BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 110138-EI

REBUTTAL TESTIMONY AND EXHIBIT

OF

STACY R. KILCOYNE

GULF POWER

A SOUTHERN COMPANY

GULF POWER COMPANY

Before the Florida Public Service Commission
Rebuttal Testimony and Exhibit of
Stacy R. Kilcoyne
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 Stacy R. Kilcoyne. My business address is 30 Ivan Allen Boulevard NW, Atlanta, GA 30308. I am the Vice President of Human Resources for Southern Company and Vice President of Gulf Power Company (Gulf or the Company).

Q. Please summarize your background and professional experience.

A. I have over 30 years of experience in Human Resources with Southern Company. I have served in various roles in Human Resources at Southern Company Services. My most recent position before assuming my current duties was the Director of Human Resources for Southern Company Generation. My responsibilities are to oversee all human resources activities for the Southern Company and its subsidiaries, including compensation and benefits, talent acquisition, HR operations, employee and leadership development, and diversity and inclusion.

Q. What is the purpose of your rebuttal testimony?

A. I, along with Gulf witnesses Wathen and Deason, rebut the portions of the testimony of Office of Public Counsel (OPC) witness Donna Ramas and Federal Executive Agency (FEA) witness Greg Meyer in which they propose adjustments of $16,937,512 to Gulf's projected test year Operations and Maintenance (O&M) and capital budgets for variable compensation, other employee benefits and the supplemental pension plan. Ms. Ramas proposes adjustments of $15,157,512 for variable compensation and other employee benefits. Mr. Meyer proposes adjustments of $1,780,000 for supplemental pension.

Ms. Ramas' and Mr. Meyer's adjustments reveal a fundamental misunderstanding of Gulf's approach to employee total compensation and the Company's need to retain its existing skilled workforce and attract qualified new employees. Their adjustments suggest a lack of knowledge regarding compensation design and how goals are established to benefit customers while balancing the needs of employees and shareholders. In addition, their adjustments seem indifferent to Gulf's dedicated and highly competent employees who work hard every day to provide reliable service, exceed the expectations of our customers and ensure the financial integrity of the company. The adjustments proposed by Ms. Ramas and Mr. Meyer, if adopted, would harm rather than benefit Gulf's customers and could increase compensation expenses over the long term.

Q. What exhibits are you sponsoring?

A. I am sponsoring:

Exhibit SRK-1	Schedule 1	Gulf Power – External Market Analysis
Exhibit SRK-1	Schedule 2	Analysis of Employee Impact with no Variable Compensation

Exhibit SRK-1 Schedule 3 Gulf Power Turnover Rates
Exhibit SRK-1 Schedule 4 2011 PPP Goals

I. SUMMARY OF MS. RAMAS' COMPENSATION ADJUSTMENTS

Q. Please summarize Ms. Ramas' compensation adjustments to Gulf's O&M and Capital in the test year.

A. Ms. Ramas has stated that all of Gulf's "at-risk" or variable pay programs and some Other Employee Benefits should be disallowed for rate making purposes. On Schedule C-4, page 1 of 2, Ms. Ramas identifies $13,883,805 in O&M expenses and capital expenditures in the 2012 test year that she believes should be disallowed. The total disallowance consists of every dollar of what she calls incentive compensation: the Company's Performance Pay Program, Stock Option Program, Performance Share Program and Performance Dividend Program. On page 39, lines 8 through 10, Ms. Ramas recommends a disallowance of $799,606 for estimated test year payroll taxes due to the disallowance of variable pay programs. Also on page 39, lines 21 through 24, Ms. Ramas recommends disallowing $474,101 for the following Other Employee Benefits: Interest on Deferred Compensation, SCS Early Retirement and Executive Financial Planning. Gulf witness McMillan addresses the adjustment for Executive Financial Planning in his testimony. Additionally, Ms. Ramas proposes disallowing any SCS charges that include "costs associated with the PPP, the various stock option plans and other incentive plans."

Q. Please place the magnitude of Ms. Ramas' variable compensation adjustment in perspective.

A. I will address the magnitude of Ms. Ramas' proposed compensation adjustments from three perspectives, each of which shows how unreasonable and extreme Ms. Ramas' adjustments are.

<u>Total Compensation in 2012</u>. Ms. Ramas advocates essentially a 13.7 percent reduction in total compensation paid to Gulf's work force in 2012. As shown on MFR C-35, page 1 of 2, Gulf projects total compensation in the 2012 test year to be $119,797,482. With Ms. Ramas' proposed compensation adjustments, total compensation in 2012 would decline to $103,333,012. This is a total drop in projected 2012 compensation of 13.7 percent.

<u>Total Compensation in 2010 compared to Ms. Ramas' 2012 compensation</u>. As shown in MFR C-35, Page 2 of 2, Gulf paid $107,897,170 of compensation to its employees in 2010. With Ms. Ramas' proposed compensation adjustments, total compensation in 2012 would decline to $103,333,012. Ms. Ramas proposes total compensation for Gulf in 2012 at a level of total compensation lower than 2010, when Gulf had an intentionally reduced work force!

Gross Average Salary, 2010 versus Ms Ramas' 2012. As shown on MFR-C35, Gulf paid a gross average salary (base compensation plus variable compensation) per employee of $80,042 in 2010. As shown on my Exhibit SRK-1, Schedule 2, under Ms. Ramas proposal, Gulf's gross average salary in 2012 would decline by over $11,000 per year! The impact would be even more significant for employees that have more pay at risk, since their total compensation is more dependent upon overall company performance.

