

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 110138-EI

PETITION FOR INCREASE IN
RATES BY GULF POWER COMPANY.

VOLUME 12 - Corrected

(CORRECTED AS TO INSERTION OF PREFILED TESTIMONY
PAGES 2439 - 2470, AND RENUMBERING OF THE REMAINDER
OF THE TRANSCRIPT)

Pages 2198 through 2488

PROCEEDINGS: HEARING

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

DATE: Wednesday, December 14, 2011

TIME: Commenced at 4:00 p.m.
Concluded at 9:33 p.m.

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

REPORTED BY: JANE FAUROT, RPR
Official FPSC Reporter
(850) 413-6732

APPEARANCES: (As heretofore noted.)

DOCUMENT NUMBER DATE
09078 DEC20 =
FPSC-COMMISSION CLERK

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P R O C E E D I N G S

(Transcript follows in sequence from Volume 11.)

CHAIRMAN GRAHAM: Mr. McGlothlin.

MR. McGLOTHLIN: Yes. Thank you.

This might be a good time, in light of some of the very recent exchanges before we broke. Yesterday during under Mr. Teel's testimony, in response to the Fitch that was one of his exhibits, we distributed certain excerpts, summary pages from FPL surveillance reports, to support the proposition that that particular company had fared well under the most recent rate case decision. At that time it was suggested or implied that because of the settlement provision for FPL that enabled FPL to avail itself of a surplus depreciation reserve that might explain its ability to maintain ROE at its maximum.

I passed out during the break a package containing the complete surveillance reports for FPL for 2011, and they are relevant because these reports contain a line item in which it -- with the information that discloses how much depreciation expense FPL either increases in order to stay below 11 percent or decreases to stay at 11 percent and, therefore, sheds some light on that suggestion of yesterday.

These are surveillance reports that the

1 Commission requires the utilities to submit, and that
2 it maintains as official records. I ask you to take
3 official recognition of them, and I think it would be
4 appropriate to assign an exhibit number to them.

5 **CHAIRMAN GRAHAM:** Did we already assign an
6 exhibit number to the excerpts?

7 **MR. McGLOTHLIN:** I think we did. Those did
8 cover a different time frame, as I recall, though.
9 They are not exact time frames.

10 **CHAIRMAN GRAHAM:** All right. Rather than
11 trying to figure out where that was, we'll assign a new
12 number to this one. We'll call this 213.

13 **MR. McGLOTHLIN:** I move 213 into evidence.

14 **CHAIRMAN GRAHAM:** Any objections to putting
15 the entire surveillance report into the record?

16 **MR. MELSON:** No.

17 **MS. KAUFMAN:** No.

18 **CHAIRMAN GRAHAM:** Okay. We will move 213
19 into the record, and that will be FPL 2011 Surveillance
20 Report.

21 (Exhibit Number 213 marked for identification
22 and admitted into the record.)

23 **CHAIRMAN GRAHAM:** Is that it?

24 **MR. McGLOTHLIN:** Yes, sir.

25 **CHAIRMAN GRAHAM:** Okay. We are to Gulf's

1 Witness Alexander.

2 **MR. GUYTON:** We would call Ms. Alexander to
3 the stand, please.

4 **RHONDA J. ALEXANDER**

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

8 **DIRECT EXAMINATION**

9 BY MR. GUYTON:

10 **Q.** Would you please state your name and business
11 address?

12 **A.** My name is Rhonda J. Alexander. My business
13 address is One Energy Place, Pensacola, Florida 32520.

14 **Q.** Ms. Alexander, have you previously been
15 sworn?

16 **A.** I have not.

17 **CHAIRMAN GRAHAM:** Is there anybody else here
18 that has not been sworn? If I can get you to raise
19 your right hand.

20 (Witness sworn.)

21 **CHAIRMAN GRAHAM:** Thank you.

22 BY MR. GUYTON:

23 **Q.** Ms. Alexander, would you state your position
24 and your former position with Gulf Power Company?

25 **A.** I am currently the Forecasting Supervisor for

1 Gulf Power. My former position was the Nuclear
2 Development Manager from 2008 through 2010.

3 Q. Ms. Alexander, did you have occasion or did
4 Gulf have occasion to file Rebuttal Testimony in your
5 name consisting of 32 pages?

6 A. That's correct.

7 Q. Do you have any corrections to your Prefiled
8 Rebuttal Testimony?

9 A. Yes, I do.

10 Q. Would you share those with the Commission,
11 please?

12 A. On Page 8, beginning on Line 17, strike, "A
13 commercial reactor had not been built," and replace
14 with, "The NRC had not issued a permit to construct a
15 new nuclear reactor." So the new sentence or revised
16 sentence would read, "Also, at the time of Gulf's
17 analysis, the NRC had not issued a permit to construct
18 a new nuclear reactor in the United States in roughly
19 30 years."

20 Q. Any other changes?

21 A. Yes, sir. Also on Page 25, Line 21, strike
22 the names Chriss and Meyer.

23 Q. If I were to ask you today the questions that
24 are contained in your Prefiled Rebuttal Testimony,
25 would your answers be the same as you have just

1 modified them with your corrections?

2 A. Yes.

3 MR. GUYTON: We would ask that Ms.
4 Alexander's corrected Rebuttal Testimony be inserted
5 into the record.

6 CHAIRMAN GRAHAM: We will insert Ms.
7 Alexander's corrected Rebuttal Testimony into the
8 record as though read.

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1 GULF POWER COMPANY

2 Before the Florida Public Service Commission
3 Rebuttal Testimony and Exhibit of
4 Rhonda J. Alexander
5 Docket No. 110138-EI
6 In Support of Rate Relief
7 November 4, 2011

8 Q. Please state your name and business address.

9 A. My name is Rhonda Alexander. My business address is One Energy
10 Place, Pensacola Florida, 32520.

11 Q. What is your position?

12 A. I am currently the Forecasting Supervisor for Gulf Power Company (Gulf
13 or the Company), but my testimony relates to my former position as Gulf's
14 Nuclear Development Manager from 2008 through 2010. In that capacity,
15 I coordinated Gulf's efforts to investigate a potential nuclear site and to
16 begin the processes for licensing and permitting a potential nuclear plant.

17 Q. Please state your educational and prior work experiences.

18 A. I graduated from the University of West Florida in Pensacola, Florida in
19 1994 with a Bachelor of Arts Degree in Accounting. I am also a licensed
20 Certified Public Accountant. In 1994, I began my career with Gulf as an
21 accountant and advanced to the position of Team Leader of Corporate
22 Accounting in which I was primarily responsible for the Company's
23 monthly closing and reporting of financial data. Subsequently, I served as
24 the Supervisor of Financial Planning for four years and managed the
25 development of the Company's financial forecast and performed as

1 needed financial and economic project analyses. Prior to assuming my
2 position as Nuclear Development Manager, I was the Supervisor of Rates
3 and Regulatory Matters for two years responsible for tariff administration,
4 cost of service activities, calculation of cost recovery factors, and the
5 regulatory filing function. From 2008 through 2010, I served as Gulf's
6 Nuclear Development Manager and coordinated Gulf's efforts to
7 investigate a potential nuclear site and to begin the processes for licensing
8 and permitting a potential nuclear plant.

9
10 Q. Have you previously filed testimony with the Florida Public Service
11 Commission (FPSC or Commission)?

12 A. Yes. In my previous role as Gulf's Supervisor of Rates and Regulatory
13 Matters, I have filed testimony with the Commission in the Fuel Cost
14 Recovery, Capacity Cost Recovery, and Environmental Cost Recovery
15 Clause dockets during the years 2006 through 2008.

16
17 Q. What is the purpose of your rebuttal testimony?

18 A. The purpose of my rebuttal testimony is to address the portions of the
19 testimony of witnesses Helmuth W. Schultz, III, Greg R. Meyer, and Steve
20 W. Chriss in which they argue that all or part of the costs associated with
21 the North Escambia site should not be included in rate base. I show that
22 the entire costs associated with the North Escambia site should be
23 included in rate base because the land, as well as the site investigation
24 and project development costs, were reasonable and prudent. The

25

1 investigation and purchase of this site preserve a valuable option for Gulf's
2 customers.

3

4 Q. Have you prepared an exhibit that contains information to which you will
5 refer in your testimony?

6 A. Yes. I am sponsoring Exhibit RJA-1, Schedules 1 through 12. Exhibit
7 RJA-1 was prepared under my direction and control, and the information
8 contained therein is true and correct to the best of my knowledge and
9 belief.

10

11

12 I. THE MATTER AT ISSUE

13

14 Q. Regarding the North Escambia site, what has Gulf Power requested that is
15 contested in the testimonies of witnesses Schultz, Meyer and Chriss?

16 A. As discussed on pages 5 and 6 of Gulf witness McMillan's direct
17 testimony, Gulf Power is requesting to include \$27,687,000 of costs for the
18 North Escambia site in rate base in the 2012 test year.

19

20 Q. What does the \$27,687,000 of North Escambia site costs consist of?

21 A. The \$27,687,000 North Escambia site costs consist of two primary
22 elements: site acquisition costs and costs other than site acquisition.

23

24

25

1 Q. What is the amount of cost for the acquisition of the North Escambia site?

2 A. For the 2012 test year, Gulf projects average site acquisition costs of
3 approximately \$18.9 million as stated in the Company's response to
4 Staff's Fifth Set of Interrogatories No. 47, a copy of which is attached as
5 Exhibit RJA-1, Schedule 1.

6

7 Q. What amount has Gulf projected for costs other than site acquisition costs
8 associated with the North Escambia site?

9 A. For the 2012 test year, Gulf projects average costs other than site
10 acquisition of approximately \$8.8 million.

11

12 Q. What portion of Gulf's total base rate revenues would the North Escambia
13 site represent?

14 A. The revenue requirements associated with the North Escambia site are
15 approximately \$3.1 million, which would amount to less than 0.6% of
16 Gulf's total base rate revenues if Gulf's requested increase in this case is
17 ultimately granted. The cost of including the North Escambia site in rate
18 base would be roughly 26¢ on a 1,000 kWh residential bill.

19

20

21 **II. MR. SCHULTZ'S ARGUMENTS FOR DISALLOWANCE**

22

23 Q. Mr. Schultz states on page 3, lines 20 and 21 of his testimony that it is
24 "unclear as to whether the costs other than land costs have been incurred
25 or are instead projected to be incurred." Please address this statement.

1 A. The costs other than site acquisition costs, which include \$4.5 million for
2 site investigation costs, \$1.2 million for project development, and \$3.0
3 million for carrying costs, represent actual costs incurred through
4 December 2010 and projected costs for the year 2011. Through
5 September 2011, site investigation and project development costs total
6 \$4.7 million, which is approximately \$656,000 below budget due to timing
7 of work which is expected to be completed in 2012. Carrying charges on
8 actual deferred costs are accrued monthly and will continue to be accrued
9 until such time that these costs are included in rate base. Through
10 September 2011, carrying costs total \$2.2 million.

11

12 Q. Over what period of time did Gulf incur the North Escambia site costs
13 other than site acquisition costs that are challenged?

14 A. While a few costs were incurred in 2007, most of the North Escambia site
15 costs other than site acquisition costs were incurred during 2008 through
16 2011. Carrying charges have been accrued monthly since January 2008
17 and will continue to be accrued until such time that these costs are
18 included in rate base.

19

20 Q. Please explain how these various costs other than site acquisition costs
21 that are challenged were incurred over the 2007-2011 period.

22 A. These costs were incurred beginning in 2007 when Gulf first considered
23 the feasibility of constructing a nuclear plant. On July 13, 2007, Governor
24 Crist signed Executive Order 07-127 (Exhibit RJA-1, Schedule 2) targeting
25 dramatic reductions of greenhouse gas (GHG) emissions for the electric

1 utility industry in Florida. At that time, Congress was also looking at
2 legislation designed to significantly reduce GHG emissions, particularly
3 carbon dioxide (CO₂) emissions. Gulf took both Governor Crist's Executive
4 Order and the pending congressional legislation very seriously. Other
5 factors driving the consideration of nuclear generation and the incurrence
6 of these costs included, but are not limited to: state policy encouraging
7 the development of nuclear power through cost recovery mechanisms;
8 forecasted capacity needs on Gulf's system; the prospect of potential coal
9 unit retirements because of emerging state and federal policies regarding
10 GHG regulation and other environmental regulations; and high forecasted
11 gas prices. This host of factors caused Gulf to consider the potential
12 feasibility of constructing a nuclear unit in Northwest Florida. Gulf, with
13 the assistance of Southern Company Services (SCS), began to review
14 how these initiatives would impact its generation assets.

15
16 Gulf's initial assessment evaluated the cost impacts to Gulf for CO₂
17 legislation and showed that extensive retirements of coal generation would
18 be required if stringent GHG emissions were adopted. So, Gulf began
19 more extensive analyses to examine whether a nuclear option made
20 sense for Gulf and its customers.

21
22 Those more extensive studies showed that a self-build nuclear option,
23 while challenging, was feasible. In a severely carbon emission
24 constrained environment such as that being proposed by then-Governor
25 Crist, nuclear was the only cost-effective, carbon free option potentially

1 available to Gulf. So, Gulf began site investigations to identify potential
2 nuclear sites.

3

4 Q. Please explain in more detail what the initial analysis of Governor Crist's
5 proposed stringent reductions of CO₂ and other GHG emissions showed.

6 A. At the time of initial analysis, Gulf had 1,914 MW of coal capacity (without
7 Scherer). The analysis of Governor Crist's proposal showed that for Gulf
8 to meet projected limits of GHG emissions, Gulf would have to retire
9 significant coal assets. Specifically, one of the earliest analyses showed
10 that: Smith Units 1 and 2 (357 MW total) would have to install sorbent
11 injection for mercury control in 2010 in order to operate until early
12 retirement at the end of 2016; even though Crist Units 4-7 were projected
13 to have a scrubber, Units 4 and 5 (150 MW total) might have to be
14 converted to natural gas peaking units prior to early retirement at the end
15 of 2016; and Crist Units 6 and 7 (760 MW total) could possibly survive
16 until the end of 2019. This initial analysis is attached as Exhibit RJA-1,
17 Schedule 3.

18

19 Q. What were Gulf's options to meet the potential needs that would be
20 created by GHG regulation?

21 A. Realistically, coal was not an option. The only two base load resources
22 available to Gulf to replace coal unit retirements due to GHG regulation
23 were gas-fired combined cycle units and nuclear units. Each has their
24 respective advantages and disadvantages.

25

1 Some advantages of gas-fired combined cycle units are they have much
2 lower initial cost of construction than nuclear units, and they have shorter
3 development time lines. However, they also face disadvantages: they
4 have some GHG emissions where nuclear has none, and they require
5 natural gas, which is subject to much volatility and uncertainty of price in
6 the long-term. A system comprised of mostly gas resources would place
7 customers in a position of significant risk: they would face the risk of gas
8 price increases, something that had happened not long before, and Gulf's
9 fuel diversity would decrease, making Gulf overly dependent upon gas.
10 Also, Gulf's system would be in danger of interruption if there was a
11 supply or transportation disruption.

12
13 The advantages of nuclear generation are zero GHG emissions and less
14 volatility in fuel costs relative to gas. The disadvantages of nuclear
15 generation are a large up-front capital investment, a longer timeline for
16 licensing and construction of a new unit, and stringent siting requirements,
17 which limit site availability. Also, at the time of Gulf's analysis, ^{the NRC had not}
18 ~~commercial reactor had not been built~~ ^{issued a permit to construct a new nuclear reactor} in the United States in roughly 30
19 years. Mitigating those disadvantages were several factors: the federal
20 government was offering economic incentives for the development of
21 nuclear units; several companies, including one of Gulf's sister
22 companies, had announced their intent to develop nuclear projects, which
23 would allow Gulf the opportunity to gain from their experiences; potential
24 fuel savings relative to gas were immense; and finally, Florida had passed
25 legislation that allowed for cost recovery during development and

1 construction, making it financially feasible for Gulf to consider the nuclear
2 option.

3
4 Based upon the relative advantages and disadvantages of gas-fired
5 combined cycle and nuclear technologies, Gulf decided it needed to put
6 the nuclear option “on the table” and examine it more closely.

7
8 Q. At the time of this analysis of Gulf coal unit retirements due to potential
9 GHG regulation, what were Gulf’s forecasted capacity needs assuming no
10 early coal unit retirements?

11 A. As shown in Gulf’s 2007 Ten Year Site Plan, Gulf showed a 1,006 MW
12 capacity need by the summer of 2016. This is shown in Exhibit RJA-1,
13 Schedule 4, which is an excerpt from Gulf’s 2007 Ten Year Site Plan. The
14 projected need in 2014 was 882 MW following the expiration of two power
15 purchase agreements (PPAs). Gulf proposed to serve this capacity need
16 with the addition of a combined cycle unit.

17
18 By the time Gulf made its 2008 Ten Year Site Plan filing, the projected
19 need for 2014 had increased to 929 MW. Gulf proposed to meet this 2014
20 need by adding an 840 MW G series combined cycle unit. The 2008 Ten
21 Year Site Plan showed that without this G series combined cycle unit,
22 Gulf’s need for capacity would increase to 1,162 MW by the summer of
23 2017. My Exhibit RJA-1, Schedule 5 is an excerpt from Gulf’s 2008 Ten
24 Year Site Plan showing Gulf’s forecasted capacity needs.

25

1 So, Gulf's Ten Year Site Plans for both 2007 and 2008 showed a capacity
2 need ten years out in excess of 1,000 MW, without potential coal unit
3 retirements. If a gas-fired unit was not built in 2014 to meet part of this
4 need, a nuclear unit could be a means of addressing this need long-term,
5 as long as bridging capacity could be found (bridging capacity is a short-
6 term resource that allows a utility to defer a capacity need).

7
8 Q. Did Gulf consider nuclear generation to meet requirements resulting from
9 potential coal unit retirements or to meet forecasted system load growth
10 requirements?

11 A. Nuclear generation was considered for both purposes. However, with
12 nuclear's long lead time, if Gulf decided to pursue a nuclear option, it
13 might have been necessary to bridge needs that arose during the period
14 the unit was under development and construction. Gulf was comfortable
15 with a bridging approach, because Gulf had used PPAs as bridging
16 capacity to move its 2009 forecasted need to 2014.

17
18 Q. After performing initial need assessments and technology comparisons
19 between nuclear and gas-fired units, what did Gulf do next?

20 A. Gulf performed analyses of the relative cost-effectiveness of adding both
21 types of units to its system. In doing so, it relied upon cost information
22 available from its sister company that was developing its own nuclear
23 option to price the nuclear technology. Once reasonable cost estimates
24 were developed, then production costing modeling was performed to
25 consider the relative system economics of these two options.

1 Q. What did Gulf learn from these analyses?

2 A. Gulf learned that the nuclear option was cost effective relative to natural
3 gas. The nuclear option also improved fuel diversity.

4

5 Based on this, Gulf decided to begin parallel tracks to further investigate
6 potential sites and to begin preparation for permitting and licensing a
7 nuclear site. Investigations of multiple sites had been proceeding during
8 the earlier analyses, but to move forward in permitting and licensing to
9 preserve the nuclear option, Gulf needed to perform a detailed site
10 investigation and choose a site.

11

12 Q. What did this detailed site investigation entail?

13 A. Gulf looked to its affiliate Southern Nuclear for assistance in site
14 investigation. Southern Nuclear had the expertise to bring internal
15 resources to bear, and it was also aware of external resources that could
16 be employed for site investigation. This is a great example of an
17 advantage of being part of the Southern System. These resources were
18 available at cost to Gulf, with no profit or markup paid for Southern
19 Nuclear's time and resources.

20

21 Several different criteria were used to evaluate sites, but geological
22 formation is critical to meet Nuclear Regulatory Commission (NRC)
23 requirements. Other criteria included access to cooling water, residential
24 development proximity, military base proximity, wetland impacts, number

25

1 of homesteads impacted, number of land owners impacted, and sufficient
2 acreage.

3

4 Q. How many potential nuclear unit sites did Gulf consider?

5 A. Gulf considered over two dozen unique locations across our service area.
6 A map showing most of these sites is attached as Exhibit RJA-1,
7 Schedule 6. In January 2008, the list was narrowed down to two eastern
8 sites and two western sites. The top ranked sites included Plant Scholz,
9 Escambia South, Brownsdale, and Bay Site.

10

11 Gulf continued performing geotechnical studies on these sites. Plant
12 Scholz was dropped due to the Apalachicola River water reservation. A
13 fatal geotechnical flaw was found in the Escambia South site. The
14 Brownsdale site was screened out because geotechnical studies showed
15 inconsistencies in the soil samplings that would likely not meet NRC's
16 stringent requirements without costly engineering improvements, if at all.
17 In April 2008, testing revealed unsuitable subsurface conditions in the Bay
18 Site as well.

19

20 Gulf's land department began identifying other sites in Escambia County.
21 Historical borings for McDavid, in North Escambia County, were reviewed.
22 Initial testing of the McDavid site had been favorable, but the area had
23 become populated. Geographic Information System (GIS) mapping of
24 topography, highways, and parcel lines led Gulf to an area just northwest
25 of the McDavid site, which is called the North Escambia site. Preliminary

1 geotechnical studies on North Escambia were completed in July 2008 and
2 had positive results. This site had many great attributes (see Exhibit RJA-
3 1, Schedule 7) such as good access to cooling water, low number of
4 homesteads impacted, significant distance from military bases and
5 sufficient acreage. The North Escambia site was designated the primary
6 site, and in August 2008 the decision was made to purchase land.

7
8 Gulf learned from these extensive efforts that North Escambia was the
9 only potential nuclear unit site in Gulf's service area and Gulf needed to
10 purchase the site if it was going to preserve a nuclear option for its
11 customers.

12
13 Q. How much are the costs for Gulf's site investigation?

14 A. For the 2012 test year, Gulf projects average costs of roughly \$4.5 million
15 for nuclear site investigations. These costs were detailed in discovery and
16 are shown in Exhibit RJA-1, Schedule 1.

17
18 Q. Earlier you testified that site investigation and preparation for permitting
19 and licensing proceeded on parallel paths. What activities did Gulf
20 undertake for permitting and licensing a potential nuclear plant?

21 A. Gulf began work on three separate activities that required close
22 coordination among the teams: licensing of the nuclear site by the NRC,
23 permitting of the site under the Florida Electrical Power Plant Siting Act,
24 and the filing of a determination of need with the FPSC. To build a
25 nuclear unit, a Company must first be awarded a combined construction

1 and operating license (COL) by the NRC. To prepare to secure the
2 documents necessary for an application to the NRC, Gulf, through
3 Southern Nuclear, assembled a team of attorneys, consultants and
4 contractors to assist in the formulation of this application.

5
6 A nuclear unit also must be permitted by the Florida Siting Board under
7 the Florida Electrical Power Plant Siting Act. Attorneys and consultants
8 familiar with siting and permitting requirements began work on this
9 process.

10
11 A nuclear unit must also secure a determination of need from the
12 Commission. Gulf retained an experienced siting attorney and began
13 preparations of the extensive materials that would have to be presented to
14 the Commission for an affirmative determination of need.

15
16 Q. Did Gulf consider another alternative to a self-build nuclear plant?

17 A. Yes. In lieu of a self-build nuclear plant, Gulf gave serious consideration
18 to participating in another nuclear project. This is discreetly referred to as
19 "Project Frank" in Gulf's documents and in discovery. It is referred to by
20 this name because Gulf is required under the terms of a non-disclosure
21 agreement not to reveal the name of the developing company or the terms
22 that were being considered, as this might adversely affect the developer's
23 ability to negotiate with other potential entities that might be interested in
24 participating in the plant. After due diligence and serious negotiation, Gulf

25

1 decided to pursue its own self-build option rather than participate in
2 Project Frank.

3

4 Q. What costs did Gulf incur in nuclear project development?

5 A. Gulf spent approximately \$1.2 million in project development costs for a
6 potential nuclear unit. These costs were detailed in Gulf's response to
7 Staff's Interrogatory No. 47 and are shown in Exhibit RJA-1, Schedule 1.

8

9 Q. If Gulf spent all these funds on site investigation and project development,
10 why did Gulf not pursue licensing and permitting?

11 A. Gulf decided to defer its nuclear licensing and permitting activities. That
12 decision was based upon a number of changed circumstances. First, the
13 pressure to adopt stringent GHG emission reductions that would require
14 significant retirements of Gulf's coal units had lessened. The Florida
15 Legislature rejected Governor Crist's proposal, and Congress could not
16 agree on new proposed legislation. Second, the discovery and
17 development of shale gas significantly changed both the pricing and
18 reserve picture for natural gas. Third, Gulf had seized a unique
19 opportunity for a low cost resource in the form of the Central Alabama
20 PPA to move its capacity need out to 2023. Fourth, the effect of the
21 economic recession had reduced Gulf's energy sales and lowered Gulf's
22 forecasted capacity needs. Therefore, Gulf decided to defer its nuclear
23 licensing, permitting, and determination of need efforts into the future.

24

25

1 Q. If Gulf decided to defer its nuclear licensing efforts into the future, why did
2 Gulf continue to purchase land for the North Escambia site?

3 A. Siting requirements of NRC and specific vendor technologies are
4 stringent, which limits the number of available sites. Gulf had learned
5 from its extensive site investigation that there was only one acceptable
6 nuclear plant site in Northwest Florida. If Gulf was going to preserve the
7 nuclear option for its customers, the North Escambia site needed to be
8 secured by Gulf. If Gulf lost the ability to use that site, it would be
9 precluded from building nuclear in the future.

10

11 Q. Since Gulf deferred the nuclear licensing and permitting efforts, does this
12 mean Gulf has abandoned the nuclear option?

13 A. No, Gulf has not abandoned the nuclear option. Gulf deferred those
14 efforts until a later time, if and when nuclear is needed and is the most
15 cost-effective option. In fact, a nuclear option for Gulf cannot be ruled out
16 at this time given Gulf's projected load requirements and given the great
17 uncertainty surrounding the future of its coal-fired generation due to
18 environmental regulations. In the summer of 2023, Gulf is currently
19 projected to have a need of approximately 943 MW. In addition, even
20 though carbon legislation seems more uncertain, its prospect has not
21 gone away. As Gulf has reported to the Commission, there are also a
22 host of other environmental initiatives (mercury, SO₂, NO_x, 316(b) water,
23 and coal ash regulation) that could be implemented between now and
24 2023 that could require Gulf to retire most or all of its coal fleet.

25

1 Q. Mr. Schultz argues on page 4 of his testimony that including the North
2 Escambia site in Plant Held for Future Use (PHFU) would cause an
3 increase in revenue requirements associated with PHFU in rate base by
4 487%. Please address this observation.

5 A. The large percentage value by itself tells the Commission nothing about
6 the merits of including the North Escambia site in rate base. This
7 quantification says nothing about the prudence of decisions Gulf made to
8 consider a nuclear option, incur site investigation costs, purchase the
9 North Escambia site, incur determination of need costs, and suspend its
10 licensing, permitting, and determination of need efforts.

11

12 Q. Mr. Schultz argues on pages 5 and 6 of his testimony that the inclusion of
13 the North Escambia costs in rate base is inconsistent with his
14 understanding of Section 366.93, Florida Statutes. Is Gulf asking the
15 Commission to include the North Escambia site costs in rate base
16 pursuant to Section 366.93, Florida Statutes?

17 A. No. My attorneys inform me that Gulf is asking for the Commission to
18 include all these costs in rate base pursuant to the Commission's inherent
19 and broad rate making authority under Chapter 366. I defer to Mr.
20 McMillan on why accrual of carrying costs is appropriate in this case.

21

22 Q. Mr. Schultz argues on page 7 of his testimony that the addition of a
23 nuclear unit to Gulf's generating portfolio does not make any sense from
24 an operational perspective. Please address this argument.

25

1 A. It should be noted that he draws this conclusion based not on any
2 technical analysis but on “common sense,” but none of his “common
3 sense” observations withstands scrutiny. Gulf looked at each of these
4 considerations as well as others in its assessment of the viability of a
5 nuclear option. I will address each argument in turn.

6
7 First, Mr. Schultz argues that Gulf has not demonstrated the necessity of a
8 nuclear unit to meet energy and demand requirements. It is important to
9 remember what is at issue here. Gulf has not requested a determination
10 of need for a particular generating unit. What Gulf seeks is much more
11 limited – recovery of limited costs necessary to preserve Gulf’s nuclear
12 option in the future. Gulf is not seeking recovery of billions of dollars of
13 investment that would be associated with a nuclear plant. Gulf is seeking
14 inclusion in rate base of less than \$30 million of land acquisition costs and
15 related costs it has incurred that were necessary to preserve the nuclear
16 option for Gulf’s customers. Gulf prudently incurred these costs.

17
18 Second, Mr. Schultz argues that a nuclear generating unit would add
19 approximately 1,150 MW of capacity, roughly 45-46% of Gulf’s system
20 peak, and he is unaware of any other utility with a comparable peak that
21 would have that large a portion of resources in a single nuclear unit. The
22 real technical issue to be answered is not whether the system would have
23 a single unit that comprised 45% of peak load, but whether the unit could
24 run at full capacity at minimal system load levels. The answer we
25 determined was that at most times there would be sufficient load on Gulf’s

1 system to justify a must run unit. Since Gulf is a member of the Southern
2 Operating System, the low dispatch cost of a nuclear unit would ensure
3 that Gulf's nuclear unit would be economically dispatched as must run.
4

5 Q. Mr. Schultz argues that Gulf has not investigated whether another
6 company comparable in size had a nuclear unit for its own use. Please
7 address this argument.

8 A. Gulf is aware of a number of utilities the same size as Gulf or smaller that
9 own a portion of one or more nuclear units. However, the discovery
10 question posed to Gulf was whether Gulf was aware of another utility with
11 less than 500,000 customers that had constructed a nuclear unit. Gulf is
12 not, but that does not answer the pertinent question, which is – might it be
13 prudent for Gulf, which is part of the Southern System, to construct and
14 own all of a nuclear unit or part of several nuclear units to meet future
15 needs?
16

17 Gulf focused on what Gulf, as part of a large power pool, could do or might
18 be required to do in a carbon constrained world. That was the pertinent
19 question upon which Gulf focused.
20

21 Q. Mr. Schultz's next argument begins with a suggestion that Gulf is
22 considering building a 1,200 MW nuclear unit to meet a 30 MW need in
23 2022 (page 9, lines 4-8). Is that an accurate characterization?

24 A. No. Gulf faced a forecasted need, without coal unit retirements for
25 environmental considerations, of more than 1,000 MW when it first began

1 considering a nuclear option. Gulf has never considered building a 1,200
2 MW nuclear plant to meet a 30 MW need, and I have no reason to believe
3 it would in the future. If Gulf resumes pursuit of a nuclear plant, it will be
4 because there is a need for the capacity (due to load growth, the need for
5 fuel diversity, retirements of existing capacity due to environmental
6 requirements or some combination of these factors) and because nuclear
7 would be the most cost-effective option for its customers.

8

9 Q. Please address Mr. Schultz's next argument that states it is inappropriate
10 to charge customers for costs that might be shared in the future.

11 A. What customers are being asked to pay for is to preserve an option for
12 them. If Gulf decides to proceed in a co-ownership arrangement, then
13 parties coming to the table will be required to share costs, reducing costs
14 to be covered by Gulf's customers. What Gulf's customers are paying for
15 now is to preserve an option for them, and it is a relatively small price to
16 pay for potentially millions of dollars of savings if a nuclear unit is needed.

17

18 Q. Mr. Schultz takes issue with the inclusion of \$187,000 of costs entitled
19 "Need Determination Filing." Please address their prudence.

20 A. As I previously stated, Gulf was far enough along in its analysis that it
21 began preparing for a determination of need filing. These are time
22 constrained but resource-intensive permitting proceedings in which
23 experts have to be brought before the Commission to show that a plant
24 meets established criteria. The incurrence of these costs was prudent.

25

1 Q. Mr. Schultz also argues that \$650,000 of costs incurred for travel
2 expenses, resource planning and legal fees are “extremely high” without a
3 definite plan for the property. Please address this observation.

4 A. All of these expenses were incurred in evaluating the nuclear option, and I
5 would characterize them as “extremely reasonable” rather than “extremely
6 high.” Mr. Schultz’s characterization of this \$650,000 costs is incomplete.
7 The total was taken from Gulf’s response to Staff Interrogatory No. 47 as
8 shown in Exhibit RJA-1, Schedule 1. As one can see, there are more
9 costs in this category than Mr. Schultz listed. The breakdown of the
10 \$650,000, which is listed as Project Support Costs, is as follows:

11

12 Southern Nuclear labor / travel expenses (General Support) \$261,328

13 Southern Nuclear provided technical expertise to Gulf at cost. When they
14 did not have in-house expertise, they contracted with competent outside
15 vendors. It should be noted that this subset of costs was not just for
16 travel, as suggested by Mr. Schultz. It also includes labor costs, legal
17 fees, and contract expenses related to geotechnical studies.

18

19 SCS Support (Resource Planning & Financial Planning) \$ 39,114

20 SCS provides resource planning services for all Southern Company retail
21 operating companies. In this instance, there were a number of extensive
22 resource analyses that were performed for Gulf so that it could make
23 informed decisions regarding its potential need and the cost-effectiveness
24 of resource options. This was provided at cost with no mark up for profit,
25 and it was essential to good decision making.

1

2 Q. Mr. Schultz's next argument is that including the North Escambia site in
3 PHFU is inconsistent with a policy established by the Commission in
4 Order No. 5471. He states that the North Escambia site is not a
5 "reasonable and prudent investment" and will not be "used for Gulf's
6 system purposes in the reasonably near future." Please respond.

7 A. Let me address first the reasonableness and prudence of these costs.
8 Gulf was entirely prudent in its initial investigation of a nuclear option. Gulf
9 had a significant capacity need and was facing a significant additional
10 capacity need due to government policy designed to reduce carbon
11 emissions. Gulf was entirely prudent in further pursuing nuclear when
12 under most planning scenarios it was the most cost-effective option
13 available to its customers. Gulf was prudent in engaging in detailed site
14 investigations to determine whether there were potential nuclear sites in
15 Northwest Florida. Gulf was prudent in beginning the long and demanding
16 permitting processes, including preparation for a determination of need,
17 for a long lead time plant. In turn, when circumstances changed, Gulf was
18 prudent in deferring its determination of need and project development
19 efforts. However, given the significant value nuclear continued to have in
20 circumstances where Gulf might find itself having to retire significant
21 amounts of coal resources, and knowing that there was only one available
22 nuclear site in Northwest Florida, Gulf was prudent in purchasing that site
23 to preserve the nuclear option for its customers. All of those decisions
24 and related costs were both reasonable and prudent.

25

1 The second aspect of this “policy” – that the site will be used in the
2 reasonably near future - is also satisfied. It will be used in the reasonably
3 near future for its intended purpose – preservation of a potentially valuable
4 nuclear resource for customers. That is its immediate purpose.

5
6 As to the potential longer-term use of the site – actually hosting a
7 generating unit - the circumstances in this case are far different than the
8 circumstances in the Caryville case. In this case, unlike Caryville, there
9 was only a single potential site available to Gulf for a nuclear plant. The
10 language in the Caryville case simply addresses a very different
11 circumstance than there is in this case. If Gulf had not made this prudent
12 decision, it would have been concerned about someone arguing after the
13 fact that Gulf should have, but did not, preserve this option. Mr. Schultz’s
14 “policy” argument simply does not hold up to scrutiny.

15
16 Q. Mr. Schultz’s next argument is Gulf stated in a discovery response that the
17 North Escambia site could be used for generation types other than or in
18 addition to nuclear, and its multi-technology use does not justify the
19 purchase and carrying charges. Please address Mr. Schultz’s argument.

20 A. Gulf is not justifying the site on this basis. Its justification is that the
21 purchase of the site was prudent and preserves a nuclear option for Gulf’s
22 customers. However, Gulf appropriately pointed out that the site had
23 other valuable attributes that would serve its customers. This reinforces
24 the prudence of the decisions made to investigate and acquire the site.

25

1 Q. Mr. Schultz argues against including the North Escambia site and related
2 costs in rate base because Gulf has two other potential power plant sites
3 already in PHFU that could site alternative generation, so there is no need
4 for North Escambia. Please address this argument.

5 A. Mr. Schultz misunderstands the purpose of the North Escambia site. It
6 was investigated and purchased to preserve a nuclear option for Gulf's
7 customers because that option has such a high potential value to Gulf's
8 customers and the site was unique. Nuclear cannot be built on either of
9 the other two sites.

10

11 Q. Mr. Schultz's next argument is that Gulf has not presented any studies
12 that show the need for capacity or that nuclear would be an option.
13 Please comment.

14 A. Mr. Schultz criticizes Gulf for not submitting any studies in its direct case.
15 This criticism of Gulf's direct case is inconsistent with the statement Mr.
16 Schultz makes a few pages later when he states, "a base rate case is not
17 the appropriate forum in which to examine future plant growth and needs."

18

19 Gulf and Mr. Schultz agree that a base rate case is not the appropriate
20 place in which to determine future plant growth and needs. However,
21 given the repeated refrain of witnesses Schultz, ~~Chris~~ and ~~Meyer~~ that no
22 studies have been presented, I am presenting in my rebuttal
23 representative studies that Gulf conducted.

24

25

1 Gulf's 2007 Ten Year Site Plan (Exhibit RJA-1, Schedule 4) reflected a
2 substantial need at the end of the planning period for 1,006 MW. The
3 subsequent 2008 Ten Year Site Plan, Exhibit RJA-1, Schedule 5, showed
4 an even larger need by 2017. Both site plans included a minimal
5 retirement of existing coal units.

6
7 Gulf was facing carbon legislation that if enacted would place an
8 enormous need for generation in Gulf's future. Exhibit RJA-1, Schedule 8
9 was an early assessment of the cost impacts to Gulf for CO₂ legislation.
10 This was performed in the fall of 2007 and shows that carbon legislation
11 could have a significant cost impact.

12
13 A series of cost-effectiveness analyses were performed in addition to need
14 assessments. Exhibit RJA-1, Schedule 9 was a cost-effectiveness
15 assessment performed in February 2008 that assesses the cost-
16 effectiveness of a nuclear option. A preliminary cost-effectiveness
17 analysis prepared for the early part of the determination of need effort is
18 attached as Exhibit RJA-1, Schedule 10. It was a multiple scenario
19 analysis using multiple levels of gas costs and multiple levels of carbon
20 costs. This was based upon assumptions out of the 2008 resource
21 planning process. The most refined study performed by Gulf is attached
22 as Exhibit RJA-1, Schedule 11. It was the same analysis as shown in
23 Schedule 10 with updated cost information. It showed that nuclear was
24 the most cost-effective option in 8 out of 9 scenarios.

25

1 Beyond need assessments and cost-effectiveness studies, there were
2 several relevant site investigative studies performed that show the scope
3 of Gulf's review of potential sites and why the North Escambia site was
4 chosen as the sole site for nuclear. This information was provided in
5 Gulf's response to Citizens' Requests to Produce Documents Nos. 6 and
6 90. These studies are also mentioned in Gulf witness Burroughs' direct
7 testimony.

8
9 Also attached as Exhibit RJA-1, Schedule 12 is a chart showing the
10 potential environmental requirements that could impact Gulf and result in
11 early retirement of coal units. While the prospects of environmental
12 requirements causing coal unit retirements have waxed and waned, this
13 has been and continues to be a real risk to Gulf and its customers. Gulf
14 shared these concerns with the Commission at Internal Affairs during April
15 of 2011 and in response to a FPSC Information Request in June 2011.

16
17 Q. Mr. Schultz's next disallowance argument focuses on several points Mr.
18 Burroughs made in his direct testimony. Please address Mr. Schultz's
19 observations.

20 A. Mr. Schultz acknowledges that Mr. Burroughs testified in his direct
21 testimony that Gulf's "broad technical evaluation has implications in Gulf's
22 approach to land held for future use." That restatement of Mr. Burroughs'
23 testimony was accurate. But he then restated what Mr. Burroughs said
24 into something Mr. Burroughs did not say and Gulf did not do –"If by that
25 he means Gulf's approach has changed such that the acquisition of 4,000

1 acres of land at a cost of \$27 million precedes any technical analysis, I
2 submit that shift is not a prudent one for which customers should bear the
3 costs.” He is rebutting his mischaracterization of what Mr. Burroughs said,
4 not what Gulf actually did.

5
6 Gulf’s purchase of the North Escambia site did not precede technical
7 analysis. The purchase was the fruit of the technical analysis. Gulf
8 needed to act to preserve the valuable nuclear option for its customers.
9 The potential value of the nuclear option was supported by multiple years
10 of site investigation, need assessments, cost-effectiveness analyses and
11 other technical assessments.

12
13 Q. Mr. Schultz cites several discovery responses stating that Gulf has not
14 used Gulf-owned generating sites and that Gulf has only 30 MW of need
15 as arguments against the North Escambia site. Please respond.

16 A. These discovery responses have little or nothing to do with Gulf’s long-
17 term need to preserve the nuclear option for its customers. As Gulf
18 witness Grove pointed out in his direct testimony, Gulf was prudent in its
19 resource additions since the last rate case, adding four PPAs which the
20 Commission has approved. That is why Gulf did not have to use a
21 Company-owned site.

