BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

# DOCKET NO. 110138-EI

# REBUTTAL TESTIMONY AND EXHIBIT

OF

RAYMOND W. GROVE


A SOUTHERN COMPANY

GULF POWER COMPANY

Before the Florida Public Service Commission
Rebuttal Testimony and Exhibit of
Raymond W. Grove
Docket No. 110138-EI
In Support of Rate Relief
Date of Filing: November 4, 2011

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

A. My name is Raymond Grove. My business address is One Energy Place, Pensacola Florida, 32520 and I am the Manager of Power Generation Services for Gulf Power Company (Gulf or the Company).

Q Have you previously filed testimony in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The primary purpose of my rebuttal testimony is to address the testimony of Office of Public Counsel (OPC) witness Helmuth W. Schultz, III, in which he makes an $11.3 million reduction to Gulf's projected 2012 Production Operations and Maintenance (O&M) budget. In addition, I address the testimonies of Federal Executive Agencies (FEA) witness Greg R. Meyer and OPC witness Donna Ramas with respect to their workforce adjustments.

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

A. Yes. I am sponsoring Exhibit RWG-2, Schedules 1 through 6. Exhibit RWG-2 was prepared under my direction and control, and the information contained therein is true and correct to the best of my knowledge and belief.

## I. Production O&M Expenses

Q. Do you have any overall comments concerning Mr. Schultz's Production O&M testimony?

A. Yes. Mr. Schultz's testimony on Production O&M suffers from a number of problems. In proposing his adjustment, instead of addressing the actual O&M necessary to maintain service and reliability, Mr. Schultz simply uses a series of averages, unadjusted for inflation, to calculate his proposed disallowance. Mr. Schultz has failed to fully consider the evidence Gulf has provided in justifying the actual O&M necessary to maintain the reliability and efficiency of our generating fleet. His analysis fails to assess the impact of his large proposed disallowance on Gulf's ability to serve its customers.

As serious as all of the foregoing flaws are, I am most concerned with several sections of his testimony in which Mr. Schultz appears to suggest that Gulf is intentionally misrepresenting its need for additional Production O&M expenses in order to enrich shareholders at the expense of

customers (page 36, lines 1-3). Such a suggestion is absolutely not true and, if intended, is extremely offensive.

Q. On page 35 of his testimony, Mr. Schultz states "to allow the spike in expense based on no more than the Company's claim, without evidence that the spending will continue, is akin to giving the Company a blank check." Please respond to this assertion.

A. There is no "spike" in Production O&M expenses in the test year. As shown in my direct testimony, the $110.9 million level of O&M expenses in 2012 is slightly above the 2011 level of $110.4 million projected for 2011. It is in line with projected O&M expenses for 2013, 2014 and 2015, which are $110.3 million, $113.9 million and $114.6 million, respectively.

As I pointed out in my direct testimony, there is an increase in the level of projected O&M over the average Production O&M historically spent in 2006 through 2010. However, the basis for that increase is not fairly characterized as being "based on no more than the Company's claim, without evidence . . ." as Mr. Schultz states in his testimony. My direct testimony provides three distinctive types of justification for the increase in Production O&M expense. First, I clearly outlined the rigorous budget process that Gulf uses in the Production organization to ensure that every dollar budgeted is necessary and addresses the most critical needs. Mr. Schultz acknowledges my statement but asserts nothing to suggest that this process, which I outline in considerable detail, is anything other than rigorous.

Second, Mr. Schultz ignored the Commission-approved O&M Benchmark analysis. Gulf followed the Commission-approved methodology, and in my direct testimony I provided 28 pages of testimony related to Steam Production, Other Production, and Other Power Supply. In each case I provided an explanation for an amount greater than the Benchmark variance. Mr. Schultz does not address this testimony when he alleges that Gulf is making a claim "without evidence."

Third, Gulf recognized the concerns that might arise from a simple comparison of the actual historical Production costs from 2006 through 2010 to the projected costs for the 2011 through 2015 budget cycle used to develop our rate request. To address those potential concerns, I provided eight pages of direct testimony outlining the primary reasons the projected budgets are higher than historical amounts.

Mr. Schultz's concluding assertion that Gulf is asking for a blank check is without merit. My direct testimony and exhibits justified Production O&M costs from three different perspectives. Moreover, Mr. Schultz's "blank check" assertion implies that the Commission will not perform its regulatory oversight to assure that Gulf continues to manage its expenditures of O&M dollars in a reasonable and prudent manner.

Q. At page 36 of Mr. Schultz's testimony he states, "Without some smoothing through the use of averaging, rates could be set artificially high and in

future years shareholders would benefit from the over-collection." Please respond.

A. Mr. Schultz appears to be suggesting that Gulf Power is intentionally misrepresenting the level of Production O&M expenses requested in this case to benefit shareholders. As I stated above, this suggestion is absolutely untrue.

As I pointed out in my direct testimony, Gulf uses a rigorous budgeting process that starts with the experienced personnel that are out in the plant turning wrenches. These are the people that perform walk down inspections of the units every day and are called out in the middle of the night to repair equipment as rapidly as possible to get the units back on-line to ensure that our customers can be served from our least expensive units. The resulting budget requests are then reviewed by multiple levels of Production management in a critical review process before the budget is submitted to the executive committee for approval. Every person in this budget process, from the plant personnel up through the executive committee, has more direct Production experience and more knowledge of what it actually takes to maintain a generating unit than Mr. Schultz. Yet, he tells the Commission that the O&M planned by Gulf is overstated and is being used to enrich shareholders. In the later regard I know Gulf's Production personnel, and I can assure you that these employees have not overstated their budget requests in order to overcharge customers in an effort to artificially enrich shareholders. The Production O&M requests submitted in this case are the result of a determination of what is needed

to serve our customers and will be spent to meet those needs if we are allowed to include these costs in our rates.

