Eric Fryson

From:	Thompson, Chris C Maj USAF AFLOA JACL/ULFSC [chris.thompson.2@tyndall.af.mil]
Sent:	Friday, January 06, 2012 5:32 PM
To:	Filings@psc.state.fl.us
Cc:	White, Karen S Civ USAF AFLOA JACL/ULT; Caroline Klancke; Keino Young; Martha Barrera
Subject:	E-filing Docket 110138-EI
Attachments:	1-6-12 Final Version of FEA Post-Hearing Brief.doc

1-6-12 Final
ersion of FEA Pc

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

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

Ms. Karen White
Major Christopher C. Thompson
AFLOA/JACL-ULT
AFCESA
139 Barnes Drive, Suite 1
Tyndall Air Force Base, Florida 32403
Ph: (850) 283-6348
FAX: (850) 283-6219
E-mail: Karen.white@tyndall.af.mil; chris.thompson.2@tyndall.af.mil

b. This filing is made in Docket No. 110138-EI.

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

c. The document is filed on behalf of Federal Executive Agencies.

d. There are a total of 37 pages.

e. The attached document is FEA's POST HEARING BRIEF AND STATEMENT OF ISSUES AND POSITIONS.

Thank you for your attention and cooperation to this request.

Very Respectfully

CHRIS THOMPSON, Maj, USAF
Litigation Attorney, Utility Law Field Support Center AFLOA/JACL-ULFSC
139 Barnes Dr
Tyndall AFB, FL 32403-5317
850-283-6350
DSN 523-6350
Cell 850-276-6019

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Request for Rate Increase by
Gulf Power Company
_______________________________________/

Docket No. 110138-EI
Filed: January 9, 2012

POST-HEARING STATEMENT OF ISSUES AND POSITIONS AND

POST-HEARING BRIEF OF THE FEDERAL EXECUTIVE AGENCIES

CHRISTOPHER C. THOMPSON, Maj, USAF
Staff Attorney
USAF Utility Law Field Support Center
139 Barnes Drive, Suite 1
Tyndall AFB FL 32403-5319
Ph: 850-283-6350
Fax: 850-283-6219
E-mail: chris.thompson.2@tyndall.af.mil

Attorney for the Federal Executive Agencies

PRELIMINARY STATEMENT

COME NOW the Federal Executive Agencies, by and through counsel, in the above-captioned proceeding states as follows: Pursuant to rule 28-106.307, Florida Administrative Code, the Federal Executive Agencies files their Post-Hearing Brief and their Post-Hearing Statement of Issues and Positions, which contains a summary statement of the positions developed and supported in this brief.

The following abbreviations are used in this brief. The Federal Executive Agencies are referred to as FEA. The Florida Industrial Power Users Group is referred to as FIPUG. The Office of Public Counsel is referred to as OPC. Gulf Power Company is referred to as Gulf. The Florida Public Service Commission is referred to as the Commission. References to the transcript are designated (Tr.__).

FEA has provided a position statement on all of the issues, except those which have been stipulated or pending stipulation, but does not address all issues in this brief.

Introduction

In general, in this case, the Commission has a critical task. First, it must determine the appropriate revenue requirement for Gulf, including setting an appropriate Return on Equity (ROE). Second, it must distribute any approved increase equitably among the customer classes based on cost-causation principles.

Revenue Requirements

As to Gulf's revenue request, it is FEA's basic position that Gulf's revenue request is overstated for a variety of reasons. First, the ROE of 11.7% which Gulf has requested is highly inflated given the current market conditions combined with Gulf witness Dr. Vander Weide's risk increase of 90 points. FEA supports a 9.75% ROE sponsored by FEA witness Mr. Michael Gorman.

FEA supports the removal of Gulf's land purchase in North Escambia from this rate case. Gulf has failed to follow Florida Law in obtaining a "determination of need" prior to requesting reimbursement from current customers.