22
23 As to Gulf’s future needs, nuclear is a long-term option that requires 10 or
24 more years for development. What Mr. Schultz does not tell the
25 Commission is that Gulf’s need in 2023 will dwarf its 30 MW need in 2022.

1 By May 2023, Gulf will have to replace 885 MW plus meet its forecasted
2 load growth for 2022 and 2023. That could mean a need of close to 1,000
3 MW in 2023, a mere year later than the 2022 date Mr. Schultz chose to
4 use, and none of that need assumes any coal unit retirement due to
5 environmental requirements. Nuclear might prove to be an attractive
6 option in that time frame, but with only one site available, how could Gulf
7 even consider nuclear for that need if it had not preserved the site? It was
8 prudent for Gulf to preserve the nuclear option for Gulf's customers.

9

10 Q. Mr. Schultz also argues that buying this property is inconsistent with
11 preserving planning flexibility because review of nuclear has not advanced
12 to a determination of need. Please address this argument.

13 A. As I mentioned previously, Gulf's consideration of the nuclear option had
14 advanced into preparation for nuclear licensing and permitting. Contrary
15 to Mr. Schultz's testimony, there was no "acknowledgement" in the direct
16 testimony of Mr. McMillan (nor that of Mr. Burroughs) "that the review of
17 generation technologies had not taken place." On the contrary, Mr.
18 Burroughs spoke of the technical evaluations undertaken in Gulf's
19 planning process in his direct testimony.

20

21 The purchase of the North Escambia site assures planning flexibility. Gulf
22 acquired the only available nuclear site. Without the available site, Gulf
23 would have lost for its customers the only base load, carbon-free option
24 that was economically viable – nuclear. Of course, the site also increases
25 planning flexibility because it can also host other technologies in addition

1 to nuclear. This decision significantly increased Gulf's planning flexibility
2 and is of real value to Gulf's customers.

3
4
5 **III. OTHER INTERVENOR ARGUMENTS**

6
7 Q. Mrs. Alexander, both Federal Executive Agencies (FEA) witness Meyer
8 and Florida Retail Federation (FRF) witness Chriss argue against
9 inclusion of the North Escambia site in rate base. Please address their
10 arguments.

11 A. Mr. Meyer makes two arguments related to Section 366.93 Florida
12 Statutes; however, both of his arguments are legal issues that I will defer
13 to Gulf's attorneys.

14
15 Mr. Chriss offers one argument against the inclusion of the North
16 Escambia County site in rate base. He argues that based on the Ten
17 Year Site Plan, Gulf does not plan to use the site until at least 2020, so
18 including the site in rate base would allow Gulf to earn a return on a site
19 that is not used and useful in providing service to customers. I disagree
20 with his argument.

21
22 The investigation and purchase of the North Escambia site has preserved
23 the nuclear option for all of Gulf's customers. Absent these efforts, the
24 sole site available in Northwest Florida that could accommodate a nuclear
25 unit could have become lost to Gulf Power and its customers. Gulf could

1 not reasonably consider such a nuclear option if it had no site on which to
2 build a facility. Therefore, the property is used and useful in providing
3 service – it preserves an option that may prove critical for Gulf to be able
4 to continue to serve customers. In that sense it is the most valuable plant
5 held for future use in Gulf’s possession, and its cost should be included in
6 rate base.

9 IV. CONCLUSION

10
11 Q. Please summarize your rebuttal testimony.

12 A. The intervenors fail to understand that Gulf has acted in its customers’
13 interest to preserve a nuclear option. Mr. Schultz recognizes that a base
14 rate case is not the appropriate place to examine generating options, but
15 he criticizes Gulf for not presenting studies in this case. He argues that
16 the prudently incurred costs for investigating and acquiring the North
17 Escambia site should not be included in rate base, but I have rebutted
18 each and every argument. Mr. Schultz’s characterization of Gulf’s
19 legitimate attempt to preserve a valuable nuclear option for its customers
20 as “speculative overreaching” is clearly inaccurate.

21
22 In the face of government policy that discouraged carbon emissions,
23 forecasted capacity needs on Gulf’s system, high forecasted gas prices,
24 and state legislation designed to encourage nuclear unit development,
25 Gulf was prudent in investigating the nuclear option. When nuclear

1 appeared to hold promise to meet known and potential environmental
2 induced need, Gulf was prudent to begin extensive site investigation and
3 prepare for permitting and licensing. When Gulf learned there was only
4 one nuclear site available in Northwest Florida, Gulf was prudent in
5 beginning to purchase the site. When factors changed that made the
6 need for capacity less imminent, Gulf was prudent again in deferring its
7 licensing and permitting activities. And as Mr. McMillan points out in his
8 direct testimony, ceasing to accrue carrying charges on the deferred
9 nuclear site costs and asking for base rate recovery of those costs is also
10 in the interest of Gulf's customers. The North Escambia site should be
11 included in rate base.

12

13 Q. Does this conclude your rebuttal testimony?

14 A. Yes.

15

16

17

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25

1 BY MR. GUYTON:

2 Q. Ms. Alexander, did you also have occasion to
3 file an exhibit identified as Exhibit RJA-1 with your
4 Rebuttal Testimony?

5 A. Yes.

6 Q. And do you have any corrections or changes to
7 Exhibit RJA-1, which I believe has been identified as
8 Exhibit 163 on the composite?

9 A. Yes, I do.

10 Q. Would you make those, please.

11 A. On Schedule 1 of my exhibit, in the
12 interrogatory heading that begins with Staff's Fifth
13 Set of Interrogatories, the date should be changed from
14 August 5th, 2011, to September 6th, 2011. In the last
15 line of the heading, strike Attachment A and replace
16 with Page 2 of 2. In the column heading of 13-month
17 average, 2011 should be changed to 13-month average
18 2012.

19 Q. With those changes to your exhibit, is the
20 information in your exhibit true and correct to the
21 best of your knowledge and belief?

22 A. Yes.

23 Q. Do you have a summary of your testimony,
24 please?

25 A. Yes, I do.

1 Q. Would you present it to the Commission.

2 A. Good afternoon, Commissioners. My name is
3 Rhonda Alexander, and I'm testifying on behalf of Gulf
4 Power to address the testimony of Witnesses Schultz,
5 Chriss, and Meyer in which they argue that all or part
6 of costs associated with the North Escambia site should
7 not be included in rate base.

8 Gulf Power makes decisions every day being
9 mindful of what is in the best interests of our
10 customers. Gulf was thinking of its customers when we
11 made the decision in 2007 to begin considering the
12 feasibility of nuclear generation. The company's
13 decisions related to the North Escambia site were
14 reasonable and prudent and, therefore, the related
15 costs should be included in rate base.

16 The investigation and purchase of this site
17 preserves a valuable option for Gulf's customers.
18 Witness Schultz has given his opinion that the
19 acquisition of the North Escambia site does not appear
20 to be a reasonable and prudent investment. My
21 testimony clearly shows that Gulf was thoughtful and
22 diligent in its decision-making through analysis and
23 study of generation options and site suitability.
24 Gulf's investment in the North Escambia site was, in
25 fact, prudent and reasonable given the circumstances

1 that were known then and are known now.

2 To show that Gulf's investment was, in fact,
3 reasonable and prudent, please allow me to paint a
4 picture of what the company was faced with in 2007 when
5 the decision was made to consider nuclear generation.
6 First, in July 2007, Governor Crist signed an executive
7 order targeting dramatic reductions of greenhouse gas
8 emissions, and Congress was also looking at legislation
9 designed to significantly reduce greenhouse gas
10 emissions.

11 Second, other environmental regulations were
12 proposed by the EPA, such as the Clean Air Interstate
13 Rule and the Clean Air Mercury Rule. All of these
14 regulations resulted in the prospect of potential coal
15 unit retirements.

16 Third, Gulf's Ten-Year Site Plan showed a
17 need ten years out in excess of 1,000 megawatts without
18 potential coal unit retirements.

19 Fourth, gas prices were forecasted to be
20 high. And, finally, state policy had been adopted to
21 encourage the development of nuclear power through
22 cost-recovery mechanisms. In the face of these
23 circumstances I just described, it was the company's
24 responsibility to take the appropriate steps to plan
25 for the future and ensure our customers continue to

1 receive reliable electric service. Therefore, Gulf
2 conducted analyses of the impacts of CO2 legislation
3 and the cost-effectiveness of generation options. In
4 eight out of the nine scenarios, nuclear was the most
5 cost-effective option and was the only carbon free
6 option potentially available to Gulf's customers.
7 Based on the results of our studies, Gulf began
8 preparation for permitting and licensing of a nuclear
9 site and performed a detailed site investigation.

10 Gulf considered over two dozen locations
11 across our service area utilizing the stringent siting
12 requirements set forth by the Nuclear Regulatory
13 Commission. The North Escambia was found to be the
14 only potential nuclear unit site in Gulf's service
15 area. Therefore, Gulf made the decision in August of
16 2008 to purchase the land to secure the site.

17 Later, based on a number of changed
18 circumstances, Gulf made the prudent decision to defer
19 our licensing, permitting, and determination of need
20 activities. Gulf has not abandoned the nuclear option.
21 Gulf may still consider nuclear if it is needed and is
22 the most cost-effective option. That being said, the
23 North Escambia site is critical for preserving this
24 nuclear option for our customers.

25 In conclusion, I disagree with the argument

1 of Witnesses Schultz, Chriss, and Meyer that all or
2 part of the costs associated with the North Escambia
3 site should not be included in rate base. The
4 company's decisions related to the site were reasonable
5 and prudent and, therefore, the costs should be
6 included in rate base.

7 Gulf still has a forecasted capacity need,
8 and that need could be potentially larger, given all of
9 the uncertainty surrounding environmental regulations.
10 How could Gulf potentially consider nuclear for that
11 need if we had not secured this site? Without the
12 North Escambia site, Gulf would have lost for its
13 customers this valuable nuclear option, an option that
14 is necessary in planning for future generation to
15 ensure Gulf can continue to provide reliable electric
16 service to our customers.

17 This concludes my summary.

18 **MR. GUYTON:** We tender the witness.

19 **CHAIRMAN GRAHAM:** Mr. McGlothlin.

20 **MR. MCGLOTHLIN:** I have no questions.

21 **CHAIRMAN GRAHAM:** Ms. Kaufman.

22 **MS. KAUFMAN:** Thank you, Mr. Chairman.

23 **CROSS EXAMINATION**

24 **BY MS. KAUFMAN:**

25 **Q.** Good afternoon, almost evening, Ms.

1 Alexander.

2 A. Good afternoon.

3 Q. I'm Vicki Kaufman. I'm here on behalf of the
4 Florida Industrial Power Users Group, some of Gulf's
5 largest consumers. I just have one or two questions
6 for you about the nuclear site issue. We spent a lot
7 of time discussing it in the hearing.

8 My first question is we have had other Gulf
9 witnesses testify, I believe, that Gulf doesn't have
10 any plans to construct a nuclear plant on this site in
11 the next ten years, correct?

12 A. That's correct. Our ten-year site plan
13 doesn't show that we have a need in the next ten years.
14 We do have a need in the '22/'23 time frame. And as I
15 mentioned in my summary, our need could be greater,
16 given the uncertainties surrounding environmental
17 regulations.

18 Q. If you would take a look at your Schedule 1
19 to RJA-1.

20 A. Okay.

21 Q. And if I understand this schedule, in this
22 schedule you have detailed the costs that make up the
23 \$27.6 million that you want to include in rate base,
24 correct?

25 A. That's correct.

1 Q. Okay. Now, if it turns out that Gulf never
2 builds a nuclear plant on this site, then the
3 ratepayers would have been -- would have picked up the
4 tab for the items that you have on your Schedule 1
5 without receiving the benefit of any nuclear
6 production, correct?

7 A. Yes, if we didn't build nuclear, but we don't
8 know that. There's so much uncertainty, and we want to
9 keep all the generation options on the table, because
10 we want to choose which one is most cost-effective.
11 And currently, actually, in our 2012 planning process,
12 nuclear still is being chosen in seven out of nine
13 scenarios as the most cost-effective option for Gulf's
14 customers.

15 Q. But as we sit here today, and as we are
16 considering these costs on your exhibit, you certainly
17 can't tell us that Gulf intends to build a nuclear
18 plant on this site, correct?

19 A. I can't tell -- no, I can't tell you for sure
20 that we are going to build nuclear, because there is so
21 much uncertainty. But I can tell you that the cost
22 here that is represented is 26 cents on a 1,000
23 kilowatt hour bill. That is a low cost to possibly
24 save the customers billions of dollars.

25 Q. And just one more follow up. But if you

1 don't build the nuclear plant and you don't save
2 customers any money, they still will have -- you would
3 expect them to pick up these costs on this schedule,
4 correct?

5 A. Yes, if that happens that we don't build
6 nuclear, but I will point out that this site provides
7 --

8 MS. KAUFMAN: Mr. Chairman, she is going far
9 beyond my question.

10 CHAIRMAN GRAHAM: Ms. Alexander, you just
11 need to answer yes or no and then a brief explanation.

12 BY MS. KAUFMAN:

13 Q. I think that, just so the record is clear, I
14 think that you did answer that if you don't move
15 forward and actually build the plant, you would still
16 expect the ratepayers to pick up these costs on your
17 schedule, correct?

18 A. In your question are you talking about just
19 nuclear or others types of generation?

20 Q. I'm talking about your schedule that we have
21 been looking at where you have set out the costs
22 related to what you have called the nuclear option.
23 And my question is if the nuclear option does not come
24 to pass, Gulf still expects and is requesting from this
25 Commission that ratepayers pick up the costs that are

1 on Schedule 1?

2 A. Yes, and it would benefit the customer if
3 other options for generation are built on the site.

4 MS. KAUFMAN: Thank you, Mr. Chairman.
5 That's all I have.

6 CHAIRMAN GRAHAM: Staff.

7 MS. BARRERA: No questions.

8 CHAIRMAN GRAHAM: Commissioners?

9 Commissioner Balbis.

10 COMMISSIONER BALBIS: Thank you, Mr.
11 Chairman. I just have a few questions.

12 Ms. Alexander, were you involved in the
13 decision-making process to purchase the land for North
14 Escambia?

15 THE WITNESS: Yes, I was.

16 COMMISSIONER BALBIS: Were there any
17 discussions as to any risk involved with whether or not
18 this Commission would allow the inclusion of this
19 purchase into base rates?

20 THE WITNESS: We evaluated all the risks, so
21 that definitely was a discussion that we had, but with
22 the Florida Statute in place that allows for nuclear
23 cost-recovery, we relied on that statute to move
24 forward in the site selection costs and acquisition.

25 COMMISSIONER BALBIS: And did you or the

1 executive team discuss any other instruments or
2 mechanisms to secure the land without actually
3 purchasing it, whether to enter into a contract or
4 right of first refusal, something so that you wouldn't
5 actually purchase the land, but hold it for your use?

6 **THE WITNESS:** We actually had -- the largest
7 parcel that makes up the site, it's actually almost
8 50 percent of the total site size, we entered into an
9 option for that land, and that was in 2009, I believe,
10 and we had an option for one year, and we extended it.
11 We were able to negotiate it and extend it for another
12 year, and then we finally purchased it early in 2011.
13 So, yes, for the majority of the site, that particular
14 parcel we were able to.

15 **COMMISSIONER BALBIS:** Okay. So for the
16 majority of the site, you purchased the land in early
17 2011, correct? Is that what you just said?

18 **THE WITNESS:** Your question about whether we
19 were able to enter into an option or some other type of
20 mechanism, we did that with that particular parcel,
21 which was a large portion of the site.

22 **COMMISSIONER BALBIS:** Okay. But you finally
23 purchased it in early 2011?

24 **THE WITNESS:** Yes, sir.

25 **COMMISSIONER BALBIS:** And were there any

1 discussions that you are about to file a rate case for
2 the inclusion of this purchase into base rates, and was
3 there an option just to extend it so that this rate
4 case could go through to determine if the Commission
5 would approve it or not?

6 **THE WITNESS:** I'm not sure if I understand
7 your question. When we made the -- are you asking if
8 when we made the decision to purchase the land in
9 August of 2008, did we consider --

10 **COMMISSIONER BALBIS:** No, no, recently in
11 early 2011. Theoretically, you could have just
12 extended that contract until the results of this rate
13 case were known to determine if we would allow it into
14 base rates.

15 **THE WITNESS:** For that one particular parcel,
16 we were not able to extend the contract any longer.
17 The seller of that property wasn't willing to negotiate
18 for another term.

19 **COMMISSIONER BALBIS:** Okay. And one quick
20 question on Schedule 1 in your exhibit. So if I'm
21 reading this correctly, of the \$27.6 million cost only
22 18.9 is associated with the actual site acquisition,
23 the rest are site investigation, need determination,
24 support costs, et cetera, correct?

25 **THE WITNESS:** That's correct.

1 COMMISSIONER BALBIS: Okay. Thank you.

2 CHAIRMAN GRAHAM: Commissioner Brown.

3 COMMISSIONER BROWN: Thank you.

4 Good evening.

5 THE WITNESS: Good evening.

6 COMMISSIONER BROWN: My questions are more
7 focused on the purchase price of the North Escambia
8 County site. But before I go there, when was the
9 Caryville site purchased?

10 THE WITNESS: I do not know.

11 COMMISSIONER BROWN: You don't know that?

12 THE WITNESS: I don't know when the Caryville
13 was purchased.

14 COMMISSIONER BROWN: So then you wouldn't
15 know what it was purchased for?

16 THE WITNESS: It's my understanding it was
17 purchased for land held for future use.

18 COMMISSIONER BROWN: The amount of the
19 Caryville site?

20 THE WITNESS: Oh, no, ma'am. I'm sorry.

21 COMMISSIONER BROWN: Okay. Do you know what
22 the book value is of the Escambia site that Gulf
23 currently owns?

24 THE WITNESS: The North Escambia site, yes.
25 Just one minute, I'll find that. The parcels that we

1 already own and have purchased are valued at
2 13 million. We expect to -- intend to finish our
3 purchases through the end of 2012 to get to the
4 19 million.

5 **COMMISSIONER BALBIS:** What's remaining; how
6 many acres are remaining?

7 **THE WITNESS:** We have purchased about
8 75 percent of the site. It is 2,700 acres, so there is
9 about 1,000 acres left to be purchased.

10 **COMMISSIONER BROWN:** Is that currently under
11 an option agreement, the 1,000 acres?

12 **THE WITNESS:** No, it is not. We are
13 currently negotiating with the owners of all of those
14 different parcels.

15 **COMMISSIONER BROWN:** Is it one owner or
16 several owners for all of the --

17 **THE WITNESS:** It's several.

18 **COMMISSIONER BROWN:** What's the likelihood
19 that the seller or sellers are willing to sell at fair
20 market value?

21 **THE WITNESS:** It's hard for me to, you know,
22 put a probability on it. I can tell you that all of
23 the owners of those parcels right now are negotiating
24 with us. There are three that are a little less
25 willing to negotiate, but we are still working with

1 them and hopeful.

2 COMMISSIONER BROWN: Okay. So my
3 understanding is that the company made a decision to
4 purchase this in 2008, correct?

5 THE WITNESS: That's correct.

6 COMMISSIONER BROWN: Start purchasing land
7 there.

8 THE WITNESS: That's right.

9 COMMISSIONER BROWN: This Project Frank that
10 is being discussed throughout your testimony and as
11 well on the Schedule 1, has cost allocated in the
12 amount of 370,000 for the test year, correct?

13 THE WITNESS: That's correct.

14 COMMISSIONER BALBIS: When were the
15 discussions with Project Frank -- when did they start
16 beginning? I'm trying to understand why they are
17 included in the projected test year.

18 THE WITNESS: Discussions began in the 2007,
19 early 2007, and those costs were all part of our site
20 investigation or feasibility study of nuclear.

21 COMMISSIONER BROWN: But the company
22 ultimately decided that it was going to pursue its own
23 option and not proceed with this project?

24 THE WITNESS: That's correct.

25 COMMISSIONER BROWN: When did the company

1 make that decision?

2 **THE WITNESS:** Let me look for that date.
3 That was in September of 2008.

4 **COMMISSIONER BROWN:** Was that before Gulf
5 decided to pursue purchasing the North Escambia site?

6 **THE WITNESS:** It was about the same time. We
7 made the decision to purchase the land in August of '08
8 and the final decision not to pursue Project Frank was
9 September.

10 **COMMISSIONER BROWN:** Okay. Thank you.

11 **CHAIRMAN GRAHAM:** Redirect.

12 **MR. GUYTON:** We have no redirect.

13 **CHAIRMAN GRAHAM:** Exhibits?

14 **MR. GUYTON:** We move Exhibit 163.

15 **CHAIRMAN GRAHAM:** Page 28, Exhibit 163 we
16 will move into the record.

17 **MR. McGLOTHLIN:** I'd like to be heard very
18 briefly on that. OPC does not object to this exhibit,
19 to the extent that it's offered to support the
20 contention that analyses were performed before the
21 Escambia site was purchased. We think that is
22 consistent with the Prehearing Officer's ruling on our
23 motion to strike as well as being consistent with
24 statements by Gulf Power in its response to our motion,
25 responses such as it doesn't matter whether the

1 analyses were accurate, what matters is that they were
2 done. And also the observation with which we concur
3 which is that this is not a need determination case.

4 We would object strenuously if this
5 information were to be used for a finding of fact of
6 such things as the need for or viability of nuclear for
7 Gulf. We think that's premature, and we ask the
8 Commission to be mindful that this was received at the
9 very end of the case, and that the information is
10 conclusory in nature, and we have had no real
11 opportunity to do any analysis of our own with respect
12 to that.

13 So I just wanted to note that for the record.
14 It is consistent with what Mr. Sayler said about it
15 when the ruling was announced, and I want to just
16 reiterate that at the time you rule.

17 **CHAIRMAN GRAHAM:** Okay.

18 **MR. GUYTON:** Mr. Chairman, may I comment
19 briefly?

20 **CHAIRMAN GRAHAM:** Sure.

21 **MR. GUYTON:** I want to make sure the record
22 is clear. Gulf has offered not only to prove that the
23 analyses were done that were put in question, but to
24 also show the reasonableness and prudence of Gulf's
25 decision-making at the time, which I understand that

1 was offered in terms of the argument that was presented
2 to the Commission, and I presume it's part of the
3 Commission's ruling. I just want to get that on the
4 record, given what the Office of Public Counsel said.

5 **CHAIRMAN GRAHAM:** Okay.

6 **MR. GUYTON:** Thank you.

7 **CHAIRMAN GRAHAM:** Are you done with
8 Alexander?

9 **MR. GUYTON:** Yes, sir, I am. And I'm sooner
10 or later going to ask you to excuse my witnesses.
11 Would you please set her free?

12 **CHAIRMAN GRAHAM:** If there is no objection,
13 Ms. Alexander, thank you very much for your testimony.

14 **THE WITNESS:** Thank you.

15 **MR. GUYTON:** We would call Mr. Grove to the
16 stand.

17 **MR. SAYLER:** Excuse me, Mr. Chairman. I have
18 been in discussions with some folks with Gulf Power
19 about the possibility of stipulating Grove, Caldwell,
20 and Moore, and without any cross or things of that
21 nature. Assuming, one, that none of the other
22 intervenors have questions, and also assuming that none
23 of the Commissioners have questions.

24 **CHAIRMAN GRAHAM:** Grove, Caldwell, and Moore?

25 **MR. SAYLER:** Yes, sir. We have one exhibit

1 we would like Gulf to submit as a late-filed for that
2 as it pertains to the full-time equivalents for
3 production, transmission, and distribution, and that's
4 what it's related to. I do know that they testified to
5 other issues in this particular docket, and I have sort
6 of informally surveyed my fellow intervenors, and if we
7 can maybe have five minutes to huddle, maybe we can
8 save about half an hour to an hour of hearing time
9 assuming the Commissioners don't have any questions for
10 them.

11 **CHAIRMAN GRAHAM:** I'm sure none of my fellow
12 Commissioners have any questions, if you guys are
13 willing to stipulate.

14 **MR. SAYLER:** Thank you, Mr. Chairman.

15 **MR. GUYTON:** So we're going to take five to
16 huddle?

17 **CHAIRMAN GRAHAM:** I believe we will take five
18 to huddle.

19 **MR. GUYTON:** Thank you, Mr. Chair.

20 (Recess.)

21 **MR. SAYLER:** Mr. Chairman, I understand you
22 would like an update of where we're at right now.

23 **CHAIRMAN GRAHAM:** Yes, sir.

24 **MR. SAYLER:** We have an understanding in
25 principle. It's just a matter of whether or not Gulf

1 can get the information to us tonight, or, you know,
2 the time on that. And I will defer to Gulf to explain
3 that, to Mr. Russell.

4 **MR. BADDERS:** Good afternoon. We're trying
5 to work on a way to stipulate a few witnesses with a
6 late-filed exhibit, and we need to find out just how
7 long it will take us to get the data. And we're making
8 the call as I'm speaking, so we should know that
9 probably in the next ten minutes or so.

10 **CHAIRMAN GRAHAM:** Can we go on, skip over
11 Grove, Caldwell, and Moore, and go straight to Neyman?

12 **MR. BADDERS:** That's fine with me.

13 **MR. SAYLER:** Yes.

14 **MR. GRIFFIN:** We would call Ms. Neyman.

15 **MARGARET D. NEYMAN**

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

19 **DIRECT EXAMINATION**

20 BY MR. GRIFFIN:

21 Q. Ms. Neyman, you have previously been sworn,
22 right?

23 A. Yes, I have.

24 Q. And you understand you are still under oath,
25 correct?

1 A. Yes, I do.

2 Q. Please state your full name and business
3 address, please.

4 A. My full name is Margaret D. Neyman. My
5 business address is One Energy Place, Pensacola,
6 Florida.

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

9 A. I'm employed by Gulf Power Company as the
10 Energy Sales, Service, and Efficiency Director.

11 Q. And did you submit Prefiled Rebuttal
12 Testimony on November 4th, 2011, consisting of five
13 pages in this docket?

14 A. Yes, I did.

15 Q. And do you have any changes or corrections to
16 that testimony?

17 A. No, I do not.

18 Q. And if I asked you the same questions, would
19 your answers be the same today?

20 A. Yes, they would.

21 **MR. GUYTON:** Mr. Chairman, we would ask that
22 Ms. Neyman's rebuttal testimony be inserted into the
23 record as though read.

24 **CHAIRMAN GRAHAM:** We will file Ms. Neyman's
25 prefiled rebuttal testimony into the record as though

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read.

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission
3 Rebuttal Testimony of
4 Margaret D. Neyman
5 Docket No. 110138-EI
6 In Support of Rate Relief
7 Date of Filing: November 4, 2011

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

9 A. My name is Margaret Neyman and my business address is One Energy
10 Place, Pensacola, Florida 32520. I am the Director of Energy Sales
11 Service and Efficiency.

12 Q. Have you previously filed testimony in this proceeding?

13 A. Yes.

14 Q. What is the purpose of your rebuttal testimony?

15 A. The purpose of my rebuttal testimony is to address statements made in
16 the testimony of Office of Public Counsel (OPC) witness Dismukes
17 specifically as it relates to Gulf's non-regulated products and services.
18 Additionally, I will address statements made in the direct testimony of OPC
19 witness Ramas and Federal Executive Agencies (FEA) witness Meyer as
20 it relates to Gulf's need for the requested employees in the FERC
21 functional groupings of Customer Accounts and Customer Service and
22 Information.

23

24

25

1 **I. NON-REGULATED PRODUCTS AND SERVICES**

2

3 Q. What are Gulf's non-regulated products and services?

4 A. Gulf offers two non-regulated products, one to residential customers and
5 one to commercial customers, called Premium Surge and Commercial
6 Surge, respectively. Customers are charged a fee for equipment installed
7 at their home or business to help protect against electric surges. Gulf also
8 offers one non-regulated service called AllConnect to our customers.
9 AllConnect gives customers requesting new electric service an option to
10 be transferred to a third-party to assist in connecting other services (i.e.,
11 cable, telephone, home security, etc.) in their home.

12

13 Q. Why does Gulf offer non-regulated products and services to its
14 customers?

15 A. Gulf offers these products and services to our customers for one simple
16 reason, to serve them better. Customers who experience electric surges
17 in their home or business seek solutions to help them prevent future
18 issues. Gulf provides the Premium Surge and Commercial Surge
19 products in direct response to our customers' needs.

20

21 Gulf's customers are offered the AllConnect service at no cost to them.
22 Due to the large military presence in our service area, our customer
23 service representatives often receive questions from new customers about
24 how to get in touch with other service providers for their homes. Again, as

25

1 a service to Gulf's customers, we offer to transfer the customer to
2 AllConnect to assist with their other connection needs.

3

4 Q. How do you respond to the claim by Ms. Dismukes that the non-regulated
5 operations obtain substantial benefits by being associated with Gulf's
6 regulated operations?

7 A. I disagree with her claim. Gulf's non-regulated operations must compete
8 for customers with other similar products and services. Customers are
9 looking for the product or service that offers them the best value
10 regardless of the provider.

11

12 Q. Ms. Dismukes states that there are no overhead costs allocated or
13 assigned to the Premium Surge and Commercial Surge protection
14 products. Do you agree with her assertion?

15 A. No. She is simply mistaken in that regard. As the source for this
16 statement, Ms. Dismukes refers to Gulf's response to an interrogatory in
17 which we stated that there were no Southern Company Services (SCS)
18 **labor** expenses charged to non-regulated products. Gulf's response to
19 this interrogatory did not address overheads. Overheads are charged to
20 Gulf's non-regulated products and services in a variety of ways. For
21 example, overheads associated with services (i.e., facilities) utilized by the
22 non-regulated operations are charged via journal entries. These journal
23 entries were provided to OPC in Gulf's response to Citizens' Sixth
24 Request to Produce Documents No. 136 (Request No. 136).

25

1 Q. How about AllConnect? Are there overheads charged to AllConnect?

2 A. Yes. Again, Ms. Dismukes' assertion is incorrect. She quotes Gulf's
3 response to an interrogatory about how direct labor was charged, but does
4 not reflect that Gulf also supplied specific calculations in response to
5 Citizens' Sixth Request to Produce Documents No. 137 (Request No. 137)
6 illustrating how customer service center employees' labor was calculated
7 and charged to AllConnect. The calculations provided to Ms. Dismukes in
8 response to Request No. 137 specifically demonstrate that overheads
9 were charged to the AllConnect service and how those calculations were
10 made.

11

12 **II. WORKFORCE IN CUSTOMER ACCOUNTS AND**
13 **CUSTOMER SERVICE AND INFORMATION**

14

15 Q. OPC witness Ramas and FEA witness Meyer both recommend that Gulf's
16 requested employee levels in the 2012 test year be reduced. Do you
17 agree with their recommendations?

18 A. No. I do not agree with their recommendations. I addressed the need for
19 the additional employees included in the 2012 test year in my direct
20 testimony. These employees are critical to Gulf's success in serving our
21 customers.

22

23 Q. Do any vacancies currently exist in the Customer Accounts function?

24 A. Yes, Gulf currently has vacancies in the Customer Accounts function. As I
25 noted in my direct testimony, the increases in positions in the Customer

1 Accounts function are in Gulf's Customer Service Center (CSC). These
2 additional positions are necessary to respond to a continued increase in
3 customer calls as discussed on pages 37 through 39 of my direct
4 testimony. Gulf began filling these 19 positions at the beginning of 2011
5 and continues to do so. Currently, four of these positions remain vacant.
6 Gulf needs these customer service representatives on board to ensure
7 service levels are met and customers remain satisfied. We employ a
8 phased approach to hiring in the CSC. In addition to classroom training,
9 new employees in the CSC are paired with more senior CSC
10 representatives for several weeks before they begin taking calls. This
11 model has proven to be very successful. Our new hire classes are limited
12 to ensure we have our best senior representatives available to mentor the
13 new employees. Another contributing factor requiring the phased
14 approach is physical space limitations in our facilities. Gulf is currently
15 modifying the third floor of our corporate office to accommodate these
16 additional employees. Gulf fully expects to have all of these positions
17 filled by the end of 2011.

18

19 Q. Do any vacancies currently exist in the Customer Service and Information
20 function?

21 A. No. Gulf has filled all positions in the Customer Service and Information
22 function for which we are seeking recovery in this proceeding.

23

24 Q. Ms. Neyman, does this conclude your testimony?

25 A. Yes.

1 BY MR. GRIFFIN:

2 Q. And, Ms. Neyman, you did not have any
3 exhibits to your Prefiled Rebuttal Testimony, is that
4 right?

5 A. No, I did not.

6 Q. With that, please provide a brief summary of
7 your rebuttal?

8 A. Thank you. Good evening, Commissioners. My
9 Rebuttal Testimony specifically addresses statements
10 made in the direct testimony of Office of Public
11 Counsel (OPC) Witness Ms. Dismukes as it relates to
12 Gulf's non-regulated products and services. My
13 Rebuttal Testimony also addresses statements made in
14 the Direct Testimony of OPC Witness Ramas, and Federal
15 Executive Agency (FEA) Witness Meyer as it relates to
16 Gulf's need for the requested employees in the FERC
17 functional groupings of customer accounts and customer
18 service and information.

19 Gulf offers three nonregulated products and
20 services. First, Gulf offers premium and commercial
21 surge to residential and commercial customers
22 respectively. Customers are charged a fee for
23 equipment installed at their home or business to help
24 protect against electrical surges. These products also
25 offer customers a warranty, should they experience

1 equipment damage relating to surges.

2 Gulf's offers one nonregulated service,
3 AllConnect. AllConnect gives customers requesting new
4 electric service an option to be transferred to a third
5 party to assist in connecting other services like
6 cable, telephone, and newspaper.

7 My Rebuttal Testimony states why Gulf offers
8 these products and services to our customers to serve
9 them better. As an example, Gulf has a large number of
10 military families that relocate to our service
11 territory. AllConnect provides them an option for
12 one-stop shopping when setting up services for their
13 home. This service is provided at no cost to Gulf's
14 customers, and not only benefits the customer, but also
15 improves our customer satisfaction with Gulf's
16 regulated operations.

17 My Rebuttal Testimony demonstrates that Ms.
18 Dismukes is simply wrong in her assertion that Gulf
19 does not charge overheads to its nonregulated
20 operations. Overheads are charged in a variety of
21 ways, as demonstrated to OPC in Gulf's response in
22 discovery. My Rebuttal Testimony also supports the
23 addition of employees requested in the customer
24 accounts and customer service and information
25 functions. These employees are critical to Gulf's

1 success in serving customers. With few exceptions, we
2 have filled all requested positions for which we are
3 seeking recovery in this proceeding.

4 In summary, Gulf's nonregulated products and
5 services are provided for the benefit of Gulf's
6 customers. Gulf appropriately charges expenses to the
7 nonregulated operations as demonstrated in response to
8 multiple discovery requests. Further, Gulf's customers
9 are the central focus of everything we do, and the
10 requested increase in customer-facing employees that I
11 represent today are critical to our success in
12 continuing to meet the needs of our customers.

13 Thank you.

14 **MR. GUYTON:** We tender Ms. Neyman for
15 cross-examination.

16 **CHAIRMAN GRAHAM:** Mr. Sayler.

17 **CROSS EXAMINATION**

18 BY MR. SAYLER:

19 Q. Good evening. Or good afternoon/evening, Ms.
20 Neyman. How are you?

21 A. Good. Thank you.

22 Q. Do you still have a copy of Exhibit 189 from
23 yesterday?

24 A. Yes.

25 Q. All right. Thank you.

1 And picking up where we left off, you would
2 agree that Gulf Power's nonregulated operations include
3 Premium Surge, Commercial Surge, and AllConnect, is
4 that correct?

5 A. That is correct.

6 Q. And so any profits from these nonregulated
7 operations are credited to the shareholders, not the
8 ratepayers, is that correct?

9 A. That is correct.

10 Q. And you would agree that Premium Surge and
11 Commercial Surge are products that are offered only to
12 Gulf's customers, is that correct?

13 A. That is correct.

14 Q. And no nonGulf customers have the option of
15 signing up for those two products, is that correct?

16 A. That is correct.

17 Q. With regard to AllConnect, you would agree
18 that AllConnect is a service designed to allow
19 customers to select their local telephone,
20 long-distance, cable, home security, and newspaper
21 providers, as well as arrange hook-ups for utility
22 service when they initiate service with Gulf Power, is
23 that correct?

24 A. That is correct.

25 Q. And this service, AllConnect, is basically a

1 referral service that you provide to your customers who
2 are signing up, is that correct, signing up for new
3 service? Or maybe clarify exactly.

4 A. Right. It is a phone number we can transfer
5 the customer to, AllConnect, at the time, or sometimes
6 we provide the customer with their phone number, and
7 they will call them later to find out, you know, about
8 what is the cable provider in the area that they are
9 locating and they help them do that, they help them
10 determine that.

11 Q. Okay. Now, does Gulf offer AllConnect at any
12 other time than the initiation of service?

13 A. No.

14 Q. And just to be clear, I believe you were
15 asked some deposition questions about it, but when you
16 were -- when a customer is initiating service, does the
17 customer have to ask for AllConnect, or does the Gulf
18 customer representative mention that as an option that
19 they have and offer to transfer them?

20 A. They both happen. The customer service
21 representative does not always offer it after every new
22 connect. In fact, I was listening to one recently with
23 a CSR, it was a very long -- it was an active duty
24 employee moving. It was a long call. It took a long
25 time for us to get all the information. And so the

1 customer service rep did not offer it to the customer
2 because -- in the interest of time. She said, "Is
3 there anything else I can help you with?" He said,
4 "Yes. Who provides the cable service here?" So then
5 she said, "Well, we have this phone number. I can
6 transfer you to them now or you can get the phone
7 number." And he said, "I don't have time now, but
8 please give me the phone number." We allocate costs as
9 though they do do that every new service, but they
10 don't. But sometimes like he did, he asked a question
11 and then we provided him with the phone number.

12 Q. And in the customer-service script that your
13 employees use for new hook-ups, is suggesting
14 AllConnect part of that script?

15 A. We don't have scripts for our customer
16 service representatives with any transaction, and that
17 is because it's more natural -- we want them to be
18 unique in their treatment with employees. They are
19 trained in the particulars about new service or things,
20 so they don't have a script.

21 Q. And the AllConnect service is something that
22 Gulf only offers to its employees, is that correct?

23 A. You mean to our customers?

24 Q. Excuse me, to your customers.

25 A. That's correct. If someone were to call us

1 that was not a Gulf Power -- we occasionally do get
2 telephone calls from customers that are in our general
3 area, but they are not our customers. And, you know,
4 we will -- you know, we would provide them with
5 information. But, no, they cannot sign up for products
6 and services if they are not our customer.

7 Q. And every time Gulf transfers the employee --
8 or, excuse me, transfers the call to AllConnect, do
9 they receive a referral fee?

10 A. Repeat that one more time.

11 Q. When a customer says, yes, please transfer me
12 to AllConnect, and that call is transferred, does Gulf
13 receive a referral fee for making the transfer, or is
14 the referral fee based upon what services that customer
15 then subsequently signs up for?

16 A. We get it based on the referral that we give
17 when we send it to AllConnect. I'm not sure if the
18 amount varies depending on what services they sell. I
19 would need to check that. I have not looked at that
20 recently, but I believe it's on every transfer.

21 Q. Every transfer Gulf gets a small percentage?

22 A. Uh-huh.

23 MR. SAYLER: Okay. Well, thank you very
24 much. I appreciate it.

25 THE WITNESS: Thank you.

1 **CHAIRMAN GRAHAM:** Mr. Sayler, I want to tell
2 you I appreciate you holding off on these questions to
3 the rebuttal rather than trying to split which is going
4 to be direct and which is going to be rebuttal. It
5 makes it a lot simpler.

6 **MR. SAYLER:** Thank you, Mr. Chairman.

7 **CHAIRMAN GRAHAM:** Ms. Kaufman.

8 **MS. KAUFMAN:** I have no questions, Mr.
9 Chairman. Thank you.

10 **CHAIRMAN GRAHAM:** Major Thompson.

11 **MAJOR THOMPSON:** Me, too.

12 **CHAIRMAN GRAHAM:** Staff.

13 **MS. BARRERA:** No questions.

14 **MS. KLANCKE:** Just one moment, please.

15 **CHAIRMAN GRAHAM:** It's too late. You said no
16 questions.

17 (Laughter.)

18 **MS. KLANCKE:** Although I have no questions, I
19 have one housekeeping matter with respect to this
20 witness. All of the Commissioners and the parties have
21 been provided with Gulf's Response to FEA's First Set
22 of Interrogatories, Number 35, 36, and 37. These were
23 not previously listed on staff's list, but they have
24 been stipulated by all the parties to have entered into
25 the record. So if I could get some numbers.

1 **CHAIRMAN GRAHAM:** What if I give you one
2 number, 214?

3 **MS. KLANCKE:** That works, a composite
4 exhibit. A short title, Gulf's Responses to FEA
5 Interrogatories 35 through 37.

6 **CHAIRMAN GRAHAM:** Sounds good.

7 **MS. KLANCKE:** Thank you.

8 (Composite Exhibit Number 214 marked for
9 identification.)

10 **CHAIRMAN GRAHAM:** Commissioner Brisé.

11 **COMMISSIONER BRISÉ:** Thank you, Mr. Chairman.

