BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 110138-EI

PETITION FOR INCREASE IN RATES BY GULF POWER COMPANY.
_____/

VOLUME 3

Pages 403 through 602

PROCEEDINGS:	HEARING
COMMISSIONERS PARTICIPATING:	CHAIRMAN ART GRAHAM COMMISSIONER LISA POLAK EDGAR COMMISSIONER RONALD A. BRISE COMMISSIONER EDUARDO E. BALBIS COMMISSIONER JULIE I. BROWN
DATE:	Monday, December 12, 2011
TIME:	Commenced at 4:30 p.m. Concluded at 7:15 p.m.
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	LAURA MOUNTAIN, RPR Wilkinson & Associates (850) 224-0127
APPEARANCES:	(As heretofore noted.)

I N D E X

Witnesses

EXHIBITS

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PROCEEDINGS

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CHAIRMAN GRAHAM: Okay, Major Thompson, you're up.

MAJOR THOMPSON: No questions, Mr. Chairman.

CHAIRMAN GRAHAM: Mr. Wright?

MR. WRIGHT: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. WRIGHT:

Q Good afternoon, Dr. Vander Weide.

A Good afternoon.

Q Go Devils. I have a degree from Duke in my resume, somewhere in there.

A Oh, Duke. Well, congratulations.

Q Thank you very much. Right before you got there, I think, 1973. I don't have a whole lot of questions for you so let's jump in and we'll get you off the stand.

A All right.

Q Okay. I wanted to ask you a couple of questions about CAPM, your CAPM analyses. I noted in your testimony in this docket you recommend that the Commission give little or no weight to the ROE results using your CAPM analyses, correct?

A Yes.

Q It appeared to me from reading the -- reading over the Missouri 2008 order regarding the Empire District

Electric Company that's now been marked as Exhibit 183 that in that case you seemed to give somewhat more weight to the CAPM studies, correct?

A Yes.

Q Was that because the beta in that case was in the range of .88, .89?

A Yes, it is. As I've said in my current testimony, there's a lot of evidence that the CAPM underestimates the cost of equity when the beta is less than one. And the farther the beta is away from one, the greater the underestimate.

So if it's about .9, that's relatively close and I generally consider it. When it's .7 or a high .6, that's way too far. And indeed, I note that all the witnesses in this proceeding give no weight to the results of the CAPM.

Q The CAPM is a recognized methodology, correct?

A Yes.

Q Could the Commission use it in this case?

A Well, there's no one who is recommending any result that's based on the CAPM.

Q Okay. Are you aware of the other cost of capital issues in this case, specifically the rates on preference stock, short-term debt and long-term debt?

A I'm not aware of those issues, no.

Q So you don't -- are you aware that they've been

stipulated by the parties?

A No, I'm not.

MR. WRIGHT: I do want to ask you just a little more about the CAPM methodology, with the caveats that you articulated. Mr. Chairman, Mr. Sayler is kindly distributing for me a listing printed from the United States Treasury Web site of the U.S Treasury yield curve rates for the entire year of 2011 to date. I'm just going to ask Dr. Vander Weide a couple of questions about these.

CHAIRMAN GRAHAM: Sure.

MR. WRIGHT: I'll wait until everybody has got it.

CHAIRtMAN GRAHAM: We'll give this Exhibit Number 184?

MR. WRIGHT: Yes, sir, thank you. The 2011 U.S. Treasury curve rates.

(Exhibit 184 marked for identification.)

BY MR. WRIGHT:

Q I did note -- ready for me to ask you a question?

A Yes.

Q Great. I did note in your Exhibit JDW-1, Schedule 6, and JDW-1, Schedule 8, that you utilized as the risk free rate the forecast long-term Treasury bond yield of 4.45 percent, correct?

A In the application of the CAPM, is that what

you're --

Q Yes sir.

A Yes.

Q Was that the 20-year or the 30-year?

A That was the 20-year.

Q Okay. And I also noted that you used the forward bond yield estimated from Value Line from an analysis done a little more than a year ago, dated November 26th, 2010, correct?

A Yes.

Q Okay. You didn't update that?

A No, because the betas are still low and I don't believe that the CAPM provides reasonable estimates when the betas are low. Plus in my rebuttal testimony where there was more recent data, since none of the other witnesses were making a recommendation that was based in any way on the CAPM, I didn't see a reason to say anything about the CAPM.

Q Okay, if I could just ask you to look over the yield curves, I just want to ask you, do you agree that since April -- since April of 2011 the long-term T-Bond yields have been less than 4.45 percent regardless whether you look at the 20-year or the 30-year?

A Are you asking if they are?

A Yes, I am.

Q Yes, they are. They have gone down. The Federal

Reserve has been working very hard to stimulate the economy and the Federal Reserve operates primarily through buying and selling Treasury securities. They used to rely primarily on buying and selling short-term securities. Now they've been buying and selling long-term securities, and so the entire yield curve has come down.

Q Thank you. Just a couple more questions along this line. Will you agree that the -- that the yields on the 20 and 30 years have been generally below 4 percent since at least the beginning of August of this year?

A Yes.

Q And in fact lower than that since the beginning of September, down closer to 3 percent?

A Yes.

Q Thank you. I seem to recall that you and I met, I believe for the first time, in the Florida -- I'm sorry, the Progress Energy Florida rate case a couple of years ago. Do you recall that?

A I do recall it.

Q In that case, am I correct that you advocated a return on equity of 12.54 percent?

A I don't recall the exact number.

Q I could show you the order if you want to see it.

A All right, I would accept that.

Q And do you also recall that Professor Woolridge

recommended 9.75 percent in that case?

A Again, I don't recall it, but I would accept it.

Q And do you recall that the Commission settled on an ROE for Progress Energy Florida in that case of ten-and-a-half percent?

A Yes, and I believe the final agreement was it was established through settlement.

Q Are you sure of that?

A Not 100 percent sure, but I -- I do have that in my mind as the way it went.

Q Well, would you agree that -- maybe I should just show the witness an excerpt of the order from the rate case. Or let me try it this way. Will you agree that there was in fact a final order in the rate case establishing Progress's rates based on a 10.5 percent ROE? Question mark.

A Yes.

Q And will you further agree -- and I'm happy for you to check whatever you want to check with your counsel or whatever. Will you further agree that the settlement that Mr. Melson mentioned in his redirect of Mr. Teel was a separate agreement entered into after the conclusion of the rate case?

A Yes.

Q Thank you. Okay, now, that gets me to the question I really wanted to ask, and that is this. Won't you

agree that Progress Energy and Progress Energy Florida have done just fine since the Commission set their rates using a ten-and-a-half percent ROE?

A I don't know what you mean by just fine.

Q Well, have their stock prices increased the last year-and-a-half?

A Well, Progress Energy --

Q Have Progress Energy's stock prices increased?

A Yeah, Progress Energy Florida doesn't have a stock price.

Q Correct.

A Progress Energy's stock price depends on the performance of its Carolinas' operations as well as Progress Energy Florida. So I don't know that there's much information we can glean about the effect of Progress Energy Florida from Progress Energy stock price.

Q Has Progress Energy had stable dividends over the last year-and-a-half?

A Yes, and I would say the same answer as I did in the preceding one.

Q Has Progress Energy been able to access capital markets over the last year-and-a-half?

A Yes.

Q Has Progress Energy Florida been able to access the long-term debt market over the last year-and-a-half,

since the order in March of 2010?

A Yes.

Q Don't you agree that those factors, taken together, constitute Progress Energy Florida doing just fine over the last year-and-a-half?

A That's not sufficient information. That's good -- that's a good thing for the company to be able to access the capital market. However, the company -- most companies can access the capital market. The question always is what's the price and what are the terms.

And for regulatory purposes we certainly don't want to wait until the company can't access the capital market because that -- by that case the baby is so sick that it's kind of beyond hope. So that we want to -- we want to take action, if there are difficulties, well before they can't access the capital markets.

Q Are you aware of there ever being such a situation with a Florida regulated electric company?

A No, thank goodness. That's a healthy thing for the customers that the company has always been able to -- Florida companies have always been able to access the capital markets.

Q Would you believe that Gulf would not be able to issue long-term bonds if the Commission were to set Gulf's rates based on an ROE of nine-and-a-half percent?

A No, I believe they would be able to issue long-term bonds. The goal of my testimony is not to determine at what rate of return they would no longer be able to issue long-term bonds, it's to determine what is the investor's required rate of return on an equity investment in Gulf Power. And that is -- that can be answered independently of anything about their access in the bond market.

Q Gulf is kind of a special case in that they get all their equity capital from the Southern Company, to the extent they do, or generate it internally, correct?

A Yes.

MR. WRIGHT: Thanks. That's all I have, Mr. Chairman. Thank you, Dr. Vander Weide.

CHAIRMAN GRAHAM: Staff?

MR. YOUNG: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. YOUNG:

Q Dr. Vander Weide -- Vander Weide?

A Yes.

Q Good afternoon.

A Good afternoon.

Q During cross examination by attorney for FIPUG, Mr. Jon Moyle, you mentioned that the average authorized return for integrated electric utilities for 2011 is 10.5

percent. Do you recall this exchange?

A Yeah, and I think I said approximately 10.5.

Q Okay. What did you rely on for determining the 10.5 percent, the average, this 10.5 percent?

A I looked at the data provided by SNL Financial and I looked at -- I then looked at -- they have an indication of whether the company is a wires only company or whether it's an integrated electric utility, and I took out the wires only companies.

MR. YOUNG: Mr. Chairman, at this time I'm going to ask for Dr. Vander Weide to provide a late-filed exhibit on his data he used and how he calculated the data to come up to the -- with the approximately 10.5 percent.

CHAIRMAN GRAHAM: Okay. Mr. Moyle?

MR. MOYLE: I don't want to sound like a broken record on late-filed exhibits, but in previous proceedings we've kind of raised the question about it and I don't have an objection to coming up with that, provided we can get it and look at it. And I think this witness is coming back on rebuttal. If we can get it before rebuttal, if we have questions about it, maybe we can ask it then.

CHAIRMAN GRAHAM: Professor, is that possible, to have that information by your rebuttal time?

THE WITNESS: I think so, but I have to wait until

I get off to verify that.

CHAIRMAN GRAHAM: He says the quicker you finish with him, the quicker he can get it for you.

MR. YOUNG: And to that end, Mr. Chairman, at this time may we approach the witness?

CHAIRMAN GRAHAM: Please.

MR. YOUNG: And what we're doing, Mr. Chairman, right now, is passing out Dr. Vander Weide's deposition transcript. Staff would note that this is -- if you look in your hearing exhibits on the CD, it's Exhibit 45 -- 145, excuse me.

CHAIRMAN GRAHAM: So I take it you're not passing that out?

MR. YOUNG: I have extra copies -- I have an extra copy if you need a copy.

CHAIRMAN GRAHAM: I would love a copy.

MR. McGLOTHLIN: Mr. Chairman, this may be an appropriate time to inquire whether staff intends to make this an exhibit, because we've indicated earlier that we would object to that.

CHAIRMAN GRAHAM: And you object to 145?

MR. McGLOTHLIN: If that is the transcript of Dr. Vander Weide's deposition.

MR. YOUNG: Yes, Mr. Chairman, that is Exhibit Number 145, and Mr. McGlothlin has -- I guess we can tee

it up now in terms of the objection to the exhibit. I was going to try to -- if Mr. McGlothlin would waive the fact that this is Dr. Vander Weide's deposition transcript -- and key staff would know this -- what Mr. Vander Weide has is excluding of the late-filed exhibits.

But on staff comprehensive exhibit list Number 145 includes the late-filed exhibits. And we can tee that up now if you can just -- if that's an accurate statement; that is, 145 includes his late-filed exhibits and the deposition transcript for Dr. Vander Weide.

MR. McGLOTHLIN: I don't think I'm clear on what the question is.

MR. YOUNG: I just want -- I was going to proffer that this is Dr. Vander Weide's deposition transcript and the late-filed depositions -- the late-filed exhibits that are included in his transcript.

MR. McGLOTHLIN: Yes, and then are you going to ask the Commission to admit that into the record as an exhibit?

MR. YOUNG: Yes, sir.

MR. McGLOTHLIN: Well, either now or then I'd like to register an objection.

CHAIRMAN GRAHAM: Let's register is then so I have some idea of what you're objecting to. Go ahead.

MR. MELSON: Mr. Chairman, could I ask, was it staff's intention to put the deposition in in lieu of cross examination?

MR. YOUNG: Yes, staff is -- staff is prepared to put the deposition in in lieu of the majority of its cross examination questions.

CHAIRMAN GRAHAM: Does that answer your question?

MR. MELSON: That answers my question. Thank you.

MR. YOUNG: And if I can just proffer it to Dr. Vander Weide.

CHAIRMAN GRAHAM: Sure.

BY MR. YOUNG:

Q Dr. Vander Weide, do you have a document that you received a couple seconds ago entitled Before the Florida Public Service Commission, in this matter, Petition for rate -- Petition for increase in rates by Gulf Power Company, Docket Number 11-110138-EI?

A Yes, I do.

Q And this says deposition of James H. Vander Weide, Ph.D., correct?

A Yes, it does.

Q Are you that James H. Vander Weide, Ph.D.?

A Yes, I am.

Q Okay. And this deposition was held on Thursday, November 17th, 2011, correct?

A Yes, it is.

CHAIRMAN GRAHAM: Mr. Young, hold on a second. Let me hear what OPC's objection is before we start getting into the deposition.

MR. McGLOTHLIN: By way of background, staff requested the parties to stipulate to a very massive list of documents and exhibits and that included the depositions. And our office and others spent a great deal of time trying to become sufficiently well acquainted with the documents to be in a position to say yes or no to that.

With respect to depositions, our position is that's fine where there is a stipulation involvement. And there are examples in this case of witnesses who by way of stipulation don't have to appear at the hearing and by way of stipulation have had their exhibits and deposition transcripts submitted.

In the absence of a stipulation, we contend that the better practice where the witness is here and available for questioning is to have live testimony and then use the deposition, if warranted, for impeachment purposes, but not to use the deposition in lieu of cross examination, which is precisely what is being proposed here.

And I'd like to point out that this isn't unique to

this gentleman's testimony and his deposition. Our office believes that the better practice is to have live testimony where important matters are being disputed and the witness is available and present in the room so that the triers of fact can assess the bearing, demeanor, and other attributes of the witness in the context of evaluating that testimony and those answers.

For those reasons, with respect to this deposition and the others, all the witnesses who have not been excused from the hearing, we object to the depositions being made part of the record in lieu of cross examination.

CHAIRMAN GRAHAM: Now, did you guys have opportunity to be part of this deposition?

MR. McGLOTHLIN: Yes, sir.

CHAIRMAN GRAHAM: Were you part of this deposition?

MR. McGLOTHLIN: Yes, sir.

CHAIRMAN GRAHAM: And you couldn't ask the questions when we were deposing the witness that you want to ask now?

MR. McGLOTHLIN: We could, but, with respect, that's not the point. The point is that the triers of fact are here to assess the testimony being submitted by this witness and others and there's no reason not to go forward with due importance being given to live

testimony. And that's the basis for the objection.

My objection is not that I wasn't there or couldn't have been there. The objection is to the use of the deposition in lieu of cross examination at the full evidentiary hearing.

CHAIRMAN GRAHAM: Well, this is actually the first I've had to deal with somebody else objecting to somebody's deposition, because normally a deposition -- it's his deposition, it's in there, and if you have specific questions about something in the deposition then I don't have a problem with that.

I guess I don't understand why any concern you have with this wasn't -- if you had any questions specifically of this witness, that you guys couldn't have asked this during the deposition process, I mean, short of us sitting here for three weeks and going through the deposition process with each witness.

MR. McGLOTHLIN: Well, again, the objection is not to the lack of opportunity to be part of the deposition. We were. But there is an objection to the use of the deposition in lieu of cross examination, which, among other things, requires our office and the other parties to devote time not only to the documents and answers to interrogatories that were part of this stipulation, but also to scour transcripts of depositions to see whether

and what we would regard as objectionable if that's offered as an exhibit, as opposed to hearing questions posed to the witness in live testimony before the triers of fact.

CHAIRMAN GRAHAM: Other Intervenors object to this deposition? Mr. Moyle?

MR. MOYLE: FIPUG would join in the objection. And you get to hear argument when there is an objection, but I also -- earlier I think we went through a lot of stuff where the Intervenors said, fine, fine, fine, let stuff go in. I think we've tried to be judicious in terms of, you know, objecting only when -- when we really felt strongly on an issue.

And this really gets to a point, as Mr. McGlothlin said, you know, you all are sitting as the trier of fact and can judge credibility based on the witness and their answers to questions.

And If you take depositions and put in cold records, first of all, it's a lot of stuff for you all to read as the trier of fact. And a lot of times judges will say, you know, if I've got the witness here, ask the question, so get the points you want out, and it's more efficient for a trier of fact than to dump in a 300-page depo that you then are charged with, okay, it's part of the record, I need to review it and read it.

And that doesn't seem to be efficient.

So if someone is stipulated, or if they are, you know, not available, then depositions can be used. But just simply because you have a witness and you're going to say, well, you know, there might be something in here, I don't think that Mr. Young is going to go through and ask every question in that depo.

I think most of the time in discovery depositions you find out what they're going to say, you pick four or five issues, and you ask them those questions live without even referring to the depo. And if they give you an answer different from the depo, you use the depo to impeach them.

But I think this practice is using depos, in effect, you know, to supplement the prefiled testimony in others and think the practice is not a good practice and would encourage you to grant the objection that Public Counsel has raised and not allow the depo in.

CHAIRMAN GRAHAM: Mr. Wright?

MR. WRIGHT: Thank you, Mr. Chairman. Very briefly, the problem I see with this is this is a deposition taken during the discovery process. It is now effectively being offered as the equivalent of live testimony.

I will say I don't believe it's reasonable or fair

to require any party, whether it's us or Gulf or anybody else, to treat a discovery deposition as being the witness's live testimony, which would then put the burden during the discovery process of -- on that party of having to conduct full cross examination at the deposition. I don't think that's fair. I don't think it's reasonable. I think it's prejudicial. We join in the objection.

CHAIRMAN GRAHAM: Gulf?

MR. MELSON: Let me respond. And I think there are a couple of related issues here. For example, Mr. McGlothlin asked Dr. Vander Weide some questions at the deposition. We did not -- staff did not, as I understand it, offer the deposition in lieu of cross by Mr. McGlothlin.

I mean, the witness has been on the stand for three hours. The Commission has heard quite a bit from him. As I understand it, the question now is should the deposition be admitted in lieu of cross examination by staff.

And to the extent staff has the same questions now they had during the deposition, there's the short way to do it or the long way to do it. And given five days for this hearing, Gulf is absolutely in favor of the short way of doing it.

There's a second situation that may arise later in the week with Intervenor witnesses for whom both Gulf and staff have indicated they have no cross examination provided staff is able to put the deposition into the record.

To this point the Intervenors have not taken us up on the offer to stipulate those witnesses. And if a precedent is set that depositions do not come in, then I think those witnesses will all take the stand, the company will likely waive cross examination, and staff may very well plod through a series of questions that they've been through once in a deposition setting.

We just think it is more efficient to allow the depositions of all of these witnesses in. And when a party has cross examination beyond the deposition, obviously we do not object to that.

CHAIRMAN GRAHAM: Mr. Young?

MR. YOUNG: Thank you. I echo Mr. Melson's first statement. The deposition is going in in lieu of staff's questions, not in lieu of Mr. McGlothlin's questions. It's going in in lieu of staff's questions. But I'll take you to the law, and if you look under Rule 1-330(a) provides the deposition of a witness, whether or -- whether or not a party, may be used by any party for any purpose if the court finds.

Again, staff is using this deposition of Dr. Vander Weide in lieu of the majority of its cross examination questions that it asked during the course of the deposition.

Two -- the third point is, staff's role and its this position is to fill the record. Staff believes that Dr. Vander Weide's deposition will help explain and fill the record for the Commissioners to make a decision.

CHAIRMAN GRAHAM: Comments from Commissioners?

MS. HELTON: Mr. Chairman, may I make a couple comments?

CHAIRMAN GRAHAM: Sure.

MS. HELTON: First of all, I think if you were to take the Intervenor's reasoning to a logical conclusion, we would not have any prefiled testimony at all, that we would not stipulate any witness's prefiled testimony.

CHAIRMAN GRAHAM: Let me help you out. My feeling is to let the deposition come in. You talk me off the fence if I need to get off the fence.

MS. HELTON: Okay, no, I will shut up.

CHAIRMAN GRAHAM: Thank you. Commissioners, any comments to the contrary of letting the deposition in? Mr. McGlothlin, we're going to let the deposition in.

MR. McGLOTHLIN: All right.

(Exhiit 145 admitted in evidence.)

CHAIRMAN GRAHAM: Mr. Young, continue.

MR. MOYLE: Mr. Chairman?

CHAIRMAN GRAHAM: Yes?

MR. MOYLE: Just to help us going forward, you know, oftentimes in a deposition if there are questions asked that are not appropriate, people will object to the form and then there will be rulings. In theory it's supposed to work that the presiding officer will rule on those objections when it's presented.

It may be a little cumbersome, but I think there are some situations that there may have been objections to questions, and I assume from your ruling on this that we will probably then need to bring those to your attention, specifically, and seek rulings on situations in which questions were objected to or documents were objected to. Is that -- would that be correct or --

CHAIRMAN GRAHAM: Were you here since the beginning this morning?

MR. MOYLE: I was.

CHAIRMAN GRAHAM: Did you see what happened to other overrulings of the prehearing officer?

MR. MOYLE: I did, but I know that that wouldn't mean that that is going to necessarily happen on a go-forward basis.

CHAIRMAN GRAHAM: No, it doesn't mean that at all.

MR. MOYLE: Right. But I -- I think we're not -- I think we may be speaking past each other. I understand your ruling. That's your ruling. The depos come in.

What I'm trying to understand is oftentimes during the course of a deposition when somebody asks a question -- do you still beat your wife -- you know, which is clearly an objectionable question, someone will say object to the form. And then that preserves it.

So to the extent the deposition then comes in, the presiding officer has an opportunity to make a ruling on the question and whether the answer comes in or not. I'm told by my co-counsel that there are some situations in depositions where questions were objected to, and so I just want to be clear that when we get to that later in the hearing then we'll have a process whereby we can raise the objections that were made in the deposition and get a ruling on them.

CHAIRMAN GRAHAM: Well, now, I guess that's the part that I don't understand.

MR. MELSON: May I --

CHAIRMAN GRAHAM: This is the part that I don't understand. Were these objections ruled on by the prehearing officer?

MR. YOUNG: No, sir.

CHAIRMAN GRAHAM: Okay, that's the part I don't understand.

MR. MOYLE: And I'm sorry, but I was not suggesting that they were already ruled on. They're part of the deposition transcript, and I think all objections are preserved --

CHAIRMAN GRAHAM: I got you.

MR. MOYLE: -- except as to form.

CHAIRMAN GRAHAM: Well, then, you're fine.

MR. MOYLE: Okay. And then the only other final point is with respect -- because you admitted the depositions, I guess there were some late-filed exhibits that were trailing along with the depositions that I didn't know if they were going to be admitted with the depositions or whether they were going to be admitted separate and apart from the depositions. But I think I need to kind of understand where that is.

CHAIRMAN GRAHAM: We will allow those late-filed exhibits independent of the deposition. I don't look at that as a total package. So we can -- if you have objections about the late-filed exhibits, we can talk specifically about those. But what I just let in was the deposition.

MR. MOYLE: The deposition? Okay. I'm not sure I've seen the late-fileds but I'll get them and we can

deal with it later.

CHAIRMAN GRAHAM: Okay.

MR. YOUNG: Mr. Chairman, just for the record, it's my understanding staff doesn't have any late-filed exhibits attached to Dr. Vander Weide's deposition. I think Mr. McGlothlin might have one, or it's my understanding it might be Mr. McGlothlin, OPC, who might have late-filed exhibits, or the other Intervenors might have late-filed exhibits attached to Dr. Vander Weide's deposition.

CHAIRMAN GRAHAM: We can look at that independently when and if the need comes up.

MR. McGLOTHLIN: For your information, I used in the hearing the documents that I wanted to make exhibits for this witness.

