BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 110138-EI

PETITION FOR INCREASE IN
RATES BY GULF POWER COMPANY
_______________________________/

Volume 6

Pages 901 through 1052

PROCEEDINGS: HEARING

COMMISSIONERS
PARTICIPATING:
CHAIRMAN ART GRAHAM
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER RONALD A. BRISE
COMMISSIONER EDUARDO E. BALBIS
COMMISSIONER JULIE I. BROWN

DATE: Tuesday, December 13, 2011

TIME:
Commenced at 1:50 p.m.
Concluded at 4:05 p.m.

LOCATION:
Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY:
MICHELLE SUBIA, RPR
Notary Public in and for
the State of Florida
at Large

APPEARANCES: (As heretofore noted.)

I N D E X

WITNESSES

EXHIBITS

NUMBER:		ID.	ADMTD.
2			930
18			931
19	CJE-1	974	1050
148	Grove 11/15/11 Deposition	927	929
149	Erickson 11/14/11 Deposition		1031
191	Southern Co. 10-K Excerpt	978	1050
192	Gulf's Resp/Inter No. 224	994	1050
193	Erickson Depo Exh. 1, 3, 4	1034	1051
194	Interrog. Response/Erickson	1037	1051

P R O C E E D I N G S

(Transcript follows in sequence from volume 5.)

MR. STONE: Mr. Chairman, may I speak briefly?

CHAIRMAN GRAHAM: Sure.

MR. STONE: I was not present when you adjourned for lunch and I apologize for that, but my understanding is prior to the break there was some question about the availability of the intervenor witnesses, and I would like to on Gulf's behalf reaffirm our previously expressed willingness to allow the testimony and exhibits, along with any discovery and deposition transcripts, of any of the remaining intervenor witnesses for whom staff does not have any live cross to be entered into the record without the need for these witnesses to personally appear at this hearing. I understand that that will be all of the remaining intervenor witnesses, provided that their depositions are entered into the record.

CHAIRMAN GRAHAM: Okay. Mr. Sayler.

MR. SAYLER: Yet again, we thank Gulf for the offer, but we respectfully decline.

CHAIRMAN GRAHAM: No, I wanted you to start asking questions.

MR. SAYLER: Oh, excuse me, I thought you were asking me to respond to that.

CHAIRMAN GRAHAM: No.

MR. SAYLER: All right.

Thereupon,

RAYMOND J. GROVE

was called as a witness, having been previously duly sworn, was examined and testified as follows:

CROSS EXAMINATION

BY MR. SAYLER:

Q Mr. Grove, my name is Erik Sayler. I represent the Office of Public Counsel and I represent your customers. And I want to thank you for coming out here today. I have a few questions for you, and hopefully it will go pretty quickly. We'll just start.

If you will take a moment -- first off, you are the current manager of power generation services for Gulf Power; is that correct?

A That is correct.

Q All right. Would you please refer to your Schedule 7 attached to your direct testimony, please?

A I have it.

Q All right. And this is the same schedule you have a few corrections on. And just give a moment for everyone to be able to turn to it.

According to the schedule, you would agree that Gulf's projected amount for total production O&M expense is 110 million; is that correct?

A For the test year?

Q For the test year.

A Yes, sir.

Q All right. And that projected amount is nearly 20 million more than what Gulf actually spent in 2010; isn't that correct?

A It's about 18 million.

Q 18 million.

If you look on your schedule, the line labeled "Total Outages," do you see those lines?

A Yes, sir, I do.

Q And you would agree that the 2012 projected outage expense is 23 million, correct?

A That is correct.

Q And that is at more than twice the actual 2010 actual incurred outage costs; is that correct?

A It is.

Q And you would agree that the 2012 projected outage expense is more than -- 7 million more than the 2009 outage costs, correct, outage costs for 2009 being 14.1 million?

A I would agree, but I would also like to point out that the outages in a given year could be for different units. For example, for 2009 the outages may have been for units -- smaller units or may not have included boiler and turbine work, and in 2011, '12, whatever year, it's different every year.

Q All right. But it is true, is it not, that the projected outage costs for 2012 are significantly higher than the outage costs for 2009 and 2010? Is that correct?

A They are higher.

Q All right. And you would also agree that the projected outage costs is higher than any of the five prior years from 2006 to 2010; is that correct?

A Yes, sir, I would agree with that.

Q And you would agree that the average outage expense for the previous five years is approximately $11 million a year; is that correct, if you were to do the math?

A I would prefer to do the math.

Q Okay. There's a little adding machine-type calculator over there.

A Unfortunately, these are solar batteries so it's taking me a second.

Q Take your time, we want you to get it right.

CHAIRMAN GRAHAM: There's one that runs off of general electricity right there.

THE WITNESS: Yeah, I see it. It's $11 million.

BY MR. SAYLER:

Q **All right. And that average of $11 million for 2006 through 2010 is quite a bit higher -- or excuse me -- quite a bit lower than the average for 2011 through 2015; is that correct?**

A It is lower. But once again, I would like to point out, different outages, different scope of work. We're talking about a time where we're holding costs down. And one of the ways in generation we do that is by limiting the type of work we're doing or doing it differently --

Q **Okay.**

A -- so that it does cost less.

Q **And you said that you're holding costs down. And that's just for 2009; is that right, because 2009 seems to be quite a bit higher than the other years, 2006 through 2010?**

A I would say it's a combination, because even as far back as 2007, we're starting to look at the forecast years '07, '08, '09, '10, '11 and we're starting to see the numbers get larger.

Q **Okay.**

A And so we're starting to manage those outages in a way that we keep the costs a little lower so we don't have to do this.

Q All right. But it is your testimony now that for 2011 through 2015 you're not holding the costs down?

A No, I would say -- what I would say is that we have budgeted what we feel is the appropriate level to maintain the reliability and efficiency of our generating fleet.

Q And this has been asked of other witnesses, but is Gulf able to keep the lights on at this time with its current level of spending?

A Yes. And as I pointed out in my testimony, we've reached that point. Through historical spending, you can do that with a well-maintained system for a period of time. But then it reaches a time where you can't continue to do that and you have to spend additional money to ensure the reliability of the system.

Q All right. Thank you, Mr. Grove. I'm trying to do my best to ask yes or no questions to kind of get through my examination, so to the extent possible -- and if you need to expound upon that, perhaps your counsel on redirect can help with that.

If you look at the "Special Projects" lines

for the same period of time, 2006 through 2010 and '11 through '15, you would agree that the special project budget has increased quite a bit?

A I'm just doing simple math. I would say that it has increased by a couple of hundred thousand dollars a year.

Q Right. It's a small dollar amount, but it's still a significant increase in that budget line.

Now, the last two questions along this line of questioning, hopefully, in your testimony on page 27, you testified that the projected level of production O&M expenses are representative of Gulf's going-forward production O&M beyond 2012; is that correct?

A Could you point me towards the line you're referring to?

Q Line, let's see --

A I'm sorry, I found it.

Q But you would agree that it's your testimony that the production O&M expense in your Schedule 7 is representative of a going-forward O&M expenses; is that correct?

A Yes, sir, it is.

Q To support this going-forward assertion in your testimony, besides the factors addressed in your testimony, did Gulf commission any external studies to

show that the production O&M expenses for 2012 and beyond are truly representative of going-forward production O&M amounts; yes or no?

A We did not incur external review of those -- of our budget amounts.

Q Okay. Has Gulf Power ever entertained doing such an evaluation?

A I don't know the answer to that.

Q Okay. To your knowledge, has Gulf Power ever entertained that?

A I really can't say, sir.

Q Okay. Earlier in your testimony today you said that Gulf was trying to keep expenses down prior to 2007, I believe. Do you recall saying that?

A I don't. I think I said since around 2007.

Q And since around 2007 has Gulf Power been thinking about filing a rate case?

A I would say that it's on our mind every year.

Q All right. The next line of questioning regarding production of workforce. And I do know that you address some of this in your rebuttal testimony, but I'm planning to stick to the areas of your direct testimony and also the current state.

In your position as the power generation services manager, you're involved in budgeting the

number of employees that are needed in your functional area; is that correct?

A I would say it's not correct. I would say that that is the plant manager's responsibility.

Q Okay.

A And it simply rolls to me.

Q All right. And do you ever at any time look at the number of employees that the plant manager says they need and then reduce that, say that's too many, we don't have the money?

A That's not my call. I would leave that decision up to the plant managers and to my boss.

Q All right. And were you a plant manager at one time for Gulf?

A No, sir, I was not.

Q Okay. If you know, this next question is when Gulf budgets for an employee in production, do you include only the employees that you believe are absolutely needed?

A We budget for the folks that we feel are necessary to maintain the reliability of our system, yes.

Q Now, would you agree that just because the company may believe that a particular position is justified or needed, would you agree that it may not

always fill that position?

A I would say there are circumstances that in a situation where you start out the year with a plan -- because that's all a budget really is is a plan. And as you move through the year, certain things happen, somebody leaves the job, you also have an issue with a piece of equipment, there aren't additional dollars available from that plant to take care of that equipment.

You might hold off hiring that position or several positions in order to make sure you effectively maintain the unit and then backfill that work with either contract folks or work some folks overtime or just -- you don't do it right then.

Q Okay. So you said that sometimes -- if I may try to restate -- sometimes you fill the position but another full-time Gulf employee, sometimes with contract labor, and sometimes you just don't fill it; would that be a fair statement or restatement?

A I want to be careful. What I'm saying is that the position that has become vacant, for example, a mechanic at the plant, you might not fill that position. And you still have the same number of work orders that you have to work and so what you do is you assign the existing workforce to get that work done. And what may happen is you may take care of all of your critical issues, and something that's a little lower down on the priority list you might let go.

Q Okay. On page 63 of your testimony, you describe the number of full-time equivalents that Gulf is projecting for their test year. Are you there?

A Yes, sir.

Q Okay. And in your direct testimony for the test year, you have budgeted labor costs equivalent to 394 full-time employees for production. Do you see that?

A I see that.

Q Is that number still current; 394?

A No, it is not. And as I discussed in my rebuttal, we went back to the plants to talk to them about what we -- what's really going to happen, is this what we think is going to happen. And we made the decision to move those dollars, ten employees, most of them at Plant Schultz, from labor to contract labor. It did not change the bottom line of our O&M budget for 2012, we simply moved the dollars from labor dollars into another category.

Q Okay. And just to be sure that I'm clear, when you talk about labor dollars, you're talking about Gulf full-time employees or full-time equivalents,

correct?

A That is correct.

Q And then for contract labor, that would be an employee that -- or somebody that Gulf would employ but does not get benefits and you can hire and let go as needed?

A Yes, sir. In general what we would do is we would hire somebody to fill some of the work that would have otherwise been done by that employee.

Q All right. Also in your testimony you said Gulf has budgeted labor costs. When you said "budgeted labor costs," you're referring to 394 full-time Gulf employees, correct?

A That is correct.

Q But your total budget dollar, is that still the same or are you just saying that now it's 394 full-time Gulf employees plus ten contract labor employees?

A Maybe the simplest way to answer this is to look at Schedule 7. And on Schedule 7 you would see that for 2012 the budgeted labor dollars is approximately 30 million 828. And what I'm suggesting is that that number has now dropped by ten full-time equivalents and those dollars are now embedded in baseline other.

So as we go though and -- and I apologize, but what we're looking at here is a budget that was a budget cycle. We do a five-year budget cycle -- in this case '11 through '15. In the current budget cycle which is now being developed for '12 though '16, for 2012 we have shifted those dollars from labor to contract labor.

Q Okay. And how much would that be?

A I could not answer that question.

Q All right. Would that be something that you would be able to tell us on your rebuttal, be able to come up with that number?

A I will make a point of getting that ready, sir.

Q All right. Thank you.

So going forward with my examination, should we now instead of referring to 394 production FTE, should we call that 384 production full-time equivalents?

A Yes, sir. And, in fact, in my rebuttal testimony, I've made that change.

Q To date how many of that 389 full-time Gulf employees has Gulf actually hired?

MR. GUYTON: Objection. I think he misstated a number here.

MR. SAYLER: Okay. Is it --

MR. GUYTON: I think you meant to say 384 and you said 389. I just want to make sure the record is clear.

MR. SAYLER: Okay. My apologies. Thank you. I meant 384.

BY MR. SAYLER:

Q Of the 384 full-time Gulf employees for production, how many are currently hired?

A I don't know that, sir.

Q Would that be something you would know on your rebuttal?

A In my rebuttal?

Q I mean, would you be able to tell us when we asked you -- examined -- asked you again when you come up for rebuttal?

A Yes, I think so.

Q Okay.

A And keep in my mind what I was focusing on in my testimony, in my rebuttal testimony, was the delta between the full-time equivalent -- the actual full-time equivalence at the end of 2010 and the budgeted full-time equivalence at the end -- or for the year 2012. And we're trying to give you a flavor through all discovery of what was happening with those positions.

Q Okay. Most of the remainder of my questions

would potentially relate to those numbers and I will reserve that for rebuttal, just to give you time to find out some of those answers to save Commission time because I know we're trying to move things along.

So just really the questions I have for you to think about for your rebuttal would be how many employees have you hired to date as opposed to what you're projecting and a few questions that may relate to that, and we'll go from there.

MR. SAYLER: So with that, Mr. Chairman, I'll --

CHAIRMAN GRAHAM: Ms. Kaufman.

CROSS EXAMINATION

BY MS. KAUFMAN:

Q Good afternoon, Mr. Grove. Vicki Gordon Kaufman on behalf of the Florida Industrial Power Users Group, some of your biggest consumers of electricity.

Let me start by saying that I think that Mr. Burroughs referred a question to you in my examination and that was what is the number of megawatts, ballpark, needed currently to serve customers of the Gulf service territory?

A Today?

Q Yes.

A Ballpark?

Q Ballpark.

A I don't have it with me, but once again, I think witness Caldwell talked about it and witness Moore talked about it. We have to have megawatts to serve the very peak and so I would say that our peak for 2012 is somewhere around 2,700 megawatts, maybe -- 2,700 to 3,000. I don't have that number with me, but it's close.

Q Thank you. I recognize that it's not a static number, but that's helpful.

In your opening I -- and this relates to some of the questions that Mr. Sayler was asking you about the increase in the number of FTEs in your area of production O&M. Correct me if I'm wrong, but did you say that you didn't want to add those new employees during the period when your customers were struggling and you are adding them on now?

A We intentionally withheld filling some positions and redirected those dollars to other resources.

Q And did you also say that you did that in the prior year because your customers were -- I think you said struggling, but I interpreted that to mean, you know, in dire economic straits.

MR. GUYTON: Objection to the form of the question. It's kind of a -- she's putting words in the witness's mouth.

BY MS. KAUFMAN:

Q Okay. Well, when you -- I think you did use the word that your customers were struggling; would you agree with that?

A I think I used the word in my summary.

Q In your summary, yes.

A That at a time when the customers were suffering or "struggling" I think is word I used.

Q And what did you mean by your comment that the customers were struggling?

A The word was "struggling." What I meant was that there were a lot of events that occurred across the nation, and particularly in Northwest Florida, that had resulted in financially some people struggling to make -- you know, to get things done.

Q And would you agree with me that you still have many customers that are struggling?

A I would agree there are customers that are having a difficult time, as there have been for years.

Q Yeah. And would you also agree that the impacts of, for example, the BP oil spill and I guess what people are calling the Great Recession clearly have not been fully mitigated, have they?

A I don't know that much about the BP oil spill and what the effects have been to our customers. I think the second part of your question was --

Q The Great Recession.

A -- the Great Recession. I don't think there's a person that hasn't felt that in some way.

Q I wanted to ask you some questions about the planning process that you talk about on page eight of your testimony, and I want to be sure that I understand when Gulf Power engages in planning, it does that in conjunction with the other Southern Company, the other Southern Company, sister companies like Georgia Power, Alabama Power?

A We do.

Q Okay. So Gulf is not part of in Florida what we call the FRCC as far as planning?

A That is a true statement.

Q Okay. And I think you also say that Gulf is a very small part of the Southern System, right?

A Yes, I would say that we're about 7 percent of the Southern System, which really provides our customers with some incredible benefits.

Q So if Gulf Power were intending to add a large amount of generation, would it do that in conjunction in planning with the other sister companies?

A You would have to define for me when you say "large" what exactly do you mean?

Q Over 1,000 megawatts.

A I think that we added -- I think the question your answering is --

Q Yes, sir.

A The answer to your question -- one goes before the other -- but I think the other is no. I think the fact that we did the Central Alabama project, which was almost 1,000 megawatts, clearly shows that we did that project on our own.

Q And so that that project there was no consultation with the other Southern Companies?

A Only to the extent that we agreed on load and what generation resources were needed to meet that load.

Q If you turn to page 27, please.

A I'm there.

Q Okay. Line 15 -- you discussed this topic a little bit with Mr. Sayler -- but you say "Historical average leveling of production O&M for the years 2006 through 2010 are not representative of Gulf's going-forward level of production O&M," correct?