12 Ms. Neyman, thank you for your testimony. I
13 just have one question. I'm sure you were in the room
14 when we were talking about sort of a correlation of
15 performance and pay and so forth. Do the CSRs get
16 evaluated on the number of referrals that they actually
17 are able to complete?

18 **THE WITNESS:** No, they are not. They are
19 evaluated on their ability to handle a call, how
20 quickly they -- their availability, their average
21 handle time. Their performance is based on those
22 metrics.

23 **COMMISSIONER BRISÉ:** Okay. So then nowhere
24 in the metric is making sure that they make the sale?

25 **THE WITNESS:** No.

1 **COMMISSIONER BRISÉ:** Okay. Thank you.

2 **CHAIRMAN GRAHAM:** Commissioner Balbis.

3 **COMMISSIONER BALBIS:** Just one quick
4 question. I think you answered this in a roundabout
5 way, but I just want to confirm that Gulf customers are
6 not paying for any of the costs associated with these
7 two services.

8 **THE WITNESS:** They are not paying for any of
9 the costs of these two services. We are very detailed
10 in our allocation of costs and overheads appropriately
11 to these unregulated products in the regulated side of
12 the business. In the case of Premium and Commercial
13 Surge, they actually receive benefits, the regulated
14 side because we don't have to deal with those customers
15 when they have a surge issue. So our Premium Surge
16 customers actually reduce the cost, and so we have
17 over-allocated, in my opinion, costs to the unregulated
18 business unit.

19 **COMMISSIONER BALBIS:** Okay. Thank you.

20 **CHAIRMAN GRAHAM:** Redirect.

21 **MR. GUYTON:** Mr. Chairman, it's not so much
22 redirect. I believe that Commissioner Balbis asked Ms.
23 Neyman a question during her direct that related to
24 average hold times for CSR representatives between 2010
25 and 2011. If that's something that Commissioner Balbis

1 is still interested in discussing, I think Ms. Neyman
2 can provide that information.

3 **COMMISSIONER BALBIS:** Sure, that's fine. And
4 if you recall the question was for the 19 additional
5 CSR employees, what is the reduction in average hold
6 time that customers are receiving?

7 **THE WITNESS:** When we made service levels --
8 the last time we made service level of answering the
9 calls 80 percent of the calls within 30 seconds, the
10 last year we did that was 2008. The average hold time
11 was 21 seconds. In 2010, when the service level was
12 68 percent, meaning we answered 68 percent of the calls
13 in 30 seconds, the average hold time was 49 seconds.
14 So to get to the service level and the average hold
15 time that we would need to be at to make the service
16 level, we have to have an average hold time of 21
17 seconds or thereabouts.

18 **COMMISSIONER BALBIS:** Okay. So would it be
19 correct to state that for the cost of the 19 additional
20 employees, customers are reducing the average hold time
21 from 49 seconds to 21 seconds?

22 **THE WITNESS:** Roughly, yes. It takes, on
23 average, about a 21 second average hold time in order
24 for us to achieve 80 percent of the calls in less than
25 30 seconds. Now, there are other metrics that impact

1 that service level. Call volume, call length, those
2 metrics also will impact that service level, so that
3 the 19 employees are needed to get the average hold
4 time down in order to handle the call volume and to
5 achieve the service levels.

6 **COMMISSIONER BALBIS:** Okay. Thank you.

7 **CHAIRMAN GRAHAM:** Any other redirect?

8 **REDIRECT EXAMINATION**

9 BY MR. GRIFFIN:

10 Q. Just to clarify, in addition to the reduction
11 of the hold time, are there additional benefits
12 associated with the additional 19 employees?

13 A. Yes. Our abandoned call rate currently
14 with -- well, when we were not making service levels in
15 2010, peaked at 48,000. When we made service levels,
16 our abandoned call rate was 23,000 -- 25,000, excuse
17 me. So a benefit is we will reduce the abandoned call
18 rate, which does not -- abandoned calls do not factor
19 into average hold time. They are not part of that
20 calculation. So we will be able to get our abandoned
21 calls back down to a more reasonable level.

22 We will also be able to allow -- we call it
23 shrinkage in the call centers. Shrinkage is when a CSR
24 must come off the phone to do training, compliance
25 training, to be able to do after-call paperwork. And

1 when we started to struggle making service levels, we
2 canceled training and we kept employees on the phone
3 longer so that we could try to achieve service levels.
4 So this will enable us to do the compliance training
5 that we need to do to keep these CSRs and serve our
6 customers. And we will also be able to reduce our
7 overtime and hopefully get onto a more steady
8 scheduling cycles for our employees. So there are
9 several benefits.

10 **MR. GRIFFIN:** Thank you. That's all I have.

11 **CHAIRMAN GRAHAM:** Exhibits.

12 Staff, you have 214.

13 **MS. KLANCKE:** Staff moves 214.

14 **CHAIRMAN GRAHAM:** We will enter 214.

15 (Exhibit Number 214 admitted into the
16 record.)

17 **CHAIRMAN GRAHAM:** Mr. Sayler, you have 189.

18 **MR. SAYLER:** Yes, sir, 189 on Page 30.

19 **CHAIRMAN GRAHAM:** We will enter 189.

20 (Exhibit Number 189 admitted into the
21 record.)

22 **CHAIRMAN GRAHAM:** Okay.

23 **MR. GRIFFIN:** Mr. Chairman, may Witness
24 Neyman be excused?

25 **CHAIRMAN GRAHAM:** She is excused.

1 **THE WITNESS:** Thank you.

2 **CHAIRMAN GRAHAM:** Gulf, who is your next
3 witness?

4 **MR. BADDERS:** I believe our next witness
5 would be Mr. Jacob. However, the Office of Public
6 Counsel and I, we have been in some discussions, and I
7 believe we might be to a point where we would be able
8 to have him excused, pending the admission of an
9 exhibit that Public Counsel would like to pass out.
10 And, of course, all the other parties would need to
11 waive their cross.

12 **MR. SAYLER:** Mr. Chairman, in lieu of cross
13 for the Office of Public Counsel, I have offered to put
14 in the Form 10-Q for Third Quarter 2011. I have an
15 excerpt that is going to be distributed, and the
16 company has requested the entire transcript, so I will
17 provide that electronically to the Commission either
18 tonight or tomorrow. But the entire 10-Q will go into
19 the record in lieu of our cross, and hopefully that
20 will move things along.

21 **CHAIRMAN GRAHAM:** I'll tell you what, let's
22 take ten minutes and let's see if we can't gather
23 everything you guys want to get together and see how
24 much of this stuff we can cross off and decide what is
25 left.

1 **MR. SAYLER:** Yes, sir. I do know that I have
2 cross for Ms. Erickson, and I believe we also have
3 cross for McMillan. I believe the other intervenors
4 have cross for both of them, as well, but I think we
5 can knock out these four witnesses.

6 **CHAIRMAN GRAHAM:** Okay. Let's make sure that
7 everybody is shaking their heads together as I cross
8 off all the witnesses. I'll give you guys plenty of
9 time, until 5:45.

10 **MR. SAYLER:** Thank you, Mr. Chairman.

11 (Recess.)

12 **CHAIRMAN GRAHAM:** I am told by Ms. Caroline
13 Klancke that somebody has got some good news for me.

14 Ms. Klancke, who is going to be the bearer of
15 the good news?

16 **MS. KLANCKE:** Pardon me?

17 **CHAIRMAN GRAHAM:** Who has got the good
18 information?

19 **MS. KLANCKE:** I believe that we are all on
20 the same page, and Mr. Sayler can walk us through it.

21 **MR. SAYLER:** Yes, Mr. Chairman. With regard
22 to the exhibit for Grove, Caldwell, and Moore, it
23 relates to the number of full-time employees that they
24 had budgeted for in the test year and how many they
25 have actually hired to date, and what is the difference

1 between that. And there may be a few more details, but
2 the problem is they don't have that broken down by
3 transmission, distribution, and production, so that's
4 what they are looking for tonight. And we can either
5 get that on an exhibit or if they get the actual
6 number, they will just read it into the record
7 asserting that that is a true and correct statement.

8 Is that your understanding?

9 **MR. BADDERS:** Yes. Actually, we have the
10 information, just not as of December 12th, which is
11 what has been requested. So it's going to take us just
12 a little bit to pull that together.

13 **CHAIRMAN GRAHAM:** Okay.

14 **MR. BADDERS:** And we're willing to do it
15 either tomorrow orally, or we can do it as a late-filed
16 and everyone can agree to that once we have provided it
17 and they can all stipulate to it, whichever works to
18 expedite the hearing.

19 **CHAIRMAN GRAHAM:** That's Grove, Caldwell, and
20 Moore, correct?

21 **MR. SAYLER:** Yes, it is. And as soon as we
22 get that number, then they would be good to go for all
23 the intervenors.

24 **CHAIRMAN GRAHAM:** All right. So would you
25 prefer a late-filed exhibit which they can turn in

1 tomorrow morning, or depending on what we do with the
2 rest of these, they may be able to come back with
3 something orally?

4 **MR. SAYLER:** I am satisfied, assuming -- I
5 don't see FIPUG here, but I would say that everyone
6 would be satisfied with a late-file exhibit. But if
7 they can get that number tonight, then we would prefer
8 it tonight.

9 **CHAIRMAN GRAHAM:** Okay. Well, as we conclude
10 towards the end of the night, let me know if you have
11 that number or not.

12 **MR. BADDERS:** We will do so.

13 **CHAIRMAN GRAHAM:** Okay.

14 **MR. SAYLER:** And should we identify that as a
15 potential exhibit now, or should we just wait and see?

16 **CHAIRMAN GRAHAM:** Let's wait to see.

17 **MR. SAYLER:** Okay. With regard to Witness
18 Jacob, all the parties have agreed that the Southern
19 Company Form 10Q for the third quarter 2011 will be
20 stipulated into the record. We have circulated an
21 excerpt of it to be representative of the entire Form
22 10-Q. And with that, Office of Public Counsel waives
23 its cross, and all the other parties have agreed to
24 waive their cross. And I believe staff has waived
25 theirs, as well. So with that, Mr. Jacob will be done.

1 **CHAIRMAN GRAHAM:** So we need to give this a
2 number of 215.

3 **MR. SAYLER:** Yes, sir.

4 **CHAIRMAN GRAHAM:** And it's going to be
5 Southern Company Form 10-Q.

6 **MR. SAYLER:** Yes. Ending September 30th,
7 2011, for period ending 9/30/11.

8 **CHAIRMAN GRAHAM:** 9/30/11, period ending
9 9/30/11.

10 **MR. SAYLER:** Yes, sir.

11 **CHAIRMAN GRAHAM:** Okay. We will enter 215
12 into the record.

13 (Exhibit Number 215 marked for identification
14 and admitted into the record.)

15 **MR. BADDERS:** And, Chairman, at this time I
16 guess I would need to move Mr. Jacob's Rebuttal
17 Testimony into the record as though read.

18 **CHAIRMAN GRAHAM:** We will move Mr. Jacob's
19 rebuttal testimony into the record as though read.

20 **MR. BADDERS:** And he did not have an exhibit,
21 so there's nothing to take care of with that.

22 **CHAIRMAN GRAHAM:** Okay.
23
24
25

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission
3 Rebuttal Testimony of
4 P. Bernard Jacob
5 Docket No. 110138-EI
6 In Support of Rate Relief
7 Date of Filing: November 4, 2011

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

9 A. My name is Bernard Jacob, and my business address is One Energy
10 Place, Pensacola, Florida 32520. I am Vice President of Customer
11 Operations for Gulf Power Company (Gulf or the Company).

12 Q. Have you previously filed testimony in this proceeding?

13 A. Yes.

14 Q. What is the purpose of your rebuttal testimony?

15 A. The purpose of my rebuttal testimony is to respond to Office of Public
16 Counsel (OPC) witness Kimberly H. Dismukes' testimony regarding her
17 recommendation to disallow a portion of SouthernLINC charges from
18 Gulf's test year expenses. I will also address certain statistics contained
19 in the direct testimony of Florida Public Service Commission (FPSC or the
20 Commission) Staff witness Rhonda L. Hicks.

1 Q. Does Ms. Dismukes correctly characterize the role of SouthernLINC in its
2 relationship to Gulf Power and the Company's ability to provide service to
3 Gulf's customers?

4 A. No. Ms. Dismukes' testimony suggests that SouthernLINC was created to
5 provide communication services in the competitive marketplace as an
6 unregulated affiliate. The SouthernLINC expenses included in Gulf's 2012
7 test year are for telecommunication services that are necessary for the
8 continued reliable operation of Gulf's distribution and transmission system.
9 SouthernLINC's services are unique and have no commercial comparison
10 in the marketplace.

11

12 Although SouthernLINC markets its service commercially to certain
13 entities such as local municipalities, schools and utilities, such efforts are
14 to the benefit of Gulf and the other operating companies of the Southern
15 electric system. Gulf derives financial benefit from SouthernLINC's
16 commercial operations because the contribution to fixed costs from the
17 commercial aspect of SouthernLINC serve to reduce billings to Gulf and
18 its sister companies for the unique telecommunication services required
19 for regulated operations. SouthernLINC's margin on sales to non-
20 affiliates serves to reduce the costs of ownership and operation of this
21 unique telecommunications system tailored to the needs of Gulf and the
22 other operating companies of the Southern electric system.

23 SouthernLINC's services are billed to Gulf and its affiliates at cost less the
24 contribution to fixed costs obtained from SouthernLINC's commercial
25 subscribers.

1 The statement in Southern Company's 2010 Form 10-K regarding
2 SouthernLINC being responsible for a decrease in non-electric operating
3 revenues in 2009 and 2010 cited by Ms. Dismukes simply acknowledges
4 the fact that the profit from the commercial business part of SouthernLINC
5 in those years had declined and did not defray as much of the total cost of
6 SouthernLINC. This is not a case of electric utility customers subsidizing
7 the commercial customers of a non-regulated business. Quite the
8 contrary, the commercial business lines of SouthernLINC help reduce the
9 cost of the telecommunication services provided to Gulf as a vital part of
10 its operations.

11

12 Q. Why was SouthernLINC established as a subsidiary of Southern
13 Company?

14 A. SouthernLINC was established primarily to provide digital wireless voice
15 and data services to Gulf and its affiliates due to the lack of viable
16 alternatives in the commercial market. Prior to SouthernLINC, Gulf used a
17 radio system which was fixed-mounted in its vehicles and provided a base
18 system in its corporate and field offices. This system provided basic radio
19 functionality with limited channels. The users experienced several
20 operational issues such as: wait times for a channel to become available;
21 over-talk with simultaneous conversations; lack of portability; and
22 numerous radio coverage issues. SouthernLINC deployed an 800 MHz
23 system which provided push-to-talk communications on a portable hand-
24 held device. This portable hand-held device enabled the employee to keep
25 the radio with him or her while working on the electric network.

1 By having a hand-held communication device with the employee, personal
2 safety and operational productivity improved. The hand-held device
3 improved the communication capability by providing both private and
4 group talk. Functionality was expanded to include wireless cellular
5 service, data access, and instant messaging. Southern Company
6 established SouthernLINC as a subsidiary in 1996 to market this
7 technology developed to meet the operational needs of Gulf and the other
8 operating companies of the Southern electric system to other potential
9 users to help defray the costs of the system.
10

11 Q. Please describe other ways SouthernLINC is used by Gulf Power.

12 A. Gulf uses SouthernLINC for automated work order dispatch and vehicle
13 location for its service crews. SouthernLINC provides the capability to
14 electronically schedule and dispatch work orders based upon available
15 resources and equipment, thus enhancing customer value. As Gulf
16 installs additional smart grid equipment on its transmission and distribution
17 systems, SouthernLINC's interoperability between transmission and
18 distribution automation systems will result in enhanced monitoring,
19 switching, and fault location.
20

21 Q. Does SouthernLINC provide service that is unique when compared to
22 other telecommunications providers?

23 A. Yes. By design, the SouthernLINC network closely corresponds to the
24 Gulf Power electric grid and that of the entire Southern electric system,
25 including the rural areas of Gulf's service area.

1 For example, Gulf serves DeFuniak Springs, Bonifay, Graceville, Century
2 and other small communities and must have communication capabilities in
3 those rural areas. SouthernLINC provides voice and data
4 communications capability that is not always available from other wireless
5 communications providers. In many of these rural and underserved
6 communities, SouthernLINC is the only wireless service provider.

7
8 SouthernLINC designed and built its system to meet the rigorous
9 standards of utility construction. All sites have battery backup capabilities
10 with an absolute minimum capacity of between four and eight hours. In
11 addition, every site critical to electric operations must have a generator
12 with on-site fuel capacity sufficient to power the site for several days.

13
14 SouthernLINC also utilizes controllers and base radios for each site.
15 This type of construction is a function of the needs of the primary
16 customers of SouthernLINC, the operating companies of the Southern
17 electric system of which Gulf Power is a part. Gulf Power's service area
18 has been impacted by several hurricanes, tropical storms, and tornados
19 since SouthernLINC began operations. Without the strength of the
20 SouthernLINC system, Gulf's line operations would be severely hindered
21 during recovery efforts following storms.

22
23 Q. Please describe how SouthernLINC performed after Hurricane Ivan.

24 A. The impact of Hurricane Ivan to Gulf Power was catastrophic. In the
25 aftermath, the SouthernLINC wireless network was operational and

1 enabled Gulf crews to immediately begin restoration efforts in the areas
2 most severely impacted by this storm. Other communications carriers
3 sustained severe damage to their networks and their customers
4 experienced extremely limited communications capabilities for days after
5 the storm. The need for person-to-person communication is acute during
6 and after a natural disaster. Communications between utility crews,
7 electric grid operators, and other utility personnel are essential to effective
8 and efficient electric service restoration. Because of SouthernLINC's
9 infrastructure resiliency, SouthernLINC is able to provide communication
10 services and equipment not only to those restoring electric service but
11 also to a variety of public safety personnel, emergency responders,
12 governmental entities, and electric restoration crews. These unique
13 service characteristics are vital to Gulf's operations and its ability to
14 provide reliable and efficient service to its customers.

15

16 Q. Should the costs associated with SouthernLINC be fully allowed in the test
17 year?

18 A. Yes. Gulf and its customers benefit from the services provided by
19 SouthernLINC. The budgeted costs associated with SouthernLINC are
20 reasonable and should be fully allowed in the test year.

21

22 Q. Turning now to the testimony of Ms. Hicks, do you have any comments
23 about the statistics cited regarding customer contacts to the FPSC?

24 A. Yes. Overall, we are extremely proud of our service record in regards to
25 our response to customer contacts that come to the FPSC. We take

1 particular pride in the fact that the vast majority of all customer issues
2 coming to us from the FPSC via the warm transfer mechanism are able to
3 be resolved to the customer's satisfaction without further action needed by
4 the Commission. Beyond that, we are also pleased that we have such a
5 low incidence of customer contacts to the FPSC. Gulf averaged 430,216
6 customers from January 2009 through September 2011 and during this
7 period, the number of Gulf customer contacts filed with the Commission
8 totaled 1520, or 0.35 percent of the average number of customers. We
9 believe that this extremely low percentage of complaints by our customers
10 is a direct result of Gulf's commitment to customer service and customer
11 satisfaction.

12

13 Q. Do you have any other comments about the possible rule violation
14 mentioned in Ms. Hicks' testimony?

15 A. Yes. First, I want to take this opportunity to assure the Commission that
16 we at Gulf Power work very diligently to comply with all rules of the
17 Commission and we were very distressed by the event in question
18 registered in the FPSC's Complaint Activity Tracking System as inquiry
19 number 0971574E. In this particular case, Gulf's response was due at the
20 Commission on October 25, 2010 at 4:00 p.m. Central Standard Time.
21 Gulf sent an email response to the Commission on October 25, 2010 at
22 4:00 p.m. and a follow up facsimile at 4:01 p.m. CST with the FPSC
23 receiving the facsimile at 4:02 p.m. CST. Gulf acknowledges that our
24 response was certainly pushing the envelope on being submitted in a
25 timely manner and certainly left us open to being classified as being late.

1 We have taken steps that will hopefully help prevent a similar occurrence
2 in the future.

3

4 Q. Does that conclude your testimony?

5 A. Yes.

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1 **MR. GUYTON:** So I believe that would bring us
2 to Ms. Erickson, again.

3 **CHAIRMAN GRAHAM:** Sounds good.

4 **CONNIE ERICKSON**

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

8 **DIRECT EXAMINATION**

9 BY MR. GUYTON:

10 **Q.** Do you understand you are still sworn?

11 **A.** I do.

12 **Q.** Would you please state your name and business
13 address?

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

16 **Q.** And given the prior inquiry, I will decline
17 to ask you your position. Did you have occasion to
18 prefile Rebuttal Testimony in this case of 21 pages?

19 **A.** Yes.

20 **Q.** Do you have corrections to your Prefiled
21 Rebuttal?

22 **A.** Yes, I have one correction.

23 **Q.** Would you share that, please.

24 **A.** Yes. Page 21, Lines 9 and 10, 6.8 million as
25 provided in the loss analysis portion of the study

1 should be 6.8 million as provided in the reserve
2 performance analysis of the study.

3 Q. And with that change, if I were to ask you
4 the questions that are contained in your Prefiled
5 Rebuttal Testimony today, would your answers be the
6 same as you have just amended it?

7 A. Yes.

8 MR. GUYTON: We would ask that Ms. Erickson's
9 Rebuttal Testimony, as corrected, be inserted into the
10 record.

11 CHAIRMAN GRAHAM: We will insert
12 Ms. Erickson's Prefiled Rebuttal Testimony, as
13 corrected, into the record as though read.
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1 GULF POWER COMPANY

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

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

9 A. My name is Constance J. Erickson. My business address is One
10 Energy Place, Pensacola Florida, 32520 and I am the Comptroller of
11 Gulf Power Company (Gulf or the Company).

12 Q. Have you previously filed testimony in this proceeding?

13 A. Yes.

14 Q. What is the purpose of your rebuttal testimony?

15 A. My rebuttal testimony will respond to certain assertions and positions
16 contained in the testimony of Office of Public Counsel (OPC) witnesses
17 Donna Ramas and Helmuth W. Schultz, III, Federal Executive
18 Agencies (FEA) witness Greg R. Meyer, and Florida Industrial Power
19 Users Group (FIPUG) witness Jeffry Pollock. My rebuttal testimony
20 will address, in the order listed, the following areas addressed by these
21 witnesses:

22 Retirement of Analog Meters

23 Directors & Officers Liability Insurance

24 Rate Case Expense

25 Property Damage Reserve Accrual

1 Q. Have you prepared an exhibit that contains information to which you
2 will refer in your testimony?

3 A. Yes. Exhibit CJE-2 was prepared under my supervision and direction.
4

5 Retirement of Analog Meters

6 Q. Mr. Meyer recommends that the net unrecovered investment in the old
7 analog meters be recovered over 15 years compared to Gulf's
8 proposed four-year recovery period. Why is Gulf proposing to use a
9 four-year recovery period?

10 A. In the Florida Public Service Commission (FPSC or the Commission)
11 Order approving Gulf's most recent depreciation rates, Order No. PSC-
12 10-0458-PSS-EI, issued on July 19, 2010, the Commission approved a
13 four-year recovery period for the analog meters being retired. Gulf's
14 proposal in this case is to use the same four-year recovery period as
15 approved in the most recent Depreciation Study order. That was the
16 Commission's most recent consideration of this issue.

17

18 Directors and Officers Liability Insurance

19 Q. What does OPC witness Schultz recommend with respect to the
20 Company's Directors and Officers (D&O) liability insurance?

21 A. Mr. Schultz recommends a disallowance of \$59,384 for the Company's
22 requested \$118,767 expense for D&O liability insurance. His argument
23 is that D&O liability insurance benefits shareholders first and foremost.
24

25

1 Q. Do you agree with Mr. Schultz's position that D&O liability insurance
2 benefits shareholders first and foremost?

3 A. No. Customers are the primary beneficiaries of D&O liability
4 insurance. However, the real rationale for including this cost in O&M
5 expenses is that it is a cost of providing service, and just like any other
6 cost of providing service, the rates charged should cover this cost.

7

8 Q. How do customers benefit from D&O liability insurance?

9 A. A well run company, such as Gulf Power, must have competent and
10 skilled directors and officers to lead it. These individuals would be
11 difficult to attract and retain if the Company did not have D&O liability
12 insurance. Capable directors and officers help ensure proper oversight
13 and management of the Company, which in turn benefits the
14 customers. D&O liability insurance also helps protect the assets of the
15 Company, which are used to serve Gulf's customers. D&O liability
16 insurance is a legitimate and necessary cost of providing service.

17

18 Q. Has the Commission previously ruled on whether D&O liability
19 insurance should be included in customers' rates?

20 A. Yes. As Gulf witness Deason points out in more detail, in the most
21 recent Tampa Electric rate proceeding, Order No. PSC-09-0283-FOF-
22 EI, at pages 63-64, and in the most recent Peoples Gas rate
23 proceeding, Order No. PSC-09-0411-FOF-EI, at pages 36-38, the
24 Commission ruled that D&O liability insurance is a necessary and

25

1 reasonable expense for the Company to do business and appropriately
2 included in customers' rates.

3

4 Q. Should the Commission allow the Company's requested \$118,767
5 expense for D&O liability insurance?

6 A. Yes. D&O liability insurance directly benefits customers and is a
7 necessary and reasonable expense for the Company to do business.

8

9

Rate Case Expense

10 Q. Do you agree with OPC witness Ramas' proposed reduction of
11 \$579,432 to rate case expense in the test year?

12 A. No. Gulf's estimate of rate case expense included in this filing is
13 \$2.8 million. Through September 2011, Gulf had already incurred
14 \$2.1 million of incremental rate case expense. Based on the work yet
15 to be done in this proceeding, including depositions, completion of
16 discovery responses, preparation of rebuttal testimony, the prehearing,
17 the final hearing, and preparation of post-hearing briefs, Gulf
18 anticipates that the costs associated with this rate proceeding will be
19 well in excess of the \$2.8 million estimate included in the rate case
20 filing. Some categories of expense may be over and some may be
21 under the original estimate, but in total, Gulf will incur incremental
22 expense directly related to this rate case in excess of \$2.8 million.

23

24 Q. Please address rate case expenses from Southern Company Services
25 (SCS) that Ms. Ramas proposes to disallow.

1 A. Ms. Ramas proposes to remove SCS expenses for Information
2 Technology (IT), Human Resources (HR), and accounting functions.
3 This adjustment is unreasonable and would disallow legitimately
4 incurred costs.

5
6 SCS has prepared the complex Cost of Service Studies that Gulf's
7 witness O'Sheasy uses and presents in his testimony. SCS performed
8 these studies because it was less expensive than having Mr.
9 O'Sheasy's firm perform the studies. There is no duplication of costs
10 being requested. SCS is also providing technical support to Mr.
11 O'Sheasy and has prepared responses to numerous discovery
12 requests.

13
14 In order to prepare our case and respond to the extensive amount and
15 scope of discovery the Company has received, Gulf has also utilized
16 additional resources from SCS's HR, accounting, and financial
17 planning functions. Gulf receives all of its IT services from SCS which
18 has provided additional technology resources necessary for
19 preparation of the Company's case and will provide technical support
20 during the final hearing. These costs were a necessary incremental
21 expense in the preparation of the rate case.

22
23 The rate case expenses from SCS that Gulf seeks to recover are
24 incremental to any expenses Gulf otherwise incurs during the normal
25 course of business and are charged directly to Gulf. Costs specific to

1 the rate case are segregated and charged to a separate work order.
2 All of these necessary SCS expenses have been or will be legitimately
3 incurred in preparation of the rate case. These costs are reasonable
4 expenses for the Company to do business and thus are appropriately
5 included in customers' rates.

6

7 Q. Please address overtime labor costs that Ms. Ramas suggests should
8 be disallowed.

9 A. The overtime labor costs included in rate case expenses are only for
10 non-exempt Gulf employees. These overtime costs are not included in
11 the 2012 test year budget; these costs represent incremental costs
12 associated directly with rate case activities. All overtime related to the
13 rate case is segregated and charged to a separate account. This
14 overtime has been necessary to prepare the initial rate case filing,
15 respond to discovery, prepare rebuttal testimony and get ready for final
16 hearings. Once again, these are necessary and appropriate costs of
17 preparing the rate case.

18

19 Q. Please address Ms. Ramas' concern about meals and travel
20 expenses.

21 A. Gulf's final hearings are scheduled for five days, and the Company is
22 hopeful that its case can be heard in that time frame. In order to be
23 prepared for five long days of hearings, some personnel will need to
24 travel before Monday. Likewise, some personnel will need to stay

25

1 beyond the conclusion of the hearing in order to disassemble
2 computers, printers, and other equipment used during the week.

3
4 The number of people attending the hearings will be based on the
5 number of witnesses that actually testify. Certainly those witnesses
6 will require technical support, as well as, legal, regulatory,
7 administrative and logistical support staff.

8
9 Q. What adjustment should be made to Gulf's projected test year rate
10 case expense?

11 A. None. Gulf's actual rate case expenses will exceed the original
12 projection of \$2.8 million.

13
14 **Property Damage Reserve Accrual**

15 Q. Several intervenor witnesses have questioned the merits of the storm
16 study (Study) Gulf had performed and which was attached to your
17 direct testimony. Please provide a summary of Gulf's Hurricane Loss
18 and Reserve Performance Analysis, including who performed it, why,
19 and how it was conducted.

20 A. In accordance with Rule 25-6.0143 (1)(l), "Each utility shall file a Storm
21 Damage Self-Insurance Reserve Study (Study) with the Commission
22 Clerk by January 15, 2011 and at least once every five years thereafter
23 from the submission date of the previously filed study. A Study shall
24 be filed whenever the utility is seeking a change to either the target
25 accumulated balance or the annual accrual amount for Account No.

1 228.1. At a minimum, the Study shall include data for determining a
2 target balance for, and the annual accrual amount to, Account No.
3 228.1.”
4

5 Gulf contracted with EQECAT, an ABS Group Company, to perform a
6 loss analysis using its advanced computer model simulation program
7 WORLDCATenterprise USWIND. This program is a probabilistic
8 model designed to estimate damage and losses due to the occurrence
9 of hurricanes and is one of only four models evaluated and approved
10 by the Florida Commission on Hurricane Loss Projection Methodology
11 (FCHLPM) for projecting hurricane loss costs. Probabilistic annual
12 damage and loss is computed using the results of thousands of
13 random variable hurricanes considering the long term 100-year
14 hurricane hazard. Primary factors considered in the analysis include
15 the location of Gulf's overhead Transmission & Distribution (T & D)
16 assets, the probability of hurricanes of different intensities and/or
17 landfall points impacting those assets, the vulnerability of those assets
18 to hurricane damage, and the costs to repair and restore electric
19 service.
20

21 Q. Mr. Meyer believes the property damage accrual should be increased
22 but to no more than \$5 million; FIPUG witness Pollock states that it
23 should remain at \$3.5 million; and Mr. Schultz believes the annual
24 accrual should be reduced to \$600,000. Please explain why the
25 Company's request is the appropriate amount.

1 A. First and foremost, the accrual level should be set at the amount that is
2 appropriate for the Company's customers. The accrual level over the
3 long run should provide the necessary dollars required for restoration
4 from most storms but not from the most severe storms. The accrual
5 should also smooth the effect of storms on our rates without the
6 burden to customers of excessively high surcharges. Let me reinforce
7 this point: storm surcharges to Gulf's customers on the heels of a
8 storm are increased charges that must be imposed at the worst
9 possible time, because customers are already spending funds
10 recovering from the storm and will likely face higher property insurance
11 premiums as well. So, it is important to have a sufficient property
12 damage reserve level to mitigate storm surcharges when reserves are
13 exhausted.

14
15 Gulf's requested accrual and reserve targets are appropriate
16 considering the Commission's framework. The Company's proposed
17 annual accrual of \$6.8 million represents the Expected Annual
18 Damage (EAD) that would be charged to the reserve from all simulated
19 hurricanes over a long time horizon based on the Loss Analysis in the
20 Study discussed previously. Setting the accrual at this level will allow
21 for a reserve adequate to accommodate most, but not all storm years.
22 If those reserves prove to be inadequate, due to the uncertain timing
23 and magnitude of storms, a provision exists for Gulf to seek recovery.

24
25

1 Q. Have you reviewed the testimony of the intervenors and examined how
2 they determined their annual accrual?

3 A. Yes. Mr. Meyer agreed the accrual should be increased and
4 suggested that if the Commission were to adjust the annual accrual it
5 should be set by escalating the \$3.5 million allowed in Gulf's last rate
6 case by the Consumer Price Index (CPI) and the customer growth
7 factor, yielding \$5 million. So, Mr. Meyer recognizes that the existing
8 reserve targets and accrual are too low and should be adjusted.

9

10 Mr. Pollock states on page 19 of his testimony that the accrual amount
11 should not be changed.

12

13 Mr. Schultz states that the annual accrual should be reduced from the
14 currently approved annual level of \$3.5 million to \$600,000 based on
15 the assumption that the annual charges to the reserve will continue at
16 the "historical rate" of \$575,566. Mr. Schultz's "historical rate" of
17 \$575,566 is inappropriate for the reasons discussed below.

18

19 Q. Please explain why Mr. Schultz's "historical rate" of annual charges to
20 the property damage reserve of \$575,566 is inappropriate.

21 A. There are significant mathematical and logic errors in his calculation,
22 and it ignores relevant history. I will address the major issues with Mr.
23 Schultz's testimony.

24

25

1 First, Mr. Schultz rejects the probabilistic Study performed by a
2 reputable storm analyst using an approved model. I will address each
3 of the erroneous observations he makes in rejecting the Study later in
4 my testimony.

5
6 Second, Mr. Schultz's calculation of a "historical rate" ignores
7 legitimate and appropriate charges to the property damage reserve
8 other than storms. If these legitimate charges had been reflected in his
9 calculation, his average would have been higher.

10
11 Third, Mr. Schultz suggests the use of an eight-year average.
12 However, he uses ten years as the denominator in calculating the
13 "eight-year average," understating his average.

14
15 Fourth, Mr. Schultz completely ignores the significant storm damage
16 incurred by Gulf in 2004 and 2005, when Gulf charged some \$147
17 million to its property damage reserve, totally exhausting the reserve
18 and having the costs of three hurricanes recovered through a lengthy
19 51-month storm surcharge.

20
21 While Gulf does not agree with Mr. Schultz's testimony, if his
22 "historical" calculations had been performed accurately, recognizing all
23 costs to the reserve (all ten years of storms and non-storm events), his
24 "historical average" of charges against the reserve would have been
25 \$15.7 million as shown on Exhibit CJE-2, Schedule 1. That is \$8.9

1 million higher than Gulf's requested accrual of \$6.8 million and \$15.1
2 million higher than Mr. Schultz recommends!

3

4 Q. Please address Mr. Schultz's rationale for ignoring 2004 and 2005
5 storm damages.

6 A. It is based on a misinterpretation of a prior Progress Energy Florida
7 (PEF) decision in which the Commission stated that the 2004 hurricane
8 season was "unprecedented and extraordinary." The Commission was
9 addressing PEF's experience in 2004 (four storms: Hurricanes Charlie
10 (Category 4), Jeanne (Category 3), Frances (Category 2), and a
11 remnant of Ivan, in a single season). The Commission was not
12 addressing Gulf's 2004 storm season, and the quote he cites said
13 nothing about the 2005 storm season for either PEF or Gulf.

14

15 The hurricanes Gulf experienced in 2004 and 2005 were not
16 extraordinary. They were all Category 3 storms or smaller. Even the
17 total damages from Gulf's two Category 3 storms, \$137 million for Ivan
18 and \$59 million for Dennis, were significantly smaller than Katrina, the
19 2005 Category 3 storm that hit Mississippi Power, which caused \$396
20 million in total damages.

21

22 Q. Mr. Schultz further argues that the Commission decided storm
23 surcharges, not property damage reserves, are the proper vehicles for
24 recovery related to "storms of an extraordinary nature." Please
25 address this assertion.

1 A. This simply is inaccurate. The Commission did not decide that storm
2 surcharges were the exclusive means of addressing severe storms. It
3 allowed the accrued property damage reserve funds to pay, even for
4 severe storms, and then used surcharges to recover the remaining
5 costs. The Commission approved storm surcharges because the costs
6 of severe storms exhausted the property damage reserve and a storm
7 surcharge was the means chosen to recover the costs not covered by
8 the reserve. Suggesting that severe storms should be covered only by
9 storm surcharges as Mr. Schultz does is an inaccurate summation of
10 history and would be an abrupt change in Commission policy.

11

12 Q. Mr. Schultz states on page 19 of his testimony, "it is my opinion that
13 the storm study was not used to determine the level of the accrual.
14 Instead, the study reflects what the Company decided it wanted to
15 collect in rates." How do you respond to this allegation?

16 A. This allegation is without merit. The ground work for this Study began
17 early in 2010, since the Study was required to be filed with the
18 Commission in January, 2011. This filing was independent of any rate
19 case proceedings. There was absolutely no communication with the
20 consultant that tried to direct or sway the outcome of the Study.

21

22 The Study outcome was an EAD of \$8.3 million, with an estimated
23 reserve impact of \$6.8 million which would be charged against the
24 property damage reserve. As stated on page 4-2 in the Loss Analysis
25 section of the Study, the \$8.3 million represents the average damage

1 from all simulated hurricanes over a long time horizon. This number
2 was the basis for further work in the reserve analysis. No better
3 number exists for analyzing the estimated reserve impact associated
4 with storm activity.

5
6 Q. Can you elaborate on the philosophical differences between you and
7 the intervenors on the issue of the appropriate target level of the
8 reserve balance?

9 A. Yes. Mr. Meyer implies the target reserve between \$25.1 million to
10 \$36 million previously approved by the Commission is reasonable.
11 What Mr. Meyer may not be aware of is that target level was
12 established in 1996 when Gulf had a \$1 million deductible on its all-risk
13 insurance policy. Currently, Gulf's all-risk policy carries a \$25 million
14 deductible for named wind storms. Gulf's requested range is based
15 upon recent experience on its system, but is well below the level of
16 damage caused on a sister company's electric system from a Category
17 3 hurricane. Mr. Meyer and I both agree that an increase in the annual
18 accrual is warranted. If Mr. Meyer had escalated his reserve target
19 level by CPI and customer growth as he did his annual accrual, his
20 range would have been approximately \$48 to \$69 million.

21
22 Mr. Pollock states on page 24 of his testimony that the current reserve
23 balance is sufficient to cover all Category 1 hurricanes, as well as all
24 but the most severe Category 2 hurricanes. The logical question these
25 observations raise is what happens in the event of storms he chooses

1 not to cover: severe Category 2 storms, Category 3 storms like Ivan
2 and Dennis which Gulf has experienced since its last rate case, a
3 severe Category 3 storm like Katrina that produced damages of \$396
4 million, or a Category 4 or 5 storm? Mr. Pollock acknowledges that the
5 property damage reserve would not cover such events and suggests,
6 without support, that it is not intended to cover such events.
7

8 The Company finds Mr. Pollock's perspective particularly troubling for
9 the customer. Storm surcharges to cover two Category 3 storms that
10 impacted Gulf's service area ranged from \$2.57 to \$2.71 per 1,000
11 kWh per month. The estimated incremental monthly rate impact on
12 customers is \$0.27 per 1,000 kWh per month if the reserve is set at a
13 level designed to meet the probabilistic expected annual damage
14 calculated in the Study. Mr. Pollock's approach is not in the best
15 interest of Gulf's customers.
16

17 Mr. Schultz acknowledges that assuming no property damage is
18 recorded to the reserve in 2011, the Company would have a reserve
19 balance of \$31 million, which is above the mid-point of the
20 Commission's target level of \$25.1 million to \$36 million established in
21 1996. Both witnesses Meyer and Pollock agree, as does the
22 Company, that the Commission has established a regulatory
23 framework that the property damage reserve should be adequate to
24 accommodate most, but not all storm years. What we disagree on is
25 what constitutes "most, but not all." Mr. Pollock believes this means

1 having a reserve that covers most Category 2 storms. Gulf believes
2 the appropriate target property damage reserve level should cover at
3 least a Category 3 storm. Gulf's position is supported by the actual
4 experience of two service area impacts from Category 3 storms in the
5 last eight years, and more appropriately, the thousands of probabilistic
6 storms developed in the Study. Gulf's request is a reserve target
7 balance of \$52 million to \$98 million, which is based on actual
8 experience and is not escalated.

9

10 Q. Mr. Pollock states that Gulf's customers do not benefit from higher
11 contributions to fund the reserve. Is this correct?

12 A. No. An adequately funded property damage reserve reduces rate
13 volatility post-storm, which benefits customers by reducing rate shock.
14 When surcharges are added to customers' monthly bills, concern over
15 the potential for rate shock exists, especially regarding low and/or
16 moderate income residential customers.

17

18 Q. Do you agree with Mr. Pollock's statement that the funds collected are
19 not maintained in a separate account?

20 A. No. Each January, the Company funds an amount equal to the after-
21 tax balance in the property damage reserve account. These funds are
22 set aside in a special investment account to pay for property damage
23 and earn interest that is also credited monthly to the property damage
24 reserve.

25

1 Q. Mr. Pollock states that customers prefer to pay for storm restoration
2 when the damage occurs versus through an annual accrual in base
3 rates. Do you agree with this assumption?