CHAIRMAN GRAHAM: Okay.

MR. McGLOTHLIN: There may be others when he comes back on rebuttal.

CHAIRMAN GRAHAM: Yes, sir?

MR. MELSON: Mr. Chairman, I'm slightly confused because I thought Staff's Exhibit Number 145 as they have identified it includes a reference to the hearing CD which contained the late-filed exhibits.

So I just wanted to clarify that your ruling was that the deposition was coming in without the late-filed

exhibits.

CHAIRMAN GRAHAM: If there's specific objections to the late-filed exhibits, we can deal with those independent of the deposition. So, yes, just the deposition is coming in now.

Those late-filed exhibits, as we're done with this witness we can decide if they're coming in. If there's any objection to those, we'll deal with that at that time. Have I sufficiently confused everybody?

MR. MELSON: One other thing.

CHAIRMAN GRAHAM: Sure.

MR. MELSON: I'd just like to let you know, I guess, we don't have -- although we made some objections during the course of the deposition, Gulf is not going to object to any particular question in any of the depositions.

We understand the other parties may want to pick out a question or two and have an objection for it, and we're happy to discuss that, but we don't -- we will not be raising any objections.

CHAIRMAN GRAHAM: Okay. Mr. Young?

MR. YOUNG: With that, Mr. Chairman, I go from zero -- from question number one to question number 48.

CHAIRMAN GRAHAM: Sounds good.

BY MR. YOUNG:

Q Dr. Vander Weide, you made an adjustment of 90 basis points to your recommendation to allow return on common equity for accounts for the fact that the Commission relies on the block -- on the book value of Gulf's common equity in determining the allowed overall cost of capital. Is this correct?

A Yes, it is.

Q And your adjustment of 90 basis points would not be necessary if the Commission relied on the market value for Gulf -- for Gulf's equity, as opposed to the book value. Is this correct?

A Yes, if Gulf had a market value.

Q Does the market value of a utility or a utility's equity vary with fluctuation in the stock market?

A Yes.

Q Isn't it true that if the Commission approves -- approved your recommendation regarding your adjustment related to the market value of common equity, it could result in a windfall gain or loss for shareholders because of the fluctuation in the stock market?

A I don't quite understand how it would.

Q For example, if the Commission adopted your recommendation as a practice regarding your adjustment relating to the market value of common equity, it could result in windfall gains or losses for shareholders from case

to case because of the fluctuation in the stock market?

A I don't think there would be windfall gains. Even if the Commission uses a book value capital structure, the stock price is going to go up or down, anyway. And one might say, well, that was a windfall gain or loss just as well, because the stock price went up or down. I don't see how -- how that would be unique to this -- to my recommendation.

Q Okay. Isn't it true that with your recommendation -- your recommended adjustment the allowed return on common equity could very substantially be causing the fluctuation in the stock market?

A It would just depend on what the average capital structure was for the proxy companies. And it doesn't have to be a stock -- a spot market price for the market value capital structure. It could be an average capital structure over, say, the last three months or so in order to eliminate any very short-term price swings.

But the important thing is that the average market value capital structure of the proxy companies is quite different from the ratemaking capital structure.

Q Isn't it true that under your -- under your recommended adjustment the revenue requirement associated with the allowed return on equity could vary substantially, not because of the level of investment to shareholders -- by shareholders, but because of the fluctuation in the stock

market?

A I don't quite understand what is really behind the question, and so I don't see how it would vary for that reason.

Q Wouldn't your adjustment change if the level of the market value changed?

A When my -- no, my adjustment changes if the level of the market value changes, but I will say that if one looks at averages over a month or two, the number for my proxy companies has been relatively stable, and it doesn't just jump up or down rapidly.

Q But it could?

A I guess everything is possible, but I don't see -- I don't see how it would and how that would affect the ultimate conclusion that the market value capital structure has considerably more equity in it than the book value capital structure that's being recommended.

Q Now, looking at your dividend cash flow model, you relied on a quarterly -- the quarterly discounted cash flow model to determine your discounted cash flow recommendation of allowed returns. Is this correct?

A Yes.

Q Do you agree that the quarterly discounted cash flow model produced an effect -- produces an effect rate of return that should be adjusted to a nominal rate of return

when determining revenue requirements?

A No.

Q Are you familiar with the text New Regulatory Finance, by Roger Morin?

A Yes, I am.

MR. YOUNG: And Mr. Chairman, it was handed out during the break.

CHAIRMAN GRAHAM: Got you. Do we need an exhibit number for this?

MR. YOUNG: Yes, sir.

CHAIRMAN GRAHAM: I think we're at 185, if I'm not mistaken. What's the short title for this? New Regulatory Finance, by Dr. Morin?

MR. YOUNG: Yes, sir.

(Exhibit 185 marked for identification.)

CHAIRMAN GRAHAM: Please continue.

BY MR. YOUNG:

Q Dr. Vander Weide, do you have this document in front of you which has now been identified Exhibit Number 185?

A Yes, I do.

Q And it consists of two pages, correct, exclusive of the cover sheet?

A Yes.

Q Can you take a moment to look -- review this

document before we begin, please?

A Yes, I have it. I have reviewed it. I'm very familiar with it.

Q Okay. Do you consider -- do you consider New Regulatory Finance to be an authoritative text regarding public utility finance?

A I don't think that one can say categorically whether a text is authoritative or not. It's always authoritative on some subjects, and one would have to form one's own opinion about whether on a particular subject it's correct or whether one agreed with it or disagreed with it.

Q Let me ask it another way. Is this a generally accepted text that folks rely on in terms of when looking at public regulatory finance?

A I think it's widely -- it's a -- it's a recognized text. I don't think there are too many texts on regulatory finance. In fact, this is really the only one that I know of. But that doesn't mean that one has -- every time one reads a book and likes the book doesn't mean one has to agree on every point in the book.

Q Okay. Putting aside the disagreements, can you read the first sentence from the last paragraph on the page which is page 350?

A The last full sentence, that is, the one that begins the DCF quarterly rate?

Q Yes.

A The DCF quarterly rate is in fact an effective market-based rate of return that although appropriate for unregulated companies requires modification because of the manner in which revenue requirements are set.

Q How do you reconcile your contention that the quarterly DCF model does not produce an effective rate of return with Dr. Morin's statement on page 350 that you just read in this text?

A One, I disagree with the -- with the statement as one would normally use the word nominal return. I don't think the nominal return represents the cost of equity for the company. The company's cost of equity, like its cost of debt, is always determined by finding that discount rate which equates the present value of the cash flows to the market price. That's how one defines the cost of capital.

Secondly, I would note that I have read Dr. Morin's -- Dr. Morin also testifies in rate proceedings around the country and from time to time I come across his testimony. I, of course, haven't read every bit of his testimony, but I -- my recall is that he recommends a cost of equity based on the quarterly DCF model, just like I do.

MR. YOUNG: All right, thank you. No further questions.

CHAIRMAN GRAHAM: Commissioners? Redirect?

REDIRECT EXAMINATION

BY MR. MELSON:

Q Just a few. Dr. Vander Weide, Mr. McGlothlin asked you about a FERC methodology for the DCF. Do you recall that?

A Yes, I do.

Q Do you agree that the FERC methodology is appropriate?

A I disagree with that the FERC DCF methodology is consistent with the fact that companies pay dividends quarterly.

Q And, in fact, turn if you would to the exhibit that staff was just asking you about, which is Exhibit Number 185.

A Yes.

Q Could you read the last sentence above the bold 11.3 toward the bottom of the page?

A Yes. Neither DCF model reflects reality and both are arbitrary in nature. Only the quarterly DCF model reflects reality, is theoretically correct, and is computationally tractable.

Q And the quarterly DCF model is the one that you use in your testimony, is that correct?

A Yes, it is.

Q Could you turn for a moment to Exhibit 182, which

is the Missouri order dated May 22nd, 2007.

A Yes.

Q If I can find the right spot, I believe Mr. McGlothlin had you read from a paragraph toward the bottom of the page, the last sentence of the paragraph. The sentence begins, but despite his advocacy of an adjustment. Do you see that?

A What page was that on?

Q I'm sorry, page 34.

A Thirty-four. Okay.

Q Do you recall him asking you to read into the record the last sentence of the last full paragraph at the bottom of the page?

A Yes, I do.

Q And that says, Vander Weide acknowledged at the hearing that -- I'm not even going to try to pronounce it -- Ameren -- Ameren UE's risk is about average for the electric utility industry. Do you see that?

A Yes, I do.

Q Is it your -- in this case what is your testimony about Gulf's financial risk compared to the average for your proxy group of companies?

A Gulf's financial risk is greater than that of the proxy group that's reflected in the cost of equity.

Q And as a result of having that greater financial

risk, what adjustment is appropriate?

A An adjustment to the cost of equity from the -- that's the -- that's calculated from the proxy companies in order to reflect the greater financial risk of Ameren -- of Gulf Power's ratemaking capital structure compared to the average capital structure of the proxy companies.

Q Could you turn to Exhibit 183, which is the Missouri order dated July 30th, 2008.

A Yes.

Q And turn to page 17, if you would, please.

A Yes.

Q Now, look back on page 16. Mr. McGlothlin had you read several passages from page 16, is that correct?

A Yes, he did.

Q On page 17, in the right-hand column, the third full paragraph, would you read the sentence that begins an examination?

A Yes. An examination of Gorman's testimony indicates he tends to underestimate an appropriate return on equity for Empire. Gorman utilized a constant growth DCF model that resulted in an estimated return on equity of 11.54 percent. For that model, he used an average of three analyst growth rate projections prepared by Zacks, Reuters, and SNL Financial. The average three to five-year growth rate for his analysts is 7.40 percent. Gorman, however, believes his

analyst growth rate projections are unreasonable. For that reason he concludes his constant growth DCF model is unreasonable and does not give it any weight in recommending a return on equity for Empire.

Q Could you turn to page 18?

A Yes.

Q In the first full paragraph in the left-hand column, your name appears in bold print about two-thirds of the way down.

A Yes.

Q Could you read that sentence, please.

A Yes. As Vander Weide indicates, since investors use analyst growth forecasts in making decisions to buy and sell stock, the analyst growth forecast should be used to estimate the growth component of the DCF model, whether or not Mr. Gorman believes those growth forecasts are rational.

Q And finally, in the right-hand column, on page 18, the paragraph that begins furthermore. Could you read the last sentence of that paragraph?

A Yes. Although both Barnes and Gorman criticize Vander Weide's decision to use the quarterly DCF model, it is a reasonable decision that enhances the credibility of his result.

Q Dr. Vander Weide, in general do you recommend that commissions base their ROE decisions on what another state

has said or do you prefer that they base their decisions based on the record in the particular case before them?

A I prefer that they base their decisions on the record in a particular state; in this case, Florida.

Q Mr. Wright asked you a question about how well Progress had done since they were awarded a 10.5 mid-point ROE in their most recent rate case. Do you recall that?

A Yes, I do.

Q Are you aware of whether or not there was a settlement after that order was issued?

A Yes, I believe there was.

Q Do you know whether that settlement, as part of that settlement, the company and at least two of the Intervenors abandoned their motions for reconsideration?

A That's my recall that they did.

Q And what is your understanding of the effect of that stipulation on Progress's ability to earn the top of their range of return of 11.5 percent?

A It's my understanding that it gives them increased ability to earn at the top end of the range.

MR. MELSON: And do you -- strike that. That's all I've got.

CHAIRMAN GRAHAM: Okay. What exhibits do you have for this witness?

MR. MELSON: I move 11 and 12.

CHAIRMAN GRAHAM: Enter 11 and 12 into the record.

(Exhibits 11 and 12 admitted in evidence.)

CHAIRMAN GRAHAM: Mr. McGlothlin?

MR. McGLOTHLIN: I moved 178 through 183.

CHAIRMAN GRAHAM: 178, 179, 80, 81, 82, 83.

(Exhibits 178, 179, 180, 181, 182 and 183 admitted in evidence.)

MR. WRIGHT: Mr. Chairman, I move 184.

CHAIRMAN GRAHAM: Thank you. 184 into the record.

(Exhibit 184 admitted in evidence.)

MR. YOUNG: Mr. Chairman, I move 185.

MR. McGLOTHLIN: I may not have an objection to that, but I would note that this is one page from a 350-page text book, and it ends mid sentence. I would like an opportunity to see if there's anything in context that I think should be included, and if the text is available, perhaps we can do it tonight or tomorrow.

MR. YOUNG: No objections.

CHAIRMAN GRAHAM: I'll tell you what, I will put the burden on you, Mr. Young, to move 185 back into the record tomorrow.

MR. YOUNG: Yes, sir.

CHAIRMAN GRAHAM: So we'll pull that out.

MR. YOUNG: And just for the record, Mr. Chairman, we did move 145 into the record, correct?

CHAIRMAN GRAHAM: Yes. We moved the deposition but we did not move any of the exhibits.

MR. YOUNG: And, Mr. Chairman, the late-filed exhibit that we did identify, that Mr. Vander Weide said he's going to try to see if he can get for us?

CHAIRMAN GRAHAM: Yes.

MR. YOUNG: And I think we're up to 186 now.

CHAIRMAN GRAHAM: We will call 186 -- what's your name for it?

MR. YOUNG: Vander Weide's data average allowed on return. And I think -- I see Mr. Moyle is jumping to speak as relates to the -- any standing objection he might want to note.

MR. MOYLE: No, I think we're good on this. I understood that he's going to get data from SNL, a third-party source, for the last year or two, and then provide that that supports his testimony of average ROE returns. So I think it's SNL data supporting average national return on equity.

MR. YOUNG: We can -- and I can title it SNL -- SNL data of the average allowed returns for 2011. How about that?

CHAIRMAN GRAHAM: Okay.

(Late-filed Exhibit 186 was marked for identification.)

MR. MELSON: And Mr. Chairman, we will endeavor to

have that available when he retakes the witness stand on rebuttal.

CHAIRMAN GRAHAM: If he's got it beforehand, if you can provide it for them, because they may have specific questions to ask.

MR. MELSON: Absolutely.

MR. SAYLER: Mr. Chairman, if Mr. Young could go over the staff three exhibits, 185, 186, 187, because previously I thought the late-filed exhibit was going to be 185. So if you can just go through just so we have that clarified.

CHAIRMAN GRAHAM: Well, staff has this exhibit, which is a page from the book, which is 185. And we're holding off on putting that into the record until after Mr. McGlothlin goes back and reviews the rest of that page or the rest of that book.

MR. SAYLER: And the book, Vander Weide proxy group, was that moved or identified?

CHAIRMAN GRAHAM: 186 was a late-filed coming from Dr. Vander Weide. And I don't have a 187.

MR. YOUNG: I don't have a 187, either.

MR. SAYLER: You did not move the --

MR. YOUNG: No, I did not.

MR. SAYLER: Okay, thank you.

MR. McGLOTHLIN: So the late-fileds to the

deposition have not been moved, correct?

MR. YOUNG: No, that's correct.

MR. McGLOTHLIN: Okay. With your indulgence, Mr. Chairman, I'll just note my objection to the transcript. I know you've ruled. Just for the record I would like to have that objection noted.

CHAIRMAN GRAHAM: Okay. Your objection was for the deposition as a whole?

MR. McGLOTHLIN: Yes.

CHAIRMAN GRAHAM: 145, without the late-fileds.

MR. McGLOTHLIN: Correct.

CHAIRMAN GRAHAM: Okay.

MR. WRIGHT: Mr. Chairman, just so I'm clear on what's what, we were also given a packet of materials, some interrogatory responses, both to Public Counsel's and staff's interrogatories. Has anybody -- did staff do anything with this?

MR. YOUNG: Not that document in your hand, per se, but the numbers that Ms. Klancke called off in terms of interrogatories that were answered into the record, that is inclusive.

MR. WRIGHT: Thank you very much for that clarification.

CHAIRMAN GRAHAM: Okay, are we good?

MR. MELSON: And if he can be excused until the

next time he appears.

CHAIRMAN GRAHAM: Professor, thank you.

THE WITNESS: Thank you very much.

CHAIRMAN GRAHAM: Gulf, next witness.

MR. BADDERS: Good afternoon. We call Mr. Jacob to the stand.

MR. BADDERS: If we're ready to proceed?

CHAIRMAN GRAHAM: Please.

Thereupon,

P. BERNARD JACOB

was called as a witness on behalf of Gulf Power Company, and having been previously duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. BADDERS:

Q Mr. Jacob, were you present this morning when the witnesses were sworn in?

A I was.

Q And you took the oath? You took the oath?

A Yes, I did.

Q Please state your name and your business address for the record.

A My name is Bernard Jacob. Business address, One Energy Place, Pensacola, Florida, 32520.

Q By whom are you employed and in what capacity?

A I'm the Vice-President of Customer Operations at

Gulf Power Company.

Q Are you the same P. Bernard Jacob who prefiled direct testimony consisting of 13 pages?

A Yes.

Q Do you have any changes or corrections to that testimony?

A I do not.

Q If I were to ask you the same questions today, would your answers be the same?

A They would.

MR. BADDERS: We ask that the prefiled direct testimony of P. Bernard Jacob be inserted into the record as though read.

CHAIRMAN GRAHAM: We will insert Mr. Jacob's testimony into the record as read.

MR. BADDERS: Thank you.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony of
P. Bernard Jacob
Docket No. 110138-EI
In Support of Rate Relief
Date of Filing: July 8, 2011

Q. Please state your name and business address.

A. My name is Bernard Jacob. My business address is One Energy Place, Pensacola, Florida 32520. I am Vice President of Customer Operations for Gulf Power Company.

Q. Please summarize your educational and professional background.

A. I have a Master of Business Administration and a Bachelor of Science degree from Mississippi State University. I joined the Southern Company at Mississippi Power in August 1982. I have held a variety of positions within Mississippi Power, Southern Company Services, and Gulf Power Company (Gulf or the Company) in the areas of External Affairs, Customer Service, Telecommunications, Information Technology, and Corporate Services. I was elected Vice President External Affairs and Corporate Services for Gulf Power in June 2003. I assumed my current responsibilities as Vice President, Customer Operations, in March 2007.

Q. Please state your general responsibilities.

A. I provide executive leadership over the Customer Operations function at Gulf, which includes Transmission, Distribution, Customer Service (Customer Service and Information, Customer Accounts and Sales), and

Customer Operations Support. I ensure the development of business plans, which include initiatives, goals, and performance indicators for each of the functional areas of Customer Operations. My responsibilities are to actively promote safety as a core value throughout Customer Operations, set expectations and hold employees accountable for working safely every day. In addition to safety, a special emphasis is placed on the promotion of customer value and increased customer satisfaction, electric service reliability, workforce productivity and employee development, and effective management of budgets.

Q. What is the purpose of your testimony?

A. My testimony provides an overview of Gulf's Customer Operations business functions directly involved in the delivery of electric service to our customers. Specific details of these business functions will be provided by other witnesses. Gulf Witness Caldwell will discuss Transmission; Gulf Witness Moore will discuss Distribution; and Gulf Witness Neyman will discuss Customer Service.

Q. Are you sponsoring any exhibits?

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

Q. Please discuss the role of Customer Operations at Gulf.

A. Gulf Power delivers electric service to our customers around the clock. As a result, certain functions in Customer Operations must be staffed 24 hours a day, 7 days a week in order to effectively operate the electric network and to be able to respond to customer needs when they arise. Customer Operations is the face of the Company to the customer. Customer Operations consists of Transmission, Distribution, Customer Service, and Customer Operations Support business functions. Transmission's function is to deliver power from the generating source to the distribution substations at voltages of 46 kilovolts (kV), 115 kV, and 230 kV through lines and substations. Distribution receives electric power from Transmission and steps down the voltage to 12 kV or 25 kV for providing service from the distribution substations to the customer's metering point. The purpose of Customer Service is to promote the efficient and effective use of electricity through conservation programs, pricing development, and technical assistance to various classes of customers. Customer Service is also responsible for daily interaction with the customer through the Customer Service Center, or call center, and District Offices. Customer Operations Support is responsible for the effective management of budgets and business controls.

Q. Please provide an overview of Gulf's service area.

A. Gulf Power serves customers in eight counties: Bay, Escambia, Holmes, Jackson, Okaloosa, Santa Rosa, Walton, and Washington. These counties cover approximately 7,550 square miles and encompass 71

towns and communities in Northwest Florida. Gulf's service area spans from the Alabama border 153 miles to the East and from the Northwest Florida coast of the Gulf of Mexico north to the Alabama/Florida border.

As of March 2011, Gulf's customer base includes 431,741 industrial, commercial, and residential customers located in three districts. Gulf has district headquarters in Pensacola, Ft. Walton and Panama City.

Q. Please provide an overview of Gulf's transmission system.

A. Gulf Power's transmission system carries the bulk power flow from and between generation sources and substations. The transmission system consists of approximately 1,600 miles of lines which are operated at 230 kV, 115 kV, and 46 kV. Gulf's 230kV system carries the bulk power flow from generation sources and neighboring utilities. These lines supply the path for power to flow from the generation sources to Gulf's transmission level substations in the various regional areas of demand. The 115kV transmission facilities move the power from the transmission substations to the local areas of demand to facilitate the further distribution of the power to the customer. This is accomplished in one of our 109 distribution stations utilizing a transformer to reduce the voltage to a level appropriate for Gulf's distribution network. In these distribution substations, the power is split into individual feeders for distribution to customer load centers. The 46kV system serves some of our more remote areas where lower amounts of power need to be directed to fewer loads. We also have a number of tie-lines with other utilities. These lines act as conduits for

power to flow both into and out of our network, depending upon the current system conditions. Capital additions for replacement of routine items (such as poles, transformers, voltage regulation equipment, switches and conductors) and for transmission system improvements are necessary to support reliability, safety, and customer demand. Mr. Caldwell will address the details associated with Gulf's transmission system.

Q. Please provide an overview of Gulf's distribution facilities.

A. Gulf's distribution system provides power from the distribution substations to the meter and, as of January 2011, comprises 5,898 miles of overhead lines, 1,786 miles of underground lines, and 253,365 poles. This distribution infrastructure, consisting of 276 distribution feeders, operates predominately at primary voltages of 12 kV with some 25 kV facilities in limited areas. The distribution primary voltage is then stepped-down to service level voltages for our customers, with typical residential 120/240 volt service. Capital additions for infrastructure upgrades, the use of technological innovation, vegetation management programs, storm hardening initiatives, implementation of Advanced Metering Infrastructure (AMI), and other productivity improvements are expected to enhance Gulf's safe and reliable service to our customers. Mr. Moore will discuss these improvements as well as other details associated with Gulf's distribution system.

Q. Please provide an overview of Gulf's Customer Service function.

A. Gulf's Customer Service function includes employees who interface with our customers on a daily basis in the following business units: Customer Service Center, Mass Markets (residential and small business customers), Major Accounts (large business customers), District Customer Service, Meter Reading, Collections and Support Services, Market Research and Planning, and Economic Development.

The Customer Service Center (CSC) is the first point of contact for most customers. The CSC is staffed 24 hours per day, 7 days per week with representatives trained to assist customers with billing questions, service requests, outage reports, new product requests, and a multitude of other questions.

The Mass Markets group develops and supports programs, products, and services for the benefit of the residential and small business segments. This includes conservation programs and efficient energy sales. Additionally, the Mass Markets team performs energy audits and assists customers with equipment purchasing decisions.

The Major Accounts group supports the largest industrial and commercial customers who are highly specialized and require knowledgeable specialists to serve their electrical needs.

District Customer Service includes personnel in the Company's district offices in Panama City, Fort Walton, and Pensacola and local offices in Chipley, Crestview, DeFuniak Springs, Milton, and Niceville. District Customer Service is responsible for processing customer payments and for helping customers with billing questions, service requests, and new product requests. Additionally, District Customer Service includes personnel spread throughout our service area whose primary responsibilities are to read meters and perform collections activities.

Market Research and Planning includes pricing, load research, market reporting and economic evaluation, customer-sited renewable generation, and forecasting. Market Research and Planning is also responsible for the development and reporting of the Company's Demand Side Management Plan, including the projection and true-up filings for the Energy Conservation Cost Recovery (ECCR) clause.

