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November 7, 2011

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COMMISSION  
CLERK

Ms. Ann Cole, Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee FL 32399-0850

RE: Docket No. 110138-EI

Dear Ms. Cole:

Enclosed for official filing on behalf of Gulf Power Company (Gulf) in the above referenced docket are an original and fifteen (15) copies of the Supplemental Direct Testimony and Exhibit of Richard J. McMillan

Sincerely,

*Susan D. Ritenour*

nm

Enclosures

cc: Beggs & Lane  
Jeffrey A. Stone, Esq.

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APA   1    
ECR         
GCL   1    
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NOV 8 2011

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FPSC-COMMISSION CLERK

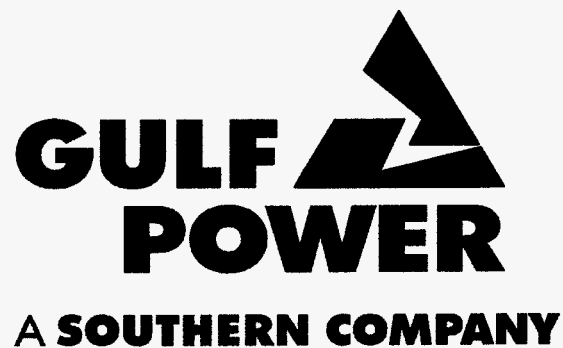
**BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION**

**DOCKET NO. 110138-EI**

**SUPPLEMENTAL DIRECT  
TESTIMONY AND EXHIBIT**

**OF**

**RICHARD J. MCMILLAN**



DOCUMENT NUMBER-DATE

08264 NOV-8 =

FPSC-COMMISSION CLERK

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission  
3 Supplemental Direct Testimony and Exhibit of  
4 Richard J. McMillan  
5 Docket No. 110138-EI  
6 In Support of Rate Relief  
7 Date of Filing: November 8, 2011

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

9 A. My name is Richard J. McMillan. My business address is One Energy  
10 Place, Pensacola, Florida 32520, and I am employed by Gulf Power  
11 Company (Gulf or the Company) as Corporate Planning Manager.

12 Q. Did you file direct and rebuttal testimony in this docket?

13 A. Yes.

14 Q. What is the purpose of your supplemental direct testimony?

15 A. The purpose of my supplemental direct testimony is to address the extent  
16 to which the investment and expenses associated with Gulf's Crist Unit 6  
17 and 7 turbine upgrade projects should be included in the rate base and net  
18 operating income (NOI) that are used to calculate Gulf's revenue  
19 requirements and base rates in this proceeding.

20 Q. Do you have any exhibits to this supplemental direct testimony?

21 A. Yes. I am sponsoring Exhibit RJM-3, consisting of two schedules. This  
22 exhibit was prepared under my direction and supervision and the  
23 information contained in these schedules is true and correct to the best of  
24 my knowledge and belief.  
25

DOCUMENT NUMBER-DATE  
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1 Q. Please briefly describe the turbine upgrade projects.

2 A. The turbine upgrades for Crist Units 6 and 7 are being installed as part of  
3 the Company's implementation of the Plant Crist Scrubber Project. The  
4 turbine upgrades are designed to offset the increased station service  
5 requirements (internally consumed electricity) associated with the  
6 scrubber installation and to increase the overall efficiency of the scrubbed  
7 units. The turbine upgrades include:

- 8 • Crist 7 High Pressure/Intermediate Pressure (HP/IP) upgrades  
9 completed in January 2010;
- 10 • Crist 6 HP/IP upgrades scheduled for completion in May 2012; and
- 11 • Crist 7 Lower Pressure (LP) upgrades scheduled for completion in  
12 December 2012.

13  
14 Q. Why are you filing supplemental direct testimony at this time?

15 A. At the time my direct testimony was filed in July 2011, the costs of the  
16 Crist 7 HP/IP upgrades were being recovered through the Environmental  
17 Cost Recovery Clause (ECRC) and Gulf was planning to begin seeking  
18 recovery of the other turbine upgrade costs through the 2012 ECRC  
19 factors. As a result, I made adjustments to the 2012 test year rate base  
20 and NOI to exclude the costs of the projects from our base rate request. I  
21 also noted that if any portion of these costs were not allowed for recovery  
22 through the ECRC, then Gulf should be allowed to recover those costs  
23 through base rates.