4 A. No. Mr. Pollock may represent customers who prefer to pay for storm
5 restoration when the damage occurs, but many customers do not
6 prefer that approach. Each generation of customers should contribute
7 to the cost of storm restoration, even if no storm strikes in a particular
8 year. Since storms will occur, and only their timing is uncertain, the
9 true cost of providing electric service should include an allowance for a
10 level of restoration that approximates the EAD charged to the property
11 damage reserve.

12

13 After Hurricane Ivan, Gulf experienced a customer loss of 2 percent
14 and after Hurricane Katrina, Mississippi Power experienced a customer
15 loss of over 10 percent. The customer losses after Hurricanes Ivan
16 and Katrina demonstrate that an appropriate property damage reserve
17 included in customer rates over time is more equitable to customers
18 than a storm surcharge implemented after a storm that could likely be
19 assessed on a smaller customer base. Storm restoration is a cost of
20 providing electric service in Florida and should be properly reflected in
21 Gulf's base rates.

22

23 Q. Mr. Schultz and Mr. Pollock have concerns that the Study did not
24 include consideration for storm hardening. Do you agree with Mr.
25 Schultz and Mr. Pollock?

1 A. No. In Order No. PSC-10-0688-PAA-EI the Commission approved
2 Gulf's continuation of its storm hardening program, but in its conclusion
3 the Commission acknowledges that no data are available to evaluate
4 the effects of hardening efforts on Gulf's infrastructure. Therefore, it
5 would not be appropriate to assume that storm hardening would have
6 any significant impact on Gulf's hurricane restoration practices and
7 cost experiences. At the time data is available on the effects of storm
8 hardening, the Company will incorporate the findings into its studies.

9

10 Q. Does the Company have other insurance policies to cover its assets
11 outside of the property damage reserve and have any changes
12 occurred in those policies that would affect the reserve going forward?

13 A. Yes to both questions. Gulf has all-risk insurance for all assets other
14 than T & D assets. The deductible on the all-risk policy has increased
15 to \$10 million from \$1 million for all property damage besides named
16 wind storms. The deductible on named wind storms has increased to
17 \$25 million from \$1 million on the all-risk policy. Thus, the first \$25
18 million of insured damage, excluding T & D assets, would come from
19 the property damage reserve and represents the current lower end of
20 the target reserve band, which was established over 15 years ago.

21

22 Q. Mr. Schultz has a concern on pages 20 and 21 that the focus was on
23 thousands of simulations of storms that were not specific to Gulf's
24 service area and that some storms that were specific, Ivan, Dennis and

25

1 Katrina, were too significant to be included. Do you agree with his
2 concerns?

3 A. No. As stated on page 5-1 of the Study, the Reserve Performance
4 Analysis consisted of performing 10,000 iterations of hurricane loss
5 simulations within Gulf's service area, to determine the effect of the
6 charges for damage on Gulf's reserve. In discussions with our
7 consultant, Gulf discovered that page 5-1 of the Study indicates the
8 loss simulations cover an eight-year period, but the loss simulations
9 actually cover a five-year period. Gulf will and has suffered significant
10 damage from hurricanes where the eye of the storm does not make
11 landfall in Gulf's service area. That was the case with Hurricanes Ivan
12 and Katrina. The eye of Hurricane Ivan made landfall in Orange
13 Beach, Alabama (roughly 30 miles from Pensacola, FL) causing
14 significant damage to Gulf's service area. The charge against the
15 reserve associated with this storm was just under \$94 million. The eye
16 of Hurricane Katrina made landfall on the Louisiana-Mississippi state
17 line, (roughly 160 miles from Pensacola, FL) and the impact of this
18 storm in Gulf's service area resulted in a charge against the reserve in
19 the amount of just over \$2 million.

20
21 Q. Mr. Schultz outlined several other concerns with the Company's
22 conclusion regarding the Study. Do you agree with Mr. Schultz's
23 concerns?

24 A. No. I have addressed throughout my rebuttal testimony why the storm
25 activity of 2004 and 2005 should not be excluded from the

1 determination of the accrual. If all relevant charges had been included
2 in Mr. Schultz's calculations, the actual annual average for the ten year
3 period included in Mr. Schultz's Schedule C-1, page 2 of 2, is
4 \$15.7 million which is \$8.9 million higher than the requested property
5 damage accrual of \$6.8 million. Mr. Schultz states "the written body of
6 the study suggests a result based on an unsupported and atypical
7 annual average for typical storm reserve damage charges." This
8 statement is without merit and appears to reflect a misunderstanding of
9 the Study and its methodology.

10
11 The Study reflects thousands of storms from Category 1 to Category 5,
12 but the probabilities assumed for a Category 4 and 5 storms are
13 extremely low. Historically, there has been only one Category 4 storm,
14 and no category 5 storms that have made landfall between Alabama
15 and Pinellas County, Florida. While a storm with damages of \$140
16 million or greater in costs with a 1 percent probability is pessimistic, it
17 is clearly possible as the citizens of the Mississippi Gulf Coast can
18 attest.

19
20 Mr. Schultz's final point, that Gulf's \$6.8 million request was
21 predetermined, also clearly demonstrates a lack of understanding of
22 the methodology of the Study. The \$6.8 million property damage
23 accrual was determined by the Loss Analysis and then used in the
24 Reserve Performance Analysis to determine the potential impact on
25 the reserve.

1

2 Q. Considering the direct testimony of witnesses Meyer, Pollock and
3 Schultz, at what level should Gulf's accrual and target reserve be set?

4 A. The property damage accrual and reserve are necessary costs of
5 providing electric service in Florida due to the absence of commercial
6 insurance coverage on T & D assets and higher deductibles on all risk
7 insurance policies. Each generation of customers should contribute to
8 the cost of storm restoration, even if no storm strikes in a particular
9 year. The amount of the accrual should be set at \$6.8 million, as
10 provided in the ~~loss analysis portion of the Study~~ *reserve performance analysis of the study*. The range for the
11 target reserve level should be increased to \$52 million to \$98 million.
12 This target is based on actual experience and accounts for additional
13 investment in T & D assets and customer growth since 1995. Given an
14 accrual based on the Study of \$6.8 million, the overall reserve balance
15 is not expected to change over time, but the target reserve level should
16 be addressed since the actual timing of storms is uncertain.

17

18 Q. Does this conclude your testimony?

19 A. Yes.

20

21

22

23

24

25

1 BY MR. GUYTON:

2 Q. And did you have occasion to file an exhibit
3 with your Rebuttal Testimony, CJE-2?

4 A. Yes.

5 Q. And is the information in that exhibit
6 correct?

7 A. Yes.

8 Q. I believe that has also been identified in
9 the prehearing order. I'm not quite sure that I have
10 that number in front of me right now, but it has been
11 identified.

12 Ms. Erickson, have you prepared a summary of
13 your rebuttal?

14 A. Yes, I have.

15 Q. Would you share with the Commission, please?

16 A. Sure. Good evening, Commissioners.

17 I'm Connie Erickson, and I am still the
18 comptroller. I appreciate this opportunity to provide
19 an overview of my rebuttal testimony.

20 The primary topic I address in rebuttal is a
21 topic that everyone who has lived in the State of
22 Florida for any length of time should be all too
23 familiar with, dealing with and recovering from the
24 aftermath of hurricanes. The other two areas in my
25 rebuttal that I address are directors and officers

1 liability insurance expense and rate case expenses.

2 The annual property damage accrual is really
3 just about customers. The accrual level was the topic
4 for several intervenor witnesses, since we all
5 recognize that planning for the impact of hurricanes is
6 just a part of doing business on the coast of Florida.
7 Each of the witnesses testified to their beliefs
8 regarding what is in the best interest of Gulf's
9 customers. Opinions vary greatly, but understand
10 Gulf's actual experience over the last ten years was an
11 average annual charge to the reserve of \$15.7 million.

12 The intervenors want Gulf to ignore that
13 storm experience and set the accrual one of four ways.
14 Either use actual experience excluding Ivan and Dennis
15 and all other nonstorm property damage; leave the
16 accrual as it is today; eliminate it completely; or
17 escalate the accrual based on inflation and customer
18 growth.

19 From my perspective, none of those ways is as
20 valid as the storm study performed by an outside
21 expert. The study uses a statistically valid approved
22 model to simulate thousands of potential hurricanes
23 that could impact Gulf's service territory based on
24 history and computes the expected annual damage over
25 the long-term. Setting the accrual at 6.8 million is

1 the best way to be sure all generations of customers
2 pay the actual cost of living and doing business in
3 northwest Florida.

4 Gulf is unable to obtain cost-effective T&D
5 insurance coverage, and must self-insure for this risk.
6 Essentially, those premiums can be provided for in one
7 of two ways. You can use a surcharge after the storm
8 occurs of \$2.71 or higher per month per average
9 customer for, say, 51 months, or by simply accruing a
10 quarter -- or simply accruing just over a quarter, an
11 incremental 27 cents per month for an average
12 residential customer. Hurricanes are part of doing
13 business on the Gulf coast of Florida, and our base
14 rates should be set accordingly.

15 Turning to directors and officers liability
16 insurance expense for just a minute. The intervenors
17 in this case do not have an appreciation for the role
18 our directors and officers play in protecting our
19 customers by ensuring proper oversight and management
20 of the company. The directors and officers also
21 protect the assets used to serve our customers.
22 Directors and officers liability insurance expense is
23 necessary and reasonable and a cost of providing
24 service just like any other cost.

25 The last area I discuss is rate case expense.

1 Commissioners, Gulf put together a reasonable estimate
2 of the dollars it would take to put this case together.
3 Even then we could not have imagined the incredible
4 volume of discovery that would be requested in this
5 case, nor the number of issues we would need to defend.
6 The actual expenses incurred have already exceeded the
7 original estimate. All of these expenses are
8 incremental, including the SCS and overtime costs. The
9 expenses have been prudently incurred and were
10 necessary in order to prepare this case.

11 Commissioners, each of the expenses I
12 addressed in my Rebuttal Testimony are justified and
13 are in the interest of Gulf's customers. Because these
14 expenses are necessary for the provision of service,
15 Gulf's base rates should be established to allow for
16 their recovery. Thank you.

17 **MR. GUYTON:** We tender the witness.

18 **CHAIRMAN GRAHAM:** Mr. Sayler.

19 **CROSS EXAMINATION**

20 BY MR. SAYLER:

21 **Q.** Good evening, Ms. Erickson. How are you?

22 **A.** I'm fine.

23 **Q.** The last part of your testimony summary I had
24 a question about. The rate case expense issue, Gulf
25 originally projected 2.8 million approximately or

1 thereabout for rate case expense?

2 A. Yes.

3 Q. And Gulf is now saying that they are going to
4 exceed that amount, is that correct?

5 A. We have already exceeded that amount.

6 Q. But is Gulf seeking more than the
7 2.8 million, or just the 2.8 million that they
8 requested in their original filing?

9 A. We are seeking 2.8 million.

10 Q. Thank you. Would you please turn to Page 12
11 of your rebuttal testimony, please. All right. Over
12 the course of the last few days we have had a little
13 bit of a history lesson of the various storms that,
14 unfortunately, have struck the Gulf Power service
15 territory. My question for you is on Line 15 and 16
16 where you testify the hurricanes Gulf experienced in
17 2004 and 2005 were not extraordinary. Is it your
18 testimony that you believe that none of those storms
19 were extraordinary?

20 A. Yes, that's what I believe.

21 Q. And were you here earlier when Witness
22 Caldwell and Moore testified that Hurricane Ivan was
23 severe and had nearly catastrophic effects on Gulf's
24 transmission and distribution systems?

25 A. I was not here, but I heard their testimony.

1 Q. Okay. And without turning to the portions of
2 their testimony, that is nearly a direct quote from
3 their testimony regarding those two storms?

4 A. I can't recall that for sure, but, yes, I
5 heard what they said.

6 Q. And also both -- you heard what they said?

7 A. Well, I heard what they said. Not live; I
8 heard it over the Internet.

9 Q. Oh, okay. Thank you. I was, like -- okay.
10 And, similarly, Hurricane Dennis was almost as severe
11 as Ivan causing similar amounts of damage to the
12 transmission and distribution systems. Not as much,
13 but similar amounts.

14 MR. GUYTON: Objection. I don't think that's
15 a fair characterization of the witness' testimony.

16 MR. SAYLER: Well, we will let the record of
17 their testimony speak for themselves.

18 MR. GUYTON: I'm fine with that.

19 MR. SAYLER: Okay.

20 BY MR. SAYLER:

21 Q. And would you agree that after Ivan,
22 91 percent of Gulf's customers lost power?

23 A. Yes, that's true.

24 Q. And over 60 percent lost power as a result of
25 Hurricane Dennis?

1 A. I am not as familiar with those numbers.

2 Q. If I recall correctly, it's in the testimony
3 of either Moore or Caldwell, or both. My question for
4 you is this, if Hurricane Ivan and Dennis are not
5 extraordinary storms, how would you define
6 extraordinary?

7 A. From what perspective?

8 Q. From a dollar perspective.

9 A. From a dollar perspective. And actually I
10 think that is a good way to do that. So from a dollar
11 perspective, Dennis -- and I'll do it in terms of
12 overall cost, as opposed to the charges to the reserve,
13 but if you would like to know that I have those, too.

14 Q. Yes, just the cost of the damage.

15 A. The total damage for Dennis was \$59 million.
16 The total damage for Hurricane Ivan was 136, almost
17 \$137 million. And the total cost of damage for
18 Hurricane Katrina in Mississippi Power's territory was
19 --

20 Q. Just Gulf Power territory.

21 **MR. GUYTON:** I'm sorry, we're redefining the
22 question now.

23 **THE WITNESS:** He asked for a definition of --

24 **CHAIRMAN GRAHAM:** The question you asked was
25 what would she consider as extraordinary, and I think

1 she's trying to tell you. She's giving you a cost
2 difference between them, because you said you wanted to
3 do it on cost.

4 **MR. SAYLER:** Yes, sir. And my apologies. I
5 was hoping that it would be limited to the Gulf Power
6 service territory damages, not other sister companies
7 within Southern or other places. Otherwise, we could
8 take New Orleans for Katrina, which is not really
9 subject to this proceeding.

10 **CHAIRMAN GRAHAM:** I'm sorry, I thought I
11 understood. Maybe you want to rephrase the question.
12 I thought I understood you just wanted her to give you
13 a dollar amount.

14 **MR. SAYLER:** Yes. Let me rephrase.

15 BY MR. SAYLER:

16 Q. How much in dollars figures did it cost in
17 damage to the Gulf service territories related to
18 Hurricanes Ivan, Dennis, and Katrina?

19 A. I'm going to have to ask you to clarify the
20 question for Katrina.

21 **CHAIRMAN GRAHAM:** Isn't Gulf's territory just
22 in the State of Florida?

23 **MR. SAYLER:** That's my understanding, that
24 Gulf doesn't serve in Alabama or anywhere else.

25

1 BY MR. SAYLER:

2 Q. Do you have a copy of your deposition?

3 A. Yes.

4 Q. All right. If you will turn to Page 57 in
5 your deposition. And on Page 57, Line 10, you say the
6 cost incurred for damage related to Ivan was
7 \$137 million. Do you see that?

8 A. Yes.

9 Q. And then on Page 58, Line 22, you say that
10 Gulf Power experienced \$2 million in damage to the
11 system. Do you see that?

12 A. Yes. The Katrina number was actually the
13 reserve component. The total damage to Gulf's system
14 was 4 million.

15 Q. Okay. And then also on your deposition, Line
16 57, after explaining a little bit about Dennis being a
17 much smaller compact storm, you say that you would view
18 it as extraordinary. Do you see that? Is it your
19 testimony that Hurricane --

20 A. Can you tell me which line you are referring
21 to?

22 Q. Sure. Page 57, Line 15.

23 A. Okay. And what I was referring to here in
24 context was that Katrina was a complete rebuild for
25 Mississippi Power. So in terms of looking at damage,

1 Ivan for us -- we were able to repair our system, and
2 the distinction that I really make there is the ability
3 to repair is less expensive than the ability to
4 rebuild. Rebuild is much more costly. So Katrina's
5 total expenses in the Mississippi Power territory were
6 \$396 million for that rebuild, and I believe that is an
7 extraordinary storm as it relates -- especially to a
8 Category 3 storm. And that, I would hope, would be the
9 upper end of a Category 3.

10 Q. Can you point in your deposition where you
11 are referring to Mississippi Power, because my
12 understanding of the context of the question it was
13 related to Gulf Power?

14 A. I believe in my errata I clarified that. So
15 in my errata Line 57 -- or Page 57, Line 14, after
16 rebuild, I added for Mississippi Power Company.

17 Q. Thank you, Ms. Erickson. But it is still
18 your testimony that even though these three storms
19 struck the service territory of Gulf Power that they
20 were not extraordinary?

21 A. Yes, that is my testimony.

22 Q. All right. I believe we passed out excerpts
23 to the Progress Energy and Florida Power and Light rate
24 case recommendation and order, and these are excerpts
25 from both the recommendation and the excerpt. Do you

1 have a copy of those?

2 A. I do not.

3 MR. SAYLER: Pardon, they are being passed
4 out as we speak.

5 And, Commissioners, I'm not asking that these
6 be identified as exhibits. These are just for
7 cross-examination purposes.

8 CHAIRMAN GRAHAM: Sounds good.

9 THE WITNESS: I've got them now.

10 BY MR. SAYLER:

11 Q. All right. And are you familiar with the
12 staff's recommendation on the storm reserve accrual in
13 both cases?

14 A. I believe I have read them, but it has been
15 awhile.

16 Q. Okay. Subject to check, and feel free to
17 double-check the recommendations, but would you agree,
18 subject to check, that the Commission staff recommended
19 the status quo for Progress Energy Florida's storm
20 accrual?

21 A. Can you point me in the right direction?
22 That would be helpful.

23 Q. Sure. It's Exhibit F, 2010 rate case. The
24 first page is the cover page of the recommendation. On
25 the back side of that cover page for Issue 68 it said,

1 "Should an adjustment be made to the accrual for
2 property damage for the projected test year?"

3 A. I see that.

4 Q. And staff's recommendation says, "No, the
5 accrual for property damage should remain in its
6 current level." Do you see that?

7 A. I see it.

8 Q. And I would characterize that as maintaining
9 the status quo. Would you?

10 A. Yes.

11 Q. And are you familiar with the order that was
12 issued on March 5th, 2010, the next page? And in that
13 I have an excerpt from the Commission's decision. Are
14 you familiar with this order and the Commission's
15 decision regarding storm accrual?

16 A. Again, I read it several months ago.

17 Q. And would you agree that the Commission in a
18 close vote decided to not allow Progress to have any
19 accrual for storm?

20 A. Yes, I'm aware of that. And I believe there
21 were a couple of dissents written as well, as it
22 related to that decision.

23 Q. Yes, ma'am, there were. And on Page 71 of
24 that order, the majority decision, and I'll just read
25 it. "Our decision herein is based on --"

1 **MR. GUYTON:** Objection. This has not been
2 identified as an exhibit. The witness has stated that
3 she may have read it several months ago, and we
4 essentially have the attorney testifying here. Could
5 we have a question?

6 **CHAIRMAN GRAHAM:** Do you need to -- is there
7 a question coming?

8 **MR. SAYLER:** Yes, sir.

9 **CHAIRMAN GRAHAM:** Okay. Continue.

10 BY MR. SAYLER:

11 **Q.** Well, would you read that last paragraph at
12 the top of Page 71?

13 **A.** Yes. "Our decision herein is based on our
14 belief that the current storm damage reserve is
15 sufficient at this time. The company has the option of
16 petitioning this Commission for a surcharge to recover
17 the storm damage costs not recovered through the storm
18 damage reserve. As demonstrated in the past, we have
19 allowed companies to recover extraordinary hurricane
20 losses, such as the ones experienced by PEF in 2004
21 through a separate surcharge."

22 **Q.** And would you agree that this decision says
23 that, one, the current storm damage reserve was
24 sufficient at that time, and similarly, if there was an
25 extraordinary hurricane, the company could avail itself

1 of a storm surcharge?

2 **MR. GUYTON:** Objection, she just read the
3 passage. It speaks for itself.

4 **CHAIRMAN GRAHAM:** So the answer is yes,
5 that's what it says.

6 **THE WITNESS:** The answer is yes, that's what
7 it says. But I do understand that there was
8 ultimately a stipulation that came about as a result of
9 this particular case, and I'm not sure that this order
10 was ever finalized.

11 **MR. SAYLER:** I know you're not an attorney,
12 but this order was -- there was a motion for
13 reconsideration. It came to the Commission, the
14 parties reached a stipulation, and the stipulation,
15 which is part of the Commission record as a decision,
16 does not affect the actual storm accrual or the
17 surcharge. As a matter of fact, the stipulation
18 actually created a surcharge mechanism. Were you aware
19 of that?

20 **THE WITNESS:** I'm not exactly sure what you
21 are referring to. That I have not read.

22 **MR. SAYLER:** Okay.

23 **CHAIRMAN GRAHAM:** She answered it to the best
24 of her ability.

25 **MR. SAYLER:** Okay.

1 BY MR. SAYLER:

2 Q. So you were not aware of that storm surcharge
3 mechanism in that settlement and stipulation resulting
4 from this final order?

5 A. No, I am not.

6 Q. Okay. I have similar questions for the FP&L
7 recommendation and order, but in lieu of asking those
8 questions, I will just state that I would ask you the
9 same questions, and I probably expect to get the same
10 answers, so I will not ask those questions.

11 CHAIRMAN GRAHAM: Are you familiar with the
12 stipulation of Florida Power and Light?

13 THE WITNESS: The same way. I read it a
14 couple of months ago, so my answers would be the same.

15 CHAIRMAN GRAHAM: Okay.

16 MR. SAYLER: Thank you, Mr. Chairman.

17 BY MR. SAYLER:

18 Q. The current storm reserve accrual amount or
19 current property reserve accrual amount, how much is
20 that per 1,000 kWh?

21 A. It's \$3.5 million. We have requested
22 3.3 million in this case, which is 27 cents. So it is
23 probably in the neighborhood of, you know, 28, 29, 30
24 cents. I haven't actually done that revenue
25 requirement calculation, but it seems to be that it is

1 pretty close to that.

2 Q. Okay. And the other day you recall
3 testifying that you performed an informal survey
4 regarding the storm accrual?

5 A. Yes.

6 Q. And when you were doing your survey, did you
7 tell the survey participants that there currently was a
8 storm reserve accrual in a similar amount to what the
9 company was requesting?

10 A. I did. I tried to explain it to the best of
11 my ability, but, again, recognizing that these are not
12 people who were overall familiar with how ratemaking is
13 done.

14 Q. This is a quite arcane sport that we are
15 engaged in. But I believe in your deposition you
16 stated that you told some of the participants that if a
17 storm surcharge was imposed, that would be about ten
18 times more than the accrual amount that the company was
19 seeking, is that correct?

20 A. What I explained to them is what they had
21 actually experienced. Because it was easier to put it
22 in a frame of reference of what had actually happened.
23 So I said it could be more; it depends on what kind of
24 storm hits. But it's good to have -- would they rather
25 be putting 27 cents away now, or risk having a storm

1 surcharge that could go on for, you know, four years of
2 ten times that amount, you know, and they actually had
3 \$2.71 previously.

4 Q. You would agree, mathematically, if you added
5 the current accrual amount of, we'll say, 27 cents to
6 the amount that you are requesting that it is really
7 not ten times?

8 A. But the incremental amount that they were
9 looking at, the 25 cents or the 27 cents was already in
10 rates, and what we were asking for was an incremental
11 27 cents.

12 Q. And when you were doing your informal survey
13 of your customers, did you mention to them any of the
14 other aspects of the rate case, such as the cost of
15 service or rate design and how that would affect them
16 should the Commission approve the company's request?

17 A. We talked about the complexity of a rate
18 case. They were most interested in some of the topics
19 that they had heard about.

20 Q. And was one of those topics the customer
21 charge or the base charges?

22 A. No. No one ever raised that concern with me.

23 Q. I believe at one of the customer service
24 hearings there was some discussion about what is the
25 customer charge or the base charge and why was it

1 increasing. Do you know how much the base charge was
2 being increased for residential customers?

3 A. I remember a discussion of that, but I'm not
4 sure of the actual amount.

5 Q. Are you aware that Gulf is proposing to
6 increase it from 10 to \$15?

7 MR. GUYTON: Objection. She just stated she
8 was not aware. Asked and answered.

9 CHAIRMAN GRAHAM: I'll let her answer the
10 question. Her memory may come back.

11 BY MR. SAYLER:

12 Q. And were you aware that Gulf is also
13 requesting to increase the customer charge or base
14 charge for commercial customers, as well? I don't have
15 the dollar amount. I think it was 25 to 35.

16 A. Again, at a very high level.

17 Q. All right. And mathematically speaking,
18 would you say that a \$5 a month increase for the
19 residential customer on the base charge is almost
20 20 times more than the 27 cents per 1,000 kWh? Maybe
21 it is 17 or 18 percent.

22 A. It is a large change.

23 MR. SAYLER: Thank you very much, Ms.
24 Erickson.

25 THE WITNESS: Thank you.

1 MR. SAYLER: No further questions.

2 CHAIRMAN GRAHAM: Ms. Kaufman.

3 MS. KAUFMAN: Mr. Chairman, I don't have any
4 questions for Ms. Erickson.

5 CHAIRMAN GRAHAM: Major Thompson.

6 MAJOR THOMPSON: No questions.

7 MR. LaVIA: I have a few questions.

8 CHAIRMAN GRAHAM: Surely.

9 CROSS EXAMINATION

10 BY MR. LaVIA:

11 Q. Good evening, Ms. Erickson. My name is Jay
12 LaVia. I am representing the Florida Retail
13 Federation. I have a couple of questions for you. It
14 will be brief.

15 On Page 16 of your testimony, Line 13, you
16 talk about reducing rate shock. I want to explore rate
17 shock with you a little bit. Do you see that?

18 A. Yes.

19 Q. Now, the rate stock I assume you are
20 referring to would be the potential rate shock of, say,
21 a \$2.71 surcharge. Is that what you're talking about?

22 A. Yes.

23 Q. Do you know what the rate impact will be to
24 the average monthly bill if Gulf receives everything it
25 asks for in this case?

1 A. If I recall from yesterday it was around an
2 \$11 increase in base rates.

3 Q. Does 11.85 or something like that sound
4 reasonable?

5 A. Again, I would have to see it again, but --

6 Q. Would that constitute rate shock in your
7 mind, if \$2.71 is a concern?

8 A. I think what we're asking for is a reasonable
9 --

10 Q. Yes or no and then you can explain.

11 A. I would have to think about that for a
12 second.

13 Q. Please do.

14 A. It would be nice to have, and I don't know
15 that I have it, but I think somebody could get it for
16 me, the per thousand kilowatt hour impact of the
17 request that we are seeking. So if I could have a
18 chance to look at that, I would maybe be able to --

19 Q. Let me represent to you that it's \$11.85.
20 Assume that for the question.

21 A. Well, I'd like to look at it on a per
22 thousand kilowatts.

23 Q. That is on a per thousand kWh basis. Assume
24 that for the question.

25 A. I think \$11.85 -- I think that's a

1 significant increase. I think that it has been a long
2 time since we have been here, it has been -- and we
3 need to come with a request.

4 Q. So it constitutes rate shock, yes or no?

5 A. I think when I was looking at this I was
6 looking at \$2.71 --

7 MR. LaVIA: Mr. Chairman, could you instruct
8 her to answer yes or no and then explain?

9 CHAIRMAN GRAHAM: I think she is trying to
10 clarify the question before she answers it.

11 MR. LaVIA: Okay.

12 THE WITNESS: I think what I was really
13 referring to here is that I don't know what -- if we
14 don't put away an accrual, for example, if we went with
15 your proposal, which is to completely eliminate an
16 accrual --

17 CHAIRMAN GRAHAM: Ms. Erickson, I just need
18 for you to restate the question.

19 THE WITNESS: Okay. I mean, what I want to
20 answer is rate shock -- is the 11.85 rate shock as
21 compared to what a storm surcharge could be. Is that
22 what you're asking?

23 MR. LaVIA: Sure.

24 THE WITNESS: Okay. I don't know what a
25 storm surcharge would be if I had no reserve. I mean,

1 if you figured out what -- an Ivan storm comes along
2 with no reserve, you know, the \$2.71 was based on, if I
3 recall right, around \$50 million in damage. You know,
4 so you would double that. If you were just to collect
5 Ivan with no reserve, you are probably up over 6 or \$7
6 on top of the base rates that we already have. So, you
7 know, I think -- I agree this is a significant increase
8 that we are looking for.

9 BY MR. LaVIA:

10 Q. Would you also agree that it is four times,
11 roughly four times \$2.71? That will be my last
12 question.

13 CHAIRMAN GRAHAM: I was going to say let's
14 let her answer the question about if she thinks it's
15 rate shock or not.

16 MR. LaVIA: Okay. I have been trying.

17 THE WITNESS: I know. It's a very tough
18 call.

19 CHAIRMAN GRAHAM: I don't know if it's a fair
20 question or a fair answer.

21 MR. LaVIA: I think it's fair, Mr. Chairman.
22 That's all I have. Thank you.

23 CHAIRMAN GRAHAM: Okay. Staff.

24 MS. KLANCKE: No questions.

25 CHAIRMAN GRAHAM: Commissioners.

1 Redirect.

2 REDIRECT EXAMINATION

3 BY MR. GUYTON:

4 Q. I only have one redirect question. You were
5 asked a couple of questions about the PEF staff
6 recommendation and almost -- well, we'll confine it to
7 that. Do you have any reason to believe that the staff
8 recommendation in the PEF case was based on anything
9 other than the evidence before the Commission in that
10 case?

11 A. No.

12 MR. GUYTON: That's all we have.

13 CHAIRMAN GRAHAM: Okay. Exhibits.

14 MR. GUYTON: I move Exhibit 167.

15 CHAIRMAN GRAHAM: Page 28, 167.

16 (Exhibit Number 167 admitted into the
17 record.)

18 CHAIRMAN GRAHAM: Is that all the exhibits?

19 MR. BADDERS: Can I give you an update of
20 where we are?

21 CHAIRMAN GRAHAM: Well, is that all the
22 exhibits for Ms. Erickson?

23 MR. GUYTON: Yes. That's all we have. May
24 she be excused?

25 CHAIRMAN GRAHAM: Yes, sir.

1 **MR. GUYTON:** Thank you.

2 **CHAIRMAN GRAHAM:** We will excuse the
3 Comptroller.

4 (Laughter.)

5 **THE WITNESS:** Thank you, Mr. Chairman.

6 **MR. BADDERS:** Very quickly. We are really
7 close. I did not think we would make getting the
8 numbers tonight, but actually we are very close. If I
9 could suggest that we go ahead and move to Witness
10 McMillan, and if we break about 7:00 o'clock or
11 thereabouts we should have the late-filed exhibit ready
12 and be able to handle the other witnesses.

13 **CHAIRMAN GRAHAM:** Okay. Let's go to
14 McMillan.

15 **RICHARD J. McMILLAN**

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

19 **DIRECT EXAMINATION**

20 BY MR. MELSON:

21 **Q.** Mr. McMillan, are you there?

22 **A.** Yes.

23 **Q.** You understand you are still under oath?

24 **A.** Yes.

25 **Q.** Would you state your name and business

1 address again for the record?

2 A. Richard J. McMillan, One Energy Place,
3 Pensacola, Florida 32520.

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

6 A. I'm employed by Gulf Power Company as
7 Corporate Planning manager.

8 Q. And did you prefile Rebuttal Testimony in
9 this docket dated November 4th, 2011, consisting of
10 30 pages?

11 A. Yes.

12 Q. And did you also file Supplemental Rebuttal
13 Testimony regarding the Crist turbine upgrades dated
14 November 29th, consisting of five pages?

15 A. Yes.

16 Q. Do you have any changes or corrections to any
17 of that testimony?

18 A. No.

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

21 A. Yes.

22 MR. MELSON: Mr. Chairman, I would ask that
23 Mr. McMillan's Rebuttal Testimony and Supplemental
24 Rebuttal Testimony be inserted into the record as
25 though read.

1 **CHAIRMAN GRAHAM:** We will insert Mr.
2 McMillan's Rebuttal Testimony and Supplemental Rebuttal
3 Testimony into the record as though read.
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1 GULF POWER COMPANY

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

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

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

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

13 A. Yes.

14 Q. What is the purpose of your rebuttal testimony?

15 A. The purpose of my rebuttal testimony is to demonstrate that the cost
16 allocations to Gulf from Southern Company Services (SCS) are based on
17 appropriate cost allocation methodologies and that the recommended
18 changes to some of those allocation factors by Office of Public Counsel
19 (OPC) witness Dismukes are without merit. I also show why the Florida
20 Public Service Commission (FPSC or the Commission) should reject her
21 proposal to disallow the costs associated with a number of specific work
22 orders. In addition, I show that the calculation of her proposed adjustment
23 related to Gulf's non-regulated operations is in error and that her
24 recommendation to move the accounting for such operations above-the-
25 line should be rejected.

1 Next I respond to the proposals by Federal Executive Agencies (FEA)
2 witness Meyer and OPC witness Ramas to disallow a portion of Gulf's
3 payroll costs related to employee vacancies or hiring lag. I show that
4 labor costs cannot be viewed in isolation, and that Gulf's total level of
5 Operations and Maintenance (O&M) expense is reasonable even if some
6 vacancies exist during the year. I also show that the amounts these
7 witnesses propose to disallow are significantly greater than any properly
8 calculated hiring lag adjustment.

9
10 With regard to Gulf's proposal to include its North Escambia County
11 generating site in rate base, I clarify an apparent misunderstanding by
12 various intervenor witnesses about the role that Florida Statutes Section
13 366.93 plays in Gulf's request.

14
15 I also show that if the Commission decides to make a parent debt
16 adjustment, the jurisdictional amount calculated by Ms. Ramas uses an
17 inappropriate jurisdictional factor that overstates the amount of the
18 adjustment.

19
20 Finally, I respond to a number of miscellaneous issues raised by
21 intervenor witnesses, including Gulf's cost of debt and preference stock,
22 the correct balance of deferred taxes to be included in the capital
23 structure, the correct amount of test year revenues from Sales for Resale,
24 and the reasons that unamortized rate case expense should be included
25

1 in working capital. I also comment on a lack of consistency in the basis
2 used by OPC witness Schultz for his proposed expense adjustments.

3

4 Q. Are you sponsoring any rebuttal exhibits?

5 A. Yes. I am sponsoring Exhibit RJM-2, Schedules 1 through 6. Exhibit
6 RJM-2 was prepared under my supervision and direction, and the
7 information contained in that exhibit is true and correct to the best of my
8 knowledge and belief.

9

10

11

I. TRANSACTIONS WITH AFFILIATES

12

Standards for Cost Allocations

13

14 Q. Ms. Dismukes states that subsection (3) of Commission Rule 25-6.1351,
15 Florida Administrative Code, provides specific details about the pricing
16 criteria to be used for transactions between affiliates and a regulated
17 utility. How does that rule apply to transactions between SCS and Gulf
18 Power?

19

A. That rule does not apply to services provided by SCS to Gulf Power. Rule
20 25-6.1351(3)(a) specifically states that subsection (3) – which
21 Ms. Dismukes purports to summarize – does *not* apply to services
22 received by a utility from an affiliate, such as SCS, that exists solely to
23 provide services to members of the utility's corporate family. The rule also
24 does not apply to services provided between Gulf and any of its regulated
25 utility affiliates, such as Alabama Power or Mississippi Power. Further, the

1 provisions in subsection (3)(d) relating to asset transfers apply only to
2 transfers between Gulf and its nonregulated affiliates, not to transfers
3 between Gulf and its regulated utility affiliates.
4

5 Q. Ms. Dismukes refers to an April 9, 2001 letter from NARUC to the
6 Securities and Exchange Commission (SEC) regarding NARUC's
7 Guidelines for Cost Allocations and Affiliate Transactions. Have you
8 reviewed that letter and the attached guidelines?

9 A. Yes. This letter was written in the context of an SEC rulemaking that
10 would govern cost allocations between a U.S. public utility holding
11 company and a foreign affiliate of the holding company. Thus the letter
12 has no applicability to Gulf and its affiliates.
13

14 The 1999 NARUC Cost Allocation Guidelines attached to the letter
15 specifically state that they "are not intended to be rules or regulations
16 prescribing how cost allocations and affiliate transactions are to be
17 handled." Instead they were intended to provide a framework for
18 regulatory authorities to consider "in the development of their own policies
19 and procedures for cost allocations and affiliated transactions."
20

21 Ms. Dismukes fails to point out that this Commission's own policies and
22 procedures for cost allocations and affiliate transactions, which are
23 contained in Rule 25-6.1351, were adopted in late 2000, after these
24 NARUC guidelines had been issued. Gulf is governed by the
25 Commission's rules, not by the earlier NARUC Guidelines.

1

2 Q. Ms. Dismukes also states that the Cost Accounting Standards Board
3 (CASB) has issued standards relating to the allocation of costs to affiliates
4 and cites it as an authoritative source which recognizes the importance of
5 benefits in distributing common costs. Do you have any observations
6 about this testimony?

7 A. Yes. The CASB is a federal government board whose cost allocation
8 rules apply only to major federal procurement contracts. Those rules do
9 not apply to regulated public utilities. Nevertheless, the cost allocation
10 methods used by SCS are consistent with the CASB principles
11 Ms. Dismukes quotes in her testimony.

12

13 Allocation Factors

14 Q. Ms. Dismukes disputes the use of the three-part financial allocation factor.
15 Can you provide some history on the use of this factor?

16 A. Yes. Prior to the repeal of the Public Utility Holding Company Act
17 (PUHCA) in 2005, the allocation methodologies used by SCS were subject
18 to review and approval by the SEC. The allocation methodologies
19 approved by the SEC are still in use today. In particular, the methodology
20 used to calculate the financial factor was approved by the SEC in 1985
21 and has been used for over 25 years to allocate costs among the
22 Southern Company affiliates.

23

24 Today, the authority to supervise cost allocations rests with Federal
25 Energy Regulatory Commission (FERC) and the state commissions.

1 Since the repeal of PUHCA, FERC has made no change in SCS's
2 allocation methodologies, which are reported to FERC on an annual basis
3 in SCS's FERC Form 60 filing. Allocations based on this financial factor
4 have also been reviewed and accepted by this Commission in the two
5 base rate proceedings Gulf has had since 1985.

6
7 Q. How often are the financial factor and the other fixed allocation factors
8 recalculated?

9 A. Fixed allocation factors are typically recalculated once a year when the
10 final data necessary to calculate the factors becomes available from the
11 prior year. The new factors are used to develop the budget for the
12 upcoming year and to allocate costs incurred during that year. For
13 example, new factors were calculated in 2010 based on 2009 data. These
14 factors are then used to develop the 2011 budget and to allocate 2011
15 costs.

16
17 Q. What factors were used to allocate costs for the projected 2012 test year?

18 A. The test year costs were allocated based on the 2010 factors that use
19 data from 2009. This was the most recent actual data available at the
20 time the projected test year budget was prepared.

21
22 Q. What changes does Ms. Dismukes recommend to the allocation factors
23 used to project test year expenses?

24 A. Ms. Dismukes recommends three changes. First, she totally revises the
25 financial factor by excluding operating revenues from the calculation,

1 thereby converting the three component factor to a two component factor.
2 Second, she recommends excluding fuel and purchased power from the
3 operating expense factor. Third, she recalculates some, but not all, of the
4 remaining fixed allocation factors using data from 2010. The combined
5 effect of these changes is to reduce Gulf's operating expenses by
6 \$832,284.

7
8 Q. Ms. Dismukes uses a couple of examples to support her claim that using
9 operating revenues in the calculation of the financial factor could bias the
10 factors. Please comment on these examples.

11 A. First, Ms. Dismukes uses an example in which she observes that the
12 revenue per kWh for Southern Power's wholesale business is lower than
13 Gulf's revenue per kWh for its retail business. From this, she concludes
14 that using revenue in calculating a cost allocator may not be indicative of
15 the level of service that SCS provides to Southern Power. However, she
16 fails to take into account that a much larger infrastructure must be in place
17 to support Gulf's regulated, retail revenue stream. There are significantly
18 more employees and assets supporting regulated sales compared to non-
19 regulated sales. Retail sales require not only power generation facilities,
20 but also transmission and distribution facilities. SCS supports all of the
21 activities in each company, and the level of required support for regulated
22 companies is greater than that required for nonregulated companies.

23
24 Q. Ms. Dismukes also observes that when Gulf obtains rate relief, the use of
25 a revenue component in the financial factor will cause Gulf's share of

1 allocated costs to increase. How will this increase affect Gulf's
2 customers?

3 A. It will not affect them at all in the short term. The allocations in this case
4 are based on 2009 data which does not include the effect of the requested
5 rate increase. When Gulf's revenues increase in 2012 due to rate relief,
6 that increase will affect the factors calculated in 2013 and used to allocate
7 2014 costs. Even making the unrealistic assumption that only Gulf's
8 revenues change, and there has been no change in revenues or the net
9 assets and expenses of the other affiliated companies, Gulf's allocated
10 share of costs would be higher beginning in 2014.

11

12 Q. Is there any other flaw in focusing on regulated rate increases when
13 discussing the revenue component of the financial factor?

