of Greg R. Meyer

Q **PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A Greg R. Meyer. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q **WHAT IS YOUR OCCUPATION?**

A I am a Senior Consultant in the field of public utility regulation with the firm of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q **PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

A This information is included in Appendix A to my testimony.

Q **ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

A I am appearing in this proceeding on behalf of the Federal Executive Agencies ("FEA"). The FEA purchases substantial amounts of electricity from Gulf Power Company ("Gulf" or "Company") and the outcome of this proceeding will have an impact on their cost of electricity.

Introduction

Q WHAT AMOUNT OF INCREASE HAS GULF REQUESTED?

A The overall increase requested by Gulf is $93.5 million in base revenues.

Q PLEASE IDENTIFY THE WITNESSES PRESENTING TESTIMONY ON BEHALF OF THE FEA AND BRIEFLY DESCRIBE THE AREAS THAT EACH WILL ADDRESS.

A The following witnesses will present testimony on behalf of the FEA:

- Mr. Michael Gorman will present testimony on cost of capital.
- Mr. David Stowe will present testimony on class cost of service.
- My testimony will address various revenue requirement issues.

Q DO YOU BELIEVE THAT GULF HAS JUSTIFIED THE PROPOSED OVERALL INCREASE OF $93.5 MILLION?

A No. Based on my testimony and the testimony of Mr. Gorman, I believe that Gulf's claimed revenue requirement and revenue increase are significantly overstated.

Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A I am providing testimony regarding several adjustments to Gulf's revenue requirement. I am proposing:

1. An adjustment to increase Gulf's Sales for Resale revenues;
2. An adjustment to Gulf's amortization expense for the replacement of AMI meters;

3. An adjustment to Gulf's labor expense to reflect actual employee levels as of June 30, 2011;
4. The disallowance of Gulf's Supplemental Pension expense;
5. An adjustment to Gulf's annual storm recovery allowance;
6. An adjustment to disallow Gulf's proposed adjustment for land held for future use; and
7. The disallowance of the rate base component of Gulf's rate case expense.

In addition to the adjustments described above, I will discuss a problem with the beginning book number Gulf used in its case for accumulated deferred income taxes.

I have prepared a table which lists each of the revenue requirement adjustments the FEA is proposing in Gulf's filed case, and the value of each adjustment. Following Table 1 is a short description of the adjustments.

TABLE 1

Revenue Requirement Adjustments

Description	Value ($000)
1. Return on Equity	$19,875
2. Gulf's Capital Structure	1,828
3. Sales for Resale	1,825
4. AMI Amortization	1,299
5. Labor Expense	5,065
6. Supplemental Pension Expense	1,744
7. Storm Recovery Allowance	1,764
8. Land Held for Future Use	2,240
9. Rate Case Expense	205
Total Reduction	$35,845

1. Return on Equity – Mr. Gorman is proposing a 9.75% return on equity as compared to Gulf's requested 11.7% return on equity
2. Capital Structure – Mr. Gorman is proposing to adjust Gulf's capital structure to include the proper amount of accumulated deferred income taxes.
3. Sales for Resale – I am proposing to increase revenues from Sales for Resale to reflect a normalized level of revenues.
4. AMI Amortization – I am proposing to amortize the meters being replaced with AMI meters over the expected life of the new meters.
5. Labor Expense – I am proposing to adjust Gulf's labor expense to reflect actual employees at June 30, 2011.

6. Supplemental Pension Expense – I am proposing to disallow all expenses associated with Gulf's Supplemental Pension expense.
7. Storm Recovery Allowance – I am proposing that the proper level of the annual storm recovery allowance should be no more than $5.0 million.
8. Land Held for Future Use – I am proposing to disallow rate base treatment for Gulf's proposed adjustment of $27.7 million to land held for future use.
9. Rate Case Expense – I am proposing to disallow the rate base component for the unrecovered rate case expense.

The fact that I do not address a specific revenue requirement issue should not be interpreted as approval or acceptance by the FEA of any position taken by Gulf unless I state otherwise.