24

25

1           After my direct testimony was filed, a dispute arose in the ECRC docket as  
2           to the appropriateness of recovering the turbine upgrades through the  
3           ECRC. In order to resolve that dispute, Gulf and the other parties to the  
4           ECRC docket and this docket stipulated that recovery of these costs  
5           through the ECRC would be discontinued on a prospective basis and that  
6           prospective recovery should be provided through the base rates to be  
7           established in this docket. This stipulation, which was approved by the  
8           Commission on November 1, 2011, also established a timetable for  
9           supplemental testimony to be filed by the parties to this docket.

10

11   Q.    Please summarize Gulf's proposals for how the turbine upgrade costs  
12           should be handled in this base rate proceeding.

13   A.    Gulf has a primary proposal and an alternative proposal. Although they  
14           differ in their details, each proposal is designed to implement the following  
15           two principles in a manner that provides fair ratemaking treatment to Gulf's  
16           customers and to the Company:

- 17           • Ensure that the dollars collected from ratepayers during 2012 equal  
18           the amount that would be collected if the turbine upgrade projects  
19           were included in Gulf's 2012 rate base at their 13-month average  
20           test year balance, and related depreciation expenses were included  
21           at their projected amount for the 2012 test year.
- 22           • Ensure that Gulf is able to recover the full costs of these projects  
23           (both capital and expenses) beginning in 2013, after all three  
24           projects have been placed in service.

25

1 Q. Please describe Gulf's primary proposal.

2 A. Gulf's primary proposal is to include all three turbine upgrade projects in  
3 rate base and NOI as if they had been in service for the entire year. This  
4 would set base rates for 2012 and later years at a level that includes the  
5 full cost of the projects. This would result in Gulf recovering incrementally  
6 more revenues through base rates in 2012 than if the projects are  
7 included in rate base and NOI at their actual 2012 projected amounts. To  
8 keep customers whole, Gulf proposes to credit the customers for the full  
9 amount of these incremental revenues by reducing the ECRC cost  
10 recovery factors for 2012 by a like dollar amount, to take effect on the  
11 same date that rates take effect in this docket.

12

13 Q. What is Gulf's alternative proposal?

14 A. Gulf's alternative proposal is to set base rates for 2012 by including each  
15 of these projects in rate base at their 13-month average balance and  
16 including the actual 2012 projected level of expenses in the calculation of  
17 NOI. Gulf then proposes that the Commission, in this docket, approve a  
18 subsequent year adjustment to Gulf's base rates beginning January 1,  
19 2013, to reflect the full annual cost of these projects, which by then will be  
20 used and useful in providing electric service to Gulf's customers.

21

22 Q. Referring to Schedule 1 of Exhibit RJM-3, please discuss the rate impact  
23 of these alternative proposals.

24

25

1 A. Column (1) on page 1 shows the 2012 revenue requirement impact if the  
2 projects are included in rate base and NOI at their actual 13-month  
3 average balance for 2012. This amount is \$3,768,000.  
4

5 Column (2) on page 1 calculates the annual revenue requirement impact  
6 of the projects for an entire year. This amount is \$8,104,000. As shown in  
7 column (3), this is a difference of \$4,336,000 compared to using the test  
8 year average amounts.  
9

10 Under Gulf's primary proposal, the base rates established in this case  
11 would include the \$8,104,000 revenue requirement. Because these rates  
12 will be in effect for 81% of the year (March 12 to December 31), Gulf  
13 would collect \$3,512,000 more from customers in base rates than if the  
14 revenue requirement was based on the test year average amounts. This  
15 excess is the amount that Gulf proposes to credit back to customers  
16 during 2012 by adjusting the ECRC factor downward effective on the  
17 same date as the new base rates.  
18

19 Under Gulf's alternative proposal, the rates established in this case for  
20 2012 would include only the \$3,768,000 revenue requirement, but the  
21 Commission would approve a subsequent year adjustment, to take effect  
22 January 1, 2013, to increase base rates by an additional \$4,336,000 to  
23 cover the full annualized cost of the projects.  
24  
25

1 Q. Is the impact to customers and Gulf of these two alternative proposals the  
2 same?

3 A. Yes. In each case they result in customers paying total rates (base rates  
4 plus clauses) in 2012 as if the turbine upgrade projects had been included  
5 in rate base at their 13-month average balance, and expenses included in  
6 NOI at their actual 2012 amounts. In each case, they result in Gulf  
7 receiving total rates beginning in 2013 that appropriately reflect the full  
8 cost of those projects.