Q. Do you agree with Ms. Ramas' recommendation to disallow all of Gulf's at-risk or variable pay programs?

A. No, I do not, for a number of reasons.

First, in making her recommendation, it appears Ms. Ramas did not consider whether Gulf's existing compensation plan is competitive and successful in retaining existing employees and attracting new employees. Gulf's compensation plan is competitive in the market as currently structured and has been successful in retaining employees.

Second, her recommendation to disallow every dollar of "at-risk" or variable compensation is based on her mistaken belief that Gulf's at-risk compensation is designed to benefit only shareholders. Gulf's compensation plan benefits customers as well as shareholders.

Third, Ms. Ramas does not appear to realize the adverse impact her compensation adjustments would have on Gulf's ability to succeed in retaining and attracting qualified employees. The adjustments made by Ms. Ramas, if accepted, would impede Gulf's ability to attract and retain the employees we need to meet our customers' needs.

Fourth, Ms. Ramas' adjustments imply that she may not understand the desirability of having performance based compensation and how such compensation motivates employees and aligns the interests of customers, employees and investors. It is in the customer's best interest to have some element of performance based compensation.

Fifth, Ms. Ramas did not address in her testimony the serious consequences of her recommended adjustments and the likely outcome they will have on Gulf's customers or Gulf's employees. Those consequences, which I will discuss in more detail below, will have long term negative impacts on Gulf's customers and employees.

Sixth, as Gulf witness Deason addresses, Ms. Ramas' disallowance of variable compensation is at odds with prior Commission policy, including the decision in Gulf's last rate case where the Company's compensation plan, which included a variable compensation element, was approved as discussed by Mr. Deason.

In contrast to Ms. Ramas' testimony, Gulf offers in rebuttal, my testimony, the testimony of an independent compensation expert who did not design Gulf's compensation plan and the testimony of a Commission policy expert that address the problems with Ms. Ramas' testimony.

Finally, I would be remiss in my role if I did not speak on behalf of the hard working employees that strive every day to put the customer first. The compensation Ms. Ramas' proposes to eliminate would reduce the pay of every Gulf employee in amounts that range from 6 percent up to as much as 64 percent.

II. MS. RAMAS' ERRONEOUS RATIONALES

Q. Does Ms. Ramas present any analysis showing the competitive position of Gulf's existing compensation plan?

A. No.

Q. Does Ms. Ramas present any analysis showing the competitive position of Gulf's compensation plan if her removal of at-risk compensation plan were adopted?

A. No.

Q. Is consideration of such information relevant in making an informed decision on whether at-risk compensation should be abandoned?

A. Absolutely. The Commission should have such analyses to be able to consider the impact of Ms. Ramas' adjustments. So, on rebuttal I have provided an analysis of the competitiveness of Gulf's compensation plan both with and without the variable compensation Ms. Ramas proposes to disallow. That analysis is shown on my Exhibit SRK-1, Schedule 1. My analysis compares Gulf's compensation, both base and variable, to the median of the market. It shows that all groups of Gulf employees are within a range of 7.5 percent below to 2.8 percent above the median of the market. Gulf's overall compensation is 3.2 percent below the median of the market.

In addition, Gulf has retained a well-regarded compensation firm to perform an independent compensation analysis of Gulf's plan, both before and after Ms. Ramas' adjustments. Gulf witness Wathen presents that analysis.

Q. If Ms. Ramas offers no analysis of the type appropriate for making decisions on compensation, what is the basis of her making her adjustment to abandon variable compensation?

A. It seems Ms. Ramas believes the goals of the variable compensation programs are too focused on Southern Company shareholders, as opposed to Gulf's customers. This opinion is outlined on pages 34 and 35 of her testimony. As she has not presented any analysis, it appears her recommendations were based on a subjective opinion rather than an objective market analysis.

Q. Please address the specific problems with Ms. Ramas' "justification."

A. She begins this passage with the following statement:

> 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.

This statement is not accurate. The three goals used to measure performance all benefit Gulf's ratepayers.

Let me start with the financial goals. Achievement of these goals is in the interests of Gulf's customers. As Gulf witness Teel testifies, Gulf's earning a fair rate of return on equity helps maintain the Company's financial integrity, which, in turn, helps Gulf access capital markets to raise, at lower cost, the funds needed to serve customers. So, meeting the requirements of our investors is also in the interests of our customers.

Ms. Ramas' next statement is accurate, but her conclusion is incomplete and inaccurate. She states:

> 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. [accurate] This places the participants' primary emphasis on increasing

> Southern Company's earnings [inaccurate]. 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 [incomplete, in that it fails to acknowledge that this also benefits customers by assuring financial integrity] and could [speculative] be detrimental to the level of service provided to customers.

Ms. Ramas is correct in identifying the trigger for the variable compensation program, that Southern Company earnings must exceed the prior year's dividends, but she draws the wrong conclusion. This trigger is used not to benefit shareholders, but to assure there are funds available to maintain customer operations. Variable compensation would not be paid in an extraordinary situation that would severely impact the company's cash flows. Being able to fund the operations of the business to serve customers, meet the expectations of investors and pay variable compensation would compete for the limited resources in this situation. This trigger gives management the discretion to meet the immediate needs of customers and investors before providing variable compensation to employees. That is one of the advantages of performance-based compensation – employees bear the risk of performing for the customer and the shareholders in order to earn variable compensation. Finally, Ms. Ramas suggests these payments "could be detrimental to the level of service provided to customers." This is unexplained, but as I have pointed out, customers benefit when the variable pay goals are met and the Company maintains its financial integrity.