Q. Do you have other comments about the approach Mr. Schultz uses in his cost comparisons?

A. Yes. There is an absence of analytical rigor in Mr. Schultz's approach. I will address three of the more serious flaws in his averaging approach as examples of this lack of analytical rigor.

First, in using historical averages, Mr. Schultz fails to adjust for inflation. He compares historical actual dollars to 2012 projected dollars without restating historical dollars to 2012 levels. By averaging nominal rather than inflation adjusted dollars over a period of years and then comparing those dollars to 2012 dollars he is drawing an improper comparison. For instance, he begins his ten-year average with 2001 data. Clearly dollars spent in 2001 do not have the same value as dollars spent in 2012; nonetheless, he compares them without adjusting for inflation.

Second, Mr. Schultz fails to adjust historical costs for known and measurable changes. There are numerous changes outlined in my O&M Benchmark testimony that could and should have been captured in Mr. Schultz's calculations; let me point out two significant omissions. He uses 2001 and 2002 data, yet as he knew based on his own testimony on page 32, line 21, and from his participation in Gulf's last rate case in 2002, Gulf added a major generating unit, Smith 3, that had no O&M in 2001 and

only 7 months of O&M in 2002. Gulf also added a new generating unit, albeit small, in 2010, the Perdido landfill gas-to-energy facility. Nine years of the ten years he used to compute his average contain no costs for Perdido. If he was going to use data from those years to be representative of 2012 data, he should have made an appropriate adjustment to the values in those years.

Third, as I discuss later in more detail, he makes a number of computational errors, and his worksheets are inconsistent with his narrative in testimony.

Q. Are there other inaccuracies in his testimony?

A. Yes. On page 33, line 20, he begins a discussion related to "the ten year average as shown on Exhibit HWS-1, Schedule C-4, Page 2 of 2." He goes on to say "Baseline and Special Projects for each of the respective units is projected to increase from 14% to as high as 38% from 2010 to 2012." These percentages are not accurate. As shown on Schedule 2 of my Exhibit RWG-2, the correct rate of change from 2010 to 2012 for each of the "respective units" is actually between (4.43)% and 27.22%. It appears that the percentages suggested by Mr. Schultz are the result of the changes from the ten year average to 2012 for the "respective units."

Q. Do you have any comments regarding Mr. Schultz's statement at page 35 that Gulf has had "ten years of essentially level spending"?

A. Yes. As shown on Gulf's response to Citizen's 4th Set of Interrogatories No. 212, a copy of which is attached as Schedule 6 of my Exhibit RWG-2, Gulf's Production O&M budget grew from 2002 through 2008 from $83.3 million to $88.4 million. This was not an "essentially level spending" level of Production O&M expenses. Then, in 2009 and 2010, in an effort to forestall a request for a base rate increase during an economic recession, Gulf made a concerted effort to limit its Production O&M budgets and control its actual Production O&M expenses to help postpone the need for rate relief. Expenses declined significantly in 2009 to $84.2 million but rose again in 2010 to $92.9 million, which was still below the budgeted level of $94.7 million. The facts show that Mr. Schultz's assertion regarding "level spending" is misleading at best.

Production O&M expenses have not been "essentially level" for ten years. They have increased over that period. My direct testimony describes Gulf's extraordinary efforts to reduce O&M expenses in the 2009-2010 time frames. Yet Mr. Schultz calculates his adjustment using five years of historical expense, two of which I testified were not representative of a going forward level of expenses because Gulf was making extraordinary efforts to avoid a rate increase.

Q. Do you have any concerns related to Mr. Schultz's assertion that Gulf did not adequately explain the higher cost in the forecast years relative to the historical years?

A. Yes. Mr. Schultz's points to page 27 of my direct testimony where I have laid out the drivers behind Gulf's need for increased Production O&M expenses in 2012 and beyond. I provided the information starting on page 27 of my direct testimony to address any potential concerns relating to the apparent increase from the historical period to the forecast period 2011 through 2015. It is instructive to look at each of the reasons I discussed and how Mr. Schultz addressed or failed to address them.

Q. The first of the five primary factors you set forth to justify increased O&M expenses was the aging of generating units. What did Mr. Schultz state about this in his testimony and how do you respond?

A. Initially, Mr. Schultz admits that the existence of aging units does have merit when explaining increased costs to maintain the fleet. Then, he observes that there are significant capital expenditures being made on units, but he never testifies that such capital expenditures avoid increased O&M expenses on aging generation units. In essence, he acknowledges the merit in my point and then fails to consider it in his position.

The details supporting my point on aging are as follows. The vast majority of Gulf's generating units are coal fired. Plant Crist Units 4 through 7 became commercially operational between 1959 and 1973. Collectively, these units provide 906 MW of reliable generation to serve our customers. Plant Smith Units 1 and 2 became commercially operational in 1965 and 1967 and provide 357 MW of reliable generation to serve our customers. Plant Scholz Units 1 and 2 became commercially operational in 1953 and

provide 92 MW of reliable generation to serve our customers. Gulf also owns 50% of the coal generation at Plant Daniel, which became commercially operational in 1977 and 1981 and provides 510 MW of reliable generation to serve our customers. All of these assets are at least 30 years old, 10 years older than at the time of Gulf's last rate case. The equipment within these units is subject to significant stress from heat and friction associated with the handling and combustion of coal. The major components of a coal unit include coal handling equipment, coal grinding equipment, boilers, turbines, generators, and water cooling equipment.