9

10 Q. If the effect on Gulf and its customers is the same, why does Gulf prefer  
11 its primary proposal to its alternative?

12 A. Gulf prefers the primary proposal because it provides additional base rate  
13 stability by avoiding a first base rate increase at the conclusion of this  
14 proceeding and a second base rate increase in January 2013. Gulf's  
15 customers are accustomed to infrequent changes in base rates, while they  
16 are accustomed to more frequent changes in the clause factors.

17

18 Q. Why shouldn't the Commission consider simply including actual 2012  
19 expenses in NOI and an actual 13-month average balance in rate base,  
20 and making no further allowance for the fact that the projects will be  
21 completed in 2012?

22 A. Unless it makes some provision to include the full cost of these projects in  
23 rates in 2013 and beyond, the Commission would fail to recognize that  
24 Gulf will have incurred the full costs of, and customers will be receiving the  
25 full benefits from, all three of these projects by 2013. These projects will



1 provide significant fuel and capacity cost savings to our customers  
2 beginning on their respective in-service dates. Customers are already  
3 receiving the fuel clause and capacity clause savings from the Crist 7  
4 HP/IP upgrades that were completed in January 2010. By 2013,  
5 customers will be receiving the full savings from all three of the projects.  
6 As shown on Schedule 2 of Exhibit RJM-3, the estimated savings in every  
7 year exceed the annual revenue requirement of these projects. It is only  
8 fair that, beginning in 2013, Gulf should be allowed to recover the full cost  
9 of these investments from which customers will be receiving the full  
10 benefits.

11  
12 Q. What if the Commission rejects Gulf's primary and alternative proposals,  
13 and sets rates based on the 13-month average balance of these projects  
14 in 2012?

15 A. In order to recover its cost of providing service, Gulf would be forced to  
16 consider filing a separate limited proceeding during 2012 to request that  
17 these costs be included in rates beginning in January 2013. Such an  
18 additional proceeding would not be an efficient use of the time and  
19 resources of Gulf, the Commission, and the intervenors, when the issues  
20 can be fully dealt with in this docket. Further, customers should not be  
21 asked to bear the costs of such an unnecessary, additional proceeding.

22  
23 Q. Mr. McMillan, does this conclude your supplemental direct testimony?

24 A. Yes.

25

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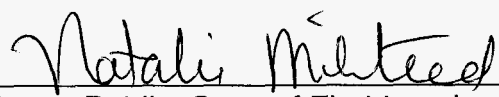
STATE OF FLORIDA     )  
                                  )  
COUNTY OF ESCAMBIA )

Docket No. 110138-EI

Before me the undersigned authority, personally appeared Richard J. McMillan, who being first duly sworn, deposes, and says that he is the Corporate Planning Manager of 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.

  
Richard J. McMillan  
Corporate Planning Manager

Sworn to and subscribed before me this 7<sup>th</sup> day of November, 2011.

  
Notary Public, State of Florida at Large  
Commission No. EE091117  
My Commission Expires May 8, 2015



**Gulf Power Company**  
**Crist Turbine Upgrades - Full Year Revenue Requirement With ECRC Credit**  
**For the Test Year Ended 12/31/2012**  
(Thousands of Dollars)

	(1) <u>2012 Projections <sup>(1)</sup></u>	(2) <u>Annual Cost <sup>(2)</sup></u>	(3) <u>Difference</u>
13MA Jurisdictional Rate Base (page 2)	28,020	58,747	
Times: Jurisdictional Rate of Return	<u>7.05%</u>	<u>7.05%</u>	
Jurisdictional Carrying Costs	1,975	4,142	
Plus: Jurisdictional Adjusted Net Operating Income (page 3)	<u>330</u>	<u>816</u>	
Total	2,305	4,958	
Times: Net Operating Income Multiplier	<u>1.634607</u>	<u>1.634607</u>	
Revenue Requirement Impact	3,768	8,104	4,336
2012 Period New Rates Collected <sup>(3)</sup>			<u>81%</u>
2012 ECRC Credit <sup>(4)</sup>			<u>3,512</u>

<sup>(1)</sup> Based on updated 2012 ECRC filing data

<sup>(2)</sup> Based on first full year all three turbine upgrade projects are in service (2013 projections)

<sup>(3)</sup> Estimated number of days new rates will be effective in 2012 (assumes effective date 3/12/12)