14 A. Yes. Ms. Dismukes ignores the fact that the revenue component also
15 captures revenue growth from price changes by nonregulated affiliates, as
16 well as sales growth for both regulated and nonregulated affiliates.

17

18 Q. Please comment on Ms. Dismukes' proposal to exclude fuel and
19 purchased power costs from the operating expense component of the
20 financial factor.

21 A. This is merely an attempt to arbitrarily shift costs from the regulated
22 operating companies, including Gulf, to nonregulated businesses that do
23 not generate electricity and therefore do not incur fuel costs.

24 Ms. Dismukes ignores the fact that SCS provides extensive support for
25 activities related to fuel and purchased power, including things such as

1 fuel procurement, fuel transportation, the operation of the generating
2 assets and the sale and acquisition of purchased power. Ignoring these
3 activities that support the operating companies would result in an unfair
4 allocation that does not follow the principle of matching cost allocations
5 with cost incurrence and benefits.

6

7 Q. Should the Commission reject Ms. Dismukes' recommendation to
8 recalculate the financial factor by excluding operating revenues in their
9 entirety and excluding fuel and purchased power expenses from the
10 operating expense calculation?

11 A. Yes. The three component method for developing the financial factor has
12 been in place for over 25 years, was approved by the SEC, has not been
13 changed by the FERC, and has been accepted as a basis for allocation by
14 the Florida Commission and the commissions in Alabama, Georgia and
15 Mississippi where Gulf's sister companies operate. The current
16 methodology gives appropriate weight to each company's revenues,
17 expenses and assets, each of which affects the amount of support that the
18 companies require from SCS.

19

20 Q. Ms. Dismukes also recalculates some fixed allocation factors based on
21 2010 data. Should the Commission use these recalculated factors to
22 establish Gulf's test year expenses?

23 A. No. As stated previously, the 2010 statistics were not available when Gulf
24 prepared the budget information for this filing, and it is inappropriate to
25 pick and choose what factors you would like to update. If the Commission

1 finds that it is appropriate to update the fixed allocation factors, then it
2 should update them all using the actual 2010 factors that will apply to
3 2012 costs. These factors have recently been finalized. Substituting the
4 2010 fixed allocation factors for the 2009 factors used in Gulf's filing will
5 actually *increase* Gulf's share of SCS billings by approximately
6 \$1,262,500. As shown on Exhibit RJM-2, Schedule 1, approximately
7 \$1,159,000 of this amount represents increased O&M expenses.

8
9 Specific Work Orders

10 Q. Ms. Dismukes proposes to disallow \$186,780 related to work orders that
11 Gulf was unable to locate when responding to discovery from OPC. She
12 asserts that Gulf was unable to provide information demonstrating the
13 need for the activities, the method used to allocate costs, and the
14 companies that the costs should be charged to. Please respond to her
15 assertion.

16 A. In Gulf's response to Citizens' 6th Request to Produce Documents No.
17 108, the Company stated that the original approved work orders could not
18 be located, but did provide descriptions and justifications for the activities
19 covered by the work orders. The total budgeted amount allocated to Gulf
20 was provided in response to Citizens' 1st Request to Produce Documents
21 No. 34, Attachment E. The allocation methods used for each work order
22 were provided in response to Citizens' 1st Request to Produce Documents
23 No. 34, Attachment B. The information related to the associated costs
24 and the affiliates who shared in those costs was produced in response to
25 other requests and is summarized on Exhibit RJM-2, Schedule 2.

1 Ms. Dismukes therefore had access to all of the information that she
2 erroneously claims Gulf was unable to provide.

3
4 Q. Is the amount charged to these work orders properly included as a test
5 year expense?

6 A. Yes. The activities represented by these work orders were necessary,
7 and Gulf's share of the costs was determined using the appropriate cost
8 allocation factors.

9
10 Q. Please discuss some of the remaining work orders that include costs
11 Ms. Dismukes contends the Commission should disallow.

12 A. Work Order 471701 (SEC Inquiry). The work order form submitted for this
13 item was an outdated form. This work order is no longer used for an SEC
14 inquiry, but has been reused by the SCS Comptroller organization. The
15 test year amount includes various special projects, including Enterprise
16 Solutions transition and implementation.

17
18 Work Order 46C805 (Wireless Systems). This work order covers wireless
19 system materials costs that are capitalized as part of wireless system
20 upgrade and replacement projects. The increase from 2010 to 2012 in the
21 amount charged to Gulf through this work order is solely the result of a
22 change in billing procedures. Wireless materials costs were previously
23 billed directly to Gulf by Georgia Power Company. After the Enterprise
24 Solutions accounting software was implemented, the cost of these
25 wireless materials, which still originate from Georgia Power, are now billed

1 to Gulf through this SCS Work Order. While the amount billed on this
2 Work Order has increased, the direct billings from Georgia Power have
3 ended. The capital projects to which these materials expenditures relate
4 are listed on Schedule 19 of Exhibit RJM-1 to my direct testimony as
5 Telecommunications Wireless and Scada, Voice and Data Converged
6 Network, and Telecommunication Transport and Facilities. As shown on
7 Schedule 19, the amounts are consistent from year to year and have not
8 increased as a result of this billing change.

9
10 Work Order 473401 (Benefits Review). A number of benefits reviews are
11 conducted on a recurring basis or an as-needed basis at various times
12 throughout the years. Although the specific benefits reviews covered by
13 this work order take place every other year, there are other normal
14 benefits review activities that do not fall during the test year. The amount
15 included in the test year is representative of an on-going level of benefits
16 review activity and Ms. Dismukes' proposal to amortize the amount of this
17 work order over two years should be rejected.

18
19 Work Orders 473ECO and 473ECS (Legal Expenses). The Chief
20 Operating Officer and External Affairs functions provide services to Gulf,
21 and any related legal advice is budgeted in these work orders. Each of
22 these functions requires legal advice to ensure compliance with rules,
23 regulations, contracts, and agreements. These activities benefit
24 ratepayers and the expense related to these work orders should be
25 allowed.

1

2 Work Order 474401 (Public Relations Expenses). Ms. Dismukes
3 proposes to disallow this work order on the grounds that public relations
4 expenses are similar to image building advertising. In fact, this work order
5 covers internal company publications that educate employees about
6 industry, local and company issues, making them better equipped to serve
7 customers. It also includes external public relations messages that are
8 used to communicate billing, safety, and energy efficiency information to
9 Gulf's customers. This helps customers by providing information on
10 alternative ways to receive and pay bills, ways to prevent accidental
11 injuries, and ways to use energy more efficiently, resulting in value and
12 savings to the customer. The costs are reasonable and appropriate, and
13 should be allowed.

14

15 Work Order 471501 (Investor Relations-General). I disagree with
16 Ms. Dismukes' recommendation to disallow these investor relations
17 expenses for ratemaking purposes. Investor Relations works with
18 investors to preserve the value of Gulf's securities and to ensure
19 continuous access to capital at favorable rates for the benefit of Gulf and
20 our customers. This work order provides an on-going investor relations
21 program to facilitate informed relationships with existing and potential
22 investors in system equity and debt securities. This ensures that the
23 Company's securities are fully valued by the investment community
24 through regular communications that provide updates on the financial
25 condition and plans of the Company. This type of Investor Relations

1 activity is an essential function for any company with publicly traded
2 securities and the costs should be allowed.

3
4 Work Order 4Q51RC (SCGEN IT: Support of Railcar Maintenance). This
5 work order covers the on-going annual software costs, including
6 maintenance and enhancements, associated with a new application that is
7 necessary to effectively and efficiently manage the railcar maintenance
8 program.

9
10 Work Order 4QPA01 (PAS Central System Integrity). This work order
11 covers the ongoing expenses, including support and depreciation, related
12 to control system integrity (CSI). The CSI tool is used to manage and
13 document the compliance requirements resulting from the NERC Cyber
14 Security Standards. The costs are reasonable and appropriate and
15 should be allowed.

16
17 Q. Are there any of Ms. Dismukes' work order recommendations that Gulf will
18 accept?

19 A. Yes. Upon further investigation, Gulf agrees that the activities associated
20 with Work Order 466909 should have been capitalized, rather than
21 expensed, resulting in a reduction to test year jurisdictional O&M of
22 \$343,847 (\$344,204 system). We also agree that it would be appropriate
23 to amortize the costs of the biannual customer summit (Work Order
24 49SWCS) over two years, resulting in a reduction to test year jurisdictional
25 O&M of \$19,450 (\$20,130 system).

1

2 Unregulated Operations

3 Q. What is the magnitude of the Gulf's unregulated revenues?

4 A. Gulf's unregulated test year revenues of \$1.298 million are less than 0.1%
5 of its total retail revenues.

6

7 Q. In discussing the Company's unregulated operations, Ms. Dismukes
8 recommends that the Commission move the unregulated revenues,
9 expenses and investments above-the-line for ratemaking purposes. Is this
10 appropriate?11 A. No. Rule 25-6.1351(2)(g), Florida Administrative Code, defines
12 nonregulated as products or services that are not subject to price
13 regulation by the Commission or are not included for ratemaking purposes
14 and are not reported in surveillance. Consistent with this rule, Gulf's
15 unregulated activities are properly recorded below-the-line and do not
16 impact its revenue requirement request.

17

18 Q. Assuming the Commission were to accept Ms. Dismukes recommendation
19 to move unregulated operations above-the-line, has she correctly
20 calculated the amount of the revenue adjustment?21 A. No. Although I disagree that these operations should be reflected above
22 the line, I have provided a corrected calculation of the amount of any such
23 adjustment. Ms. Dismukes does not account for the fact that for
24 ratemaking purposes, Gulf's investment in its unregulated operations is
25 removed 100% from equity. Further, her calculated ROI's are based on an

1 end of period investment balance. Per Commission policy and ratemaking
2 treatment, ROI should be calculated using a thirteen month average. As
3 reflected on Exhibit RJM-2, Schedules 3 and 4, after reversing the 100%
4 equity treatment of these unregulated activities and adjusting rate base
5 and net operating income, the revised jurisdictional return on rate base
6 would be 7.06% and the net impact of making these adjustments would be
7 a reduction of \$258,000 in our request.

10 II. EMPLOYEE COMPLEMENT AND HIRING LAG

11
12 Q. Should the Commission make an adjustment to Gulf's labor expense
13 based on an assumption that Gulf will not fill its budgeted 1,489 FTEs for
14 2012?

15 A. No. As of September 30, 2011, Gulf has an employee complement of
16 1,391 FTEs. This is less than the 2012 budget of 1,489 for two reasons.
17 First, some of the 159 new positions included in the 2011 and 2012
18 budgets have not yet been filled. In their rebuttal testimony, Gulf
19 witnesses Grove, Caldwell, Moore and Neyman explain the reasons that
20 27 of these 159 positions had not been filled by the middle of October.
21 This includes 10 positions at Gulf's power plants that have been
22 eliminated in the final 2012 budget and replaced by an increased
23 allowance for contract labor. There are plans to fill the remaining 17 new
24 positions by December 31st of this year.

25

1 Second, there are other positions temporarily vacant at this time due to a
2 variety of factors, including voluntary and involuntary separations,
3 retirements, transfers within the Southern Company system, and transfers
4 within Gulf. Some of the 159 new positions have been filled by existing
5 employees, which leaves their old positions to be filled. As a result, the
6 current number of temporary vacancies due to internal transfers is higher
7 than normal. Gulf is actively seeking to fill these vacant positions, and
8 (except for normal turnover) expects to be at or close to a full complement
9 in 2012.

10

11 Q. If Gulf does not have a full complement of 1,489 employees throughout
12 2012, would it be appropriate to make an adjustment to test year payroll
13 expense?

14 A. No. As I stated in my direct testimony, it is not appropriate to focus on the
15 labor portion of O&M expenses in isolation. When positions are not filled,
16 the Company may incur additional overtime and contract labor costs and
17 may redirect spending to other O&M activities. As shown on Exhibit
18 RJM-2, Schedule 5, while Gulf historically has had some vacancies in its
19 budgeted positions, it typically has spent 100% or more of its overall O&M
20 budget. The major exception has been in the recent past, when Gulf has
21 taken steps to avoid having to request a rate increase during a period of
22 economic uncertainty.

23

24 Further, the rates from this case will go into effect near the end of the first
25 quarter of 2012. So long as the vacant positions are filled by that time, the

1 full amount of payroll costs will be incurred during the first full year the
2 rates are in effect.

3

4 Q. Even if Gulf makes every effort to fill positions, won't there be a hiring lag
5 that results in some positions being vacant for part of the year due to
6 voluntary and involuntary separations, retirements, deaths, transfers within
7 the Southern Company system, and transfers within Gulf?

8 A. Yes. This type of hiring lag is found in any business. However, for the
9 reasons I discussed previously, this does not mean that the dollars
10 budgeted for payroll will not be spent on contract labor, overtime, or other
11 operational needs.

12

13 Q. If the Commission does decide to make an adjustment for hiring lag
14 associated with normal employee turnover, how should the amount of that
15 adjustment be calculated?

16 A. The amount of the adjustment for a hiring lag should be calculated based
17 on the estimated employee turnover during the year times the average
18 time it takes to fill a vacant position times the average salary. Exhibit
19 RJM-2, Schedule 6, calculates a hiring lag adjustment based on this
20 approach. The calculation of average employee turnover and the time
21 required to fill these positions, by employee classification (covered,
22 exempt and non-exempt) is based on data for 2008 through 2010. The
23 average salary estimate is based on actual 2011 salaries by employee
24 classification. This calculation results in a total Company hiring lag of
25 approximately \$610,697 of which \$448,069 represents O&M payroll.

1

2 Q. The amount shown on your exhibit is substantially less than the
3 \$5.2 million adjustment proposed by FEA witness Meyer or the
4 \$3.2 million proposed by OPC witness Ramas. Do you have any
5 comments on their calculations?

6 A. Yes, I believe that both Mr. Meyer and Ms. Ramas used erroneous
7 assumptions that cause them to substantially overstate the amount of any
8 hiring lag adjustment.

9

10 Mr. Meyer states that he would allow 1,365 employees, which represents
11 Gulf's employee complement at June 30, 2011. Of the 124 vacancies he
12 calculated, he attributed 51 to positions that would be funded by O&M
13 dollars and proposed an adjustment of \$5.2 million. As indicated above, by
14 September 30, 2011 Gulf's actual number of employees had increased to
15 1,391, or 26 more than the June 30 level and Gulf is continuing to fill
16 vacancies. It is therefore not reasonable that the June 30 level of O&M
17 vacancies will exist throughout 2012.

18

19 Mr. Meyer also calculated the dollar amount of his adjustment by
20 multiplying his assumed vacancies by Gulf's average budgeted wages and
21 benefits, using an average \$101,339 as reported on Gulf's MFR C-35. In
22 fact, the average budgeted wages and benefits for the O&M positions that
23 are currently unfilled is substantially lower, since many of them are entry
24 level positions.

25

1 Ms. Ramas developed her adjustment by taking an average vacancy rate
2 of 6.1% using data from 2006-2010, and multiplying that rate times the
3 1,489 budgeted positions, to calculate 91 vacancies. She then proposed
4 to disallow the O&M portion of 91 of the 159 new positions (or conversely,
5 to allow the O&M costs for only 68 of the new positions), for a total
6 adjustment of \$3.2 million. Ms. Ramas' calculation does not take into
7 account that during a large part of the historic period used to calculate her
8 vacancy rate, Gulf was closely managing expenses and holding positions
9 vacant in an effort to avoid having to seek a rate increase. Further, her
10 calculation gives no consideration to the justification for the 159 new
11 positions, the number of those positions that have already been filled, or
12 Gulf's plans for filling the remaining vacancies.

13
14 Q. Do you have any other comments on Mr. Meyer's and Ms. Ramas'
15 calculations?

16 A. Yes. Both witnesses looked only at recent vacancies (June 30) or
17 historical levels of vacancies (2006-2010) in deciding what adjustment to
18 propose. Neither of them identified any specific position that could or
19 should be eliminated. They did not challenge the detailed justifications
20 provided by Gulf's witnesses regarding the need for the budgeted
21 positions. Instead, they arbitrarily used historical data to eliminate dollars
22 that are required to operate Gulf's business at a level that will continue to
23 ensure safe, reliable and efficient service to its customers. For this reason
24 alone, their proposed adjustments should be rejected.

25

1

2

III. NORTH ESCAMBIA SITE IN RATE BASE

3

4 Q. Please briefly summarize Gulf's proposal for including the North Escambia
5 generating site in rate base.

6 A. As described in my direct testimony, Gulf proposes to transfer into rate
7 base the land and other deferred charges related to its deferred nuclear
8 site selection costs and to discontinue deferring a return on those
9 amounts.

10

11 Q. In your direct testimony you state that "these costs have been deferred in
12 accordance with Florida Statute 366.93 and include all deferred costs,
13 including a deferred return, through the end of 2011." Did you say that
14 Gulf's proposal to cease the accrual of carrying charges and transfer the
15 site costs to rate base at this time is explicitly authorized by this statute as
16 several intervenor witnesses seem to state?

17 A. No. Section 366.93 is important to Gulf's request because this statute
18 provides authorization for Gulf to record a deferred return on assets of this
19 type. Gulf's proposal to discontinue the deferral, and move the dollars into
20 rate base, relies on the Commission's general ratemaking authority, not on
21 the specific provisions of Section 366.93.

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IV. PARENT DEBT ADJUSTMENT

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Q. Please summarize Gulf's position with regard to a parent debt adjustment.

A. As discussed in the direct testimony of Gulf witness Teel and the rebuttal testimony of Gulf witness Deason, the Commission should not make a parent debt adjustment in this case. Gulf has rebutted the presumption that an adjustment is required by the rule or by the policy underlying the rule.

Q. In the event the Commission does make a parent debt adjustment, Ms. Ramas calculates the jurisdictional amount of the adjustment as \$1,766,000. Do you agree with her calculation?

A. No. I agree that the amount of \$2,126,000 on MFR C-24 is the proper system amount to use as the starting basis for the calculation. In determining the jurisdictional amount, however, Ms. Ramas uses the income tax jurisdictional factor of 0.8305076 from MFR C-4 (page 6 of 6, column 8, line 11). The calculation of that jurisdictional factor excluded the income tax expense associated with the Scherer Unit Power Sales from the denominator of the fraction, and therefore does not accurately reflect retail income tax expenses as a percentage of the total adjusted utility amount.

As shown on MFR C-4 (page 6 of 6, line 11), total adjusted income taxes were \$30,449,000 (column 4) and the retail jurisdictional amount was \$15,234,000 (column 7). The correct jurisdictional income tax factor is

1 0.5003120. Applying this factor to the system amount of \$2,126,000
2 results in a jurisdictional adjustment of \$1,063,663, which is substantially
3 less than the \$1,766,000 proposed by Ms. Ramas.
4
5

6 V. OTHER ISSUES 7

8 Q. OPC witness Woolridge provides cost rates for debt and preference stock
9 that are lower than those contained in Gulf's MFRs. Should the
10 Commission use Dr. Woolridge's cost rates?

11 A. No. I agree that Gulf's debt and preference stock costs should be
12 updated, but I disagree with the costs presented by Dr. Woolridge. Gulf's
13 response to Citizens' 8th Set of Interrogatories No. 263 reflects Gulf's
14 actual cost rates incurred on debt and preference stock issued through
15 August 2011, and the cost of projected issues incorporating Gulf's most
16 current interest rate forecast. The updated projections were based on
17 Moody's Analytics September 2011 forecast. As shown in that response,
18 the appropriate costs are 0.13% for short-term debt, 5.26% for long term
19 debt, and 6.39% for preference stock.
20

21 Q. FEA witnesses Meyer and Gorman have calculated a deferred tax balance
22 that is different from that contained in Gulf's MFRs and have used their
23 calculated balance in determining Gulf's capital structure and cost of
24 capital. Is their calculated balance correct?
25

1 A. No. The balance of \$492.1 million shown on Schedule 12 of Exhibit
2 RJM-1 to my direct testimony is net of the SFAS 109 regulatory tax assets
3 and liabilities. In calculating his amount, Mr. Meyer failed to take into
4 account the SFAS 109 regulatory tax assets and liabilities which are
5 included in FERC Accounts 182 and 254, and are shown separately on
6 Gulf witness Buck's Exhibit WGB-1, Schedule 7 (pages 1 and 3). These
7 regulatory tax assets and liabilities along with the deferred taxes must be
8 included in the capital structure at zero cost in accordance with FPSC
9 Rule 25-14.013, Accounting for Deferred Income Taxes Under SFAS 109.
10 Gulf has provided information on this issue in response to an FEA's 1st Set
11 of Interrogatories No. 44. After reviewing that response, I expect
12 Mr. Meyer will accept Gulf's deferred tax balance.

13

14 Q. Ms. Ramas recommends that the Commission should remove from test
15 year expense an additional \$48,000 related to financial planning services
16 provided to Gulf's executives. Please comment.

17 A. I agree with this adjustment. My adjustment 21 to Gulf's net operating
18 income on Exhibit RJM-1, Schedule 4, (page 3 of 3) was intended to
19 exclude 100% of these costs. In responding to discovery by OPC, we
20 discovered that we had inadvertently removed less than the full amount
21 included in the 2012 budget. The additional adjustment recommended by
22 Ms. Ramas is appropriate to correct this oversight.

23

24 Q. Do you agree with Mr. Meyer's proposed adjustment to impute \$1.9 million
25 in additional base rates revenues associated with Sales for Resale?

1 A. No. Mr. Meyer's analysis focuses on the difference between actual results
2 in 2011 and the forecasted result for 2012. The actual results for years
3 prior to 2011 show amounts of Sales for Resale that are consistent with or
4 lower than Gulf's forecast amount for 2012. However, Mr. Meyer ignores
5 this prior year history and uses data from 12 month-to-date June 2011
6 only. This ignores the fact that the economic factors which impact Gulf's
7 Sales for Resale on a month by month basis are variable and volatile in
8 nature and cannot be accounted for by a simplistic forecasting approach.

9

10 Making a simple assumption that recent historical results will translate into
11 future results does not take into account the robust budgeting and
12 planning process that Gulf undertakes each year in preparing its annual
13 energy budget and forecast or the physical operating constraints that may
14 impact some of Gulf's generating capacity. The sales margin included in
15 Sales for Resale is the result of the Fuel/Interchange Budgeting Process
16 described on pages 6 through 8 of MFR F-5. This sophisticated modeling
17 process takes into account fuel price forecasts, generating unit operating
18 assumptions, system transmission operating assumptions, and forecasted
19 load and sales information to simulate the economic dispatch of the
20 generating assets of the entire Southern electric system. This process
21 produces Gulf's forecasted unit capacity factors, unit performance data,
22 pool energy interchange, off-system energy sales, and fuel consumption
23 expense that are the basis of Gulf's test year forecast. Mr. Meyer's
24 oversimplification does not recognize that Sales for Resale is just one
25 component output of this overall budgeting process. Manually changing

1 one output component without taking into account the other interrelated
2 components of the forecast will yield results that are inconsistent with the
3 input assumptions to the fuel and energy budget models.
4

5 Q. Can you explain why the 12 month-to-date June 2011 Sales for Resale is
6 higher than prior years and the forecast for 2012?

7 A. The amount for this period is higher than historical values for several
8 reasons. A primary factor is the market price of natural gas. Gulf has
9 added significant generating capacity in the form of gas fired power
10 purchase agreements (PPAs) in recent years. These gas fired PPA units
11 are dispatched by the system based on economics – the primary driver
12 being the cost of fuel – and other factors such as customer demand and
13 operational constraints. Lower market prices for natural gas have resulted
14 in Gulf's gas-fired generating units being economically dispatched at
15 higher levels in 2011 than in past years. Gulf's generation that exceeds its
16 own retail customer load is dispatched by the Southern system pool to
17 serve system loads and the associated revenue is credited to Gulf as
18 Sales for Resale. Operating constraints on electric transmission and
19 natural gas transportation are limiting factors in the economic dispatch of
20 Gulf's Central Alabama PPA resources. As electric transmission and gas
21 pipeline capacity is available, Gulf's PPA units are available to be
22 dispatched to serve load. In 2011, the system's operating conditions
23 permitted the units to run more than forecasted and as a result Gulf's
24 Sales for Resale were greater than forecasted.
25

1 While the existing operating constraints are being addressed through
2 transmission construction and gas pipeline contract initiatives, these
3 issues will not be resolved in the test year. With these constraints, there
4 can be no assurance that the same system operating conditions will allow
5 the units to operate as they have in 2011. These constraints remain in the
6 energy modeling assumptions for the test year and the model accordingly
7 forecasts our Sales for Resale at previous levels.

8

9 Q. Do you have other concerns with Mr. Meyer's calculation?

10 A. Yes. Mr. Meyer states in his testimony that he derived his adjustment by
11 taking the 8.6% margin from Gulf's 2011 and 2012 forecast and applying it
12 to twelve months-to-date actual June 30, 2011 Sales for Resale of
13 \$211.0 million to estimate what the margin would be for that time period
14 (\$18.1 million). As shown in Gulf's response to FEA's 3rd Set of
15 Interrogatories No. 63, the actual Sales for Resale Adjusted Total for the
16 twelve months-to-date June 30, 2011 is \$17,361,000. Using this data
17 would result in a significantly smaller adjustment (\$1,073,000) than what
18 Mr. Meyer calculated (\$1,825,000). As stated previously, the margins are
19 a function of economic dispatch and not based upon fixed percentages.

20

21 Q. Ms. Ramas recommends that unamortized rate case expense should be
22 excluded from the working capital amounts included in Gulf's rate base.
23 Do you agree with this recommendation?

24 A. No. Rate case expenses are prudently incurred business expenses. The
25 Company's investors should be allowed to fully recover these costs,

1 including a return on the unamortized balance. This unamortized balance
2 should be included in working capital, consistent with the Commission's
3 treatment in our last rate case.

4

5 Q. Do you have any observations about the various O&M adjustments
6 proposed by Mr. Schultz?

7 A. Yes. Since his particular adjustments are addressed in the rebuttal
8 testimony of other witnesses, I will just make a general observation. The
9 various bases for Mr. Schultz's adjustments are totally inconsistent.

- 10
- 11 • For storm accrual, his adjustment is based on a ten-year average
12 from 2001 to 2010, but assigning \$0 to the two years – 2004 and
13 2005 – in which there were major storms. In addition, he made no
14 adjustment for inflation.
 - 15 • For tree trimming expense, his adjustment is based on a four-year
16 average from 2007-2010, adjusted by an escalation factor.
 - 17 • For pole line inspection expense, his adjustment is based on a
18 single year, 2010, adjusted by an escalation factor.
 - 19 • For fossil plant maintenance, his adjustment is based on a five-
20 year average from 2006-2010 adjusted by an escalation factor and
21 a labor cost adjustment.

22 This selective use of different historic periods as the starting basis for
23 O&M expense while ignoring the Company's justification for test year
24 amounts appears designed to maximize the amount of his recommended
25 O&M disallowances. For this reason, all of his recommendations should
be viewed with skepticism.

VI. SUMMARY

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Q. Please summarize your rebuttal testimony.

A. My testimony first rebuts several aspects of Ms. Dismukes' testimony. I demonstrate that the cost allocations to Gulf from Southern Company Services are based on appropriate cost allocation methodologies that were previously approved by the SEC, have not been modified by FERC, have been used by the Southern Company system for over 25 years, and have been accepted as the basis for ratemaking in cases before this Commission and the commissions in Alabama, Georgia and Mississippi. They remain appropriate for use in this rate proceeding. Ms. Dismukes' recommendations to change the financial allocation methodology and to update some, but not all, of the factors based on more recent data should be rejected. Although Gulf is not seeking an update, if all fixed percentage allocation factors were updated the result would be an increase, not a decrease, in Gulf's revenue requirements. Next, I provide justification for the costs on a number of work orders that Ms. Dismukes would disallow in whole or in part. Finally, I show that her recommendation to move the revenues, expenses and investment for unregulated operations above-the-line should be rejected.

Next, I rebut recommendations by Mr. Meyer and Ms. Ramas to disallow a portion of Gulf's payroll costs related to employee vacancies or hiring lag. I show that labor costs cannot be viewed in isolation, and that Gulf's total level of O&M expense is reasonable even if some vacancies exist during

1 the year. I also show that the amount these witnesses propose to disallow
2 is significantly greater than any properly calculated hiring lag adjustment.

3
4 With regard to Gulf's proposal to include its North Escambia County
5 generating site in rate base, I clarify an apparent misunderstanding by
6 various intervenor witnesses about the role that Florida Statutes Section
7 366.93 plays in Gulf's request.

8
9 I note that other Company witnesses demonstrate why a parent debt
10 adjustment is not appropriate in this case. If the Commission nevertheless
11 decides to make a parent debt adjustment, I show that the jurisdictional
12 amount of that adjustment is substantially lower than what was calculated
13 by Ms. Ramas.

14
15 Finally, I update Gulf's cost of debt and preference stock, and
16 demonstrate that Gulf included the correct balance of deferred taxes in
17 capital structure and included an appropriate amount of test year revenues
18 from Sales for Resale. I also explain why unamortized rate case expense
19 should be included in working capital and provide reasons that
20 Mr. Schultz's proposed expense adjustments should be viewed with
21 skepticism.

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

24 A. Yes.

25

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission
3 Supplemental Rebuttal Testimony of
4 Richard J. McMillan
5 Docket No. 110138-EI
6 In Support of Rate Relief
7 Date of Filing: November 29, 2011

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

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

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

14 A. Yes.

15
16 Q. What is the purpose of this supplemental rebuttal testimony?

17 A. The purpose of this rebuttal testimony is to address several of OPC
18 witness Donna Ramas' statements regarding the Crist turbine upgrade
19 projects. In particular, I show that the upgrades are an integral part of the
20 scrubber projects, that Gulf's proposed ratemaking treatment properly
21 recognizes and implements the matching principle, and that it is not
22 appropriate to adjust Gulf's accumulated deferred income taxes if Gulf's
23 proposal is approved. I also respond to her suggestion that a future
24 limited proceeding would be inappropriate in the event the Commission
25 were to deny Gulf's request.

1 Q. Please briefly describe the turbine upgrade projects.

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

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

14

15 Q. Do you agree with Ms. Ramas' statement that the turbine upgrades are
16 not part of the scrubber projects?

17 A. No. The Crist 7 upgrades completed in 2010 were previously approved
18 for cost recovery through the Environmental Cost Recovery Clause
19 (ECRC) as part of the scrubber project for that unit. These upgrades
20 improve the cost effectiveness of the scrubber projects and result in lower
21 costs to Gulf's customers. If these turbine upgrades were performed
22 independently of the scrubber project, they would have been required by
23 environmental regulations to undergo a new source review analysis under
24 the federal Clean Air Act as amended. This would likely have imposed
25 additional costs on the turbine upgrades and could have precluded Gulf

1 from undertaking them as stand-alone projects. Because of their direct tie
2 to the scrubber projects, these turbine upgrades are different than normal
3 maintenance and upgrade projects.

4

5 Q. Do you agree with Ms. Ramas' position that approving Gulf's requested
6 treatment for the turbine upgrade projects would distort the ratemaking
7 process, and would violate the matching principle?

8 A. No. I have clearly explained and justified the reasonableness of Gulf's
9 request for recovering the full annual cost of these projects beginning in
10 2013. These projects will provide significant savings to our customers
11 through reduced costs in the recovery clauses as of their respective in-
12 service dates. Unless this known and measurable change is taken into
13 account in setting base rates for 2013 and beyond, Gulf's earnings will be
14 depressed beginning in 2013, even before the rates set in this proceeding
15 have been in effect for a full year.

16

17 The matching principle supports Gulf's position. Without full recovery of
18 these costs beginning in 2013, there will be a mismatch between the
19 benefit of the projects (the full cost savings provided to customers through
20 the cost recovery clauses) and the cost of the projects (recovery of only a
21 portion of the full investment made to provide those savings).

22 As discussed in my supplemental direct testimony, Gulf has provided the
23 Commission with two alternatives to address the appropriate rate base
24 and net operating income adjustments needed to reflect the full annual
25 costs of these projects in a way that is fair to both Gulf and its customers.

1 Each of those alternatives is designed to implement the matching principle
2 by ensuring that customers pay only the 13-month average cost of the
3 projects in 2012 when they are receiving partial benefit from the projects,
4 and begin paying the full cost of the projects in 2013 when they begin
5 receiving the full benefits.

6

7 Q. Do you agree with Ms. Ramas' proposal to make an additional adjustment
8 to annualize the impacts on accumulated deferred income taxes if the
9 Commission approves one of the Company's proposals?

10 A. No. I do not agree that it would be appropriate to adjust one component of
11 the weighted cost of capital. These projects were originally removed from
12 capital structure on a pro rata basis, and should be added back on a pro
13 rata basis. The approved cost of capital in the test year is the appropriate
14 cost to use for setting rates. To adjust one source without reflecting the
15 many other changes in capital structure and cost of capital is not
16 appropriate.

17

18 Q. Please respond to Ms. Ramas' apparent suggestion that if the
19 Commission denies Gulf's proposed ratemaking treatment it should also
20 reject any attempt by Gulf to recover the turbine upgrade costs in a future
21 single-issue limited proceeding.

22 A. First, I disagree that a limited proceeding would in any way be
23 inappropriate. Limited proceedings are provided for by Florida Statute
24 Section 366.076(1) and by their very nature are limited to a single issue or
25 to a narrow group of issues. Second, any Commission decision on a

1 future limited proceeding would be premature. Gulf has not asked the
2 Commission to approve any such filing; it has only raised the possibility
3 that such a filing might be necessary. Any objection to the scope of a
4 limited proceeding should be dealt with if and when such a filing is made.

5

6 Q. Mr. McMillan, does this conclude your testimony?

7 A. Yes.

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1 BY MR. MELSON:

2 Q. And, Mr. McMillan, did you have an Exhibit
3 RJM-2 attached to your rebuttal testimony?

4 A. Yes.

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

7 A. No.

8 MR. MELSON: And, Mr. Chairman, I think that
9 has been preidentified as Exhibit 168.

10 CHAIRMAN GRAHAM: Duly noted.

11 BY MR. MELSON:

12 Q. Mr. McMillan, could you give us a brief
13 summary of your Rebuttal Testimony, please?

14 A. Yes. Thank you. Good evening,
15 Commissioners. My rebuttal testimony addresses several
16 issues raised by Intervenor Witnesses Dismukes, Meyer,
17 and Ramas.

18 First, I respond to proposed adjustments by
19 Ms. Dismukes related to charges to Gulf by Southern
20 Company Services, or SCS. I demonstrate that the cost
21 allocations to Gulf from SCS are based on allocation
22 methodologies that were originally approved by the
23 Securities and Exchange Commission and are the same
24 methodologies approved by this Commission to set rates
25 in a number of our prior rate cases. I show that Ms.

1 Dismukes' proposal to update allocation factors with
2 2010 statistics for some, but not all of the statistics
3 produces a misleading or inaccurate result.

4 If all the allocation factors were updated
5 based on 2010 data which, by the way, was not available
6 until after the completion of our 2011 budget used in
7 this filing, Gulf's revenue requirement would increase,
8 not decrease. I also demonstrate that Ms. Dismukes'
9 proposed adjustments related to Gulf's nonregulated
10 products and services are inappropriate, and even if
11 her adjustments were accepted, the calculation of her
12 amount is in error.

13 With regard to proposals by Witnesses Meyer
14 and Ramas to disallow a portion of Gulf's labor costs
15 related to employee vacancies, I explain why their
16 adjustments are overstated and why it is inappropriate
17 to focus on labor costs in isolation.

18 I also show that Gulf has made substantial
19 progress in filling the positions included in our test
20 year budget, and that we expect to be close to a full
21 employee complement by early 2012. Even if the
22 Commission were to decide to reduce labor costs based
23 on the existence of a hiring lag, which I acknowledge,
24 I show that the disallowances proposed by the
25 intervenor witnesses significantly overstate the amount

1 of a properly calculated adjustment.

2 I also address the correct jurisdictional
3 factor to use if the Commission were to decide to make
4 a parent debt adjustment in this case, and I discuss
5 why Mr. Meyers' proposed adjustment to Gulf's sales for
6 resale is inappropriate.

7 I also filed supplemental rebuttal testimony
8 which addresses several of Witness Ramas' statements
9 and positions regarding the Crist turbine upgrades
10 projects. I show that the upgrade projects are an
11 integral part of the scrubber project, that Gulf's
12 proposed ratemaking treatment properly recognizes and
13 implements the matching principle, and that it is not
14 appropriate to adjust or annualize one component of
15 capital structure or deferred taxes related to these
16 projects without also annualizing the other cost
17 components of Gulf's cost of capital.

18 That concludes my summary.

19 **MR. MELSON:** Mr. McMillan is tendered for
20 cross.

21 **CHAIRMAN GRAHAM:** Thank you, sir.

22 Mr. Saylor.

23 **MR. SAYLER:** The Office of Public Counsel has
24 no questions for you, Mr. McMillan, other than aren't
25 you glad it's almost over?

1 **THE WITNESS:** I'll celebrate with the rest of
2 you.

3 **CHAIRMAN GRAHAM:** Ms. Kaufman.

4 **MS. KAUFMAN:** Mr. Chairman, if it's all right
5 I would like to defer to Major Thompson to go first.

6 **CHAIRMAN GRAHAM:** Sure. Major Thompson.

7 **MS. KAUFMAN:** Thank you.

8 **MAJOR THOMPSON:** We're trying to get this
9 exhibit in through Mr. McMillan. I believe that Gulf
10 is going to stip to this. If I could get it in at the
11 end.

12 **MR. MELSON:** If they could ask Mr. McMillan
13 to identify it, and I'd like to have him tell us it is
14 authentic. I believe it is, but it would be better
15 coming from him.

16 **CROSS EXAMINATION**

17 BY MAJOR THOMPSON:

18 **Q.** Hi, Mr. McMillan.

19 **A.** How are you doing?

20 **Q.** Do you recognize those two forms I gave you?
21 It's listed as FERC Financial Report. In the bottom
22 right-hand corner you can see period of report. There
23 is one from 2011 Q3 and then 2010 Q4?

24 **A.** Yes.

25 **Q.** Do you recognize these?

1 A. Yes, it appears to be two pages out of those
2 two reports.

3 Q. Do those look like true and accurate parts of
4 the FERC?

5 A. They do. Obviously, like I said, it's an
6 excerpt, but it does look like they are the right form
7 and format.

8 **MAJOR THOMPSON:** Okay. Thank you very much.
9 I have no further questions for the witness.

10 **CHAIRMAN GRAHAM:** Well, I guess I have a
11 question. And maybe this is more of a legal question
12 than anything else. Do you want to enter these two
13 reports into the record?

14 **MAJOR THOMPSON:** Yes, sir.

15 **CHAIRMAN GRAHAM:** Do you want to enter them
16 in their entirety or just these excerpts?

17 **MAJOR THOMPSON:** These two excerpts, but we
18 can list it as one exhibit, if you would like.

19 **CHAIRMAN GRAHAM:** Well, I don't have a
20 problem with that. I mean, my understanding -- and my
21 legal counsel is not here, but I will let Ms. Klancke
22 answer the question -- that since it's a government
23 report, then we don't have to give it an exhibit
24 number. Basically, we just have to identify the
25 report.

1 **MS. KLANCKE:** If there is no objection from
2 Gulf, it may be just be clearer for clarity of the
3 record, since we are only using these portions of it,
4 to identify it and move it in.

5 **MR. MELSON:** Gulf has no objection. Actually
6 we would prefer that it be given an exhibit number. It
7 will be a lot easier to cite.

8 **CHAIRMAN GRAHAM:** Okay. We will give it
9 Exhibit Number 216.

10 (Exhibit Number 216 marked for
11 identification.)

12 **CHAIRMAN GRAHAM:** And, Major Thompson, can
13 you give me short title?

14 **MAJOR THOMPSON:** The FERC Financial Report
15 Excerpts.

16 **CHAIRMAN GRAHAM:** Sounds good.

17 **MAJOR THOMPSON:** All right.

18 **CHAIRMAN GRAHAM:** Ms. Kaufman.

19 **MS. KAUFMAN:** Yes. Is Major Thompson
20 finished?

21 **MAJOR THOMPSON:** I'm finished.

22 **MS. KAUFMAN:** Thank you. If you can give me
23 one moment. I need to track down Mr. Moyle. It's his
24 witness. May I just have a moment?

25 **CHAIRMAN GRAHAM:** Sure.

1 **MS. KAUFMAN:** Thank you.

2 **MR. MOYLE:** I apologize, Mr. Chairman. Thank
3 you.

4 **CROSS EXAMINATION**

5 **BY MR. MOYLE:**

6 **Q.** Good evening.

7 **A.** Good evening.

8 **Q.** I know you cover a lot of issues. Everybody
9 kind of punts to you on things, but I just had two
10 questions with respect to two entities in your service
11 territory. Y'all serve Port St. Joe, correct, as part
12 of your service territory?

13 **A.** I'll be honest, I couldn't tell you. It's on
14 the outer eastern part of our service territory.

15 **Q.** Do you know if the paper mill in Port St. Joe
16 and Arizona Chemical Plant in Port St. Joe have closed
17 in the past five years?

18 **A.** I'm not familiar with that detailed customer
19 information, I'm sorry.

20 **MR. McGLOTHLIN:** That's all I have.