As shown on Schedule 2 of Exhibit RWG-2, the average outage dollars spent between 2006 and 2010 was $10,900,000. During this period, Gulf was intentionally holding down expenses to delay the need to ask for rate relief. We accomplished this delay on behalf of our customers by prioritizing maintenance and extending maintenance cycles. The amount spent in 2006 through 2010 was far below the dollars spent in 2002 through 2005 which on average was over $15,500,000. The outage dollars Gulf is requesting in this case are representative of the amount we are planning to spend in the period 2011 through 2015 of $21,100,000. This amount reflects the costs of properly maintaining Gulf's coal fired generating units to continue providing reliable service during a time of rising prices for materials and labor.

Q. On page 32 of his testimony Mr. Schultz states "In the thirty plus years that I have been analyzing costs in rate proceedings, I have not seen a

study submitted by a company that shows how the specific cost areas in question have exceeded the rate of inflation." Do you have a response to Mr. Schultz's assertion?

A. Mr. Schultz's statement suggests that he is not familiar with the Commission's required O&M Benchmark analysis or my direct testimony addressing Gulf's Production O&M Benchmark variance in this case. The Commission's O&M Benchmark methodology uses the Consumer Price Index (CPI) or CPI plus customer growth for escalating costs over time. As I explained in my direct testimony, Gulf Power is a producer and uses the types of materials tracked by the Producer Price Index (PPI) such as sheet metal, industrial valves, turbine and turbine generators, metals and metal products, and iron and steel. Certainly, for the materials Gulf purchases for maintenance and outages, one can argue that the PPI is a better measure of rising costs than CPI. For the period used to develop the Commission-approved O&M Benchmark analysis, CPI grew by 25.34 percent. For the same period, the PPI Commodities – All Commodities grew by approximately 51.5 percent which is more than twice the rate of CPI. The rate at which costs of materials needed to produce electricity have risen is significantly greater than CPI.

Q. On page 32 of his testimony Mr. Schultz discusses your third reason that Production O&M costs have risen from historic levels, the fact that Smith Unit 3 was a new unit in the last test year and it is no longer new and thus requires more O&M. Mr. Schultz suggests that Smith Unit 3 is not a driving factor in the increase of Production O&M costs. Do you agree?

A. No. First, I want to be clear that the amounts shown on Mr. Schultz's Exhibit HWS-1, Schedule C-4, page 2 of 2 are the expenditures for the entire Plant Smith consisting of two coal units, a simple cycle Combustion Turbine (CT) and the gas-fired combined cycle unit known as Smith Unit 3.

On page 2 of 2, line 11 of his Schedule C-4, Mr. Schultz calculates the average cost of Plant Smith for the period 2001 through 2010 and compares that average to the 2012 request for Plant Smith. It is important to note that Smith Unit 3 began commercial operation in April 2002. Therefore, there would be no O&M cost for Plant Smith Unit 3 in 2001, and for 2002 there are only 7 months of costs associated with Smith Unit 3. As a result, the actual average O&M cost for Plant Smith used by Mr. Schultz in his comparative analysis is understated.

Schedule 3 of my Exhibit RWG-2, clearly shows the increased level of expenses specifically associated with Smith Unit 3. As discussed on page 54 of my direct testimony, the increased Smith Unit 3 O&M costs that are not attributable to inflation are explained by two factors: planned outage and maintenance. In the first full year of operation (which roughly corresponded to the test year used when base rates were last set for Gulf), Smith Unit 3 had $3.376 million in the O&M budget. The Commission-approved benchmark which applies simple escalation of those dollars for inflation between 2003 and 2012 would increase that value to a level of $4.231 million. Gulf has budgeted $ 6.122 million for

Smith Unit 3 in 2012. This is only $1.891 million more than the portion of the variance explained by inflation. Of course I have previously fully justified the variance related to Smith Unit 3 starting on page 54 of my direct testimony. For the first few years of operation of Smith Unit 3, very little money was budgeted for planned outage work on the steam turbine, the two combustion turbines or on other maintenance of the heat recovery steam generator because the entire unit was new. Despite Mr. Schultz's suggestion to the contrary, Smith Unit 3 costs have been a significant driver for the increase in total Production O&M costs.

Q. Mr. Schultz also indicated that the Perdido renewable energy generation facility going into service, the fourth reason you gave for increased Production O&M expenses, would not be a primary factor in increasing costs over prior years. Is the addition of the Perdido renewable energy generation facility to Gulf's fleet of generating units a factor that has led to an increase in Production O&M expenses requested in this case relative to historic years?

A. Yes. Perdido is a significant factor in the need for increased O&M expenses because there were no such expenses associated with Perdido in the years prior to 2010. The average O&M expense associated with operating and maintaining the Perdido renewable energy generation facility is $908,910 over the period 2011 through 2015. With the exception of October through December 2010, none of these costs appear in Mr. Schultz's ten-year average for the years 2001 – 2010, because the Perdido facility was not placed into service until October 7, 2010.

Q. Mr. Schultz disputes the fifth reason you provided for increased O&M expenses in your direct testimony, that O&M production costs were controlled in 2009 and 2010. He points to 2010 as having the greatest level of Production O&M expense in the last 10 years. Please respond.

A. Mr. Schultz focuses solely on 2010 and ignores the controlled expenses for 2009. In 2009, Gulf budgeted $93,469,105 for Production O&M. However, Gulf worked hard to control costs for 2009 as part of Gulf's overall effort to delay the need to seek an increase in base rates charged to its customers. Gulf made decisions based on sound engineering to hold actual 2009 expenses down to $84,209,000 without immediate negative impacts on the reliability of its generating fleet. That translates to the Production function being under budget by over $9,000,000 in 2009.