A Yes, ma'am, that's my testimony.

Q Okay. Did you forego maintenance that was required, for example, in 2008?

A I would not characterize it as forego. What I would characterize it as we extended cycles, we did things differently.

Some examples: Instead of going in and cutting out a whole section of the boiler that might need to be replaced, we might do weld overlays. We did things differently that in the short-term you can do and maintain the reliability and efficiency of the unit. In the long-term, that's not going to work.

Q Okay. So am I correct to say that you did not forego any maintenance in -- did we say 2008 -- that the company felt was necessary to continue to safely and reliably generate power?

A I would say that we --

Q If you can answer yes or no, I think that would be helpful.

A Could you ask me the question again?

Q I don't know if I can.

Would it be your testimony that in 2008 then, the company did not forego any maintenance that was necessary to safely and reliably operate its plants?

A I would say we did not. I think the proof is in our performance.

Q And would you say similarly in 2009 and 2010 you did not forego any maintenance that was needed to

safely and efficiently operate your plants?

A It's difficult when you're saying "forego" anything because what we did is we did things differently.

Q Okay.

MS. KAUFMAN: Again, I don't mean to interrupt the witness.

CHAIRMAN GRAHAM: No, it's all right.

Sir, if you can answer the question either yes or no and a brief explanation. If you don't understand the way the question is worded, you're able to restate the question and she can acknowledge yes or no and then you can answer that question.

BY MS. KAUFMAN:

Q Okay. And it's really the same question that I asked you about 2008, I just want to be clear that I understand your testimony to be that in neither 2009 nor 2010 did the company -- I say "forego" -- but did the company fail to do any maintenance that was needed to keep your plants operating reliably and efficiently?

A No, and I think my -- the answer is no, we did things differently. And once again, had we foregone something, I think what you would have seen was a degradation in our reliability or our heat rate. We did the things that were necessary.

Q **So your testimony would be you did the things that were necessary during the 2006 through 2010 period to keep your plants operating reliably and efficiently?**

A I would say that my answer is yes, but we did them differently. I think had you given an engineer the choice of how we would have addressed that issue, we might have addressed it differently.

Q **But you certainly didn't jeopardize it in any way that would have hindered the safety or reliability of the operation of your plants, did you?**

MR. GUYTON: Objection, asked and answered.

CHAIRMAN GRAHAM: I think she's just verifying.

THE WITNESS: One more time. I apologize.

BY MS. KAUFMAN:

Q **That's okay, it gets hard sometimes. I just wanted to have you be clear that in the 2006 to 2010 period, you did not jeopardize those plants in any way as to their operational -- operations and reliability by the way you maintained them?**

A I think by -- I think the answer is -- it's just not a simple yes or no. I would say that we did the things that were needed to keep the plants running. Certainly there was potentially more risk with some of the decisions we made, but they were decisions that were made based on engineering assessments.

Q Thank you, Mr. Grove.

MS. KAUFMAN: That's all I have, Mr. Chairman.

CHAIRMAN GRAHAM: Major Thompson.

MAJOR THOMPSON: No questions.

CHAIRMAN GRAHAM: Mr. Wright.

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

CHAIRMAN GRAHAM: Staff.

CROSS EXAMINATION

BY MS. KLANCKE:

Q Mr. Grove, as the manager of generation services for Gulf Power Company, you were Gulf's witness regarding issue numbers seven, 11, 70, 82, and 84; is that correct?

A I apologize, I do not have a copy of that in front of me.

Q That's okay.

A Thank you.

Q With respect to the substance of those issues, they deal with -- number seven has been stipulated, the quality of service; number 11, the capital costs of the Perdido renewable landfill gas facility, which we discussed extensively in your deposition; number 70,

Gulf's proposed increase in employee positions?

A Yes, ma'am.

Q Number 82, adjustments to O&M expenses to normalize the scheduled outages?

A Yes, ma'am.

Q And finally 84, the appropriate amount of production O&M plant expense?

A Yes, ma'am.

Q Is that correct?

A (Nodding head affirmatively.)

Q Do you recall having your deposition taken on Tuesday, November 15th, 2011 in this case?

A Yes, I do.

Q I've had passed out and before you a document. Is that document the transcript of that deposition?

A Yes, I believe it to be that.

Q Did you have an opportunity to review and sign this deposition?

A Many times review, sign once.

MS. KLANCKE: For your ease of reference, Commissioners, this deposition transcript has been identified in composite exhibit as Staff's Exhibit Number -- Hearing Exhibit No. 148.

(Exhibit No. 148 was marked for identification.)

BY MS. KLANCKE:

Q Having reviewed and signed this deposition transcript, if I were to ask you these same questions today, would you have the same or similar responses?

A Similar.

MS. KLANCKE: At this time, I would like to have this deposition transcript moved into the record.

MR. SAYLER: OPC objects for the reasons stated earlier.

MS. KLANCKE: FIPUG objects as well.

MR. WRIGHT: Join the objection.

MR. GUYTON: Gulf has no objection. I would note for the record that issue 82 was dropped.

MS. KLANCKE: That's correct, and seven was stipulated.

For clarity of the record, I would like to note that there are two-late filed deposition exhibits with regard to what I'm asking to be moved into the record. Contained in 148 is only with respect to the deposition transcript and not with respect to the two late filed exhibits to the deposition.

CHAIRMAN GRAHAM: Ms. Klancke, you're going to have to state that one more time.

MS. KLANCKE: Contained in Hearing Exhibit No. 148 were two late-filed exhibits to the deposition transcript. I am not seeking to have them moved in. I am only seeking to have moved in the deposition transcript.

CHAIRMAN GRAHAM: Okay. So we are just moving just the deposition?

MS. KLANCKE: Correct.

CHAIRMAN GRAHAM: And the three objections are noted. We will move this into the record, Exhibit 148.

(Exhibit No. 148 received in evidence.)

CHAIRMAN GRAHAM: Ms. Klancke, while we're here, I just want to point out to you we did not move 146 into the record. You are aware of that?

MS. KLANCKE: Correct.

CHAIRMAN GRAHAM: Okay. Continue.

MS. KLANCKE: With respect -- with that being done, staff has no questions for this witness.

CHAIRMAN GRAHAM: Okay. Commissioners.

(No response.)

CHAIRMAN GRAHAM: Redirect.

REDIRECT EXAMINATION

BY MR. GUYTON:

Q Mr. Grove, Ms. Kaufman asked you about the

megawatts needed to serve peak. Do you recall that line of questions?

A I do, sir.

Q What are the company's reserve margin requirements?

A Our planning reserve margin is 15 percent.

Q When the company is serving its peak, does it plan to match that peak identically or does it count on having additional operating reserves available?

A We have what we call spending reserves. You would have more megawatts online, not at full load, so that if something should happen, if a line should -- if a unit should trip, you can simply ramp the other units up and maintain the system.

Q Would those megawatts and spending reserve be included on the total that would be necessary to serve peak load?

A They would.

MR. GUYTON: That's all we have. Thank you.

CHAIRMAN GRAHAM: Exhibit 2 is entered into the record.

(Exhibit No. 2 received in evidence.)

MR. GUYTON: We move Exhibit 18.

CHAIRMAN GRAHAM: Page six, move Exhibit 18 into the record.

(Exhibit No. 18 received in evidence.)

CHAIRMAN GRAHAM: Is that all of the exhibits?

(Affirmative response.)

CHAIRMAN GRAHAM: Okay. Your next witness. Thank you, Mr. Grove.

MR. GUYTON: We call Ms. Erickson to the stand.

Thereupon,

CONNIE ERICKSON

was called as a witness, having been previously duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. GUYTON:

Q Ms. Erickson, were you previously sworn?

A I was.

Q Would you please state your name for the record?

A My name is Connie Erickson, and I work at One Energy Place, Pensacola, Florida 32520.

Q And what is your position?

A I am Gulf's comptroller.

Q Ms. Erickson, did you or did Gulf have occasion to file with the Commission on July 8th your direct testimony containing 40 pages?

A Yes.

Q Do you have any corrections to your direct testimony?

A I do.

Q Would you share those with the Commission, please?

A Sure. I have organized them, actually, in terms of topic, and I have two topics. One is a wrong joint ownership. On page eight, line 25, 874,000 should be 846,000. On page nine, line five, 10,682,000 should be 10,654,000. And then on line 21 -- or on page 21, I have two corrections. Line 24, 4.184 million should have been 4.881 million. And on line 25, 874,000 should be 846,000.

And then on page 32 in relation to the property damage accrual, on line nine, 97.7 million should be 93.9 million. And on line 11, 51.7 should be 50.5 million.

Q Ms. Erickson, if I were to ask you the same questions as appear in your direct testimony today, would your answers be the same as you've just amended them?

A Yes, they would. But I also have some corrections to the exhibits.

Q We'll get to that in just a minute.

A Okay.

MR. GUYTON: We would ask that Ms. Erickson's direct testimony be inserted into the record as though read.

CHAIRMAN GRAHAM: We will insert Ms. Erickson's direct testimony into the record as though read.

(Whereupon, prefiled direct testimony inserted.)

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony of
Constance J. Erickson
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 Constance J. Erickson. 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 Comptroller.

Q. What are your responsibilities as Gulf's Comptroller?

A. I am responsible for the financial and regulatory accounting functions of the Company. My duties include maintaining Gulf's corporate accounting records in accordance with Generally Accepted Accounting Principles in the U.S. (GAAP) and in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission (FERC) and adopted by the Florida Public Service Commission (FPSC or the Commission). I have responsibility for the preparation of Gulf's financial statements and various financial reports required by the U.S. Securities and Exchange Commission and the FPSC.

Q. Please state your prior work experience and responsibilities.
A. From 1987 to 1992, I was employed with the audit division of Arthur Andersen & Co. From 1992 to 2002, I held various senior financial positions with GNB and Exide Technologies and with Graco Inc. In 2002, I accepted employment with Southern Company and have held various financial positions, including Comptroller and Director of Customer Operations and Information Technology with Southern Company Gas and Director of Financial and Contract Services with Southern Company Services, until being named Comptroller of Gulf effective January 14, 2006.

Q. What is your educational background and professional certification?
A. I graduated from the University of North Dakota in 1987 with a Bachelor of Accountancy degree. Also, I am a licensed Certified Public Accountant and a member of the American Institute of Certified Public Accountants.

Q. What is the purpose of your testimony?
A. My testimony (a) sets forth and justifies Gulf's 2012 Operations & Maintenance (O&M) budget within the Administrative & General (A&G) function, (b) justifies Gulf's 2012 A&G benchmark variance for expenses other than employee benefits, (c) supports the need to increase Gulf's property damage reserve, (d) discusses the depreciation and tax expenses included in the test year, and (e) explains Gulf's projected test year expense for uncollectibles.

Q. Are you sponsoring any exhibits?
A. Yes. I am sponsoring Exhibit CJE-1, Schedules 1 through 5. Exhibit CJE-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 any of the Minimum Filing Requirements (MFRs) filed by Gulf?
A. Yes. The MFRs that I sponsor or co-sponsor are listed on Schedule 1 of Exhibit CJE-1. The information contained in the MFRs I sponsor or co-sponsor is true and correct to the best of my knowledge and belief.

Q. How are the Company's accounting records maintained?
A. Gulf maintains its books and records in accordance with GAAP and the rules and regulations prescribed for public utilities in the Uniform System of Accounts published by the FERC and adopted by the FPSC.

I. GULF'S 2012 ADMINISTRATIVE AND GENERAL EXPENSES

Q. What is Gulf's A&G O&M expense budget for 2012 test year?
A. Gulf projects an O&M expense level for the A&G function of $78,453,000 in the test year.

Q. Is Gulf Power's projected level of A&G expenses of $78,453,000 in 2012 reasonable and prudent?

A. Yes. The projected level of A&G expenses is both reasonable and prudent. Gulf's 2012 A&G O&M expenses are based on the extensive budget preparation and review process that each planning unit follows. This process ensures that every item included in the budget is based upon the most accurate and up-to-date assumptions.

The A&G expense budget consists of a wide range of corporate expenses that are not associated with any particular operating function. There are a number of planning units within the A&G function: Accounting, Finance, Treasury, Human Resources, Information Technology (IT), External Affairs, and Corporate Services. Each planning unit within the A&G function is responsible for developing budgets for employees as well as office supplies and expenses within its unit.

The remaining A&G expenses - insurance, employee benefits, and other miscellaneous expenses - are budgeted at a corporate level using the latest assumptions for the projected period.

Q. Is Gulf's projected level of A&G expenses of $78,453,000 in 2012 representative of a going forward level of A&G expense beyond 2012?

A. Yes. As noted above and discussed by Gulf Witness Buck, the Company's budget process is very thorough, and O&M projections are prepared at a detailed level for a five year period. Schedule 2 of Exhibit

CJE-1 compares total A&G expenses, including the net operating income adjustments, for the 2012 test year with the projections for 2011 and the three years 2013 through 2015. A&G expenses identified in the budget process for the years 2011 and 2013 through 2015 are in line with the 2012 A&G expenses, with the exception of employee benefit expenses in 2013 through 2015.

Q. Please address the primary factors that have driven Gulf's overall A&G expenses up since Gulf's prior rate case.

A. Excluding employee benefits costs, which are addressed by Gulf Witnesses Twery and Crumlish, there are five primary factors that have resulted in significant increases in Gulf's A&G expense over the decade since Gulf's last base rate increase. Most of these cost drivers were beyond Gulf's control, and even with attempts to mitigate the impact of these drivers, Gulf has experienced rising A&G expenses.

The first major driver of increased A&G costs was the passage of the Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act was the response of Congress to several well known corporate failures in which misleading financial data was reported to investors and regulators. The Sarbanes-Oxley Act not only significantly impacted the level of work required by the Company's external auditors to issue an opinion on the Company's financial statements, but also required Gulf's management to assess the internal controls over financial reporting of the Company. Both of these developments have led to significantly increased levels of A&G expenses related to external audit fees and internal controls, as I discuss later in my testimony.

The second major driver of increased A&G expense since Gulf's last rate case was the September 11, 2001 terrorist attack. As a result of unanticipated and unprecedented losses in the insurance markets and the prospect that there might be further terrorist related events and losses, Gulf's premiums associated with its property and public liability insurance have increased dramatically.

A third driver of increased A&G expenses since the last rate case was the particularly severe hurricane seasons of 2004 and 2005. Once again, like September 11, there were heavy losses in the insurance markets. This, in turn, increased the premiums for property insurance. Gulf was affected by three Category 3 storms during this period.

A fourth driver of A&G costs was the financial crisis beginning in 2008, which affected many financial institutions. As a result of the near collapse of the financial markets, Gulf was affected by rising costs associated with obtaining adequate financing.

The last significant driver of increased A&G expenses since the last rate case was necessary technology upgrades to Gulf's accounting, purchasing, and work order management systems. These upgrades and their necessity are addressed in greater detail later in my testimony.

Q. The Commission has historically employed an O&M benchmark calculation in base rate proceedings. How does Gulf's 2012 A&G expense forecast compare to the A&G O&M expense benchmark?

A. The A&G benchmark is $57,736,000. This calculation is described in Gulf Witness McMillan's testimony. Gulf's projected 2012 A&G expenses are $78,453,000. These A&G expenses exceed the A&G benchmark by $20,717,000. These values are shown on Exhibit CJE-1, Schedule 3.

Q. Previously, you mentioned that Gulf's proposed level of A&G expense was reasonable and prudent. Please elaborate on this in light of the benchmark variance.

A. Gulf's 2012 A&G expense budget is the product of a sophisticated and demanding budget process that has been described at a corporate level by Mr. Buck and at a functional level by me and other witnesses. This is the budget process that Gulf employs year in and year out to manage its business. In that process, Gulf does not use the Commission's O&M benchmark approach. Gulf's budget process is very robust and considers matters beyond the Consumer Price Index (CPI) and customer growth. Gulf's projected A&G O&M expenses are reasonable, prudent, and necessary.

Moreover, as the discussion below shows, a multitude of A&G expense increases in the electric utility industry are totally unrelated to either customer growth or inflation. In the A&G area, costs can be and are driven by other outside factors. Examples of these include employee benefits and property insurance increases in excess of the CPI, audit and compliance cost increases due to new governmental regulations, and treasury related cost increases due to the recent financial crisis.

Q. Please address how Gulf has justified its $20,717,000 A&G benchmark variance.

A. Gulf's A&G benchmark variance is justified by Mr. Twery, Ms. Crumlish and by me. Mr. Twery and Ms. Crumlish justify Gulf's A&G O&M benchmark variance in the area of employee benefits. The employee benefits variance of $10,116,000 is roughly half of Gulf's total A&G O&M benchmark variance. This amount includes the Net Operating Income (NOI) adjustment to pensions and other employee benefits included in Mr. McMillan's testimony. This variance consists primarily of a $6,938,000 variance in retirement plan expense and a $3,302,000 variance in medical benefits cost. The remaining employee benefit amounts are below the benchmark variance.