21 **CHAIRMAN GRAHAM:** Okay. Mr. LaVia.

22 **MR. LaVIA:** No questions.

23 **CHAIRMAN GRAHAM:** Staff.

24 **MS. KLANCKE:** Staff has a few brief
25 questions.

1 **CHAIRMAN GRAHAM:** Okay.

2 **MS. KLANCKE:** I'm having a demonstrative
3 exhibit passed out which contains a rule, a Florida
4 Public Service Commission rule. It's not necessary for
5 us to mark it or have it moved into the record. It's
6 just for clarity purposes. A few very brief questions.

7 **CHAIRMAN GRAHAM:** Sounds good.

8 **CROSS EXAMINATION**

9 BY MS. KLANCKE:

10 **Q.** Good evening, Mr. McMillan. Can I have you
11 turn to your Exhibit Number RJM-2, Schedule 6. The
12 title is Gulf Power Company hiring lag, Page 1 of 1.

13 **A.** Yes.

14 **Q.** As contained on this exhibit, you have
15 calculated an average hiring lag affecting O&M expenses
16 of 448,069, is that correct?

17 **A.** That's correct.

18 **Q.** Is this a jurisdictional amount?

19 **A.** No.

20 **Q.** Would it be appropriate to apply a
21 jurisdictional factor of .9800918 to this 448,069
22 amount, which would result in a jurisdictional amount
23 of 439,149?

24 **A.** I would agree to that, subject to check. I
25 mean, that sounds like the O&M allocation factor. I

1 don't have that document.

2 Q. Can I have you turn to Page 17 of your
3 Rebuttal Testimony, Lines 17 through 22?

4 A. I'm sorry, what was that reference?

5 Q. Page 17, and in particular, Lines 17 through
6 22.

7 A. All right.

8 Q. On this page you state, beginning at Line 17,
9 "As shown on Exhibit RJM-2, Schedule 5, while Gulf
10 historically has had some vacancies in its budgeted
11 positions, it typically has spent 100 percent or more
12 of its overall O&M budget." Do you see that?

13 A. Yes.

14 Q. You further specify, beginning on Line 20,
15 that the major exception has been in the recent past
16 when Gulf has taken steps to avoid having to request a
17 rate increase during a period of economic uncertainty,
18 is that correct?

19 A. Yes.

20 Q. Would you turn now to Schedule 5 contained
21 within your Exhibit RJM-2.

22 A. Okay.

23 Q. This schedule contains an itemization of the
24 actual as compared with the budgeted O&M expenses by
25 year beginning in 2002 and continuing through 2010, is

1 that correct?

2 A. Yes.

3 Q. For the years 2007 through 2010, doesn't this
4 schedule reflect that the actual O&M expenses have been
5 less than the budgeted O&M expenses?

6 A. Yes. That was what I was referring to in the
7 last sentence. As economic conditions began to
8 deteriorate, and as discussed by several of our
9 witnesses, we were trying to avoid coming in as long as
10 possible for rate relief.

11 Q. Fair enough. I'd like to refer you now to
12 Page 21 of your Rebuttal Testimony.

13 A. Yes.

14 Q. On Page 21 of your Rebuttal Testimony, you
15 clarify that Gulf is not asking the Commission to
16 include costs for the North Escambia site in base rates
17 pursuant to the specific provisions of 366.93, Florida
18 Statutes, is that correct?

19 A. Yes.

20 Q. Am I correct that it is your testimony that
21 Gulf be allowed to recover carrying costs for the North
22 Escambia location through base rates?

23 A. We are asking that the total amount of
24 carrying costs that we have accrued to date be included
25 in rate base, yes.

1 Q. These carrying costs you are requesting are
2 typically referred to as allowance for funds used
3 during construction, or AFUDC, is that correct?

4 A. That is the rate that was designated in that
5 statute, right.

6 Q. I have provided you with a copy of Commission
7 Rule 25-6.0141, Allowance for Funds Used During
8 Construction. This is the Commission's rule with
9 respect to AFUDC. Are you familiar with this rule?

10 A. Yes.

11 Q. I'd like you to take a moment to look over
12 this rule to verify that this document comports with
13 your understanding of the AFUDC rule.

14 A. Yes.

15 Q. Under Subsection 1 of the rule, there is a
16 reference to construction work in progress or CWIP. Do
17 you see that?

18 A. Yes.

19 Q. Subsection 1(a) is titled "Eligible
20 Projects." Is it your testimony that Gulf is currently
21 engaged in a project at the North Escambia site that
22 involves gross additions to plant in excess of
23 0.5 percent of the sum of the total balance in Account
24 101 and Account 106?

25 A. Actually, we are. It's over that now. But,

1 I mean, the carrying costs or the deferred return that
2 we have accrued on the nuclear site is really in
3 accordance with the requirements under 366.93 and the
4 PSC rule dealing with allowing us to defer those costs
5 and calculate a return not with the AFUDC rate rule,
6 per se. It does specify you use the currently approved
7 AFUDC rate as a return as the rate to calculate those
8 deferred or carrying costs.

9 Q. Does Gulf Power Company currently have a
10 power plant at the North Escambia site which would meet
11 this requirement, a power project, rather?

12 A. Not currently, no. We are purchasing a site
13 for maintaining that option, that nuclear option.

14 Q. Would you agree that Gulf does not have any
15 specific project announced for the North Escambia site?

16 A. In our current Ten-Year Site Plan there is
17 not one identified.

18 Q. I'd like to refer you to Subsection 1(b). It
19 is entitled, "Ineligible Projects." Under the items of
20 this subsection, do you see Item Number 4, "Property
21 that has been classified as property held for future
22 use"?

23 A. Yes.

24 Q. Is it your understanding that Gulf classified
25 the North Escambia site expenses as property held for

1 future use?

2 A. We are asking to have that property moved
3 into plant held for future use, but actually it's
4 classified on our books as a regulatory asset in
5 accordance with the deferred accounting requirements
6 under Commission Rule 25-6.0423 related to deferred
7 accounting treatment for site selection costs.

8 MS. KLANCKE: No further questions.

9 CHAIRMAN GRAHAM: Commissioners.

10 Redirect.

11 REDIRECT EXAMINATION

12 BY MR. MELSON:

13 Q. Mr. McMillan, just so the record is clear, do
14 you have a copy of Rule 25-6.0423 handy?

15 A. 25-6.0423?

16 Q. Yes. That's the Nuclear Integrated
17 Gasification Combined-Cycle Power Plant Cost-recovery
18 Rule.

19 A. Yes.

20 Q. I'm going to repeat a little bit of what we
21 did yesterday just so the record is clear at this
22 point. Would you read for me the definition in
23 Subsection 2(f)?

24 A. Yes. Site selection costs are costs that are
25 expended prior to the selection of a site.

1 Q. And would you read Sub (e) -- you just need
2 to read the first line of it, I think.

3 A. Site selection, a site will be deemed to be
4 selected upon the filing of a petition for a
5 determination of need for a nuclear or integrated
6 gasification combined-cycle power plant pursuant to
7 403.519.

8 Q. As an accountant, reading those two together,
9 does that mean site selection costs are costs that are
10 expended prior to filing a determination of need
11 petition?

12 A. I would interpret it that way, yes.

13 Q. Now, would you move to Subsection 3, deferred
14 accounting treatment, and read that for us, please?

15 A. Deferred accounting treatment. Site
16 selection and preconstruction costs shall be afforded
17 deferred accounting treatment and shall, except for
18 projects recovered on a projected basis in one annual
19 cycle, accrue a carrying charge equal to the utility's
20 allowance for funds used during construction (AFUDC)
21 rate until recovered in rates.

22 Q. And are the costs associated with the nuclear
23 site projected costs that will be recovered on a
24 projected basis in one annual cycle?

25 A. We have not had any recovery period

1 identified to this pint.

2 Q. So the exception in that rule does not apply,
3 and so is it correct that if you leave out the
4 exception clause, site selection costs shall be
5 afforded deferred accounting treatment and shall accrue
6 a carrying charge equal to the utility's AFUDC rate?

7 A. Correct.

8 MR. MOYLE: Mr. Chairman, we have been
9 gracious in allowing a lot of this to go on. I mean,
10 to the extent he's asking him for his view as an
11 accountant is one thing, but by reading a rule and
12 asking him to make a legal interpretation or a legal
13 conclusion, that's not appropriate. He's not a lawyer,
14 and even if he was a lawyer, that's a job for the
15 Commission. So to the extent that these questions call
16 for a legal conclusion, we would object.

17 CHAIRMAN GRAHAM: I agree with the objection.

18 MR. MELSON: And that was my last question,
19 Commissioner Graham. Staff had asked him essentially
20 for a legal opinion on the AFUDC rule, and I'm simply
21 trying to show that is not the rule that applies in
22 this case. This rule says use the AFUDC rate, but does
23 not require you to meet the requirements of the AFUDC
24 rule. That was my only point.

25 CHAIRMAN GRAHAM: Okay.

1 **MS. KLANCKE:** Staff was not asking for his
2 legal opinion.. We were asking for his opinion as a
3 financial accounting witness.

4 **MR. MOYLE:** And I guess my objection -- there
5 were site selection costs, and to say read the site
6 selection rule, site selection costs, don't you agree,
7 that's kind of where our objection was headed. Thank
8 you.

9 **CHAIRMAN GRAHAM:** I agree with you.

10 **MR. MELSON:** No further questions.

11 **CHAIRMAN GRAHAM:** Exhibits.

12 **MR. MELSON:** 168.

13 **MAJOR THOMPSON:** 216.

14 **CHAIRMAN GRAHAM:** Page 29, 168 will be
15 entered into the record, and Exhibit Number 216 will be
16 entered into the record.

17 (Exhibit Numbers 168 and 216 admitted into
18 the record.)

19 **CHAIRMAN GRAHAM:** Do we have anything else
20 for this Witness McMillan?

21 **MR. MELSON:** May he be excused? I will ask.

22 **CHAIRMAN GRAHAM:** Yes.

23 **MR. MELSON:** Thank you.

24 **CHAIRMAN GRAHAM:** Thank you very much for
25 your testimony.

1 **THE WITNESS:** Thank you.

2 **MR. WRIGHT:** Mr. Chairman, before we move on,
3 with your leave I have been able to produce the CDs
4 containing Exhibits 175 and 176, and I'd just like the
5 record to reflect that I will distribute them now. I
6 think the excerpts were admitted on Monday, and I
7 agreed to furnish the full documents in electronic
8 format. I just wanted the record clear that the
9 exhibits have come in during the hearing.

10 **CHAIRMAN GRAHAM:** Okay. The record is clear.

11 **MR. WRIGHT:** Thank you, sir.

12 **MR. STONE:** Mr. Chairman, last night I had
13 asked for a recess so that we could pursue possible
14 settlement of some issues in order to facilitate the
15 post-hearing briefs and a prompt resolution of portions
16 of this case. Although we have not been able to reduce
17 such a settlement to writing, I have been authorized by
18 the participants in this agreement to convey to the
19 Commission the essence of the agreement. And I would
20 have to preface it by saying it's a fragile agreement,
21 as most settlement agreements are, and so it's intended
22 that it be considered in its entirety by the parties.
23 And there are several elements to that, and if this
24 would be appropriate time while we are still waiting to
25 get our last exhibit typed up for presentation, I'd be

1 happy to proceed with that.

2 **CHAIRMAN GRAHAM:** Please.

3 **MR. STONE:** First off, I want to represent
4 that this has involved participation of all of the
5 intervenors, and we have also had the opportunity to
6 work with your staff, and we are very pleased with the
7 level of cooperation we have had from all parties and
8 the staff as we have worked through this. I need to be
9 very clear, however. Staff is not a party to what I am
10 about to announce, and they have some reservations that
11 I'm sure they will voice to you about what we are
12 proposing as a package.

13 There are also some caveats about the
14 package, and so I need to be clear. And although all
15 the parties have authorized me to represent this to the
16 Commission, and they will be able to voice their
17 separate affirmance that what I'm saying is correct,
18 there are certain aspects of it that involve the
19 parties taking no position on some issues. And that by
20 taking no position on those issues, the other parties
21 are then in a position to reach a stipulation to
22 present to the Commission.

23 And we recognize that in this particular
24 instance, this is a stipulation that does not have
25 staff's support, and so it wouldn't fit a Category 1

1 stipulation or a Category 2 stipulation. And at the
2 risk of defining something that has not previously been
3 defined, I guess I would call a Category 3 stipulation.
4 A category of stipulation that is between at least one
5 of the intervenors, and perhaps more, and Gulf. And
6 that's what we are presenting to the Commission today
7 for your consideration.

8 The stipulation that we are talking about is
9 one that would result in the resolution of four
10 revenue-related issues and three cost-of-service and
11 rate design issues. And to be very clear, on the three
12 cost-of-service and rate design issues, the Office of
13 Public Counsel is taking no position and the Florida
14 Retail Federation is taking no position. That puts
15 this in the posture that the Federal Executive
16 Agencies, the Florida Industrial Power Users Group, and
17 Gulf Power Company are presenting to you a stipulation
18 on those three cost-of-service and rate design issues.

19 With regard to the revenue issues, the issues
20 that will be resolved by this agreement are Issues 11,
21 62, 63, and 80 as set forth in the prehearing order.
22 On these four issues, with regard to Issue 11, none of
23 the intervenors have taken a position on that issue.
24 All of the parties have taken positions on the
25 remaining three issues, and that position is adverse to

1 the position of Gulf Power Company.

2 The resolution of these -- pardon me on my
3 lawyer math -- seven issues, I want to make sure I had
4 it right, is, as I have indicated, a fragile egg in the
5 sense that with the combination of the no position by
6 two of the intervenors and the position that Gulf is
7 willing to take in response to how we can resolve the
8 revenue issues. Collectively we have a package with
9 those caveats, and that is the basis of which we are
10 going to present this stipulation to you.

11 And I would like -- if you will, I would like
12 to start with the cost-of-service and rate design
13 issues because that is the part that has the Federal
14 Executive Agencies, the Florida Industrial Power Users
15 Group, and Gulf affirmatively representing a position,
16 and that the Office of Public Counsel and the Florida
17 Retail Federation -- Office of Public Counsel is
18 maintaining their position of no position, which was
19 stated in the prehearing order, and the Florida Retail
20 Federation is maintaining their position of no position
21 on two of the three issues, and is changing their
22 position, as started in the prehearing order, from an
23 adverse position to no position. Those three issues
24 that I am presenting to you are Issues 106, 107, and
25 108.

1 **CHAIRMAN GRAHAM:** Before you go down that
2 path, I want to make sure that the other intervenors
3 are all in agreement with what has been said so far.

4 **MR. McGLOTHLIN:** The description is accurate.

5 **MR. MOYLE:** It is. And, Mr. Stone, I think,
6 was going to lay out the package, but at the
7 appropriate time FIPUG would like to be heard on it, as
8 well.

9 **CHAIRMAN GRAHAM:** Okay.

10 **MAJOR THOMPSON:** The same with FEA, sir.

11 **MR. WRIGHT:** I just want to confirm to you
12 that Mr. Stone's representations as to the Retail
13 Federation are accurate. Thank you, Mr. Chairman.

14 **CHAIRMAN GRAHAM:** Okay, Mr. Stone.

15 **MR. STONE:** Thank you.

16 **CHAIRMAN GRAHAM:** I like bite-sized pieces as
17 I go through.

18 **MR. STONE:** Whatever works for you.

19 **CHAIRMAN GRAHAM:** Okay.

20 **MR. STONE:** As I indicated, the three issues
21 are 106, 107, and 108. And as I previously indicated,
22 the Office of Public Counsel and the Florida Retail
23 Federation are maintaining their position of no
24 position on the first of those two, and Florida Retail
25 is changing its petition to no position on the third,

1 and Public Counsel is maintaining its position of no
2 position. So the other two intervenors and Gulf are
3 presenting to you a stipulation that is essential to
4 the ability to resolve the four revenue issues by the
5 concession that Gulf is going to make at the conclusion
6 of this presentation.

7 And the position that we are presenting to
8 you is essentially the same as what Gulf's position is
9 in the prehearing order. However, we would like to
10 simplify it by simply taking the first sentence of
11 Gulf's position as the stipulated position on Issue
12 106.

13 And with regard to Issue 107, we would delete
14 the note from our position, but recognizing that for
15 purposes of the allocation of distribution costs, it
16 would be following the methodology outlined in the
17 first sentence of Gulf's position on 106.

18 With regard to 108, the position would be the
19 first sentence of Gulf's position. Essentially, what
20 we are removing is, if you'll accept this from the son
21 of a former retailer, all the sales language associated
22 with our position, and simply going with the statement
23 of position which is which of the two studies that were
24 filed in this case will be used and how they would be
25 used.

1 And to be clear, we recognize that this is a
2 divergence from the Commission policy. However, it is
3 consistent with an exception that the Commission made
4 for another utility located in Northwest Florida in a
5 decision that was announced shortly after our last rate
6 case, and it has been referenced to you in the record
7 in this case. That utility is not an investor-owned
8 utility; it is Choctawhatchee Electric Cooperative.
9 You do not set their rates. You do deal with their
10 rate structure, and that's why you have approved the
11 use of this methodology for Choctawhatchee Electric
12 Cooperative.

13 The record also reflects that one of Gulf's
14 sister companies, Mississippi Power Company, employs
15 this same methodology with the permission of the
16 Mississippi Public Service Commission. And therein
17 lies the basis for why we are advocating your
18 acceptance of this proposal, notwithstanding the fact
19 that it is a divergence from the Commission's policy.

20 And I want to be clear, we are not advocating
21 you to abandon the Commission policy. We are asking
22 that you accept this methodology in this one instance
23 as part of a stipulation that deals with some revenue
24 issues that I will get to in a moment. But for the
25 purposes of presenting it to you today, I want to be

1 clear that we, the four parties that are affirmatively
2 supporting this stipulation -- the three parties that
3 are affirmatively supporting this stipulation, the
4 Federal Executive Agencies, FIPUG, and Gulf, are doing
5 so because we honestly believe that the record supports
6 this methodology as an appropriate method of assigning
7 cost causation and designing rates to be sure that cost
8 causative principles are applied.

9 We also believe that use of this methodology
10 for Gulf Power Company will enable Gulf to be a better
11 competitive provider of service, electric service to
12 prospective industrial customers, and better enable us
13 to retain existing industrial customers in Northwest
14 Florida for the benefit of all citizens of Northwest
15 Florida.

16 And to be clear, to the extent that we are
17 able to recruit and retain industrial customers, it not
18 only benefits all the customers of Gulf Power Company,
19 but it also benefits all the citizens of Northwest
20 Florida because of the enhanced economic activity that
21 results from the retention or the attraction of
22 industrial load to Northwest Florida.

23 The other attributes that I think are
24 important is that this methodology will contribute to
25 the rate stability of Gulf Power Company which, again,

1 is another benefit to all of the customers of Gulf
2 Power Company. And so, therefore, that is the reason
3 that we are proposing as part of this -- as I have
4 already indicated -- fragile egg that the methodology
5 identified as Attachment A to MFR Schedule E1 and in
6 the Exhibit MTO-2 be used as the cost of service
7 methodology for Gulf Power Company to design rates at
8 the conclusion of this case, and that the allocation of
9 the treatment of distribution costs be as described in
10 Gulf's position on Issue 107 short of the note at the
11 end. And that the spreading of the revenue increase
12 across customer classes be done as shown in MFR E8 of
13 Gulf's filing, once we know the ultimate revenue that
14 has been approved in this case. That is the proposal
15 of the Federal Executive Agencies, the Florida
16 Industrial Power Users Group, and Gulf Power Company
17 with regard to the resolution of Issues 106, 107, and
18 108.

19 And then, as I have indicated, there are
20 revenue issues that are also being resolved as part of
21 this fragile egg settlement. And those revenue issues
22 are Issues 11, 62, 63, and 80, and they will be
23 resolved by dropping all four issues from further
24 consideration in this case. And in return, Gulf will
25 make a \$675,000 adjustment to its O&M expenses, a

1 reduction to its projected test year for 2012.
2 Jurisdictional reduction of \$675,000 to the O&M
3 expenses in our projected test year, and that is the
4 nature of the settlement that we are proposing.

5 The parties, I believe, are all in agreement
6 to accept this \$675,000 reduction, and they are all in
7 agreement to the dropping of the four revenue issues
8 from further consideration in this case, and they are
9 all in agreement that no further disallowances related
10 to the dropped issues will be allowed. And as I
11 previously indicated and want the record to be very
12 clear, with the exception of the Federal Executive
13 Agencies, the Florida Industrial Power Users Group, and
14 Gulf, the intervenors are not standing in the way of
15 this stipulation, but not affirmatively supporting it.

16 That is the nature of the stipulation. I
17 believe all the parties can indicate that I have
18 conveyed it correctly. We urge the Commission to
19 accept the stipulation in its entirety because of the
20 fragile nature of it. We recognize that it is a
21 departure from the existing policy. And we accept the
22 fact that if you accept the stipulation, it will be
23 done in a manner that it will not serve as precedent in
24 any future proceeding and will not bind any of the
25 parties to this agreement to taking a particular

1 position with regard to the advocacy of the
2 cost-of-service methodology with regard to any other
3 utility in any other proceeding. And I thank you for
4 letting me get all of this out before my voice went
5 completely dry.

6 **CHAIRMAN GRAHAM:** Well, before I move on,
7 rest assured, regardless of what we do, if we go down
8 this path you're talking about we will hear about it
9 again. Even though you tried to make it as unique as
10 possible -- I mean, just like the Florida Power and
11 Light and Progress stipulation was uniquely to those
12 two, I think we have heard about it from about four or
13 five witnesses today.

14 That being said, let's start with Mr. Wright.
15 Do you have any comments on the way Gulf laid this out?

16 **MR. WRIGHT:** Mr. Chairman, I just wanted to
17 confirm to you that Mr. Stone has accurately
18 represented the Florida Retail Federation's positions
19 with respect to this. Thank you.

20 **CHAIRMAN GRAHAM:** Public Counsel.

21 **MR. McGLOTHLIN:** The description of the
22 overall proposed settlement is accurate in this case as
23 reflected in the prehearing order and our participation
24 in this case. Public Counsel takes no position on
25 Issues 106, 107, and 108, which has been designed as

1 the rate design cost-of-service study. And consistent
2 with that, I have no comment on the description or
3 rationale presented by Mr. Stone. We are participating
4 in the revenue issues, and that description was also
5 accurate.

6 **CHAIRMAN GRAHAM:** Mr. Moyle.

7 **MAJOR THOMPSON:** Mr. Chairman, I will go
8 next. I just wanted to give a brief summary of what he
9 was talking about. But we have reviewed the
10 stipulation, the proposed stipulation and we agree with
11 Gulf and FIPUG 100 percent on these issues.

12 FEA makes up one of the largest customers for
13 Gulf Power. And that being said, we also thought it
14 was very important to intervene in this case for these
15 specific issues, particularly 106, 107, and 108, the
16 MDS schedule, or methodology. We received Gulf's --
17 Mr. OSheasy's testimony, and we hired an independent
18 expert consultant to review that, and he came up --
19 that was Mr. Stowe, by the way, and Mr. Stowe came up
20 with the same exact methodology to be fair for all the
21 intervenors and Gulf Power. So I just wanted to make
22 sure that you understood how important that was to us.

23 All the issues that Mr. Stone was talking
24 about, but particularly 106, 107, and 108, that our
25 consultant agreed with Mr. O'Sheasy's MDS method. And

1 I'm available for any questions, if you have any.

2 **CHAIRMAN GRAHAM:** Thank you.

3 Mr. Moyle.

4 **MR. MOYLE:** Let me just start by thanking
5 your staff and you for giving us an opportunity to have
6 these conversations. We spent a lot of time talking
7 through a lot of issues, and like oftentimes happens in
8 a settlement, there is balancing. And Mr. Stone is
9 calling it a fragile egg and, you know, settlement
10 involves give and take on these issues. This
11 Commission has had a history of encouraging settlements
12 and give and take, and we spent quite a bit of time
13 doing so.

14 Also, I'm appreciative to all of the parties
15 in terms of the conversations and the tenor and their
16 professionalism. With that, let me just speak
17 specifically about the importance of this to my
18 clients, particularly those in Northwest Florida. You,
19 I know, saw evidence and heard the president of the
20 company tell you that the industrial rates in Northwest
21 Florida are exceedingly high, and that is difficult for
22 Gulf to deal with when they are trying to retain and
23 attract new business to the state.

24 Mr. Pollock in his testimony that was
25 stipulated in talked about how it makes it exceedingly

1 difficult to try to get new jobs here when companies
2 are looking at utility costs, their variable costs, and
3 saying, well, geez, if I locate over here I'm getting a
4 20, 30, 40 percent break on utility rates. So we are
5 working to try to make the industrial rates a little
6 more competitive with the neighboring states. And the
7 opportunity before you tonight with the MDS in
8 conjunction with these other issues, I think, will
9 allow a step in the right direction to be taken.

10 Now, Mr. Stone said, well, you know, maybe
11 this is not Commission policy. The evidence, I think,
12 before you is that the cost-causers ought to pay for
13 the cost. And I think you have ample evidence, I know
14 I pointed out on the exhibit to the transmission
15 witness and the distribution witness that the
16 industrials oftentimes will be taking load off the
17 transmission or shortly down on that chart in the
18 distribution that is entailed for a residential
19 customer particularly in a subdivision or in other
20 areas involves a lot more. Industrial customers have
21 transformers, and it's a different kettle of fish and
22 they don't cause nearly as much in terms of cost on the
23 system as compared to residential users and the
24 allocation should be fair to reflect that. And I think
25 Gulf and the military has both had experts come in that

1 I think have made that point that the cost-causers are
2 not weighted heavily on the industrial.

3 So we think that the policy is sound. We
4 think that the record is solid. We think that you have
5 had ample evidence of this and would encourage you to
6 move forward. In the CHELCO decision, I know,
7 Commissioner Brown, you referenced that and may have
8 had it in front of you. And to the extent that there
9 is an opportunity to say, well, maybe let's take a look
10 at this. Let's see how this may work in Northwest
11 Florida. It's the smallest of your investor-owned
12 utilities. You know, Florida Power and Light is
13 serving something like half of the population. Gulf
14 has a very small population. CHELCO is adjacent to
15 them. It's right up there. So to the extent that this
16 was a test case or something to try to do this, we
17 would encourage you to do this and hope that you would
18 support and adopt the joint motion by Gulf, and FIPUG,
19 and FEA.

20 I think, also, stipulations if -- nobody has
21 opposed this. We don't have anybody that is opposed to
22 it. And historically when that is the case, you know,
23 things go along. And we have had a lot of discussions,
24 but we would hope that consistent with kind of past
25 practice and past treatment that you would see fit to

1 approve what we have presented and put in front of you
2 tonight. And thank you for your consideration. I know
3 it's late. It has been a long day. It's been a long
4 three days, but thank you for giving this the attention
5 that we feel strongly it's due.

6 **CHAIRMAN GRAHAM:** Staff.

7 **MR. WILLIS:** Commissioners, Marshall Willis
8 with Commission staff.

9 The parties have represented our negotiations
10 on this accurately. Staff is the holdout on this issue
11 and let me explain. The issue we are currently talking
12 about is the MDS methodology issue, which is the
13 minimum distribution methodology which Gulf, by the
14 way, has presented in prior cases before this
15 Commission. It has been fully litigated and the
16 Commission has turned and refused to adopt that
17 methodology in prior cases.

18 Staff takes a different view of the evidence
19 in the record today. As far as supporting it, we do
20 not believe the record at this point supports the MDS
21 methodology, and let me explain what the methodology
22 does. The methodology in this case basically takes a
23 little more than \$7 million and shifts that revenue
24 requirement to the residential class of customers. The
25 impact of that is about \$1.74 per 1,000 kilowatt-hour

1 customer bill per month of that shift. It would be
2 added to the residential customers.

3 And when we talk about the Office of Public
4 Counsel and FRF not taking a position, they are not
5 taking a position because they are conflicted out. The
6 Office of Public Counsel does not take positions on
7 rate issues, because they are conflicted out by the
8 different customer classes they represent. So in this
9 case because of that conflict, there isn't a party
10 representing the residential class whatsoever in this
11 case.

12 The argument was made about the CHELCO case.
13 Staff did recommend CHELCO use this methodology, but
14 that was because CHELCO has a density issue that Gulf
15 does not have. CHELCO is a rural cooperative. They
16 have an issue with long lines and poles leading up to a
17 barn at the end, and they needed a methodology to help
18 them recover that cost much better. It made sense for
19 CHELCO in that case because of the density issue. We
20 do not believe that density issue is here, the same
21 issue, the density issue with Gulf. That issue just
22 didn't here as far as we are concerned.

23 Also, I would like to point out that Gulf has
24 currently several tariffs in place to try and attract
25 industrial customers, and if you want to go into that

1 in more detail, I can have Connie Kummer come up,
2 because I certainly couldn't rattle these off to you
3 like she can. But in this case we are basically
4 opposing the settlement for those reasons. One, it has
5 already been litigated in prior cases. We don't see
6 anything different in this case that has been presented
7 to change staff's mind as far as recommending that the
8 Commission approve this methodology. We see a clear
9 distinction between CHELCO and Gulf as far as this
10 methodology goes, and that's basically staff's
11 position.

12 **MR. STONE:** Chairman, may I respond briefly?

13 **CHAIRMAN GRAHAM:** Hold on a second. The
14 question I have, Staff, you said that this was brought
15 before the Commission before and it was denied. When
16 was that done?

17 **MR. WILLIS:** In Gulf's last rate case.

18 **CHAIRMAN GRAHAM:** So ten years ago?

19 **MR. WILLIS:** Ten years ago. And we have
20 looked at the differences and changes between the last
21 rate case and this rate case and we do not believe that
22 there have been that many changes or anything that
23 warrants the change to the MDS methodology.

24 **CHAIRMAN GRAHAM:** Well, now I'm just going --
25 I guess I'm backing up off of what Mr. Moyle said, and

1 from some the conversations I have heard our elected
2 officials say about jobs. Jobs, jobs, jobs, as they
3 put it. And knowing at least two large industrial
4 users that have gone away or by the wayside in the
5 Panhandle, I think, in my opinion, those are things
6 that have changed in the past ten years.

7 Number one, the economy and the jobs via the
8 jobs going from 3.3 percent unemployment to 10.5
9 percent unemployment, and some of these large
10 industrial users going by the wayside. But you're
11 saying that you don't think that that is significant
12 enough to make this change?

13 **MR. WILLIS:** Staff didn't look at this in an
14 approach as far as jobs go. Staff is really looking at
15 what's behind the MDS methodology. How the company has
16 tried to prove up the MDS itself, and then there are
17 problems within the methodology that I didn't even go
18 into that we would do that in a recommendation.

19 One of the concerns I have is this is a
20 policy. To me it's a policy shift for the Commission.
21 It's not the normal cost-of-service methodology that
22 the Commission has normally used, and that's why, in
23 our case, we would rather just present this to the
24 Commission in a recommendation and lay it out for you
25 as an option clearly so you can make a decision at that

1 point whether you want to go with it or not. And we
2 can lay out all of the factors involving how the MDS
3 calculation may have flaws in it, the company's
4 position, everyone's position so it is fully laid out
5 before you. That is the approach we would rather take
6 in this case.

7 **CHAIRMAN GRAHAM:** Briefly, from the
8 50,000-foot level, tell me some of the flaws. We don't
9 have to get deep into it, but just hit the peaks.

10 **MR. WILLIS:** And I won't get too deep into
11 it. In this case, just to give you a brief scenario, I
12 have asked staff to put together what they believe some
13 of the flaws are. In this case we think that Gulf's
14 been unable to show rate classes use which distribution
15 assets, which would be the best indicator of cost
16 causation which is part of the methodology.

17 Gulf's pole cost methodology we believe is
18 flawed because it results in double counting of
19 customer-related costs. We are not sure that Gulf's
20 MDS transformer line cost models are reliable for
21 purposes of determining customer-related costs because
22 they have data omissions and flaws in it which we think
23 are fairly serious. Stuff that we would go into in a
24 recommendation to explain to the Commission.

25 And, of course, I already talked about

1 CHELCO, the reasons for giving CHELCO the MDS
2 methodology we do not believe exists for Gulf as this
3 point. And the other half I have already talked about,
4 which is that Gulf has not been able to demonstrate, we
5 believe, any change in the prior case to this case
6 which would warrant going to the MDS methodology.
7 Those are the big highlights at the 50,000-foot level.

8 **CHAIRMAN GRAHAM:** Mr. Stone.

9 **MR. STONE:** Commissioner, it is about jobs,
10 and that is why we believe it's so important to use a
11 cost-of-service methodology that appropriately
12 allocates costs consistent with cost causative
13 principles. The fact that staff has identified things
14 that it has concerns about doesn't reflect the fact
15 that other state commissions have adopted this very
16 same methodology. And I guess the question is do we
17 throw out the good in search of the perfect.

18 The good that goes with this stipulation is
19 that it improves the competitive posture of Gulf to
20 attract and retain business to Northwest Florida.
21 Benefits that extend not only to Gulf's customers, but
22 to the customers of the other utilities in Northwest
23 Florida, munies and co-ops. The benefits that flow to
24 all of our customers, both in the form of increased
25 economic activity in our area, but also in rate

1 stability. And as I told you in my opening statement,
2 the customer is at the center of everything we do. We
3 recognize that what we are asking for is a departure
4 from the Commission policy. We're not asking you to
5 drop your policy. We're asking you for a limited
6 exception, an exception that is consistent with a
7 neighboring utility in our area and a decision that was
8 made a matter of weeks after the decision was made in
9 our rate case.

10 The position was said about density, and I
11 would respectfully submit to you that unlike other
12 investor-owned utilities in the State of Florida, Gulf
13 has a mixture. We have areas of our system that are
14 much less dense than other utilities, and that density
15 factor, while we may not have the same level of density
16 as CHELCO, we are more like CHELCO than we are other
17 investor-owned utilities in the state.

18 We serve a very wide swath in Northwest
19 Florida. We have dense areas in the City of Pensacola,
20 the City of Fort Walton Beach, the City of Panama City,
21 and other cities, but we also have rural service that
22 we provide in Northern Escambia County, in Northern
23 Santa Rosa County, in Okaloosa County, in Walton
24 County, in Holmes and Washington County. We have a
25 mixture of service characteristics throughout our

1 territory.

2 CHELCO cited their density. They also serve
3 the Bluewater Bay area, some of the most dense
4 population in our service territory of Northwest
5 Florida. And so the characteristics between the two
6 are not as divergent as is suggested. So I get back to
7 the other picture, and that is Northwest Florida is
8 unique. We have neighboring utilities, one of whom,
9 Mississippi, is using the very same methodology we are
10 proposing here. We have to compete with Alabama for
11 industrial development. And so all we are asking for
12 is a chance to prove to this Commission that what we
13 are asking for is the right thing for our customers.

14 **CHAIRMAN GRAHAM:** If you did this on a
15 going-forward basis where you used it more as an
16 economic development tool for expansion or new
17 customers, would that be sufficient for this
18 stipulation, or does that just take this fragile egg
19 off the table?

20 **MR. STONE:** I'm not how you could use a
21 different cost-of-service methodology for new customers
22 from existing customers. There is a longstanding
23 history in this state of having uniform rates, and so I
24 haven't given it a thorough thought because of that
25 history of uniform rates.

1 **CHAIRMAN GRAHAM:** Commissioner Brown.

2 **COMMISSIONER BROWN:** Thank you, Mr. Chairman.

3 And this is more of a question for Gulf, the
4 intervenors, staff, regarding how hot is this hot
5 potato? Is there an opportunity for us to -- I would
6 like to review more evidence in the record to see
7 whether this methodology that Gulf intends to use is
8 appropriate. I do have concerns about the impact, the
9 \$7 million impact on the residential bill, on the
10 residential customers. So I would like to review more
11 evidence in the record to feel comfortable.

12 **MR. STONE:** Well, I will acknowledge that all
13 the evidence is in the record. I mean, it has been
14 presented. The witnesses, with the exception of
15 Mr. Stowe -- Mr. O'Sheasy testified live to you
16 yesterday. I think it was yesterday. I think today is
17 Wednesday, I'm not sure. But, in any event, I
18 understand that there is documented evidence that
19 normally the Commission would have more time to
20 consider, and we recognize that. And it's -- it was
21 very difficult for us to be in the posture that we were
22 presenting this, but we were trying to do something
23 that brought together disparate interests and find
24 something that everyone could be comfortable with to do
25 something that perhaps they weren't comfortable with,

1 and that's how we got the fragile egg that is before
2 you.

3 **COMMISSIONER BROWN:** So is there time for
4 us -- are you asking for the Commission to vote on
5 these stipulations right now or is there an opportunity
6 for us to look at the other evidence in the record?

7 **MR. STONE:** Well, we were asking for you to
8 vote on it now, candidly. That's the nature of
9 stipulations. There were concessions made to get us
10 here, and it was important that this be presented
11 before the record was closed because of those
12 concessions. I would like for it to be different than
13 that, but in order to get this disparate group of folks
14 together so we can be in a position to ask for this
15 limited exception to the policy is how we ended up
16 where we are today.

17 **MR. MOYLE:** And I can elaborate a little bit
18 because I think FIPUG has been involved in some
19 respects with putting things together. But there is an
20 evidentiary issue and some evidence that we feel needed
21 to be part of the record, and if this got approved it
22 wouldn't need to be part of the record, so that was
23 kind of pushing it. You know, we would prefer not --
24 it would be ironic for me to request a late-filed
25 exhibit.

1 (Laughter.)

2 COMMISSIONER BROWN: Do it.

3 MS. HELTON: I would remember that.

4 MR. MOYLE: No. But that has been driving
5 some of it. I mean, I don't want to obviously put you
6 in an uncomfortable position, but I would -- you know,
7 you have had a lot of evidence and the prehearing
8 statements. You know, you have the flexibility to make
9 a bench decision, and given kind of the mix of the
10 issues -- I guess one comment I was a little
11 disheartened to hear staff in their comments say that
12 they had not considered the jobs in looking at this.
13 You know, the president of the company, I think, came
14 in and talked about the jobs and the low growth rate.
15 It is less than one percent. I mean, the companies
16 that we represent provide the jobs and it seems that to
17 the extent the jobs can get back in place, the rising
18 tide floats all boats, and revenues increase and things
19 like that. And so jobs, as Mr. Stone says, are
20 critically important. We are some of the largest
21 employers. My colleague, the military, they have
22 thousands and thousands of jobs there. So, you know, I
23 would say the jobs are extremely important, and I think
24 this rate, should you approve it, will help us to
25 retain our jobs and hopefully attract new jobs to the

1 area.

2 **MS. KUMMER:** Commissioner, may I?

3 **CHAIRMAN GRAHAM:** Hold on a second. Let me
4 hear what the rest of the Commissioners have to say,
5 and I may have an idea or two, but -- Commissioner
6 Brisé.

7 **COMMISSIONER BRISÉ:** Thank you, Mr. Chairman.

8 And I can appreciate the fact that y'all have
9 worked hard to get to the position that you have
10 arrived at at this moment. I have a concern about the
11 notion of the policy shift. And I listened to FIPUG's
12 position carefully as you expressed the position, and I
13 heard -- and if you can correct me, it will help me --
14 that we are going to try this as a model here, and if
15 it works, we're going to pursue it in other places. I
16 heard that lingering as part of your statement. Now,
17 if I misunderstood what you said, and if I can get the
18 certainty that the next rate case that comes along for
19 a larger utility that because we did it here that it is
20 not going to float over to another one. And if you
21 can --

22 **MR. MOYLE:** Sure. My comment was, I think,
23 because of Gulf being the smaller of the four it was
24 appropriate for consideration here. With respect to
25 will this be, okay, something that you will see, you

1 know, in the future, the language that we have crafted
2 that I agreed to has indicated that this will not be
3 used as precedent because it's a settlement. And, you
4 know, I'm prepared to sign that language and can
5 represent from a standpoint of using the decision it's
6 a settlement, a lot of things go into a settlement,
7 it's give and take, you know, that that would not be
8 something that I would wave around as an exhibit.

9 And with respect to the issue, you know, I'm
10 not even sure legally, ethically that you can, as a
11 lawyer say, well, I'm not going to raise an issue. I
12 could, I think, say because I agreed to a settlement, I
13 won't use it as precedent. But legally, if the policy
14 makes sense, to say, look, put the cost on those who
15 are causing it, you know, I don't think it should be
16 off the table for consideration at a future point in
17 time. But I will tell you that I, in discussions with
18 your staff and others, and in preparing a document, had
19 said that because of the give and take, the complex
20 mix, the fragile egg, you know, because we are asking
21 you to do this sort of as a package, that I would not
22 use it as precedent. I hope that answers your
23 question.

24 **COMMISSIONER BRISÉ:** I think it leaves me in
25 the same position in that this is an instant case that

1 we are dealing with, so the stipulation that has been
2 worked out makes sense for this particular situation.
3 And I don't necessarily want to tie your hands and say
4 that FIPUG can't bring this issue up in the future
5 because it represents the interests of who they
6 represent. But at the same time, I don't want it to
7 reflect that because we made a policy shift today for
8 this instant case, that then it becomes a noose around
9 the neck of the Commission in terms of, as a regular
10 understood practice moving forward, and I want to make
11 sure that we are on the same page there.