Sales for Resale

Q WHAT LEVELS OF SALES FOR RESALE REVENUES DID GULF PROPOSE TO INCLUDE IN ITS COST OF SERVICE?

A Gulf has proposed to include $16.3 million of Sales for Resale margin revenues for the projected test year ending December 31, 2012.

Q WHAT IS THE TOTAL REVENUE LEVEL THAT PRODUCED THE $16.3 MILLION MARGIN PROJECTION FOR 2012?

A For 2012, the total Sales for Resale revenues projected by Gulf to produce $16.3 million of margin revenues was $188.3 million.

Q PLEASE RECONCILE THE TOTAL SALES REVENUES OF $188.3 MILLION TO THE $16.3 MARGIN REVENUES PROPOSED BY GULF.

A Gulf made four adjustments to the total revenues of $188.3 to derive the $16.3 million of margin revenues. I have listed the four adjustments below and have calculated how the $16.3 million was derived in Table 2.

a. Gulf deducted $106.1 million of Sales for Resale revenues to reflect the fuel expense needed to make those sales;

b. Gulf deducted $0.3 million of Purchase Power Capacity Costs ("PPCC");

c. Gulf deducted $5.9 million of revenues because those revenues are related to Gulf's Environmental Cost Recovery Clause ("ECRC"); and

d. Gulf deducted $59.7 million related to Unit Power Sales ("UPS") from the Scherer plant.

TABLE 2

Reconciliation of Gulf's
2012 Sales for Resale Revenues

Description	Amount ($/Millions)
2012 Budgeted Sales for Resale Revenues	$188.3
Less:	
Fuel	106.1
PPCC	0.3
ECRC	5.9
UPS	59.7
Margin Revenues	$ 16.3

Q DID GULF PROJECT WHAT THE LEVEL OF MARGIN REVENUES WOULD BE FOR 2011?

A Yes. Gulf projected that in 2011 there would be $16.3 million margin revenues from total Sales for Resale revenues of $190.4 million.

Q DO YOU BELIEVE THE LEVEL OF MARGIN REVENUES PROPOSED BY GULF FOR 2012 IS REASONABLE?

A No. I believe the level of margin revenues proposed by Gulf is too low.

Q WHAT IS THE BASIS FOR YOUR ARGUMENT?

A Based on the level of total revenues from Sales for Resale for calendar years 2006-2010, and current 12-months data for March and June 2011, I contend the level of margin revenues proposed by Gulf for 2012 is low.

I have based this conclusion on my analysis of total revenues from Sales for Resale. I have submitted discovery to determine the proper adjustments to total revenues to derive margin revenues, but have not received the information from Gulf. However, based on analysis of the historical revenue levels, it is apparent that Gulf has understated Sales for Resale margin revenues.

Q WHAT LEVEL OF SALES FOR RESALE REVENUES HAS GULF RECORDED IN THE PAST?

A For calendar years 2006-2010, the Sales for Resale revenues were:

TABLE 3

Historic Levels of
Sales for Resale Revenues

Year	Amount ($000)
2006	$205,239
2007	196, 691
2008	199,910
2009	130,368
2010	219,300

Q YOU ALSO MENTIONED THAT YOU HAD CURRENT INFORMATION FOR 2011. COULD YOU PROVIDE THAT INFORMATION?

A Yes. The level of Sales for Resale revenues for the 12 months ended March 31, 2011 and June 30, 2011 are $217.2 million and $211.0 million, respectively. These current levels of revenues are significantly greater than what Gulf projected for 2011 ($190.4 million) and 2012 ($188.3 million). Furthermore, the budgeted level of revenues for 2011 and 2012 listed above are significantly less than the annual revenues Gulf has recorded as depicted in Table 3.

Based on this analysis, it is clear that Gulf has understated the margin revenues for 2012.

Q WHAT ADJUSTMENT ARE YOU PROPOSING FOR SALES FOR RESALE MARGIN REVENUES?

A I am proposing to increase margin revenues by approximately $1.9 million.

