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Subject:	Docket No. 110138-EI
Signed By:	There are problems with the signature. Click the signature button for details.
Attachments:	11-14-11 FEA Prehearing statement PDF.pdf

11-14-11 FEA
ehearing staterr

In accordance with the electronic filing procedures of the Florida Public Service Commission, the following filing is made:

a. The name, address, telephone number and email for the person responsible for this electronic filing:

CHRISTOPHER C. THOMPSON, Maj, USAF
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b. Docket 110138-EI

In re: Petition for increase in rates by Gulf Power Company

c. Document being filed on behalf of FEA

d. The total pages in the document are 21 pages.

e. The document attached is FEA's Prehearing Statement.

s/chris thompson

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for increase in rates by Gulf Power Company.	DOCKET NO.: 110138-EI FILED: November 14, 2011

THE FEDERAL EXECUTIVE AGENCIES

PREHEARING STATEMENT

The Federal Executive Agencies ("FEA") pursuant to Order No. PSC-11-0307-PCO-EI, files its Prehearing Statement.

A. **APPEARANCES:**

Ms. Karen White
Major Christopher C. Thompson
USAF Utility Law Field Support Center
139 Barnes Drive, Suite 1
Tyndall AFB FL 32403-5319

Attorneys for the Federal Executive Agencies

B. **WITNESSES:**

Witness	Subject Matter	Issue #
Michael P. Gorman	Rate of Return, Capital Structure and Rate Base	22, 32, 34, 35, 36, 37, 38, 95, 97, 103
Greg R. Meyer	Revenue Requirement	1, 3, 20, 24, 25, 27, 28, 30, 31, 42, 70, 72, 73, 74, 75, 76, 78, 90, 92, 95, 96, 97, 99
David L. Stowe	Cost of Service	106, 107, 108

All witnesses listed by other parties in this proceeding.

C. **EXHIBITS**:

Exhibit	Witness	Description
MPG-1	Michael P. Gorman	Rate of Return
MPG-2	Michael P. Gorman	Proxy Group
MPG-3	Michael P. Gorman	Consensus Analysts' Growth Rates
MPG-4	Michael P. Gorman	Consensus Analysts' Growth Rates Constant Growth DCF
MPG-5	Michael P. Gorman	Electricity Sales Are Linked to U.S. Economic Growth
MPG-6	Michael P. Gorman	Payout Ratios
MPG-7	Michael P. Gorman	Sustainable Growth Rates
MPG-8	Michael P. Gorman	Sustainable Growth Rates Constant Growth DCF Model
MPG-9	Michael P. Gorman	Multi-Stage Growth DCF Model
MPG-10	Michael P. Gorman	Common Stock Market/Book Ratio
MPG-11	Michael P. Gorman	Equity Risk Premium – Treasury Bond
MPG-12	Michael P. Gorman	Equity Risk Premium – Utility Bond
MPG-13	Michael P. Gorman	Bond Yield Spreads
MPG-14	Michael P. Gorman	Treasury and Utility Bond Yields
MPG-15	Michael P. Gorman	Value Line Beta
MPG-16	Michael P. Gorman	CAPM Return
MPG-17	Michael P. Gorman	Standard & Poor's Credit Metrics
MPG-18	Michael P. Gorman	Dr. Vander Weide Revised DCF

All exhibits listed by other parties in this proceeding.

D. STATEMENT OF BASIC POSITION:

On July 8, 2011, Gulf Power Company ("Gulf") filed a petition with the commission to increase its electric rates by $93.5 million. Based on the FEA's review, this requested increase is excessive.

The FEA encourages the Commission to carefully review each aspect of Gulf's operations. The FEA has proposed adjustments to Gulf's ROE, employee levels, deferred tax balance, rate case expense recovery, storm accrual, revenues, meter replacements, pension expense, and property held for future use.

The FEA recommends that Gulf's requested increase be reduced by at least $35.8 million. One of the largest increases in Gulf's request is the request for an 11.7% return on equity ("ROE"). An ROE of this magnitude would be one of the highest ROEs authorized by an electric utility in the United States. Over the last year, an 11.7% ROE significantly exceeded Gulf Power's cost of equity and should be rejected.