FEA has additionally recommended adjustments to Gulf's Sales for Resale margins, labor expense, storm recovery allowance and rate base recognition of rate case expense.

FEDERAL EXECUTIVE AGENCIES' POST-HEARING BRIEF

Pursuant to the Public Service Commission of the State of Florida, Florida Administrative Code Rule 28-106.215, FEA hereby submits this Post-Hearing Brief in the above-referenced docket.

SUMMARY OF THE FEA ARGUMENT

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

FEA: FEA strongly disagrees with Gulf's position that the land purchase expenses can be included in the current rate case.

Gulf made a business decision to purchase 4,000 acres of land in North Escambia for the possible future site of a nuclear facility. When the purchase is complete Gulf will have spent $27,687,000. Gulf is requesting that the cost of the property be included in this rate case to have the current Gulf customers cover the costs associated with this purchase.

There are several problems with Gulf's request:

First, Florida Statute 366, paragraph 366.63, *Cost recovery for the siting, design, licensing, and construction of nuclear and integrated gasification combined cycle power plants,* completely contradicts Gulf's argument that it may recover costs associated with the Property purchase without first receiving a "determination of need." Paragraph 366.63(3) clearly states, "***After a petition for determination of need is granted***, a utility may petition the commission for cost recovery as permitted by this section and commission rules." (emphasis added). To date, Gulf has neither requested nor received a "determination of need" for either a nuclear or integrated gasification combined cycle power plant. Additionally, Gulf witness Mr. M. L. Burroughs admitted that Gulf has no plan to request such a determination of need in the near future (Tr. 774). Next, the Florida Administrative Code (FAC) paragraph 25-6.0423, *Nuclear or Integrated Gasification Combined Cycle Power Plant Cost Recovery*, applies to the request for Gulf to recover the costs of the Property. Specifically to these facts, paragraph 2(e) states, "Site selection. A site will be deemed to be selected ***upon the filing of a petition for a determination of need for a nuclear or integrated gasification combined cycle power plant pursuant to Section 403.519, F.S.***" (emphasis added). In this case, Gulf has stated that it has not filed a petition for a determination of need for a nuclear or integrated gasification combined cycle power plant. Additionally, Gulf stated it does not intend to file a petition because a possible nuclear plant is more than 10 years out.

Furthermore, FAC 25-6.0423 (4), states, "Site Selection Costs. After the Commission has issued a final order granting a determination of need for a power plant pursuant to Section 403.519, F.S., a utility may file a petition for a separate proceeding, to recover prudently incurred site selection costs. This separate proceeding will be limited to only those issues necessary for the determination of prudence and alternative method for recovery of site selection costs of a power plant." Gulf has not been issued a final order granting a determination of need, nor has the Company requested a separate proceeding to recover prudently incurred costs.

Lastly, FAC 25-6.0423 (5), states, "Pre-Construction Costs and Carrying Costs on Construction Cost Balance. After the Commission has issued a final order granting a determination of need for a power plant pursuant to Section 403.519, F.S., a utility may petition the Commission for recovery of pre-construction costs and carrying costs of construction cost..." In this case, much like the previous paragraph, Gulf has yet to petition for the determination of need. Gulf is relying heavily on paragraph 5(2)(b) which states "a utility is entitled to recover, through the utility's Capacity Cost Recovery Clause, the carrying costs..." Gulf's reliance on this paragraph is flawed in two ways. First, paragraph 5(2)(b) is listed under paragraph (5), which requires "a final order granting determination of need" prior to the following paragraphs to be applicable. This will completely vitiate Gulf's ability to recover costs under paragraph 5(2)(b) because Gulf does not have a determination of need. Second, Gulf is not attempting to recover these costs through the Capacity Cost Recovery Clause, but rather, through base rates at issue in this proceeding.