<sup>(4)</sup> ECRC credit to be revised based on final approved rate of return

**Gulf Power Company**  
**Crist Turbine Upgrades - Jurisdictional Rate Base**  
**For the Test Year Ended 12/31/2012**  
(Thousands of Dollars)

	<u>2012 Projections <sup>(1)</sup></u>	<u>Annual Cost <sup>(2)</sup></u>
13MA Gross Plant	\$ 30,424	\$ 63,913
Times: Jurisdictional Factor	<u>0.9662124</u>	<u>0.9662124</u>
Jurisdictional 13MA Gross Plant	29,396	61,753
13MA Accumulated Depreciation	1,424	3,111
Times: Jurisdictional Factor	<u>0.9662118</u>	<u>0.9662118</u>
Jurisdictional 13MA Accumulated Depreciation	1,376	3,006
Jurisdictional Rate Base Impact	<u>\$ 28,020</u>	<u>\$ 58,747</u>

<sup>(1)</sup> Based on updated 2012 ECRC filing data

<sup>(2)</sup> Based on first full year all three turbine upgrade projections are in service (2013 projections)

**Gulf Power Company**  
**Crist Turbine Upgrades - Jurisdictional Net Operating Income**  
**For the Test Year Ended 12/31/2012**  
(Thousands of Dollars)

	<u>2012 Projections <sup>(1)</sup></u>	<u>Annual Cost <sup>(2)</sup></u>
Projected Depreciation Expense	\$ 967	\$ 2,237
Income Tax Impact of Depreciation Expense	<u>(373)</u>	<u>(863)</u>
Subtotal	594	1,374
Times: Jurisdictional Factor	<u>0.9662214</u>	<u>0.9662214</u>
	574	1,328
Jurisdictional Interest Synchronization (page 4)	<u>\$ (244)</u>	<u>\$ (512)</u>
Jurisdictional Adjusted Net Operating Income	<u><u>\$ 330</u></u>	<u><u>\$ 816</u></u>

<sup>(1)</sup> Based on updated 2012 ECRC filing data

<sup>(2)</sup> Based on first full year all three turbine upgrade projections are in service (2013 projections)

**Gulf Power Company**  
**Crist Turbine Upgrades - Jurisdictional Interest Synchronization**  
**For the Test Year Ended 12/31/2012**  
(Thousands of Dollars)

**2012 Projections <sup>(1)</sup>**

<u>Financing Source</u>	<u>Jurisdictional Rate</u>		<u>Cost Rate (%)</u>	<u>Expense</u>
	<u>Base</u>	<u>Ratio (%)</u>		
Long-Term Debt	28,020	39.29	5.48	603
Short-Term Debt	28,020	1.07	2.12	6
Customer Deposits	28,020	1.27	6.00	21
ITC-Debt Component	28,020	0.08	5.48	1
Total Jurisdictional Synchronized Interest				<u>631</u>
Federal Income Tax at 33.075%				209
State Income Tax at 5.5%				35
Total Jurisdictional Income Tax				<u>244</u>

**Annual Cost <sup>(2)</sup>**

<u>Financing Source</u>	<u>Jurisdictional Rate</u>		<u>Cost Rate (%)</u>	<u>Expense</u>
	<u>Base</u>	<u>Ratio (%)</u>		
Long-Term Debt	58,747	39.29	5.48	1,265
Short-Term Debt	58,747	1.07	2.12	13
Customer Deposits	58,747	1.27	6.00	45
ITC-Debt Component	58,747	0.08	5.48	3
Total Jurisdictional Synchronized Interest				<u>1,326</u>
Federal Income Tax at 33.075%				439
State Income Tax at 5.5%				73
Total Jurisdictional Income Tax				<u>512</u>

<sup>(1)</sup> Based on updated 2012 ECRC filing data

<sup>(2)</sup> Based on first full year all three turbine upgrade projections are in service (2013 projections)

**Gulf Power Company  
Crist Turbine Upgrades**

**Actual Fuel Burn and Cost**

Year	Unit	Generation (KWH)	Heat Rate Improvement (BTU)	Fuel Savings (MMBTU)	Fuel Cost (\$/MMBTU)	Annual Fuel Savings	Annual Capacity Value	Total Savings	ECRC Revenue Requirements
2010	Crist 7	2,982,539,000	227	677,036	\$ 5.3933	\$ 3,651,460			
						\$ 3,651,460	\$ 498,378	\$ 4,149,838	\$ 1,943,150
2011									
YTD	Crist 7	2,013,653,000	227	457,099	\$ 5.0480	\$ 2,307,437			
Est. Oct, Nov & Dec		776,947,900	227	176,367	\$ 4.5213	\$ 797,409			
						\$ 3,104,846	\$ 498,378	\$ 3,603,224	\$ 2,000,353