Q. Ms. Ramas finishes this passage with the statement that, "the large emphasis on equity and earnings could shift away from operations in order to help the Company achieve its earnings targets. While one-third of the plan targets Gulf Power's operational goals, which could benefit customers, the operational goals are far outweighed by Southern Company's financial goals." Please address this conclusion.

A. The conclusion is not accurate. Ms. Ramas seems to be guessing when she suggests the current goals "could" shift focus away from operations. As I mentioned previously, there is no data to support that assertion. Also, she does acknowledge that "operational goals benefit customers." As I have noted, variable compensation aligns the interests of employees with our customers and investors. It does not pit shareholders against customers, as Ms. Ramas seems to suggest and would like the Commission to believe. However, what this conclusion really lacks is any observation about Gulf's employees and whether variable, at-risk compensation motivates them to serve the interests of customers.

Q. Ms. Ramas characterizes variable compensation as extra pay. Please comment on this.

A. Variable compensation is not "extra" pay. It is one component of an overall total compensation program, and at Gulf Power Company all employees have compensation at-risk. Ms. Ramas proposes to disallow all variable or "at-risk" compensation without replacing that compensation with any other form of compensation. Simply stated, that is a pay reduction for every hard working Gulf employee.

Q. Is there another passage in Ms. Ramas' testimony that you would like to address?

A. In her disallowance recommendation, Ms. Ramas makes an emotional appeal and then draws an incorrect conclusion. She says:

> 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.

Absent any objective market analysis, Ms. Ramas is left with only an emotional argument that fails to recognize that Gulf needs to be financially healthy to serve customers.

Ironically, Ms. Ramas discredits the portion of the plan that is most aligned with customers' interests, at-risk compensation, and offers the misleading idea that variable compensation serves shareholders more than customers. In the end, Gulf's variable compensation program is good for the customers, employees and shareholders of the Company.

Q. What does Ms. Ramas recommend regarding charges from SCS or other affiliates associated with variable compensation plans?
A. Ms. Ramas recommends disallowing "costs associated with the PPP, the various stock option plans and other incentive compensation plans."

Q. Do you agree with Ms. Ramas' recommendation?
A. I do not. SCS employees participate in the same Southern Company compensation programs as Gulf employees, and for the same reasons, being paid variable pay based on performance is just as appropriate for SCS employees as it is for Gulf employees.

III. EFFECTS OF MS. RAMAS' COMPENSATION ADJUSTMENTS

Q. What would be the effects of Ms. Ramas' compensation adjustments if they were adopted?
A. The impacts would be very negative from several different perspectives. If adopted by the Commission and implemented by Gulf, those adjustments would adversely affect (a) Gulf's employees, who were hired with the understanding that variable compensation would be part of their total compensation if earned and who have earned by it delivering the results, (b) Gulf's ability to retain and replace highly skilled employees, and (c) most importantly, Gulf's customers whose quality of service is highly dependent upon Gulf employees. To address those effects fully, it would

be helpful to first explain the composition of Gulf's workforce, the critical importance of Gulf's workforce in serving customers and Gulf's approach to employee total compensation, and the competitiveness of Gulf's compensation plan.

Q. Please explain the composition of Gulf's workforce.

A. Gulf Power has a very seasoned, experienced and capable workforce that has delivered high performance for customers as pointed out in the direct testimony of Gulf witnesses Jacob, Caldwell, Moore and Burroughs. These are the employees who have allowed Gulf to achieve unit EFOR rates that Mr. Burroughs reports are in the top decile in the country and which save customers fuel costs. These are the employees who, as Mr. Moore and Mr. Caldwell report, deliver excellent customer service in the transmission and distribution areas. These are the employees who, as Mr. Jacob reports, left their own storm-damaged homes to go out on storm duty and did a remarkable job of restoring the Gulf system in the wake of Hurricanes Ivan and Dennis. It is this work force that has achieved the consistently high levels of customer satisfaction, as covered by Gulf witnesses Jacob and Neyman, in their direct testimony.

Approximately 40 percent of Gulf's employees are governed by a Memorandum of Agreement with the International Brotherhood of Electrical Workers. That Memorandum Agreement addresses compensation, and under it Gulf has a contractual obligation to provide variable compensation, if earned. Another 45 percent of Gulf's work force is employed in positions that are not covered by a union agreement and which are not management positions.

Gulf has an aging workforce. The average age of the workforce is 45, with an average of 17 years of service. Over 38 percent of current employees are retirement-eligible, and Gulf faces the challenge of retaining these highly skilled employees or replacing them if they choose to retire. Gulf's workforce is highly skilled in successfully providing high quality service to customers at all times in all weather conditions. This skill comes, in part, from experience. They know Gulf's system, Gulf's generating units and Gulf's customers' expectations.

These highly skilled employees are primarily developed through experience and in-house training and apprenticeship programs. On average it takes five to seven years for a new hire to reach the skill and experience levels to be eligible to progress to journeyman classifications, such as Line Technician, Substation Electrician, Instrument & Control Technician or Plant Equipment Operator. To grow and maintain the skills of our employees, Gulf invests on average over 55,000 hours in training and developing our employees each year. That reflects an investment of approximately $1.7 million per year. This commitment illustrates the value we place on ensuring our employees have the skills required to safely perform the complex and dangerous work necessary to provide the reliability and service our customers expect and deserve. It also reflects a significant investment that Gulf has made in employees and illustrates another reason why Gulf should undertake to retain its employees in which it has invested.