In summation, Florida law clearly bars Gulf's ability to include the $27 million costs associated with the purchase of the property into the current rate case prior to a determination of need. Gulf has not; and does not plan to submit a determination of need request due to the tenuous need to build a nuclear power plant within the next decade. Gulf argues that it is thinking of the consumer needs in the future and need to plan ahead. However, if Gulf believes that this land purchase is in the customers' best interest for future requirements, the Company should petition for a determination of need as required by state statute. Granting Gulf's request to include these costs in base rates sets a bad precedent, and could lead to land speculation on the part of utility companies, leaving customers no recourse to object to these types of transactions.

FEA respectfully requests denying Gulf's request to include the costs associated with the purchase of land in North Escambia in the present rate case for these reasons.

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

FEA: FEA adopts the position of FIPUG.

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

FEA: FEA adopts the position of OPC.

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

FEA: FEA adopts the position of FIPUG as described in Issues 16 and 17.

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

FEA: Please refer to stipulation brief.

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

FEA: FEA adopts the position of OPC.

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

FEA: FEA adopts the position of OPC.

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

FEA: FEA adopts the position of OPC.

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

FEA: FEA adopts the position of OPC.

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

FEA: FEA adopts the position of OPC.

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

FEA: FEA adopts the position of OPC.

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

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

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

FEA: FEA takes no position on this issue.

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

FEA: No. Please refer to FEA's response to Issue 1.

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

FEA: No. Property (Plant) Held for Future Use should be reduced by $27,687,000 (system).

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

FEA: Yes.

Gulf proposes to increase the property damage reserve annual accrual level to $6.8 million for the 2012 test year. FEA recommends that the property damage reserve annual accrual be set no higher than $5.0 million. FIPUG recommends that the accrual level not be changed from the current level of $3.5 million. OPC recommends that the annual accrual level be established at $600,000.

FEA's proposed $5.0 million ceiling is based on increasing the last Commission authorized annual accrual level of $3.5 million to reflect the effects of inflation. Gulf's proposed increase is based on a storm study sponsored by Gulf witness Erickson.

Based on the evidence, FEA believes the $5.0 million ceiling is a very conservative adjustment. Thus, FEA considers Gulf's proposal to be unreasonable. Gulf witness Erickson testifies that the property damage reserve balance should be sufficient to protect against most years' storm restoration costs, but not the most extreme years. Reviewing the historical charges to Gulf's property damage reserve reveals that in 2004 and 2005 Gulf's property damage reserve was affected by two hurricanes; Ivan ($39.5 million in damages) and Dennis ($51.0 million in damages). These hurricanes were clearly severe storms affecting Gulf's service territory. These hurricanes should be considered extreme in nature and not included in establishing an annual accrual level. However, the storm study sponsored by Ms. Erickson includes these storms in determining the $6.8 million annual accrual. FEA contends that if these storms were not included, as they should not have been, Gulf's proposed annual accrual would have been substantially lower.

If the charges from Hurricanes Ivan and Dennis are not included in a historical review of Gulf's property damage reserve, the justification for increasing the accrual to Gulf's proposed

$6.8 million is without merit. Table 1 below lists the annual charges against the property damage reserve from 2001-July 2011.

Table 1

Historical Charges to Property Damage Reserve

Year	**Events**	**Amount (Millions)**
2001	1	$1.1
2002	2	2.5
2003	1	.1
2004*	1	.9
2005**	2	2.9
2006	4	2.4
2007	1	1.6
2008	3	1.2
2009	1	.1
2010	0	0
July 2011	0	0

Source: Exhibit No. 115
*Excludes Charges for Hurricane Ivan
**Excludes Charges for Hurricane Dennis

As can be seen from Table 1, by excluding Hurricanes Ivan and Dennis, Gulf has not experienced charges against the property damage reserve above $2.9 million in any one year. FEA asserts that its position of an annual accrual of $5.0 million ceiling is very conservative and could support a level consistent with the current annual accrual of $3.5 million advocated by FIPUG.