Mr. Schultz's Schedule C-4 clearly shows the dip in Production O&M expense in 2009, but he fails to acknowledge in his testimony that this was the result of Gulf's extraordinary cost control efforts. Instead, he focuses only on 2010 but, by stating what actual expenses were for the period without acknowledging what was budgeted for expenses, he treats 2010 actual expenses as if they were unusually high. While 2010 actual expenses are higher than prior years, something one would expect with the impact of inflation, Mr. Schultz fails to acknowledge that 2010 actual Production O&M expenses were below budget and that Gulf was still engaged in efforts to postpone its request for a base rate increase.

Mr. Schultz observed that 2010 had the highest level of O&M expenses for any year since the last rate case. This is true, but they were not as high as budgeted or as high as they would have been if Gulf had not been trying to defer a base rate case proceeding. Gulf's desire to delay the need for a base rate increase request by controlling O&M expenses as long as it could without negatively impacting reliability was a completely reasonable response to the economic climate in which we were operating. This effort was undertaken to benefit customers. In addition, during a period of rising costs for materials and services used in the electric generation business, it is logical to expect the most current year to have higher O&M expense levels than prior years. As I pointed out in my direct testimony, Gulf cannot continue to undertake in the future the same extraordinary measures it undertook in 2009 and 2010 without harming customers through poor unit performance. Mr. Schultz's suggestion that actual levels of expenses in 2009 and 2010 are representative of the levels of expenses necessary on a going forward basis simply ignores Gulf's actual circumstances and is not based on any engineering expertise.

Q. Are there other inaccuracies in Mr. Schultz's testimony that you would like to address?

A. Yes. On page 35, line 2, of his testimony Mr. Schultz refers to a "5.5% increase" as "the actual increase from 2010" in Production O&M expenses. I have to assume he is referring to the change in expenses from 2009 to 2010 as shown on his Schedule C-4. However, as

Mr. Schultz's Schedule C-4, page 1 of 2, line 6 shows, the change in expenses from 2009 to 2010 is 5.05%, not 5.5%.

Q. Is that the only problem with that reference?

A. No. Beyond the apparent confusion between the 5.5% in the testimony and the 5.05% on his Schedule C-4, the actual change in expenses from 2009 to 2010 is 10.31%.

For each year on his Schedule C-4, Mr. Schultz shows the percent change in expenses from year to year. The change from 2005 to 2006 he calculates as (5.30)%; the change he calculates from 2006 to 2007 is 3.64%; the change he calculates from 2007 to 2008 is 7.31%; the change he calculates from 2008 to 2009 is (4.77)%; and the change he calculates from 2009 to 2010 is 5.05%. However, the actual change from 2009 to 2010 is 10.31%, not 5.05%. It appears that the change Mr. Schultz is representing as the change from 2009 to 2010 is actually the change from 2008 to 2010.

Q. What affect does this simple error have on Mr. Schultz's Exhibit __(HWS-1), Schedule C-4?

A. Although this is a simple mistake, it is extremely important in this case as it is used as the basis for developing the "Citizen's Recommended Adjustment" on line 12 of the above referenced exhibit. If Mr. Schultz had not made the mistake and therefore had used the correct growth rate between 2009 and 2010 as his annual escalator for 2011 and 2012, his

O&M adjustment (with jurisdictional adjustment) would have been $2,709,236 rather than $11,291,492.

He states his method of developing his adjustment clearly at the top of page 35:

> First, I started with the five year average for the Production O&M expense. I escalated that by 5.5% for 2011, and then again by 5.5% for 2012. The 5.5% increase is the actual increase from 2010.

He intended to increase his five year average (which I should repeat, is not adjusted for inflation to get to 2012 dollars) by the 5.5% annual increase he thought existed between 2009 and 2010. If he had used the correct escalation of Production O&M expenses from 2009 to 2010 of 10.31% instead of the 5.05% he miscalculated and then misstated as 5.5%, then his resulting adjustment to Production O&M expenses would have been $2.7 million rather than $11.3 million. Although I do not believe that any adjustment to Production O&M expense is appropriate, I show this recalculation on Schedule 4 of my Exhibit RWG-2.

Q. Is that the last math error in Mr. Schultz's testimony and exhibits?

A. No. On page 35, line 4 through 6, of his testimony Mr. Schultz states, "...costs over the past five years have increased as well as decreased resulting in a simple average annual increase 1.18%." As shown on Schedule 1 of Exhibit No.___RWG-2, the "simple average" is 2.24%.

Q. What is your overall opinion of the method that Mr. Schultz has used to perform his analysis and ultimately his recommended adjustment?

A. Both his methodology and his recommended adjustment should be rejected. In addition to mathematical errors, there is a more serious flaw in his use of inconsistent time periods to calculate historical averages and his reliance on such averages without giving any consideration to the Commission's O&M Benchmark methodology (which recognizes the effects of inflation) or the detailed justification that the Company provided in support of expenses that are above the Benchmark.

Q. Do you agree with the methodology that Mr. Schultz used in calculating the recommended adjustment?

A. No, I do not. In my opinion, the Commission's Benchmark methodology provides for a much clearer and more accurate method of reflecting the effects of inflation on our business than Mr. Schultz's averaging approach. It considers inflation and then it requires the Company to justify any request beyond the calculated benchmark. The Commission's required O&M Benchmark analysis compares the O&M expenses approved in the last rate case (adjusted for inflation) to the O&M requested in the current rate case. Then the Company must provide written testimony and evidence to support any variance. I provided the detailed justification for the Benchmark variance in Gulf's Production O&M in 28 pages of direct testimony.