Q. You said earlier that Gulf's workforce is critical to serving the customer. What do you mean by that, and why is it important?

A. As I mentioned earlier, the average years of service for a Gulf employee is 17 years, and the skills those employees have are absolutely critical to providing safe and reliable service to customers. For example, following Hurricane Ivan, Gulf restored electric service in 13 days to those customers that could take service. Mr. Jacob introduced a compilation of those heroic efforts in Exhibit PBJ-1 to his direct testimony. Also, as Mr. Moore testified, the Edison Electric Institute awarded Gulf the prestigious Emergency Recovery Award in 2004 and 2005 and the Emergency Assistance Award in 2004 and 2005 for its efforts during Hurricanes Ivan, Dennis, Frances, Katrina and Wilma. The day to day operations of an electric utility are dangerous and complex, and there are not many situations our employees have not encountered over the years. Because of the important role they play in serving our customers, we work hard to train our employees and retain their skills.

Q. Are Gulf's employees marketable to other utilities?

A. Yes. Gulf's work force is well-trained, highly skilled, experienced, dedicated and very capable. Perhaps their best attribute is that they are customer oriented. Employees with these attributes would be readily marketable. Moreover, there is an aging work force throughout the utility industry, so there are always other utilities looking for talent. Of course, Gulf's employees also know the requirements and expectations of the Southern System, and Gulf's operating company affiliates also have the need to attract and replace skilled employees. So, not only are Gulf's employees readily marketable, but also there is a market that would be interested in them.

Q. Given the importance of Gulf's employees to providing high quality service to Gulf's customers and their ready marketability to other utilities, what have been Gulf's employee retention rates under the existing compensation plan?

A. Gulf's retention rates under the existing compensation plan, which are shown in Exhibit SRK -1, Schedule 3, Turnover Analysis, show that Gulf's existing compensation plan, which includes the variable compensation elements that Ms. Ramas proposes to disallow, has been successful in retaining Gulf's highly skilled, capable and experienced employees. Ms. Ramas' proposed total compensation reduction will have a significant adverse impact on our ability to retain the experienced and skilled employees we currently have, and that proposed pay reduction would make it far more difficult to replace employees in the future.

Q. Given the importance of retaining and attracting highly skilled and experienced employees, please explain Gulf's approach to employee total compensation.

A. Gulf believes it is very important to ensure employees are focused on the things that are important to our customers and the people that invest in our company. We feel very strongly that it is important to focus on both, because Gulf cannot meet customer needs if Gulf does not operate a financially healthy company. Even OPC witness Woolridge articulates the need for Gulf to remain financially healthy to be able to serve its customers.

From a human resources perspective, the best way to achieve the alignment of customer, employee and shareholder interests is a total compensation program that has a base pay and variable pay component. A plan that only had a base pay component would increase fixed labor cost and would provide no opportunity to pay employees based on performance. This is the type of plan Ms. Ramas' adjustment would leave Gulf with if her adjustments were made and followed.

The better approach is a total compensation program that provides base pay and variable, or "at-risk", pay based on how well the Company performs in serving the customer. By serving the customer, I mean not only meeting operational goals, but also financial goals that maintain the economic integrity of Gulf, allow it access to financial markets to raise the capital necessary to serve customers and remind employees of their responsibility to act as good stewards in spending funds. Our employees understand if they do not meet performance expectations, their pay will be negatively impacted. Having performance based compensation helps the

Company ensure that employee performance aligns with the interests of customers and investors.

As both Mr. Wathen and I testify, having a compensation plan that has an element of variable or at-risk compensation is a very common practice in utilities and general industry. Also, it is important to note that this is the same program that the Commission reviewed and approved in Gulf's last base rate proceeding.

Q. What is Gulf Power's total compensation philosophy?

A. The Company's compensation philosophy targets total compensation at the median or 50th percentile of the market for comparable positions. Total compensation consists of base pay and variable or "at-risk" pay. This median philosophy means that 50 percent of companies pay more than Gulf Power and 50 percent pay less than Gulf. While the "at-risk" portion of total compensation is targeted at the 50th percentile, employees are provided an opportunity to receive higher pay if higher levels of performance are achieved. Likewise, if performance is poor, the pay will be less than the 50th percentile. The actual pay employees earn each year is based on performance. As a result, in a given year, actual pay may be more or less than the market based on individual and business performance.

Through the use of objective third-party compensation surveys, a market value is determined for jobs at Gulf Power, based on the relevant market.

The relevant market is determined by where Gulf Power competes for talent. For example, administrative and craft employees are recruited in the local market, professional jobs are generally recruited in the southeast and management jobs are recruited nationally. Each job is then assigned a grade and corresponding salary range. Southern Company regularly monitors and measures the total compensation of jobs to ensure Gulf's compensation is competitive and cost effective for the Company and customers.

Q. Please explain the "at-risk" or variable component of Gulf's total compensation approach and why it is important.

A. Variable pay is "at-risk" pay because the amount, if any, is only paid if certain company goals are reached, and it must be re-earned each year. The variable pay component consists of short-term and long-term pay that work together with base pay to provide market based total compensation. As I stated earlier, the Company believes variable pay goals should focus on customer expectations while ensuring the Company has the financial stability to meet those expectations.