**2011 Official Energy Budget Fuel Burn and Cost (Forecasted Total Year)**

Year	Unit	Generation (KWH)	Heat Rate Improvement (BTU)	Fuel Savings (MMBTU)	Fuel Cost (\$/MMBTU)	Annual Fuel Savings	Annual Capacity Value	Total Savings	Total System Revenue Requirements
2012	Crist 6	889,503,900	281	249,951	\$ 3.9398	\$ 984,751			
	Crist 7	2,512,418,000	227	570,319	\$ 4.0576	\$ 2,314,124			
						\$ 3,298,875	\$ 797,405	\$ 4,096,280	\$ 3,887,518
2013	Crist 6	1,372,193,000	281	385,586	\$ 3.7783	\$ 1,456,871			
	Crist 7	3,508,586,000	445	1,561,321	\$ 3.7780	\$ 5,898,625			
						\$ 7,355,496	\$ 1,495,134	\$ 8,850,630	\$ 8,359,679
2014	Crist 6	1,839,707,000	281	516,958	\$ 3.5889	\$ 1,855,313			
	Crist 7	3,523,748,000	445	1,568,068	\$ 3.5892	\$ 5,628,062			
						\$ 7,483,375	\$ 1,495,134	\$ 8,978,509	\$ 8,134,417
2015	Crist 6	1,776,163,000	281	499,102	\$ 3.4326	\$ 1,713,201			
	Crist 7	3,517,315,000	445	1,565,205	\$ 3.4332	\$ 5,373,686			
						\$ 7,086,887	\$ 1,495,134	\$ 8,582,021	\$ 7,909,155
2016	Crist 6	1,780,228,000	281	500,244	\$ 3.4781	\$ 1,739,887			
	Crist 7	3,777,154,000	445	1,680,834	\$ 3.4782	\$ 5,846,288			
						\$ 7,586,175	\$ 1,495,134	\$ 9,081,309	\$ 7,683,893
2017	Crist 6	1,875,819,000	281	527,105	\$ 3.5438	\$ 1,867,938			
	Crist 7	3,504,141,000	445	1,559,343	\$ 3.5456	\$ 5,528,823			
						\$ 7,396,761	\$ 1,495,134	\$ 8,891,895	\$ 7,458,630
2018	Crist 6	1,743,326,000	281	489,875	\$ 3.6130	\$ 1,769,936			
	Crist 7	3,514,456,000	445	1,563,933	\$ 3.6097	\$ 5,645,362			
						\$ 7,415,298	\$ 1,495,134	\$ 8,910,432	\$ 7,233,368
2019	Crist 6	1,837,507,000	281	516,339	\$ 3.6784	\$ 1,899,327			
	Crist 7	3,816,346,000	445	1,698,274	\$ 3.6785	\$ 6,247,074			
						\$ 8,146,401	\$ 1,495,134	\$ 9,641,535	\$ 7,008,106
2020	Crist 6	1,689,860,000	281	474,851	\$ 3.7440	\$ 1,777,834			
	Crist 7	3,588,415,000	445	1,596,845	\$ 3.7464	\$ 5,982,414			
						\$ 7,760,248	\$ 1,495,134	\$ 9,255,382	\$ 6,782,844
2021	Crist 6	2,040,188,000	281	573,293	\$ 3.8130	\$ 2,185,966			
	Crist 7	3,529,384,000	445	1,570,576	\$ 3.8130	\$ 5,988,606			
						\$ 8,174,572	\$ 1,495,134	\$ 9,669,706	\$ 6,557,581
<b>TOTAL SAVINGS OVER THE PERIOD 2010 - 2021</b>						<b>\$78,460,394</b>	<b>\$ 15,250,367</b>	<b>\$ 93,710,761</b>	<b>\$ 74,958,694</b>

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Petition for Increase in Rates )  
by Gulf Power Company )  
 )  
 )  
\_\_\_\_\_ )

Docket No. 110138-EI

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing was furnished by overnight delivery the 7<sup>th</sup> day of November, 2011, on the following:

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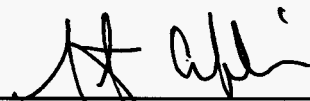
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