## II. Production Workforce

Q. In OPC witness Ramas' testimony, she discusses 159 additional full-time equivalent (FTE) employees Gulf forecasted to add between the end of 2010 and 2012. What part of the 159 employees is included in the Production function?

A. The 159 additional employees represent the difference between the actual December 31, 2010 full time equivalent (FTE) employees to the budgeted FTEs for 2012. The Production function accounts for 52 of those positions.

Q. What is your plan for restoring your Production workforce in 2011 and 2012?

A. In our direct testimony Gulf indicated that there would be 52 additional FTEs in the Production Budget from 2010 actual levels to the 2012 projected test year. Schedule 5 of Exhibit RWG-2 shows the status of those positions as of June 30, 2011, the current status as of October 21, 2011, and the projected status at the end of 2011. At June 30, we had filled 25 of the 52 positions; at October 21, we had filled an additional 7 or 32 of the 52 positions, and by December 31, we expect to have filled 42 of the 52 positions. That was based on the 2011 budget cycle for 2011 through 2015. In our current budget cycle (2012 through 2016), Gulf is projecting a net increase of 42 positions from year end 2010 or reduction of 10 positions from the 2011 budget cycle estimate. The reductions include one FTE at Plant Crist, four FTEs at Plant Smith and five FTEs at

Plant Scholz that I showed in my direct testimony that we expected to hire. In the 2012 budget cycle, the labor dollars for those 10 FTEs have been redirected to contract labor. The main driver for this decision relates to the pending environmental regulations and the affect that they may have on the operations at these plants.

## III. SUMMARY

Q. Please summarize your testimony.

A. Mr. Schultz stated that Gulf has not provided any evidence of the need for additional Production O&M. In doing so, he ignores a great deal of my direct testimony. Furthermore, by relying solely on historical averages with no consideration to using the Commission benchmark methodology as a means of allowing for the effect of inflation on costs, he proposes a totally inappropriate adjustment.

Gulf has provided three different justifications for its 2012 O&M expenses. First, we clearly discuss the process used to develop the budget and the rigorous levels of review and approval that must be met before any dollars are included in the budget. Mr. Schultz offers no specific critique of that process which he apparently rejects in performing his alternative analysis. Second, we recognized potential concerns relating to the increase from historical dollars to forecasted dollars so we provided the Commission with the drivers and sound explanations to support the increase. Mr. Schultz

agreed with some of that and summarily dismissed the rest. Third, we use the Commission-required O&M Benchmark methodology and provided detailed justification of dollars in excess of the Benchmark variance. Mr. Schultz ignored that analysis. Given the inaccuracies in his testimony, the adjustments proposed by Mr. Schultz should be disregarded and the Commission should allow all projected Production O&M expenses in this case.

Although it is not possible for me to know the portion of the workforce adjustment Ms. Ramas is allocating to the Production function, she is clearly arguing that some Production workforce be disallowed. My testimony both in direct and rebuttal justifies the dollars associated with the entire Production workforce in 2012. As a result, it is my opinion that any portion of the workforce disallowance proposed by Ms. Ramas relating to the Production function should be removed.

Q. Does this conclude your testimony?

A. Yes, it does.

AFFIDAVIT

STATE OF FLORIDA )
)
COUNTY OF ESCAMBIA )

Docket No. 110138-EI

Before me the undersigned authority, personally appeared Raymond W. Grove, who being first duly sworn, deposes, and says that he is the Manager of Power Generation Services for Gulf Power Company, a Florida corporation, and that the foregoing is true and correct to the best of his knowledge, information, and belief. He is personally known to me.

The signed original affidavit is attached to the original testimony on file with the FPSC.

s/_____
Raymond W. Grove
Manager of Power Generation Services

Sworn to and subscribed before me this _____ day of _____, 2011.

_____
Notary Public, State of Florida at Large

Commission No. _____

My Commission Expires _____

Florida Public Service Commission
Docket No. 110138-EI
GULF POWER COMPANY
Witness: R. W. Grove
Exhibit No. ____(RWG-2)
Schedule 1
Page 1 of 1

H.W. Schultz, III
Schedule C-4
Page 1 of 2

Gulf Power Company
Projected Test Year Ended December 31, 2012

Fossil Plant Maintenance

| Line No. | Year | Total Baseline | Total Outages | Total Production | Change | Reference |
|---|---|---|---|---|---|---|
| 1 | 2005 | 68,770,301 | 15,194,110 | 83,964,411 | | a |
| 2 | 2006 | 73,168,360 | 6,342,006 | 79,510,366 | -5.30% | a |
| 3 | 2007 | 72,142,973 | 10,259,720 | 82,402,693 | 3.64% | a |
| 4 | 2008 | 75,410,504 | 13,013,678 | 88,424,182 | 7.31% | a |
| 5 | 2009 | 70,025,588 | 14,183,063 | 84,208,651 | -4.77% | a |
| 6 | 2010 | 82,018,531 | 10,870,921 | 92,889,452 | 5.05% | a 10.31% |
| 7 | Five Year Average | 74,553,191 | 10,933,878 | 85,487,069 | 1.18% | a 2.24% |
| 8 | Escalated Costs | 82,979,566 | 12,169,679 | 95,149,245 | | Testimony |
| 9 | Labor Change | | | 4,063,000 | | Testimony |
| 10 | 2012 Recommended Per Citizen's | | | 99,212,245 | 6.81% | |
| 11 | 2012 Requested | 87,738,761 | 23,148,754 | 110,887,515 | 19.38% | |
| 12 | Citizens's Recommended Adjustment | | | (11,675,270) | | |
| 13 | Jurisdictional Adjustment @ .967129 | | | (11,291,492) | | a |