All employees have the same goals, but the pay "at-risk" increases, as their level of responsibility in achieving performance goals increases. Each Gulf job is assigned a portion of their pay "at-risk" because it enhances employees' focus on the correct goals. The portion "at-risk" (target) is a percent of the employee's base salary based on the market value of their job. Targets rise from 5 percent to 60 percent, depending on how much influence the employee can exercise over Company strategy and decision-making. The more influence they have on the strategic direction of the Company, the more of their pay will be "at-risk". For example, executives and senior leaders have more influence on the Company's strategic direction, so they will have more pay at-risk than an employee who has less decision-making authority. One important feature of variable pay is that it does not add to the Company's fixed labor cost. If Company goals are not met, then variable pay is reduced accordingly.

Q. What are the short-term and long-term components of variable pay?

A. The short-term component is the Performance Pay Plan, in which all employees participate. The long-term components are Stock Options, and the Performance Dividend Program, which is being phased out and replaced by the new Performance Share Program. The long-term components are available to employees at exempt grade level 7 and higher (management). As with the short-term plans, payouts are tiered, based on employee level, to reflect the greater impact these employees have on day-to-day decision-making and long-term strategy.

Q. What types of goals have to be met to pay short-term at-risk compensation?

A. Three goals are used: Southern Company Earnings per Share, Gulf Power Return on Equity and Gulf Power Operational Goals. The goals used in 2011 are set forth in detail on Exhibit SRK-1, Schedule 4. (The 2012 goals have not been set.) In addition, for any variable compensation to be paid, Southern Company must first achieve earnings per share that equals the dividend paid in the prior year. Financial and operational goals are commonly used in variable compensation plans. The use of both types of goals benefit the customer by ensuring Gulf remains a strong Company with the availability of working capital at reasonable rates, to make the significant investments necessary in infrastructure and by ensuring customer needs are in focus on a day to day basis through operational goals.

Q. Now that you have placed Gulf's total compensation program in context, please address the impact on Gulf's work force if Ms. Ramas' adjustments are adopted?

A. It is very important to note that Ms. Ramas does not suggest any corresponding increase in base pay, only dropping variable compensation. The employees of Gulf are provided competitive total compensation based on objective third-party market surveys. If we are not allowed to pay our employees based on the market value of their jobs, it would be extremely difficult to motivate and retain top talent much less attract qualified new employees. The bottom line of this action is a significant across the board total compensation reduction that would be demoralizing to the hard working employees in Gulf Power and most certainly would result in lower morale and increased turnover. As I stated earlier, Gulf Power has a very experienced workforce and their skills would be readily marketable to other utilities, including sister companies and general industry. Our highly skilled workforce is critical to ensuring our customers receive the reliability and service they expect and it would be very disconcerting to lose them based on a decision that is not supported by market data.

Gulf Power employees are the Company's greatest asset and losing experienced workers will jeopardize our overall efficiency and effectiveness. In addition, Gulf's investment in employee training and development would certainly increase to offset the loss of experience. This increase in overall training time for new employees would also mean less overall employee time in the field.

Ultimately, if Gulf were to face increased employee turnover from the adoption of Ms. Ramas' adjustment, it would be Gulf's customers that would be most adversely affected. The loss of a highly skilled and experienced employee base and the demoralization of remaining employees would negatively affect the quality of service that Gulf's customers have come to expect from the Company. This is the contradiction of Ms. Ramas' adjustment – it is meant to serve customers' short-term economic interests, but its effect would be to negatively impact the service of the customers.

IV. DEFERRED COMPENSATION

Q. What is Deferred Compensation referred to by Ms. Ramas on page 40, line 18 of her testimony and who is eligible?

A. The Deferred Compensation Plan is an unfunded plan subject to applicable provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The plan allows participants an opportunity to defer their earned income as well as certain federal, state and local taxes until a specified date or their retirement. Employees who are in an exempt job, grade level 9 (upper management) or above, and have an annual base rate of pay of at least $100,000 are eligible to participate.

This plan provides mutual benefits for the participants, the customer and the Company. The plan provides participants with a vehicle for retirement and tax planning. The Company benefits by offering a competitive compensation and benefits package that attracts and helps retain talent.

Q. Why does Gulf pay interest on these deferred amounts?

A. The plan provides a market interest rate to compensate participants for the opportunity cost of deferring their income into the future.

Q. How is the interest rate determined for the deferred amounts?

A. The interest rate is established by the Plan Prospectus as "the Prime Rate as published in the *Wall Street Journal* as the base rate on corporate loans posted as of the last business day of each month by at least seventy-five percent (75%) of the United States' largest banks."

Q. Ms. Ramas recommends removing $362,309 for interest on Deferred Compensation. Do you agree with this recommendation?

A. No. Participants should receive interest for the compensation they are deferring, and the budgeted interest rate was derived from Moody's Analytics May 2010 Money Market Rates, Prime Rate, which was the most current information available to use at the time the 2012 budget was prepared.

V. SCS EARLY RETIREMENT

Q. What is the charge for SCS Early Retirement referenced by Ms. Ramas on page 41, line 4 of her direct testimony?

A. This expense is specifically associated with benefits provided to a closed group of former SCS employees who terminated early as part of early retirement initiatives, during the 1980's and 1990's, that were intended to lower overall SCS costs, including those attributable to Gulf's customers.

Q. How was the allocation for this charge determined?

A. The allocation to Gulf Power reflects the SCS billing allocation at the time the severances occurred.

Q. Do you agree with Ms. Ramas' recommendation to remove $50,340 for SCS Early Retirement from the Company's request?

A. No, this expense is not different from the expense for other SCS benefit programs, and so it should be included in the cost of service.