The Commission has established a framework for addressing the costs associated with restoring service after storms. This framework consists of three main parts:

a. an annual property damage accrual adjusted over time as circumstances change,

b. a reserve adequate to accommodate most but not all storm years, and

c. a provision for utilities to seek recovery costs that exceed the reserve.

FEA would note that the Commission has recognized the need to establish surcharges when the recovery of costs exceed the reserve. This regulatory treatment must be recognized when establishing the annual accrual level. By recognizing and utilizing a surcharge, the Commission should not be bound to cover expenses for all storms. The annual accrual and level of the reserve are not essential for the eventual recovery of all storm costs.

In addressing the ability to impose storm cost surcharges, Gulf witness Erickson testified that she had performed an informal survey of church members regarding their desire to prepay for severe storms and avoid the possibility of paying a larger surcharge after the storms have actually occurred. FEA would not endorse the survey conducted by Ms. Erickson. Given the economic hardships faced by all of Gulf's ratepayers, it is FEA's position that current Gulf ratepayers on whole do not wish to fund Gulf's property damage reserve for a possible future severe storm.

In summary, FEA believes the level of accrual funding of $6.8 million proposed by Gulf for its property damage reserve is excessive. FEA has shown that the historic levels of cost experienced by Gulf absent the severe storms of Ivan and Dennis, is less than the current accrual level of $3.5 million. FEA recommends that the Commission not establish the annual accrual to exceed $5.0 million, but support FIPUG's position of no change.

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

FEA: No.

Gulf proposes to include $2,450,000 in working capital (rate base) for the unamortized portion of rate case expense. FEA opposes this treatment because the proper way to treat rate case expense is to normalize the expense. Therefore, working capital recognition is not necessary.

FEA opposes including the unamortized balance of rate case expense in rate base as proposed by Gulf. FEA recommends that the Commission establish a normalized level of rate case expense for setting Gulf's rates. This is a better regulatory approach because the process of normalizing rate case expense does not require the recognition of a working capital (rate base) allowance which ultimately produces lower rates for ratepayers. Rate case expense would be treated no differently than another operating expense that would be normalized.

In this case, FEA proposes to establish a normalized annual level of rate case expense of $700,000. This level of normalized rate case expense will allow Gulf to collect rate case expenses as a normal ongoing operating expense.

By establishing a normalized level of expense for rate cases, the recognition of the unamortized portion of rate case expense is unnecessary. Since the Commission is normalizing the expense, an amortization of past (outside the test year) rate case expenses is not required. Therefore, recognition of the unamortized portion of rate case expense is not required as no amortization period has been established.

FEA also notes that OPC witness Ms. Donna Ramas provided direct testimony on this issue. Ms. Ramas testified that the Commission has historically not recognized the unamortized rate case expense in rate base. Ms. Ramas cited Commission Order No. PSC-10-0131-FOF-EI involving Progress Energy. In that Order, Footnote 33 on page 71 listed other cases where the

Commission has denied working capital or rate base recognition of the unamortized portion of rate case expense. Footnote 33 states:

> "Order No. 23573, issued October 3, 1990, in Docket No. 891345-EI, In re: Application of Gulf Power Company for a rate increase; Order No. PSC-09-0283-FOF-EI, issued April 30, 2009, in Docket No. 080317-EI, In re: Petition for rate increase by Tampa Electric Company; Order No. PSC-09-0375-PAA-GU, issued May 27, 2009, in Docket No. PSC-09-0375-PAA-GU, In re: Petition for rate increase by Florida Public Utilities Company."

FEA and Ms. Ramas have consistent positions on this issue. FEA believes a normalization of rate case expense for Gulf will resolve this issue for future cases. Therefore, for all the arguments previously stated, FEA opposes rate base recognition of the unamortized rate case expense.

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

FEA: No. Please refer to FEA's response to Issue 28.