The FEA supports Gulf's cost of service study methodology and proposed rate spread.

E. STATEMENT OF ISSUES AND POSITIONS:

Legal

Issue 1: Does Section 366.93, Florida Statutes, support Gulf's proposal to include the 4,000 acre Escambia Site and the costs of associated evaluations in Plant Held for Future Use as nuclear site selection costs?

FEA: No. Gulf has not demonstrated a determination of need as required under Section 366.93.

Test Period and Forecasting

Issue 2: Is Gulf's projected test period of the 12 months ending December 31, 2012 appropriate?

FEA: No position at this time.

Issue 3: Are Gulf's forecasts of Customers, KWH, and KW by Rate Class and Revenue Class, for the 2012 projected test year appropriate?

FEA: No. Gulf has understated the revenues associated with Sales for Resale.

Issue 4: Are Gulf's estimated revenues from sales of electricity by rate class at present rates for the projected 2012 test year appropriate?

FEA: No position at this time.

Issue 5: What are the appropriate inflation, customer growth, and other trend factors for use in forecasting the test year budget?

FEA: No position at this time.

Issue 6: Is Gulf's proposed separation of costs and revenues between the wholesale and retail jurisdictions appropriate?

FEA: No position at this time.

Quality of Service

Issue 7: Is the quality and reliability of electric service provided by Gulf adequate?

FEA: No position at this time.

Rate Base

Issue 8: Should the capitalized items currently approved for recovery through the Environmental Cost Recovery Clause be included in rate base for Gulf?

FEA: No position at this time.

Issue 9: Should the Plant Crist Units 6 and 7 Turbine Upgrade Project be included in rate base and recovered through base rates, rather than through the Environmental Cost Recovery Clause? If so, what is the appropriate amount, if any, be included in rate base and recovered through base rates?

FEA: No position at this time.

Issue 10: Has Gulf made the appropriate adjustments to remove all non-utility activities from plant in service, accumulated depreciation and working capital?

FEA: No position at this time.

Issue 11: Should the capital cost of the Perdido renewable landfill gas facility 1 and 2 be permitted in Gulf's rate base?

FEA: No position at this time.

Issue 12: How much, if any, of Gulf's Incentive Compensation expenses should be included as a capitalized item in rate base?

FEA: No position at this time.

Issue 13: Should Smart Grid Investment Grant Program Projects be included in Plant in Service?

FEA: No position at this time.

Issue 14: What amount of Transmission Infrastructure Replacement Projects should be included in Transmission Plant in Service?

FEA: No position at this time.

Issue 15: What amount of Distribution Plant in Service should be included in rate base?

FEA: No position at this time.

Issue 16: Should the wireless systems that are the subject of Southern Company Services (SCS) work orders be included in rate base?

FEA: No position at this time.

Issue 17: Should the SouthernLINC Charges that are the subjects of SCS work orders be included in rate base?

FEA: No position at this time.

Issue 18: Is Gulf's requested level of Plant in Service in the amount of $2,612,073,000 ($2,668,525,000 system) for the 2012 projected test year appropriate? (Fallout Issue)

FEA: No position at this time.

Issue 19: What are the appropriate depreciation parameters and resulting depreciation rate for AMI Meters (Account 370)?

FEA: No position at this time.

Issue 20: Should a capital recovery schedule be established for non-AMI meters (Account 370)? If yes, what is the appropriate capital recovery schedule?

FEA: Yes. Any unrecovered investment associated with the replacement of AMI meters should be recovered over 15 years.

Issue 21: Is Gulf's requested level of Accumulated Depreciation in the amount of $1,179,823,000 ($1,207,513,000 system) for the 2012 projected test year appropriate? (Fallout Issue)

FEA: No position at this time.

Issue 22: Is Gulf's requested Construction Work in Progress in the amount of $60,912,000 ($62,617,000 system) for the 2012 projected test year appropriate?

FEA: No. Gulf has made no showing that the CWIP is needed to maintain its financial integrity. Including CWIP would unnecessarily increase rates to an unjust and unreasonable level. The requested balance of CWIP should be removed from rate base.

Issue 23: Should an adjustment be made to Plant Held for Future Use for the Caryville plant site?