VI. SUPPLEMENTAL PENSION

Q. In his testimony, Mr. Meyer recommended that the supplemental pension expense of approximately $1,780,000 should be disallowed. Please describe the supplemental pension plan and explain why Gulf Power has the plan.

A. The Supplemental Benefits Plan and Supplemental Executive Retirement Plan were established to provide participants total retirement income benefits from company-sponsored sources, comparable to what other employees receive as a percent of base plus incentives. Contrary to what Mr. Meyer concludes, these plans do not "provide substantially greater benefits than the average employee." In fact, without these plans, some management employees would receive significantly less pension, as a percentage of their pay, than other employees.

Supplemental pension consists of two unfunded defined benefit pension programs that integrate with the tax-qualified pension - the Supplemental Benefit Plan (SBP) and the Supplemental Executive Retirement Plan (SERP). The benefit provisions of these plans largely mimic those of the company's tax-qualified pension:

a) SBP provides benefits, calculated under the formulas of the tax-qualified plan, which the tax-qualified pension cannot pay due to various legislated pay/benefit limits.

b) SERP provides for benefits that the tax-qualified pension and SBP would have provided if a portion of annual incentives were counted when computing benefits, using the formula that subtracts a fraction of Social Security from the benefits payable. This is necessary, because a more significant portion of total compensation for these individuals is made up of variable "at-risk" compensation and only base pay is included in that tax-qualified pension calculation.

Employees who are in an exempt job, grade level 9 (upper management) or above, and have an annual base rate of pay of at least $100,000 are eligible to participate.

Q. If Mr. Meyer's supplemental pension plan adjustment were adopted, what effect would it have on Gulf's employees?

A. Without the Supplemental Benefit Plan, employees in management would receive a proportionately smaller pension benefit, than non-management employees, simply because of IRS limitations on tax-qualified plans. The same thing is true for the SERP because the compensation program design adversely affects the pension benefits of management employees, absent the SERP.

The presumption that this expense should be borne by the shareholders is incorrect, since providing fair and equitable benefits to Gulf's employees, at all levels, benefits ratepayers by ensuring the retention of experienced management, who effectively and efficiently manage the Company.

VII. CONCLUSION

Q. Please summarize your testimony.

A. The total compensation program utilized by Gulf is common practice throughout utility and general industry and is in line with the market, as shown by both my and Mr. Wathen's analyses. Additionally, the compensation program was approved in Gulf's last rate case, and the plans have undergone only very minor changes since that time. The approach of using base and variable, or "at-risk", compensation ensures all employees are focused on the customer and have a strong stake in making sure customer service and reliability are paramount, while managing costs effectively.

If adopted by the Commission, the adjustments proposed by Ms. Ramas and Mr. Meyer would have a serious adverse impact on Gulf's compensation competitiveness, Gulf's ability to retain and attract employees, and ultimately on our customers.

The Company's approach to compensation and the use of variable compensation aligns the interests of the customers, the employees and the shareholders. The operational and financial goals work together to assure decision-making is done in a manner that balances our commitment to serving customers in the current year with providing investors with a fair rate of return, which ultimately ensures we have the capital necessary to serve customers in the future.

Deferred Compensation is a part of a well-designed compensation package. It allows some employees to defer compensation and achieve tax savings while allowing the Company the use of those funds at low cost, and the charge for SCS Early Retirement is simply a benefit cost and is rightly allocated to Gulf Power.

The supplemental benefit programs serve to provide all employees with equitable benefits. The plans do not provide benefits for management that are above and beyond what other employees receive, but instead provide a vehicle to deliver make-whole pension benefits to employees who are receiving proportionately less benefits due to IRS limitations on a large portion of their total compensation being paid as variable compensation.

Absent a very significant increase in base pay, which is not proposed by Ms. Ramas, every one of the dedicated employees of Gulf will take a significant pay cut, if her proposed adjustments to variable compensation are made. Total payroll will be reduced by more than 13 percent with individual employees seeing cuts from 6 to 64 percent.

Ms. Ramas and Mr. Meyer have failed to adequately justify their arguments for the recommended exclusions. The expenses at issue are reasonable, were approved by the Commission in Gulf's last rate case and should again be approved.

Q. Does this conclude your rebuttal testimony?
A. Yes.

AFFIDAVIT

STATE OF GEORGIA)
) Docket No. 110138-EI
COUNTY OF FULTON

Before me the undersigned authority, personally appeared Stacy R. Kilcoyne, who being first duly sworn, deposes, and says that she is the Human Resources Vice President of Southern Company Services, a Georgia corporation, and that the foregoing is true and correct to the best of her knowledge, information, and belief. She is personally known to me.

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

/s______________________________
Stacy R. Kilcoyne
Human Resources Vice President
Southern Company Services