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

FEA: No. Please refer to FEA's response to Issue 28.

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

FEA: FEA takes no position on this issue.

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

FEA: FEA adopts the position of OPC.

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

FEA: The appropriate and fair ROE for Gulf is 9.75%.

I. ROE SUMMARY

Gulf is requesting an ROE of 11.70% through its witness Dr. James Vander Weide. Other parties addressing Gulf's ROE included FEA witness Michael Gorman, and OPC witness Mr. Randall Woolridge. FEA witness Mr. Gorman recommended an ROE of 9.75%, which he found was fair compensation that would support the financial integrity of Gulf. Similarly, OPC witness Mr. Woolridge recommended a fair ROE for Gulf of 9.25%. (Woolridge at 46).

Gulf witness Dr. Vander Weide estimated a fair ROE using a Discounted Cash Flow analysis, an ex-ante risk premium study, an ex-post risk premium study, and two Capital Asset Pricing Models. Dr. Vander Weide's return estimates are summarized in Table 2 below under Column 1.

TABLE 2

Gulf's ROE Analysis

Model	Vander Weide Proposed (1)	FEA Adjusted (2)
DCF	10.7%	10.1%
Ex-Ante Risk Premium	11.0%	9.8%
Ex-Post Risk Premium	10.8%	9.5%
CAPM Historical (MRP)	9.2%	9.0%
CAPM DCF (MRP)	10.7%	
Range	9.2% - 11.0%	9.0% - 10.1%
Point Estimate	10.8%	9.6%
Leverage Adder	0.9%	Reject
Recommendation	11.70%	9.6%

Sources:
Vander Weide Direct at 41, 46 and 47.

Under Column 2 in Table 2 above, shows Dr. Vander Weide's adjusted DCF results reflecting appropriate DCF growth rates, and using current observable utility bond yields rather than unrealistic projected yields. Dr. Vander Weide's own studies support an ROE of less than 10.0%. As described in more detail below, legitimate current estimates of Gulf's current market cost of equity show that Gulf's ROE is less than 10%. Further, there is no credible response to FEA's proposed 9.75%, or OPC's proposal for 9.25% ROE in this case. All these factors which are discussed in more detail below, support FEA's recommended ROE for Gulf of 9.75%.

Moreover, while the market evidence and critique of ROE evidence shows that Gulf's requested ROE is significantly excessive, and that a fair ROE is 10% or less, the record also shows evidence of precedent for which ROE witnesses presented evidence in this case generally provide reliable information to regulatory commissions. For example, Gulf's cross-examination exhibits for Dr. Vander Weide indicate that the Missouri Public Service Commission found that Mr. Gorman's evidence, the same witness in this proceeding for FEA, provides the most balanced and credible analysis. In contrast, the Missouri Commission found that Dr. Vander Weide's leverage adjustment and authorized returns on equity were excessive. A review of other proceedings where Dr. Vander Weide and Mr. Gorman both offered testimony would produce similar findings by the regulatory commissions. (GP Exhibit 182 at **23 and **24). The Florida Public Service Commission should find the same results in this case.

II. ROE EVIDENCE

Gulf's ROE Evidence

Dr. Vander Weide's DCF study was applied to a traditional utility proxy group based on a constant growth DCF analysis. His DCF study produced an ROE estimate for Gulf of 10.7%. Dr. Vander Weide's DCF study was based on analysts' three- to five-year growth rate projections as reasonable estimates of long-term sustainable growth. He accounted for the quarterly compounding of quarterly dividends to increase his DCF return estimate, and he also included a leverage adjustment and flotation cost adjustment to his ROE estimate.

Dr. Vander Weide's ex-ante risk premium analysis estimated an equity risk premium for his proxy group companies by producing a DCF return on his proxy group relative to a projected "A" rated utility bond yield. He performed this analysis from September 1999 through December 2010. Based on his study, Dr. Vander Weide estimated an equity risk premium of 4.9%. He added this equity risk premium to a projected utility bond yield of 6.15%. Adding his equity risk premium to his projected bond yield produced an ex-ante market risk premium estimate of 11.0%. (Vander Weide Direct at 33).