Q HOW DID YOU CALCULATE THE $1.9 MILLION ADJUSTMENT?

A To derive the $1.9 million adjustment, I calculated what the percentage of margin revenues were from Gulf's budgeted 2011 and 2012 Sales for Resale totals. I found that on average, 8.6% of total revenues are margin revenues. I applied the 8.6% to the total revenues recorded by Gulf for the 12 months ended June 30, 2011 ($211.0 million). This produced estimated total company margin revenues of $18.1 million. Subtracting the $16.3 million total company margin revenues proposed by Gulf from the $18.1 million, produces a total company $1.9 million adjustment.

Q DO YOU HAVE ANY FURTHER COMMENTS ON THIS ISSUE?

A Yes. It is my understanding that certain parties may propose that the revenues of $5.9 million recorded in the ECRC be included in Gulf's base rates in an upcoming ECRC proceeding (Docket No. 110007-EI). If the Commission agrees with this position, then my proposed margin adjustment should be increased to $7.8 million on a total company basis.

As I noted earlier, I have submitted discovery to determine the historic margin revenues Gulf has collected. If the responses to this discovery changes my adjustment, I will update it.

<u>Advanced Metering Infrastructure ("AMI") Amortization</u>

Q HAS GULF PROPOSED AN ADJUSTMENT RELATED TO AMI?

A Yes. Gulf has accelerated the implementation schedule related to AMI meters. As a result, Gulf is proposing to amortize over a four-year period the unrecovered net investment of approximately $7.1 million on a total company basis.

Q **DO YOU AGREE WITH GULF'S PROPOSAL TO AMORTIZE THE UNRECOVERED NET INVESTMENT OF APPROXIMATELY $7.1 MILLION OVER FOUR YEARS?**

A No, I do not for two reasons. First, the proposal to amortize the unrecovered net investment over four years results in the uneconomical replacement of these meters for ratepayers. Second, the four-year amortization period is too short. For these reasons, I propose that Gulf's proposal be rejected.

Q **PLEASE EXPLAIN YOUR BELIEF THAT THE REPLACEMENT OF THESE AMI METERS IS UNECONOMICAL TO GULF RATEPAYERS.**

A Gulf identified in its direct testimony projected savings from the AMI project. Specifically, Gulf stated that there would be savings from reduced full-time employees needed previously to read meters, a reduction in transportation costs for meter reading activities and an estimated increase in revenues related to improved meter accuracy. In the following table, I have listed the activity and estimated savings proposed by Gulf for the installation of AMI meters.

TABLE 4

Gulf's Savings from AMI Meters

Description	Savings
Reduced Labor Force (18 FTE's)	$ 466,963
Reduced Transportation Costs	235,000
Increased Revenues	575,000
Total Savings	$1,276,963

However, those cost savings are depleted when one recognizes the increase in expense for the four-year amortization of the unrecovered net investment of $1,772,000 ($7,088,000 ÷ 4). When matching the $1,772,000 against the savings of $1,276,963, ratepayers are being asked to pay in rates an additional $495,037 for the installation of AMI meters. This increased cost does not even include the return "on" and "of" the new AMI meters. Clearly, this proposal by Gulf is an uneconomical choice for Gulf's ratepayers.

Q PLEASE DESCRIBE YOUR CONCERNS WHY THIS FOUR-YEAR AMORTIZATION IS TOO SHORT.

A I have previously discussed that the proposal by Gulf is an uneconomical choice for ratepayers. The main reason for that is Gulf's proposal to amortize the unrecovered investment of $7.1 million over four years.

In its direct testimony, Gulf proposes that the new AMI meters should be depreciated over 15 years. Using a mass property accounting approach, the unrecovered investment in the old meters would be collected over the remaining life of the meters currently installed. In this case, that would be the new AMI meters.

Q PLEASE DESCRIBE YOUR PROPOSED ADJUSTMENT.

A I would propose that unrecovered investment be amortized over 15 years consistent with the life of the new AMI meters. This adjustment reduces Gulf's revenue requirement by $1.3 million.