FEA: No position at this time.

Issue 24: Should the North Escambia Nuclear County plant site and associated costs identified by Gulf be included in Plant Held for Future Use? If not, should Gulf be permitted to continue to accrue AFUDC on the site?

FEA: No. Gulf has not demonstrated a need for additional generation until 2022.

Issue 25: Is Gulf's requested level of Property Held for Future Use in the amount of $32,233,000 ($33,352,000 system) for the 2012 projected test year appropriate? (Fallout Issue)

FEA: No. PHFU should be reduced by $27,687,000 (system).

Issue 26: Should any adjustments be made to Gulf's fuel inventories?

FEA: No position at this time.

Issue 27: Should any adjustment be made to Gulf's requested storm damage reserve, annual accrual of $6,539,091 ($6,800,000 system), and target level range of $52,000,000 to $98,000,000?

FEA: Yes. The annual accrual for storm damage should be established at no more than $5 million (system).

Issue 28: Should unamortized rate case expense be included in Working Capital?

FEA: No. The recovery of rate case expense should be based on a normalized level of expense.

Issue 29: Should the net over-recovery/under-recovery of fuel, capacity, conservation, and environmental cost recovery clause expenses be included in the calculation of the working capital allowance?

FEA: No position at this time.

Issue 30: Is Gulf's requested level of Working Capital in the amount of $150,609,000 ($155,044,000 system) for the 2012 projected test year appropriate? (Fallout Issue)

FEA: No. Working capital should be reduced consistent with FEA's position in Issue 28.

Issue 31: Is Gulf's requested rate base in the amount of $1,676,004,000 ($1,712,025,000 system) for the 2012 projected test year appropriate? (Fallout Issue)

FEA: No. The appropriate rate base should reflect FEA's adjustment to Issue 28 and other Commission decisions.

Cost of Capital

Issue 32: What is the appropriate amount of accumulated deferred taxes to include in the capital structure?

FEA: Gulf's regulatory capital structure should be adjusted to include a deferred tax balance of $277,966,000. Gulf did not consider the entire amount of accumulated deferred income taxes recorded on its books and records in the test year in deriving its proposed capital structure. As a result, Gulf's proposed accumulated deferred income tax of $262,694,000 should be increased to $277,966,000.

Issue 33: What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure?

FEA: No position at this time.

Issue 34: What is the appropriate cost rate for preferred stock for the 2012 projected test year?

FEA: The appropriate cost rate for preferred stock is 6.65%.

Issue 35: What is the appropriate cost rate for short-term debt for the 2012 projected test year?

FEA: The appropriate cost rate for short-term debt is 2.12%.

Issue 36: What is the appropriate cost rate for long-term debt for the 2012 projected test year?

FEA: The appropriate cost rate for long-term debt is 5.48%.

Issue 37: What is the appropriate return on equity (ROE) to use in establishing Gulf's revenue requirement?

FEA: The appropriate ROE is 9.75%.

Issue 38: What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure?

FEA: The appropriate weighted average cost of capital is 6.22%.

Net Operating Income

Issue 39: Is Gulf compensated adequately by the non-regulated affiliates for the benefits they derive from their association with Gulf Power? If not, what measures should the Commission implement?

FEA: No position at this time.

Issue 40: Should an adjustment be made to increase operating revenues by $1,500,000 for a 2 percent compensation payment from non-regulated companies?

FEA: No position at this time.

Issue 41: Should an adjustment be made to increase test year revenue for Gulf's non-utility activities?

FEA: No position at this time.

Issue 42: Is Gulf's projected level of Total Operating Revenues in the amount of $481,909,000 ($499,311,000 system) for the 2012 projected test year appropriate? (Fallout Issue)

FEA: No. The appropriate amount of operating revenues should reflect FEA's position on Sales for Resale (Issue 3).

Issue 43: Has Gulf made the appropriate test year adjustments to remove fuel revenues and fuel expenses recoverable through the Fuel Adjustment Clause?

FEA: No position at this time.

Issue 44: Has Gulf made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Conservation Cost Recovery Clause?

FEA: No position at this time.