Economic Development personnel are focused on identifying opportunities to recruit new, or retain existing, commercial and/or industrial customers in Gulf Power's service area and fostering networking and information exchange with our region's community, business, and elected leadership.

All of Gulf's employees take personal responsibility to ensure customers' expectations are exceeded. Every customer touch is an opportunity to exceed customer expectations. Gulf's employees also take pride in creating value for our customers by excelling at the fundamentals. Each

response to a customer is aligned with the customer's sense of urgency as each employee thinks and acts like a customer. Gulf understands its services are vital to each customer's lifestyle as well as the communities we serve. Ms. Neyman will further describe Customer Service programs in her testimony.

Q. Please describe Gulf's commitment to safety.

A. Gulf's first priority is the safety of employees and the customers we serve. Gulf's corporate safety program, Target Zero, is based on the expectation that employees experience zero unsafe acts both while on the job or off duty. Employees participate in general and job specific safety training, monthly safety topics via email, website safety topics, and other safety related resources and wellness programs for personal health and wellbeing. Safety is the core of Gulf's culture.

Q. Please describe Gulf's customer satisfaction commitment.

A. Gulf continually focuses on creating a culture of adding value to customer experiences through various methods of communication. Personal contact, letters, e-mails, telephone calls, and surveys are methods customers use to let us know how we are doing. We value the collective voices of our customers.

One of our primary corporate goals is to be in the upper quartile in customer value when measured against a peer group of utilities. To measure ourselves, Gulf Power utilizes a Customer Value Benchmark

(CVB) to compare and contrast itself against an elite group of 16 peer utilities in the Southeast and nationally. Ms. Neyman will further discuss the CVB in her testimony. I am pleased that, since 2000, Gulf has remained in the top quartile overall. We are proud of our performance when compared to the top utilities across the country. This outstanding performance is a testament to the focus Gulf's employees maintain on exceeding our customers' expectations each and every day.

Q. Please describe Gulf's commitment to the communities we serve.

A. The communities we serve are our customers, neighbors, friends, family, and coworkers. Gulf's employees have a strong history of active involvement in making these communities a better place to live.

An example of Gulf's commitment to the communities we serve is Gulf's efforts related to storm restoration. Gulf takes great pride in our restoration efforts to ensure our customers and communities return to normalcy as quickly as possible following major storm events. In the 2004 storm season, Gulf's distribution system endured three named storms: Tropical Storms Bonnie and Frances and Hurricane Ivan (Category 3). While Gulf was still recovering from the active 2004 storm season, the 2005 storm season arrived with four named storms: Tropical Storms Arlene and Cindy along with Hurricane Dennis and Hurricane Katrina. The most severe, Hurricane Ivan, a Category 3, struck Gulf's service area on September 16, 2004, followed by Hurricane Dennis (Category 3) approximately ten months later.

Hurricane Ivan-related damage to Gulf's distribution system was the worst on record for Gulf. Damage to Gulf's facilities was extensive, and in many cases, catastrophic. Outages were widespread throughout Gulf's service area; 368,644 customers, or 91.6 percent of Gulf's total customer base, lost power. Every customer in Escambia and Santa Rosa Counties lost power. Electric utility resources were extremely limited as transmission, distribution, and tree trimming contractor crews were committed to South Florida's hurricane restoration efforts resulting from Hurricanes Charlie and Frances. Gulf secured limited available resources with the understanding that the resources were dependent upon releases of these crews from the South Florida utilities. Electric service was restored in 13 days to those customers who could take power from Gulf, utilizing crews, crew methods, and materials from 23 states across the United States and even crews from Canada. As Gulf was in the completion phase of Hurricane Ivan restoration, Hurricane Jeanne struck South Florida on Sunday night, September 26, 2004. In anticipation of landfall of Hurricane Jeanne, crew releases to South Florida began on Thursday, September 23, 2004, seven days after Hurricane Ivan struck Gulf's service area. Schedule 1 of Exhibit PBJ-1 is a compilation of customer and press accounts regarding Gulf's Hurricane Ivan restoration efforts.

Q. Please describe Gulf's transmission system performance.

A. Gulf's transmission system performance has been strong over the past five years, and the Company has met its goal of maintaining the reliability

of its transmission system. Mr. Caldwell will discuss Gulf's transmission system performance.

Q. Please describe Gulf's distribution system performance.

A. Gulf's distribution system performance has also been good over the past five years and the Company has met its goal of maintaining the reliability of its distribution system. Mr. Moore will discuss Gulf's distribution system performance.

Q. Has Gulf implemented any transmission and distribution projects that take advantage of new technological advances in the electric industry?

A. Yes. Gulf is expanding its transmission and distribution automation capabilities. This expansion consists of the installation of protective devices (reclosers), substation relaying changes, and a Distribution Supervisory Control and Data Acquisition (DSCADA) System. In addition, Gulf has partnered with the Department of Energy and Southern Company in a Smart Grid Investment Grant (SGIG) initiative dedicated to installing the latest transmission and distribution technology. This new technology will provide better operation and control of the transmission and distribution networks. Mr. Moore and Mr. Caldwell discuss these programs in their testimony. Gulf is also deploying AMI throughout our service area. AMI is the deployment of new meters having communication capabilities and the tower-based communication infrastructure that accompanies them. Mr. Moore will discuss the deployment of AMI. Ms. Neyman will provide additional detail regarding the customer and energy

services benefits of AMI. Gulf Witness Erickson will discuss AMI meter depreciation.

Q. What is the requested level of Customer Operations Operation and Maintenance (O&M) expenses and capital additions?

A. Gulf is requesting $99,133,000 in Customer Operations O&M expenses and $129,530,000 in capital additions for the 2012 test year. These amounts are reasonable, prudent, and necessary for Gulf to continue to provide high quality customer service and maintain high reliability for our customers. The level of O&M expenses is representative of future levels required in the period the new rates will be in effect. Witnesses Caldwell, Moore, and Neyman will provide more detail on these requests.

Q. Please summarize your testimony.

A. Gulf is committed to the safety of its employees and customers, to ensuring customer value and customer satisfaction, and to providing reliable electric service to our customers. Gulf's customer service standards and applications ensure consistent, reliable, high quality customer service across Northwest Florida. One of our primary business goals is to be an industry leader in customer service and customer satisfaction. Over the past few years, we have added new technologies to keep up with the growth in our service territory and the changing expectations of our customers. We take great pride in being ranked at the very top of our industry in delivering value to our customers. Our business results and commitment to continuous improvement demonstrates our

past, present, and future commitment to providing electric service of superior value.

The adjusted requested level of $99,133,000 in Customer Operations O&M expenses and the $129,530,000 in capital additions for my area of responsibility in the test year are reasonable, prudent, and necessary for Gulf to continue to provide customer service and maintain high reliability to our customers. This level of O&M expenses is representative of future levels required in the period the new rates will be in effect.

Q Does this conclude your testimony?

A. Yes.

BY MR. BADDERS:

Q Mr. Jacob, did you also have one exhibit attached to your testimony?

A I did.

Q Do you have any changes or corrections to that exhibit?

A I do not.

Q I'll note for the record that this exhibit has already been preidentified as Exhibit 13.

CHAIRMAN GRAHAM: Okay, noted.

(Exhibit 13 marked for identification.)

BY MR. BADDERS:

Q Mr. Jacob, will you please summarize your testimony.

A Yes, I will. Thank you. Good afternoon, Commissioners. The purpose of my testimony today is to provide an overview of Gulf Power's customer operations functions and to reiterate our need for rate relief.

Customer operations is the face of the company to our customers and includes transmission, distribution, and customer service. Collectively these departments work in concert with one another to serve the energy needs of approximately 432,000 customers through continuous, reliable, safe electric service, while promoting the efficient use of our product.

To provide this level of customer service, certain functions must be staffed 24 hours a day, seven days a week, in order to effectively operate the electric network and to properly respond to the customer's needs when they arise.

The role of the transmission organization is to transport large amounts of power among generating sources, among neighboring utilities and load centers. These high voltage lines are tied together in a complex network to transport power where it is needed.

Our transmission network is managed by a team of system operators who act like traffic cops whose role is to keep electricity flowing around the clock, meeting customer demand. The distribution network begins at the substation where transmission ends and delivers electricity at a lower voltage to the ultimate customer. Like transmission, the distribution system is monitored and controlled by a team of operators around the clock.

The electric grid can be compared to the nation's highway system. Transmission lines are akin to interstate highway systems designed to carry large volumes of traffic over long distances.

The distribution system is more like a network of state highways and city streets where power is delivered to the majority of our customers. In addition to the operations functions in transmission and distribution that I just

described, other employees are dedicated to the design, construction, operation and maintenance of the electric grid.

The customer's service function can be divided also into three segments. First, the customer service center, second, the district and local offices, and then, third, the energy sales and efficiency organization.

The customer service center is generally our first point of contact with our customers and is staffed by representatives who serve our customers around the clock. These skilled representatives receive approximately 1.4 million phone calls each year and respond to a variety of customer service needs such as new service requests, payment arrangements, energy efficiency advice, and power outage calls.

The local and district offices provide a location for our customers to pay their bill, establish service, talk to a representative about a service-related issue. And finally, the energy sales and efficiency organization consists of a team of energy experts whose role is to assist our customers in the most efficient and effective use of our product in their home or business.

Witnesses Caldwell, Moore and Neyman will go into more detail about the business functions of the customer operations in their testimony.

Our primary business goal is to be an industry

leader in customer service and satisfaction. We take great pride in being among the top in our industry in delivering value to our customers. Our business results and commitment to continuous improvement demonstrates our past, our present, and our future commitment to our customers through adding value through reliable electric service.

Now you have a better understanding of the functions within the customer operations organization. As I mentioned earlier, all departments must work in concert to serve our customers' electric needs. Should any link in that chain fail, then we have all failed in meeting the expectations of our customers.

In conclusion, it's imperative that Gulf Power be granted this rate increase in order for us to continue to provide quality electric service that our customers deserve and expect. Thank you.

MR. BADDERS: We tender Mr. Jacob for cross examination.

CHAIRMAN GRAHAM: Mr. Sayler?

CROSS EXAMINATION

BY MR. SAYLER:

Q Good evening, Commissioners, Mr. Jacob. My name is Erik Sayler. I am with the Office of Public Counsel, representing your customers in this case. I just wanted to say thank you for coming and staying late, and I've just got

a few short questions for you.

A Okay.

Q Based upon your testimony, it appears you've been with Gulf Power since about June, 2003, is that correct?

A That's correct, yes.

Q And you assumed your current position in March of 2007, is that right?

A That is correct.

Q And you have been continuously with Gulf Power since June, 2003?

A That is correct.

Q And do you recall the 2004, 2005 hurricane seasons?

A Very well.

Q And would it be fair to say that you are personally familiar with the amount of damage that were caused during those two hurricane seasons?

A I lived through the hurricane season, so, yes, I am familiar with the level of damage that did occur to our service system, yes.

Q And on page ten of your testimony you describe -- you testify as such. The top of the page, you testify Hurricane Ivan-related damage to Gulf's distribution system was the worst on record for Gulf. You continue on to say, damage to Gulf's facilities was extensive and in many cases

catastrophic. Is that correct? Is that a correct restatement of your testimony and what actually happened during the 2004 hurricane season?

A I'm sorry, I was digging through my book. Can you refer to the line again, please?

Q Sure. Line two through four.

A Okay. Can you repeat your question, please.

Q Sure. Would you agree that lines two through four, your description of the Hurricane Ivan-related damage is accurate and correct, as you recall?

A Yes, that's correct.

Q And I believe in your words you say the damage was extensive and catastrophic. Is that correct?

A Yes, my testimony -- my testimony reflects that 91 percent of our customers sustained a power outage after that storm, yes.

Q And would you classify Hurricane Ivan as a severe hurricane for Gulf Power?

A Can you be more specific?

Q I mean, if you were -- how would you define a severe hurricane?

A As I stated in my testimony, Gulf Power sustained the Category 3 storm, Hurricane Ivan, and had 91.6 percent of our customers out. So from an operations standpoint, yes, it was a significant event for Gulf Power Company.

Q Would you say it was a severe event?

CHAIRMAN GRAHAM: Mr. Sayler, he said it was catastrophic, he said 91 percent was out.

BY MR. SAYLER:

Q Would you say that that is greater than severe?

A Yes.

Q All right. And Hurricane Dennis, I don't see any reference to it in your testimony, but would you agree that Hurricane Dennis was also similarly catastrophic and severe?

A Hurricane Dennis, while a Category 3 storm, just like Hurricane Ivan, did not have the impact on our service territory as Ivan did, primarily because of the fact that the forward wind speed for Hurricane Dennis was much faster than Ivan, so, in other words, it moved through our service territory quickly.

Plus the eye of the storm in Hurricane Dennis was much smaller than that of Hurricane Ivan, and as a result, again, not as much damage to our system.

Q But would you categorize it as potentially a severe storm hitting your system?

A If you rank the two, Hurricane Dennis was less severe than Hurricane Ivan.

MR. SAYLER: All right, thank you very much. I'll have more questions on your rebuttal, but that's it for this evening. Appreciate it.

CHAIRMAN GRAHAM: Mr. Moyle?

CROSS EXAMINATION

BY MR. MOYLE:

Q Good evening. Jon Moyle on behalf of the Industrial Users. You're the Vice-President for customers relations, is that right?

A Vice-President of Customer Operations is my title.

Q Operations. Okay. So I take it in that role that you have interaction, direct interaction, with customers, residential customers, industrial customers, military customers. Is that a fair assumption, or is that indeed correct?

A That is indeed correct. I do have interaction at times with our customers, yes.

Q And the -- there's been talk about the industrial customers, and also, you know, the military is represented here today. What are the military installations that are in your service area?

A The military installations in our service territory are NAS Pensacola, which includes Whiting Field and Saufley Field, Hurlburt Field in the Fort Walton area, as well as Eglin Air Force Base, Tyndall Air Force Base in Panama City, and then NSA Panama City, as well.

Q Do you know, in the state of Florida, does your service area house and host the majority of the military

operations in the state?

A I don't have that information in front of me, but I do know that our military is a major component of our customers base, and we certainly are glad to have them there.

Q And you also are aware that a lot of businesses today are under cost pressures -- industrial customers, commercial customers, and the military is also under similar pressure, correct?

A I think that's a fair assessment, yes.

Q And in opening statements some people were talking about a cut looming for the military. Are you aware of that, with the Federal budget deal?

A I've been paying attention to the national news, and, yes, I have heard that that's pending, but I don't know the outcome of that at this time.

Q And you were here earlier -- and I don't want to get back into which exhibit -- but you would concede that the -- that the rates for industrial customers in the Gulf service territory are significantly higher than comparable industrial rates in some of your neighboring states, correct?

A Our industrial rates, yes, are above our neighboring utilities, yes.

Q And to the extent that the industrial customers and the military customers are trying to deal with economic challenges, you would agree that the minimum distribution

system, something that is part of this case, would assist them in dealing with economic situations they're confronting, correct?

A While I don't profess to be an expert in MDS, I do know that should that be adopted, that would be a benefit to our large industrial and military customers.

Q Okay, I want to just shift gears and talk to you for a minute about the storm repair. In your exhibits you have a lot of letters and newspaper articles about the efforts that took place after the storm repair.

A Yes, I do.

Q And I understand that was a lot of work. As we sit here today, you don't have any information or are not aware -- you didn't have any problem financing the work that needed to be done following those '04-'05 storms, correct?

A I can't speak to that. That's not my area of expertise in the company.

Q I'll ask one of your brethren. The other question is, the last time that you had to deal with storms was '05, is that right, of significant magnitude, in terms of hurricanes?

A Yes, as far as hurricanes, yes, in '05. But we did have a small tropical storm this year.

Q And with respect to financing those storms, you're not the right person to ask that question of, correct?

A That is correct. That's not my expertise.

MR. MOYLE: That's all I have. Thank you.

CHAIRMAN GRAHAM: Major Thompson?

MAJOR THOMPSON: Thank you, Mr. Chairman. I just want to thank Mr. Jacob for the nice words about the military, and we have no questions for him.

CHAIRMAN GRAHAM: Mr. Wright?

MR. WRIGHT: No questions, Mr. Chairman. Thank you.

CHAIRMAN GRAHAM: Staff?

MR. YOUNG: No questions.

CHAIRMAN GRAHAM: Commissioners? Commissioner Brise?

COMMISSIONER BRISE: Thank you, Mr. Chairman. I just have one question. On page 12 of your testimony you reference, line seven, 129,530,000 in capital additions for 2012. And I just wanted to know, because it's very broad, and without any specifics, if you can provide me with some of the things that you contemplate that those dollars will cover.

THE WITNESS: As stated in my summary, as Vice-President of Customer Operations, I'm responsible for transmission, distribution, and customer service. So the vast majority of those dollars were in the transmission and distribution area of our business and

Witness Moore and Caldwell can speak more to that. But, again, the vast majority of those dollars fall into those two -- those two departments.

COMMISSIONER BRISE: Okay. So then I'll ask them for more specifics. Thank you.

CHAIRMAN GRAHAM: Commissioner Balbis?

COMMISSIONER BALBIS: Thank you, Mr. Chairman. I only have one question. As part of your request there's quite a few additional employees that are being requested for the test year. And as Vice-President of Customer Operations, could you tell me, of those additional employees, how many are under your purview and what will they be doing, and provide some justification for the request, or is there another witness that I can ask that question to that might be able to help?

THE WITNESS: Is there a specific number that you would like me to address?

COMMISSIONER BALBIS: Yes, I believe I've seen some numbers of, I think, 159 new employees that are requested as part of this case. Is that correct?

THE WITNESS: I can't validate that, I'm sorry, for the total case.

COMMISSIONER BALBIS: Okay. Well, then, specifically to what's under your purview, are you

requesting additional employees to perform their job functions? And if so, what are they doing that's in addition to what they're doing today?

THE WITNESS: Yes, Commissioner, we do. Again, as part of my purview, I have distribution, transmission, and customer service. Some of the employees that we have hired are in the distribution part of our business, primarily in the line crew. These are entry level positions.

These employees typically go through an extensive training program that basically requires them to be -- of course, on-the-job training, and of course they are providing value to our company. But it takes roughly seven years for them to become a fully qualified journeyman. So we know that with our aging work force that we have to make sure that we have properly trained employees ready to go when those more senior employees retire.

Also, on the customer service side of the house, we've had -- we've seen a need to improve our staffing in our call center to address the number of calls we've had from our customers, as well as several of those positions were associated with our demand side management programs that this Commission approved that are addressing those needs that our customers have with

questions with regard to the DSM programs. So those are the two major areas where we've staffed up.

COMMISSIONER BALBIS: Now, wouldn't the additional cost for implementing the demand side management programs, wouldn't those costs be recovered through the clause that allows those costs to be recovered?

THE WITNESS: Yes, sir, that's my understanding.

COMMISSIONER BALBIS: Okay, thank you. I have nothing further.

CHAIRMAN GRAHAM: Commissioner Edgar?

COMMISSIONER EDGAR: Thank you. In the summary of your prefiled testimony you make the following statement. It says, over the past few years we have added new technologies to keep up with growth in our service territory and the changing expectations of our customers.

Can you expand on each of those points a little bit? Over the past few years -- not the past ten -- but over the past few years what new technologies, generally, as applied to growth in service territory, and then also customer expectations.

THE WITNESS: Not necessarily growth in service territory, but maybe growth in customers. But some of the things, technology related, that we've had, of course, AMI, which has, I think, been stipulated to this

case. That's one of the improvements that we have deployed.

As a result of a grant by the Department of Energy, the U.S. Department of Energy, we have leveraged Federal dollars to add additional technology on our grid to, in essence, make it a smarter grid so that it can -- so that we can do more remote controlling of that grid. And Witness Moore can talk about that in more detail.

We've also had, through wireless technology, the capability to send out service orders to our vehicles, where if a vehicle is on the road we can send remotely over our wireless network an order for that particular truck to do next, as opposed to any other paper type of transaction.

So there have been a number of things like that that we've installed to help our customers. We have a number of technologies in our call center to help us be able to respond to customer questions in more detail.

The information available to our call center reps has improved, again, so that they can be that first call resolution representative, and not have to pass that customer on to others to answer a more detailed question.

COMMISSIONER EDGAR: I don't want to nitpick this too much, but this statement about new technologies to

keep up with the growth in service territory, I'm just not sure what that is referring to. And I'm sorry, it's on page 12, line 22 -- 21 and 22.

THE WITNESS: Commissioner, the reference there is the growth -- probably the better way to say it would be within our service territory. So as opposed to expanding the territory -- I think I'm understanding your question correctly, but it would be the growth within that territory.

COMMISSIONER EDGAR: Number of customers?

THE WITNESS: That's correct, yes.

COMMISSIONER EDGAR: Okay, thank you.

CHAIRMAN GRAHAM: Redirect?

REDIRECT EXAMINATION

BY MR. BADDERS:

Q Just one question. You with asked by Commissioner Balbis about the new employees covering the DSM programs that the Commission has approved. Do you recall that line of questions?

A Yes, I do.

Q Are those, the costs associated with those employees, included in this request?

A They're not.

MR. BADDERS: Thank you. No further questions.

CHAIRMAN GRAHAM: Okay, exhibits.

MR. BADDERS: Yes, I would like to move Exhibit 13 into the record.

CHAIRMAN GRAHAM: Move Exhibit 13 into the record. Anyone else?

(Exhibit 13 admitted into evidence.)

CHAIRMAN GRAHAM: Mr. Jacobs, thank you. Gulf, your next witness.

MR. BADDERS: Our next witness is Witness Caldwell. Ready to proceed?

CHAIRMAN GRAHAM: Yes.

Thereupon,

P. CHRIS CALDWELL

was called as a witness on behalf of Gulf Power Company, and having been previously duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. BADDERS:

Q Mr. Caldwell, were you present this morning when the witnesses were sworn in?

A Yes, I was.

Q And did you take the oath?

A I did.

Q Please state your name and address for the record.

A My name is Paul Chris Caldwell. My address is One Energy Place, Pensacola, Florida, 32520.

Q And by whom are you employed and in what capacity?

A I am employed by Gulf Power and I'm the Transmission Manager for Gulf Power.

Q And are you same Paul Chris Caldwell who prefiled direct testimony consisting of 34 pages?

A Yes, I am.

Q Do you have any changes or corrections to that testimony?

A I do, I have three corrections. On page four, line 18, the number 437 should be 444. On page four, line 18, the number 1,142 should be 2,283.

MR. SAYLER: Excuse me, could you go a little slower? What was that first one again?

THE WITNESS: Yes, the first one was page four, line 18, the number 437 should be 444. Page four, line 18, the number 1,142 should be 2,283. And then on page 31, line four, the number 264,000 should be 214,000.

BY MR. BADDERS:

Q That's the wrong page. What was that page again?

A Page 31, line four.

CHAIRMAN GRAHAM: I don't have that on my line 4.

MR. SAYLER: It's line 10, I believe. I believe it's on line 10.

CHAIRMAN GRAHAM: 264,000 becomes what?

THE WITNESS: 264 should be 214.

CHAIRMAN GRAHAM: Okay.

BY MR. BADDERS:

Q With those changes, if I were to ask you the same questions today, would your answers be the same?

A Yes, they would.

Q We ask that the prefiled direct testimony of Paul Chris Caldwell be inserted into the record as though read.

CHAIRMAN GRAHAM: We will insert Mr. Caldwell's testimony, direct testimony, into the record as though read.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony of
P. Chris Caldwell
Docket No. 110138-EI
In Support of Rate Relief
Date of Filing: July 8, 2011

Q. Please state your name, business address, employer, and position.

A. My name is Chris Caldwell. My business address is One Energy Place, Pensacola, Florida, and I am the Transmission Manager for Gulf Power Company (Gulf or the Company).

Q. What are your responsibilities as Gulf's Transmission Manager?

A. I have responsibility for the planning, design, construction, operation and maintenance activities for Gulf's transmission facilities. On Gulf's system, transmission includes those facilities rated 46 kilovolts (kV) and above. My responsibilities include all compliance activities, planning, budgeting, trouble restoration, transmission vegetation management, and right-of-way management. The transmission department is also responsible for operation, construction, and maintenance of distribution facilities located within substations at Gulf Power.