Labor Expense

Q DID GULF ANNUALIZE PAYROLL EXPENSE FOR 2012?

A Yes. Gulf annualized payroll and fringe benefits for 2012. Gulf has projected that total company payroll and fringe benefits will be approximately $150.9 million.

Q DO YOU BELIEVE GULF'S ANNUALIZED PAYROLL SHOULD BE ADJUSTED?

A Yes. I believe Gulf's annualized payroll (including benefits) should be reduced by approximately $5.2 million.

Q WHAT LEVEL OF EMPLOYEES IS GULF'S PROPOSED TOTAL PAYROLL BASED ON?

A The total number of employees budgeted for 2012 is 1,489. This is an increase of 159 employees since the end of 2010 when Gulf had 1,330 employees. The increase of 159 employees is broken down in Mr. McMillan's testimony, Schedule 20. I have provided a summary of the increase in employees by function below.

TABLE 5

Analysis of Increased Employees

Function	Number of Employees
Recovery Clauses	31
Capital / Construction	42
Operation and Maintenance ("O&M")	86
Total	159

Therefore, Gulf is projecting to increase its employee levels by 12% from the end of 2010 to 2012.

Q **WHAT IS GULF'S HISTORY WHEN COMPARING BUDGETED EMPLOYEES TO ACTUAL EMPLOYEES?**

A Gulf has historically operated with fewer employees than budgeted. I have included a table below which compares actual versus budgeted employees for the years 2004-2010.

TABLE 6

Gulf's Budgeted Employees vs. Actual Employees

Year	Actual	Budget	Variance
2004	1,340	1,355	15
2005	1,338	1,413	75
2006	1,322	1,426	104
2007	1,341	1,415	74
2008	1,339	1,412	73
2009	1,365	1,443	78
2010	1,330	1,442	112
2011	---	1,489	
2012	---	1,489	

As can be seen from the table above, Gulf has continuously over-budgeted employees, and many times by a substantial amount.

Q IN GULF'S LAST RATE CASE, WHAT LEVEL OF EMPLOYEES WERE INCLUDED IN GULF'S CASE?

A In the last rate case, Gulf requested a total of 1,367 full-time equivalents ("FTEs"). Gulf has indicated that the Commission did not disallow any positions. Referring back to Table 6 above, it should be noted that since Gulf's last rate case, Gulf has not operated at 1,367 employees for any year.

Q YOU STATED EARLIER THAT AT THE END OF DECEMBER 2010, GULF EMPLOYED 1,330 EMPLOYEES. DO YOU HAVE ANY MORE CURRENT EMPLOYEE LEVELS?

A Yes. At the end of March 31, 2011, Gulf employed 1,334 employees. At the end of June 30, 2011, Gulf employed 1,365 employees.

Q PLEASE DESCRIBE HOW YOU CALCULATED YOUR PROPOSED $5.2 MILLION LABOR ADJUSTMENT?

A I believe Gulf's annualized payroll expense should be based on Gulf's latest known level of employees. As discussed previously, Gulf has consistently over-budgeted employee levels. Therefore, I propose that Gulf's annualized payroll be based on 1,365 employees, which is the level of employees at June 30, 2011.

Q HOW DID YOU DETERMINE THE BREAKDOWN OF THE EMPLOYEES BETWEEN CAPITAL, RECOVERY CLAUSES AND O&M?

A I assumed all growth from December 31, 2010 (1,330 employees) to June 30, 2011 (1,365 employees) was employees that would be assigned to the O&M

function. Therefore, my adjustment takes the 86 employees who were budgeted increases from December 31, 2010 and reduces that level by 35 employees. The estimated 51 unfilled O&M employees at June 30, 2011 was multiplied by Gulf's 2012 average employee budgeted wage and benefit level. This calculation derives my proposed labor adjustment of $5.2 million.

Supplemental Pension Expense

Q DID GULF INCLUDE IN ITS COST OF SERVICE AMOUNTS FOR SUPPLEMENTAL PENSION EXPENSE?