Issue 45: Has Gulf made the appropriate test year adjustments to remove capacity revenues and capacity expenses recoverable through the Capacity Cost Recovery Clause?

FEA: No position at this time.

Issue 46: Has Gulf made the appropriate test year adjustments to remove environmental revenues and environmental expenses recoverable through the Environmental Cost Recovery Clause?

FEA: No position at this time.

Issue 47: Has Gulf made the appropriate adjustments to remove all non-utility activities from net operating income?

FEA: No position at this time.

Issue 48: Should adjustments be made to the expenses allocated or charged to Gulf as a result of transactions with affiliates?

FEA: No position at this time.

Issue 49: Should adjustments be made to expenses to allocate SCS costs to Southern Renewable Energy?

FEA: No position at this time.

Issue 50: Should adjustments be made to expenses to allocate SCS costs to Southern Power Company?

FEA: No position at this time.

Issue 51: Should adjustments be made to the allocation factors used to allocate SCS costs to Gulf?

FEA: No position at this time.

Issue 52: Should the Commission remove costs from the 2012 test year for costs associated with SouthernLINC?

FEA: No position at this time.

Issue 53: Should the costs related to Work Order 466909, associated with a system-wide asset management system, be removed from operating expenses?

FEA: No position at this time.

Issue 54: Should the costs related to Work Order 46C805, associated with Wireless Systems, be removed from operating expenses?

FEA: No position at this time.

Issue 55: Did Gulf adequately document and justify the costs associated with Work Orders 46EZBL, 46IDMU, 46LRBL, 47VSES, 47VSTB, 47VSTH, 47VSZ1, and 47VSZ5? If not, should the costs related to these work orders be removed from operating expenses?

FEA: No position at this time.

Issue 56: Should the costs related to Work Order 471701, associated with a Securities and Exchange Commission inquiry, be removed from operating expenses?

FEA: No position at this time.

Issue 57: Should the Commission adjust operating expenses for the costs related to Work Order 473401, related to a benefits review that does not appear to occur annually?

FEA: No position at this time.

Issue 58: Should the costs related to Work Order 49SWCS, related to a customer summit that is only held every other year, be removed from operating expenses?

FEA: No position at this time.

Issue 59: Should the costs related to Work Order 4Q51RC and a formerly CWIP classified Work Order 4QPA01, be removed from operating expenses?

FEA: No position at this time.

Issue 60: Should operating expenses be adjusted to remove public relations expenses charged by SCS?

FEA: No position at this time.

Issue 61: Should operating expenses be adjusted to remove legal expenses in Work Orders 473ECO and 473ECS charged by SCS?

FEA: No position at this time.

Issue 62: Should operating expenses be adjusted to remove aircraft expenses in Work Orders 486030 charged by SCS?

FEA: No position at this time.

Issue 63: Should any adjustments be made to expenses related to use of corporate leased aircraft?

FEA: No position at this time.

Issue 64: Should operating expenses be adjusted to remove investor relations expenses related to Work Order 471501 charged by SCS

FEA: No position at this time.

Issue 65: Should an adjustment be made to advertising expenses for the 2012 projected test year?

FEA: No position at this time.

Issue 66: Should interest on deferred compensation be included in operating expenses?

FEA: No position at this time.

Issue 67: Should SCS Early Retirement Costs be included in operating expenses?

FEA: No position at this time.

Issue 68: Should Executive Financial Planning Expenses be included in operating expenses?

FEA: No position at this time.

Issue 69: Are Gulf's proposed increases to average salaries for Gulf appropriate?

FEA: No position at this time.

Issue 70: Are Gulf's proposed increases in employee positions for Gulf appropriate?

FEA: No. Gulf's payroll expense should be based on actual employees, provided that level is determined to be a reasonable level.

Issue 71: How much, if any, of Gulf's proposed Incentive Compensation expenses should be included in operating expenses?

FEA: No position at this time.

Issue 72: Should Gulf's proposed allowance for employee benefit expense be adjusted?

FEA: Yes, consistent with FEA's position on payroll.

Issue 73: Should an adjustment be made to Other Post Employment Benefits Expense for the 2012 projected test year?

FEA: Yes.