Florida Public Service Commission
Docket No. 110138-EI
GULF POWER COMPANY
Witness: R. W. Grove
Exhibit No.____ (RWG-2)
Schedule 2
Page 1 of 1

GULF POWER COMPANY
Projected Test Year Ended December 31, 2012
Fossil Plant Maintenance

H.W. Schultz, III
Schedule C-4
Page 2 of 2

| Line No. | Plant | Crist | Smith | Scholz | Daniel | Other | | |
|---|---|---|---|---|---|---|---|---|
| | Baseline | | | | | | | |
| 1 | 2001 | 23,551,291 | 7,561,969 | 2,595,235 | 8,148,603 | 13,417,769 | | |
| 2 | 2002 | 24,144,725 | 11,525,542 | 3,050,326 | 9,204,466 | 14,715,402 | | |
| 3 | 2003 | 22,784,365 | 12,588,430 | 3,616,039 | 9,575,253 | 14,548,888 | | |
| 4 | 2004 | 23,656,645 | 12,498,920 | 2,929,391 | 11,122,569 | 19,712,103 | | |
| 5 | 2005 | 21,267,936 | 13,571,849 | 3,217,589 | 10,466,580 | 20,246,347 | | |
| 6 | 2006 | 25,261,802 | 14,206,245 | 3,516,236 | 11,273,371 | 18,910,706 | | |
| 7 | 2007 | 24,196,234 | 13,681,678 | 3,606,743 | 11,243,715 | 19,414,602 | | |
| 8 | 2008 | 24,253,017 | 13,570,529 | 2,961,560 | 12,878,846 | 21,746,552 | | |
| 9 | 2009 | 22,363,773 | 13,354,309 | 2,694,996 | 11,734,281 | 19,878,229 | | |
| 10 | 2010 | 26,299,116 | 14,534,541 | 2,968,388 | 10,882,736 | 27,188,609 | | |
| 11 | Average | 23,777,890 | 12,709,401 | 3,115,650 | 10,653,042 | 18,977,921 | | |
| 12 | 2012 | 27,110,800 | 17,539,245 | 3,776,383 | 13,328,665 | 25,983,668 | | |
| Change from Average to 2012 | | 14.02% | 38.00% | 21.21% | 25.12% | 36.92% | | |
| Change from 2010 to 2012 | | 3.09% | 20.67% | 27.22% | 22.48% | -4.43% | | |
| | Outage | | | | | | Total Outage | |
| 13 | 2001 | 6,633,793 | 1,119,510 | 860,438 | 2,016,075 | - | 10,629,816 | |
| 14 | 2002 | 12,346,726 | 3,485,889 | 183,964 | 4,630,625 | 83 | 20,647,287 | |
| 15 | 2003 | 6,664,125 | 3,040,066 | 67,225 | 5,736,676 | (808) | 15,507,284 | |
| 16 | 2004 | 6,441,201 | 1,612,910 | 238,999 | 2,637,294 | - | 10,930,404 | |
| 17 | 2005 | 6,965,997 | 3,896,364 | 291,851 | 4,040,168 | - | 15,194,380 | 15,569,839 Average 2002 - 2005 |
| 18 | 2006 | 3,104,468 | 771,929 | 150,458 | 2,315,151 | - | 6,342,006 | |
| 19 | 2007 | 1,038,619 | 5,713,657 | 274,264 | 3,233,180 | - | 10,259,720 | |
| 20 | 2008 | 5,773,621 | 2,847,308 | 261,983 | 4,130,739 | 28 | 13,013,679 | |
| 21 | 2009 | 12,083,741 | 2,211,958 | 34,707 | (147,571) | 226 | 14,183,061 | |
| 22 | 2010 | 965,553 | 6,102,134 | 22,644 | 3,780,053 | 537 | 10,870,921 | 10,933,877 Average 2006 - 2010 |
| 23 | Average | 6,201,784 | 3,080,173 | 238,653 | 3,237,239 | 7 | | |
| 24 | 2012 | 13,406,983 | 3,555,479 | 39,110 | 6,147,182 | - | | |

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GULF POWER COMPANY
Plant Smith Unit 3 Expenses

| **Excluding ECRC** | | **Labor** | **Outage** | **Other** | **Material** | **Total** | |
|---|---|---|---|---|---|---|---|
| Actual | 2003 | 1,476,127 | 1,023,142 | 1,011,063 | 535,871 | 4,046,203 | |
| Actual | 2004 | 1,580,848 | 49,854 | 1,323,032 | 406,855 | 3,360,588 | |
| Actual | 2005 | 1,602,072 | 181,376 | 1,767,725 | 629,303 | 4,180,476 | |
| Actual | 2006 | 1,579,330 | 395,229 | 1,604,997 | 821,737 | 4,401,293 | |
| Actual | 2007 | 1,862,669 | 190,962 | 1,119,112 | 817,146 | 3,989,890 | |
| Actual | 2008 | 1,891,367 | 847,693 | 1,634,254 | 685,797 | 5,059,111 | |
| Actual | 2009 | 2,088,890 | 583,377 | 1,513,935 | 626,419 | 4,812,621 | |
| Actual | 2010 | 2,931,614 | 4,281,787 | 1,772,492 | 764,060 | 9,749,954 | 4,950,017 |
| Budget | 2011 | 1,842,645 | 1,037,383 | 2,235,945 | 1,615,300 | 6,731,273 | |
| Budget Forecast | 2012 | 1,859,176 | 1,132,840 | 2,187,978 | 942,700 | 6,122,694 | |
| Budget Forecast | 2013 | 1,923,388 | 1,891,204 | 2,728,385 | 1,856,524 | 8,399,501 | |
| Budget Forecast | 2014 | 1,950,707 | 1,137,835 | 2,847,063 | 1,524,300 | 7,459,905 | |
| Budget Forecast | 2015 | 2,000,851 | 1,640,013 | 2,522,207 | 1,504,800 | 7,667,871 | 7,276,249 |