A Yes. In Gulf's Minimum Filing Requirements, Schedule C-35, page 1 of 2, line 12, Gulf has included $1,780,000 of Supplemental Pension expense in its cost of service.

Q DO YOU AGREE THAT THE EXPENSE SHOULD BE INCLUDED IN GULF'S COST OF SERVICE?

A No. I believe the approximately $1.8 million should be disallowed for determining Gulf's revenue requirement.

Q WHAT IS YOUR UNDERSTANDING OF SUPPLEMENTAL PENSION EXPENSE?

A Supplemental Pension expense is additional pension benefits usually offered to certain executives of the utility beyond what is offered in the pension plan to all employees.

Q WHY ARE YOU PROPOSING TO DISALLOW THE EXPENSE?

A I believe the regular pension plan offered to all employees should be sufficient for the executives of Gulf. Executives are paid many times more than the average employee of the utility. The executive's pension plan provides substantially greater benefits than the average employee. The amount of pension benefits offered to executives should be sufficient for ratepayers to fund. Any supplemental pension expense, if deemed necessary, should be paid for by the shareholders of Gulf.

Q DO YOU HAVE ANY FURTHER COMMENTS REGARDING THIS ISSUE?

A Yes. There is a possibility that even the IRS may not allow the recognition of supplemental pension expense for tax purposes. In addition, I am aware of one utility that has no plans to continue their plan in the future.

I have submitted discovery to address this issue, but I do not believe Gulf's ratepayers should pay in rates the costs of Supplemental Pension expenses for Gulf executives. Therefore, I propose to disallow the approximate $1.8 million from Gulf's cost of service.

Storm Recovery Allowance

Q WHAT EXPENSE ACCRUAL HAS GULF PROPOSED FOR PROPERTY DAMAGES IN THE RATE CASE?

A Gulf has proposed an annual accrual of $6.8 million for property damages resulting from storms.

Q WHAT EXPENSE ACCRUAL IS CURRENTLY APPROVED IN GULF'S RATES?

A Gulf currently accrues $3.5 million.

Q DO YOU AGREE WITH THE $6.8 MILLION AS AN ANNUAL ACCRUAL?

A No. I believe the $6.8 million accrual is excessive. I propose that if the Commission decides to increase the annual accrual, the annual accrual be increased to no more than $5.0 million per year.

Q WHAT IS THE BASIS FOR YOUR RECOMMENDATION OF A LIMIT OF $5.0 MILLION ACCRUAL PER YEAR?

A Gulf witness Constance J. Erickson testified on page 29 of her direct testimony that escalating the $3.5 million annual expense allowed in Gulf's last rate case by the CPI and accounting for customer growth would create an approximate $5.0 million accrual currently. I believe that no more than $5.0 million is an appropriate level for the annual accrual for this case. The increase in the accrual would recognize an increase in storm recovery costs over that level of expense approved by this Commission in Gulf's last rate case.

Q DID YOU REVIEW GULF'S 2011 HURRICANE LOSS AND RESERVE PERFORMANCE ANALYSIS ("STORM STUDY")?

A Yes, I did.

Q DO YOU HAVE ANY COMMENTS AS A RESULT OF THAT REVIEW?

A Yes. The Storm Study focuses on the results on a storm reserve from the funding level for property damages that was established in the last case of $3.5 million. I found some of the results from that analysis noteworthy. First, let me clarify that I am proposing to increase the annual accrual from $3.5 million to no more than $5.0 million.

The results of the Storm Study provide some helpful information for determining what level of annual funding should be used in this rate case. Figure 5-1 of the Storm Study shows that if a storm occurred every year for five years at an annual expected loss of $6.8 million, Gulf would still have a reserve of approximately $11 million. In addition, if no storms occurred in the five-year period, the reserve balance would grow to approximately $51 million.

Figure 5-1 also revealed that there was an 89% probability that the fund balance would be greater than $25 million after five years. The $25 million level is within the current target level approved by the Commission.