Dr. Vander Weide's ex-post risk premium estimated an equity risk premium in the range of 4.1% to 4.64%. To this range, he added his projected "A" rated utility bond yield of 6.15%, to produce an ROE in the range of 10.2% to 10.8%. (Vander Weide Direct at 38).

Dr. Vander Weide performed two CAPM studies using two methodologies to estimate a market risk premium. In his first market risk premium study, he relied on a DCF return of the S&P 500 to produce a market risk premium estimate of 8.94%. This market risk premium was based on the difference between his estimated DCF return on the market of 13.3%, and his projection of the risk-free rate of 4.45%. In Dr. Vander Weide's historical market risk premium study, he relied on the historical measured market risk premium of 6.7% as published by Morningstar. Dr. Vander Weide relied on a risk-free rate of 4.45% and a published beta estimate for his proxy group of 0.67. These parameters with his market risk premium range indicate an ROE using a CAPM study of 9.2% to 10.7%.

FEA – ROE Evidence

FEA witness Gorman used DCF, risk premium and CAPM studies to support his estimated ROE for Gulf of 9.75%. Mr. Gorman's DCF studies included a constant growth DCF model using analysts' three- to five-year growth projections, a sustainable growth rate DCF model, and a multi-stage growth DCF model. Mr. Gorman found that using all three models provided a more robust estimate of the current market cost of equity for Gulf compared to relying on a single DCF model. In his analysts' growth constant growth DCF model, Mr. Gorman outlined that this model was based on the premise that earnings and dividends grow at a constant rate. Mr. Gorman relied on consensus analysts' projected three- to five-year growth rates as an estimate for investors' expectations. However, to the extent analysts' three- to five-year growth rate projections are too high or too low to be a reasonable estimate of long-term sustainable growth (which is required by a constant growth DCF model), the constant growth DCF model using analysts' three- to five-year growth projections may not produce reliable results.

Mr. Gorman's second DCF study was based on a sustainable growth model. This model used current market valuation parameters and projected dividends, earnings and book value by *Value Line* for each of the companies in his proxy group. Using these parameters, he estimated a sustainable growth rate for each of the companies based on the percentage of earnings retained and reinvested in the company generating future growth in investment and common equity. This growth in equity and investments drives earnings growth per share increases over time and supports a sustainable outlook for growth for the companies in the proxy group.

Mr. Gorman also performed a multi-stage growth DCF study. This multi-stage growth DCF study was based on the premise that investors expect a relatively short period of sustainably high growth for utility companies in today's market because utility companies are currently investing heavily in utility plant and equipment which is accelerating the growth in their rate base, and accelerating the growth in their earnings. However, after this accelerated rate base growth period terminates or slows, the earnings growth outlooks for the companies will also subside to a lower sustainable long-term rate. A multi-stage growth model can capture this accelerated period of short-term high growth rate followed by a decline to a lower sustainable growth level. Based on his DCF analyses, Mr. Gorman concluded that an ROE of 9.75% is reasonable and reflects the current market environment. (Gorman Direct at 26).

Mr. Gorman also performed two risk premium studies. His risk premium studies were based on the historical relationship between commission-authorized returns and prevailing contemporary bond yields. In his studies, he used commission-authorized returns on equity for electric utilities as a proxy for market-required returns on equity for utilities. Mr. Gorman opined that regulatory commissions typically authorize returns on equity based on experts' opinions of the current market cost of equity for utilities. Hence, by comparing authorized returns on equity to prevailing contemporary utility and Treasury bond yields, Mr. Gorman found a reasonable method of estimating an equity risk premium. Using his estimated equity risk premiums and current and projected bond yields, Mr. Gorman estimated an ROE of 9.75%. (*Id.* at 31).