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GULF POWER COMPANY
Projected Test Year Ended December 31, 2012
Fossil Plant Maintenance

H.W. Schultz,III
Schedule C-4
Page 1 of 2

| Line No. | Year | | Total Baseline | Total Outages | Total Production | Change | Reference | |
|---|---|---|---|---|---|---|---|---|
| 1 | 2005 | | 68,770,301 | 15,194,110 | 83,964,411 | | a | |
| 2 | 2006 | | 73,168,360 | 6,342,006 | 79,510,366 | -5.30% | a | Agreed -5.30% |
| 3 | 2007 | | 72,142,973 | 10,259,720 | 82,402,693 | 3.64% | a | Agreed 3.64% |
| 4 | 2008 | | 75,410,504 | 13,013,678 | 88,424,182 | 7.31% | a | Agreed 7.31% |
| 5 | 2009 | | 70,025,588 | 14,183,063 | 84,208,651 | -4.77% | a | Agreed -4.77% |
| 6 | 2010 | | 82,018,531 | 10,870,921 | 92,889,452 | 5.05% | a | Corrected 10.31% |
| 7 | Five Year Average | | 74,553,191 | 10,933,878 | 85,487,069 | 1.18% | a | Corrected 2.24% |
| 7A | | 2011 | 82,239,625 | 12,061,161 | 94,300,786 | (Line 7*1.1031) | | |
| 8 | | 2012 | 90,718,530 | 13,304,667 | 104,023,197 | (Line 7A*1.1031) | | |
| 9 | Escalated Costs | | 90,718,530 | 13,304,667 | 104,023,197 | | Testimony | |
| 10 | Labor Change | | | | 4,063,000 | | Testimony | |
| 11 | 2012 Recommended Per Citizen's | | | | 108,086,197 | 6.81% | | |
| 12 | 2012 Requested | | 87,738,761 | 23,148,754 | 110,887,515 | 19.38% | | |
| 13 | Citizens's Recommended Adjustment | | | | (2,801,318) | | | |
| | Jurisdictional Adjustment @ .967129 | | | | (2,709,236) | | a | |

## 2012 Production Workforce

| Location | Position | Budgeted 2012 | 30-Jun-2011 Status | 21-Oct-2011 Status | 31-Dec-11 Status |
|---|---|---|---|---|---|
| Power Generation Office | Renewable Energy Manager | 1 | 1 | 1 | 1 |
| **Plant Crist** | Welder Mechanic | 4 | 4 | 4 | 4 |
| | Welder Mechanic | 2 | 0 | 2 | 2 |
| | Operations Specialist | 1 | 0 | 1 | 1 |
| | Operators | -4 | -4 | -4 | -4 |
| | I&C Specialist | 3 | 2 | 3 | 3 |
| | Planner | 1 | 1 | 1 | 1 |
| | Engineers | 2 | 0 | 0 | 2 |
| | Maintenance Specialist | 2 | 2 | 2 | 2 |
| | Administrative Assistant | 1 | 1 | 1 | 1 |
| | Chemical & Results Technicians | 2 | 0 | 0 | 1 |
| | Team Leader - Fuel | 1 | 1 | 1 | 1 |
| | Utility Persons | 5 | 5 | 5 | 5 |
| **Total Plant Crist** | | **20** | **12** | **16** | **19** |
| Plant Smith | Operators | 2 | 0 | 1 | 2 |
| | Team Leader - Operations | 1 | 0 | 0 | 1 |
| | Utility Person | 8 | 1 | 3 | 8 |
| | Electrician | 3 | 1 | 1 | 1 |
| | Welder Mechanic | 3 | 2 | 2 | 2 |
| | I&C Specialist | 1 | 0 | 0 | 0 |
| | Engineers | 1 | 1 | 1 | 1 |
| | Planner | 1 | 1 | 1 | 1 |
| | C&R Technician | 1 | 1 | 1 | 1 |
| | Compliance Specialist | 1 | 1 | 1 | 1 |
| | Contract Support Specialist | 1 | 1 | 1 | 1 |
| **Total Plant Smith** | | **23** | **9** | **12** | **19** |
| Plant Scholz | Operations Specialist | 1 | 0 | 0 | 0 |
| | Operators | 1 | 0 | 0 | 0 |
| | Utility Person | 1 | 0 | 0 | 0 |
| | I&C Technician | 1 | 0 | 0 | 0 |
| | Welder Mechanic | 2 | 1 | 1 | 1 |
| | Maintenance Specialist | 1 | 1 | 1 | 1 |
| | Team Leader - Compliance | 1 | 1 | 1 | 1 |
| **Total Plant Scholz** | | **8** | **3** | **3** | **3** |
| **Positions Filled** | | | 25 | 32 | 42 |
| **Total Vacancies** | | **52** | **27** | **20** | **10** |