Similarly, Figure 5-1 identified that there is a 29% chance the storm reserve balance will be negative at the end of five years. Although it may be argued that a 29% probability is very high, one must remember that the Florida Commission has authorized ratepayer surcharges when storm costs have exceeded what was in the storm reserve. This proactive action by the Florida Commission cannot be ignored and must be considered when establishing a proper annual accrual.

It is not my intention to suggest that prudently incurred storm damage expenses should not be recovered from Gulf's ratepayers. I am proposing an annual accrual of no more than $5.0 million for purposes of this rate case.

Q WHAT WOULD BE THE RESULTS AS OUTLINED ON FIGURE 5-1 FROM AN ANNUAL ACCRUAL OF $5.0 MILLION?

A I have submitted discovery to obtain those results, but I have not received the responses at the time I drafted this testimony. However, I do have some preliminary observations of the results if $5.0 million were the annual accrual amount.

First, the storm reserve would be substantially greater ($19 million) than the approximate $11 million on Figure 5-1 if Gulf experienced a storm every year for the five-year period.

Second, the storm reserve would also be substantially greater ($59 million) than the approximate $51 million on Figure 5-1 if Gulf experiences no storms over the five-year period.

In addition, the percentage of likelihood that the storm reserve would be greater than $25 million will exceed 90%. Finally, the percentage of likelihood that the storm reserve will be less than zero will be less than 29%.

In summary, with an accrual of $5.0 million, all of the metrics reported on Figure 5-1 will most likely improve significantly from those listed with an annual accrual funding of $3.5 million.

Q PAGE 31 OF GULF WITNESS ERICKSON'S DIRECT TESTIMONY LISTS THREE PARTS WHICH CONSIST OF A FRAMEWORK FOR STORM RESTORATION COSTS. HOW ARE THESE PARTS AFFECTED WITH YOUR PROPOSED $5.0 MILLION ANNUAL FUNDING LEVEL CAP?

A I will first list the three parts as described by Gulf.

a. An annual property damage accrual adjusted over time as circumstances change;

b. A reserve adequate to accommodate most but not all storm years; and

c. A provision for utilities to seek recovery of costs that exceed the reserve.

In response to part 'a', I believe I have acknowledged that the storm accrual should change and I am recommending that the annual accrual be increased from $3.5 million to no more than $5.0 million.

In response to part 'b', I believe that the reserves I have estimated are substantially greater than the ones listed in Figure 5-1. This part of the framework is the one which will be the most debated among the parties in this case. What level of ratepayer funds should be in a reserve account held by Gulf to fund future storms? I have testified earlier that at an annual accrual of $5.0 million, there will be a greater than 90% chance the reserve will be over $25 million. In these economic times, the storm reserve should be maintained at what the Commission feels is a reasonable level. Some parties may argue that because the Commission has allowed surcharges in the past, no reserve amount should be maintained. Gulf witness Erickson has testified that the Commission has previously found that a target reserve between $25.1 million to $36 million is reasonable. With an annual accrual of $5.0 million, I believe this standard will be achieved. However, if the reserve is depleted, part 'c' of the framework applies.

In part 'c', the utility is allowed to seek recovery of costs which exceed the reserve. As I stated earlier, I am not advocating that the utility be required to absorb storm costs. To the extent the Commission continues to support this position, the necessity to have large reserves is diminished.

Q PLEASE SUMMARIZE YOUR POSITION REGARDING THIS ISSUE.

A I am recommending that Gulf's proposed $6.8 annual accrual for storm recovery costs be reduced to no more than $5.0 million. I have demonstrated that the storm reserves will be adequately funded. I have discussed how the $5.0 million will satisfy the three parts of the framework the Commission adopted. Finally, if the $5.0 million is not sufficient, the Commission has an established procedure to allow the utility to recover its costs.

Land Held for Future Use

Q IS GULF PROPOSING AN ADJUSTMENT TO ITS RATE BASE FOR LAND HELD FOR FUTURE USE?