Q. Please state your prior work experience and responsibilities.

A. I have been Gulf's Transmission Manager since July 2010. Previous to my current position, I worked for Georgia Power Company. Since June 1999 I have held various roles in the transmission function. I have served in engineering roles in construction and field protection and control

activities. I have been in leadership roles managing transmission maintenance activities in Atlanta, Georgia and in Augusta, Georgia. I have been in management roles at Georgia Power where I had responsibility for developing and implementing the maintenance program for all of Georgia Power's transmission facilities. This role included managing the Operation and Maintenance (O&M) budget for the organization and developing proactive projects to replace obsolete equipment and facilities.

Q. What is your educational background?

A. I hold a Bachelor of Science in Engineering with a specialization in Mechanical Engineering from Mercer University's School of Engineering in Macon, Georgia.

Q. What is the purpose of your testimony?

A. My testimony discusses Gulf's transmission system and the process we use to manage the system assets. I explain how we plan the system and develop our transmission budgets. Additionally, I discuss our current transmission investment and its usefulness in providing reliable service to our customers. I cover Gulf's projected transmission capital expenditures and O&M expenses for the year 2012. My testimony then addresses Gulf's transmission system performance.

Q. Are you sponsoring any exhibits?

A. Yes, I am sponsoring Exhibit PCC-1, Schedules 1 through 7. Exhibit PCC-1 was prepared under my direction and control, and the information contained therein is true and correct to the best of my knowledge and belief.

Q. Are you sponsoring or co-sponsoring any of the Minimum Filing Requirements (MFRs) filed by Gulf Power?

A. Yes. I sponsor or co-sponsor the MFRs shown on Exhibit PCC-1, Schedule 1. The information contained in the MFRs I sponsor or co-sponsor is true and correct to the best of my knowledge and belief.

I. DESCRIPTION OF GULF'S TRANSMISSION SYSTEM

Q. What is the purpose and function of Gulf's transmission system?

A. Gulf's transmission system is used to move large amounts of power among the generation sources, neighboring utilities, and load centers. Gulf's transmission system utilizes facilities at three voltage levels: 230,000 volts (230kV), 115,000 volts (115kV) and 46,000 volts (46kV). These facilities are tied together in a complex network to transport the power where it is needed.

When electricity is generated, the voltage is raised to transmission levels utilizing a transformer at the generating station. Once the power has been

transmitted from the generation centers closer to the areas in which it is needed, the voltage is reduced to a lower level, by utilizing a transformer within a distribution substation as described by Gulf Witness Moore. The distribution facilities which branch out from the substation carry the power to the customers. Some large industrial customers receive service at transmission voltage and have their own internal distribution networks. Exhibit PCC-1, Schedule 2 offers a general depiction of the overall energy network and how power flows.

Q. Can you visually describe some of the components you reference?

A. I have included photographs of some typical transformers and transmission structures in Exhibit PCC-1, Schedule 3.

Q. What is the makeup of Gulf's transmission facilities?

A. Gulf's transmission facilities consist of approximately 1,600 miles of lines, which are operated at 230kV, 115kV, and 46kV. Exhibit PCC-1, Schedule 4 is a map of Gulf's transmission facilities. The Company's 230kV system includes 437 miles of line and 1,142 structures. Gulf's 115kV system is made up of approximately 1,060 miles of line and 13,962 structures. Gulf also has a 46kV system that consists of about 114 miles of line with 1,180 structures. The system (all of the lines regardless of voltage) is connected through 143 substations, 109 of which are classified as distribution or load serving.

Gulf's 230kV system carries the bulk power flow from generation sources and neighboring utilities. These lines supply the path for power to flow from the generation sources to Gulf's transmission level substations in the various regional areas of demand. The 115kV transmission facilities move the power from the transmission substations to one of our 109 distribution stations utilizing a transformer to reduce the voltage to a level appropriate for Gulf's distribution network. In these distribution substations, the power is split into individual feeders for distribution to customer load centers. The 46kV system serves some of our more remote areas where lower amounts of power need to be directed to fewer loads. We also have a number of tie-lines with other utilities. These lines act as conduits for power to flow both into and out of our network, depending upon the current system conditions.

II. TRANSMISSION ASSET MANAGEMENT PROCESS

Q. Please describe Gulf's method for oversight and management of its transmission system.

A. Gulf manages the transmission system through five major functions: planning, design, construction, operations, and maintenance. Through each of these functions we provide the oversight needed to ensure that Gulf maintains reliable service to our customers.

Q. Please describe the responsibilities of Gulf's transmission planning function.

A. The transmission planning function evaluates Gulf's transmission system to ensure we can reliably serve our customers' needs today and into the future. The evaluation identifies potential facility overloads or other system issues in time to develop solutions and complete projects to mitigate the issue. This work is done using a complex system model and evaluating a multitude of possibilities in search of system issues or overloads. Given the complex nature of modeling and evaluating the system issues, Gulf utilizes the expertise of Southern Company Services (SCS) to run the studies and develop the list of issues annually. I discuss Gulf's transmission planning process in detail later in my testimony.

Once a potential issue is identified through the planning process, Gulf uses a diverse team of experts to ensure that all aspects and impacts of the potential project are reviewed. Depending on the issue identified, this group may include Generation Planning, Environmental, Customer Service, Distribution, Land or any other personnel needed. In most cases, multiple alternatives are considered and cost estimates are developed for each alternative.

Ultimately, a solution is recommended and reviewed by transmission management. Once the scope and costs are approved, the projects are input into the budget for the appropriate years. At this point, a preliminary

estimate is prepared. This estimate is further refined during the design phase.

Q. Please describe the design phase.

A. With a solution and scope determined, the final design work can begin. Because of the specialized expertise needed, Gulf uses the resources of SCS for our design work. The Southern Company Transmission (SCT) Design and Maintenance Support group is our resource for the design work on transmission projects. Gulf has the ultimate responsibility and oversight for the design, and we work closely with the designers to ensure our customers receive a quality product and that the designs meet our needs. Using standard designs from SCT allows Gulf to take advantage of cost savings for materials, equipment, and labor for construction. Additionally, we are able to use the expertise from the SCT group to incorporate the latest in designs and technology advancements. Through the design process, our estimates for the project are revised, as appropriate, based on a more detailed engineering analysis of the scope and construction needed.

Q. Please describe the construction phase.

A. Gulf is responsible for all construction activities to ensure the projects are completed according to budget and schedule targets. We also have a rigorous inspection program for all projects to ensure our facilities are constructed as designed and are built with the quality needed for the reliable service we expect.

Q. Please describe the operations function.

A. After construction, the new facilities are incorporated into our existing systems for operations. Operations monitors our transmission system and the flow of power to our customers. Through our operations group, Gulf ensures reliable power and facilitates planned outages on components for construction or maintenance activities. Our operators are North American Electric Reliability Corporation (NERC) certified and are qualified to make critical decisions as contingencies develop.

Our operations group uses an Energy Management System (EMS) to monitor the transmission system and to operate devices in the field to control power flow as needed. EMS is critical to ensure the operators are aware of field conditions and can make adjustments to mitigate issues. EMS provides a digital display of our lines and substations along with data about voltages, current, and power flows. This system also provides for alarms indicating trouble with system equipment and other facilities.

Q. What is the process for maintaining Gulf's transmission facilities?

A. All facilities are incorporated into our transmission maintenance programs. The goal of Gulf's transmission maintenance programs is to provide reliable operations for our customers and to extend the life of the transmission assets. These programs generally consist of an inspection process that drives a repair program. The repair program is based on

issues or abnormal conditions documented during the inspection or otherwise discovered. A maintenance program is optimized for each type of equipment or facility, and maintenance is scheduled based on historical trends with similar equipment or facilities.

III. TRANSMISSION PLANNING PROCESS

Q. Please describe Gulf's process for planning its transmission system.

A. Gulf's primary objective is to plan the transmission system well ahead of our customers' needs in order to provide timely, cost-effective and reliable electrical service. Gulf develops a 10-year plan based on load forecasting and other operational considerations. The transmission system is planned to meet the needs during peak system conditions and various contingency scenarios so that lines or equipment do not experience overloads.

The planning process identifies limiting elements (lines, transformers, breakers or other equipment) where overloads may occur based on the studied loading, generation, and contingencies for the various scenarios. In addition to identifying equipment or facility overloads, the planning studies also identify other reliability and system stability issues related to area voltage support and generation impacts. Gulf's planning process meets the applicable requirements of the NERC standards and any

applicable Southeastern Electric Reliability Corporation (SERC) standards.

Q. Please explain NERC and SERC and their involvement in the planning process.

A. In June 2007, the Federal Energy Regulatory Commission (FERC) granted NERC the authority to enforce reliability standards on all users, owners, and operators of the bulk power system in the United States and made compliance with those standards mandatory and enforceable. Non-compliance with these reliability standards can result in fines of up to $1,000,000 per day per occurrence. Included in this authority was a provision for NERC to delegate authority for the purpose of proposing and enforcing reliability standards in particular regions of the country by entering into delegation agreements with regional entities.

SERC serves as a regional entity with delegated authority from NERC for the purpose of proposing and enforcing reliability standards within the southeastern United States, consisting of all or portions of Missouri, Illinois, Oklahoma, Louisiana, Texas, Arkansas, Mississippi, Alabama, Georgia, Tennessee, Florida, South Carolina, North Carolina, Kentucky, and Virginia. Gulf is within the SERC Region. Compliance with the reliability standards is monitored and audited periodically by SERC.

Gulf certifies compliance with the standards as required by NERC and SERC. Gulf fosters a culture of compliance with all regulatory requirements through oversight programs and processes. Gulf was audited by SERC on Reliability Standards Compliance in 2009 and was found fully compliant on all requirements.

The NERC and SERC reliability standards cover many aspects of the bulk power system, including the planning process. The requirements within the planning standards specify transmission system scenarios to be evaluated that ultimately produce projected system or component overloads or voltage issues that must be resolved. Once an issue or "problem" has been identified by the planning studies, the reliability standards require Gulf to develop a project to mitigate the problem, budget for the necessary funds, and ultimately complete the project before the problem causes a disturbance within the system. The process for a new substation or line can take years; therefore, Gulf must develop a planning process that looks at a horizon far into the future. As mentioned previously, the Company conducts an annual transmission assessment of the effects of forecasted future load growth, generation assumptions, and/or other changes to load flow over a 10-year period.

These planning studies also review the need to serve new load areas and/or large new customers, future interconnections with neighboring utilities, integration of new generation facilities, and firm contractual transmission service obligations. The changes in system performance

due to these factors are simulated and analyzed for the present and future years to identify existing and future system limitations. Alternative solutions to these limitations are then developed, analyzed, and screened based on electrical performance. Viable alternatives are compared for their relative merits with respect to reliability, voltage, capacity, economics, and constructability. Transmission facility additions such as a new transmission line or addition of substation equipment are budgeted as a result of this process.

The entire Gulf transmission system is studied annually and the 10-year plan is revised. This 10-year plan includes the solutions and scope for projects along with the budget requirements for all transmission system improvement projects. This plan is reviewed and approved annually by the Transmission Manager.

IV. TRANSMISSION CAPITAL ADDITIONS BUDGET

Q. Please describe the transmission capital additions budget process.

A. Transmission begins its capital additions budget process by reviewing two major components that make up the transmission capital expenditures: transmission infrastructure replacement projects and transmission planning generated projects. Transmission infrastructure replacement projects consist of routine replacements of poles, transformers, voltage regulation equipment, switches, conductors, and other assets. The

transmission planning generated projects are a result of the transmission planning process that I mentioned previously. Both the transmission infrastructure replacement projects and transmission planning generated projects are developed to support reliability, safety, and customer demand.

Transmission infrastructure replacement projects and transmission planning generated projects are further subdivided into blanket and specific plant expenditure (PE) categories. Blanket PEs reflect repetitive expenditures based on historical trends. Blanket PEs include items such as pole, arm, conductor, shieldwire, breaker, regulator, and transformer replacements and other capital improvement projects. Specific PEs are related to transmission planning generated projects and major initiatives requiring transmission plant additions. Examples of specific PEs are substation upgrades, transmission line upgrades, new transmission lines and new substations.

The proposed capital additions budget is reviewed by the transmission management team. Once approved, the transmission management team submits a proposed capital additions budget to the Power Delivery General Manager and the Vice President of Customer Operations. Once reviewed and approved by the Vice President of Customer Operations, the transmission capital additions budget is presented to Corporate Planning for inclusion in the Company's Capital Additions Budget. Gulf Witness

Buck will address Gulf's capital additions budget process within Corporate Planning.

Q. Mr. Caldwell, Gulf Witness McMillan shows a total of $2.6 billion of plant in service investment in Gulf's 2012 rate base in this case. Other witnesses have testified that these costs are properly recorded consistent with the Uniform System of Accounts and generally accepted accounting principles. Are the transmission assets associated with these costs used and useful in the provision of electric service to the public?

A. Yes. The transmission assets, which comprise a total of $381,385,000 of the plant in service in Gulf's 2012 rate base in this case, are used and useful in Gulf's provision of electric service.

Q. Were these transmission costs reasonable and prudently incurred?

A. Yes. This investment includes, but is not limited to, the partially depreciated facilities included in Gulf's last rate case and approved by the Florida Public Service Commission (FPSC or the Commission). Since then, Gulf has continued to follow its planning criteria and committed the necessary resources to meet the demands of our customers. We have made the capital investments in the transmission system to continue to provide reliable electric service to our customers.

Since Gulf's last request for base rate relief, the transmission territorial system peak for Gulf has grown from 2,500 MW in 2003 to an all time peak of 2,634 MW in 2007. Gulf typically experiences annual peaks near

2,550 MW. The Company has invested $197.8 million during this period in the transmission system. These transmission investments have enabled Gulf to meet system needs during high load times. Gulf's planning process ensures that transmission improvements are planned, designed, and built in concert with our system loads to ensure the transmission capacity is there when needed without overbuilding the system.

Q. Mr. Caldwell, what types of capital investments were made during the 2003 to 2010 time period?

A. The following are examples of the types of expenditures made in the 2003 to 2010 timeframe:

- Transmission Infrastructure Replacement Projects - $70.7 million
  - Transmission - $58.0 million
  - Distribution substation - $12.7 million
- Transmission Planning Generated Projects - $94.4 million
  - Transmission Line Improvements - $44.8 million
  - New Transmission Substations - $16.1 million
  - Substation Equipment Upgrades - $33.5 million
- Distribution Planning Generated Projects – $32.7 million
  - New Distribution Substations – $19.3 million
  - Distribution Substation Equipment Upgrades - $13.4 million

Q. Please provide an example of a major project that was completed in the 2003 to 2010 time period that is included in transmission planning generated projects above.

A. The 10-year plan indicated a transformer overload on one of the 230kV to 115kV autotransformers in the Ft. Walton Beach area in the summer of 2006. After convening a team from the planning, design, maintenance, and construction departments, a solution was developed to build a new 230 kV to 115 kV substation in the Holley, Florida area. The resulting new substation, Miller Bayou, provided additional voltage stability for the Navarre and Gulf Breeze portions of the system along with solving the overload issue on the autotransformer in the Ft. Walton Beach area. Through the careful planning process, Gulf was able to strengthen the area's transmission system while solving multiple issues in a cost-effective manner.

Q. What are Gulf's transmission capital additions budgets for 2011 and 2012?

A. Gulf's transmission capital additions budget for 2011 is $66,748,000 and for 2012 is $70,902,000. These two totals consist of transmission infrastructure replacement projects, Smart Grid Investment Grant (SGIG) projects, transmission planning generated projects, and distribution planning generated projects. The budget for 2011 through 2013 is shown in Exhibit PCC-1, Schedule 5.

Q. Please discuss the transmission infrastructure replacement projects.

A. The infrastructure projects account for $6,180,000 of the 2012 transmission capital additions budget. The infrastructure replacement projects consist of the replacement of deteriorated equipment inside substations such as breakers, transformers, switches, regulators, and relays; along with the replacement of poles,arms and hardware on the transmission lines. The need for the infrastructure improvement projects is driven primarily by aging infrastructure.

Gulf installed a significant amount of transmission infrastructure to support growth from 1960 to 1980. This infrastructure is approaching or is at the end of its useful life, which can result in increased failure rates. Gulf has been able to extend the life cycles of these facilities beyond the typical 30-year window because of its maintenance programs, which has provided benefits to our customers. However, there is a limit to the useful life of this investment, and proactive replacements must be part of our plans. Infrastructure replacement projects are prudent and necessary to avoid impacts to reliability. Proactive spending to replace these assets will also allow for better planning and more cost effective solutions compared to reacting once a failure has occurred.

Q. Please describe the SGIG projects included in the 2012 transmission capital additions budget.

A. Gulf's SGIG projects included in the 2012 transmission capital additions budget account for $5,640,000. As part of the American Recovery and

Reinvestment Act, Congress allocated funding to the Department of Energy (DOE) for grants to increase the rate of Smart Grid equipment deployment across the United States. The transmission portion of this grant has been dedicated to replacing protection and control equipment in substations with newer technologies which allow for better operation and control of the transmission network. These devices facilitate communication between remote field locations and the transmission control center, as well as allowing more advanced protection schemes to be implemented throughout Gulf.

Q. What is included in the transmission planning generated projects portion of the 2012 capital additions budget?

A. The transmission planning generated projects account for $56,107,000 of the 2012 transmission capital additions budget. The major items included in the 2012 budget are:

- Smith – Laguna Beach – Santa Rosa transmission line and substation improvements ($25,872,000)
- Slocomb – Holmes Creek – Highland City transmission line and substation improvements ($28,750,000)

The transmission planning generated projects which Gulf will be working on in 2012 were developed through the Gulf standard planning process and underwent the same scrutiny as described in the transmission planning portion of my testimony. The projects will strengthen the

transmission grid by creating new paths and improving existing paths to allow more power to flow across our system and will avoid potential overload conditions.

Q. Please describe the Smith – Laguna Beach – Santa Rosa project.

A. This $25,872,000 expenditure is for a portion of the upgrade of the line and substation between Plant Smith to Laguna Beach substation and the Santa Rosa substation. Gulf will be finishing the rebuild of the 14.2 miles of the Smith – Laguna Beach 115kV transmission line in 2012. The newly rebuilt line will create a second 230kV path from Plant Smith to the Laguna Beach substation. Another piece of this overall project is the modification of the existing Santa Rosa substation to include a 230kV ring bus terminal. The initial reconstruction of the Santa Rosa substation will take place during 2012.

Q. Please describe the Holmes Creek – Highland City project.

A. The initial phase of the project will begin in 2012 with expenditures of $28,750,000 to rebuild the first phase of the line from Holmes Creek to Marianna. This project is a new 230kV path from Alabama Power's Plant Farley to the Panama City area. This new line from Slocomb substation in Alabama to Holmes Creek substation to Highland City substation will alleviate a potential overload on the existing 115kV line along this same path.

Q. Please account for the remaining $1,485,000 within the transmission planning generated projects portion of the 2012 transmission capital additions budget.

A. The remaining $1,485,000 in the transmission planning generated projects portion of the 2012 budget is accounted for by various smaller projects and projects currently in the design phase.

Q. Please discuss the distribution planning generated projects included in the 2012 transmission capital additions budget.

A. Distribution planning generated projects account for $2,975,000 of the 2012 transmission capital additions budget. These projects are recommended as a product of the Distribution Planning Process as discussed in Mr. Moore's testimony. Transmission has the responsibility for all engineering, construction, and project management associated with these projects.

An example of one of these projects is the construction of Holiday substation. It will be constructed as a new 115kV to 12kV distribution substation in Gulf's Eastern District. The substation will alleviate transformer overloading conditions at one of the other nearby substations. The new substation will allow for increased reliability to our customers along with additional operability options for our Distribution Operations Center. The new substation represents $2.0 million of the 2012 transmission capital budget.

Gulf's 2012 transmission capital additions budget includes $975,000 to cover the cost of the remaining projects in this category. These projects include the addition of feeders and transformers in distribution substations.

V. TRANSMISSION O&M BUDGET

Q. Describe how the transmission Operations & Maintenance (O&M) budget is developed.

A. Gulf's Corporate Planning organization provides a Budget Message with budget guidelines for preparing the budget. Following receipt of the Budget Message, Gulf's transmission O&M budget is developed through a multi-step process that is implemented by employees who are well-experienced and very knowledgeable of the transmission systems they operate and maintain. Each year Gulf's transmission organization develops a five-year O&M budget based on historical experience and projected maintenance in order to continue the safe operation and integrity of the transmission system. Gulf uses data collected through various inspection programs to assist in planning its O&M budget. I discuss these inspection programs later in my testimony. We review the repair work to be completed and estimate the costs of the maintenance programs to develop our budget requests. These repairs make up the majority of the variable O&M costs from year to year.

Gulf's other transmission O&M costs are related to equipment, tools, and people. We conduct workforce planning reviews to ensure we are staffed appropriately and make adjustments as needed. One of the considerations in the staffing review is to ensure we have adequate resources to respond to trouble and outages on the system in a timely manner.

The 5-year O&M budget is scrutinized in a multilayer process that compares historical spends for transmission accounts and cost types. New programs or additional dollar requests must be validated and approved annually. This approval process closely follows our capital additions budget review and approval process. Each responsibility center within transmission develops a budget for the five year window annually. The total transmission budget is reviewed and approved by the Transmission Manager and then by the Power Delivery General Manager. Final review is completed by the Customer Operations Vice President and the budget continues on in the process to approval as outlined in Mr. Buck's testimony.

In addition to the rigorous multilayer budgeting approval process, Gulf also institutes a detailed process for monitoring, evaluating, and justifying current year O&M expenses and capital expenditures. Budget to actual costs are reviewed monthly and variances are documented. Each month, projections are made for the month ahead and for year-end. These monthly actual costs, variances, monthly projections, and year end

projections are reviewed by the Transmission Manager, Power Delivery General Manager, and the Customer Operations Vice President.

Q. What is Gulf's transmission O&M budget for 2011 and 2012?

A. Gulf's transmission O&M budget for 2011 is $11,760,000 and for 2012 is $11,609,000, as shown in Exhibit PCC-1, Schedule 6.

Q. Are Gulf's projected levels of transmission O&M expenses in 2011 and 2012 reasonable and prudent? Please explain.

A. Yes. Gulf's projected levels of transmission O&M expense are reasonable, prudent, and necessary for Gulf to continue to provide adequate and reliable transmission service to meet our customers' needs. The amounts were developed through Gulf's transmission budget process and includes expenses for Protection & Control, Substation Maintenance Program, Substation Metering Services, Transmission Control Center, Transmission Line Inspection Program, Transmission Line Maintenance Programs, Transmission Engineering and Supervision, Transmission Vegetation Management, and SGIG.

Q. Please describe Gulf's Protection & Control component of the 2012 O&M budget.

A. Gulf's Protection & Control accounts for $413,000 of the 2012 transmission O&M budget. Transmission is responsible for the systems and equipment which monitor and automatically respond to abnormal conditions on the transmission grid. These controls and equipment are on

a routine maintenance cycle as required by NERC. The maintenance program consists of relay calibration, circuit verification, and functional testing of the protection schemes.

Q. Please describe Gulf's Substation Maintenance program.

A. Gulf's Substation Maintenance program accounts for $1,406,000 in the 2012 transmission O&M budget. Gulf implements a performance and interval based Substation Maintenance Program. This program uses periodic diagnostic tests on equipment to assist in determining the level of maintenance needed. These inspections review the performance of the equipment and review the current conditions of components. Based on conditions observed during the inspection, additional maintenance or repairs may be performed. The expenses to perform the inspections and follow through with the identified repairs are essential to the reliable operation of the system and to avoiding unexpected outages.

Q. Please describe Gulf's Substation Metering Services component of the 2012 O&M budget.

A. Substation Metering Services accounts for $48,000 of the 2012 transmission O&M budget. The Substation Metering Services component of the transmission O&M budget accounts for the ongoing maintenance of metering equipment within Gulf's distribution substations.