I justify the remaining A&G O&M benchmark variance of $10,601,000 with justifications in the following areas addressed further in my testimony and on Exhibit CJE-1, Schedule 3:

Insurance	$4,648,000
Duplicate Charges	1,689,000
External Auditing / Internal Controls	1,453,000
Treasury Costs	976,000
Joint Ownership	874,000

Accounting, Supply Chain, and Work Order Management Systems	546,000
Rate Case Expense	249,000
Rent	247,000
Total	$10,682,000

A. Insurance

Q. What is the benchmark variance for Insurance expense on Exhibit CJE-1, Schedule 3?

A. The 2012 level for Insurance expense is $14,077,000, which is $4,648,000 above the benchmark. The three components of insurance that are above the benchmark and the associated variance amounts are property damage insurance of $2,389,000; injuries and damages (I&D) insurance of $457,000; and Gulf's property damage reserve accrual of $1,802,000.

Q. Please explain what is included in Insurance expense on Exhibit CJE-1, Schedule 3.

A. Insurance consists primarily of premiums for insurance policies, which cover property damage and I&D costs, and the annual accruals to the property damage and I&D reserves. The Company is self-insured for costs not covered by external insurance policies.

Property damage insurance protects the Company against losses and damages to owned or leased property used in operations. Gulf's property damage insurance is provided through the Company's All-Risk property damage policy. This policy generally covers damage to the Company's property except for transmission and distribution (T&D) facilities. Insurance for T&D facilities is not widely available, and what is available is cost prohibitive; therefore, Gulf is self-insured for its T&D facilities. The property damage reserve is Gulf's self-insurance mechanism used to cover certain costs of restoration as allowed by the FPSC in Docket No. 070011-EI, Order No. PSC-07-0444-FOF-EI, which are not covered by insurance (i.e., T&D facilities) and insurance policy deductibles.

Insurance related to I&D includes the cost of insurance and accruals to the I&D reserve to protect the Company against I&D claims by employees or others that are not covered by insurance. I&D costs also include the cost of labor and expenses incurred in I&D activities. For example, expenses for the Company's public liability policy are included in I&D costs. This policy covers third party bodily injury and property damage resulting from most company operations. The I&D reserve is used to cover I&D costs not covered by insurance and insurance policy deductibles. This reserve balance is based on an annual accrual of $1,600,000 less charges against the reserve. The annual accrual amount was approved by the FPSC in Order No. PSC-04-0453-PAA-EI, Docket No. 040218-EI.

Q. Please address why Gulf's 2012 property damage insurance expense of $4,407,000 exceeds the property damage insurance benchmark by $2,389,000.

A. The increase in the Company's property insurance costs, excluding the annual property damage reserve accrual, is primarily driven by the events of September 11, 2001 and the natural disaster events (hurricanes) in 2004 and 2005, which caused major property damage in Gulf's service area. Additionally, the particularly severe 2004 and 2005 hurricane seasons highlighted to insurers the risk of the potential loss for coastal companies who have assets exposed to wind and storm surge. As a result, insurance premiums have surged. These increases far exceed customer growth and the rate of inflation. They are impacted more by actual losses and potential risks, which impact the property insurance market in general.

Q. What, if anything, has Gulf done in the face of surging property damage insurance costs to mitigate their impact?

A. Gulf used and continues to use insurance brokers to search the insurance market for premium savings. As a result, Gulf made changes in our panel of insurers in pursuit of premium savings. Additional steps Gulf has taken to ensure the competitiveness of property damage insurance costs include:

- Benchmarking with industry peers;
- Broker reports on current market conditions, recent placements and coverage cost comparisons with other client companies;
- Competitive bids among insurers;
- Benchmark comparison of broker compensation; and

- Periodic evaluation of program structures to explore possible premium savings.

Even with these significant efforts to mitigate costs, Gulf has experienced property damage insurance expense growth in excess of the O&M benchmark. This is simply an area where the O&M benchmark does not capture the causes underlying the growth of the expense.

Q. Why is the cost for I&D contributing to the benchmark variance?

A. The increase in Gulf's insurance costs related to I&D is primarily driven by the events of September 11, 2001. This event highlighted the risk with insurers of the potential public liability. As a result, I&D insurance premiums have increased. These increases do not track customer growth and the rate of inflation, as premiums are impacted more by actual losses and potential risks which impact the insurance market in general. The cost for I&D insurance has exceeded the O&M benchmark by $457,000.

Q. What actions has Gulf undertaken to mitigate the cost of its I&D insurance coverage?

A. Gulf has taken the same steps for I&D coverage as it has taken for property damage coverage. However, even with these significant efforts, the cost of this insurance has outpaced the combined rate of customer growth and inflation.

Q. Of Gulf's $4,648,000 Insurance expenses O&M benchmark variance, what portion is associated with the property damage reserve accrual?

A. The projected cost for the Company's annual accrual to the property damage reserve is $6,800,000, which exceeds the benchmark by $1,802,000. As I discuss later in my testimony, this annual accrual level is the level of the expected average annual loss to be covered by the reserve as determined in Gulf's 2011 Hurricane Loss and Reserve Performance Analysis. Maintenance of a property damage reserve that can handle a significant but not catastrophic storm spreads the cost of storms out to each generation of Gulf's customers and helps avoid the situation in which customers who happen to be served during a storm event or shortly thereafter have to absorb all or the bulk of a storm's cost through a storm surcharge.

B. Duplicate Charges

Q. Your next category of A&G O&M benchmark justification is in the area of Duplicate Charges. Please explain Duplicate Charges and the benchmark variance in that account.

A. FERC Account 929, duplicate charges, is a credit A&G expense account used as an offset to other A&G expense accounts. FERC defines this account in the Code of Federal Regulations as an account that "shall include concurrent credits for charges which may be made to operating expenses or to other accounts for the use of utility service from its own supply. Include, also, offsetting credits for any other charges made to operating expenses for which there is no direct money outlay." The credit included in the test year is $1,095,000. This exceeds the benchmark calculation by $1,689,000. There are two reasons for this variance: a decline in office space used by non-Gulf employees and an accounting change implemented in May 2010.

Q. Can you provide an example of credits charged to the duplicate charges account?

A. When Gulf provides assistance to another electric utility in a storm situation, the costs are billed out to the other utility. Some of those costs are A&G costs. When the other utility pays Gulf for the costs of its crews, these payments are not treated as revenues; they are treated as a credit to expenses. The credit to A&G expenses is booked to FERC Account 929.

Q. Can you explain what you mean by the decline in office space used by non-Gulf employees?

A. When non-Gulf employees use Gulf's office space, they are charged an occupancy expense based on actual costs. The 929 account gets credited for this charge. Since 2002, billings for the use of space in Gulf's offices have declined due to a decrease in the amount of space being used by others from 38,000 square feet to 17,000 square feet. Billings for office space included in the 2002 test year were $1,239,000. Actual billings for office space credited to the 929 account were $591,000 in 2010. In 2012, Gulf expects to bill $612,000 for office space. This is reasonable based on the actual billings from 2010. This decline in space occupied by others accounts for $1,158,000 of the benchmark variance.

Q. Earlier you mentioned there had been an accounting change in May 2010 for Account 929. Please explain that accounting change.

A. Prior to May 2010, the benefits costs associated with the billings of the Gulf employees working on storm restoration for another utility were credited to the duplicate charges account, Account 929. Since May 2010, these benefits, including pensions and employee insurance, are now being credited to the benefit accounts rather than to duplicate charges. This accounting change results in an equal offset between these accounts.

Q. How has this accounting change impacted the duplicate charges account?

A. The credits going to the duplicate charges account are now less than they were prior to May 2010. Since the credit to duplicate charges in 2012 is smaller than the benchmark credit, this appears as an increase to non-employee A&G expenses, when it is merely an accounting change. This accounting change accounts for $505,000 of the benchmark variance.

Q. Is the total amount of the duplicate charges credit Gulf has in this test year reasonable?

A. Yes.

C. External Audit / Internal Controls

Q. Please address the A&G benchmark variance for the External Audit / Internal Controls expense.

A. The projected cost for external audit fees is $1,301,000 in 2012, which exceeds the benchmark by $1,031,000. The projected internal controls expenses of $422,000 are necessary for the Company to comply with the financial reporting and internal controls components of the Sarbanes-Oxley Act. There is no benchmark amount for the projected internal controls expenses since the Sarbanes-Oxley Act was passed subsequent to the Company's last base rate case. Both benchmark variances total to $1,453,000 and are predominately due to new compliance requirements resulting from the passage of the Sarbanes-Oxley Act.

Q. Please discuss the key requirements mandated by the passage of the Sarbanes-Oxley Act.

A. Sections 302 and 404 of the Sarbanes-Oxley Act of 2002 (the Act) directly impacted the Company's financial reporting and internal control requirements. Section 302 requires the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) to certify in the Company's periodic Securities and Exchange Act filings that the information material to the Company's filing has been properly disclosed and the effectiveness of the Company's internal controls have been evaluated and properly communicated. Section 404 requires the Company's CEO and CFO to attest to the design and effectiveness of the Company's internal controls over financial reporting.

Q. What has been the impact on Gulf of Sarbanes-Oxley Act compliance?

A. Compliance with the Act has increased costs for Gulf Power. External audit hours and resulting fees have increased as the Act, along with other regulatory requirements, increased the amount of work required by the Company's external auditors to issue an opinion on the Company's financial statements. Since 2001, auditors have lowered materiality thresholds and put an increased focus on internal controls and requirements to comply with new auditing standards. The creation of the Public Company Accounting Oversight Board (PCAOB) has increased the cost of external audits as auditors now must comply with additional regulatory requirements based on standards issued by PCAOB. Finally, when performing audits, the Company's external auditors must consider numerous complex accounting standards that have been issued since 2001. As previously noted, these significant additional outside auditor requirements associated with Sarbanes-Oxley compliance have resulted in an O&M benchmark variance of $1,031,000. This compliance results in additional assurance regarding financial data for customers, regulators, and investors. These additional costs above the O&M benchmark are entirely justified.

Additional resources, primarily labor, have been put in place at Gulf to ensure compliance with the Act. These resources are used to determine compliance requirements of the Act, provide guidance and assistance in monitoring to meet those requirements and provide an overall evaluation of the design and operating effectiveness of Gulf's internal controls over financial reporting as required under the Act. As previously noted, these additional Gulf resources associated with Sarbanes-Oxley compliance have resulted in an O&M benchmark variance of $422,000. These additional costs above the O&M benchmark are entirely justified.

D. Treasury Costs

Q. Please address the A&G benchmark variance for Treasury Costs.

A. The projected Treasury Costs for 2012 is $1,077,000, which is $976,000 above the benchmark. Treasury Costs include rating agency fees and commitment fees for lines of credit. Rating agency fees are assessed by each of the three major rating agencies, Moody's, Fitch, and Standard & Poor's. Each of the rating agencies has a different formula for the calculation of fees, but essentially they are based on annual debt issuance activity (both bonds and commercial paper) and total outstanding debt. Commitment fees are charged by banks for entering into a credit facility agreement with the Company (a committed line of credit). Commitment fees are market driven and based on the amount of the line of credit.

Q. What is the benchmark variance associated with rating agency fees?

A. The projected cost for rating agency fees is $227,000, which is $205,000 over the benchmark.

Q. Why are rating agency fees contributing to the benchmark variance?

A. The rating agencies' services are essential for Gulf to be able to raise capital. All three rating agencies have increased their fees significantly in recent years. Since 2003, their fee rates have grown between 50 and 75 percent. The rating agencies' services, and therefore the fees, are necessary for Gulf to be able to raise capital. These fees have risen faster than the combined rate of CPI plus customer growth.

In addition, in 2010 Gulf made an accounting change in its treatment of rating agency fees. Prior to that time, most of the rating agency fees were capitalized and then amortized to interest expense over the life of debt issues. After a review of the FERC classification of accounts, it was determined that the part of the fees that are related to commercial paper activity and total outstanding debt should be expensed as incurred.

Q. What is the A&G benchmark variance associated with commitment fees?

A. The projected cost for commitment fees is $850,000, which is $771,000 over the benchmark.

Q. Why are commitment fees contributing to the benchmark variance?

A. The increase in commitment fees is a result of two factors. These factors include an increase in the total lines of credit and an increase in the fees charged by banks for the lines of credit.

Q. Please explain why Gulf has increased the total lines of credit since the prior test year.

A. Gulf currently has $240 million in committed lines of credit. In April 2003, Gulf had $66 million in committed lines of credit. This is an increase of

$174 million since 2003. The Company has obtained additional lines of credit for three reasons.

First, lines of credit are required to provide back-up support for $65.4 million in daily rate Pollution Control Revenue Bonds (PCBs) that were issued in 2009. These PCBs are marketed daily at rates that are considerably less than Gulf's fixed rate outstanding long-term debt. These lower interest rates more than offset the commitment fees associated with the lines of credit, resulting in lower overall capital costs which benefits customers.

Second, Gulf's commercial paper program has increased in size from $60 million when it was originally established in 2001 to $150 million in 2010. The commercial paper program allows Gulf to borrow funds for the short-term at competitive rates, and lines of credit are required as back-up support for the program. Gulf's total capitalization has increased from $1.4 billion in the previous test year to $3.2 billion in the 2012 test year. With this increase in total capitalization comes the need for an increase in the amount of short-term debt that the Company may issue, and thus a larger commercial paper program. Including an appropriate amount of short-term debt in the capital structure results in lower overall interest costs compared to the use of only debt with longer maturities.

Third, due to the instability in the financial markets since 2008, Gulf has increased its liquidity protection by obtaining additional lines of credit.

Q. How are commitment fees calculated and priced?

A. Commitment fees are generally comprised of two components, an upfront fee for entering into the agreement and an unused fee (a fee for the bank's commitment to make the credit available). Both components are typically calculated as a percentage of the committed line of credit.

Commitment fees are market driven, and since the financial crisis they have been volatile, reaching 1.0 percent at one stage compared with 0.075 percent in 2003. Gulf's current expectation for the test year is that commitments fees will be approximately 0.33 percent, an almost five fold increase.

E. Joint Ownership

Q. Your next area of A&G O&M benchmark variance justification on Exhibit CJE-1, Schedule 3 is shown as "Joint Ownership." Please explain what is included in Joint Ownership and address the associated A&G benchmark variance.

A. Joint Ownership refers to Gulf's share of the A&G expenses associated with Mississippi Power's coal-fired units at Plant Daniel. The Plant Daniel units, which are located in Mississippi, are jointly owned by Mississippi Power and Gulf Power. Mississippi Power operates the jointly owned Plant Daniel units, and Gulf shares the cost of the units' operation. The 2012 projected costs of Joint Ownership, Gulf's share of the A&G expenses associated with the operation of Plant Daniel, is $4,184,000, which exceeds the benchmark by $874,000. The A&G benchmark variance for Joint Ownership is primarily associated with employee benefits. Mr. Twery and Ms. Crumlish will address the benchmark variances associated with employee benefits.

F. Software Systems

Q. Your next A&G benchmark justification shown on Exhibit CJE-1, Schedule 3 is shown as accounting, supply chain, and work order management systems. Please explain what is included in accounting, supply chain, and work order management systems and address the related A&G benchmark variance.

A. Gulf has implemented new software upgrades to its accounting, supply chain and work order management systems since its last rate case. These upgrades were made under the project name Enterprise Solutions. The variance for the software upgrades represents ongoing operating expenses such as licensing fees, maintenance, and support costs associated with Gulf's recently implemented accounting, supply chain, and work order management systems. The 2012 operational costs associated with these new systems are $1,959,000, which is $546,000 above the benchmark. Technology replacements or upgrades are not tied to customer growth or inflation.

Q. Can you describe the Enterprise Solutions project?

A. The Enterprise Solutions project consisted of the installation of Oracle, an integrated business software, and Maximo, an asset management software, to replace the aging accounting, supply chain, and work order management systems that were in use. Oracle and Maximo replaced several IT applications in the accounting, supply chain, and generation areas that were used to input, process, and summarize accounting information, procure and pay for materials and services, and manage work orders.

Enterprise Solutions leveraged technology to continue providing high reliability and customer service. These new tools provide increased automation and use of electronic routing and approvals to reduce the likelihood of human error. They also facilitate the use of automated internal controls.

Many of the previous systems were very old and highly customized. They were becoming increasingly difficult to maintain. Some of the application systems had been in place since 1985. The previous General Ledger System was no longer supported by the vendor. Gulf delayed implementing new technology for as long as reasonably possible. Further delaying the implementation of the new system would have prolonged Gulf's dependence on old, unsupported technology, which would have led to increased risk associated with the timely procurement of essential materials and services, and the accurate booking of related costs.

In today's world, changes in our industry are occurring much faster than ever before. Gulf's goal is to provide a high level of customer service and to operate in an efficient manner. Accomplishing this goal requires appropriate technology for the long term.