A Yes. Gulf is proposing to increase its rate base by $27,687,000 for land purchased for the potential future construction of a nuclear generating station. It should be noted that Gulf admits that it will not need new additional generation until 2022.

Q WHICH GULF WITNESSES ADDRESSED THIS ISSUE?

A Gulf witnesses Richard J. McMillan and Michael L. Burroughs filed direct testimony addressing this issue.

Q **DO YOU AGREE WITH GULF'S PROPOSAL TO INCLUDE THESE COSTS IN RATE BASE?**

A No, I do not. Gulf witness McMillan testifies on page 6 of his direct testimony that the carrying charges on this investment cease once the site selection costs are placed in rate base. Mr. McMillan references Florida Statute 366.93 as the source for his statement. I have reviewed Florida Statute 366.93 and would argue that Gulf has not obtained the necessary approvals to include this land in rate base. The portion of Florida Statues which I relied on states the following:

> "(3) After a petition for determination of need is granted, a utility may petition the commission for cost recovery as permitted by this section and commission rules."

Neither Mr. McMillan nor Mr. Burroughs provided any testimony that said the Florida Commission had granted Gulf a petition for determination of need. Therefore, I believe Gulf is premature in seeking to include this investment in land in its regulated rate base as provided for by Florida Statute 366.93.

Q **DO YOU HAVE ANYTHING FURTHER REGARDING THIS ISSUE?**

A Yes. Based on my review of the Commission rules, it is unclear whether Gulf is permitted to accumulate carrying charges prior to the Commission making a determination of need for the power plant. Therefore, any accumulated carrying charges recorded by Gulf prior to the granting of a determination of need by this Commission should be disallowed as well.

Rate Case Expense

Q HAS GULF REQUESTED RATE BASE RECOGNITION FOR RATE CASE EXPENSE?

A Yes. Gulf has requested that the unamortized balance of rate case expense, $2,450,000, be included in rate base for purposes of this rate case.

Q DO YOU AGREE WITH GULF'S PROPOSED ACCOUNTING TREATMENT OF RATE CASE EXPENSE IN THIS RATE CASE?

A No. First, I want to make clear that I am not proposing to reduce the $2.8 million Gulf requested for rate case expense. However, I am recommending that the $2.8 million be treated as a normalized expense. Therefore, I recommend that Gulf's cost of service include a normalized level of rate case expense of $700,000 on an annual basis.

Since I am not proposing an amortization of rate case expense, no deferral of rate case expense is recognized and thus the rate base inclusion as proposed by Gulf is unnecessary.

Q WHEN WILL THE RATE CASE EXPENSES BE INCURRED BY GULF?

A Gulf has indicated in its Minimum Filing Requirements that the entire $2.8 million will be incurred in 2011 which is outside the test year in this case. The proposed adjustment I am sponsoring would normalize this cost over a period of time that the parties believe is reasonable before Gulf will file another rate case. Based on Gulf's filing, Gulf has defined that period to be four years. Therefore, I am proposing a normalized level of rate case for purposes of the 2012 test year be

$700,000. Although these expenses were incurred in 2011, I have included a normalized ongoing level of $700,000 in Gulf's cost of service.

Q BECAUSE YOU HAVE PROPOSED A NORMALIZED LEVEL OF RATE CASE EXPENSE, THE NECESSITY FOR RATE BASE TREATMENT OF RATE CASE EXPENSE IS NEGATED. IS THIS CORRECT?

A Yes. As I have previously stated, since I have determined that on an ongoing basis Gulf's cost of service should include $700,000 for rate case expense, no rate base treatment needs to be recognized for rate case expenses. I, therefore, would recommend rejecting Gulf's proposal to include deferred rate case expense of approximately $2.4 million in rate base. The revenue requirement effect of this adjustment is $205,000.

Deferred Taxes Included in Capital Structure

Q HAVE YOU REVIEWED THE CAPITAL STRUCTURE PRESENTED BY GULF IN THIS RATE CASE?