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Production By Baseline, Special Projects and Outage
Excludes Fuel, Purchased power, Wholesale Sales Expense, ECRC, and Plant Scherer

| | Actual 2001 | Actual 2002 | Actual 2003 | Actual 2004 | Actual 2005 | Actual 2006 | Actual 2007 | Actual 2008 | Actual 2009 | Actual 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Baseline | 23,545,186 | 23,642,934 | 22,784,365 | 23,656,645 | 21,267,936 | 25,261,802 | 24,196,234 | 24,253,017 | 22,363,773 | 26,299,116 |
| Special Projects | 6,105 | 501,791 | - | - | - | - | - | - | - | - |
| Outage | 6,633,793 | 12,346,726 | 6,664,125 | 6,441,201 | 6,965,997 | 3,104,468 | 1,038,619 | 5,773,621 | 12,083,741 | 965,553 |
| **Total Crist Plant** | 30,185,084 | 36,491,452 | 29,448,489 | 30,097,846 | 28,233,933 | 28,366,269 | 25,234,853 | 30,026,638 | 34,447,515 | 27,264,669 |
| Baseline | 7,250,461 | 10,801,613 | 12,515,579 | 12,312,434 | 12,641,250 | 13,961,590 | 13,668,004 | 13,563,038 | 13,354,309 | 14,534,541 |
| Special Projects | 311,508 | 723,929 | 72,851 | 186,486 | 930,599 | 244,655 | 13,674 | 7,491 | - | - |
| Outage | 1,119,510 | 3,485,889 | 3,040,066 | 1,612,910 | 3,896,364 | 771,929 | 5,713,657 | 2,847,308 | 2,211,958 | 6,102,134 |
| **Total Smith Plant** | 8,681,479 | 15,011,431 | 15,628,495 | 14,111,830 | 17,468,214 | 14,978,174 | 19,395,335 | 16,417,837 | 15,566,267 | 20,636,675 |
| Baseline | 2,582,470 | 2,614,428 | 3,008,145 | 2,954,212 | 3,217,589 | 3,516,236 | 3,606,743 | 2,961,560 | 2,694,996 | 2,968,388 |
| Special Projects | 12,765 | 435,898 | 607,894 | (24,821) | - | - | - | - | - | - |
| Outage | 860,438 | 183,964 | 67,225 | 238,999 | 291,581 | 150,458 | 274,264 | 261,983 | 34,707 | 22,644 |
| **Total Scholz** | 3,455,673 | 3,234,290 | 3,683,264 | 3,168,389 | 3,509,169 | 3,666,694 | 3,881,007 | 3,223,543 | 2,729,704 | 2,991,032 |
| Baseline | 8,148,603 | 9,204,466 | 9,575,253 | 11,122,569 | 10,466,580 | 11,273,371 | 11,243,715 | 12,878,846 | 11,734,281 | 10,872,947 |
| Special Projects | | | | | | | | | | 9,789 |
| Outage | 2,016,075 | 4,630,625 | 5,736,676 | 2,637,294 | 4,040,168 | 2,315,151 | 3,233,180 | 4,130,739 | (147,571) | 3,780,053 |
| **Total Daniel** | 10,164,678 | 13,835,091 | 15,311,929 | 13,759,863 | 14,506,748 | 13,588,522 | 14,476,895 | 17,009,585 | 11,586,710 | 14,662,790 |
| Baseline | 448,344 | 445,713 | 459,074 | 450,000 | 450,000 | 450,000 | 450,000 | 450,000 | 450,000 | 450,000 |
| Special Projects | - | - | - | - | - | - | - | - | - | - |
| Outage | - | - | - | - | - | - | - | - | - | - |
| **Total Co Gen** | 448,344 | 445,713 | 459,074 | 450,000 | 450,000 | 450,000 | 450,000 | 450,000 | 450,000 | 450,000 |
| Baseline | - | - | - | - | - | - | - | - | - | 145,140 |
| Special Projects | - | - | - | - | - | - | - | - | - | - |
| Outage | - | - | - | - | - | - | - | - | - | - |
| **Total Perdido Landfill** | - | - | - | - | - | - | - | - | - | 145,140 |
| Baseline | 12,969,425 | 14,269,689 | 14,089,814 | 19,227,465 | 19,669,562 | 18,404,065 | 18,920,454 | 21,236,884 | 19,367,093 | 26,652,368 |
| Special Projects | - | - | - | 34,638 | 126,785 | 56,641 | 44,148 | 59,668 | 61,136 | 86,241 |
| Outage | - | 83 | (808) | - | - | - | - | 28 | 226 | 537 |
| **Total Corporate** | 12,969,425 | 14,269,772 | 14,089,006 | 19,262,103 | 19,796,347 | 18,460,705 | 18,964,602 | 21,296,581 | 19,428,455 | 26,739,145 |
| Baseline | 54,944,489 | 60,978,844 | 62,432,230 | 69,723,325 | 67,712,916 | 72,867,064 | 72,085,151 | 75,343,345 | 69,964,452 | 81,922,501 |
| Special Projects | 330,378 | 1,661,618 | 680,745 | 196,302 | 1,057,385 | 301,296 | 57,822 | 67,159 | 61,136 | 96,030 |
| Outage | 10,629,816 | 20,647,287 | 15,507,283 | 10,930,403 | 15,194,110 | 6,342,006 | 10,259,720 | 13,013,678 | 14,183,063 | 10,870,921 |
| **Total Production** | **65,904,683** | **83,287,749** | **78,620,258** | **80,850,031** | **83,964,411** | **79,510,365** | **82,402,693** | **88,424,183** | **84,208,651** | **92,889,451** |
| Jurisdictional Separation Factor | | | | | | | | | | |
| MFR G-10, Page 2 of 6, Line 16 | 0.9653238 | 0.9653238 | 0.9653238 | 0.9653238 | 0.9653238 | 0.9653238 | 0.9653238 | 0.9653238 | 0.9653238 | 0.9653238 |
| **Retail Basis** | **63,619,359** | **80,399,647** | **75,894,006** | **78,046,459** | **81,052,845** | **76,753,248** | **79,545,280** | **85,357,968** | **81,288,615** | **89,668,398** |