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

____
Notary Public, State of Georgia at Large

Commission No. ______________________

My Commission Expires __________________

Gulf Power Company
External Market Analysis
As of September 2011

Job Type	Total # of Employees	Base Market Median (1)	Company Midpoints/ Max Step Rates(2)	Midpoint/ Max Step % to Market	Company Actual Salaries(3)	Salary % to Market	50th Market TCC(4)	Company Target TCC(5)	% to Market	50th Market TDC(6)	Company TDC(7)	% to Market
Nonexempt (8)												
Nonexempt, Noncovered jobs, e.g., Administrative Assistant, Customer Service Representative	239	$40,034	$41,499	3.7%	$39,791	-0.6%	$42,436	$43,770	3.1%	$42,436	$43,770	3.1%
Bargaining-unit Jobs, e.g. Electricians, Mechanics	571	$62,097	$57,270	-7.8%	$56,863	-8.4%	$64,580	$59,706	-7.5%	$64,580	$59,706	-7.5%
Exempt (8)												
Staff, e.g., Accountant, Engineers, etc. (Grades 1-6)	450	$79,074	$79,164	0.1%	$76,330	-3.5%	$87,956	$84,879	-3.5%	$87,956	$84,879	-3.5%
Management (Grades 7 & up)	119	$121,964	$119,365	-2.1%	$122,439	0.4%	$151,582	$159,105	5.0%	$169,076	$173,757	2.8%
Company Overall	1,379	$69,702	$67,490	-3.2%	$66,512	-4.6%	$76,732	$74,536	-2.9%	$78,451	$75,976	-3.2%

Assumptions:
(1) Market base salary data from Company's ePRISM data base using the median market data.
(2) Company base salary midpoint equals the 2011 midpoints for non-covered and 2011 max step rates for covered employees
(3) Employee data effective September 1, 2011, bargaining unit salaries include 2011 2.25% increase and base market data effective as of September 1, 2011
(4) Market TCC = Total Cash Compensation(maket median base + short-term median performance target)
(5) Target Company TCC = Total Cash Compensation (base + short-term performance target)
(6) Market TDC = Total Direct Compensation (maket median base + short-term median performance target + long-term median performance target)
(7) Target Company TDC = Total Direct Compensation (base + short-term performance target + long-term performance target)
(8) Incumbent weighted by number of employees in jobs matched in the Market Pricing System. (over 65% of employees are in a benchmark job.)
Market short-term and long-term performance pay targets from 2010 Towers Perrin U.S. CDB Energy Services Executive Database

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Gulf Power Company
External Market Analysis
As of September 2011
Company Market Postion without Company Variable Pay

Job Type	Total # of Employees	Base Market Median (1)	Company Midpoints/ Max Step Rates(2)	Midpoint/ Max Step % to Market	Company Actual Salaries(3)	Salary % to Market	50th Market TCC(4)	Company Target TCC(5)	% to Market	50th Market TDC(6)	Company TDC(7)	% to Market
Nonexempt (8)												
Nonexempt, Noncovered jobs, e.g., Administrative Assistant, Customer Service Representative	239	$40,034	$41,499	3.7%	$39,791	-0.6%	$42,436	$39,791	-6.2%	$42,436	$39,791	-6.2%
Bargaining-unit Jobs, e.g. Electricians, Mechanics	571	$62,097	$57,270	-7.8%	$56,863	-8.4%	$64,580	$56,863	-12.0%	$64,580	$56,863	-12.0%
Exempt (8)												
Staff, e.g., Accountant, Engineers, etc. (Grades 1-6)	450	$79,074	$79,164	0.1%	$76,330	-3.5%	$87,956	$76,330	-13.2%	$87,956	$76,330	-13.2%
Management (Grades 7 & up)	119	$121,964	$119,365	-2.1%	$122,439	0.4%	$151,582	$122,439	-19.2%	$169,076	$122,439	-27.6%
Company Overall	1,379	$69,702	$67,490	-3.2%	$66,512	-4.6%	$76,732	$66,512	-13.3%	$78,451	$66,512	-15.2%

Assumptions:

(1) Market base salary data from Company's ePRISM data base using the median market data.
(2) Company base salary midpoint equals the 2011 midpoints for non-covered and 2011 max step rates for covered employees
(3) Employee data effective September 1, 2011, bargaining unit salaries include 2011 2.25% increase and base market data effective as of September 1, 2011
(4) Market TCC = Total Cash Compensation(maket median base + short-term median performance target)
(5) Target Company TCC = Total Cash Compensation (base + short-term performance target)
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(8) Incumbent weighted by number of employees in jobs matched in the Market Pricing System (over 65% of employees are in a benchmark job.)
Market short-term and long-term performance pay targets from 2010 Towers Perrin U.S. CDB Energy Services Executive Database

Gulf Power Company
Analysis of Employee Impact
with no Variable Compensation

	2012	2011	2010	2009	2008
Total Company Basis					
Base Payroll	$ 103,333,012	$ 101,277,462	$ 93,519,898	$ 89,304,727	$ 86,975,637
Variable Payroll	$ 16,464,470	$ 15,888,181	$ 14,377,272	$ 8,710,388	$ 14,852,030
Total Payroll	$ 119,797,482	$ 117,165,643	$ 107,897,170	$ 98,015,115	$ 101,827,667
Average Employees	1489	1489	1348	1352	1340
Gross Average Salary w/ Variable Pay	$ 80,454.99	$ 78,687.47	$ 80,042.41	$ 72,496.39	$ 75,990.80
Gross Average Salary w/o Variable Pay	$ 69,397.59				
Net Average Salary Loss per Employee	$ 11,057.40				

Source: MFR Schedule C-35

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Gulf Power Company
Turnover Rates
2001 - 2011