Q. Please describe what is included in the Transmission Control Center (TCC) operations O&M budget line item.

A. The 2012 transmission O&M budget includes $3,790,000 related to the Transmission Control Center operation. This expenditure is necessary for the safe and secure operation of Gulf's transmission system. Our TCC operates 24 hours a day, 7 days a week, and 365 days a year. The NERC-certified operators are responsible for the reliable operation of the system and take action to mitigate emergent issues. These operators also assist with removing components from service for maintenance or construction activities and use EMS to monitor and control the transmission system and its components. This system relies on data from field devices that is processed by local servers and displayed for the operators' use. This expense item also includes the bulk power operations functions performed by the Power Control Center (PCC).

Q. Please describe Gulf's Transmission Line Inspection program.

A. Gulf's Transmission Line Inspection Program accounts for $589,000 in the 2012 O&M budget. It consists of several inspection techniques to ensure the integrity of the system. A comprehensive, systematic transmission line inspection program is essential to the effective and orderly maintenance and safe and reliable operation of the transmission system. The objectives of this program are:

- To maximize plant facility life,
- To gather information to assist in prioritizing repairs, and
- To minimize unscheduled or emergency maintenance.

The program requires that every structure be inspected at least every 6 years by a ground inspection, climbing inspection, or a comprehensive aerial inspection by helicopter. This program is a part of Gulf's 2010 Storm Hardening Plan, which was approved by the FPSC in Docket No. 100265-EI, Order No. PSC-10-0688-PAA-EI.

Based on data gathered during the inspection program, repairs that are not related to capital infrastructure projects are expensed. The cost of these repairs can be significant and are related to weather, age of infrastructure, and other environmental factors. Some examples of these types of expenses are repairing woodpecker holes, replacing rusted or broken guy wires, and repairing deteriorated foundations or structure components. These expenses are prudent and can delay a costly capital outlay to replace the facility if repairs are not made timely. Additionally, the data from our inspection programs allows Gulf to trend and develop other maintenance programs to extend the life of the facilities. Some examples of programs needed based on our inspection data include a structure painting program for all steel structures and additional foundation repairs.

Q. Please describe Gulf's Transmission Line Maintenance Programs.

A. Gulf's Transmission Line Maintenance Programs account for $593,000 of the 2012 transmission O&M budget. The Transmission Line Maintenance Programs consist of periodic repairs to facilities including guys, anchors, foundations, poles, and wire. The majority of these repairs are initiated

based on the results of the Transmission Line Inspection Program. This program also covers reactive repairs to facilities.

Q. Please describe Gulf's Transmission Engineering and Supervision.

A. Gulf's Transmission Engineering and Supervision accounts for $2,694,000 of the 2012 transmission O&M budget. These expenses are for engineering, supervision, and administrative resources necessary to support the projects and programs in the transmission department.

Q. Please describe Gulf's Transmission Vegetation Management program.

A. Gulf's Transmission Vegetation Management program accounts for $1,943,000 in the 2012 O&M budget. Gulf manages the vegetation on Company transmission rights-of-way in a cost-effective manner ensuring high reliability of service and compliance with all environmental laws and regulations.

Gulf manages vegetation on its transmission rights-of-way through the use of an Integrated Vegetation Management (IVM) Program. IVM is a process that balances the use of mechanical, chemical, and biological treatments to establish and maintain a vegetative cover type that is compatible with the environment, economically feasible, and socially acceptable. The Company's vegetation management program is designed to control the vegetation growing on the ground floor as well as along the sides of the corridor and adjacent to the right-of-way. Gulf also

uses routine aerial inspections and ground patrols to identify danger trees and addresses those trees when found. This program is monitored, audited, and enforced by NERC reliability standards. Gulf reports quarterly on vegetation related outages and must certify compliance annually.

Q. Please describe Gulf's SGIG expense.

A. Gulf's SGIG expenses account for $133,000 in the 2012 transmission O&M budget. These expenses are for the cyber security and project management related to the previously discussed SGIG program.

Q. Is Gulf's projected level of transmission O&M expenses of $11,609,000 in 2012 representative of a going forward level of transmission O&M expenses beyond 2012?

A. Yes. As shown in Exhibit PCC-1, Schedule 6, Gulf's 2012 O&M budget is representative of projected future spending through 2015.

Q. What were Gulf's transmission O&M expenses for 2010?

A. Gulf's Transmission O&M expenses for 2010 were $9,362,595.

Q. Please explain the increase in transmission O&M expenses between 2010 and 2011.

A. Gulf's 2011 transmission O&M expense has risen relative to 2010 expenses. In 2010, Gulf made every effort to tightly manage O&M expenses; however, Gulf must increase O&M expenses to prevent a

decline in transmission reliability and to maintain customer service. We have managed our O&M costs through a thorough prioritization of repairs. These strategies are not sustainable over the long term, and our O&M spending must increase to fund programs at appropriate levels. Gulf has increased the asset base that we must maintain and we have an existing asset base that is aging. Increasing the funding of these programs will extend the life of these assets and potentially avoid a premature capital replacement cost. The level of O&M spending projected in 2012 and beyond will help to ensure our customers receive the most cost effective reliable service.

Q. The Commission has historically employed an O&M benchmark calculation in base rate proceedings. How do Gulf's transmission O&M expenses forecasted for 2012 compare to the O&M benchmark level of transmission expenses?

A. Gulf's 2012 level of transmission O&M expenses is $95,000 below the 2012 O&M benchmark. The O&M benchmark level for Gulf is $11,704,000. Gulf is projecting to spend $11,609,000 for transmission O&M in 2012.

VI. TRANSMISSION WORKFORCE

Q. Mr. Caldwell, what was the number of Transmission employees included in Transmission's 2012 Capital Additions and O&M budgets?

A. We assumed a Transmission work force, or complement, of 105 full time equivalent (FTE) employees.

Q. Would the labor costs for any of those FTEs be charged to adjustment clauses?

A. No. Transmission labor costs are recovered through base rates, either as O&M expense or as part of the capitalized cost of construction.

Q. What was Gulf's Transmission complement as of the end of 2010?

A. At the end of 2010, Gulf had 92 Transmission FTEs filled.

Q. Please address why Transmission's work force is projected to grow by 13 positions from the end of the 2010 level of 92 FTEs to the 2012 test year level of 105 FTEs.

A. The Company performed an organizational study and ultimately restructured Transmission to (1) better align our departments, (2) improve our management of our growing construction program, and (3) enhance our ability to maintain our transmission facilities. This organizational study and realignment resulted in both new positions and some delay in filling vacancies as we worked through the transition. At the end of 2010, the reorganization had not been completed and we were holding open some

vacancies pending the completion of the study and potential implementation of the reorganization.

At the end of 2010, Transmission had 8 FTE vacancies. One of those vacancies was for a new position, Security Coordinator, which had been approved but not yet filled. Of the other 7 vacancies, 3 were on hold pending reorganization, and 4 vacancies were due to attrition. The 2012 Transmission budgets assume that all of these vacancies will be filled in 2012. The salaries for these eight positions are divided as follows between the O&M and Capital 2012 budgets: O&M – $264,000; Capital – $267,000.

The 2012 budget also includes 5 new positions that will be filled before 2012. One Right-of-Way (ROW) Specialist and one ROW Supervisor were added to document and address encroachments within and along our Transmission ROW corridors. These positions are needed to develop a comprehensive strategy to address encroachments and to provide the level of service needed to maintain our responsiveness to customers related to our ROWs. Gulf's Transmission expansion plans efficiently use our existing corridors to route new and upgraded lines. As this work continues, our ROW group will be heavily involved in working with our customers and land owners along these corridors to address any encroachments or other concerns. Two other positions, a Project Control Specialist and a Line Specialist, were added primarily to assist in managing our growing Transmission construction program. The other

new position, a NERC Analyst, was added to assist in managing our compliance activities, primarily with NERC. The FTEs and total salaries for these five new positions are divided as follows between the O&M and Capital 2012 budgets: O&M – $55,000; Capital – $259,000.

The filling of these eight vacancies and the hiring of these five new positions are necessary, reasonable and prudent. Efforts are underway during 2011 to fill all of these positions. The appropriate Transmission workforce necessary to provide safe and reliable service for our customers is 105 FTEs in 2012.

VII. TRANSMISSION SYSTEM PERFORMANCE

Q. Please discuss Gulf's transmission system performance.

A. Gulf measures the reliability performance from the point of view of the customer. Our customers tell us our reliability has been good through the customer value benchmark scores related to reliability. Gulf also tracks reliability through our own internal measures. Two metrics are used by Gulf to measure transmission reliability. Gulf tracks Sustained Average Interruption Frequency Index (SAIFI), which measures the frequency of customer outages, and Sustained Average Interruption Durations Index (SAIDI), which measures the duration of customer outages. Each of these metrics uses sustained outages which are defined as outages lasting over five minutes. Also, each index is based on connected capacity and

outage time experienced by the customers. See Exhibit PCC-1, Schedule 7 for the SAIDI & SAIFI data over the last five years. Over the past five years, Gulf's performance on these metrics has been good and the Company has met the goal of maintaining the reliability of the system. This performance is only sustainable if we continue with the investment in the system required by our planning studies and if we increase our O & M spending as budgeted in 2011 and going forward to address maintenance issues on the system.

VIII. CONCLUSION

Q. Please summarize your testimony.

A. Gulf's transmission system is well planned and the Company has continued to make the necessary improvements to maintain its reliability. Gulf's transmission planning process is well thought out and meets all applicable regulatory requirements. Continued commitment to invest in the system to resolve system issues identified by our planning practices is extremely important. These capital investments are necessary for the continued reliability of our transmission system.

Gulf's budgeted level of transmission O&M expenses in 2012 is under the benchmark. The Company has a rigorous budget approval and monitoring process to ensure the expenses are necessary and prudent. Gulf has sound maintenance practices for our transmission system and

we continue to prioritize major repairs across the system. The transmission O&M expenses will be used to ensure our system continues to operate reliably and help to ensure we continue to maximize the life cycle of our current investment.

Q. Does this conclude your testimony?

A. Yes.

BY MR. BADDERS:

Q Mr. Caldwell, did you also have one exhibit to your testimony?

A Yes, I do.

Q Do you have any changes or corrections to that exhibit?

A No, I don't.

MR. BADDERS: I'll note for the record that that exhibit has already been preidentified as Exhibit 14.

(Exhibit 14 marked for identification.)

BY MR. BADDERS:

Q Mr. Caldwell, will be please give a brief summary of your testimony.

A Yes, I will. Good evening, Commissioners. Today I represent many subject matter experts, years of experience in engineering analysis, as well as a dedicated organization of individuals with one main goal: To provide a safe, secure, reliable and cost-effective transmission network for the customers that we all serve.

I'd like to spend the next few minutes covering some of our efforts to do just that. My testimony covers Gulf Power's transmission system, our process for managing those assets, from planning to design to construction to operations and to maintenance, our level of expenditures required to execute our plans, and our system performance,

all to ensure our network provides power for our customers today and into the future.

I'll introduce that by highlighting two of our major efforts. First, our long range system planning and the capital investment needed to execute those plans, and then I'll discuss our transmission maintenance programs that will be funded with our expenses in 2012 and into the future.

First let me say that our current transmission investment is used and usable. But like any system, it has limitations and vulnerability. The key is knowing what, where, when, having a plan to resolve it, and having the healthy capital investment to ensure those plans are executed timely.

Our system is planned using a technically sound and established process. We study cases for a multitude of contingencies and possible issues. Since we connect the generation sources to our customers, we study based on assumptions about those components projected into the future.

Our process must allow for long range planning of projects. It can take years to build a transmission line or a new transmission station. Therefore, we plan ten years into the future and update that plan annually.

The system must carry the power at peak, even if that peak is for one hour one day out of the year. The planning process studies beyond just normal loading, but also

ensures the system can withstand multiple contingencies and not impact our customers.

Beyond the planning for loading and network flows, we also plan and budget for facilities and equipment that have reached the end of their life cycle. These projects are what we call infrastructure replacement projects. They're targeted at replacing aging and obsolete equipment and facilities. Timely and proactive replacement of these assets can have a huge impact on the reliability our customers experience.

Like any network, we have real issues that will need to be addressed. We know where our system is limited, we have been and will continue to invest in the system when needed. 2012 contains approximately $70 million of investment to do just that.

Planning the system and completing the projects are only half the battle. If we don't maintain the system, customers will be impacted. Our system is maintained using sound and optimized programs. These programs cover maintenance from the generator to the distribution breaker. Our O&M expenses needed to adequately fund these programs has been stipulated as an issue in these proceedings.

Lastly, I want you to know that we have dedicated folks around our system that are ready to respond to emergencies and other operational issues any time of the day

or night, any day of the year. These employees are well trained and capable of mitigating issues quickly.

We plan the transmission system to meet the demands as well as anybody. We have identified the issues and are working on solutions. Continued capital investment is needed to support those plans. Our transmission system has performed well for our customers but it is time for a significant investment to continue to deliver those results.

As well, healthy funding of our maintenance programs will be a necessary to ensure we protect those assets that deliver the power to our customers. Thank you.

MR. BADDERS: We tender Mr. Caldwell for cross examination.

CHAIRMAN GRAHAM: Okay. Mr. Sayler?

CROSS EXAMINATION

BY MR. SAYLER:

Q Good evening, Mr. Caldwell.

A Good evening.

Q My name is Erik Sayler and I'm with the Office of Public Counsel representing your customers. I'll have a few questions on direct and I'll save the rest for your rebuttal, when that's appropriate.

First off, when did you graduate from Mercer University School of Engineering in Macon?

A Did you say when?

Q When.
A I graduated in 1999.
Q And you have been with Southern Company in one form or another since 1999?
A That's correct.
Q And you came to Gulf Power in July of 2010, is that right?
A That's correct.
Q And when you came to Gulf Power in July of 2010, were you aware that Gulf was planning to file a rate case?
A No, I wasn't.
Q Would you please turn to page 15 of your testimony. And this part of your testimony, if I'm correct, relates to the transmission capital additions budget, is that correct?
A That's correct.
Q At the top of the page, line one and two, you testify that the company has invested $197.8 million during this period in the transmission system, and that period is 2003 through 2010, is that correct?
A That's correct.
Q How much of that $197.8 million was spent to -- on storm restoration that occurred during that particular period?
A I don't have that number.

Q But you would agree that some of the money expended during that period was spent restoring Gulf's transmission following the storms, is that right?

A That's correct. Some of that money would have been spent on storm restoration.

Q Would you agree that such spending helped harden the transmission system against future storms?

A I wouldn't agree that repairing the system after a storm would in any way harden the system for a future storm.

Q Okay, but when you repair do you just -- I'm an attorney, I'm not an engineer -- but do you just reconnect the lines or do you replace the lines or what do you do to restore following a storm?

A That would depend on the specific damage from the storm. And maybe a little context here would help. Typically from a storm trees are our biggest problem, and trees wrapped up in the lines. And so depending on the storm and what kind of damage you have, you could just have a tree on the line and therefore customers are out and impacted.

The tree could do damage to the conductor in that isolated spot, and then in the worst case you could damage the structure near where the tree hits.

There could be other windblown debris that causes the same type of damage. So although there are repairs and there are expenses from a storm, you're typically doing the

repair in an isolated area.

Q All right. Do you know whether a study was made following the storm season 2004-2005 about any enhanced reliability to the transmission system following those storms, afterwards, as a result of the restoration? Sorry.

A I'm not aware of a study.

Q Over that period where Gulf expended $197.8 million, that's an eight-year period, is that right?

A That's correct.

Q If you will trust me to do the math, that would be an average of about $24.6 million per year average that was spent, is that right, subject to check? You have a calculator, right?

A Well, I could get a calculator --

CHAIRMAN GRAHAM: Right there.

THE WITNESS: Could you repeat your number?

BY MR. SAYLER:

Q Yes. If you -- what would be the annual average for that eight-year period?

A I calculated 24.7.

Q Okay. 24.6, 24.7. All right. So that was the average that Gulf invested in the capital expenditures of the transmission system for that period, is that correct?

A If you were strictly calculating an average, based on the 197 over eight years, the answer would be correct.

However --

Q Thank you. And in your testimony on the next page, page 16, lines 15 through 22, it is Gulf is planning to spend approximately 600 -- or, excuse me, $66.7 million in 2011 and 70.9 million is 2012 on capital additions to the transmission system.

A That's correct.

Q And if you were to turn to your Schedule 5, which shows the budget for 2013, in 2013 Gulf is projecting to spend 88.5 million, is that correct?

A That's correct.

Q So if you were to add those three years together, the 2011 and the two future years, Gulf is spending and has spent -- planning to spend about $226.1 million, is that right?

A Let me get my Schedule 5 and do the math.

Q Sure. Mr. Caldwell, I'm impressed that you can use that adding machine.

A I'm impressed, too. Okay.

Q All right, so if you were to add the three years together, 2011 through 2013, you'd get approximately $26.1 million, is that right?

A Say that again.

Q If you were to add the 66 million plus the 70 million -- excuse me, 66 million from 2011, 70 million from

2012, and the 88.5 million from 2013, you would get approximately $226 million?

A Correct.

Q Give or take a million due to rounding?

A That's correct.

Q And if you were to take an average of those three years, that average would be approximately $75 million, is that right?

A If you were strictly taking an average, I think that would be true.

Q And the average for the preceding eight years was roughly $25 million, is that right?

A That's right. And I would caution, we don't plan the system based on averages. We plan the system based on real issues and real projects to solve real problems. And the numbers may not work out to an average, and I will submit to you that we are spending more in 2010, 2011 and '12, going forward, to address real issues on the system that we have developed through a fairly sound planning process.

Q But strictly historically speaking, Gulf is spending three times more going forward than they had been spending in the past, is that correct?

A That's correct.

MR. SAYLER: All right, thank you very much.

CHAIRMAN GRAHAM: Mr. Moyle?

CROSS EXAMINATION

BY MR. MOYLE:

Q I have a few questions. I want to direct your attention on page four, line five. Why did you put that testimony in your prefiled testimony?

A Could you --

Q Sure.

A Yeah, just to be sure we're on the same line.

Q Yeah, page four, line five, it says, quote, some large industrial customers receive service at transmission voltage and have their own internal distribution networks. Do you see that?

A I do.

Q Why did you include that?

A We were simply trying to describe for the Commission and others what Gulf's transmission system included beyond just transmission stations and distribution stations and the transmission and distribution networks.

Q So am I correct if you take that statement and flip over to your Schedule 2, in the back, page one of one, -- what is that schedule depicting?

A This Schedule 2, page one of one, is depicting a typical electrical system for reference only.

Q And so the comments you make about some of the industrial folks taking service at transmission levels, is

that represented kind of about halfway down the page where you have the industrial customer taking service at 230 volt transmission? Do you see that?

A Yeah, that's where that would be represented, yes, sir.

Q So your written testimony is just depicted visually in your Schedule 2, is that right?

A That's correct.

Q Okay. And consequently there's not a whole lot -- those customers that take that, there's not a lot of distribution you've got to worry about with those customers, correct?

A That's correct.

Q Let me -- let me ask you, there were a couple of questions about increased employees and I want to ask a couple of dollars and cents questions.

On page 30 of your testimony -- I'm not saying this happened here, but I'm saying that over time sometimes test year tend to attract things because they're the basis upon which rates are set. But it was -- I found it a little curious that your FTE numbers increased, according to my calculations, approximately 15 percent from 2010 to 2012. That is about the right percent increase on your FTEs related to transmission, isn't it?

A Well, I think approximately, without me having to

try to operate that again.

Q We'll skip that step.

A If you look at the magnitude of work -- and it is true we're -- our construction program has grown significantly and is continuing to grow. In the summer of 2010 we conducted an organizational study for transmission, specific to transmission, particularly to look and make sure we were aligned and had the resources we needed to properly manage the construction program that we were undertaking and about to undertake.

As part of that work force organization and research we decided to completely reorganize the transmission department. Not completely, but we did a reorganization in transmission, primarily, so we could have a group of folks focused on construction. And so we developed a construction department, and a group of folks focused on maintenance. Because one thing we didn't want to do is in the face of a huge and growing construction program was to lose sight of the fact that maintenance is just as important.

And so we took an organization that was structured differently, we developed an organization for construction and an organization for maintenance. And then we looked at, realistically, what are the resources we need for Gulf Power to manage these programs.

And you see that in some of the additional

employees. We created some new positions and then we filled some vacancies that were, quite frankly, just from attrition. There was a delay in filling some vacancies because we were undergoing that organizational study.

Q Typically in an operation such as yours there are some unfilled FTEs, correct?

A There are from time to time from attrition and just a lag in filling the vacancies.

Q Right. But with respect to the numbers put forth in the rate case, you've assumed no unfilled FTEs, is that right?

A That's correct. And to date we have finished the organizational realignment and we have filled all but two of our positions. We're making an offer this week on one of those positions, and then the last one is still vacant due to attrition through the organization.

Q And your customers in Northwest Florida, or the panhandle, they've had some difficult economic times in the last few years; you'd acknowledge that, correct?

A I would acknowledge that.

Q And you would also agree there are not many businesses that are increasing employees; a lot of businesses are doing more with less in the current economic climate, correct?

A I think, as a general statement, that's correct.

MR. MOYLE: Did you all -- well, never mind. A couple other brief lines of inquiry, if I could, Mr. Chairman.

CHAIRMAN GRAHAM: Yes.

BY MR. MOYLE:

Q Page 11, line 17.

A Yes, sir.

Q All right, you made certain generation assumptions for your -- I assume this is all about transmission as it relates to you and you're kind of looking out and saying, okay, what do I need to plan for, what do we have coming on line in the future, is that correct?

A That's correct.

Q Okay. And on the previous line of questions, I asked about the increase in the FTEs. There aren't any new generation units coming on line in '11 or '12, correct, that are in your service territory that you have to deal with?

A I'm not aware of any.

Q Okay. And when you did -- when did you do the most recent planning study for transmission?

A We've got a 2011 study now.

Q You were involved in it?

A I was involved in that.

Q Okay. And you didn't -- correct me if I'm wrong, but this nuclear generation option, this North Escambia site,

that wasn't within that ten-year time horizon, was it?

A No, it was not.

Q Page seven -- this is just a quick question related to the Southern Company Transmission Design and Maintenance Support. It starts up on page seven, lines five, six, seven, eight. Do I read this to suggest that all your transmission work, that you have that performed by Southern Company Transmission?

A You could read this -- we contract our design work out, and the contractor of choice is Southern Company Services. And the specific department within the Southern Company Services is the Southern Company Transmission Design and Maintenance Support organization. And so that group does all of the design work except for some relay calculations. But for transmission lines and substations, those design packages come out of this Southern Company Group.

Q And I assume, given the name, that that's affiliated with the Southern Company?

A Yes, it is.

Q Okay. And do they have an exclusive for your design work? All your design work is done by the Southern Company Transmission?

A That would be correct.

Q And is that procured competitively? I mean, do you test the market or go out and -- how do you determine

pricing related to that work? And the reason I'm asking the question, it just caught me a little bit off guard that it looked like all of the work was being done by this one company. But do you competitively bid it or use a proxy for market prices? How do you figure out what they get paid?

A I know there have been some studies. I'm not aware of the specifics of those studies. One of the advantages of using the Southern Company group is our design packages are standardized across Southern Companies.

So we get some benefit from the standardization in materials to standardization in the design, and some cost savings from being able to do that. Being able to leverage Southern Company and not have to have our own internal experts to do this type of design work is definitely an advantage to Gulf.

As far as a market comparison, I'm not aware of any. I think there are significant advantages of having Southern Company do the design work for us.

Q And on page 25, up at the top, lines one, two, three, there's reference to a Transmission Control Center. Is that a Gulf transmission control center that you're referring to?

A That is a Gulf transmission control center. It's in our corporate headquarters in Pensacola.

Q And with respect to consolidation of operations,

does Southern Company have a central dispatch system? I would think that that might save considerable cost, to the extent that there was a system dispatch that was done throughout the system. Can you help me with that?

A Southern Company has the power coordination center and they're looking at the entire Southern Company footprint: Alabama, Georgia, Mississippi, Gulf, and other parts. They're managing the bulk electric system at a high level, making sure generation sources match the loads.

Each operating company has their own transmission control center which is primarily responsible for doing day-to-day switching, doing day-to-day studies to ensure that we can take out the transmission lines in the facilities locally to facilitate maintenance and other construction activities.

So there have been studies about consolidating the control centers from time to time, and the math never worked out to where economically it was a big driver to do that.