Issue 74: Should an adjustment be made to Gulf's requested level of Salaries and Employee Benefits for the 2012 projected test year? (Fallout Issue)

FEA: Yes, consistent with FEA's position on payroll.

Issue 75: Should an adjustment be made to Pension Expense for the 2012 projected test year?

FEA: Yes. Gulf Power's supplemental pension expense should be disallowed.

Issue 76: Should an adjustment be made to the accrual for storm damage for the 2012 projected test year?

FEA: Yes. See FEA's position on Issue 27.

Issue 77: Should an adjustment be made to remove Gulf's requested Director's & Officer's Liability Insurance expense?

FEA: No position at this time.

Issue 78: Should an adjustment be made to the accrual for the Injuries & Damages reserve for the 2012 projected test year?

FEA: See FEA's position on Issue 27.

Issue 79: What is the appropriate amount of Gulf's tree trimming expense for the 2012 projected test year?

FEA: No position at this time.

Issue 80: What is the appropriate amount of Gulf's pole inspection expense for the 2012 projected test year?

FEA: No position at this time.

Issue 81: What is the appropriate amount of Gulf's transmission inspection expense for the 2012 projected test year?

FEA: No position at this time.

Issue 82: Should an adjustment be made to O&M expenses to normalize the number of scheduled outages Gulf has included in the 2012 projected test year?

FEA: No position at this time.

Issue 83: Should an adjustment be made to Gulf's proposed allowance for O&M expense to reflect productivity improvements, if any?

FEA: No position at this time.

Issue 84: What is the appropriate amount of production plant O&M expense?

FEA: No position at this time.

Issue 85: Should an adjustment be made to Gulf's transmission O&M expense?

FEA: No position at this time.

Issue 86: Should an adjustment be made to Gulf's distribution O&M expense?

FEA: No position at this time.

Issue 87: Should an adjustment be made to Gulf's office supplies and expenses for the 2012 projected test year?

FEA: No position at this time.

Issue 88: What is the appropriate amount of Rate Case Expense for the 2012 projected test year?

FEA: No position at this time.

Issue 89: What is the appropriate amount of uncollectible expense for the 2012 projected test year?

FEA: No position at this time.

Issue 90: Is Gulf's requested level of O&M Expense in the amount of $282,731,000 ($288,474,000 system) for the 2012 projected test year appropriate? (Fallout Issue)

FEA: No. The appropriate amount should encompass FEA's adjustments.

Issue 91: What is the appropriate amount of depreciation and fossil dismantlement expense for the 2012 projected test year?

FEA: No position at this time.

Issue 92: Is Gulf's requested level of Depreciation and Amortization Expense in the amount of $87,804,000 ($89,613,000 system) for the 2012 projected test year appropriate? (Fallout Issue)

FEA: No. The appropriate amount should reflect FEA's position on replacement of meters by AMI meters.

Issue 93: What is the appropriate amount of Taxes Other Than Income Taxes for the 2012 projected test year? (Fallout Issue)

FEA: No position at this time.

Issue 94: Is it appropriate to make a parent debt adjustment per Rule 25-14.004, Florida Administrative Code?

FEA: No position at this time.

Issue 95: What is the appropriate amount of Income Tax expense for the 2012 projected test year? (Fallout Issue)

FEA: The appropriate amount should reflect FEA's proposed adjustments.

Issue 96: Is Gulf's requested level of Total Operating Expenses in the amount of $420,954,000 ($432,449,000 system) for the 2012 projected test year appropriate? (Fallout Issue)

FEA: No. The appropriate amount should reflect FEA's proposed adjustments.

Issue 97: Is Gulf's projected Net Operating Income in the amount of $60,955,000 ($66,862,000 system) for the 2012 projected test year appropriate? (Fallout Issue)

FEA: No. The appropriate net operating income should reflect FEA's proposed adjustments.

Revenue Requirements

Issue 98: What is the appropriate revenue expansion factor and the appropriate net operating income multiplier, including the appropriate elements and rates for Gulf?

FEA: No position at this time.

Issue 99: Is Gulf's requested annual operating revenue increase of $93,504,000 for the 2012 projected test year appropriate? (Fallout Issue)

FEA: No. The appropriate revenue increase should reflect FEA's proposed adjustments.