Q. Please describe the process that was used to arrive at the solutions that Gulf chose to implement.

A. A diverse team of IT, accounting, supply chain, and generation personnel was formed to make a recommendation to executive management on the software to replace the systems that were outdated and unsupported. The team contacted twelve utilities to review the systems they used and discuss their experience with those systems for work management, materials management, procurement, general ledger and accounts payable. The team also sought the advice from vendors and consultants, as well as hosting vendor demos for their products.

Three alternatives were chosen to evaluate replacing our materials management, procurement, accounts payable and general ledger systems. The three alternatives were:

1. A combination of Maximo for materials and procurement with Oracle for accounts payable and general ledger.
2. Oracle for all applications.
3. Systems, Applications, and Products in Data Processing (SAP) for all applications.

There were pluses and minuses for all three alternatives, but functionality, cost and strategic fit were the drivers that led to the decision to replace our systems with a combination of Maximo and Oracle. Maximo also provided a work order management solution that was also included in the scope of the project. Oracle also has a customer service module that may be viable for our needs if a decision is made in the future to replace our Customer Service System (CSS) system.

G. Rate Case Expense

Q. The next category of A&G expense that you have shown as an A&G O&M benchmark justification on Exhibit CJE-1, Schedule 3 is rate case expense. Please explain what is included in rate case expense and justify the benchmark variance for this category of expense.

A. The Company did not include rate case expenses in its 2012 budget; therefore, Mr. McMillan has made adjustments to net operating income and rate base in his exhibit necessary to include the 13-month average unamortized balance of 2011 rate case expense in rate base and the amortization of these rate case expenses in O&M expense in the test year. The majority of the incremental expenses associated with this rate case will be incurred in 2011, but will be deferred and amortized to better match a longer period of time that new rates will be in effect.

The Company estimates rate case expenses to be $2,800,000. Gulf is proposing to amortize these rate case expenses over a four-year period beginning in 2012. The jurisdictional net operating income adjustment is an increase in 2012 expenses of $700,000. This is $249,000 above the benchmark. The jurisdictional rate base adjustment for working capital to reflect the unamortized balance is an increase of $2,450,000.

In the decade since Gulf's last rate case, the cost of rate cases has increased markedly. A review of the recent rate case experience of other Florida investor owned electric utilities indicates more intervenors, more discovery, more contested issues and more witnesses than Gulf experienced in its last rate case. When putting together its anticipated rate case budget, Gulf assumed it would have a similar experience. To address these additional anticipated demands, Gulf will have to spend more on incremental internal resources as well as additional outside consulting and legal fees than it did in its last rate case as escalated by CPI and customer growth. The $2,800,000 level of expenses budgeted and amortized over four years at $700,000 per year is both reasonable and prudent, even though it exceeds the A&G O&M benchmark calculation by $249,000 annually.

H. Rent

Q. Your last category of A&G O&M benchmark justification is rent. Please explain what is included in rent on Exhibit CJE-1, Schedule 3 and address the associated benchmark variance.

A. Rent includes the rental costs for property that Gulf does not own but uses, occupies, or operates in connection with electric operations of the Company. Gulf is requesting $294,000 in the test year for the ongoing rent expenses for facilities the Company leases. This exceeds the benchmark calculation by $247,000. This entire benchmark variance is related to the Pensacola Customer Service Office facility discussed below.

Q. What has changed since the last rate case to create a need for additional rent expense?

A. In 2008, we moved out of our Pace Boulevard building that housed, among other departments, our Pensacola Customer Service Office – where customers come in to pay their bills, sign up for energy efficiency programs and do other business with the Company. We relocated the Pensacola Customer Service Office to a new location selected with customer convenience and access in mind. It is next to a public bus route stop; it has 100 parking spaces; and it is accessible on the ground floor.

The new rental property required improvements to make it suitable for the customer operations. These leasehold improvements were capitalized and are being expensed over the life of the lease. The lease payments and the additional amount for the leasehold improvements are charged to A&G expense in the rent category. The total expense for this facility in the test year is $252,000.

Q. What led to the decision to move out of the Pace Boulevard building?

A. One of the departments located at the Pace Boulevard building was Gulf's Distribution Operations Center (DOC). In 2004 the Pace Boulevard facility incurred damage that included blown out windows and minor water damage as a result of Hurricane Ivan. After Hurricane Katrina, Gulf assessed the likelihood of a flooded building if a similar storm surge was experienced like the one in Mississippi during Hurricane Katrina. Gulf decided to relocate the DOC to a more inland Company owned facility.

In addition, the Pace Boulevard building was built in 1957 and had increasing O&M costs associated with its upkeep. The majority of the remaining departments in the building were relocated to other Company facilities; however, none of these other Company facilities had the parking, bus route proximity and customer access attributes necessary for convenient Customer Service functions.

Q. Is the amount included in the test year 2012 for the rent of the Customer Service Office facility reasonable?

A. Yes. The $18 per square foot rental fee is reasonable. Gulf compared rents in the downtown area for class "A/B" space. The comparable rents were in the $16 to $24 per square foot range.

II. PROPERTY DAMAGE ACCRUAL

Q. What property damage accrual has been included in the projected test year?

A. Gulf has included a property damage accrual of $6,800,000 in the 2012 test year. This represents an increase from Gulf's current accrual of $3,500,000 per year as approved by the FPSC in the Company's last rate case and results in an NOI adjustment of $3,300,000 for the test year as discussed in Mr. McMillan's testimony. If the $3,500,000 annual expense allowed in Gulf's last rate case were escalated for CPI and customer growth, that accrual would be approximately $5,000,000 per year. However, Gulf proposes an annual accrual of $6,800,000 per year.

The $6,800,000 represents the expected average annual storm loss to be charged to the reserve according to Gulf's 2011 Hurricane Loss and Reserve Performance Analysis (Storm Study). Gulf's Storm Study, which is required pursuant to FPSC Rule 25-6.0143, is attached to my testimony as Exhibit CJE-1, Schedule 5. The expected average annual loss to be covered by the reserve is shown on page 20 of the Study.

Q. What is the current balance in Gulf's property damage reserve?

A. The balance of the property damage reserve as of December 31, 2010 was $27,593,000. With the current accrual of $3,500,000 per year, this balance will grow to $31,093,000 by the beginning of the test year, assuming that no property damage is charged to the reserve during 2011 (an optimistic assumption). However, as shown on page 5 of Exhibit CJE-1, with the current accrual level of $3,500,000 and estimated annual charges of $6,800,000, the expected fund balance in five years will decline to $11,000,000, and there is a 29 percent probability that the fund balance will become negative within the next five years.

Q. What are the key policy considerations relating to the recovery of property damage costs?

A. The Commission has recognized that storm restoration is a cost of providing electric service in Florida and, therefore, is properly recoverable through rates and charges of the Company. While the exact timing of storms cannot be predicted, it is certain that tropical storms and hurricanes will affect Gulf's system over time, and the Company will incur costs for restoring power.

All customers should contribute to the cost of storm restoration, even if no storm strikes in a particular year. Since storms will occur and only their timing is uncertain, the true cost of providing electric service should include an allowance for a level of restoration activity that approximates at least the average expected annual storm costs over time.

Q. Please provide a brief history of Gulf's and the Commission's approach to property damage cost recovery.

A. Prior to Hurricane Andrew in 1992, Gulf Power maintained commercial insurance coverage for its T&D network. The cost of carrying this insurance was recovered through base rates. The cost of storm restoration, therefore, was spread out to customers over time, largely through the cost of insurance included in the Company's base rate charges.

Following Hurricane Andrew, commercial insurers withdrew from the T&D insurance market. In the absence of commercial coverage, the Company established, and the Commission consistently endorsed, an overall framework which acknowledges that the costs associated with restoring service after storms are a necessary cost of providing electric service in Florida and as such, are properly recoverable from customers. The framework consists of three main parts:

a. an annual property damage accrual adjusted over time as circumstances change,
b. a reserve adequate to accommodate most but not all storm years, and
c. a provision for utilities to seek recovery of costs that exceed the reserve.

Q. How do these mechanisms enable Gulf Power to recover the costs of storm restoration while balancing customer interests?

A. These mechanisms allow for on-going recovery of reasonable amounts to provide for the costs of future storms. By spreading the costs over a number of years, rate shock to our customers is minimized. The reserve accrual also ensures that all customers contribute to the cost of recovering from storms, whose timing is unknown.

Q. What is the appropriate level for the property damage accrual?

A. The property damage reserve balance should be sufficient to protect against most years' storm restoration costs but not the most extreme years. This level should reduce the Company's dependence on relief mechanisms such as a storm cost recovery surcharge. The annual accrual should be set at a level to allow the reserve to build modestly in years of no hurricane activity.

At year-end 2003, Gulf's property damage reserve balance stood at $26.2 million. In 2004 and 2005, Gulf's system was impacted by three major storms. Hurricane Ivan, a strong Category 3 storm in 2004 caused the reserve to be drawn down by $97.7 million. In 2005, Hurricane Dennis, another Category 3 storm, caused the reserve to be drawn down by another $51.7 million. These storms resulted in a deficit reserve balance as high as $94 million in September 2005. To eliminate this deficit and begin rebuilding the reserve, the Commission authorized a monthly residential storm surcharge between $0.00257 and $0.00271 per kwh for 51 months.

Q. What is the current target level for the reserve?

A. The current target level for the reserve is $25.1 million to $36 million, as approved by the Commission in Docket No. 951433-EI, Order No. PSC-96-1334-FOF-EI, and affirmed in the Company's last rate case. The storm study shows that with the current accrual level, the balance in the fund is expected to decrease, rather than increase, over the next five years. Increasing the annual accrual to $6,800,000 with a targeted reserve balance between $52 million and $98 million will provide our customers with the best long term solution to storm restoration. This reserve band replicates Gulf's expenses associated with most recent significant storm damage charged to the reserve and would reduce the likelihood of a significant storm cost recovery surcharge in the event of a large storm.

Q. Will an increase in the accrual to $6,800,000 allow Gulf to reach its targeted reserve?

A. It is possible but not likely. The requested accrual is only at the level of the expected average annual loss to be covered by the reserve. Therefore, if actual losses equal expected losses, the reserve will not increase to its target. An annual accrual in excess of the expected average annual loss would be required to have an expected increase in the reserve balance over time.

Q. Why is Gulf not requesting an annual accrual in excess of the expected average annual loss?

A. Gulf is aware of the impact that the requested accrual will have on rates and has made a conscious decision to limit the requested accrual to the expected average annual loss. While this will likely mean that the reserve will not grow as large as our targets, it should be adequate to maintain the reserve at or near existing levels, absent catastrophic storms or a series of storms that exceed the average annual impacts. Gulf believes that the requested annual accrual is a significant first step in reaching the targeted reserve over the long term.

Q. Why is it important to maintain an adequate reserve?

A. There are numerous reasons for maintaining an adequate reserve. First, an adequate reserve greatly diminishes (but does not eliminate) the likelihood of having to impose surcharges on customers to pay for storm losses. Avoiding surcharges in a post-storm period is greatly beneficial to customers as they too have to struggle with the challenges of storm recovery. Second, an adequate reserve acts like an effective insurance policy. It allows "premiums" in the form of rates to be recovered from all customers a little at a time to cover large losses of an infrequent nature. Third, an adequate reserve assures that financial resources are available to quickly and efficiently repair damages and restore service to customers. Fourth, an adequate reserve diminishes the likelihood of the reserve going negative as it did twice in the 2004-2005 time period. And fifth, an adequate reserve allows for insurance deductibles to be met. The deductible for the All Risk policy has increased from $1 million to $10 million and $25 million for named windstorm and wind driven water.

III. DEPRECIATION

Q. What are Gulf's depreciation expense, dismantlement accruals, and accumulated depreciation balances for the test year?

A. Gulf's depreciation expense, including dismantlement, for the test year is $135,208,000, as shown on MFR F-8. Gulf's 13-month average accumulated depreciation balances for the test year, which total $1,412,339,000, is detailed on MFR B-9.

Q. What is the basis for Gulf's depreciation expense and dismantlement accruals?

A. Gulf's depreciation expense reflects the depreciation rates approved by the Commission in Order No. PSC-10-0458-PAA-EI, issued on July 19, 2010 in Docket No. 090319-EI. Gulf's dismantlement accrual was likewise approved in that same Order. Pursuant to that Order, these newly approved rates were implemented effective January 1, 2010 and will continue through the 2012 test year.

Q. How was the Advanced Metering Infrastructure (AMI) handled in Gulf's last depreciation study?

A. During Gulf's last depreciation study, Gulf identified meter investments of $12,176,660 that would retire over the 2010-2013 period in connection with its AMI program. The reserve associated with the near-term retiring investments was estimated at $4,352,459, with anticipated removal costs of $1,826,499. The resulting net investment of $9,650,700 was withdrawn from the meter account and placed in a separate account. A reserve transfer of $9,650,700 was made to cover the amortization related to these meters.

Q. Does Gulf propose to change how AMI is handled with regard to depreciation?

A. Yes. There have been significant changes to the AMI project since Gulf's depreciation study. The move to AMI metering has progressed at a much faster pace than projected in Gulf's Depreciation Study and is estimated to be substantially complete by the end of 2012. This will leave an unrecovered net investment of approximately $7,088,000 as of December 31, 2011. Gulf proposes a capital recovery schedule to address the $7,088,000 remaining investment, which will be amortized over a four year period starting in 2012, resulting in $1,772,000 of annual expense and an increase in the 13-month average accumulated depreciation reserve of $886,000 as of December 2012. These amounts were provided to Mr. McMillan and are discussed in his testimony.

Q. What is the depreciable life Gulf is proposing to use for AMI meters and associated equipment?

A. Gulf is proposing a 15 year life with no net salvage value for the AMI meters and associated equipment. The 15 year life was based on discussions with project engineering personnel and consultation with our depreciation expert, who agreed that a 15 year life was reasonable due to the new technology involved. Using this proposed depreciable life results in an increase of approximately $1,327,000 in depreciation expense in 2012 and an increase in the 13-month average accumulated depreciation reserve of $616,000 as of December 2012. These amounts were provided to Mr. McMillan and are discussed in his testimony. Gulf plans to address the net salvage associated with AMI in Gulf's next depreciation study when actual experience is available to analyze the data.

IV. UNCOLLECTIBLE ACCOUNTS

Q. Earlier you stated that your testimony would address Gulf's 2012 level of Uncollectible Accounts expense. What level of Uncollectible Accounts expense does Gulf project for 2012?

A. Gulf projects an Uncollectible Accounts expense in 2012 of $4,143,000.

Q. Is Gulf's projection of 2012 Uncollectible Accounts expense reasonable and prudent?

A. Yes.

Q Is Gulf's projection of 2012 Uncollectible Accounts expense representative of Uncollectible Accounts expense on a going forward basis?

A. Yes. This is shown on Exhibit CJE-1, Schedule 4, which shows Gulf's revenue and projected bad debt factor for every year, 2011 through 2015, in the O&M budget that was the basis for the Company's 2012 test year Uncollectible Accounts expense.

Q. In Gulf's last rate case, what approved write-off rate for Uncollectible Accounts expense was allowed?

A. In 2002, the approved write-off rate was 0.24 percent. Write-offs as a percent of revenue is an industry standard for measuring bad debt performance.

Q. How does Gulf's bad debt expense compare to other utilities?

A. {*Words from original version removed by agreement between counsel for OPD and Gulf.* } Gulf's 2009 net write-offs was 0.33 percent.

Q. What level of write-offs does Gulf project in 2012?

A. Gulf projects write-offs for 2012 to be 0.32 percent, which is slightly lower than 2009 actual. {*Words from original version removed by agreement between counsel for OPD and Gulf.* } Gulf made a $206,000 NOI adjustment, as discussed in Mr. McMillan's and Ms. Neyman's testimony, to write-offs based on a plan for increased collection efforts by Gulf's Field Service Representatives.

Q. What is driving the increased write-off rate?

A. As individuals are unemployed, under-employed, facing foreclosure, or under other financial stress, utility bills can remain unpaid. The effect of the weak economy has resulted in an increase in Gulf's actual write-offs factor for 2008, 2009 and 2010 as reflected on MFR C-11.

Q. How does Gulf manage its collection process to minimize write-offs?

A. Gulf has worked diligently to minimize write-offs through the use of consistent policies to assess and mitigate risk. Credit scoring is the resource used to assist in the identification and risk assessment of a new residential customer. Deposits are collected for residential, commercial and industrial classes of service based on creditworthiness. Pro-active outbound calling is used to notify customers that payment is necessary to avoid disconnection of service. Management monitors collection-related statistics and has established performance indicators that prompt further evaluation and action.

Q. Please summarize your justification of Gulf's Uncollectible Accounts expense.

A. Uncollectible Accounts expenses do not track with CPI but are generally determined as a percentage of revenues. Gulf's write-off percentage of 0.32 percent for the test year is slightly below the level experienced by Gulf in 2009.