12 **MR. MOYLE:** Yes. And if I can, Mr. Chairman,
13 from my perspective, every case is decided on its
14 facts. I think Commissioner Graham, Chairman Graham
15 made that point in some of his comments about, well,
16 this is not ten years ago. Things have changed. You
17 know, the rates are high and businesses have gone out.
18 So every case is decided on its unique set of facts.
19 You would be making a decision on the facts as
20 presented to you here and some discussions with staff.
21 I mean, the facts are different, and you're not -- you
22 know, you're making a decision, but if you were going
23 to be making the policy, my understanding, and Mr.
24 Kiser, I think, can confirm is, you know, you would
25 have a policy done by rule. You know, we are not in a

1 rulemaking; we're in a 120.57 factual situation, and
2 you have had a lot of facts on this issue. We think
3 the facts are persuasive and we have done a good job
4 with the record given the power company and the
5 military and think that this record supports this
6 decision. But I do not think that you will be bound by
7 it on a go-forward basis. You are free to, you know,
8 change decisions based on the facts as they are
9 presented to you, in my opinion and judgment.

10 **CHAIRMAN GRAHAM:** Commissioner Brisé, I agree
11 Mr. Moyle, you won't be bound by it. But you are
12 kidding yourself, like I said, with Florida Power and
13 Light and Progress that we heard that same issue, which
14 is a stipulation, brought up at least four or five
15 times during this case. And one person or the other
16 had to go back and say, but wasn't that a stipulated
17 thing. It wasn't just this one item, it was this
18 package.

19 Commissioner Edgar.

20 **COMMISSIONER EDGAR:** I'm going to, Mr. Moyle,
21 start with you, and then ask Gulf to comment, as well.
22 But on a go-forward basis, what information would we
23 have, would your organization have, would the utility
24 have to determine if this methodology is appropriate
25 and works? In other words, I'm hearing now in

1 discussion, not in testimony, but in discussion that
2 this is a proposal that -- a stipulation that is in the
3 public interest. That it will help retain and attract
4 jobs. At some point in the future how will we know
5 whether indeed that came to pass?

6 **MR. MOYLE:** Well, I'm open to ideas as to how
7 to do that. One thought that kind of comes into my
8 mind immediately, y'all do a lot of things at Internal
9 Affairs. You know, assuming that you adopt the
10 stipulation and it goes into place, I would ask some of
11 my folks to come and make a presentation at Internal
12 Affairs about the change and how it has impacted them
13 and, you know, give you information on that, and have
14 you ask questions about it. That's one idea. But we
15 would be open to considering a way to do it. And I
16 think it does make sense, because if you're making this
17 decision to say, okay, well, you know, does it work?
18 How are we going to know that? And Internal Affairs is
19 one way. You know, I don't represent the regulated
20 side of the house, Mr. Stone does. He may have some
21 other ideas as to how to get you information, but we
22 would be happy to try to do that.

23 **COMMISSIONER EDGAR:** Mr. Stone.

24 **MR. STONE:** Commissioner, I don't know when
25 economic development will take off in Northwest

1 Florida. We certainly hope it will be soon. We hope
2 that we can make things happen quickly. We also hope
3 that at the conclusion of this case Gulf will have
4 sufficient resources that we will not be back before
5 this Commission for another rate case for sometime.

6 The only thing I can say is that we will
7 continue to make reports about how successful we are in
8 bringing business and retaining business on our system
9 periodically, as the Commission would desire. We will
10 be able to give you experience about how it is
11 affecting all of our customers in terms of overall
12 economic activity.

13 I will point out that another unique nature
14 of Gulf is the fact that we have a very seasonal
15 community on our coast. And during portions of the
16 year a lot of those facilities go unused. And it may
17 well be that with the increased economic activity we
18 will be able to get even more use out of existing
19 facilities, and that will, once again, be to the
20 benefit of all of our customers by making more
21 effective and efficient use of existing facilities.
22 And that will be borne out in the course of how long we
23 are able to stay out. And if we are forced to come
24 back and ask for another rate increase, hopefully we
25 will be able to moderate the request because of the

1 increased economic activity. But to answer your
2 question as precise as I can, we will just have to
3 monitor it and what we will see is what we will
4 present.

5 MAJOR THOMPSON: Mr. Commissioner.

6 CHAIRMAN GRAHAM: FEA.

7 MAJOR THOMPSON: I'm sorry, I'm not going to
8 talk about job growth for the military, but we are one
9 of the largest employers, probably, in Gulf region.
10 But I can tell you that if the MDS method is accepted,
11 I could probably bring every commander from every base
12 here and thank you for the additional money for their
13 mission accomplishment.

14 COMMISSIONER EDGAR: We might take you up on
15 that.

16 MAJOR THOMPSON: Okay.

17 CHAIRMAN GRAHAM: Commissioner Balbis.

18 COMMISSIONER BALBIS: Thank you, Mr.
19 Chairman.

20 And I have a few comments, or maybe just one
21 long comment, considering we are placed in this unusual
22 situation at 7:37 at night after three long days of
23 hearings where we are being asked to make a bench
24 decision on what may be a policy shift unintentionally,
25 and with our professional staff in disagreement with

1 the stipulation, or at least requesting additional time
2 to collect their thoughts, review the information that
3 has been entered into the record, and provide us with a
4 detailed recommendation for us to take into account.

5 Mr. Stone, you mentioned that evidence has
6 been placed into the record, but as you know, probably
7 50 percent of it was entered into the record as though
8 read, or just piled on this stack right here and not
9 really mentioned or discussed. And what we do as
10 Commissioners is take that information, and I know
11 staff does, as well, and read every bit of it in order
12 to make an informed decision. So bear with me on the
13 comments I'm going to make, because I find this at
14 least unusual for me.

15 And I'm not even sure I understand the
16 proposed stipulation. So, Mr. Stone, I have a few
17 questions for you. You indicated that there is four
18 revenue issues and three rate design issues associated
19 with this stipulation, correct?

20 **MR. STONE:** Yes, sir.

21 **COMMISSIONER BALBIS:** And the main point of
22 the stipulation is to accept that method for cost
23 allocation?

24 **MR. STONE:** No, sir. Gulf, of course, is a
25 party to all aspects of the stipulation, and Gulf was

1 trying to broker bringing a disparate group of folks
2 with disparate interests together so that we could
3 accomplish multiple tasks including expediting this
4 hearing. And some of those parties have made
5 concessions that have allowed us to expedite this
6 hearing in good faith that we would get to this point
7 and we could present the stipulation. There was
8 another aspect to what you asked, and I've forgotten
9 it.

10 **COMMISSIONER BALBIS:** And I'm not even sure
11 you answered my first question. Like I said, it's
12 late. Let's focus on the rate design issues. I'm just
13 trying to understand, big picture, the concept of this
14 proposed stipulation.

15 So the rate is design issue, which is Issue
16 106, it starts with Issue 106 as part of the
17 stipulation, correct?

18 **MR. STONE:** Yes. And, I'm sorry, I did lose
19 my train of thought on how to answer your question, I
20 apologize. Your premise -- not your premise, but the
21 premise of the question was is the cost of service the
22 main thrust of this stipulation. And I would think you
23 would get different answers from different parties.
24 That's the nature of a settlement.

25 From Gulf's perspective, it is all of it that

1 is important. From FEA's perspective, I guess they
2 would say it is primarily the cost of service and rate
3 design issues. From the Public Counsel's perspective,
4 it is the revenue issues. And that is what I was
5 trying to say when I lost my train of thought, and I
6 apologize. I know it has been a late hour for you, and
7 I realize trying to absorb all this evidence is -- it's
8 a major task for the Commission. And I regret that the
9 circumstances put us in this posture, but regretting
10 that, I do think that what we proposed is a reasonable
11 settlement of the collective issues we presented as
12 this partial settlement. It does -- and we believe
13 that we are not asking you to change the policy. We
14 are asking for an exception.

15 And I listened a moment ago and heard the
16 concern was how this will be played with our neighbors
17 to the south. And I understand that from the
18 Commission's perspective that's an important
19 consideration, and I don't mean to diminish that
20 consideration at all. But my biggest concern is how it
21 plays west of the Apalachicola River. And we, the men
22 and women of Gulf Power Company in conjunction with our
23 customers, believe that this is the appropriate
24 methodology for us to use in this case.

25 **COMMISSIONER BALBIS:** Mr. Stone, I'm sorry.

1 I'm, again, not being clear. I'm sorry. I want to
2 just focus on the big picture. I want to get a firm
3 grasp on the proposed stipulation, not on broad policy
4 issues. I understand that. So correct me if I'm
5 wrong, Issues 106, 107, and 108 deal with using the MDS
6 methodology for cost of service, treatment of
7 distribution costs, and any revenue increases, correct?

8 **MR. STONE:** And the allocation of the revenue
9 increase of class, yes, that is correct.

10 **COMMISSIONER BALBIS:** Okay. And then as far
11 as the other issues, you have Issue 11, which is the
12 renewable landfill gas facility being placed in the
13 base rates, operating expenses for aircraft, which is
14 62, and then 63 is corporate leased aircraft expenses.

15 **MR. STONE:** Yes.

16 **COMMISSIONER BALBIS:** That being agreed to,
17 and Issue 80 is the appropriate pole inspection
18 expense, correct?

19 **MR. STONE:** Correct.

20 **COMMISSIONER BALBIS:** Okay. And then on top
21 of that, a \$675,000 adjustment to O&M expenses to deal
22 with -- I believe it was the late-filed testimony,
23 rebuttal testimony matching that number, correct?

24 **MR. STONE:** No. I'm sorry, the \$675,000, the
25 concession that Gulf is making is to the consumers

1 counsel to drop those four revenue issues, 11, 62, 63,
2 and 80. And the \$675,000 was a negotiated number to
3 drop those four issues from further consideration in
4 the case.

5 **COMMISSIONER BALBIS:** Okay. And then that is
6 all that this stipulation covers, correct?

7 **MR. STONE:** In terms of the revenue issues,
8 yes.

9 **COMMISSIONER BALBIS:** Well, revenue issues as
10 far as Issue 37 is still to be decided upon, correct?

11 **MR. STONE:** Yes.

12 **COMMISSIONER BALBIS:** Which is the ROE, and
13 Issues 27 and 76, which is the storm accrual. I mean,
14 those are revenue issues that are still --

15 **MR. STONE:** Yes. This is only a partial
16 settlement. The remaining issues that are not resolved
17 by this stipulation would remain at issue in the case
18 and would be briefed by the parties, a recommendation
19 written by staff and decided by this Commission in
20 February.

21 **COMMISSIONER BALBIS:** And what would be the
22 harm in allowing parties to file briefs or to draft the
23 stipulation, give staff further time to review the
24 stipulation and provide us with a recommendation for us
25 to decide upon? Would there be a harm in waiting that

1 amount of time?

2 **MR. STONE:** The parties have changed their
3 position in order to bring this stipulation to the
4 Commission, and they made that change of position in
5 good faith in order to be able to present this
6 stipulation to you for a decision at this time. The
7 harm, quite frankly, is the fact that we know that
8 staff is opposed and we know that the staff
9 recommendation will be a negative staff recommendation.

10 **COMMISSIONER BALBIS:** And, Mr. Stone, I'm
11 sure you have watched quite a few of our agenda
12 conferences, correct? And have we always agreed with
13 staff's recommendations?

14 **MR. STONE:** No, Commissioner. I'm not
15 suggesting that, and I want to be fair. I respect the
16 staff on this issue. I know they have firmly held
17 beliefs, and I understand where those beliefs come
18 from. So I'm not trying to -- I know it sounds
19 otherwise, but I'm not trying to force an issue down
20 staff's throat. But we are where we are, and the
21 parties have changed their position in order to get us
22 to where we are. And that's why I am obligated on
23 behalf of the parties who made that good-faith change
24 to advocate for this position, but I also believe
25 strongly that this is the right thing to do for our

1 customers.

2 **MR. MOYLE:** And can I just briefly expand on
3 that? I'm sorry.

4 **CHAIRMAN GRAHAM:** Are you done?

5 **COMMISSIONER BALBIS:** I think you're paying
6 attention, so I will ask you. When did you start
7 working on this stipulation?

8 **MR. MOYLE:** There have been discussions
9 ongoing, I think, for weeks. But before in terms of
10 resolution, the last two days we have spent a lot of
11 time on it. But, you know, sometimes the proverbial
12 things settle at the courthouse steps. I think that is
13 kind of the situation with this. And somebody said,
14 wait a minute, here it is the eleventh hour and, you
15 know, you're bringing a settlement. But I think it's a
16 key point that none of these issues are new. It's not
17 like we have come up with issues and said, oh, we're
18 going to do this, that, or the other. I mean, these
19 issues have been out there for a very long time, and
20 there has just been some give and take. And to your
21 point about can we wait, you know, there is \$675,000
22 that is on the table on a revenue issue. If everybody
23 is briefing their issues, you know, I'm sure they are
24 going to argue why that should be provided in rates,
25 and we have raised some issues about some other things

1 that we would argue this stipulation avoids having to
2 present those arguments and avoids you having to deal
3 with them later. But nothing is new, there's no issues
4 that are new issues in here tonight as to what you're
5 asked to approve. I hope that was responsive.

6 **COMMISSIONER BALBIS:** That's fine. That's
7 all I have at this time.

8 **CHAIRMAN GRAHAM:** Honestly, I have to tell
9 you I'm a little excited about this, because I know one
10 of the things I like is when the parties come together
11 and they come to agreement on their own and things like
12 this get stipulated, because I think that brings
13 everybody to the table with more of a win/win
14 situation, which I think is the direction we need to
15 get to, the direction we need to go to.

16 I think clearly there's not going to be a
17 decision made tonight, so if anybody is looking for
18 that, I don't think that is going to happen. The
19 question I have is the willingness of the parties to
20 make the stipulation more dynamic. So let's just say a
21 year from now, a year and a half or two years from now
22 we decide that this is not working, being able to come
23 in and readjusting the rate case without having to come
24 in and completely open the rate case. And, once again,
25 this is something you can think about overnight, but

1 I'm just throwing that broad idea out there.

2 Any thoughts? And then I will come back to
3 staff. I know you cut you off earlier, but I want to
4 hear some of the things you have to say.

5 **MR. STONE:** Commissioner Graham, it's an
6 interesting idea. From the company's perspective, one
7 of the things we have been very concerned about is the
8 demands of a rate case on our people. It is an
9 enormous undertaking. Our folks have put in an
10 enormous number of hours devoted to this rate case and
11 still have to find time to do their normal jobs,
12 because we don't gear up for rate cases as evidenced by
13 the fact that we do them so rarely.

14 The mountain of discovery that we went
15 through to get to where we are today and the expense
16 that was incurred to get to where we are today requires
17 that the company be extremely cautious in obligating
18 itself to returning on a very short period of time.
19 While it is true that you could have a rate design case
20 without setting revenue requirements, there is nothing
21 that I am aware of that would stop a party from trying
22 to convert that case back into this very expensive and
23 labor-intensive process. And it is something we would
24 like to think about, but, candidly, those are the
25 concerns that come to mind immediately, in answer to

1 your question.

2 **MR. MOYLE:** We will think about it. I know
3 there is a limited proceeding mechanism that has been
4 used. That may be something else, think, that the
5 Commission, and Mr. Kiser can correct me if I'm wrong,
6 but I think you have the ability to open matters, I
7 think, on a rate case, and maybe even on a limited
8 basis. I don't think your hands are tied in
9 perpetuity.

10 **CHAIRMAN GRAHAM:** Staff.

11 **MS. KUMMER:** Only a couple of little things,
12 and one was addressing your point, Chairman. Mr. Moyle
13 seemed to imply that staff has not looked at the
14 employment situation. Staff has already stipulated to
15 two issues which expanded the applicability of two of
16 Gulf's existing rates, so it is not that we are
17 anti-business.

18 **CHAIRMAN GRAHAM:** Don't feel like you have to
19 defend that one.

20 **MS. KUMMER:** The other thing, what you have
21 talked about is what we call revenue neutral rate
22 restructuring. We have done it in water companies. We
23 have done it in gas companies. We have never done it
24 in an electric case, but it is a possibility. It's
25 something that we have done in other utilities.

1 **CHAIRMAN GRAHAM:** Nothing further?

2 **MS. KUMMER:** No.

3 **CHAIRMAN GRAHAM:** Commissioner Brisé.

4 **COMMISSIONER BRISÉ:** Thank you, Mr. Chairman.

5 Many of the parties expressed that if we
6 don't make a decision soon on this issue, they are
7 going to back away from their positions. And I just
8 want to make sure that I get clarity on which positions
9 which parties are going to walk away from so that that
10 may help us understand how the issues are delineated.
11 So I want to go from left to right all the way down,
12 going through the steps and through the issues on the
13 stipulation what you are going to walk away from if we
14 don't make a decision before the issue is supposed to
15 come up in a regular agenda or a special agenda.

16 **MR. STONE:** Commissioner Brisé, I'm not able
17 to answer that question without consulting with my
18 client, and so I recognize you wanted to go from your
19 left to the right, but I will need an opportunity to
20 consult before I could answer that question.

21 **COMMISSIONER BRISÉ:** Maybe I can help out,
22 Mr. Chairman. If I can go from the right to the left.

23 (Laughter.)

24 **MAJOR THOMPSON:** It would be Issues 11, 62,
25 63, and 80, the ones that were included in the

1 stipulation, and I need to look at our position on
2 those.

3 **COMMISSIONER EDGAR:** Mr. Chairman, I
4 recognize that all of the parties and probably our
5 staff have been looking -- you know, have been in
6 discussions and negotiations over a period of time for
7 the last few days. Clearly we were not privy to that.
8 I believe, I think I have a general understanding of
9 what is before us, but I would like to ask for about
10 five minutes to ask a few questions of our staff. And
11 it seems that perhaps the parties could use a few
12 minutes to confer with their clients in order to
13 respond to Commissioner Brisé's excellent question. So
14 I would ask we take time to allow people to get their
15 thoughts together. Could I have five or ten minutes,
16 please?

17 **CHAIRMAN GRAHAM:** We will take a Commissioner
18 Edgar five-minute recess.

19 (Recess.)

20 **CHAIRMAN GRAHAM:** Now, I know you guys have
21 given all of this some thought. Some of the
22 suggestions I threw out there and a question that
23 Commissioner Brisé asked, and I almost hate to divert
24 you, but my understanding is we had one exhibit that if
25 we put this into the record we can get rid of Witness

1 Grove, Caldwell, and Moore. So let's go ahead and take
2 care of that, and then come back to the Brisé question.

3 **MR. BADDERS:** Mr. Melson is going to pass out
4 the exhibit. And it's my understanding with this
5 exhibit going into the record that all cross from all
6 parties, including staff, who is not a party, but
7 including staff will be waived.

8 **MR. SAYLER:** That's correct for OPC.

9 **MR. WRIGHT:** Correct for the Retail
10 Federation, Mr. Chairman. Thank you.

11 **MS. KAUFMAN:** The same for FIPUG, Mr.
12 Chairman.

13 **CHAIRMAN GRAHAM:** Did we assign an exhibit
14 number to this already?

15 **MR. MELSON:** No. First, I'd like to have an
16 exhibit number assigned, if I could, please.

17 **CHAIRMAN GRAHAM:** This would be Exhibit 217.

18 **MR. MELSON:** And, Mr. Sayler had asked if I
19 could take a moment to step through and explain what it
20 is.

21 **CHAIRMAN GRAHAM:** Okay.

22 **MR. MELSON:** The issue is getting more
23 factual data in the record about the current status of
24 the employment of production, transmission, and
25 distribution employees. We have prepared a chart that

1 has got several columns on it for each of those
2 functional areas. The first column shows the number of
3 positions, total positions in that functional area
4 included in the test year MFRs.

5 The second column that is labeled current
6 2012 budget shows the number that are included in the
7 budget at this point, because at the time the MFRs were
8 filed this was the second forecast year in the budget.
9 We are now finalizing the 2012 budget. You will see
10 the only difference between those two columns is the
11 number of full-time equivalents projected for
12 production has gone down by ten positions, which is
13 what Mr. Grove testified to yesterday, and a footnote
14 that identifies the dollars associated with moving
15 those out of labor and into contract labor and
16 overtime.

17 The third column, actual as of 12/12/11, is
18 the number of employees working in each of those
19 functional areas as of Monday. The next column, offers
20 outstanding as of 12/12/11, is the number of offers
21 that have been extended to folks. Some of those offers
22 have been accepted and represent people who will start
23 either later this month or early in January. Some have
24 not yet been accepted, but we're hopeful they will be.

25 The final column that said posted is the

1 number of positions that are in the hiring process,
2 which starts with the posting of a vacancy and then
3 collection of resumes and interviews. With this
4 exhibit I understand that we can then stipulate to
5 those three witnesses, so I would move Exhibit 217 into
6 the record.

7 **CHAIRMAN GRAHAM:** Do I have any objections to
8 moving Exhibit 217 into the record?

9 **MR. SAYLER:** Absolutely not, Mr. Chairman.

10 **MS. KLANCKE:** No objection. But may I have a
11 short title?

12 **CHAIRMAN GRAHAM:** A short title. Do we have
13 a short description for this?

14 **MR. MELSON:** Gulf Full-time Equivalents,
15 December 12/11.

16 **CHAIRMAN GRAHAM:** Gulf FTE 12/12/11.

17 **MR. MELSON:** Yes, sir.

18 **CHAIRMAN GRAHAM:** Okay. We will move 217
19 into the record, and by doing that we have stipulated
20 Witnesses Grove, Caldwell, and Moore.

21 (Exhibit Number 217 marked for identification
22 and admitted into the evidence.)

23 **MR. MELSON:** Mr. Badders will handle getting
24 their testimony and exhibits properly inserted.

25 **CHAIRMAN GRAHAM:** Okay.

1 **MR. BADDERS:** And at this time, yes, I would
2 move into the record the prefiled testimony -- or
3 rebuttal testimony of Mr. Grove, Mr. Caldwell, and Mr.
4 Moore.

5 **CHAIRMAN GRAHAM:** We will move the rebuttal
6 testimony of Grove, Caldwell, and Moore into the record
7 as though read.

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1 GULF POWER COMPANY

2 Before the Florida Public Service Commission
3 Rebuttal Testimony and Exhibit of
4 Raymond W. Grove
5 Docket No. 110138-EI
6 In Support of Rate Relief
7 Date of Filing: November 4, 2011

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

9 A. My name is Raymond Grove. My business address is One Energy Place,
10 Pensacola Florida, 32520 and I am the Manager of Power Generation
11 Services for Gulf Power Company (Gulf or the Company).

12 Q. Have you previously filed testimony in this proceeding?

13 A. Yes.

14 Q. What is the purpose of your rebuttal testimony?

15 A. The primary purpose of my rebuttal testimony is to address the testimony
16 of Office of Public Counsel (OPC) witness Helmuth W. Schultz, III, in
17 which he makes an \$11.3 million reduction to Gulf's projected 2012
18 Production Operations and Maintenance (O&M) budget. In addition, I
19 address the testimonies of Federal Executive Agencies (FEA) witness
20 Greg R. Meyer and OPC witness Donna Ramas with respect to their
21 workforce adjustments.

22
23 Q. Have you prepared an exhibit that contains information to which you will
24 refer in your testimony?

25

1 A. Yes. I am sponsoring Exhibit RWG-2, Schedules 1 through 6. Exhibit
2 RWG-2 was prepared under my direction and control, and the information
3 contained therein is true and correct to the best of my knowledge and
4 belief.

5

6

7

I. Production O&M Expenses

8

9 Q. Do you have any overall comments concerning Mr. Schultz's Production
10 O&M testimony?

11 A. Yes. Mr. Schultz's testimony on Production O&M suffers from a number
12 of problems. In proposing his adjustment, instead of addressing the actual
13 O&M necessary to maintain service and reliability, Mr. Schultz simply uses
14 a series of averages, unadjusted for inflation, to calculate his proposed
15 disallowance. Mr. Schultz has failed to fully consider the evidence Gulf
16 has provided in justifying the actual O&M necessary to maintain the
17 reliability and efficiency of our generating fleet. His analysis fails to
18 assess the impact of his large proposed disallowance on Gulf's ability to
19 serve its customers.

20

21 As serious as all of the foregoing flaws are, I am most concerned with
22 several sections of his testimony in which Mr. Schultz appears to suggest
23 that Gulf is intentionally misrepresenting its need for additional Production
24 O&M expenses in order to enrich shareholders at the expense of

25

1 customers (page 36, lines 1-3). Such a suggestion is absolutely not true
2 and, if intended, is extremely offensive.

3

4 Q. On page 35 of his testimony, Mr. Schultz states “to allow the spike in
5 expense based on no more than the Company’s claim, without evidence
6 that the spending will continue, is akin to giving the Company a blank
7 check.” Please respond to this assertion.

8 A. There is no “spike” in Production O&M expenses in the test year. As
9 shown in my direct testimony, the \$110.9 million level of O&M expenses in
10 2012 is slightly above the 2011 level of \$110.4 million projected for 2011.
11 It is in line with projected O&M expenses for 2013, 2014 and 2015, which
12 are \$110.3 million, \$113.9 million and \$114.6 million, respectively.

13

14 As I pointed out in my direct testimony, there is an increase in the level of
15 projected O&M over the average Production O&M historically spent in
16 2006 through 2010. However, the basis for that increase is not fairly
17 characterized as being “based on no more than the Company’s claim,
18 without evidence . . .” as Mr. Schultz states in his testimony. My direct
19 testimony provides three distinctive types of justification for the increase in
20 Production O&M expense. First, I clearly outlined the rigorous budget
21 process that Gulf uses in the Production organization to ensure that every
22 dollar budgeted is necessary and addresses the most critical needs. Mr.
23 Schultz acknowledges my statement but asserts nothing to suggest that
24 this process, which I outline in considerable detail, is anything other than
25 rigorous.

1

2 Second, Mr. Schultz ignored the Commission-approved O&M Benchmark
3 analysis. Gulf followed the Commission-approved methodology, and in
4 my direct testimony I provided 28 pages of testimony related to Steam
5 Production, Other Production, and Other Power Supply. In each case I
6 provided an explanation for an amount greater than the Benchmark
7 variance. Mr. Schultz does not address this testimony when he alleges
8 that Gulf is making a claim "without evidence."

9

10 Third, Gulf recognized the concerns that might arise from a simple
11 comparison of the actual historical Production costs from 2006 through
12 2010 to the projected costs for the 2011 through 2015 budget cycle used
13 to develop our rate request. To address those potential concerns, I
14 provided eight pages of direct testimony outlining the primary reasons the
15 projected budgets are higher than historical amounts.

16

17 Mr. Schultz's concluding assertion that Gulf is asking for a blank check is
18 without merit. My direct testimony and exhibits justified Production O&M
19 costs from three different perspectives. Moreover, Mr. Schultz's "blank
20 check" assertion implies that the Commission will not perform its
21 regulatory oversight to assure that Gulf continues to manage its
22 expenditures of O&M dollars in a reasonable and prudent manner.

23

24 Q. At page 36 of Mr. Schultz's testimony he states, "Without some smoothing
25 through the use of averaging, rates could be set artificially high and in

1 future years shareholders would benefit from the over-collection." Please
2 respond.

3 A. Mr. Schultz appears to be suggesting that Gulf Power is intentionally
4 misrepresenting the level of Production O&M expenses requested in this
5 case to benefit shareholders. As I stated above, this suggestion is
6 absolutely untrue.

7
8 As I pointed out in my direct testimony, Gulf uses a rigorous budgeting
9 process that starts with the experienced personnel that are out in the plant
10 turning wrenches. These are the people that perform walk down
11 inspections of the units every day and are called out in the middle of the
12 night to repair equipment as rapidly as possible to get the units back on-
13 line to ensure that our customers can be served from our least expensive
14 units. The resulting budget requests are then reviewed by multiple levels
15 of Production management in a critical review process before the budget
16 is submitted to the executive committee for approval. Every person in this
17 budget process, from the plant personnel up through the executive
18 committee, has more direct Production experience and more knowledge of
19 what it actually takes to maintain a generating unit than Mr. Schultz. Yet,
20 he tells the Commission that the O&M planned by Gulf is overstated and is
21 being used to enrich shareholders. In the later regard I know Gulf's
22 Production personnel, and I can assure you that these employees have
23 not overstated their budget requests in order to overcharge customers in
24 an effort to artificially enrich shareholders. The Production O&M requests
25 submitted in this case are the result of a determination of what is needed

1 to serve our customers and will be spent to meet those needs if we are
2 allowed to include these costs in our rates.

3

4 Q. Do you have other comments about the approach Mr. Schultz uses in his
5 cost comparisons?

6 A. Yes. There is an absence of analytical rigor in Mr. Schultz's approach. I
7 will address three of the more serious flaws in his averaging approach as
8 examples of this lack of analytical rigor.

9

10 First, in using historical averages, Mr. Schultz fails to adjust for inflation.
11 He compares historical actual dollars to 2012 projected dollars without
12 restating historical dollars to 2012 levels. By averaging nominal rather
13 than inflation adjusted dollars over a period of years and then comparing
14 those dollars to 2012 dollars he is drawing an improper comparison. For
15 instance, he begins his ten-year average with 2001 data. Clearly dollars
16 spent in 2001 do not have the same value as dollars spent in 2012;
17 nonetheless, he compares them without adjusting for inflation.

18

19 Second, Mr. Schultz fails to adjust historical costs for known and
20 measurable changes. There are numerous changes outlined in my O&M
21 Benchmark testimony that could and should have been captured in
22 Mr. Schultz's calculations; let me point out two significant omissions. He
23 uses 2001 and 2002 data, yet as he knew based on his own testimony on
24 page 32, line 21, and from his participation in Gulf's last rate case in 2002,
25 Gulf added a major generating unit, Smith 3, that had no O&M in 2001 and

1 only 7 months of O&M in 2002. Gulf also added a new generating unit,
2 albeit small, in 2010, the Perdido landfill gas-to-energy facility. Nine years
3 of the ten years he used to compute his average contain no costs for
4 Perdido. If he was going to use data from those years to be
5 representative of 2012 data, he should have made an appropriate
6 adjustment to the values in those years.

7
8 Third, as I discuss later in more detail, he makes a number of
9 computational errors, and his worksheets are inconsistent with his
10 narrative in testimony.

11
12 Q. Are there other inaccuracies in his testimony?

13 A. Yes. On page 33, line 20, he begins a discussion related to “the ten year
14 average as shown on Exhibit HWS-1, Schedule C-4, Page 2 of 2.” He
15 goes on to say “Baseline and Special Projects for each of the respective
16 units is projected to increase from 14% to as high as 38% from 2010 to
17 2012.” These percentages are not accurate. As shown on Schedule 2 of
18 my Exhibit RWG-2, the correct rate of change from 2010 to 2012 for each
19 of the “respective units” is actually between (4.43)% and 27.22%. It
20 appears that the percentages suggested by Mr. Schultz are the result of
21 the changes from the ten year average to 2012 for the “respective units.”

22
23 Q. Do you have any comments regarding Mr. Schultz’s statement at page 35
24 that Gulf has had “ten years of essentially level spending”?

25

1 A. Yes. As shown on Gulf's response to Citizen's 4th Set of Interrogatories
2 No. 212, a copy of which is attached as Schedule 6 of my Exhibit RWG-2,
3 Gulf's Production O&M budget grew from 2002 through 2008 from
4 \$83.3 million to \$88.4 million. This was not an "essentially level spending"
5 level of Production O&M expenses. Then, in 2009 and 2010, in an effort
6 to forestall a request for a base rate increase during an economic
7 recession, Gulf made a concerted effort to limit its Production O&M
8 budgets and control its actual Production O&M expenses to help postpone
9 the need for rate relief. Expenses declined significantly in 2009 to
10 \$84.2 million but rose again in 2010 to \$92.9 million, which was still below
11 the budgeted level of \$94.7 million. The facts show that Mr. Schultz's
12 assertion regarding "level spending" is misleading at best.

13

14 Production O&M expenses have not been "essentially level" for ten years.
15 They have increased over that period. My direct testimony describes
16 Gulf's extraordinary efforts to reduce O&M expenses in the 2009-2010
17 time frames. Yet Mr. Schultz calculates his adjustment using five years of
18 historical expense, two of which I testified were not representative of a
19 going forward level of expenses because Gulf was making extraordinary
20 efforts to avoid a rate increase.

21

22 Q. Do you have any concerns related to Mr. Schultz's assertion that Gulf did
23 not adequately explain the higher cost in the forecast years relative to the
24 historical years?

25

1 A. Yes. Mr. Schultz's points to page 27 of my direct testimony where I have
2 laid out the drivers behind Gulf's need for increased Production O&M
3 expenses in 2012 and beyond. I provided the information starting on page
4 27 of my direct testimony to address any potential concerns relating to the
5 apparent increase from the historical period to the forecast period 2011
6 through 2015. It is instructive to look at each of the reasons I discussed
7 and how Mr. Schultz addressed or failed to address them.

8

9 Q. The first of the five primary factors you set forth to justify increased O&M
10 expenses was the aging of generating units. What did Mr. Schultz state
11 about this in his testimony and how do you respond?

12 A. Initially, Mr. Schultz admits that the existence of aging units does have
13 merit when explaining increased costs to maintain the fleet. Then, he
14 observes that there are significant capital expenditures being made on
15 units, but he never testifies that such capital expenditures avoid increased
16 O&M expenses on aging generation units. In essence, he acknowledges
17 the merit in my point and then fails to consider it in his position.

18

19 The details supporting my point on aging are as follows. The vast majority
20 of Gulf's generating units are coal fired. Plant Crist Units 4 through 7
21 became commercially operational between 1959 and 1973. Collectively,
22 these units provide 906 MW of reliable generation to serve our customers.
23 Plant Smith Units 1 and 2 became commercially operational in 1965 and
24 1967 and provide 357 MW of reliable generation to serve our customers.
25 Plant Scholz Units 1 and 2 became commercially operational in 1953 and

1 provide 92 MW of reliable generation to serve our customers. Gulf also
2 owns 50% of the coal generation at Plant Daniel, which became
3 commercially operational in 1977 and 1981 and provides 510 MW of
4 reliable generation to serve our customers. All of these assets are at least
5 30 years old, 10 years older than at the time of Gulf's last rate case. The
6 equipment within these units is subject to significant stress from heat and
7 friction associated with the handling and combustion of coal. The major
8 components of a coal unit include coal handling equipment, coal grinding
9 equipment, boilers, turbines, generators, and water cooling equipment.
10

11 As shown on Schedule 2 of Exhibit RWG-2, the average outage dollars
12 spent between 2006 and 2010 was \$10,900,000. During this period, Gulf
13 was intentionally holding down expenses to delay the need to ask for rate
14 relief. We accomplished this delay on behalf of our customers by
15 prioritizing maintenance and extending maintenance cycles. The amount
16 spent in 2006 through 2010 was far below the dollars spent in 2002
17 through 2005 which on average was over \$15,500,000. The outage
18 dollars Gulf is requesting in this case are representative of the amount we
19 are planning to spend in the period 2011 through 2015 of \$21,100,000.
20 This amount reflects the costs of properly maintaining Gulf's coal fired
21 generating units to continue providing reliable service during a time of
22 rising prices for materials and labor.
23

24 Q. On page 32 of his testimony Mr. Schultz states "In the thirty plus years
25 that I have been analyzing costs in rate proceedings, I have not seen a

1 study submitted by a company that shows how the specific cost areas in
2 question have exceeded the rate of inflation.” Do you have a response to
3 Mr. Schultz’s assertion?

4 A. Mr. Schultz’s statement suggests that he is not familiar with the
5 Commission’s required O&M Benchmark analysis or my direct testimony
6 addressing Gulf’s Production O&M Benchmark variance in this case. The
7 Commission’s O&M Benchmark methodology uses the Consumer Price
8 Index (CPI) or CPI plus customer growth for escalating costs over time.
9 As I explained in my direct testimony, Gulf Power is a producer and uses
10 the types of materials tracked by the Producer Price Index (PPI) such as
11 sheet metal, industrial valves, turbine and turbine generators, metals and
12 metal products, and iron and steel. Certainly, for the materials Gulf
13 purchases for maintenance and outages, one can argue that the PPI is a
14 better measure of rising costs than CPI. For the period used to develop
15 the Commission-approved O&M Benchmark analysis, CPI grew by 25.34
16 percent. For the same period, the PPI Commodities – All Commodities
17 grew by approximately 51.5 percent which is more than twice the rate of
18 CPI. The rate at which costs of materials needed to produce electricity
19 have risen is significantly greater than CPI.

20
21 Q. On page 32 of his testimony Mr. Schultz discusses your third reason that
22 Production O&M costs have risen from historic levels, the fact that Smith
23 Unit 3 was a new unit in the last test year and it is no longer new and thus
24 requires more O&M. Mr. Schultz suggests that Smith Unit 3 is not a
25 driving factor in the increase of Production O&M costs. Do you agree?

1 A. No. First, I want to be clear that the amounts shown on Mr. Schultz's
2 Exhibit HWS-1, Schedule C-4, page 2 of 2 are the expenditures for the
3 entire Plant Smith consisting of two coal units, a simple cycle Combustion
4 Turbine (CT) and the gas-fired combined cycle unit known as Smith
5 Unit 3.

6
7 On page 2 of 2, line 11 of his Schedule C-4, Mr. Schultz calculates the
8 average cost of Plant Smith for the period 2001 through 2010 and
9 compares that average to the 2012 request for Plant Smith. It is important
10 to note that Smith Unit 3 began commercial operation in April 2002.
11 Therefore, there would be no O&M cost for Plant Smith Unit 3 in 2001,
12 and for 2002 there are only 7 months of costs associated with Smith Unit
13 3. As a result, the actual average O&M cost for Plant Smith used by
14 Mr. Schultz in his comparative analysis is understated.

15
16 Schedule 3 of my Exhibit RWG-2, clearly shows the increased level of
17 expenses specifically associated with Smith Unit 3. As discussed on page
18 54 of my direct testimony, the increased Smith Unit 3 O&M costs that are
19 not attributable to inflation are explained by two factors: planned outage
20 and maintenance. In the first full year of operation (which roughly
21 corresponded to the test year used when base rates were last set for
22 Gulf), Smith Unit 3 had \$3.376 million in the O&M budget. The
23 Commission-approved benchmark which applies simple escalation of
24 those dollars for inflation between 2003 and 2012 would increase that
25 value to a level of \$4.231 million. Gulf has budgeted \$ 6.122 million for

1 Smith Unit 3 in 2012. This is only \$1.891 million more than the portion of
2 the variance explained by inflation. Of course I have previously fully
3 justified the variance related to Smith Unit 3 starting on page 54 of my
4 direct testimony. For the first few years of operation of Smith Unit 3, very
5 little money was budgeted for planned outage work on the steam turbine,
6 the two combustion turbines or on other maintenance of the heat recovery
7 steam generator because the entire unit was new. Despite Mr. Schultz's
8 suggestion to the contrary, Smith Unit 3 costs have been a significant
9 driver for the increase in total Production O&M costs.

10

11 Q. Mr. Schultz also indicated that the Perdido renewable energy generation
12 facility going into service, the fourth reason you gave for increased
13 Production O&M expenses, would not be a primary factor in increasing
14 costs over prior years. Is the addition of the Perdido renewable energy
15 generation facility to Gulf's fleet of generating units a factor that has led to
16 an increase in Production O&M expenses requested in this case relative
17 to historic years?

18 A. Yes. Perdido is a significant factor in the need for increased O&M
19 expenses because there were no such expenses associated with Perdido
20 in the years prior to 2010. The average O&M expense associated with
21 operating and maintaining the Perdido renewable energy generation
22 facility is \$908,910 over the period 2011 through 2015. With the exception
23 of October through December 2010, none of these costs appear in
24 Mr. Schultz's ten-year average for the years 2001 – 2010, because the
25 Perdido facility was not placed into service until October 7, 2010.

1

2 Q. Mr. Schultz disputes the fifth reason you provided for increased O&M
3 expenses in your direct testimony, that O&M production costs were
4 controlled in 2009 and 2010. He points to 2010 as having the greatest
5 level of Production O&M expense in the last 10 years. Please respond.

6 A. Mr. Schultz focuses solely on 2010 and ignores the controlled expenses
7 for 2009. In 2009, Gulf budgeted \$93,469,105 for Production O&M.
8 However, Gulf worked hard to control costs for 2009 as part of Gulf's
9 overall effort to delay the need to seek an increase in base rates charged
10 to its customers. Gulf made decisions based on sound engineering to
11 hold actual 2009 expenses down to \$84,209,000 without immediate
12 negative impacts on the reliability of its generating fleet. That translates to
13 the Production function being under budget by over \$9,000,000 in 2009.

14

15 Mr. Schultz's Schedule C-4 clearly shows the dip in Production O&M
16 expense in 2009, but he fails to acknowledge in his testimony that this was
17 the result of Gulf's extraordinary cost control efforts. Instead, he focuses
18 only on 2010 but, by stating what actual expenses were for the period
19 without acknowledging what was budgeted for expenses, he treats 2010
20 actual expenses as if they were unusually high. While 2010 actual
21 expenses are higher than prior years, something one would expect with
22 the impact of inflation, Mr. Schultz fails to acknowledge that 2010 actual
23 Production O&M expenses were below budget and that Gulf was still
24 engaged in efforts to postpone its request for a base rate increase.