A Yes. I have verified each component of the Capital Structure included as Schedule 12, page 2 of 5, in Mr. McMillan's direct testimony. I checked the totals on Schedule 12 to the balance listed in Gulf's Minimum Filing Requirements, Section B – Rate Base Schedules, Schedule B-3.

Q DO YOU HAVE ANY CONCERNS WITH THE CAPITAL STRUCTURE AS PRESENTED ON SCHEDULE 12 OF MR. MCMILLAN'S TESTIMONY?

A Yes. I was not able to verify the Deferred Taxes balance of ($492.1 million). I obtained the following 13-month balances from Rate Base Schedule B-3:

Account 190 – Accumulated Deferred Income Tax	$ 70.4 million
Account 281 – Accelerated Deferred Income Tax	($ 90.5 million)
Account 282 - Accelerated Deferred Income Tax	($470.0 million)
Account 283 - Accelerated Deferred Income Tax	($ 46.5 million)
Total	($536.6 million)

I also checked Schedule B-22 of Gulf's Rate Base Minimum Fling Requirements and found the following end-of-year balances for Accumulated Deferred Income Taxes:

2011	($472.0 million)
2012	($601.2 million)

By averaging these two balances, I got an average deferred income tax balance of ($536.6 million) which is almost identical to the balance I calculated.

Q **CAN YOU RECONCILE THE DIFFERENCE BETWEEN THE COMPANY'S NUMBER OF ($492.1 MILLION) AND THE ($536.6 MILLION) YOU CALCULATED?**

A No. I have submitted discovery to Gulf to determine how they quantified their number, but I have not yet received the response to that discovery.

Q **HOW HAVE YOU TREATED THE ($536.6 MILLION) BALANCE IN YOUR CASE?**

A FEA witness Michael Gorman has included this balance in his recommended capital structure.

Q **DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

A Yes, it does.

Qualifications of Greg R. Meyer

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Greg R. Meyer. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q PLEASE STATE YOUR OCCUPATION.

A I am a Senior Consultant in the field of public utility regulation with the firm of Brubaker & Associates, Inc. (BAI), energy, economic and regulatory consultants.

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A I graduated from the University of Missouri in 1979 with a Bachelor of Science Degree in Business Administration, with a major in Accounting. Subsequent to graduation I was employed by the Missouri Public Service Commission. I was employed with the Commission from July 1, 1979 until May 31, 2008.

I began my employment at the Missouri Public Service Commission as a Junior Auditor. During my employment at the Commission, I was promoted to higher auditing classifications. My final position at the Commission was an Auditor V, which I held for approximately ten years.

As an Auditor V, I conducted audits and examinations of the accounts, books, records and reports of jurisdictional utilities. I also aided in the planning of audits and investigations, including staffing decisions, and in the development of staff positions in which the Auditing Department was assigned. I served as Lead Auditor and/or Case Supervisor as assigned. I assisted in the technical training of other auditors, which included the preparation of auditors' workpapers, oral and written testimony.

During my career at the Missouri Public Service Commission, I presented testimony in nine electric rate cases, nine gas rate cases, seven telephone rate cases and several water and sewer rate cases. In addition, I was involved in cases regarding service territory transfers. In the context of those cases listed above, I presented testimony on all conventional ratemaking principles related to a utility's revenue requirement. During the last three years of my employment with the Commission, I was involved in developing transmission policy for the Southwest Power Pool as a member of the Cost Allocation Working Group.

In June of 2008, I joined the firm of Brubaker & Associates, Inc. as a Consultant. The firm Brubaker & Associates, Inc. provides consulting services in the field of energy procurement and public utility regulation to many clients including industrial and institutional customers, some utilities and, on occasion, state regulatory agencies.

More specifically, we provide analysis of energy procurement options based on consideration of prices and reliability as related to the needs of the client; prepare rate, feasibility, economic, and cost of service studies relating to energy and utility services; prepare depreciation and feasibility studies relating to utility service; assist in contract negotiations for utility services, and provide technical support to legislative activities.

In addition to our main office in St. Louis, the firm has branch offices in Phoenix, Arizona and Corpus Christi, Texas.

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