Attrition Type	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*
INVOLUNTARY	1.82%	1.72%	1.65%	2.09%	1.04%	1.96%	1.59%	1.42%	0.44%	0.46%	0.44%
RETIREMENT	1.14%	0.89%	2.55%	1.64%	1.26%	3.01%	2.96%	1.65%	0.96%	2.51%	1.02%
VOLUNTARY	0.99%	0.75%	0.97%	1.05%	0.97%	1.73%	1.97%	1.12%	0.52%	0.84%	0.36%
TRANSFERS OUT	0.45%	1.12%	2.10%	0.60%	1.49%	1.81%	1.97%	2.17%	1.11%	2.21%	1.53%
Grand Total	**4.40%**	**4.47%**	**7.27%**	**5.38%**	**4.76%**	**8.52%**	**8.50%**	**6.36%**	**3.04%**	**6.01%**	**3.34%**
Grand Total w/o Transfers	**3.94%**	**3.36%**	**5.17%**	**4.78%**	**3.27%**	**6.71%**	**6.53%**	**4.19%**	**1.93%**	**3.81%**	**1.82%**

* AS OF 8/31/11

2011 Gulf Power PPP Goals

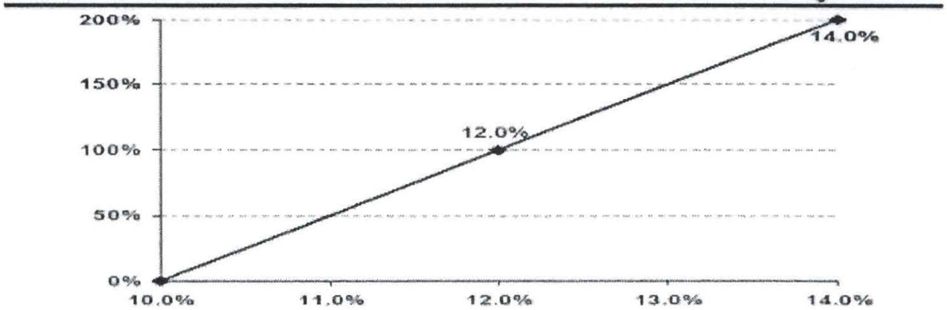
Applicable to all eligible Gulf employees

Operational
(1/3)

Safety *(20%)*	Operations *(60%)*	Culture *(20%)*
Target Zero OSHA Recordable Incidence Rate (20%)	Customer Satisfaction (30%) Generation (20%) Transmission (5%) *SAIDI & SAIFI (2.5% each)* Distribution (5%) *SAIDI & SAIFI (2.5% each)*	Work Environment (5%) Internal Survey (2.5%) Fortune Trust Index (1.25%) DiversityInc Index (1.25%) Workforce Representation (10%) Leadership (5%) Leadership Pipeline (2.5%) System Workforce (2.5%) Supplier Diversity (5%)

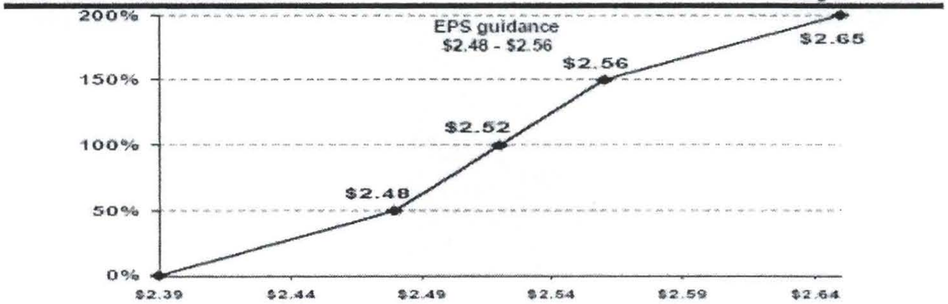
Gulf ROE
(1/3)

ROE Goal Performance Scale *Range: 0-200%*



Southern Company EPS
(1/3)

EPS Goal Performance Scale *Range: 0-200%*



2011 Gulf Power PPP Goals

Operational Goal Performance Scales *Range: 0-200%*

Safety *(20%)*

Target Zero[2]	
Scale	OSHA Recordable Incidence Rate
200%	0.80
100%	1.12
0%	1.30

Operations *(60%)*

Customer Satisfaction[2]	
Scale	Customer Value Benchmark Study
200%	Top Quartile Overall and each segment in the Top Quartile
167%	Top Quartile Overall and 2 segments in Top Quartile
133%	Top Quartile Overall and 1 segments in Top Quartile
100%	Top Quartile Overall
67%	2nd Quartile Overall and at least 2 segments in the Top Quartile
33%	2nd Quartile Overall and at least 1 segments in the Top Quartile
0%	2nd Quartile Overall

	Generation[2]	Transmission[2]		Distribution[2]	
Scale	Peak Season EFOR	SAIDI Duration/MVA	SAIFI Frequency/MVA	SAIDI Duration/Customer	SAIFI Frequency/Customer
200%	2.00%	5.5	0.141	116	1.10
150%	Interpolate	10.2	0.169	Interpolate	Interpolate
100%	4.80%	12.2	0.203	137	1.35
0%	9.00%	16.3	0.270	158	1.57

Culture *(20%)*

	Work Environment			Supplier Diversity	Representation		
Scale	Internal Employee Survey[2]	Fortune Trust Index[1]	DiversityInc Inclusion Index[1]*	% of Total Spend[2]	Leadership[2]	Leadership Pipeline[2]	System Workforce[1]
200%	85%	85%	Top 10% Overall	18.12%	Subjective assessment by the Southern Company CEO and Management Council		
100%	75%	75%	Top Quartile SE	15.10%			
0%	65%	65%	Median SE	10.50%			

[1] Measures Southern Company results

[2] Measures Gulf results

**See Culture Certification Letter for further details regarding the DiversityInc scale*

Financial Triggers

- EPS performance less than $2.27 (90% of Target) will result in a 10 percentage point (10% of Target) reduction to the Total Performance Factor.