V. INCOME TAX EXPENSE

Q. What amount of income tax expense is included for the 2012 test year?

A. Total federal and state income tax provision for the test year is $63,241,000 as shown on MFR C-22.

Q. How was this amount calculated?

A. The income tax expense was calculated in accordance with GAAP.

VI. SUMMARY

Q. Please summarize your testimony.

A. The level of A&G expenses requested in this case is reasonable, prudent and necessary to enable Gulf to continue to provide high quality, reliable electric service to our customers. Although some of these costs have grown more rapidly than the O&M benchmark, I, along with Mr. Twery and Ms. Crumlish, have explained how these variances were influenced by other factors outside the control of the Company and justified their levels.

Gulf's requested property damage accrual is an appropriate amount that balances the interests of the Company and our customers in accordance with established Commission policy.

The requested levels of uncollectible accounts and depreciation and amortization expense are reasonable, prudent and necessary. The test year income tax expense has been calculated appropriately.

Q. Does this conclude your testimony?

A. Yes.

CONTINUED DIRECT EXAMINATION

BY MR. GUYTON:

Q Ms. Erickson, you also had occasion to prefile Exhibit CJE-1 consisting of five schedules?

A Yes.

Q And you say you have changes to those?

A I do, I have two changes. On Schedule 3 where it says, "Joint Ownership," the number 874 should be 846 and the total should be 20 -- 20,798 should be 20,770. And then on Schedule 5, page 21, on line five, eight year should be five year.

Q And with those changes to your exhibit, is it true and correct to the best of your knowledge and belief?

A Yes.

MR. GUYTON: Mr. Chairman, I believe that exhibit has been identified in the prehearing order as Exhibit 19.

CHAIRMAN GRAHAM: So noted.

(Exhibit No. 19 was marked for identification.)

BY MR. GUYTON:

Q Ms. Erickson, would you please summarize your testimony for the Commission?

A Sure. Good afternoon, Commissioners. I appreciate this opportunity to provide an overview of my testimony. As you know, a lot has happened since Gulf was here in 2001 for a base rate increase; from the terrorists attacks on 9/11 to the hurricane seasons of 2004 and '05 to the Great Recession, a number of significant items have impacted Gulf's overall cost structure.

My testimony addresses three primary items. First I discussed Gulf's requested increase in its annual property damage accrual, then I'll address two O&M increase requests, one in customer accounts and one in administrative and general or A&G expenses.

I'll start with the property damage accrual. Gulf requests to increase its property damage accrual from 3 and a half million to 6.8 million. The current accrual was established in 1995 before Gulf and its customers experienced two Category 3 hurricanes: Ivan in 2004 and Dennis in 2005.

Remember, it is not possible for Gulf to obtain cost effective insurance coverage on its transmission and distribution or T&D assets so this accrual serves as the self-insurance premium for the risk related to T&D. The reserve was inadequate for Ivan and Dennis and as a result, Gulf's customers incurred storm surcharges for 51 months at a time when they were also recovering from their own personal property damage and facing higher insurance premiums and insurance deductibles.

Gulf proposes to increase its annual accrual in an effort to diminish the likelihood of a negative reserve and thus a storm surcharge. This requested increase in the accrual is in the best interest of Gulf's customers.

Now for the benchmark variances. Gulf has two functional benchmark variances that I address. Benchmark variances arise from comparing the 2002 approved O&M expenses escalated by inflation and customer growth to the 2012 requested amounts.

The first benchmark variances is in customer accounts. It is attributable entirely to the growth and uncollectable accounts. While Gulf's base rates have not increased in over a decade, its clause revenues have increased causing total revenues to increase. That revenue increase combined with an overall increase in the bad-debt factor due to the Great Recession has resulted in an overall higher level of uncollectable expenses. These expenses have outpaced the O&M benchmark by almost $2 million despite our enhanced collection efforts.

The other O&M benchmark variance I address is in A&G expenses. The total benchmark variance is almost $21 million. Gulf witnesses Twery and Crumlish address 11 and a half million of this variance and my testimony covers the remaining nine and a half million.

Most of what I justify is in three areas: Insurance premiums, external audit, and internal controls expenses and treasury costs.

First the increase in insurance premiums. Premiums were 4.6 million over the benchmark driven primarily by the terrorist attacks on 9/11, the impact on the insurance markets related to hurricanes, and the property damage accrual I discussed earlier.

Next external audit and internal controls expenses are approximately 1.4 million over the benchmark. These costs are driven by the passage of the Sarbanes-Oxley Act of 2002.

Finally, treasury cost increases of million over the benchmark were driven by the recent instability in financial markets and an increase in short-term financing needs of the company as a result of an overall higher level of capitalization.

Commissioners, each of the expenses I address in my testimony are justified and are in the interest of Gulf's customers. Because these expenses are necessary for the provision of service, Gulf's base rates should be established to allow for their recovery. Thank you.

MR. GUYTON: We tender the witness.

CHAIRMAN GRAHAM: Mr. Sayler.

MR. SAYLER: Good afternoon, Mr. Chairman.

CROSS EXAMINATION

BY MR. SAYLER:

Q Good afternoon, Ms. Erickson, how are you today?

A I'm fine.

Q I have a few questions for you today, and I also have an exhibit that's being passed out, so we'll wait a moment and let that exhibit get to you.

A Okay.

MR. SAYLER: And just to note, one of the exhibits is an excerpt from Gulf Power -- or, actually, Southern Company's Form 10-K. The other exhibit is a collection of two responses to staff interrogatories which I'm not moving those into the record, I just wanted to use those for cross-examination purposes. But the other exhibit, the Form 10-K, I would like to identify as an exhibit.

CHAIRMAN GRAHAM: We will number the 10-K as 191.

(Exhibit No. 191 was marked for

identification.)

MR. SAYLER: I note that that Form 10-K is an excerpt. If the company would prefer that the entire Southern Company 10-K would go into the record, I can provide that at a later date electronically, if that's amenable.

CHAIRMAN GRAHAM: Okay. We'll let them ask for that at the time.

MR. SAYLER: Okay.

BY MR. SAYLER:

Q Ms. Erickson, would you turn to Schedule 5 of your direct testimony?

A Is there a particular page?

Q No, just in general.

A Okay.

Q For you to have access to it. And you may or may not be aware that this schedule was subject to a Motion to Strike that was overruled.

Are you familiar with that?

A I am aware of that.

Q Okay. And my understanding is that Gulf Power commissioned this transmission distribution, hurricane loss and reserve performance analysis; is that correct?

A We did.

Q All right. For ease of the record, we'll just

call it the storm study.

A Okay.

Q Now, is it true that Gulf doesn't have the ability to create such a storm study for themselves? Is that correct?

A No, we do not have that expertise.

Q And have you personally ever participated in the development of a storm study?

A I have provided information to the consultant who does -- who we hired to do the study.

Q And what information would that have been?

A He requests information -- he requests information on replacement costs and he requests information on historical damage losses related to the actual storms that occurred in Gulf's territory where we experienced losses.

Q Okay. And those were just data inputs to the storm study, the US windstorm that's described inside the study; is that correct?

A Yes, amongst other things.

Q All right. And the person that -- I guess it's EQECAT or -- am I pronouncing that right?

A I'm not sure. I call it EQECAT. That sounds like a good -- I think we all know who we're talking about.

Q Okay.

MR. SAYLER: For the record, it is capital E capital Q capital E capital C capital A capital T, EQECAT, or the storm study.

BY MR. SAYLER:

Q Now, who for EQECAT performed that study? Was that a Mr. Harris?

A Mr. Harris.

Q And he would be the -- he or the persons that work for him at EQECAT would be the ones who really know the intricacies of how the storm study works and how to go about doing that; is that correct?

A Yes.

Q But you are not personally familiar with the details of that storm study, are you?

A The details I'm familiar with are just the questions I've asked him as I've reviewed his study.

Q All right. And both OPC and Commission staff asked a number of interrogatories related to the storm study; is that correct?

A Yes, they did.

Q And whether you're aware or not, some of them are subject to standing objections by one of my fellow intervenors, just to make you aware.

A Okay.

Q Now, the responses to staff and OPC's questions, did you participate in developing those responses?

A Yes, some of them.

Q All right. And for others you had to contact EQECAT or Mr. Harris to provide those responses; is that correct?

A Mr. Harris also provided some input. I reviewed -- if Mr. Harris provided input, I reviewed all of the input that he provided.

Q All right. Would it be fair to say that information that Mr. Harris provided, you would be responsible for answering those questions at the hearing?

A I will do my best.

Q Okay. And those are really the technical details of how the study works and operates and the thousands of thousands of synthetic storms and things of that nature; is that right?

A Yes, related to his statistical model.

Q Isn't it true that when Gulf commissioned the storm study, storm hardening efforts by Gulf were not considered; is that correct?

A No, there was no data available. And in addition, Mr. Harris doesn't necessarily have a way to incorporate storm hardening into his model at this point in time.

Q Okay. Just to be clear, it sounded like you said two things, one, that there was no data on storm hardening, and two, that Mr. Harris' model doesn't take that into account; is that right?

A Yes.

Q If you'll look at the exhibit that contains staff interrogatories, I would like for you to turn to the second one. It is staff's 18th set of interrogatories, item number 224. Just take a moment to familiarize yourself with it.

A I'm ready.

Q All right. And you're aware that your company has said that you're the witness responsible for responding to this interrogatory?

A Yes.

Q Okay. If you will look at -- well, would you agree that essentially this question is asking please explain why Erickson is sponsoring this study and describe the witness's experience with respect to hurricane loss analyses; is that correct?

A Yes, that's what it says.

Q All right. And here it says you're the comptroller, you commissioned the study, and that you

rely upon the study in recommending -- making recommendations to the senior management; is that correct?

A Yes, I relied upon this study and my own professional judgment in terms of analyzing what's occurred with Gulf specifically over the last ten years since we came in for a base rate increase.

Q Okay. And other than just reading the study itself, you don't have any personal knowledge of -- other than reading the study itself and the data inputs that you provided, you really don't have any personal knowledge of this study; is that right?

A Can you tell me what you mean by "personal knowledge"?

Q Yeah. You don't know how it works, how it operates?

A Like I said, what I know about it is just simply the questions in my curiosity from reading the study when it was provided to us and just in a curiosity to understand as much as I could about how it worked, that's all I know.

Q Sure. And in your response -- or in the company's response, it lists you as the -- it lists your name, it says that you rely upon this study in the general course of business; is that correct?

A Yes.

Q Can you explain how you rely upon the study in the normal course of your business?

A I often receive reports from experts in order to make accounting judgments associated with -- in particular, usually liabilities associated with the company. So this is one of several studies that I receive periodically in order to be sure that the books and records of Gulf reflect actual financial information and are in accordance with generally-accepted accounting principles and FERC requirements.

Q All right. But is this a study that you refer to daily, weekly, or monthly in the course of your --

A No, sir.

Q It's just a one-time report that Gulf commissioned for the purposes of the five-year storm study or for purposes of a rate case; is that right?

A Well, this particular study was commissioned as it relates to compliance with the Commission rule as stated in the interrogatory. When we chose to begin this rate case process, we needed to assess what the appropriate level was for the accrual request and so this was where we went initially along with our historical information.

Q All right. If you will turn to page four of

your storm study, the one that's labeled "Disclaimer."

A Yes.

Q And is it normal in reports that you rely upon through the normal course and scope of your business to get disclaimers like this?

A It's very common when people are making projections that they include disclaimers.

Q Okay. But do you have disclaimers that are like this that say really you can't rely upon this study?

MR. GUYTON: Objection. That's an unfair characterization and summary of three paragraphs of disclaimer.

CHAIRMAN GRAHAM: I agree with the objection.

MR. SAYLER: Okay. I withdraw the question.

BY MR. SAYLER:

Q It would be fair to say that of all of the data outputs from this study, it's recommending that Gulf accrue $6.8 million a year?

A It calculated the estimated annual damage over a long time period, and that estimate was 3.8 million. When you look at our actual experience, about 20 percent of the storm damage that we have experienced was actually appropriately categorized as capital.

Q Okay. And of that 8.3 million that EAD, as

it's referred to in the study, you're seeking from this Commission 6.3 million a year or 6.8 million a year in accrual; is that right?

A We are seeking 6.8 million.

Q **All right. Now, the storm reserve -- there was a question to another witness about this reserve -- the storm reserve is also known as the property reserve; is that correct?**

A It's known as the property damage reserve.

Q **Property damage reserve.**

And I believe another witness testified that it was a funded reserve; is that correct?

A It is a funded reserve. This Commission in 1972 determined that Gulf's storm reserve should be funded.

Q **And what is the difference between a funded and unfunded reserve?**

A With a funded reserve, you're required to take the after-tax portion and move it to its own separate account and you're unable to use it for any other operating expenses so that it's available in the event that you should have a storm or other property damage.

Q **All right. And are the funds for that funded reserve, are they moved into that reserve as they are accrued?**

A They are moved into that reserve annually.

Q And what time of year? What's the date of that?

A Usually in January.

Q So January -- so funds were -- just so I understand, so funds collected in 2010 were moved into the reserve in January of 2011, would that be accurate?

A Yes, that's a fair characterization.

Q Okay. And the way Gulf collects that is usually an incremental amount of one-twelfth of the actual amount every month for a 12-month period; is that right?

A That's what's embedded in our rates today, yes.

Q And during the calendar year, that incremental one-twelfth accrued monthly, up until the time you actually have to fund the reserve, what does Gulf do with that money? Is that cash flow?

A It is a part of cash flow, in the event, again, that you have storms that are under -- you know, that are smaller in nature. A good example is this year Tropical Storm Lee cost us about $600,000. And then that money is used for that. So we didn't go tap the funded reserve for that 600,000.

Q Okay. So it's fair to say until you actually

fund the reserve, there's a slight cash flow benefit for Gulf, correct?

A Yes.

Q And now Gulf is asking to increase that from 3.5 to 6.8, correct?

A Yes.

Q Okay. If you will turn to the second exhibit that I provided which has been identified as Exhibit Number 191. Would you take a moment to review it?

A Which particular section are you interested in, Erik?

Q Actually all three pages. First I want to establish that this is truly in fact Southern -- an excerpt from Southern Company's Form 10-K that was filed this year, February 25th. And then once we have established that, then we'll move to the last page which is called Gulf Power Company 2010 Annual Report?

A Yeah, I only have one page.

Q You should have -- well, you have one page -- there should be a cover sheet.

A Okay.

Q The first page says "Southern Form 10-K." Do you see that?

A Yeah, I have that page.

Q Okay. And then the next page says that again,

because this is the official cover page that's filed with the SEC. And would you agree that this appears to be an excerpt from Southern Company's Form 10-K or the cover sheets for that Form 10-K?

A Yes, it appears to be that.

Q All right. If you'll turn to that last page, which is identified by Roman Numeral II-299. Do you see that page?

A Yes.

Q At the top of the page it says, "Table of contents, notes, continued Gulf Power Company 2010 Annual Report." Do you see that page?

A Uh-huh.

Q Do you agree that this appears to be part of the annual report related to Gulf Power Company?

A Yes, it appears to be that.

Q Okay. And are you familiar with Gulf's annual report that's part of the 10-K that is filed on an annual basis?

A Yes, I am very familiar.

Q So that means you help participate in preparing it?

A I do.

Q Okay. And on this page, there's a heading labeled "Property Damage Reserve." Would you take a

moment to look at those two paragraphs?

And my question is are you familiar with that description of the property damage reserve in the Form 10-K?

A Yes, I'm familiar with this.

Q Okay. And prior to today, were you familiar with the description of the property damage reserve?

A Yes, I was.

Q Okay. I thought you were, I was just making sure.

A Yeah. It's a much smaller section, I'll tell you, than it used to be.

Q Okay. And according to the Form 10-K, it's not called a storm reserve; it's called a property damage reserve, correct?

A That's correct.

Q All right. And would it be fair to say in looking at the first of those two paragraphs that that first paragraph sets out the purpose of the reserve, the amount that's in the reserve and how much is currently in it; is that correct?

A Yes.

Q All right. And would it be fair to say that the second paragraph describes the surcharge mechanism that is available to Gulf should a surcharge be needed?

Is that correct?

A It does describe that. But I will note for you that the piece that we talk about in the middle there related to the -- it's the sentence that reads: "According to the 2006 Florida PSC order" --

Q You're actually getting to where I wanted you to go.

A Oh, sorry.

Q If you'll go ahead and read that sentence through the end of the paragraph for us, we would appreciate it.

A Oh, you want me to read all of it?

Q Yes, ma'am.

A Okay. "According to the 2006 Florida PSC Order, in the case of future storms, if the company incurs cumulative costs for storm recovery activities in excess of 10 million during any calendar year, the company will be permitted to file a streamlined formal request for an interim surcharge. Any interim surcharge would provide for the recovery, subject to refund, of up to 80 percent of the claimed costs for storm recovery activities. The company would then petition the Florida PSC for full recovery through a final or non-interim surcharge or other cost recovery mechanism."

Q You would agree that the statements in your

Form 10-K are accurate and true, correct?