Cost of Service and Rate Design

Issue 100: Should Gulf's proposal to eliminate the Interruptible Standby Service (ISS) rate schedule be approved?

FEA: No position at this time.

Issue 101: Should Gulf's proposal to modify the Residential Service Variable Pricing (RSVP) rate schedule to use the Energy Conservation Cost Recovery Clause to achieve the price differentials among the pricing tiers be approved?

FEA: No position at this time.

Issue 102: Should the minimum kW usage level to qualify for the GSD rate be increased from 20 kW to 25 kW?

FEA: No position at this time.

Issue 103: Should Gulf's new critical peak pricing option for customers taking service on the commercial time-of-use rates GSDT and LPT be approved?

FEA: The Company's proposed critical peak pricing option ("CPPO") should be adjusted to include more transparent pricing terms and conditions so utility customers can manage their participation on a CPPO tariff. The following changes should be made:

1. The CPPO tariff should clearly identify when critical peaks can be declared by the Company. This would include:

   a. identifying forecasted temperatures above (summer) or below (winter) certain weather temperature thresholds;

   b. identify market real-time pricing thresholds that can trigger curtailment events, and

c. Gulf's personnel should provide projected system load peaks which will trigger curtailment events.

Also, the CPPO tariff should include restrictions on the frequency the Company may declare critical peak events to:

a. No more than one critical peak can be called per day.

b. No more than four critical peak events can be called in a given week.

These revisions to the critical peak pricing tariff will balance the benefits and costs to all customers.

Issue 104: Should the minimum kW demand to qualify for the Real Time Pricing (RTP) rate schedule be reduced from 2,000 kW to 500 kW?

FEA: No position at this time.

Issue 105: Should the minimum kW demand for new load to qualify for the Commercial/Industrial Service Rider (CISR) be reduced from 1,000 kW to 500 kW?

FEA: No position at this time.

Issue 106: What is the appropriate cost of service methodology to be used in designing Gulf's rates?

FEA: The Company's study should be adopted.

Issue 107: What is the appropriate treatment of distribution costs within the cost of service study?

FEA: The Company's proposed treatment of distribution costs within the class cost of service study should be adopted in this proceeding.

Issue 108: If a revenue increase is granted, how should it be allocated among the customer classes?

FEA: The Company's proposed spread of revenue deficiency between the classes should be adopted in this proceeding.

Issue 109: What are the appropriate customer charges and should Gulf's proposal to rename the customer charge "Base Charge" be approved?

FEA: No position at this time.

Issue 110: What are the appropriate demand charges?

FEA: No position at this time.

Issue 111: What are the appropriate energy charges?

FEA: No position at this time.

Issue 112: What are the appropriate charges for the outdoor service (OS) lighting rate schedules?

FEA: No position at this time.

Issue 113: Should Gulf's proposal to adjust annually existing lighting fixtures prices be approved?

FEA: No position at this time.

Issue 114: What are the appropriate charges under the Standby and Supplementary Service (SBS) rate schedule?

FEA: No position at this time.

Issue 115: What are the appropriate transformer ownership discounts?

FEA: No position at this time.

Issue 116: What is the appropriate minimum monthly bill demand charges under the PX and PXT rate schedules?

FEA: No position at this time.

Other Issues

Issue 117: Should any of the $38,549,000 interim rate increase granted by Order No. PSC-11-0382-PCO-EI be refunded to the ratepayers?

FEA: No position at this time.

Issue 118: Should Gulf be required to file, within 60 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case?

FEA: No position at this time.

Issue 119: Should this docket be closed?

FEA: No position at this time.

Dated this 14th day of November, 2011.

s/Christopher C. Thompson

CHRISTOPHER C. THOMPSON, Maj, USAF
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USAF Utility Law Field Support Center
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CERTIFICATE OF SERVICE
DOCKET NO. 110138-EI

I HEREBY CERTIFY that a copy of the foregoing **PRELIMINARY LIST OF ISSUES AND POSITIONS OF THE FEDERAL EXECUTIVE AGENCIES** has been furnished by electronic mail to the following parties on this 14th day of November, 2011 to the following:

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