Q Let me refer you to your exhibit, Schedule 6. And this is your Gulf Transmission O&M Budget, 2011 through '15. Tell me when you're there.

A I'm there.

Q All right. So there's a slight -- a slight increase, a little decrease in '11 and '12, but in 2010 the budget number was approximately 9.3 million, isn't that

right?

MR. BADDERS: I'm going to object to this line of questions -- I'm going to object to this line of questions. The transmission O&M issues in this case have been stipulated and voted on already by this Commission. So these questions are no longer relevant.

CHAIRMAN GRAHAM: Mr. Moyle, do you have a question beyond the scope of what's been stipulated?

MR. MOYLE: Well, obviously I think I may have missed that stipulation in that I was going to ask the question about it. If counsel indicates it's been stipulated, I will -- I will withdraw.

CHAIRMAN GRAHAM: Okay.

MR. MOYLE: That's all I have.

CHAIRMAN GRAHAM: Major Thompson?

MAJOR THOMPSON: No questions, sir.

CHAIRMAN GRAHAM: Mr. Wright?

MR. WRIGHT: No questions, Mr. Chairman. Thank you.

CHAIRMAN GRAHAM: Staff?

MS. KLANCKE: We have no questions for this witness.

CHAIRMAN GRAHAM: Commissioners? Commissioner Balbis?

COMMISSIONER BALBIS: Thank you, Mr. Chairman. And

I must admit, that last comment kind of threw me for a loop, because I believe I had a question on the O&M budget, as well, so --

CHAIRMAN GRAHAM: Good thing it's been stipulated then, huh?

COMMISSIONER BALBIS: Well, then, I'll just ask for the fun of it, then. I just want to make sure I understand this exhibit. Actually, if we can go to the Schedule 5, which is the capital budget, which I'm not even going to ask if it was stipulated or not.

According to this schedule, the transmission infrastructure replacement projects budgeted from 2011 to 2013 has gone down significantly, correct?

THE WITNESS: I'm sorry, would you say that last part again?

COMMISSIONER BALBIS: Sure. The 2011 budget for transmission infrastructure projects, that subtotal is $17 million, correct?

THE WITNESS: That's correct.

COMMISSIONER BALBIS: And then in 2013 that's reduced down to about $6 million?

THE WITNESS: That's correct.

COMMISSIONER BALBIS: Okay. And then the bulk of the increase, if you will, appears to be in the transmission planning generator projects, which goes

from 28 million to 78 million, correct?

THE WITNESS: That's correct.

COMMISSIONER BALBIS: Okay, so I want to focus on the transmission planning process. You indicated in your testimony that Gulf develops a ten-year plan to meet the reliability requirements of SERC, correct? And to meet other reliability requirements?

THE WITNESS: That's correct.

COMMISSIONER BALBIS: Okay. And you answered -- I believe it was Mr. Moyle -- that the plan is reviewed and approved annually?

THE WITNESS: That's correct.

COMMISSIONER BALBIS: And by the Transmission Manager, which is you?

THE WITNESS: That's correct.

COMMISSIONER BALBIS: And this may be -- I'll ask the question. Do we have a copy of that plan? Is it included as an exhibit or anywhere in the MFRs?

THE WITNESS: I don't think we've included the official transmission plan as an exhibit.

COMMISSIONER BALBIS: So the basis of the request for the transmission planning projects is the plan, and you're not sure if we have a copy of the plan. Okay.

And just so I understand how the plan is developed, do you -- so do you develop the plan or is it

developed by others and then you review and approve it?

THE WITNESS: Let me step back just a moment. Our transmission planners review cases. They review our system based on generation assumptions, based on load assumptions projected into the future. And then they -- not only do we have to meet the peak demand, we've got to meet that peak demand with multiple contingencies.

And so it's a hot summer day, a peak day, loads are high, you know, give any scenario you could think of, and then we have to be able to withstand two contingencies; so, a transmission line being out and a generating unit being off.

And based on those cases, the model will generate transmission lines and facilities with overloads, voltage conditions, and other problems around the system. And then, based on the problems, Gulf Power has a team of folks that will take that issue and develop a solution to the problem. The solution to the problem becomes a project, and then that project gets loaded into our budgeting process.

So the numbers you see here, particularly for the transmission-generated projects, are the result of the planners studying the system, identifying the issues, and then Gulf Power developing a project to fix that issue.

It could be as simple as upgrading the transmission line, or, in the cases that we're looking at for '11, '12 and '13, it's wide area of improvements where you need multiple transmission lines upgraded and multiple substations upgraded. So there's a lot to the process but there's also a lot of review of what the issues are and what the projects are that come out of that.

COMMISSIONER BALBIS: And then so you're the final approval, if you will, of the project that's created?

THE WITNESS: I'm not the final approval. The transmission plan is updated and reviewed with myself and our executive team, and then the projects that are developed are updated and reviewed as part of our normal budgeting process for the capital budgets, which is approved by me, and then up through our executive chain, with Bernard Jacob and then others.

COMMISSIONER BALBIS: Now, do you find that there are projects created or requests made that you and the executive team deny or is it if the project is created through the plan, you just make some checks or check some of the assumptions of it and just approve it, or do you find you're rejecting requests from those that developed the plan?

THE WITNESS: Particularly when it's related to the transmission planning generated projects it's not

typically that a project is denied. However, there are questions and there's scrutiny about the inputs to the project, and sometimes we're asked to consider alternative solutions.

So there's some review, some push-back, some back and forth on what the ultimate solution should be, but I don't think we're rejecting a solution to resolve the issue. There is a project developed to resolve the issue once it's identified.

COMMISSIONER BALBIS: Okay, thank you. I have nothing further.

CHAIRMAN GRAHAM: Commissioner Edgar?

COMMISSIONER EDGAR: Thank you. Earlier today -- what seems like a very long time ago -- I asked Mr. Crosswhite to describe steps that Gulf has taken to reduce costs, and he said to ask a number of the witnesses, so that's what I'm doing.

So can you describe to me steps that you or yours have taken in the transmission department to reduce costs?

THE WITNESS: Absolutely. In my world there are two buckets. There's the capital bucket and the operations and maintenance expenses bucket. Certainly you can have a bigger impact by cost saving measures that are expensed.

But there are things that we look at on the capital side, too. We will look at a capital project and look for ways to reduce the overall cost of that project and be very efficient and effective in the equipment and the design and the way that project is developed.

The bigger impact, and the things we've probably done more of, are on the operations and maintenance side. Some of the cost saving measures are permanent. We look at our maintenance programs, we optimize those programs based on what we find on our inspections, based on what we learn from other industries, from other folks, from other operating companies. We adjust our intervals for inspections. And those cost saving measures are permanent.

There are other cost saving measures that have what I'll say is a life span. There are things you can do, particularly in the maintenance world, and reduce your cost for a short period of time, but it's not sustainable.

So an example of some of the things -- we have reduced our travel expenses in the past. That can be a permanent reduction, and that can be a temporary reduction. Changing our intervals on our maintenance programs, that can be a permanent reduction, things we have done on the maintenance side that are what I would

call temporary and have a life span.

A good example would be painting our steel structures. We know that in the environment our structures are in, we need to go back and recoat those structures between 20 and 30 years. So we have a program to go in and recoat structures. For a short time frame you could decide not to paint structures that year and you can have a temporary reduction in cost.

And so there are others -- other repair things like that that we can decide not to fund to save costs, but there's a life span on that, and you can't do that forever.

COMMISSIONER EDGAR: Thank you.

CHAIRMAN GRAHAM: Commissioner Brown?

COMMISSIONER BROWN: Thank you. And thank you, Mr. Caldwell, especially for that last answer. You said that Gulf has a five-year O&M budget in your testimony and that it's requesting 70 million in maintenance programs because certain infrastructure has aged or is past the 30-year period.

Can you perhaps provide me an estimate of the previous five years and what the costs were over those previous five years for the maintenance programs so that I could get a feel for how the need has historically grown?

THE WITNESS: I'm going to work into an answer here to make sure I understand what you're asking. Are you asking specifically with operation and maintenance expenses that fund our maintenance programs, what the changes have been?

COMMISSIONER BROWN: Actually, I'm asking for both. What the existing maintenance -- cost of the maintenance programs, historically, over the past five years, as well as the O&M expenses associated with that.

THE WITNESS: I'm going to see if I can refer you to an exhibit.

COMMISSIONER BROWN: I couldn't find it.

THE WITNESS: I don't have it broken out by program and I don't have it broken out specifically for the maintenance. There's operations expenses loaded into these numbers. But maybe to give you a little context, the previous five years we were averaging around $9 million a year total transmission operations and maintenance expenses. So now we're looking at from nine, nine-and-a-half, to 11. So the delta there is about a million-and-a-half dollars.

COMMISSIONER BROWN: That's good. Thanks.

THE WITNESS: Okay.

CHAIRMAN GRAHAM: Redirect?

REDIRECT EXAMINATION

BY MR. BADDERS:

Q Just one question. Mr. Caldwell, earlier Commissioner Balbis had asked you some questions regarding the 2010 or 2011 transmission plan that was used to establish your request for the 2012 test year. Do you recall that line of questions?

A Yes, I do.

Q Are you able to make that plan available as a late-filed exhibit?

A We can make the 2010 plan available for the -- for a late-filed exhibit, and as well, if it's a request, we can make our 2011 plan available, if that's what we need.

COMMISSIONER BALBIS: Excuse me, Mr. Chairman, it can't be a proceeding with Mr. Moyle without me requesting a late-filed exhibit, so I would like that filed, if possible.

MR. MOYLE: I guess I wouldn't be anything if not consistent to at least note my objection to it coming in. I'd like to see it. I guess the other thing, just putting on my lawyer hat, it's kind of like, they've got the burden of proof.

It sounds like they -- kind of like my stipulation, they may have dropped the ball on the transmission study, and now it comes in late. But let me think about it overnight, but I would just note an objection for the

record.

CHAIRMAN GRAHAM: Okay. Commissioner Balbis, your late-filed will be 187. What do you want to call this, Mr. Balbis, Commissioner Balbis?

COMMISSIONER BALBIS: Thank you, Mr. Chairman. I believe a short description would be 2010 Transmission Planning Study. Would that be appropriate?

(Late-filed Exhibit 187 marked for identification.)

CHAIRMAN GRAHAM: Okay, anything else on the redirect?

MR. BADDERS: No more redirect, and we will move Mr. Caldwell's exhibit, which I believe has been preidentified as Exhibit 14.

CHAIRMAN GRAHAM: Mr. Caldwell's Exhibit 14 into the record.

(Exhibit 14 admitted in evidence.)

CHAIRMAN GRAHAM: All right, Mr. Caldwell, thank you. Next witness?

MR. BADDERS: Gulf's next witness is Mr. Moore. Ready to proceed?

CHAIRMAN GRAHAM: Yes.

Thereupon,

R. SCOTT MOORE

was called as a witness on behalf of Gulf Power Company, and having been previously duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. BADDERS:

Q Mr. Moore, you were present this morning when the witnesses were sworn in?

A Yes, I was.

Q And you took the oath?

A I did.

Q Please state your name and business address for the record.

A My name is Robert Scott Moore, One Energy Place, Pensacola, Florida, 32520.

Q And by whom are you employed and in what capacity?

A I'm employed by Gulf Power as the General Manager of Power Delivery.

Q And are you the same R. Scott Moore who prefiled direct testimony consisting of 44 pages?

A Yes.

Q Do you have any changes or corrections to that testimony?

A I do.

Q Would you please go over those?

A Commissioners, on page 22, lines 9 and 21, the change is in the distribution planning service of $1,029,829,000 will become $1,029,026,000. And on page 23, line one, the number 336,306,000 becomes 335,503,000.

Q With those two corrections, if I were to ask you the same questions today, would your answers be the same?

A Yes.

MR. BADDERS: We ask that the prefiled direct testimony of R. Scott Moore be inserted into the record as though read.

CHAIRMAN GRAHAM: We will insert Mr. Moore's testimony, direct testimony, into the record as though read.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony of
R. Scott Moore
Docket No. 110138-EI
In Support of Rate Relief
Date of Filing: July 8, 2011

Q. Please state your name and business address.

A. My name is Scott Moore. My business address is One Energy Place, Pensacola, Florida 32520.

Q. By whom are you employed?

A. I am employed by Gulf Power Company (Gulf or the Company). I serve as Gulf's Power Delivery General Manager.

Q. What are your responsibilities as Gulf's Power Delivery General Manager?

A. I have responsibility for the employees who work on Gulf's distribution systems in Northwest Florida. My department handles the nearly 7,700 miles of electrical lines that provide electricity to Gulf's 431,741 customers (as of March 2011), ranging from Pensacola to Panama City. My department is responsible for providing continuous electric service to the customers we serve, 24 hours a day, 7 days a week, and 365 days per year. I am also responsible for Gulf's transmission function; however, Gulf Witness Caldwell is the witness in this case addressing Gulf's transmission function.

Q. Please state your prior work experience and responsibilities.

A. I came to Alabama Power Company in 1988 as a cooperative education student from the University of Alabama – Tuscaloosa. After receiving my degree in 1993, I was hired as an Engineer in the Engineer in Training (EIT) program at Alabama Power in the Mobile Division office. In 1999, I was promoted to Engineering Supervisor and progressed through various distribution leadership positions at Alabama Power during the next several years, including District Operations Manager in Mobile, Operations Manager in Enterprise and Montgomery, and Distribution Manager for the Southeast Division of Alabama Power headquartered in Eufaula. I assumed my current position with Gulf in June 2009.

Q. What is your educational background?

A. I have a Bachelor of Science in Electrical Engineering and Master of Business Administration from the University of Alabama. I am a registered Professional Engineer in the state of Alabama.

Q. What is the purpose of your testimony?

A. My testimony describes the function and operation of an electric distribution system. I address Gulf's electric distribution system; in doing so, I describe Gulf's service area, the location of its distribution system within the service area, and some of the geographic and climatic related challenges Gulf faces in planning, operating and maintaining its distribution system. I explain Gulf's distribution planning process along with Gulf's distribution budget process for both capital additions and

Operation and Maintenance (O&M) expenses. I then present Gulf's distribution capital additions and O&M budgets for the 2012 test year. I present Gulf's projected test year investment in distribution facilities, and I explain how and why that investment has increased since Gulf's last rate case. Next, I will discuss how well Gulf has performed in terms of distribution performance and customer satisfaction. I close my testimony with a discussion of Gulf's superior performance related to restoration of service following the severe hurricane seasons of 2004 and 2005.

Q. What exhibits do you sponsor?

A. Attached to my testimony is Exhibit RSM-1, Schedules 1 through 14. This exhibit was prepared under my supervision and control. The information contained therein is true and correct to the best of my knowledge and belief.

Q. Which of the Company's Minimum Filing Requirements (MFRs) do you sponsor?

A. The MFRs I sponsor or co-sponsor are listed on Exhibit RSM-1, Schedule 1. The information contained in the MFRs I sponsor or co-sponsor is true and correct to the best of my knowledge and belief.

I. AN ELECTRIC DISTRIBUTION SYSTEM

Q. What is the function of an electric distribution system?

A. The electric power grid is composed of three basic components: the generation source, the transmission system, and the electric distribution system. The electric distribution system provides electrical service to the customer through distribution lines and equipment. The distribution system consists of the facilities beginning at the distribution substation and ending at the customer's meter.

Q. Please describe the major components of an electric distribution system?

A. The electric distribution system begins in the distribution substation. For electricity to be useful in a home or business, it must be transformed from the higher voltage of the transmission grid to the lower voltage of the distribution system. The place where the conversion from "transmission" to "distribution" occurs is in a distribution substation. A picture of a distribution substation with the major components labeled is set forth in my Exhibit RSM-1, Schedule 2, page 1.

A distribution substation typically performs several key functions for the distribution system:

- It has power transformers that reduce transmission voltages (typically 230,000 volts or 115,000 volts) to distribution voltages (for Gulf this is typically 12,470 volts).

- It has regulator banks which regulate voltage on the distribution system to prevent low voltage and overvoltage conditions.
- It has capacitor banks which help regulate voltage at the substation.
- It has circuit breakers and switches that allow the substation to be disconnected from the transmission grid and/or allows separate distribution lines to be disconnected from the substation when necessary.
- It has a distribution "bus" to which feeders connect.

Once electricity reaches the distribution "bus" within the distribution substation, it flows onto feeders. As shown on Exhibit RSM-1, Schedule 2, page 2, a feeder is made up of a set of four wire circuits. When observing a distribution pole, the three wires at the top of the pole are the wires used to provide three-phase power (typically referred to as "primary" lines which carry electricity). The fourth wire, lower on the pole, is the neutral or ground wire which is connected to the ground (typically referred to as the "neutral"). Feeders are the backbone of the distribution grid and allow for ties between other feeders or other distribution substations.

Feeders, in turn, are connected to "lateral" lines that branch into subdivisions, industrial parks, businesses, or individual homes. As shown on Exhibit RSM-1, Schedule 2, page 3, these lateral lines are made up of one, two, or three primary lines and a neutral. Distribution equipment

such as voltage regulators, capacitor banks, electronic and hydraulic reclosers, distribution automation, and switches which are necessary and required for proper voltage control and the safe operation of the distribution system are also often found on feeders and laterals.

Finally, customers are served from laterals (or, in some cases, feeders) using distribution transformers to reduce the voltage to 120/208 volts, 120/240 volts, or 277/480 volts, depending on the customer's requested service voltage level. The electricity leaves the distribution transformer through a "service" line that then connects to an electric service meter. Please refer to Schedule 3 of my Exhibit RSM-1 for a diagram and component descriptions of the electric power grid.

Q. Please describe the types of customers that Gulf serves from the electric distribution system.

A. There are three major classifications of customers: residential, commercial, and industrial. These customers are defined by usage parameters specific to the customer requirements. Industrial customers typically require three-phase service and have large motor loads and higher capacity requirements for manufacturing capability. Commercial customers require from three-phase to single-phase designs and are typically big box stores, outlet malls and stores, and other large and small commercial businesses. These businesses vary in their electrical demands, but generally they use electric service to provide a product or service to their respective client base. Residential customers are primarily

served through single-phase installations where service capability is typically defined by the size of the home and the associated heating and cooling designs of the home.

II. GULF'S DISTRIBUTION SYSTEM

Q. Please provide a description of Gulf's distribution system.

A. As of January 2011, Gulf's distribution system consists of 109 distribution substations, 5,898 miles of overhead primary lines, 1,786 miles of underground primary lines, and 276 distribution feeders.

Q. Please describe Gulf's general service area.

A. Gulf's general service area covers much of the Florida panhandle. In broad geographic terms, it spans from the Escambia River on the Alabama/Florida border in the west approximately 153 miles to the east and from the Florida coast of the Gulf of Mexico north to the Florida/ Alabama border. A map of this broad geographic area in which Gulf's service area is located is presented on Exhibit RSM-1, Schedule 4. This service area covers approximately 7,550 square miles in eight Florida counties - Bay, Escambia, Holmes, Jackson, Okaloosa, Santa Rosa, Walton, and Washington. Gulf's service area currently encompasses 71 towns and communities in Northwest Florida.

Q. Does Gulf have electric distribution facilities throughout the broad geographic area you described as Northwest Florida?

A. Yes. Gulf has electric distribution facilities throughout the broad geographic area, except where the retail electric service is provided by a rural electric cooperative. Also, there are some parts of this geographic area that simply do not have any retail customers, so no distribution facilities exist. However, Gulf has an obligation as a public utility to serve such areas, so the Company must be prepared to extend its distribution facilities when customers make such a request.

Q. Where are Gulf's electric distribution facilities primarily located?

A. Most of Gulf's electric distribution systems are located in areas of the greatest population density; however, the population density of the Florida panhandle is lower than much of the other more urban populations in the Florida peninsula. Gulf Power's Service Area & Customer Density Areas are shown on Exhibit RSM-1, Schedule 5. As shown, Gulf is divided into three Districts: Western, Central and Eastern. In the Western District, the greatest densities of customers are around Escambia and Pensacola Bays (Gulf Breeze, Pensacola and Milton) and in and around the following communities to the north: Cantonment, Beulah, Molino, and Century. In the Central District, the greatest densities of customers are around Choctawhatchee Bay in the south (Ft. Walton Beach, Niceville and Destin) and in and around the following communities to the north: Crestview, Laurel Hill, Paxton, DeFuniak Springs and Ponce de Leon. In the Eastern District, the greatest population densities are around St. Andrews Bay

(Panama City and Panama City Beach) in the south and in the following communities to the north and east: Vernon, Caryville, Bonifay, Chipley, Graceville, Campbellton, Cypress and an unincorporated area between Sneads and Chattahoochee.

Q. Are there any distinctive aspects or characteristics of Gulf's service area that affect Gulf's electric distribution system?

A. Yes. There are geographic and climatic characteristics that affect Gulf's service areas and distribution system.

Large portions of Gulf's service area are heavily forested. A map indicating that approximately 72 percent of the land area in the Florida Panhandle is forested is shown in Exhibit RSM-1, Schedule 6. This heavily forested service area has a significant impact on how we perform vegetation management activities.

In addition, a significant part of Gulf's service area is adjacent to coastal waters and numerous natural bays, intracoastal waterways and rivers. This subjects Gulf's distribution system to the effects of salt contamination and tropical weather impacts. The tropical weather impacts consist of storm surge up to 20 feet or more and winds in excess of 110 to 140 miles per hour, which are equivalent to a Category 3 hurricane on the Saffir – Simpson hurricane wind scale. A map showing the potential wind field impacts is shown in Exhibit RSM-1, Schedule 4. These impacts have resulted in Gulf adopting unique standards and specifications for its

material and equipment. For example, Gulf has adopted the more stringent Grade B construction standard for all new distribution facility construction and uses stainless steel transformers in coastal regions to minimize the adverse effects from salt contamination and corrosion.

Another distinctive characteristic of Northwest Florida that affects Gulf's distribution system is the frequency of lightning strikes. Vaisala's National Lightning Detection Network (NLDN) indicates that the cloud to ground lightning incident rate in Northwest Florida is among the highest in the nation. See Exhibit RSM-1, Schedule 7. To address this high incidence of lightning strikes, Gulf's design standards and specifications require an increased number of lightning arrestor installations and associated grounding enhancements. Later in my testimony I will discuss costs related to lightning arrestor installations.

III. GULF POWER'S DISTRIBUTION PLANNING PROCESS

Q. Please describe Gulf's distribution planning process.

A. Gulf's planning process is used to determine the most reliable, practical, and economical expansion of the distribution system. Gulf performs "Long Range Area Distribution Studies" (Studies) to identify issues that could adversely impact the delivery of power by the distribution system. These Studies are performed on a 3- to 5-year cycle depending on customer growth and distribution changes. For these Studies, Gulf uses the CYME®

International analysis software, which is recognized as one of the industry leaders in this field.

The Studies are initiated by modeling the relevant distribution system and the distribution system loading in their current states. Long-range forecast information based on historical data trends, marketing data and actual field information is compiled to determine system growth in each area. This information is then applied to each feeder to establish an annual forecast demand. The Study is expanded to a 7-year horizon window, and each year is then analyzed to determine the operating conditions and their potential impacts to the distribution system.

Operating conditions requiring corrections are identified along with the most practical and economical solutions. The final recommendations from the Studies are reviewed and approved by distribution management who have knowledge of the district, the distribution system, and any unique characteristics of the area served.

When a significant change occurs in an area that is not currently under study, the distribution planning group performs a "Special Distribution Study." An example of a significant change would be a large new business customer or a business adding significant electrical load. The latest "Long Range" study of that area is adjusted for the change to determine any potential impact to the distribution system. If an operating condition requiring correction occurs, then a solution is determined, and a

recommendation generated. The final recommendations from the Studies are reviewed and approved by distribution management.

Annually, a review of all current planning Studies is performed by distribution management. The justification of each project is compared to the latest actual load to ensure the recommended timing for construction is appropriate. If the recommendations have changed, the project justification and construction schedule are adjusted accordingly. Careful consideration is given to those projects which require longer construction lead times such as new distribution substations, which have a 2-year or more construction timeframe. This timeframe is impacted by equipment availability, permitting and land acquisition, all of which have become major considerations for construction in Northwest Florida.