A They are accurate as of today. But as soon as this increase -- or this filing completes, that particular provision expires.

Q **Which filing?**

A Well, from the order in 2010 that this particular statement relates to, essentially what happens is the provision regarding the expedited implementation of an interim surcharge expires at the earliest of the effective date of new base rates. So since this is a base rate proceeding, that provision will expire when these base rates are in fact put in place.

Q **All right. Thank you, Ms. Erickson, I have no further questions at this time. I'll see you back on rebuttal.**

A Thank you.

CHAIRMAN GRAHAM: Ms. Kaufman.

MS. KAUFMAN: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MS. KAUFMAN:

Q **Good afternoon, Ms. Erickson.**

A Hello.

Q **Nice to see you again.**

A Nice to see you again too.

Q Mr. Sayler is distributing three documents that I'm going to talk about so we'll give him a moment.

MS. KAUFMAN: Mr. Chairman, just to expedite this, the only one that I'm going to need an exhibit number for is -- I'm sorry, you all might not have gotten it yet.

CHAIRMAN GRAHAM: That's all right, I can remember. Which one?

MS. KAUFMAN: It's the top one and it has a FIPUG cover sheet on it and it says, "Gulf's Response to Staff Interrogatory Number 224."

CHAIRMAN GRAHAM: We'll put a number of 192 on that one.

(Exhibit No. 192 was marked for identification.)

CHAIRMAN GRAHAM: And what's the description again? What's the short title, rather?

MS. KAUFMAN: Gulf's Response to Staff Interrogatory Number 224.

CHAIRMAN GRAHAM: Thank you. You can continue.

MS. KAUFMAN: I think we have all of our papers together.

BY MS. KAUFMAN:

Q To start out, Ms. Erickson, you are Gulf's

comptroller, correct?

A Yes, that's correct.

Q And in that vein, would you agree with me that you're an expert in regulatory finance and accounting?

A I am.

Q Okay. If you would look at 224, which has been Numbered Exhibit 192. And Mr. Sayler already discussed this interrogatory with you. I just want to be sure you get there.

A (Nodding head affirmatively.)

Q Okay. Part of this interrogatory asks you -- the very last part of the question asks you to describe the witness's experience with respect to hurricane loss analysis. Do you see that?

A I do.

Q And no experience is set forth in this answer in regard to hurricane loss analysis, is it?

A Well, I think the only thing that it says as it relates to that is that I'm responsible for the storm study which is required every five years. The last time we did a storm study is when we filed our filings for recovery from the 2004 and 2005 seasons which I was involved in.

Q Does it describe in here anywhere your expertise with regard to hurricane loss analysis?

A I think it implies as the comptroller that I'm responsible for those elements.

Q Nowhere in this answer does it relay any of your -- any expertise that you have in hurricane loss analysis, does it?

A Not directly.

Q Now, you talked with -- well, let me go back. It doesn't say anything about you having any experience in hurricane loss analysis, right?

A I think it's implied by the fact that I'm the company's comptroller. That's the answer.

Q Okay. And is there some reason that you didn't set it out specifically when the question asked you to do so?

A I think when I answered the question, I responded with the most recent experience that we had, which is the requirement to file the storm study with the Commission.

Q Yeah, I don't want to belabor this point so just one more question.

A Okay.

Q This was directed to you specifically and asked you to describe your experience with respect to hurricane loss analysis. And you have provided no description of any expertise you have in that area,

correct?

A I have described for you what my responsibilities are as it relates to that and what I have done in compliance with Commission rules. In addition, I'll note that I was a witness in the securitization filing of Gulf Power's -- Gulf Power's securitization filing in 2006.

Q But you don't put that in the answer to 224, do you?

A I did not put that in that answer.

Q Mr. Sayler discussed with you exhibit -- well, what we have all come to fondly call the storm study, and I just want to talk to you for a moment about that. If you would turn to page five, stamped five at the bottom.

A Okay, I'm there.

Q And I'm going to be looking at the very first paragraph of the executive summary, and the last sentence of that paragraph says, "Loss analyses were performed by EQECAT using an advanced computer model simulation program, WorldCat Enterprise, US Wind Trademark." Do you see that?

A Uh-huh.

Q Do you have any experience in running the computer model simulation US Wind?

A No, ma'am.

Q You have never run that model, have you?

A I have not.

Q And this was run by -- I'm blanking on the gentleman's name -- the EQECAT --

A Steve Harris.

Q Mr. Harris, okay.

And you have relied, have you not, on the output of US Wind Model to form the basis of some of your opinions in this case?

A It was a portion of it, yes.

Q Now, I understand from your testimony and from your comments in your summary that the reason that Gulf is seeking to increase more than double the accrual for storm recovery is because you want to have those funds on hand in the event that a storm occurs in the future so as to perhaps avoid a surcharge of your customers; is that correct?

A Well, the first thing I'll correct is it's not quite doubled so it's not more than doubled. But when considering -- for us when considering --

MS. KAUFMAN: Excuse me, Mr. Chairman. Could I just get a yes or no and then an explanation?

CHAIRMAN GRAHAM: I will allow the witness, if she doesn't understand or wants to clarify your question, to restate the question, and then you can nod if that's a fair restatement of the question then and she can answer it.

MS. KAUFMAN: Thank you.

THE WITNESS: Okay. I'll get you to ask it again though because I'm not -- after you made the error initially I lost --

BY MS. KAUFMAN:

Q **All right. Let me try again.**

A -- you lost my attention.

Q **I understand. As I understood your testimony, and in your opening, the reason that the company wants to increase the storm accrual is so that in the event of a storm in the future, it will have enough money on hand to do the restoration without imposing a surcharge on its customers?**

A I don't quite agree with your characterization. The way I view it is this: Hurricanes are a part of our business, they are a part of doing business on the coast of Florida. What's important is to make sure that we accrue for what we believe is the long-term expected damage so that when a storm occurs it may or may not be enough to cover the damage that is incurred.

But if we're accruing at the expected annual damage or something similar to that, kind of around what we've experienced -- and, again, if you look at all of the information, you can determine that -- we really need to have that available so that we can minimize the dollars that might be involved in a surcharge if there is an extreme storm because it's very difficult for customers at that time.

Insurance policies for homeowners have changed dramatically, you know, they now have deductibles for named wind storms that are 2 percent of the value of the home as opposed to a regular deductible. That's very difficult for customers.

So if you put a surcharge in place at that point in time that is ten times the amount that they would have to pay for this expected annual damage accrual, it will be a big burden on most folks.

Q So at least part of your rationale, so I understand what you said, is to, to the extent you can, minimize any surcharge that you might have to charge if there's a storm in the future?

A Yes.

Q Okay. And I think that you said in your summary that it's your position that this is in the best interest of your customers, correct?

A Yes.

Q Would you agree with me that sitting at the table here you've got a pretty broad cross-section of Gulf's customer groups; you have Mr. Wright with the Federal -- excuse me -- Florida Retail Federation, you have the Public Counsel, you have FIPUG, large users, you have the military represented here, so that's a pretty broad group of your customers, isn't it?

A Yes, it is.

Q And you would agree with me as well that there's not one of those customer groups that thinks your proposed accrual is in their best interest?

A I would agree with you that they don't agree with our position. But none of their positions are the same either. It's very varied.

And I will tell you that it surprises me that the folks that represent our customers don't see that it's appropriate to put away for a company that does business on the coast of Florida the appropriate amount, the expected annual damage related to storms. I mean, it just -- and I'll just be honest with you, Ms. Kaufman, that's surprising to me because it makes sense.

Q And while it may be surprising to you, you would agree that as far as this pretty broad cross-section, that none of the customers whose

interests you have at heart are aligned with Gulf's position on this issue?

MR. GUYTON: Objection, asked and answered.

MS. KAUFMAN: I don't think that was asked and answered.

CHAIRMAN GRAHAM: I would like to hear it again.

THE WITNESS: What I will tell you is that while I --

BY MS. KAUFMAN:

Q If you could give me a yes or no first, that would be great.

A Okay. I'm sorry. Then you'll have to ask it again.

Q Okay. I will do my best to ask it again.

A Okay.

Q And my question was despite the fact that you commented in your summary that you believe Gulf's approach to the accrual is in the best interest of Gulf's customers, none of the diverse customer groups represented here agree that your proposal is in their best interest, regardless of whether they vary as to the approach they suggest?

A Well, they all do agree that an accrual is appropriate. Each intervenor had agreed an accrual is appropriate. What they disagree about is the amount. And, you know, as I started working on this --

CHAIRMAN GRAHAM: Ms. Erickson, you're going just a bit further than the question.

THE WITNESS: Okay. Thank you.

BY MS. KAUFMAN:

Q And would you agree that as you've come in for this rate case -- and we've heard a lot of discussion about the economic conditions across the nation and in Gulf's territory as well -- that to the extent customers today can keep money in their pocket, they would certainly prefer to do that to help them continue to come out of the -- what we've called the Great Recession?

MR. GUYTON: Objection. I think that calls for speculation as to the mental operation of the customer base.

MS. KAUFMAN: Well, I think that -- if I might respond.

CHAIRMAN GRAHAM: Please.

MS. KAUFMAN: I think that Ms. Erickson is trying to tell us what the company believes is in the company's best interest. I mean, I guess she is speculating. I'm permitted to ask her my question as well.

CHAIRMAN GRAHAM: I'll allow the witness to answer it if she chooses to answer it.

BY MS. KAUFMAN:

Q Can you answer it?

A You're going to have to say it again, I'm sorry.

Q I will try. I was wondering if you would agree with me that given all the discussion we've had about the recession and the oil spill and the struggling customers, that as we sit here today, customers would certainly prefer to keep money in their pocket rather than to pay it toward an increased storm accrual?

A I think there are some customers that would prefer that and I think there's some that would be fearful of a storm surcharge after a storm that could be ten times that amount.

For people on a fixed income, a storm surcharge that's ten times what we're asking would be much more difficult for them to absorb. As a matter of fact, I've asked some folks what their impression is. As I began working on this, I talked to -- you know, people would ask me about the rate increase.

CHAIRMAN GRAHAM: Ms. Erickson, you're going just a bit deep.

THE WITNESS: Okay.

MS. KAUFMAN: Sorry, I have to be a bit quicker.

CHAIRMAN GRAHAM: That's all right.

BY MS. KAUFMAN:

Q I got a little lost in your answer there. I think you said some people would and some people wouldn't?

A Some people escrow their taxes and some people don't.

Q You haven't done any survey or study of your customers to determine their view on this issue, have you? And I'm talking about a formal study where you polled your customers and said would you rather keep this money now or would you rather pay it to the utility?

A No, I haven't done a formal study, only an informal, an informal question of folks that have inquired to me about the rate case since they're well aware that I work at Gulf Power and they happen to be customers also.

Q I handed out to you, Ms. Erickson, two orders of the Public Service Commission. And as I said, we don't need to have a number for these.

If you would look at the first one which is dated March 4, 2005, it's PSC Order 05-0250PAA-EI. It

should have been distributed to you by --

A I have it.

Q Okay.

A I'm just trying to make sure I understand which one it is.

Q It's the one that relates to Hurricane Ivan.

A Uh-huh.

Q Okay. Do you have that in front of you?

A Uh-huh.

Q Okay. In this order, would you agree with me that there was severe damage from Hurricane Ivan, I guess it was in the fall of 2004, and Gulf had the need to engage in restoration activities, correct?

A Yes, there was extensive damage from Hurricane Ivan.

Q And would you also agree with me that this shows that Gulf came to the Commission and sought from them a surcharge in order to accomplish those activities? Do you agree with that?

A Yes.

Q And not only did Gulf come to the Commission, but they came with a stipulation among the interested parties, did they not?

A Yes.

Q And was this proceeding, to your knowledge,

expeditiously processed by the Commission?

A What I can tell you is that as it relates to the speed of that, that's partially why we asked for the expedited process in the second stipulation that was done on the securitization filing, because of the concern about the timely recovery of storm damage.

Q So are you saying that the Commission did not timely process your request regarding Hurricane Ivan in 2004?

A Well, I think as timely as the Commission can actually operate. But from Gulf's perspective and for Gulf's purposes, it was important to put an expedited process in place.

Q Do you have any reason to assume that if you were to need a surcharge in the future, the Commission would not process it on an expedited basis?

A I think we had those concerns and that's why it was a part of the stipulation. In exchange for that expedited process, we gave up our request to bring our reserve up to 70 million.

I mean, an integral part of that request was a reserve balance of 70 million. In exchange for that stipulation and that expedited process we gave up that 70 million.

Q Here is my question -- and I really think it's

a yes or no -- do you have concerns that were you to be in this situation again, needing to restore service and impose a surcharge, are you concerned that the Commission would not expeditiously deal with your request?

A I believe the Commission will expeditiously -- as expeditiously as the Commission can operate.

Q Okay. If you take a look at the second order, which is PSC 06-0601-S-EI. Do you have that one?

A Uh-huh.

Q You would agree with me that this order relates to Hurricane Dennis and its impact on your service territory, correct?

A Yes, Dennis and Katrina.

Q Oh, and Katrina, yes. And similarly, you also -- Gulf and the intervenors came to the Commission seeking approval in a stipulation resulting in a surcharge to deal with those costs, correct?

A Yes, that was the ultimate decision.

Q Okay. I just have one more line of questioning for you, Ms. Erickson, and that has to do with your storm hardening activities. And the last piece of paper that I distributed is Gulf's response to Citizen's fourth set of interrogatories, number 205.

MS. KAUFMAN: And, Chairman, this has already been admitted, I believe, as part of Exhibit 115.

CHAIRMAN GRAHAM: It's been admitted as which exhibit?

MS. KAUFMAN: I thought it was 115, but I can check.

MS. KLANCKE: That's correct, it's part of Exhibit 115.

CHAIRMAN GRAHAM: Okay.

BY MS. KAUFMAN:

Q Are you there?

A (Nodding head affirmatively.)

Q Okay. Great. I'm correct, am I not, that Gulf has engaged in storm hardening activities, correct?

A Yes, Gulf has an approved storm hardening plan from this Commission.

Q And Gulf is seeking to recover the costs of those activities in this rate case, correct?

A Yes.

Q Okay. And would you also agree with me that engaging in storm hardening activities is supposed to harden the system and make it more resistant to hurricanes and tropical storms?

A We are certainly hopeful that will be the case.

Q And you would hope that those activities would

result in quicker restoration time of service to your customers?

A We hope that to be true.

Q Okay. In interrogatory number 205, am I correct that you have shown the amounts that Gulf is seeking to recover related to storm hardening?

A Yeah, these are the incremental amounts related to the extreme wind loading projects.

Q Okay. And am I also correct -- I think you might have discussed this with Mr. Sayler -- that the amounts that you are seeking to recover for these activities have not been taken into consideration in your request for an increased accrual?

A They were not taken into consideration in determining the -- in the storm study that was provided. But there were a couple of other things that also wouldn't have been taken into consideration in the storm study, and that is any other property damage that might be incurred on our system. We incurred over the last ten years --

Q Ms. Erickson, again, I don't mean to cut you off, but I'm simply asking you if the dollars that are reflected here that were spent for storm hardening, I'm correct that those were not considered in the accrual increase that you're requesting?

A They were not considered because there was no data to consider.

Q Okay. So when you say there was "no data to consider," would I be correct in understanding you mean that luckily we haven't had a storm or a big weather event since you performed these activities?

A Yes, we've not been able to collect any forensic data related to the investment.

Q So by that you mean I guess -- would it be correct to say that you're not sure as to the effect that these activities might have on the quickness of restoration, for example?

A We are not sure.

Q Okay. Well, if that's the case, would Gulf be willing to pull these dollars out until it has some evidence of data to suggest that these activities have contributed to, say, a quicker storm restoration?

A No, ma'am. We believe that it's important to recover the costs that we need to invest in our system. And, again, we're hopeful that these may some day result in lower restoration costs. But at this point, I think it's very early to make that determination.

Q So I guess what you're saying is you would like the ratepayers to pick up these costs even though you don't have any information that these activities

will actually be of any benefit in storm restoration until an actual storm occurs?

A I believe our customers would expect us to harden our -- or to work toward hardening our system and to look for that data to determine that, so I believe that our customers would agree that this is an appropriate investment.

Q Okay. Well, again, looking at the cross-section here, certainly the customer groups represented here don't agree with that, correct?

MR. GUYTON: Objection, I move to strike that remark. That is pure testimony by an attorney.

CHAIRMAN GRAHAM: I believe she asked a question.

MS. KAUFMAN: I'm sorry.

CHAIRMAN GRAHAM: I was agreeing with you.

MS. KAUFMAN: Okay.

CHAIRMAN GRAHAM: I believe that she was asking a question.

MS. KAUFMAN: Yes.

MR. GUYTON: In that case, I apologize. I thought it was just commentary.

CHAIRMAN GRAHAM: No, she said would you agree at the end. She slipped that in.

MR. GUYTON: I was too quick to jump. I

apologize.