25

1 Mr. Schultz observed that 2010 had the highest level of O&M expenses for
2 any year since the last rate case. This is true, but they were not as high
3 as budgeted or as high as they would have been if Gulf had not been
4 trying to defer a base rate case proceeding. Gulf's desire to delay the
5 need for a base rate increase request by controlling O&M expenses as
6 long as it could without negatively impacting reliability was a completely
7 reasonable response to the economic climate in which we were operating.
8 This effort was undertaken to benefit customers. In addition, during a
9 period of rising costs for materials and services used in the electric
10 generation business, it is logical to expect the most current year to have
11 higher O&M expense levels than prior years. As I pointed out in my direct
12 testimony, Gulf cannot continue to undertake in the future the same
13 extraordinary measures it undertook in 2009 and 2010 without harming
14 customers through poor unit performance. Mr. Schultz's suggestion that
15 actual levels of expenses in 2009 and 2010 are representative of the
16 levels of expenses necessary on a going forward basis simply ignores
17 Gulf's actual circumstances and is not based on any engineering
18 expertise.

19
20 Q. Are there other inaccuracies in Mr. Schultz's testimony that you would like
21 to address?

22 A. Yes. On page 35, line 2, of his testimony Mr. Schultz refers to a "5.5%
23 increase" as "the actual increase from 2010" in Production O&M
24 expenses. I have to assume he is referring to the change in expenses
25 from 2009 to 2010 as shown on his Schedule C-4. However, as

1 Mr. Schultz's Schedule C-4, page 1 of 2, line 6 shows, the change in
2 expenses from 2009 to 2010 is 5.05%, not 5.5%.

3

4 Q. Is that the only problem with that reference?

5 A. No. Beyond the apparent confusion between the 5.5% in the testimony
6 and the 5.05% on his Schedule C-4, the actual change in expenses from
7 2009 to 2010 is 10.31%.

8

9 For each year on his Schedule C-4, Mr. Schultz shows the percent change
10 in expenses from year to year. The change from 2005 to 2006 he
11 calculates as (5.30%); the change he calculates from 2006 to 2007 is
12 3.64%; the change he calculates from 2007 to 2008 is 7.31%; the change
13 he calculates from 2008 to 2009 is (4.77%); and the change he calculates
14 from 2009 to 2010 is 5.05%. However, the actual change from 2009 to
15 2010 is 10.31%, not 5.05%. It appears that the change Mr. Schultz is
16 representing as the change from 2009 to 2010 is actually the change from
17 2008 to 2010.

18

19 Q. What affect does this simple error have on Mr. Schultz's Exhibit __ (HWS-
20 1), Schedule C-4?

21 A. Although this is a simple mistake, it is extremely important in this case as
22 it is used as the basis for developing the "Citizen's Recommended
23 Adjustment" on line 12 of the above referenced exhibit. If Mr. Schultz had
24 not made the mistake and therefore had used the correct growth rate
25 between 2009 and 2010 as his annual escalator for 2011 and 2012, his

1 O&M adjustment (with jurisdictional adjustment) would have been
2 \$2,709,236 rather than \$11,291,492.

3
4 He states his method of developing his adjustment clearly at the top of
5 page 35:

6 First, I started with the five year average for the Production
7 O&M expense. I escalated that by 5.5% for 2011, and then
8 again by 5.5% for 2012. The 5.5% increase is the actual
9 increase from 2010.

10
11 He intended to increase his five year average (which I should repeat, is
12 not adjusted for inflation to get to 2012 dollars) by the 5.5% annual
13 increase he thought existed between 2009 and 2010. If he had used the
14 correct escalation of Production O&M expenses from 2009 to 2010 of
15 10.31% instead of the 5.05% he miscalculated and then misstated as
16 5.5%, then his resulting adjustment to Production O&M expenses would
17 have been \$2.7 million rather than \$11.3 million. Although I do not believe
18 that any adjustment to Production O&M expense is appropriate, I show
19 this recalculation on Schedule 4 of my Exhibit RWG-2.

20
21 Q. Is that the last math error in Mr. Schultz's testimony and exhibits?

22 A. No. On page 35, line 4 through 6, of his testimony Mr. Schultz states,
23 "...costs over the past five years have increased as well as decreased
24 resulting in a simple average annual increase 1.18%." As shown on
25 Schedule 1 of Exhibit No. ___RWG-2, the "simple average" is 2.24%.

1

2 Q. What is your overall opinion of the method that Mr. Schultz has used to
3 perform his analysis and ultimately his recommended adjustment?

4 A. Both his methodology and his recommended adjustment should be
5 rejected. In addition to mathematical errors, there is a more serious flaw
6 in his use of inconsistent time periods to calculate historical averages and
7 his reliance on such averages without giving any consideration to the
8 Commission's O&M Benchmark methodology (which recognizes the
9 effects of inflation) or the detailed justification that the Company provided
10 in support of expenses that are above the Benchmark.

11

12 Q. Do you agree with the methodology that Mr. Schultz used in calculating
13 the recommended adjustment?

14 A. No, I do not. In my opinion, the Commission's Benchmark methodology
15 provides for a much clearer and more accurate method of reflecting the
16 effects of inflation on our business than Mr. Schultz's averaging approach.
17 It considers inflation and then it requires the Company to justify any
18 request beyond the calculated benchmark. The Commission's required
19 O&M Benchmark analysis compares the O&M expenses approved in the
20 last rate case (adjusted for inflation) to the O&M requested in the current
21 rate case. Then the Company must provide written testimony and
22 evidence to support any variance. I provided the detailed justification for
23 the Benchmark variance in Gulf's Production O&M in 28 pages of direct
24 testimony.

25

II. Production Workforce

1

2

3 Q. In OPC witness Ramas' testimony, she discusses 159 additional full-time
4 equivalent (FTE) employees Gulf forecasted to add between the end of
5 2010 and 2012. What part of the 159 employees is included in the
6 Production function?

7 A. The 159 additional employees represent the difference between the actual
8 December 31, 2010 full time equivalent (FTE) employees to the budgeted
9 FTEs for 2012. The Production function accounts for 52 of those
10 positions.

11

12 Q. What is your plan for restoring your Production workforce in 2011 and
13 2012?

14 A. In our direct testimony Gulf indicated that there would be 52 additional
15 FTEs in the Production Budget from 2010 actual levels to the 2012
16 projected test year. Schedule 5 of Exhibit RWG-2 shows the status of
17 those positions as of June 30, 2011, the current status as of October 21,
18 2011, and the projected status at the end of 2011. At June 30, we had
19 filled 25 of the 52 positions; at October 21, we had filled an additional 7 or
20 32 of the 52 positions, and by December 31, we expect to have filled 42 of
21 the 52 positions. That was based on the 2011 budget cycle for 2011
22 through 2015. In our current budget cycle (2012 through 2016), Gulf is
23 projecting a net increase of 42 positions from year end 2010 or reduction
24 of 10 positions from the 2011 budget cycle estimate. The reductions
25 include one FTE at Plant Crist, four FTEs at Plant Smith and five FTEs at

1 Plant Scholz that I showed in my direct testimony that we expected to hire.
2 In the 2012 budget cycle, the labor dollars for those 10 FTEs have been
3 redirected to contract labor. The main driver for this decision relates to the
4 pending environmental regulations and the affect that they may have on
5 the operations at these plants.

6
7
8 III. SUMMARY

9
10 Q. Please summarize your testimony.

11 A. Mr. Schultz stated that Gulf has not provided any evidence of the need for
12 additional Production O&M. In doing so, he ignores a great deal of my
13 direct testimony. Furthermore, by relying solely on historical averages with
14 no consideration to using the Commission benchmark methodology as a
15 means of allowing for the effect of inflation on costs, he proposes a totally
16 inappropriate adjustment.

17
18 Gulf has provided three different justifications for its 2012 O&M expenses.
19 First, we clearly discuss the process used to develop the budget and the
20 rigorous levels of review and approval that must be met before any dollars
21 are included in the budget. Mr. Schultz offers no specific critique of that
22 process which he apparently rejects in performing his alternative analysis.
23 Second, we recognized potential concerns relating to the increase from
24 historical dollars to forecasted dollars so we provided the Commission with
25 the drivers and sound explanations to support the increase. Mr. Schultz

1 agreed with some of that and summarily dismissed the rest. Third, we use
2 the Commission-required O&M Benchmark methodology and provided
3 detailed justification of dollars in excess of the Benchmark variance.
4 Mr. Schultz ignored that analysis. Given the inaccuracies in his testimony,
5 the adjustments proposed by Mr. Schultz should be disregarded and the
6 Commission should allow all projected Production O&M expenses in this
7 case.

8
9 Although it is not possible for me to know the portion of the workforce
10 adjustment Ms. Ramas is allocating to the Production function, she is
11 clearly arguing that some Production workforce be disallowed. My
12 testimony both in direct and rebuttal justifies the dollars associated with
13 the entire Production workforce in 2012. As a result, it is my opinion that
14 any portion of the workforce disallowance proposed by Ms. Ramas
15 relating to the Production function should be removed.

16
17 Q. Does this conclude your testimony?

18 A. Yes, it does.

19
20
21
22
23
24
25

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission
3 Rebuttal Testimony and Exhibit of
4 P. Chris Caldwell
5 Docket No. 110138-EI
6 In Support of Rate Relief
7 Date of Filing: November 4, 2011

- 8 Q. Please state your name, business address, and occupation.
- 9 A. My name is Chris Caldwell. My business address is One Energy Place,
10 Pensacola, Florida, and I am the Transmission Manager for Gulf Power
11 Company (Gulf or the Company).
- 12 Q. Have you previously filed testimony in this proceeding?
- 13 A. Yes.
- 14 Q. What is the purpose of your rebuttal testimony?
- 15 A. I will address portions of the testimony of Office of Public Counsel (OPC)
16 witness Donna Ramas. In particular, I will address the adjustments
17 suggested by Ms. Ramas relating to the Transmission Smart Grid
18 Investment Grant (SGIG) projects, the Capital Infrastructure Replacement
19 Projects and the justification of additional employees in Gulf's
20 transmission function.
- 21 Q. Are you sponsoring any exhibits?
- 22 A. Yes, I am sponsoring Exhibit PCC-2, consisting of one schedule. Exhibit
23 PCC-2 was prepared under my direction and control, and the information
24
25

1 contained therein is true and correct to the best of my knowledge and
2 belief.

3

4 Q. Please address Ms. Ramas' recommended adjustments to the budgeted
5 transmission SGIG projects.

6 A. Because Mrs. Ramas was uncertain whether Department of Energy
7 (DOE) grant monies were included in Gulf's requested rate base, she
8 excluded Gulf's budgeted SGIG amount of \$4,815,000 for 2011 and
9 \$2,820,000 for 2012 (50% of 2012's SGIG budget of \$5,640,000) for a
10 total test year adjustment of \$7,635,000. As I discussed in my direct
11 testimony, the transmission SGIG projects are facilitated by a grant from
12 DOE. A maximum of 50% of the cost of these projects can be eligible for
13 reimbursement. The \$4,815,000 included in the 2011 Transmission
14 Capital Additions budget and the \$5,640,000 included in the 2012
15 Transmission Capital Additions budget are for Gulf's portion of the funding
16 for the SGIG projects. Gulf's budgeted capital dollar amounts in both 2011
17 and 2012 for the Transmission SGIG program exclude the portion funded
18 through the DOE grant. Therefore, Ms. Ramas' recommended
19 disallowance of \$7,635,000 is inappropriate.

20

21 Q. Please address the adjustment to the Capital Infrastructure Replacement
22 Projects suggested by Ms. Ramas.

23 A. Ms. Ramas suggests an adjustment based on a methodology that is
24 developed from the historical average of the actual expenditures on these
25 types of projects from 2003 to 2010. Using a historical average is not

1 representative of the needs in 2011 and 2012. The purpose of Capital
2 Infrastructure Replacement Projects is to replace aged and obsolete
3 equipment before it fails and impacts the reliability experienced by Gulf's
4 customers.

5
6 Ms. Ramas also suggests that several hurricanes impacted our system
7 and would have resulted in higher levels of transmission replacement
8 projects during that period. This is also an incorrect assumption. These
9 hurricanes did not cause significant damage to Gulf's transmission
10 system. Therefore, the hurricanes did not affect the transmission
11 replacement projects completed by Gulf during the period 2003 to 2010.

12
13 Knowledge of the system and an evaluation of the performance of the
14 transmission assets are needed to predict future spending, not averages
15 of historical expenditures. The investment needed for infrastructure
16 replacement will continue to rise as these assets age and become
17 obsolete. Gulf develops plans and budgets for these proactive
18 transmission infrastructure replacements based on a sound methodology
19 and engineering analysis. The equipment and facilities that make up the
20 transmission system undergo routine condition assessments and
21 inspections through Gulf's Transmission Maintenance Programs. These
22 maintenance programs enable Gulf to determine a priority for repairs and
23 replacements. I discuss these maintenance programs in my direct
24 testimony on pages 23 through 28.

25

1 The Transmission Infrastructure Replacement program allows for the
2 proactive replacement of conductors, deteriorated poles and structures,
3 obsolete circuit breakers and power transformers. The budgeted amount
4 allows for a controlled replacement philosophy and well planned projects.
5 Without this investment we would be forced to run the equipment to
6 failure, impacting our customers and causing an unpredictable and costly
7 capital investment to replace the equipment under emergency conditions.

8
9 Gulf is committed to a proactive approach for replacement of these assets.
10 That commitment is represented through our continued and consistent
11 investment since 2003. Both the costs of these transmission infrastructure
12 replacement projects and the scope of these projects have risen as the
13 components of the system continue to age. I am very familiar with Gulf's
14 transmission system and the process that the Company uses to evaluate
15 and prioritize the capital investment needed to provide a reliable
16 transmission system.

17
18 Using the historical average since 2003 would not be representative of the
19 investment needed to ensure the timely replacement of infrastructure
20 before failures impact our customers. In fact, Ms. Ramas' methodology
21 would not be representative of recent history. The Company has invested
22 more than the average suggested by Ms. Ramas since 2008 with
23 investments of \$7.3 million in 2008, \$8.3 million in 2009 and \$13.6 million
24 in 2010. The budgeted Infrastructure Replacement dollars for 2011 and
25

1 2012 are for specific projects developed to address assets that have
2 reached the end of life.

3

4 Q. What are the major projects driving the transmission capital infrastructure
5 replacement budgets for 2011 and 2012?

6 A. The wires, or conductors, that carry the power have a finite life span.
7 Typically, these conductors begin to degrade after thirty years of service
8 depending on the environment and other conditions. Gulf inspects these
9 conductors and evaluates their remaining life through various transmission
10 maintenance programs. Typical failures are the result of rusted steel
11 cores that support the weight of the conductor and provide its strength or
12 from broken outer strands caused by vibration and other environmental
13 hazards. Since in most cases the conductor for the entire line was
14 installed at the same time and is subject to the same environmental
15 conditions, when the conductor reaches the end of life, the entire circuit
16 must be replaced. In 2011, the conductor on the Sinai – Callaway 115kV
17 transmission line is being replaced with a budgeted cost of \$7,235,000. In
18 2012 Gulf will begin the initial phase of the replacement of the Crist – Air
19 Products 115kV transmission line with a total budgeted cost of
20 \$13,470,000 (\$1,220,000 in 2012 and \$12,250,000 in 2013), with the
21 completion of the project in 2013. These types of projects will continue into
22 the future as we maintain a proactive approach for managing the system.
23
24 We continue to evaluate these assets and plan projects to ensure a
25 reliable network.

- 1 Q. Ms. Ramas used the Transmission June 2011 year-to-date actual to
2 budget variance of \$7.9 million as an indication that total 2011
3 Transmission capital additions would be under budget by this amount. Do
4 you agree with Ms. Ramas' conclusion that Gulf's 2011 total Transmission
5 capital additions will be under budget?
- 6 A. No. The Company develops budgets for projects years in advance.
7 Those budgets are fine-tuned as details are finalized about the project and
8 more engineering analysis is completed. As part of this process, the
9 expenditures for each year of the project are planned and the monthly
10 spreads for each project are developed. As the project progresses, timing
11 of material deliveries, system outage schedules and weather can cause
12 variances in budget to actual from month to month. That is exactly the
13 case with the June 2011 year-to-date actual expenditures. While the
14 timing has caused temporary under runs, our current projection is to be on
15 budget by year end for the total Transmission Capital budget. Gulf will
16 receive major material deliveries in November and December and will
17 experience a heavy workload during our fall outage season when the
18 weather is favorable for more system outages.
19
- 20 Q. Ms. Ramas used the June 30, 2011 employee complement to make an
21 adjustment to the total company full-time equivalent (FTE) employee
22 count. What was the status of the transmission complement on June 30
23 and what is the current status?
- 24 A. Please see Schedule 1 of Exhibit PCC-2 for the status of the transmission
25 complement. This exhibit updates the vacancies reported for June 2011.

1 As of today transmission has 103 of the total complement of 105 full time
2 employees filled. The two vacancies are a Substation Construction
3 Coordinator and the NERC Compliance Analyst. The current vacancy for
4 the Substation Construction Coordinator is due to normal attrition and will
5 be filled by the end of November. The NERC Compliance Analyst is being
6 reviewed for a possible opportunity to share resources with Mississippi
7 Power Company. Both Gulf and Mississippi have the same needs related
8 to compliance with the NERC Reliability standards. Because of the
9 special skills needed and similarity of the two companies, we are
10 reviewing the possibility of sharing this resource and the associated costs.
11 The intent is still to fill the role during 2012 either as a complement
12 position at Gulf on a standalone basis as originally planned or as resource
13 at a one step higher job level that is shared with Mississippi Power.

14

15 Q. Does this conclude your rebuttal testimony?

16 A. Yes.

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1 GULF POWER COMPANY

2 Before the Florida Public Service Commission
3 Rebuttal Testimony and Exhibit of
4 R. Scott Moore
5 Docket No. 110138-EI
6 In Support of Rate Relief
7 Date of Filing: November 4, 2011

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

9 A. My name is Scott Moore. My business address is One Energy Place,
10 Pensacola, Florida 32520 and I am the Power Delivery General Manager
11 of Gulf Power Company (Gulf or the Company).

12 Q. Have you previously filed testimony in this proceeding?

13 A. Yes.

14 Q. What is the purpose of your rebuttal testimony?

15 A. The purpose of my rebuttal testimony is to address the statements
16 contained in the direct testimony of Office of Public Counsel (OPC)
17 witness Helmuth W. Schultz, III, with regard to his recommended
18 disallowances of a portion of Gulf's vegetation management expense and
19 to provide additional information relating to the Company's vegetation
20 management plan. I also address the statements contained in the direct
21 testimony of OPC witness Donna Ramas with regard to recommended
22 adjustments to budgeted distribution capital additions associated with the
23 Smart Grid Investment Grant (SGIG) program projects. Lastly, I address
24 the statements contained in the direct testimony of Ms. Ramas concerning
25 justification of additional employees in Gulf's Distribution area.

1 Q. Are you sponsoring any exhibits?

2 A. Yes, I am sponsoring Exhibit RSM-2, consisting of one schedule. Exhibit
3 RSM-2 was prepared under my direction and control, and the information
4 contained therein is true and correct to the best of my knowledge and
5 belief.

6
7 Q. Would you please address Mr. Schultz's concerns regarding Gulf Power
8 Company's vegetation management program?

9 A. Mr. Schultz used a four-year average of the 2006 to 2010 expenditures
10 with an escalation factor to arrive at his recommended funding level of
11 \$4,531,320. During three of the four years in Mr. Schultz's average, Gulf
12 was on a six year lateral and three year main line feeder trim cycle that
13 was approved by the Florida Public Service Commission (FPSC or the
14 Commission) in Gulf's 2007 storm hardening plan.

15
16 As a result of its experience with the trim cycle approved in the 2007 storm
17 hardening plan, Gulf determined that it was necessary to shorten the
18 lateral trim cycle from six to four years. In 2010, Gulf submitted and the
19 FPSC approved Gulf's storm hardening plan for the years 2010 to 2012.
20 This new storm hardening plan incorporated a four-year lateral and three-
21 year main line feeder trim cycle. Gulf began the transition to the new trim
22 cycle in 2010 after the FPSC approved Gulf's new storm hardening plan.
23 At the end of 2010, the transition was not yet fully completed, and Gulf
24 had not yet reached the needed number of lateral miles to achieve the
25 new trim cycle for laterals.

1 By the end of 2011, Gulf expects to be fully transitioned to the four-year
2 lateral and three-year mainline feeder trim cycle. In relying on a four-year
3 average for establishing a funding level for vegetation management, Mr.
4 Schultz completely ignores the requirements of Gulf's FPSC-approved
5 storm hardening plan. Gulf's expenditures in 2010 were \$4.9 million and
6 are projected to be \$5.8 million in 2011. Going forward, Gulf will need the
7 requested \$4.918 million to stay on the trim cycle approved in Gulf's storm
8 hardening plan. Gulf's request of \$4.918 million is based on our approved
9 storm hardening plan and a budget process which relies on Company
10 distribution experts to submit requests for known conditions.

11

12 Q. Please address Ms. Ramas' recommended adjustments to budgeted
13 distribution capital additions associated with the Distribution SGIG
14 program projects.

15 A. Gulf's budgeted capital dollar amounts in both 2011 and 2012 for the
16 Distribution SGIG program exclude the portion funded through the DOE
17 grant and consist solely of Gulf's 50% match for the DOE grant. Because
18 the amount included in the rate base is only Gulf's net SGIG expenditures,
19 Ms. Ramas' recommended disallowance of \$2,970,000 is inappropriate.

20

21 Q. Ms. Ramas has proposed a reduction in the Company employee
22 complement. Does she propose any specific reductions to the employee
23 complement in the Distribution function?

24 A. It is difficult to know whether any of her adjustments are to the Distribution
25 complement. Ms. Ramas' proposed adjustment is company-wide, not by

1 function. She does not appear to have considered the justifications I
2 provided for each and every distribution position addition in my direct
3 testimony.

4

5 Q. Ms. Ramas used the June 30th complement to make her adjustment.
6 Where did the distribution position complements stand in June and
7 currently?

8 A. Please see Schedule 1 to my Exhibit RSM-2 for information regarding the
9 status of the distribution position complement.

10

11 Q. Does this conclude your rebuttal testimony?

12 A. Yes.

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1 **MR. BADDERS:** Thank you. And each of them
2 also have exhibits that were preidentified. Mr. Grove
3 is Exhibit 164, Mr. Caldwell is 165, and Mr. Moore is
4 166, and at this time I would move all of the three of
5 those into the record.

6 **CHAIRMAN GRAHAM:** We will move 164, 165, and
7 166 into the record, as well.

8 **MR. BADDERS:** Thank you, Chairman.

9 (Exhibit Numbers 164, 165, and 166 admitted
10 into the record.)

11 **CHAIRMAN GRAHAM:** Would you like to have
12 these dismissed?

13 **MR. BADDERS:** I would. I would like to have
14 each of them dismissed at this time.

15 **CHAIRMAN GRAHAM:** Is there any objections to
16 the dismissal of those three witnesses?

17 **MS. KLANCKE:** No objection.

18 **CHAIRMAN GRAHAM:** Seeing no, travel safe.
19 Okay. We are at the Brisé question, and we
20 are down here with Major Thompson.

21 **MAJOR THOMPSON:** Yes, sir. Before the break,
22 I was discussing this with the other intervenors and my
23 expert, and the seven issues that we have are a group
24 package, and Gulf had concessions for that as well,
25 involved with that. So if we don't get one of these

1 then we are not going to get any of those. So the goal
2 was to get all seven of them together.

3 **CHAIRMAN GRAHAM:** I think specifically --

4 **MAJOR THOMPSON:** I hope that answers your
5 question.

6 **CHAIRMAN GRAHAM:** No, no, I understand what
7 you are saying. I understood the analogy of the
8 fragile egg.

9 **MAJOR THOMPSON:** Okay.

10 (Laughter.)

11 **CHAIRMAN GRAHAM:** I think what Commissioner
12 Brisé was trying to get to is he wants to know
13 specifically, you, representing the military, what is
14 your issue of those seven, and what would you want to
15 pull back if you can't get this package together.

16 **MAJOR THOMPSON:** What would I want to pull
17 back?

18 **CHAIRMAN GRAHAM:** I mean, what would you not
19 agree to? And not each and every one of you has the
20 same issue, and so he wants to know what is your issue
21 if this doesn't come together as stated. I mean, is it
22 Issue 11, is it Issue 62 and 63?

23 **MAJOR THOMPSON:** That we would agree to,
24 stipulate to if we don't get the MDS, is that what
25 you're asking?

1 **CHAIRMAN GRAHAM:** No, no. Go ahead.

2 **MR. MOYLE:** I think I understand your
3 question, and I think they have taken a position along
4 with FIPUG on the aircraft issues. I think that's the
5 question, as I understand it. You know, what is
6 something that essentially if we don't have a deal then
7 where are you, and that's where we would revert back to
8 our position on, you know, on the aircraft issue.

9 **CHAIRMAN GRAHAM:** That is Issue 62 and 63, is
10 that correct?

11 **MR. MOYLE:** That's right.

12 **CHAIRMAN GRAHAM:** Okay. That is for the two
13 of you?

14 **MAJOR THOMPSON:** Uh-huh.

15 **MR. MOYLE:** And Retail, as well, I believe.

16 **CHAIRMAN GRAHAM:** Okay. And, Mr. McGlothlin?

17 **MR. MCGLOTHLIN:** Yes. And instead of
18 continuing to say nothing more than no position, I
19 might just elaborate on that for a second. With
20 respect to our office's participation in PSC cases, we
21 have two criteria that govern us. First of all,
22 because of our small size, relatively speaking, we have
23 to be selective with respect to the cases we intervene
24 in. And then because we represent all customers, we
25 have to be selective with respect to the issues in

1 which we take positions, and that is simply because
2 some issues have the effect of pitting some customers'
3 interests against others, and we can't be the
4 customers' advocate in all cases if we are taking sides
5 in some cases. And that is why you have heard me say
6 no position several times tonight.

7 With respect to what would happen if the
8 Commission were to turn down the stipulation, we have
9 taken positions on Issues 62 and 80. We take no
10 position on 106, 107, and 108. If the stipulation goes
11 away, we would revert back to our litigation positions
12 and have some degree of litigation risk with respect to
13 the outcome of those.

14 **CHAIRMAN GRAHAM:** Mr. Wright.

15 **MR. WRIGHT:** Thank you, Mr. Chairman. We had
16 no position on Issue 11. Obviously that would not
17 change. We had taken a position agreeing with OPC on
18 62 and FIPUG on 63. If the stipulation were not to be
19 approved, we would revert to our positions agreeing
20 with Public Counsel on 62 and FIPUG on 63. And
21 similarly on 80, we would revert to that.

22 We had previously taken no position on the
23 cost-of-service allocation methodology, 106 and 107,
24 for much of the same reasons as Public Counsel takes no
25 motion on those issues. But we would be changing as

1 part of the stipulation on 108 to no position. I will
2 tell you, I expect that we would simply stay at no
3 position on 108 when we file our brief. I'm not going
4 to make that promise tonight, but that would be my
5 expectation. Thank you.

6 **CHAIRMAN GRAHAM:** Gulf.

7 **MR. STONE:** Our position on Issue 11 is we
8 want the full revenue requirements on the Perdido
9 project. Our position on Issue 62 and 63 is that no
10 adjustments is appropriate. And our position on Issue
11 80 is that no adjustment to our test year is
12 appropriate. And we were willing to make the numerical
13 concession I have already articulated in return for
14 those four issues being dropped and there being no
15 further consideration of those issues in this
16 proceeding, and also the other part of the fragile egg,
17 which is the part I think that is giving the Commission
18 the most concern.

19 So if the other parties are not willing to
20 drop the four issues for the concession that Gulf was
21 willing to make unless the Commission rules on the MDS,
22 then the fragile egg is cracked. If the other parties
23 are willing to drop those four issues in return for our
24 concession, then Gulf is prepared to let the Commission
25 have the time it needs to deal with the cost-of-service

1 issues, and we are willing to continue to make the
2 concession for the dropping of the four issues.

3 **CHAIRMAN GRAHAM:** So you are still willing to
4 make the concession of the \$675,000 if everybody else
5 is willing to concede their positions on 11, 62, 63,
6 and 80?

7 **MR. STONE:** Yes. And to be clear, what we
8 are proposing is those issues be dropped.

9 **MR. MOYLE:** I mean, it was part of the
10 package deal, but if I can make a -- and Mr. Stone and
11 I didn't have a chance to speak during the break, so
12 unless the Commission is comfortable making a decision,
13 I don't feel comfortable necessarily if the Commission
14 is not comfortable saying, oh, you know,
15 one-day-only-special kind of approach. You know, when
16 you buy a car, today is the only day you get this
17 price. I mean, that has never worked very well for me.
18 So if that's the position that you are in, then I'm not
19 comfortable with that.

20 I think maybe the best thought I have, and I
21 haven't discussed it with anyone other than Ms.
22 Kaufman, would be to -- because there is value in the
23 fragile egg with all of the different pieces is, you
24 know, keeping it intact for a period of time, and then
25 having an opportunity to consider it. My thought was

1 that you have a January 10th agenda, and maybe the
2 stipulation could be considered at the agenda without
3 us reverting back to kind of litigation positions on
4 everything. And if it was approved, then we don't have
5 to brief it. If it was disapproved, then you have
6 enough time, because I don't think you are voting on
7 revenue until the 27th of February and cost allocation
8 until the 12th of March that we could maybe file
9 something. That was just a thought I had if you are in
10 a position of saying, you know, we're not comfortable
11 buying the car tonight kind of thing.

12 **COMMISSIONER BALBIS:** Mr. Chairman, I could
13 second that motion.

14 **CHAIRMAN GRAHAM:** Commissioner Brisé, did you
15 get the answer to your question?

16 **COMMISSIONER BRISÉ:** I think I got a little
17 bit more than the answer to my question. And part of
18 the reason I asked the question was to sort of figure
19 out what was most important to each party, and I like
20 the idea that Mr. Moyle put out. And I don't know if
21 that's feasible within our framework, but it would
22 allow us the time to look at it. It would allow staff
23 more time to look at the stipulation in writing and so
24 forth. And I don't think it would do any harm to
25 anyone if we had that time available to us, you know,

1 so I think my question was answered.

2 **CHAIRMAN GRAHAM:** Let me go to staff and then
3 back to Mr. Stone.

4 **MR. WILLIS:** Thank you, Chairman.

5 I do have some concerns about doing it that
6 way, and let me say this. The briefs for this case are
7 going to be due on the 9th of January, just before the
8 Agenda Conference. Parties will be briefing all of
9 these issues at that point. If we bring a
10 recommendation, and I imagine that's what we will be
11 doing is bring a recommendation to the Commission on
12 the settlement, it kind of puts staff in the position
13 of laying out an argument without the benefit of having
14 all of those briefs available to us in the
15 recommendation to file with the Commission. And it
16 puts us in kind of a bind at that point, if you can see
17 what I'm talking about. Without the benefit -- because
18 we will have to file a recommendation for that agenda
19 prior to the briefs ever being filed and laying out a
20 position before all the parties can argue the position
21 in the briefs. It's almost like a pre-recommendation,
22 you might say, and that's my concern with that. I'm
23 not sure how that is going to work well for us at that
24 point to lay out a pre-recommendation without all the
25 benefits of having the parties' input and their

1 arguments on those issues.

2 **CHAIRMAN GRAHAM:** Well, a couple of things.
3 And I know that we have talked about economic
4 development, we have talked about jobs, and I know the
5 parties did a good job of laying out the argument of
6 cost of service. And, I guess, let me sum up my
7 thought of where you guys are coming from. If the cost
8 of service -- I'm trying to remember -- was \$12 per
9 1,000 kilowatt hours? No, I'm sorry. It was -- let's
10 just look at it this way, if it costs X dollars to get
11 1,000 kilowatts to a resident's home, it's probably
12 going to cost minus X-Y to get it to a large industrial
13 because you don't have to decrease the amperage, you
14 don't have to run it through all kinds of other
15 different things, you don't have to dial it down, so to
16 speak, if you look at that diagram that was out there.

17 And so what you're looking to do is basically
18 whatever it costs to get it to that door is what that
19 guy should pay for, or that's the way it should be
20 basically broken down or prorated, so to speak. So,
21 even though economic development may be an unintended
22 consequence, or a benefit that falls out of this, the
23 focus is -- and I guess the question where you guys are
24 coming from, the methodology is you break it down to
25 what it costs to deliver it. Does that make sense? Am

1 I understanding that correctly?

2 **MR. STONE:** Yes, sir.

3 **CHAIRMAN GRAHAM:** So that's pretty much the
4 premise of where we are going from. I think we can sit
5 here, and we'll go back and forth for awhile, but the
6 fact of the matter is the lights are going off at a
7 certain time and DMS is not going to turn them back on.
8 So my suggestion would be -- we're going to have to
9 come back tomorrow. So understand that so people don't
10 start being disappointed. We're going to have to come
11 back tomorrow, and we're going to have to look at this
12 stuff and we are going to have to deal with this.

13 What I need for you guys to go away thinking
14 about, and I guess the question I have is if we come
15 back tomorrow, because all the witnesses are done, so
16 the difference is going to be is when your briefs come
17 in, and your briefs come in understanding the
18 stipulation is on the table, and then you brief from
19 that position moving forward? Or do your briefs come
20 that the stipulation is off the table, and do you brief
21 from that position moving forward? Or I guess the
22 question is do you have two sets of briefs, and then
23 staff comes back with a recommendation? And I'm just
24 thinking out loud here, so please feel free to tell me
25 how crazy it sounds.

1 **MR. WRIGHT:** It's not crazy at all, Mr.
2 Chairman. You know, this is a difficult situation, and
3 we are all trying to do our best.

4 **MR. MOYLE:** If we're coming back tomorrow,
5 you know, another option would be to let everybody
6 sleep on it and talk about it tomorrow when we're back.

7 **CHAIRMAN GRAHAM:** Well, once again, I'm
8 throwing thoughts out there for you guys to think about
9 that, so when we come back tomorrow you can say, That
10 sounds like a damn good idea, Mr. Chairman. Let's move
11 forward."

12 (Laughter.)

13 Any another thought about what I just threw
14 out there? I have several Commissioners, they all have
15 things to say, so we're not done yet. So don't feel
16 like he's kicking us to the curb.

17 **MR. STONE:** I think it's an excellent idea to
18 come back in the morning, Commissioner.

19 **MR. WRIGHT:** Second.

20 **CHAIRMAN GRAHAM:** Staff.

21 **MR. WILLIS:** Commissioner, I think it's an
22 excellent idea to come back tomorrow, too.

23 **CHAIRMAN GRAHAM:** But my thought about having
24 two different sets of briefs and basically you guys
25 making a recommendation off of that?

1 **MR. WILLIS:** I was afraid you were going to
2 ask that. Commissioner, I don't know that that solves
3 the problem on exactly how we're going to address these
4 issues. My point was I think the stipulation, as far
5 as I'm concerned, needs to be addressed prior to that.
6 Otherwise, I think it's unfair to the parties, because
7 they're going to have to be addressing these issues one
8 way or another in briefs, and it is -- (Pause.) -- Mary
9 Anne just brought up a possibility. I didn't think
10 about it. Maybe it's something we can think about
11 overnight. She's thinking that we could continue the
12 hearing to some point at the beginning of January, and
13 that decision could be made there without a written
14 recommendation from staff. That's something we could
15 think about overnight and maybe come back tomorrow and
16 address further. I think staff needs to think about
17 that a little bit more, too, but it's an idea.

18 **CHAIRMAN GRAHAM:** All the Commissioners
19 lights are on. (Laughter.) And I guess the first
20 question I have -- the first question I have is is it
21 something that needs to be said tonight, or can you say
22 it tomorrow morning at 9:30?

23 **COMMISSIONER BALBIS:** Tonight.

24 **CHAIRMAN GRAHAM:** Tonight?

25 **COMMISSIONER BALBIS:** Yes. I just have one

1 direction to give to staff for tomorrow morning, and
2 that is we talked about the impact to residential
3 customers. If you can have the proposed impacts for
4 small commercial, industrial, et cetera, to have that
5 prepared for tomorrow so we can discuss it.

6 **MR. WILLIS:** We could have that. In fact, I
7 will get that information together and pass that out to
8 you prior, to all five Commissioners.

9 **CHAIRMAN GRAHAM:** Commissioner Brisé.

10 **COMMISSIONER BRISÉ:** Thank you.

11 I guess my question is if we were going make
12 a bench decision tonight, I mean, the option is to make
13 a bench decision tonight, if we wanted to, or we could
14 do it -- since we are coming back tomorrow morning, we
15 could do that tomorrow morning. So with the idea that
16 came forward with respect to the briefs, if the
17 evidence is there and all the information is there,
18 wouldn't we be making a bench decision at a time
19 certain anyway? I mean, is that not a real option?

20 **MS. HELTON:** That's why I recommended maybe
21 continuing the hearing to a date certain, because in my
22 mind you would be making a bench decision on those
23 particular issues. And I guess it depends on what you
24 want from staff with respect to preparing yourselves to
25 make that bench decision. Do you want a full-blown

1 recommendation, which I think is kind of what
2 Mr. Willis is getting at, or do you want just the
3 opportunity to review the record, to review the
4 exhibits, to think about the testimony that you have
5 heard, and then make a decision?

6 **CHAIRMAN GRAHAM:** Commissioner Edgar.

7 **COMMISSIONER EDGAR:** Thank you, Mr. Chairman.
8 I believe it was Mr. Sayler who said, you know,
9 something about the art of ratemaking being very
10 arcane, and we often do refer to how technical and how
11 complex much of the data is that goes into the analysis
12 and the decisions that we make. And all of that is
13 true. And I am not an engineer, and I am not an
14 accountant. I'm just a lawyer with an English degree,
15 but ultimately, Commissioners, with the work that we do
16 on an every-day basis, this issue isn't that
17 complicated. It's a policy decision with certain
18 numbers attached.

19 The stipulation that has been verbally
20 described to us is really pretty clear. It is late,
21 but yet we have been scheduled for months to be in
22 hearing every day this week. So I guess what I would
23 propose and ask, because it is late, and because I
24 would think that perhaps each, if not all of us, would
25 like the opportunity to think on it, and then maybe

1 pose some questions to staff, I would propose that we
2 can come back together at some time tomorrow. I would
3 ask that it be pushed back a little bit, rather than at
4 9:30, maybe late morning so that we each, if we do have
5 questions that we want to pose to staff, and so that
6 staff can get together additional information and have
7 their ducks in a row a little bit more. That would be
8 helpful, I would think. And then tomorrow we can make
9 a decision as to whether we are prepared to vote or
10 not.

11 **CHAIRMAN GRAHAM:** Staff gets in at
12 8:00 o'clock every morning.

13 **COMMISSIONER EDGAR:** Mr. Chairman, you tell
14 me what time you want to be here and I'll be here.
15 (Laughter.) However, I would like some time to think
16 on it and meet with staff. And I don't want to hear,
17 like I often do, that all four of you signed up before
18 I did. (Laughter.)

19 **CHAIRMAN GRAHAM:** Commissioner Brown.

20 **COMMISSIONER BROWN:** Thank you. And,
21 Commissioner Edgar, I appreciate and agree with what
22 you said. I think having the night to reflect and
23 having some time tomorrow morning to discuss with
24 staff, although I don't know if that will be adequate
25 for my own purposes, but I think at least having that

1 opportunity to meet with staff and to go over some of
2 the evidence that is in the record that we haven't
3 actually had an opportunity to review would be helpful.
4 And understanding that this is a very complex issue.
5 It's not a simple issue, it is a very complex issue
6 with regard to the methodology, so I would like to give
7 it some ample consideration.

8 And I appreciate the parties getting together
9 and working together on the stipulation, but I think
10 that this deserves some due consideration from the
11 bench. So, thank you.

12 **CHAIRMAN GRAHAM:** All right. Then we're
13 going to have to recess until tomorrow. And what is a
14 sufficient hour of the morning. Commissioner Edgar?

15 **COMMISSIONER EDGAR:** How about 10:30?

16 **CHAIRMAN GRAHAM:** We will recess and
17 reconvene here at 10:30. Please give those thoughts
18 that we threw out there, those wild thoughts some
19 consideration. Maybe with some tweaking we will be
20 able to get to a consensus.

21 **MR. STONE:** Thank you, Chairman Graham.

22 And I particularly appreciate the
23 Commission's indulgence in this rather unorthodox way
24 to present the settlement stipulation. Thank you.

25 **CHAIRMAN GRAHAM:** Everybody travel safe. I

1 will see you all here at 10:30. A legal question I
2 have, do I have to be down here to start this meeting
3 at 9:30, since it's posted at 9:30? Okay. Then we are
4 recessed until 10:30.

5 (The hearing concluded at 9:33 p.m.)

6 (The transcript continues in sequence with
7 Volume 13.)

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STATE OF FLORIDA)
 :
COUNTY OF LEON)

CERTIFICATE OF REPORTER

I, JANE FAUROT, RPR, Chief, Hearing Reporter Services Section, FPSC Division of Commission Clerk, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said 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 19th day of December, 2011.



JANE FAUROT, RPR
Official FPSC Hearings Reporter
(850) 413-6732