IV. GULF POWER'S DISTRIBUTION BUDGET PROCESS

Q. Please describe the distribution budgeting process.

A. The distribution budgeting process consists of two components: the capital additions budget and the O&M budget. The capital additions budget consists of expenditures related to on-going capital replacements and capital construction projects. The O&M budget consists of expenses associated with the daily operation and maintenance of the distribution system.

Q. Please describe Gulf's distribution capital additions budgeting process.

A. Each year, Gulf's Corporate Planning organization provides a Budget Message to each planning unit. As discussed in the testimony of Gulf Witness Buck, the Budget Message provides budget guidelines for preparing a budget request. Distribution begins its capital additions budget process by analyzing the two components that make up the distribution capital additions budget: on-going capital replacements and capital construction projects. Capital replacement programs consist of routine replacements of poles, transformers, voltage regulation equipment, reclosers, switches, arrestors, conductors, outdoor lighting, and other assets. Capital construction projects, except for new business construction requests, are a result of the planning Studies that I mentioned previously. Both the capital replacement projects and capital construction projects are developed to support reliability, safety, and customer demand.

Capital replacements and capital construction projects are further subdivided into blanket and specific plant expenditure (PE) categories. Blanket PEs reflect repetitive expenditures based on historical trends and projected customer growth. Blanket PEs include items such as new business overhead and underground construction, meters and transformers, trucks and equipment, tools and test equipment, lighting, pole replacements, and other capital improvement projects. Specific PEs are related to planning projects and major initiatives requiring distribution plant additions. Examples of specific PEs are Advanced Metering

Infrastructure (AMI), distribution automation, storm hardening, new feeders, and distribution substations.

The proposed capital additions budget is reviewed by the distribution management team. Once approved, the distribution management team submits a proposed capital additions budget to the Vice President of Customer Operations. Once reviewed and approved by the Vice President of Customer Operations, the capital additions budget is presented to Corporate Planning for inclusion in the Company's capital additions budget. Mr. Buck will address Gulf's capital additions budget process within Corporate Planning.

Q. Describe the distribution capital expenditures monitoring process.

A. After the capital additions budget has been approved, each distribution PE is assigned an owner within the distribution organization. Each owner's responsibility is to monitor expenditures against the budget. Within each PE, Distribution System Orders (DSO) are created, approved, and authorized for construction. DSOs are created by field engineers and approved and authorized by the appropriate level of management based on the cost of the DSO. DSOs are routed to crews for field completion. These completed work orders are then returned to engineering for material and labor reconciliation. Each month, the distribution management team reviews capital project expenditures and any budget variance for all projects. Each project owner is responsible for explaining budget variances.

Budget variances may result in the reallocation of overall capital expenditures within the distribution organization. On a quarterly basis, Corporate Planning requires a detailed explanation of all budget variances greater than 10 percent or $250,000 (whichever is lower). Variances less than $10,000 do not require a variance explanation.

Q. How are new capital projects or changes to existing projects incorporated in the current year budget?

A. In the event a new project or an increase in capital expenditures associated with an existing project is necessary, Distribution must submit a justification letter to the Vice President of Customer Operations. Once approved by the Vice President of Customer Operations, the letter is forwarded to the Chief Financial Officer (CFO) for review and approval. If the change is approved, the letter is sent to Corporate Planning where the change is documented and the current budget is updated to reflect the change.

Q. Please describe the distribution O&M budgeting process.

A. Gulf's distribution O&M budget is developed by employees who are very knowledgeable about the distribution systems they operate and maintain on a daily basis. Each year Gulf's Distribution organization develops a 5-year O&M budget based on historical experience and projected maintenance in order to continue the safe operation and integrity of the distribution system. As I mentioned earlier, Gulf's Corporate Planning.

organization provides a Budget Message with guidelines for preparing the budget.

Gulf relies on a combination of inputs in determining the appropriate level of O&M expenses for a budget request. First, the requested level of some distribution O&M expenses is determined by looking at available historical trends. Expenses associated with outage restoration, underground cable fault repairs, and street light maintenance are examples of such expenses. Other O&M expenses are a result of compliance with regulatory requirements. The O&M expenses necessary for Gulf to accomplish the programs in its Storm Hardening Plan are an example of this type of expense. In addition, Gulf's field personnel have a role in the O&M budget process. Gulf's field personnel identify maintenance and inspection needs in their areas of responsibility.

As the proposed O&M budget is developed, the distribution management team meets to review and prioritize the O&M programs and projects. The proposed O&M budget is reviewed by the distribution management team. Once approved, the distribution management team submits a proposed O&M budget to the Vice President of Customer Operations. Once reviewed and approved by the Vice President of Customer Operations, the O&M budget is presented to Corporate Planning for inclusion in the Company's O&M budget. Mr. Buck addresses Gulf's O&M budget process within Corporate Planning.

Q. How are significant budget variances resolved when unforeseen circumstances arise during the budget year?

A. Where distribution exceeds the budget due to a significant or unforeseen event, it must justify the variance and submit it to the Vice President of Customer Operations. If approved by the Vice President of Customer Operations, the variance is forwarded to the CFO and Corporate Planning. Executive management will review the variance request. If approved, the variance is incorporated into the distribution O&M budget for the year.

Q. Describe the distribution O&M monitoring process.

A. Each distribution O&M program is assigned an owner within the Distribution organization. Each owner's responsibility is to monitor expenses against budget. Within each program, all variances are reported to distribution management for their review on at least a monthly basis. At the end of each quarter, budget to actual reports are provided to Corporate Planning along with justifications for variances from budget.

V. GULF POWER'S DISTRIBUTION O&M BUDGET

Q. What is Gulf's distribution O&M budget for 2011 and 2012?

A. Gulf's distribution O&M budget for 2011 is $41,071,000. Gulf's distribution O&M budget for 2012 is $41,596,000.

Q. Is Gulf's projected level of distribution O&M expense of $41,596,000 in 2012 reasonable and prudent?

A. Yes. This is the level of distribution O&M expenses that was approved as a result of Gulf's robust budget process that I described earlier, and this is the level of 2012 distribution O&M expenses that is reasonable, prudent and necessary for Gulf to provide adequate and reliable electric service to our customers. As shown on RSM-1, Schedule 8 of my exhibit, the 2012 budgeted distribution related O&M expenses include the following major activities: Asset Management ($3,550,000), Overhead and Underground Line Operation and Maintenance ($17,035,000), Minor Storms ($748,000), Load Dispatch ($1,274,000), Meters ($3,880,000), Storm Hardening ($440,000), Vegetation Management ($4,918,000), and Engineering and Supervision ($9,751,000).

Q. Please describe Gulf's Asset Management activity.

A. The Asset Management activity ($3,550,000) includes expenses related to equipment and pole inspection programs that ensure safe and effective operation of distribution equipment. For example, this activity covers Gulf's padmount equipment inspection programs where Gulf annually inspects all transclosers and vaults on the distribution system. Gulf's pole inspection program is included in this activity. Gulf's pole inspection program is conducted annually based on an 8-year cycle as approved by the Florida Public Service Commission (FPSC or the Commission) in Order No. PSC-07-0078-PAA-EU, Docket No. 060531-EU. This activity also includes maintenance expenses for Gulf's distribution automation

program, which includes repair and maintenance of line devices and their associated communication equipment. I will discuss Gulf's distribution automation program in more detail later in my testimony.

Q. Please describe Gulf's Overhead and Underground Line Operation and Maintenance activity.

A. Gulf's Overhead and Underground Line Operation and Maintenance activity ($17,035,000) includes expenses related to line inspection, repair and maintenance programs. For example, Gulf's annual inspection of mainline feeders using both visual observations and infrared technology is included in this activity. Also included in this activity are the expenses associated with outage-related distribution switching (load transfer or isolation); repair of damaged underground cables; repair of damaged overhead feeders, laterals, and services; and outage restoration efforts.

Q. Please describe Gulf's Minor Storm activity.

A. The Minor Storm activity ($748,000) includes expenses involved in restoring electric service to Gulf's customers after weather events such as thunderstorms or winter storms. This activity would include repairing downed feeders or laterals and other equipment damaged by weather events not covered by the Property Damage Reserve.

Q. Please describe Gulf's Load Dispatch activity.

A. Gulf's Load Dispatch activity ($1,274,000) includes expenses related to non-outage distribution switching. An example of non-outage distribution

switching is the transfer of load between feeders or laterals to facilitate construction or maintenance activities.

Q. Please describe Gulf's Meters activity.

A. Gulf's Meters activity ($3,880,000) includes expenses related to Gulf's meter inspection program. This program implements the "Gulf Power Company Test Plan for Revenue Metering Devices" that is filed with the Commission. The Plan prescribes meter test schedules.

Q. Please describe Gulf's Storm Hardening activity.

A. Gulf's Storm Hardening activity ($440,000) includes expenses associated with Gulf's Storm Hardening Plan approved in Commission Order No. PSC-10-0688-PAA-EI in Docket No. 100265-EI. The pole replacements associated with Gulf's pole inspection program are a part of Gulf's Storm Hardening Plan and are the primary costs in this activity.

Q. Please describe Gulf's distribution Vegetation Management activity.

A. Gulf's distribution Vegetation Management activity ($4,918,000) includes expenses to clear, trim, and maintain distribution rights of way. Gulf's Vegetation Management activities are related to Gulf's Commission approved Vegetation Management Plan in Order No. PSC-06-0947-PAA-EI, Docket No. 060198-EI. This Plan includes a combination of a 3-year trim cycle on all main line feeders, a 4-year cycle on laterals, and an annual cycle of inspections and correction on main line feeders to ensure the approved cycles are achieved.

Q. Please describe Gulf's Engineering and Supervision expense.

A. Gulf's Engineering and Supervision expense ($9,751,000) includes the expenses associated with supervision, engineers, and other employees engaged in the general supervision of operating and maintaining the distribution system.

Q. Is Gulf's projected level of distribution O&M expense of $41,596,000 in 2012 representative of a going forward level of distribution O&M expenses beyond 2012?

A. Yes. This is best illustrated by comparing the 2012 level of distribution O&M expenses to the budgeted levels of distribution O&M expenses for the years 2013-2015, which were also developed in the same budget process. This is shown on Exhibit RSM-1, Schedule 8.

Q. The Commission has historically employed an O&M benchmark calculation in base rate proceedings. How do Gulf's distribution O&M expenses forecasted for 2012 compare to the O&M benchmark level of distribution expenses?

A. Gulf's 2012 level of distribution O&M expenses is $3,472,000 below the 2012 O&M benchmark. The O&M benchmark level for distribution provided to me by Gulf Witness McMillan is $45,068,000. Gulf is projecting to spend Distribution O&M in 2012 of $41,596,000. This is shown on Exhibit RSM-1, Schedule 8.

VI. GULF'S DISTRIBUTION INVESTMENT

Q. Mr. McMillan shows a total of $2.6 billion of plant in service investment in Gulf's 2012 rate base in this case. Other witnesses have testified that these costs are properly recorded consistent with the Uniform System of Accounts and generally accepted accounting principles. Are the assets associated with these costs used and useful in the provision of electric service to the public?

A. Yes. The distribution assets, which comprise a total of $1,029,829,000 of plant in service in Gulf's 2012 rate base, are used and useful in Gulf's provision of electric service.

Q. Are these distribution costs reasonable and prudent?

A. Yes. They are the product of Gulf's distribution planning process as well as the rigorous budgeting and monitoring process I described earlier in my testimony.

Q. How does the test year level of distribution plant in service compare with the level of distribution plant in service in Gulf's last rate case?

A. The projected level of distribution plant in service in Gulf's average rate base is $1,029,829,000. This compares to the 13-month average projected level of distribution plant in service in Gulf's last rate case of $693,523,000.

Q What have been the major drivers in the $336,306,000 increase in the distribution plant in service in rate base between this test year and Gulf's last rate case?

A. The major drivers behind the increase in distribution plant in service are customer growth, distribution system loading, the aging distribution system, and increased cost of distribution equipment.

Q. Discuss the impact of customer growth from 2002 through 2010.

A. One of the primary factors causing Gulf's increased distribution investment has been customer growth. For most of the decade since Gulf's last rate case, Gulf has experienced customer growth. From 2002 through 2010, Gulf's number of customers grew from 383,923 to 430,658, an increase of 12 percent. Gulf forecasts increased customer growth from 2010 through the 2012 test year, but at a growth rate lower than prior to the Great Recession.

Q. How has distribution system loading affected distribution investment?

A. Growing cumulative customer consumption has resulted in an increased loading of Gulf's distribution system. As discussed previously, distribution system loading is an input to the Studies that Gulf performs as part of its distribution planning process. The resulting Studies support Gulf's investment in additional capital projects which meet the distribution system requirements and are necessary to provide for the safe, reliable and effective operation of the distribution system.

Q. How has an aging distribution system affected distribution investment?

A. As the distribution system ages, more investment is required to replace older equipment. Most distribution equipment has a 30-year expected life. Gulf installed a significant amount of distribution infrastructure to support the 292,044 customers that were added from 1970 to 2010. As equipment on Gulf's distribution infrastructure approaches the end of its expected life, increased failures and higher maintenance costs could occur. This is particularly evident in Gulf's service area which is subjected to coastal weather events that affect the distribution infrastructure and the majority of Gulf's customers. In order to replace aging assets prior to failure and to upgrade the system in specific areas to maintain, or in some cases improve, existing reliability levels, capital investments are required.

Q. How has increased cost of distribution equipment affected distribution investment?

A. The rate of cost increases for new facilities and for facilities that replace existing equipment has risen faster than inflation as measured by the Consumer Price Index (CPI). Distribution equipment such as wire, protective devices, and transformers has been impacted by increases in raw material costs. For example, a standard 25 kVA transformer is built primarily with steel, aluminum, and copper. The costs for these raw materials have resulted in a 116 percent increase in transformer cost from 2002 to 2010. Fleet vehicles used to construct, maintain, and restore electric service require diesel fuel, which has increased in cost by 147 percent since 2002. During that same period, overhead and underground

aluminum wires have increased in cost by 176 percent. My Exhibit RSM-1, Schedule 9 shows the cost increases for various types of distribution equipment and diesel fuel. Another example is a distribution substation, which includes the power transformer, distribution feeder breakers and relays. A typical Gulf distribution substation's cost was approximately $968,000 in 2002. A typical Gulf distribution substation's cost in 2010 was approximately $1,700,000.

Q. What is Gulf's distribution capital additions budget for 2011 and 2012?

A. Gulf's distribution capital additions budget for 2011 is $57,916,000. Gulf's projected distribution capital additions budget for 2012 is $58,628,000. As shown on Exhibit RSM-1, Schedule 10, the 2012 capital additions budget includes the following types of expenditures: Advanced Metering Infrastructure (AMI) project ($14,606,000), New Business ($14,735,000), Distribution Infrastructure Improvements ($14,175,000), Distribution Transformers ($6,968,000), Storm Hardening ($3,116,000), Lighting ($2,087,000), Asset Management ($1,801,000), and Highway Improvements/Joint Use ($1,140,000).

Q. Describe what is included in the AMI project.

A. The AMI project capital expenditures for 2012 are $14,606,000. The total distribution capital expenditures for the AMI project are $40,782,000. The AMI project consists of a tower-based communication infrastructure and the deployment of new meters having communication capabilities to Gulf's customers. Gulf began its deployment with a pilot program of 7,000

meters in 2009, allowing us to confirm our planned installation practices and processes, including advance phone calls to customers a week prior to the meter installation.

Gulf has been able to accelerate the deployment of AMI by taking advantage of the availability of experienced contractors who were already mobilized and ready to work on our system. Deployment began in the Pensacola area and will proceed easterly across Northwest Florida, with plans to be essentially complete to all meter points by the end of 2012. As of May 31, 2011, we have approximately 126,000 AMI meters in place, representing about 29 percent of all metering points.

Q. Describe Gulf's New Business expenditures.

A. Gulf's New Business capital additions expenditures for 2012 are $14,735,000. New Business includes expenditures for distribution facilities that are necessary to construct additions, extensions, and improvements related to the connection of new residential, commercial, or industrial customers. These expenditures include installation of poles, conduit, and wires which are necessary to serve additional customers and their associated loads. New Business also includes distribution facilities installed to serve a new residential subdivision or a new commercial development.

Q. Describe Gulf's Distribution Infrastructure Improvement expenditures.

A. Gulf's Distribution Infrastructure Improvement expenditures for 2012 are $14,175,000. Distribution Infrastructure Improvement expenditures are for improving or replacing equipment that is operating at or beyond capacity. These expenditures also include modifications and additions to the overhead distribution system that are necessary to improve the protection of distribution feeders and laterals and to improve or maintain voltage levels on the distribution system. These modifications are identified, evaluated, and constructed based on recommendations from Gulf's distribution planning process.

In addition, these expenditures include $1,980,000 for Gulf's Distribution Automation program which was approved in Gulf's Storm Hardening Plan in Order No. PSC-10-0688-PAA-EI in Docket No. 100265-EI. This Distribution Automation project is part of a Smart Grid Investment Grant (SGIG) conducted in conjunction with the Department of Energy (DOE) and the Southern Company. Gulf's capital investment dollars are matched by 50 percent with DOE SGIG funds. The SGIG project has allowed for the addition of state-of-the-art distribution equipment. The 3-year project includes total capital additions of $7,286,000. The Distribution Automation program consists of the installation of protective devices (reclosers), substation relaying changes and a Distribution Supervisory Control and Data Acquisition (DSCADA) System. Gulf is installing reclosers at approximately the mid-way point on distribution feeders. Additional reclosers or automated switches will be deployed on long or critical

feeders to further segment the feeder for outage restoration. These devices, along with the substation relaying changes, are intended to minimize customer interruptions from faults on the distribution system. These devices will be controlled remotely by Gulf's Distribution Control Center personnel and/or placed in an automated restoration scheme.

Q. Describe Gulf's Distribution Transformers expenditures.

A. Gulf's Distribution Transformers expenditures for 2012 are $6,968,000. Distribution Transformers includes expenditures associated with the purchase and installation of overhead and underground distribution system transformers as a result of new customers or service improvements.

Q. Describe Gulf's Storm Hardening expenditures.

A. Gulf's Storm Hardening expenditures for 2012 are $3,116,000. This expenditure results from Gulf's 2010 – 2012 Storm Hardening Plan which was approved by the Commission in Docket No. 100265-EI, Order No. PSC-10-0688-PAA-EI. This plan incorporates the 10-Part Storm Preparedness Plan initiatives that were originally approved in Order No. PSC-06-0781-PAA-EI, Docket No. 060198-EI in September 2006. The capital additions expenditures associated with these initiatives include items such as Grade B construction on new distribution construction, pole replacements identified through our annual pole inspections, and extreme wind loading projects.

Q. Describe Gulf's Lighting expenditures.

A. Gulf's Lighting expenditures for 2012 are $2,087,000. These expenditures are for the purchase and installation of municipal street lighting and other outdoor lighting facilities.

Q. Describe Gulf's Asset Management Improvement Program expenditures.

A. Gulf's Asset Management expenditures for 2012 are $1,801,000. These expenditures are for the purchase and installation of equipment necessary to properly coordinate the distribution system. Lightning protection devices on feeders and laterals are also included in this activity. As mentioned previously, Gulf's distribution system is exposed to higher than average lightning impacts. Gulf attempts to mitigate these impacts by installing lightning arrestors on distribution feeders and laterals.

Q. Describe Gulf's Highway Improvements/Joint Use expenditures.

A. Gulf's Highway Improvements/Joint Use expenditures for 2012 are $1,140,000. These expenditures are used to relocate lines as required by state and county agencies for street and highway construction. Also, this includes the cost associated with the replacement of poles where additional height is needed to meet clearance requirements and to attach to and perform other work in connection with poles in joint use with communication utilities.

Q. Are you responsible for any General Plant expenditures?

A. Yes. While Mr. McMillan will discuss General Plant in his testimony, I am responsible for General Plant expenditures related to Gulf's Fleet. Gulf's Fleet expenditures for 2012 are $2,563,000. These expenditures are for vehicles such as line trucks, service bucket trucks, and digger derrick trucks as well as other specialized utility equipment. These expenditures are incurred as a result of a standard replacement plan based on a 10-year cycle for light vehicles and a 12-year cycle for mechanized equipment. Distribution is responsible for the purchase and maintenance of Gulf's fleet of vehicles (Fleet). Gulf's Fleet consists of 246 light vehicles (pickups and vans), 10 medium/heavy non-mechanized units, 125 mechanized units (bucket and pole trucks), 169 trailers, and 46 off road units (forklifts, dozers, and boats).

VII. DISTRIBUTION WORKFORCE

Q. Please address the size of the Distribution workforce at the end of 2010 relative to the size assumed in the 2012 budget.

A. The Distribution department increased its employee population from 358 full time equivalent (FTE) employees in December 2010 to 403 budgeted FTEs by December 2011. The 403 budgeted FTEs will remain the employee population target for Distribution for the 2012 calendar year. Gulf is in the process of filling these 45 positions.

Q. Would the labor costs for any of those FTEs be charged to adjustment clauses?

A. No. Distribution labor costs are recovered through base rates, either as O&M expense or as part of the capitalized cost of construction.

Q. What is the composition of these 45 Distribution positions?

A. As shown on Exhibit RSM-1, Schedule 11, these 45 positions are entry level positions, and they consist of 32 Utilitypersons, 10 Engineers in Training, and 3 Fleet positions. The total labor costs, without benefits, for these positions in 2012 are budgeted to be $1,450,000. Of that total, $822,000 is budgeted to be capitalized, which is equivalent to approximately 24 FTEs, and $628,000, approximately 21 FTEs, is reflected in Gulf's 2012 O&M budget.

Q. How many of these 45 additional positions are new, and how many are vacancies of positions unfilled at the end of 2010?

A. Most of these 45 positions are vacancies existing at the end of 2010. Distribution had 394 positions budgeted in 2010, but by year end, we only had 358 positions filled. As a result, 36 of the 45 FTEs are for vacancies existing at the end of 2010 and 9 FTEs are new positions. However, all of the FTEs fall into the three categories I mentioned previously, and their justification is the same, whether they are existing vacancies or new positions. Ultimately, the positions are needed to serve Gulf's customers.

Q. Why did Gulf have so many unfilled Distribution positions at the end of 2010?

A. Several factors contributed to the Distribution vacancies at the end of 2010. First, Gulf was making every effort to keep expenditures low in an attempt to avoid a base rate proceeding from 2008 through 2010. At year end 2007, Gulf had 378 Distribution positions filled out of 403 positions budgeted. Over the next several years, in an effort to cut costs, Gulf did not fill all Distribution vacancies as they occurred. Each vacancy was evaluated to determine if the vacancy could be held open. In 2009, Gulf imposed Company-wide hiring restrictions. These cost-cutting measures were the primary contributors to Distribution's reduced work force at the end of 2010.

Second, there was an unusually high turnover of Distribution employees during 2010. Approximately 12 engineering positions were vacated as a result of engineers leaving Gulf. This was a result of both internal hiring by other Southern Company operating companies and external hirings. Similarly, we had more vacancies in our line services population. This led to vacancies in our Utilityperson positions, which are entry level positions for our Line Technician classifications.

Q. Please address Gulf's need to fill the ten Engineer in Training positions that were vacant at year end 2010.

A. These positions have already been filled with 10 entry level EITs. The EIT program was developed and created to provide an avenue to introduce

entry level engineers to the utility industry with a focus on building future leaders for the Distribution organization, as well as for Gulf Power. It is an 18-month program where new engineers are exposed to various functional groups including energy sales and efficiency, environmental, customer operations support, distribution planning, metering, and the distribution control center among others. The rotation through these departmental functions provides a high level knowledge of the business function and how all departments of the Company work together to serve our customers. This enhances Gulf's ability to deliver customer value.

The EIT program was also timely in its creation due to the Smart Grid Investment Grant (SGIG) opportunity that Gulf has been working on with Southern Company and the Department of Energy. The SGIG program initiatives emphasize the increased deployment of distribution technology on Gulf's distribution system. This enhanced emphasis on technology fits perfectly with establishing a new EIT program to recruit new technologically-savvy engineers entering the work force right out of school. In 2010, a pilot class of EITs was established to evaluate and review the 18-month training program to ensure that the program met the expectations of Distribution management. As a result of the successful pilot program, in 2011, 10 EIT positions were recruited and hired with expected start dates following their successful graduation. All 10 EITs are on board as of the end of May 2011. The EIT program will continue to be a recruiting tool for entry level engineers ensuring future engineers are trained and developed in a consistent manner.