BY MS. KAUFMAN:

Q Okay. I'm sorry. I know you want me to ask the question again.

I just wanted to ask you that you would agree that certainly the cross-section of customers represented at this table don't agree that you should recover these costs until there is some proof these costs are going to earn their benefit?

A I believe that's true.

Q And I just have one more question for you, Ms. Erickson. I think you testified that you are the comptroller of the company, correct?

A Yes.

Q And you have to be familiar with the financial situation of the company and I imagine that you have to be involved in preparing a lot of financial reports; is that correct?

A I am.

Q Okay. Can you tell us how much 100 basis points is worth in regard to your requested ROE?

A Yeah. Hang on a second. I actually computed that the other day and dropped it in here to make sure.

Q Thank goodness.

A But I didn't do exactly the question that you asked so hang on. And, actually, the calculation I did was eight basis points equals a million dollars.

Q Eight basis points?

A Approximately. And, again, I'm not an ROE -- I'm not, you know, the rate-making witness, so to speak, so I did that just for my own benefit on the back of an envelope, so you might want to ask him.

Q Okay. But I guess for walking-around purposes --

A Yes.

Q -- we can take that and extrapolate that about eight basis points is about a million dollars?

A Yes.

MS. KAUFMAN: Thank you, Mr. Chairman.

CHAIRMAN GRAHAM: Thank you.

Major Thompson.

MAJOR THOMPSON: No questions.

CHAIRMAN GRAHAM: Mr. Wright.

MR. WRIGHT: Thank you, Mr. Chairman. I'm doing one quick little calculation before I proceed here.

CHAIRMAN GRAHAM: Sure.

MR. WRIGHT: Thank you four your indulgence.

CROSS EXAMINATION

BY MR. WRIGHT:

Q Good afternoon, Ms. Erickson.

A Hi there.

Q Hi. My name is Schef Wright and I represent the Florida Retail Federation in this proceeding.

MR. WRIGHT: Before I start, I just want the record to be clear. If you'll look at our positions on issues 27 and 76, we take the position that an accrual of no greater than $600,000 is appropriate and we take the position further that we're not sure they need any accrual at all. I'll develop that in our brief.

CHAIRMAN GRAHAM: Okay.

MR. WRIGHT: Just so -- it's not true that all customers agree that there should be an accrual.

CHAIRMAN GRAHAM: Okay.

MR. WRIGHT: Thank you.

THE WITNESS: Thank you for clarifying that because I wasn't aware of that.

BY MR. WRIGHT:

Q You're welcome.

In response to a question I believe by Mr. Sayler, you stated that your storm reserve is a funded reserve and I believe that you said that that means you keep the money in your own separate accounts

or Gulf does, that is, and that it is unavailable for other purposes; is that correct?

A The after-tax portion.

Q Thank you.

Is that like equivalent to saying it's sitting in the bank?

A Yes.

Q Does it earn interest?

A It does.

Q It does?

A Yes.

Q At what rate?

A I don't know the rate off the top of my head, but it is in money market funds right now.

Q So it's probably in the order of some number of basis points less than 100?

A Likely.

Q Thank you.

Do you know what the surcharge that Gulf collected from its customers from 2005 until June of 2009 was?

A It was about 110 or a $111 million.

Q Thanks. I was meaning to ask do you know what the rate was --

A I do. It was --

Q -- for 1,000 kilowatt hours?
A Well, the rate actually changed twice, but the ending surcharge was the $2.71 per 1,000 kilowatt hours.
Q That would be for residential customers, right?
A For residential customers.
Q And would you agree -- and I can show you the order if you want -- the total company number was about $2.36?
A I would like to see that.
MR. WRIGHT: While Mr. Sayler is showing her that, just so it's clear, we and probably the other parties will be asking the Commission to take official recognition of the two orders that Mr. Sayler distributed or I guess Ms. Kaufman distributed, 05-0250 and 06-0601.
CHAIRMAN GRAHAM: Okay.
MR. WRIGHT: And what Mr. Sayler has handed her is a copy of the -- I think the 06-0601 stipulation order coming out of Docket 06-0154.
THE WITNESS: That was the second recovery docket?
BY MR. WRIGHT:
Q Yes, ma'am, what I call the '06 storm docket. You know what, actually, I take it -- I misspoke.

A This looks like the '05 docket.

Q It is the '05 docket. Do you recall that the '06 docket simply continued the surcharges from '06 until '09?

A Well, the '06 docket actually required a true-up so there was a true-up that was done as it related to the '05 docket and then the '06 charges were considered.

So I don't know if you have a similar schedule for the '06. I don't have that order with me. I don't know if you have a similar schedule for the '06 docket.

MR. WRIGHT: Mr. Chairman, I don't have the schedule but I do have the order and I just hand marked a sentence on page seven of that order. And if I can, I'll ask Mr. Sayler to show her that.

BY MR. WRIGHT:

Q If you could turn to page seven of the 06-0601 order, Ms. Erickson.

A I'm there.

Q Thanks. If you would look at the first full paragraph there that begins "The current storm recovery surcharge." Will you agree that by its order, the Commission approved the stipulation and the provision to extend the current surcharge until the last billing cycle of June 2009?

MR. GUYTON: I'm sorry, Schef, I thought I had the right order, but I apparently don't.

THE WITNESS: Schef, this talks about the tariff sheet. You don't happen to have that, do you?

BY MR. WRIGHT:

Q I do not.

A Okay.

Q Regardless, can you --

A I mean, what I can tell you -- what I do have with me that I think might be helpful is --

Q Great.

A -- just the -- well, go ahead.

Q No, you go ahead, that will be fine.

A Is the fact that -- I can tell you what the actual surcharge was for residential customers for both periods --

Q Yeah, that would be great.

A -- if that's helpful.

Okay. Let me just turn to it. The storm surcharge for residential customers, again, on a per 1,000 kilowatt hour basis, was $2.71 from April of 2005 through March of 2006 and $2.57 from April of 2006 through June of 2009.

Q Thank you.

And would you agree, having looked at the order Mr. Sayler handed you first, that the total company average surcharge is $2.36 for that first period per 1,000 --

A Yes, that was what was in that order for the total company.

Q And would I be at least -- would I be on base to infer that the total company surcharge for the second period, the '06 to '09 period, was correspondingly a little bit less than $2.36?

A I would have to look at it to know that for sure.

Q Okay. I was trying to make that inference from the fact that the residential surcharge declined. Is that a reasonable inference?

A I can't tell you that without looking at it.

Q Okay. Well, we'll stick with residential.

What's the company's requested base rate increase in this case for residential customers on a per 1,000 kWh basis?

A I don't have that with me. Do you have it?

Q Yeah. On Schedule A2 it shows that the company's current residential base rate for 1,000 kWh is $49.30 and that the bill under proposed rates is $61.15 for an increase of $11.85.

A Okay. I would like to see it.

Q Sure.

A I've got it.

Q Okay. Did I make a faithful and accurate statement of what the company's proposed base rate increase in the case is?

A The proposed increase on schedule A2 is 11.85.

Q Per residential 1,000 kWh, correct?

A Yes.

Q Okay. Thank you.

Now, I understand from your testimony during cross examination by Ms. Kaufman that you don't agree that customers would rather have money to spend today -- is that accurate -- than to pay the company an additional amount toward accruing to the storm reserve?

A I believe customers would rather put away 27 cents a month -- an incremental 27 cents a month, as opposed to face a surcharge for over four years of ten times that.

Q Okay. Well, let me ask you this: What is your deductible on your hurricane -- your property damage policy for hurricane damage?

A For wind driven -- for named storm and wind driven water, it is $25 million.

Q I'm sorry, I mean, your personal homeowner's

insurance policy, if you have one.

A Then you'll need to rephrase that.

Q Okay.

MR. GUYTON: Objection, relevance. This witness's homeowner's policy is hardly relevant to this issue.

MR. WRIGHT: Mr. Chairman, I believe it goes directly to the credibility of her testimony that customers wouldn't rather have it. And I'll get there in about 45 seconds if she'll answer this question.

CHAIRMAN GRAHAM: I agree with the objection.

BY MR. WRIGHT:

Q Do you personally have a separate savings account to cover your hurricane insurance deductible?

A I do think about that when I plan my savings because I recognize that it could be a large number.

CHAIRMAN GRAHAM: Mr. Wright, I see another objection coming. She's answering for the company and the company's point of view, and asking about what she personally does at home behind her door I think is going beyond the scope.

MR. WRIGHT: Mr. Chairman, she is testifying as to what she believes customers' preferences would be, I think this goes --

CHAIRMAN GRAHAM: As the company's comptroller.

MR. WRIGHT: Okay. Thank you.

BY MR. WRIGHT:

Q Have you ever taken a course in principles with macroeconomics or a general macroeconomic theory course?

A I've taken graduate-level courses.

Q Great. Then I bet you understand the concept of the marginal propensity to consume?

A I do. Now, I couldn't recall it at this moment in time, but I do understand it.

Q Okay. Well, would you agree that the marginal propensity to consume, it is a measure of the percentage of each additional dollar that a customer with money in hand will spend on consumption goods?

A If you'll provide me a definition of that, I would be happy to evaluate it.

Q I just offered you a definition. You've taken graduate courses. Do you or do you not agree that that's a reasonable definition of the marginal propensity to consume as used in economic theory?

A Can you restate it?

Q Will you agree that the marginal propensity to consume as a concept of macroeconomics is a measure of

the percentage of each additional dollar of income that a customer having said dollars' income will spend on consumption goods?

MR. GUYTON: Objection. I think it goes beyond the scope of the witness's testimony.

CHAIRMAN GRAHAM: I'll let her answer it if she can. She can always say she doesn't know.

THE WITNESS: Without refreshing my memory at this time, I'm not going to answer that.

BY MR. WRIGHT:

Q Would you agree that it would do more to promote economic activity for Gulf's customers to have money in their pockets than to have it sitting in the bank in your storm reserve account?

A I'd like to believe those customers would save that money because they recognize they have that liability. At least I would hope they would. Any prudent customers would.

Q Well, if they saved it, they would have it for themselves, would they not?

A And it would be available to pay that hefty surcharge when it came.

Q At page 30 of your testimony, you made the statement that all customers should pay for storm -- towards storm cost recovery, correct?

A What line?

Q Line ten and 11.

A Yes, that goes to the generational equity concern. One of the things that's important to note is that typically after a storm we have fewer customers over which to apply that storm surcharge, so the customers that are left end up paying more. If that money is not put away along the way -- because, again, storms are a part of doing business. And many, many of our assets are within 15 miles of the coast.

Q How many customers did Gulf lose after Hurricane Ivan?

A I believe it was around 4 percent.

Q After Dennis?

A It was fewer.

Q If you went another what -- we've had five years, '06, '07, '08, '09, '10 -- five years now with no storms, correct, six years, other than Lee?

A Yes.

Q Okay. If you went another six years -- well, if you went another six years and you collected the money, Gulf's current body of customers during those years would have paid for it and gotten no benefit other than the presence of that fund in Gulf's account, right?

A Again, it's a generational equity issue so that all -- you know, basically the people who are living and doing business on the coast of Florida should pay their fair share for what it costs to do business there.

Q **Well, if a customer pays for five years and then moves away, that customer won't have gotten any benefit, will they?**

A Well, that's their choice.

Q **It's not their choice -- excuse me. But isn't it true it's not their choice if in order to get electric service from Gulf Power they have to pay toward your storm accrual?**

A They should pay what it costs to do business.

Q **Wouldn't it be true that the body of customers who would benefit from restoration would be most closely aligned in time with the period immediately following the storm as opposed to collecting over ten years before a storm event?**

A Again, what's uncertain about storms is when they'll occur, not that they will.

MR. WRIGHT: Mr. Chairman, she did not answer my question.

CHAIRMAN GRAHAM: If we can get you to answer the specific question. If you don't understand it, you can restate the question.

THE WITNESS: Okay. Can you restate it?

BY MR. WRIGHT:

Q **Wouldn't it be true that the body of customers benefiting from storm restoration would be most closely aligned with the storm restoration cost in the period after a storm as opposed to five or ten years before the storm?**

A I don't agree with the way you characterized that question so, no, I don't agree with you. I agree that the cost of doing business should be spread across the whole time frame.

That's like saying, Schef, that everybody who is there should pay for the plant when it's built and you shouldn't depreciate it over the 55 years that you're going to have it. And I think you've got to look at the fact that it's a generational equity situation and there are going to be hurricanes on the Gulf Coast of Florida, we just don't know when.

Q **Well, let's follow your power plant analogy. A power plant comes into service and it serves for 55 years, correct?**

A Some do.

Q **Some serve for 30 and some for whatever other numbers?**

A It depends on the kind of generation it is.

Q Okay. But generally speaking, customers don't start paying for those power plants until they come in service and become used and useful, do they?

A When the plant goes in service, the customers begin paying. But they pay for it in an equal amount over 55 years.

Q And by analogy, when storm restoration costs are incurred, those assets either get recovered through a surcharge or through base rates as they are rolled into rate base throughout the time, correct?

A Well, what happens with storm restoration is assets that are repaired, the incremental costs associated with repairing those assets gets charged to the reserve. If there's any -- if we have to replace assets, that's new capital investment that goes into rate base.

Q And it's then paid for over the life of those assets, correct?

A Yes.

Q I wasn't sure what you said regarding the $600,000 or so in costs that you incurred as restoration costs after Tropical Storm Lee this year. Did you say that the reserve was not charged for that $600,000?

A The reserve was charged for that 600,000.

Q Oh, it was, okay. I'm sorry, I thought I

heard wasn't and I just wondered where it came from. Thank you.

When was the last significant storm to strike Gulf's area before Ivan in 2004?

A Erin and Opal both struck in 1995. There were a series of -- I have data from 2001 -- there were a number of tropical storms in the years 2001 through 2003 before Ivan. But Erin and Opal were the significant ones in recent history in '95.

Q Thank you.

MR. WRIGHT: That's all the questions I have.

CHAIRMAN GRAHAM: Staff.

CROSS EXAMINATION

BY MS. KLANCKE:

Q Good afternoon, Ms. Erickson. I'm having several documents passed out. And just for clarity, we're going to go from the top down.

A Okay. I'm accumulating quite a pile.

Q As am I.

Let's begin with your deposition transcript. Do you recall having your testimony taken in deposition on Monday, November 14th, 2011 in this case?

A I do.

Q And as comptroller, you were Gulf's witness with respect to a whole host of issues, including the

storm damage reserve and accrual and a myriad of tax and financial issues; is that correct?

A Yes, ma'am.

Q Before you is the transcript of that deposition. Would you please review it and verify that it is in fact the transcript with which you are familiar.

A It's an awful lot of pages to verify but it looks like it.

Q Did you have an opportunity to review this transcript and sign it?

A I did.

Q Having reviewed the deposition transcript before signing, your answers to the questions remain the same today; is that correct?

A They do with the exception of the errata.

Q Certainly.

MS. KLANCKE: Mr. Chairman, at this time I would like to have the deposition transcript of this witness Erickson moved into the record. For your ease of reference, it is contained in Exhibit Number 149.

CHAIRMAN GRAHAM: Mr. Sayler.

MR. SAYLER: Mr. Chairman, OPC would make the same objection for this deposition transcript that it made for prior deposition transcripts.

CHAIRMAN GRAHAM: Ms. Kaufman.

MS. KAUFMAN: Yes, Mr. Chairman, we would have the same objection. However, I just want to be clear based on some comments that OPC made earlier, that their questions were going to be excised from the deposition. Is that true?

MS. KLANCKE: No, ma'am.

MR. SAYLER: I believe the company objected to a shortened deposition transcript, so the entirety of the deposition transcript goes in, OPC's questions, FIPUG's question, and their redirect.

MS. KAUFMAN: Thank you.

MR. SAYLER: That's my understanding.

MS. KAUFMAN: I just wasn't clear. And if that's the case, I don't need to comment any further other than to preserve my objection.

CHAIRMAN GRAHAM: Okay.

MR. WRIGHT: Join the objection. Thank you, Mr. Chairman.

MR. GUYTON: No objection.

CHAIRMAN GRAHAM: So we'll enter Exhibit 149 into the record.

(Exhibit No. 149 received in evidence.)

BY MS. KLANCKE:

Q I would like to turn your attention now to the next packet of materials before you labeled as "Late filed exhibits to the deposition of witness Erickson." I would like to note that this packet contains only late filed Exhibits 1, 3 and 4 that were taken at the deposition or requested, rather, at the deposition.

Would you please review this document?

A Okay.

Q Are you familiar with these late filed exhibits?

A I am.

Q I would like to address each one in turn. With respect to late filed Exhibit No. 1, would you please describe what this document contains?

A Yes. Late filed Exhibit No. 1 contains the internal controls, the incremental internal controls expenses that Gulf incurred from years 2002 through 2010 as it relates to the implementation of the required provisions of Sarbanes-Oxley.