Q. Please address the 32 Utilityperson positions to be added by Gulf.

A. Much like the EIT program, line services employees at Gulf Power are provided a thorough training and educational opportunity through a program called Earned Progression (EP). The EP program establishes a process whereby Line Technicians are developed through a series of classroom and field work programs as they progress from the Apprentice classification to the Journeyman level classification. In order to develop a feeder pool for this program, Gulf hires the entry level Line Technicians into a classification called Utilityperson. This classification provides for a probationary period where Utilitypersons are exposed to the Line Technician duties and responsibilities. During this period, they gain insight into their future role and Gulf evaluates the new employee's work ethic and commitment to the Line Technician routine. Through past experience, Gulf has learned that this routine is not for everyone and that a Line Technician must possess specific attributes. It is not uncommon to lose some of the new employee entries into the EP program. Typically, this loss occurs during the pole climbing training that Gulf conducts for all participants in the EP program.

As the EP program has evolved, it has become apparent that Gulf must develop groups of Line Technician classes to facilitate training to ensure Gulf's efforts are both effective and efficient in developing future line services personnel. This focus has allowed us to hold positions through the year and hire when pools of candidates are developed. Typically, Gulf will conduct one or two hiring sessions for Utilitypersons during a calendar

year. Because of the length of the program, usually 7 years from Apprentice to top-level Journeyman classification, Gulf has increased the line services complement by 32 positions. This will ensure Gulf has an adequate number of qualified Journeyman Line Technicians.

Q. Please address Gulf's budgeted additions of 3 Fleet positions.

A. The three additional budgeted Fleet positions consist of two mechanics and one administrative assistant. The two additional mechanic positions were filled in May 2011, and bring the total to 12 mechanics in Gulf's Fleet organization. The mechanics are responsible for maintaining Gulf's Fleet as described previously. Much like the line services organization, the development of a mechanic from the entry level Apprentice classification to a Journeyman level Mechanic usually takes years. These additional positions allow Gulf to continue to grow and develop those skills critical to ensuring the safety and maintenance of highly specialized equipment that Gulf uses daily in providing customer service.

Q. Please summarize the need for 45 additional Distribution positions in 2012.

A. Gulf is in the process of filling these positions and we intend to restore our complement in order to get back to the level of Distribution employees that we had budgeted for 2007, before the recession began and before we saw a temporary reduction in customer growth. As Gulf Witness McGee discusses, we are experiencing some measure of customer growth, and this higher rate of customer growth as we emerge from the recession

justifies higher levels of Distribution employees relative to 2010 levels. In addition, Gulf is facing an aging work force, particularly in Distribution, and efforts must be undertaken now and into the future to hire and train new entry level positions if we are to meet customer requirements in the future.

VIII. GULF'S DISTRIBUTION PERFORMANCE

Q. How does Gulf assess the quality of its distribution system service?

A. Gulf evaluates distribution system performance from the point of view of our customers. One of the Company's goals is to be in the upper quartile in customer value when measured against a peer group of utilities. Gulf Power utilizes the Customer Value Benchmark (CVB), which allows the Company to compare and contrast itself against an elite group of 16 peer utilities in the Southeast and nationally. One of the specific drivers of customer satisfaction in the CVB is reliability. Gulf's CVB survey results indicate that reliability is one of the most important drivers of customer value. The CVB survey measures reliability satisfaction on a 0 to 10 point scale. From 2006 to 2010, Gulf's residential segment average rating was 8.02, the general business segment average rating was 8.31, and the large business segment average rating was 9.29.

Another measure of how Gulf views distribution system performance is the Commission's "Review of Florida's Investor-Owned Electric Utilities (IOU)

Service Reliability" report. In the most recent report which covers the 2009 calendar year, Gulf had zero reliability related complaints.

Q. Does Gulf use any other measures to value distribution system performance?

A. Yes. Consistent with Rule No. 25-6.0455, Gulf also uses the following reliability measures: System Average Interruption Frequency Index (SAIFI), System Average Interruption Duration Index (SAIDI), Momentary Average Interruption Event Frequency Indicator (MAIFIe), Customer Average Interruption Duration Index (CAIDI), and Customers Experiencing More Than Five Interruptions (CEMI5). Gulf's distribution system performance on these reliability measures over the 2006 to 2010 period has been relatively consistent as shown on Exhibit RSM-1, Schedule 12, pages 1 through 5.

Q. Please describe Gulf's distribution system performance.

A. Based on the foregoing measures, Gulf's distribution system performance has been good. The projects and programs in the 2012 Capital and O&M budgets are necessary for Gulf to continue to provide reliable electric service to its customers.

Q. Discuss the impact of the major storm events of 2004 and 2005 on Gulf's distribution system.

A. Gulf takes great pride in the restoration efforts it makes to ensure that our customers and communities return to normalcy as quickly as possible

following major storm events. The tropical storm seasons of 2004 and 2005 had a devastating impact on Gulf's distribution system. In the 2004 storm season, Gulf's distribution system endured three named storms: Tropical Storms Bonnie and Frances and Hurricane Ivan (Category 3). While Gulf was still dealing with the aftermath of the 2004 storm season, the 2005 storm season arrived with four named storms: Tropical Storms Arlene and Cindy along with Hurricane Dennis and Hurricane Katrina. Gulf was successful in promptly restoring power to its customers after each of these events; however, these storms have had a lasting impact on Gulf's distribution system performance.

Hurricane Ivan-related damage to Gulf's Distribution system was the worst on record for Gulf. Damage to Gulf's facilities was extensive, and in many cases, catastrophic. See Exhibit RSM-1, Schedule 13 for Hurricane Ivan Surge Inundation maps for Gulf's service area impacted by storm surge. See Exhibit RSM-1, Schedule 14 for Hurricane Ivan Wind Swath paths for Gulf's entire service area. Hurricane Ivan hit on September 16, 2004, and outages were widespread throughout Gulf's service area; 368,644 customers, or 91.6 percent of Gulf's total customer base, lost power. Every customer in Escambia and Santa Rosa Counties lost power. Transmission, distribution, and tree trimming resources were difficult to acquire because many of them were already working in South Florida assisting utilities in that region with recovery efforts from Hurricanes Charlie and Frances.

By utilizing crews from Canada and 23 states across the United States, Gulf restored service to all customers that could take power in only 13 days. What makes this near complete system restoration even more remarkable is that Gulf had to respond to intense pressure to make resources available in anticipation of the landfall of Hurricane Jeanne, which struck South Florida on September 26, 2004. So, on September 23, 2004, only a week after the storm and with only 75 percent of its customers restored, Gulf began releasing crews to South Florida. Even with this crew release, Gulf repaired and restored almost its entire system in less than two weeks.

Approximately 10 months later, Gulf's system was again tested as Hurricane Dennis, another Category 3 storm, made landfall in Santa Rosa County on July 10, 2005. Outages were widespread, and although damage to the distribution system was extensive, the overall infrastructure damage was not as great as that caused by Ivan due to the compact nature of Hurricane Dennis. Total Gulf customer outage numbers peaked at 265,918 or about 66 percent of Gulf's customers. Gulf began damage assessments and restoration efforts on Sunday afternoon, July 10, 2005, almost immediately after the storm passed. All of Gulf's customers who could take service were restored by July 16, 2005, excluding Santa Rosa Island. Santa Rosa Island suffered extensive damage to both the overhead and underground distribution systems. With the major restoration complete, distribution crews moved to Santa Rosa Island to rebuild the distribution systems on both Navarre and Pensacola Beaches.

Q. What were the impacts to Gulf's system related to these major storms?

A. The effects of the storm related damage associated with the 2004 and 2005 storm seasons did not end with restoration of power. Gulf continues to experience long term impacts to its distribution system resulting from quickly restoring power after Hurricanes Ivan and Dennis.

Even though power was flowing, the system had not returned to its pre-hurricane condition. Not all equipment failed, but most equipment was affected in various ways and to varying degrees by multiple storms that ravaged Gulf's system. While each of these hurricanes was different in characteristics, collectively, the compounding effects of the winds and storm surges have had lasting impacts on the performance of our distribution system.

Q. What was the community's response to Gulf's restoration efforts?

A. The community's response to Gulf's restoration efforts was overwhelmingly positive. Gulf was repeatedly commended by its customers, the press and governmental officials for its storm restoration efforts.

In 2007, Gulf initiated a periodic communication survey with the four active Emergency Operation Centers (EOCs) in Northwest Florida to gauge the Company's participation and communication levels with the EOCs. In the surveys, the Directors for the Escambia County, Santa Rosa County,

Okaloosa County, and Bay County EOCs were asked to gauge Gulf's participation level, responsiveness, presence in the EOC, and overall information exchange. Three surveys of this type were conducted in the years 2007, 2008, and 2009. In all cases, all four EOCs rated Gulf's coordination efforts as outstanding. The EOC survey results show that Gulf values, and actively pursues, a positive and cooperative relationship with the leadership in every community served.

The Edison Electric Institute provides two awards for Emergency Response. The first is the Emergency Recovery Award (previously called Emergency Response Award) given to companies who show outstanding recovery of their own system after a natural disaster. The second is the Emergency Assistance Award given to companies that help respond to a natural disaster faced by another company. That is, they send workers, trucks, equipment, and assistance to help another company restore their system following a natural disaster. Gulf Power won the prestigious Recovery Award several times, including in 2004 for Hurricane Ivan and 2005 for Hurricane Dennis. Gulf Power has also won the Assistance Award a number of times, including in 2004 for Hurricane Frances and in 2005 for Hurricanes Katrina and Wilma.

IX. CONCLUSION

Q. Please summarize your testimony.

A. Gulf's distribution system provides safe and reliable electrical service to customers requiring a wide variety of electrical needs through a complex system of technical equipment. This system stretches across Northwest Florida to serve residential, commercial, and industrial customers.

Gulf's service area encompasses numerous large bays, miles of coast line and some of the most heavily forested areas in the country. It is subjected to a high frequency of lightning strikes, storm surge, tropical storms, and wind loads ranging from 110 to 140 miles per hour. Gulf must be ready to provide and restore service when and where it is requested throughout its 7,550 square mile service area.

Gulf is diligent in the planning process in order to balance requirements needed to construct the most reliable, practical, and economical expansion of the distribution system. Continual investment in the distribution system is necessary to respond to customer needs, evolving distribution system demands, and the natural effects of system aging.

Gulf's investment in distribution facilities has grown significantly since our last rate case. This growth has been due in part to customer growth, distribution system loading, the aging distribution system, and the

increased costs of distribution equipment. The Company anticipates this investment spending trend to continue in 2012.

Gulf has a rigorous and comprehensive distribution budgeting process based on a systematic planning process. The budgets projected by Gulf for the 2012 test year are the result of our budget and planning processes. Gulf's projected 2012 distribution capital additions budget is reasonable, prudent, and necessary to provide reliable electric distribution service to Gulf's customers. Gulf's projected 2012 distribution O&M expense level is reasonable, prudent and representative of the future level of distribution expenses necessary to provide reliable electric distribution service to Gulf's customers.

Gulf evaluates distribution system performance from the point of view of our customers and uses the Customer Value Benchmark survey to measure reliability satisfaction. In addition, Gulf evaluates reliability complaints filed with the FPSC and uses standard reliability measures to evaluate overall distribution system reliability performance. These measures demonstrate that Gulf provides reliable service to its customers. The annual "Review of Florida's Investor-Owned Electric Utilities Service Reliability" report indicates that Gulf had zero reliability related complaints in 2009.

Gulf takes great pride in the restoration efforts it makes to ensure customers and communities return to normalcy as quickly as possible

following storm events. For years, Gulf has emphasized the importance of coordination efforts with local governments on storm preparedness. Gulf works closely with the county EOCs in its service area for storm preparedness and restoration activities whenever necessary.

Gulf is committed to customer service through its 24 hours a day, 7 days per week, 365 days per year distribution system operation. Through these efforts, Gulf continues to focus first and foremost on service to our customers.

Q. Does this conclude your testimony?

A. Yes.

MR. BADDERS: One quick correction. I believe on page 22 at line 21 there's another correction to that same number.

CHAIRMAN GRAHAM: Yeah, he said nine and 21.

MR. BADDERS: I'm sorry. I didn't hear him say 21.

THE WITNESS: It was three corrections.

BY MR. BADDERS:

Q Yes, I think you said. I'm sorry. Mr. Moore, do you also have one exhibit to your testimony?

A Yes.

Q Do you have any changes or corrections to that testimony -- or to that exhibit?

A No.

Q This exhibit has already been identified as hearing Exhibit 15. And with that, Mr. Moore, will you please give a brief summary.

A Good afternoon. My testimony focuses on the electric distribution system, its components and their function, the planning and construction of the system, and, finally, the expenses necessary for the operation of the electric grid.

The electric distribution system begins at the substation where a power transformer and sophisticated equipment and controls are constructed and maintained to provide for the safe and reliable operation of the electric

system. Overhead and underground electric lines leave the substation through main line feeders and laterals that provide electrical service to our customers.

Our customers are generally classified as residential, commercial, and industrial customers. Each customer segment will have different power needs and are addressed one by one to determine their individual requirements.

The distribution organization uses a comprehensive and rigorous planning process to identify and prioritize distribution projects. This process develops recommendations that determine the most reliable, practical and economic expansion of the distribution system. Gulf's investment in the electric distribution system has grown significantly since our last rate case.

This growth has been due in part to customer additions, distribution system loading, the aging distribution system, and the increased cost of distribution equipment.

Continual investment in the electric distribution system is necessary to meet customer needs, evolving distribution system demands, and the natural effects of system aging.

My testimony describes in detail both the capital and O&M budgets for the 2012 test year. Ultimately, this

process translates into construction and maintenance activities that are necessary for Gulf to serve its customers.

Finally, I review Gulf's storm restoration response. Gulf Power takes great pride in restoring normalcy to our customers in the communities we serve as soon as possible following a major or minor weather event. Gulf has a great history of both efficiently and effectively restoring service to our customers following weather events. Thank you.

MR. BADDERS: We tender Mr. Moore for cross examination.

CHAIRMAN GRAHAM: Mr. Sayler?

MR. SAYLER: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. SAYLER:

Q Good evening, almost 7:00. How are you doing this evening? Hanging in there?

A I'm hanging in there.

Q Me, too. My name is Erik Sayler. I'm with the Office of Public Counsel and represent your customers. And I have some questions both now on your direct testimony and then later on your redirect -- or on your rebuttal. So I'll just start with those.

If you will turn to page 23 of your testimony

where you made that correction, line -- if I recall correctly, that correction was 335,503,000? Sorry.

A That's correct.

Q And this section of your testimony is regarding Gulf's distribution investment, is that correct?

A That's correct.

Q And in that Q and A that you have for lines one through six, you describe the major drivers of that over $335 million increase between the -- in the rate base from the test year to the last rate case, is that right?

A That's correct.

Q And those drivers -- in any of those drivers I don't see anything related to the three major storms which struck Gulf's service territory in 2004 and 2005.

A That's correct.

Q Now, what effect, if any, did Hurricanes Ivan, Dennis, Katrina, have upon the distribution system and that dollar figure that you have on line one?

A The 2004 and 2005 hurricane seasons produced dramatic impacts to the electric distribution system. In effect, Hurricane Ivan, for example, we replaced approximately 350 miles of wire, three or 4,000 poles were damaged that we replaced, and then countless other trouble tickets that we worked throughout the system.

More than -- as Mr. Jacob mentioned earlier, more

than 90 percent of our customers were out, and we restored service to those customers by replacing facilities and repairing facilities, as well.

Q And the repairs, when you did the new wire and new lines, would that be items that were added to the distribution investment to the plant in service?

A Yes.

Q Do you have a dollar figure associated with those?

A I'm sorry, I don't have that dollar figure.

Q All right. I asked a similar question to Mr. Caldwell. Now, the spending that was done to restore the distribution system following those storms, my question for you is do you believe that that spending with the new wire and the new poles and things helped harden the system against future storms?

A Certainly those facilities that were repaired or replaced, because we were on site making those repairs and having new facilities in place, I would expect that those facilities, absent windblown debris, or a major surge from major storms, would most likely survive better than older facilities.

Q All right. Do you know if there's been any studies related to how much that repair and replacement has strengthened the system?

A No, sir. When -- in 2007 in our storm hardening

filing the Commission approved an effort for us in one of the ten-part initiatives to do forensic analysis on our system following a major storm. I'm proud to say that we've not had a storm since 2004-2005 that we've had to deploy that forensic analysis. So we don't have any record of the damage associated with that.

The plans are in place should we have that storm that we will do that forensic analysis immediately and be able to develop those cost analysis.

Q This may be outside the area of your testimony, but do you know if that strengthening of the system was taken into account when the -- when Gulf commissioned the storm hardening studies for the dockets before the Commission, or that are referenced in Ms. Erickson's testimony? Do you know?

A I got confused with your question. I'm sorry.

Q In the storm hardening docket that occurs on a regular basis here at the Commission, do you know if the replaced distribution system was taken into account as part of that storm hardening docket?

A No, the Commission -- our annual report, we do report our budget to actual comparison of how much we produce through our storm hardening docket. And we routinely provide updates on that on an annual basis to the Commission so that we are accountable to the approved order that the Commission

has put before us to do the storm hardening initiatives.

Q But as you testified earlier, no forensic analysis to actually determine how well or effective it is, is that correct?

A That's correct, to date.

Q And the same page, would you have considered those three storms being a major driver behind that $335 million increase?

A My testimony is specific to the drivers behind that 335 million to be the customer growth, the system loading, the aging distribution system, and the increased cost of distribution equipment. Storm hardening is part of that effort going forward, is inclusive of the increased cost of distribution equipment. So, yeah, there are portions of that that are reflected through this process, as well.

Q But storm hardening is something separate and apart from storm restoration following a storm. I mean, was the storm restoration efforts a major driver in that 335 million? If you know.

A I don't know. I'm sorry, I don't have that.

Q All right, I'll move on. Thank you. If you'll turn to page 32 of your direct testimony, please.

A Okay.

Q In response to a question, why did Gulf have so many unfilled distribution positions at the end of 2010, you

testified or you stated that from 2008 to 2010 there was an effort to cut costs. Do you see that in your testimony?

A I do.

Q And in an effort to cut costs Gulf chose not to fill those distribution vacancies as they occurred, is that correct?

A I want to make sure I'm clear about -- we would evaluate every position that became vacant. The forward facing positions that were customer driven -- for example, our journeyman linemen, those linemen that are in what we call our earned progression programs would move into those positions as they become vacant. That's a standard practice for our development of our journeyman linemen, for example.

Q But isn't your testimony on lines seven and eight, over the next several years, in an effort to cut costs, Gulf did not fill all distribution vacancies as they occurred? Is that not your testimony?

A That's correct.

Q Now, if Gulf did not fill those vacancies in those years, the money that was budgeted for those vacancies, where did that money go?

A That money was in essence -- we never sacrifice service to our customers, so, for example, a car hit a pole at 2:00 in the morning, our employees respond to those outages. And that's where I was transitioning to a second

ago.

The positions that were held were our entry level positions. So as we would move those folks into the classifications that were customer facing, the entry level positions were ultimately the trickle down that would be held open that would -- in essence are part of my FTE compliment that we are trying to fill today.

Q Okay. So people were promoted up, creating a vacancy in an entry level position, and those entry level positions were left open?

A That's correct.

Q Okay. I have a few questions about the 2004-5 hurricane season. Were you with Gulf Power when those storms struck the Gulf service territory?

A No, sir.

Q But you're familiar with the damage those storms caused to the distribution system, is that right?

A Yes, sir.

Q If you'll turn to page 38 of your direct testimony.

A Thirty-eight, you said?

Q Yes, sir. And look at lines 12 through 14.

A Yes, sir.

Q And it is your testimony in this case that Hurricane Ivan-related damage to Gulf's distribution system

was the worst on record for Gulf. Damage to Gulf's facilities was extensive, and in many cases, catastrophic. Do you see that?

A Yes, sir.

Q And were you here when Mr. Caldwell was being examined earlier?

A I was.

Q It appears to me that you have the same line in your testimonies.

A Right.

Q Would you agree that -- I mean, based upon your experience, would you agree that the Hurricane Ivan-related damage was severe to catastrophic?

A Yes, sir, specifically from an operational standpoint, and that was my testimony, to try to make sure we understood that from an operational standpoint our customers experienced a catastrophic storm. More than 90 percent of our customers were out.

Escambia and Santa Rosa Counties, in particular, were heavily damaged from Ivan, and being that was the closest facilities Gulf had to the actual eye wall for our service area.

Q All right. And similarly, for Hurricane Dennis, which occurred the year following, would you say that it was severe but not yet as severe or catastrophic as Hurricane

Ivan? Would that be a fair characterization?

A Yes.

Q Just backing up on page 38, it's been mentioned several times that as a result of Hurricane Ivan 91 percent of Gulf's total customer base was without power.

A That's correct, 91.6 percent.

Q And what about Hurricane Katrina, was Hurricane Katrina a severe storm, as well?

A Hurricane Katrina was a severe storm. It was further away, of course, and smaller in scale compared to Hurricane Ivan. I don't have the specifics, I don't believe, with me on the Katrina damage as compared to Ivan. But it was -- it was smaller scale. It was not on the level of an Ivan or a Dennis for Gulf's area.

Q Right. But a Katrina and a Dennis coming together in a relatively short period of time would be pretty severe and damaging to the system, correct?

A Correct.

Q Now, would you agree that during Hurricane Ivan many of the at-risk trees and vegetation most likely came down as a result of the winds; is that correct?

A Actually, I would disagree with that somewhat, because in our 2007 to 2009 storm hardening filing we suggested that we need to include a danger tree program as part of our vegetation management program. That was

important to us because we knew that there were damaged trees that were still standing after Hurricane Ivan. It was important that we recognize those and attempt to remove those over time.

We suggested that we would remove approximately 5,000 trees per year. Last count we were at 14,900-and-some-odd. We were right there. That transition now has in essence been mitigated. So I wouldn't totally agree with the statement that all trees were gone.

MR. SAYLER: And I have one final question. It is related to Staff's Fourth Set of Interrogatories, item number 43. I do apologize, I didn't make copies for the whole group, but I just was wondering if I could approach the witness to have him take a look at this.

CHAIRMAN GRAHAM: Sure.

BY MR. SAYLER:

Q Mr. Moore, would you read the question at the top of the page, the interrogatory that was asked?

A The question is, number 43, it says, please state the impact of Gulf's restoration and storm hardening efforts on the level of redundancy it builds into its distribution system. Explain with specificity the manner in which these efforts impact the demand and customer cost components of distribution equipment using the minimum distribution system cost methodology.

Q Okay. The question I have is really less related to the actual interrogatory, but to the response that I've highlighted with a little checkmark. Would you read that for us?

A Beginning with the storm?

Q Yes.

A That's highlighted, the first sentence is, the storm hardening initiative was implemented in 2007 as a consequence of severe hurricanes.

MR. SAYLER: Thank you very much, Mr. Moore, and we'll see you on rebuttal. Thank you.

CHAIRMAN GRAHAM: Mr. Moyle?

MR. MOYLE: You want to plow along? I've probably got ten, 15 minutes or so.

CHAIRMAN GRAHAM: I think that sounds like a good time to take a break or a recess for the night. We said that we were going to quit about 7:00, so I think the timing is perfect. We will reconvene tomorrow morning at 9:30. See everybody tomorrow.

(The hearing was recessed at 7:12 p.m.)

(The transcript continues in sequence to Volume 4.)

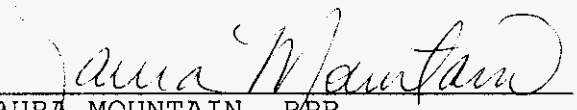
CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, LAURA MOUNTAIN, Court Reporter, do hereby certify that I was authorized to and did stenographically report the foregoing proceedings; and that the transcript is a true record of the aforesaid proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

Dated this 15th day of December, 2011.



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