Q And this late filed exhibit arose in your deposition pursuant to an extensive conversation that we had pertaining to your prefiled testimony in which you discussed the financial impacts of regulatory compliance associated with Sarbanes-Oxley; is that correct?

A Yes.

Q Turning to Exhibit No. 3, late filed Exhibit No. 3, what does this contain?

A This particular exhibit contains the calculation of the revenue impact or the rate impact of the incremental $3.3 million we're requesting related to the property damage accrual.

Q And that was associated with your testimony which we discussed extensively relating to issues 27 and 76?

A Yes.

Q And turning to late filed Exhibit No. 4, please explain what this entails.

A This particular exhibit includes the test year request related to tree trimming expense, distribution pole inspection expense, transmission inspection expense, and the property damage accrual amounts that are included in this rate request.

Q And these are covered in your testimony as it pertains to issue 79; is that correct?

A The only item covered in my testimony related to this is the 6.8 million. Witness Moore has responsibility and witness Caldwell for the other elements.

Q Were these exhibits that we've just discussed

created by you or under your control or supervision?

A Yes.

MS. KLANCKE: At this time, Chairman, I would like to have this marked for the record, given a exhibit number, and moved in.

CHAIRMAN GRAHAM: We'll mark it as Exhibit 193.

(Exhibit No. 193 was marked for identification.)

CHAIRMAN GRAHAM: And what's your title for this?

MS. KLANCKE: Late filed exhibits to the deposition of witness Erickson, Nos. 1, 3 and 4.

MS. KAUFMAN: Excuse me, Mr. Chairman, I think it might be 193 because I thought FIPUG's exhibit was 192.

CHAIRMAN GRAHAM: I thought I said 193.

MS. KAUFMAN: Okay. I'm sorry, I thought you said 192. I missed it. I might have misunderstood.

CHAIRMAN GRAHAM: I may have mispoken. I wrote 193 if I didn't say it.

BY MS. KLANCKE:

Q I would like to turn your attention now to the third packet of materials that you have in front of you.

A Okay.

MS. KLANCKE: These contain discovery responses which are contained within hearing Exhibits 102 and 115. For ease of reference, so that we're all on the same page, particular objections were raised by intervenor FIPUG with regards to numbers 220, 226, 228, 229, 230 through 234 or 232 and 234.

And with regard to hearing Exhibit 15, specific objections were raised with regard to numbers 204, 206, 207, 208, and 209. That is what this packet contains.

For the ease of reference of the witness, I have placed them in the order in which they were responded to by date. OPC's was the first interrogatories to be propounded on Gulf and thus the first responses to come in. And they were a progenitor of staff's line of interrogatories that are contained later on in the stack.

MS. KAUFMAN: Mr. Chairman, I am not meaning to interrupt Ms. Klancke in her examination, but I think I could short-circuit the process if you would like to do that.

CHAIRMAN GRAHAM: I would love for you to do that.

MS. KAUFMAN: I knew you would.

CHAIRMAN GRAHAM: I'm still trying to figure out progenitor.

MS. KAUFMAN: First of all, I think I've withdrawn the objection to 15 which we have previously discussed.

MS. KLANCKE: I believe that's associated with witness McMillan but --

MS. KAUFMAN: Okay. And secondly, this stack of interrogatories that Ms. Klancke was about to discuss with Ms. Erickson, all of them relate to the storm study questions about the modeling and areas that we have explored in regard to Ms. Erickson's expertise.

I understand your ruling on the Motion to Strike and I object to these documents coming in on that basis. If I can preserve my objection that she is not the competent witness to sponsor these. I don't think it is necessary for her to verify each one. We understand that the company responded to these interrogatories. So that might save some time.

MS. KLANCKE: Staff is amenable to that. With that being said, are you stipulating with regard to the foundational elements with respect to this or --

MS. KAUFMAN: Well, I'm stipulate with regard to these are interrogatories that the company has provided the answers to. I'm just maintaining my objection based on the fact that it's our position that Ms. Erickson is not competent to answer these questions related to the storm study.

CHAIRMAN GRAHAM: Do you need individual numbers for these?

MS. KLANCKE: I believe that we can move them in as a composite exhibit, so if we can get number one with respect to these.

CHAIRMAN GRAHAM: So the number would be 194.

MS. KLANCKE: 194.

(Exhibit No. 194 was marked for identification.)

CHAIRMAN GRAHAM: And you want to move it in and Ms. Kaufman wants to object to them.

MS. KLANCKE: Yes, sir.

MS. KAUFMAN: I think that's right.

MS. KLANCKE: With that, I have no questions for this witness.

CHAIRMAN GRAHAM: What's the short title, composite --

MS. KLANCKE: Composite interrogatory

responses by Gulf witness -- by Gulf witness Erickson.

CHAIRMAN GRAHAM: Okay.

MS. KLANCKE: No further questions for this witness.

CHAIRMAN GRAHAM: Okay. Commissioners. Mr. Balbis, Commissioner Balbis.

COMMISSIONER BALBIS: Thank you, Mr. Graham, I mean Chairman Graham.

I have two questions for this witness. Do you know from an accounting standpoint where any revenues from the marketing and sales of coal combustion residues would be located?

THE WITNESS: I'm sorry, I couldn't quite hear you.

COMMISSIONER BALBIS: The revenues associated with coal combustion residues in the marketing and sales of that.

THE WITNESS: Of -- I assume you're talking about the byproducts as a result of the scrubber?

COMMISSIONER BALBIS: Yes.

THE WITNESS: I'm not sure whether or not those are -- whether those are included. I think they are in miscellaneous revenues, if in fact there are any.

COMMISSIONER BALBIS: And would you know if the company has projected those revenues to increase or remain the same?

THE WITNESS: I don't know that. It's been a very small component of that element in terms of -- that's my understanding.

COMMISSIONER BALBIS: Okay. Are you aware that this Commission prepared a report recommending that Gulf Power increase the marketing of those residuals to increase revenue?

THE WITNESS: I was not aware of that.

COMMISSIONER BALBIS: Okay. Back to your line of answers concerning what's in the best interest to the customers concerning storm accruals. Regardless of what's in the best interest of the customers, from an accounting standpoint or a cash flow standpoint for Gulf Power, what is in the best interest of Gulf Power concerning storm accruals, provided that you have an ability to add a storm surcharge after the fact?

THE WITNESS: In terms of when we collect the revenue and we put the reserve away, there's really no benefit from that perspective. It's a wash, so to speak.

From a perspective of the evaluation that the rating agencies do, when we are in a negative reserve position, that is of concern to them. And so consequently in looking at the reserve balance over the last 17 years, seven of those 17 years Gulf Power was in a negative reserve position.

So a benefit from that perspective is it's better for us to be in a positive reserve position overall. But as far as in terms of does Gulf Power benefit from having those funds, there's no benefit.

COMMISSIONER BALBIS: And then just to clarify what a negative reserve position is, does that mean not having any amount within the reserve fund or --

THE WITNESS: Not only that, but my -- I mean, we were $95 million under reserve essentially or a negative reserve of 95 million in September of '05.

COMMISSIONER BALBIS: Okay. Prior to the accruals going into effect or the surcharge going into effect?

THE WITNESS: Well, we had accruals in place but they were clearly inadequate at that point in time.

COMMISSIONER BALBIS: And I know you've answered this probably several times, but how much has been accrued either through surcharges or otherwise in the current account, the reserve account?

THE WITNESS: Right now the reserve account at the end of the year will be about $30 million.

COMMISSIONER BALBIS: So it's certainly not a negative amount?

THE WITNESS: It is not -- currently, knock on wood, it is not a negative amount.

COMMISSIONER BALBIS: Okay. Thank you.

CHAIRMAN GRAHAM: Ms. Erickson, I got a quick question for you. In the reserve account, if there's a positive amount in that account and it attracts interest -- it collects interest, correct?

THE WITNESS: It does.

CHAIRMAN GRAHAM: And if there is a negative dollar associated with that amount, there's also interest to be paid to the -- to you, to Gulf?

THE WITNESS: Yes.

CHAIRMAN GRAHAM: Is that the same interest going either way?

THE WITNESS: It's the commercial paper rate, which is a very low rate as well.

CHAIRMAN GRAHAM: So both ways it's the same interest?

THE WITNESS: It's not the same interest, it's different. What goes to the customers is exactly what is actually earned on those accounts. If it goes negative, it's the commercial paper rate that is credited back to Gulf Power so it's a very -- again, a very low interest rate. I don't know if they're exactly the same. I don't believe they're exactly the same but they are very close.

CHAIRMAN GRAHAM: Okay. Commissioner Edgar.

COMMISSIONER EDGAR: Thank you. I think just one question. On page 34 of your testimony, you sum up the prefiled portion of the discussion of a storm or property damage reserve.

The first four out of the five points you've been asked about and discussed at length today, but the fifth I don't believe we have. And it says here in your prefiled testimony "An adequate reserve allows for insurance deductibles to be met," and goes on.

Could you discuss that fifth point?

THE WITNESS: Okay. Can you tell me what page you're on?

COMMISSIONER EDGAR: Sure. Page 34.

THE WITNESS: Thirty-four, okay.

COMMISSIONER EDGAR: And it's the last two sentences right above "depreciation."

THE WITNESS: Yes. Since Gulf -- since 2001 when Gulf was here, our deductibles have gone from 1 to 2 million to 10 million for what you might call all-risk insurance and $25 million for named wind storms and wind driven water, which are very different.

So to the extent that, for example, we actually had an insurance recovery with Ivan. But if we incurred Ivan today, all of that would have gone to the property damage reserve and been charged against the property damage reserve, which would have been another $15 million.

COMMISSIONER EDGAR: Thank you.

CHAIRMAN GRAHAM: Commissioner Brown.

COMMISSIONER BROWN: Thank you. In your direct filed testimony you state that "Gulf has attempted to mitigate the impact of cost drivers." And I just want to know how does Gulf attempt to do that? Do you have a formal bid process; if so, what is the standard?

THE WITNESS: Commissioner Brown, what page are you referring to?

COMMISSIONER BROWN: Page five, lines 13 through 15, and this is with regard to A&G expenses.

THE WITNESS: What I was really referring to there are some of the things that don't track with inflation and that would be around the benchmark. So, for example, the enactment of Sarbanes-Oxley, you know, that was a law that we must comply with.

In addition, you know, medical expenses have outpaced inflation, and those are the kinds of things that are really -- you know, while we made some modifications to our plans, we were unable to mitigate the impact of all of those things.

COMMISSIONER BROWN: And I understand that. My question is when you seek out an insurance provider or a health care insurance provider, do you have a formal bid process to see if there's a lowest reasonable -- a lowest provider, lowest cost?

THE WITNESS: We try to do that where it's possible.

COMMISSIONER BROWN: Is it a formal bid process?

THE WITNESS: Yes, it's an RFP.

COMMISSIONER BROWN: Okay. Thank you.

CHAIRMAN GRAHAM: Redirect.

MR. GUYTON: A few questions.

REDIRECT EXAMINATION

BY MR. GUYTON:

Q Mr. Sayler asked you about the collection of the storm property reserve, a series of questions about one-twelfth collected each month. Do you recall that question?

A Yes.

Q Is one-twelfth collected each month or is one-twelfth accrued each month?

A One-twelfth is accrued each month.

Q And it's collected on a per-kilowatt-hour basis?

A It is collected -- yes, it's collected on a per-kilowatt-hour basis.

Q Which may or may not be one-twelfth per month?

A Right.

Q Okay. Ms. Kaufman asked you some questions about customer preference, and you stated in one of your answers that some customers may prefer an additional accrual and others may not. And you made reference to a survey that you had performed.

Do you recall that answer?

A I do.

Q Would you explain that to the Commission, please?

A Sure. You know, essentially as a part of this rate case, I receive -- I work on various things in the community or I go to my children's school or I go to my church and people will ask me about the rate case.

The best way for me to talk to them about that is, hey, I've got a question for you, if you -- you know, this is one of the things -- they are people who have lived in Florida and generally for a long time, they probably were a part of Ivan and Dennis -- and I simply said, if you have the choice between accruing -- or between paying 27 cents a month all the time or paying a surcharge of ten times that after a storm occurs what would you prefer? And without exception, every person I talked with actually said I would pay 27 cents.

And it was -- I was curious, actually, because I worked on this, I looked at it, I evaluated the information very carefully because I recognized that our customers are -- I mean, it's a tough time out there, the Great Recession has been difficult on people. So I wanted to make sure that our request was reasonable and that it really made sense so I would ask them whenever I got the opportunity.

Q And how many people have you conducted that informal survey with?

A Probably somewhere 100 or less.

Q Now, you were also asked a question about whether you had any concern about whether the Commission would move expeditiously in a storm surcharge proceeding.

Do you have any concern about whether parties to that might cause that situation to move more slowly than the company would like?

MS. KAUFMAN: I'm going to object. I think this is beyond the scope of any questions she was asked on cross. I merely asked her about how the Commission would process any request for a surcharge.

CHAIRMAN GRAHAM: I'll allow the question.

THE WITNESS: My observation would be the more intervenors that are involved in the process, the longer it will take to come to agreement.

BY MR. GUYTON:

Q Okay. You were also asked about storm hardening costs not having been included or recognized in the storm studies damage evaluation. And you began an answer by saying there were other things in the storm study that were also not considered, but you were cut off.

Would you expand upon that answer?

A Yeah. While we did not take into

consideration storm hardening in the storm study, other items that impact the property damage reserve are property damage incurred, for example, in a fire. We had a small fire at Smith Plant in the last ten years, $2 million was charged to the reserve for that. So over the time -- over the ten-year time period, about $500,000 a year has been incurred in incremental property damage that would be charged to that reserve that's not related to weather or storm events.

In addition, as Commissioner Edgar alluded to, any sort of deductibles associated with -- because those deductible levels are higher, no consideration of the deductible impact was taken into consideration in determining the storm damage accrual or the property damage accrual that was requested.

Q You were asked about whether or not the company would be willing to forego the storm hardening expenditures that it's made. Has the company's storm hardening expenditures been made pursuant to Commission-approved plans?

A Yes.

Q And were those plans promulgated to Commission approved rule?

A They were.

Q Okay. Do you consider those to be a cost of

providing service?

A I do.

Q **And what is the rate impact of the storm surcharge increase?**

A It is 27 cents per 1,000 kilowatt hours per month per residential customer.

MR. GUYTON: That's all the redirect I have. Thank you.

CHAIRMAN GRAHAM: Ms. Erickson, I have a quick question. Your informal survey, did you talk to any large commercial users that you know of?

THE WITNESS: I'm not sure if any of the -- I'm not sure of where those folks worked so I didn't -- I think they would have been responding to my question as a residential customer. I don't think they would have been responding for their company.

CHAIRMAN GRAHAM: Okay. I was just curious. Exhibits.

MR. GUYTON: We move Exhibit 18.

MR. WRIGHT: OPC would move exhibit --

CHAIRMAN GRAHAM: Exhibit 19?

MR. GUYTON: I'm sorry? I'll move 19. Thank you.

CHAIRMAN GRAHAM: Page seven, Exhibit 19.

(Exhibit No. received in evidence.)

MR. SAYLER: OPC would move Exhibit 191.

MS. KAUFMAN: FIPUG would move Exhibit 192.

MR. GUYTON: Mr. Chairman, I would note that 191 is an excerpt from a 10-K and the entire 10-K is in the MRFs and Schedule F too.

CHAIRMAN GRAHAM: And OPC said that they would present that.

MR. SAYLER: We're happy to provide it, but I believe Mr. Guyton said the entire 10-K is already in the MFRs, which are --

MR. GUYTON: I don't think it's necessary, I just wanted to make sure --

CHAIRMAN GRAHAM: Okay.

MR. GUYTON: -- that the record reflected that it was in the record.

CHAIRMAN GRAHAM: Okay. The entire 10-K will go into the record.

(Exhibit Nos. 191 and 192 received in evidence.)

CHAIRMAN GRAHAM: Ms. Klancke.

MS. KLANCKE: Staff would like to move in Exhibits 193 and 194.

CHAIRMAN GRAHAM: Okay. We'll move those two into the record as well.

(Exhibit Nos. 193 and 194 received in evidence.)

CHAIRMAN GRAHAM: Ms. Erickson --

MS. KAUFMAN: Excuse me, Mr. Chairman, just noting my objection to 194.

CHAIRMAN GRAHAM: 194, thank you. And, Ms. Kaufman, thank you for helping me short-circuit Ms. Klancke.

MS. KAUFMAN: My pleasure.

CHAIRMAN GRAHAM: I appreciate that.

Ms. Erickson, thank you very much. We are going to take a ten-minute break. I got five after four, so a quarter after four.

(Whereupon, the hearing was recessed at 4:05 p.m.)

(Whereupon, the transcript continues in sequence to volume 7.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, MICHELLE SUBIA, Registered Professional Reporter, certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter translated under my supervision; and the foregoing pages, numbered 904 through 151, are a true and correct 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 16th day of December, 2011.

Michelle Subia

MICHELLE SUBIA
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