Mr. Gorman also performed a CAPM study. He did this by using the published betas for the companies in his electric proxy group, a projection of a risk-free rate (using a Treasury bond yield as a proxy), and measuring the market risk premium based on Morningstar's historical actual achieved results of investing in stocks versus Treasury bond investments. Using these as his parameters, Mr. Gorman estimated a CAPM return estimate for Gulf in the range of 8.82% to 8.96%, rounded to 9.0%. (*Id.* at 37)

After a complete review of his analysis, Mr. Gorman found that 9.75% is a fair ROE for Gulf. Mr. Gorman placed minimal weight on the results of his CAPM study in this proceeding.

After Mr. Gorman measured a reasonable estimate of a fair ROE in today's marketplace, he tested whether or not that return would support Gulf's financial integrity. This analysis was done by developing credit metric financial ratios to assess whether or not a return of equity of 9.75% would provide Gulf an opportunity to produce credit metrics that would support its investment grade bond rating. Based on this test, Mr. Gorman concluded that his ROE was fair compensation in today's low-cost capital market environment and will also support Gulf's financial integrity.

OPC – ROE Evidence

OPC witness Mr. Woolridge estimated his ROE of 9.25% using a DCF analysis and a CAPM. Mr. Woolridge's DCF model produced a fair ROE for Gulf of 9.3%, and his risk premium model produced an ROE of 7.6%. Mr. Woolridge found that it was more appropriate to place primary weight on the results of his DCF analysis in supporting his ROE of Gulf of 9.25%. (Woolridge Direct at 46).

III. ROE ARGUMENT

Gulf's recommended ROE of 11.7% is severely flawed and should be rejected. For the reasons set forth in FEA's and OPC's testimony, Dr. Vander Weide's bare bones ROE estimate of 10.8% and his proposed leveraged ROE adder of 0.9% are severely flawed. Gulf's proposed ROE is clearly excessive based on a comparison of current market evidence and recent industry authorized returns. Further, Gulf's proposed ROE analysis is flawed and without merit. All of this evidence shows that Gulf's proposed 11.7% is excessive, and a fair and reasonable ROE for Gulf in this proceeding is 9.75%.

Market Evidence

Gulf's requested ROE significantly exceeds the average ROE authorized by other regulatory commissions. In the first three quarters of 2011 the industry average ROE is 10.0% to 10.1%.

The first quarter 2011 industry ROE of 10.3% is skewed by inclusion of two ROEs of 12.3% awarded to Virginia Electric & Power Company (VEPCo). However, those ROEs were permitted for a specific generating facility's investments and not to VEPCo's integrated electric utility operations. (Tr. p. 1436). Further, as GP Exhibit 186 indicates, and as shown in Table 3 below, the most common authorized ROE during calendar 2011 (Mode) was 10.0%. All of this data shows that Dr. Vander Weide's and Gulf's proposal for an ROE of 11.7% is excessive and inappropriate.

TABLE 3

	State	Company	ROE(%)
1	Arkansas	Oklahoma Gas and Electric	9.95%
2	California	Pacific Gas & Electric Co.	11.35%
3	Hawaii	Hawaiian Electric Co.	10.00%
4	Idaho	Avista Corp.	NA
5	Indiana	Southern Indiana Gas & Electric Co.	10.40%
6	Michigan	Detroit Edison Co.	10.50%
7	Minnesota	Otter Tail Power Company	10.74%
8	Minnesota	Interstate Power & Light	10.35%
9	Missouri	Kansas City Power & Light	10.00%
10	Missouri	KCP&L Greater MO Operations	10.00%
11	Missouri	KCP&L Greater MO Operations	10.00%
12	Missouri	Empire District Electric Co.	NA
13	Missouri	Union Electric Co.	10.20%
14	Montana	MDU Resources, Group	NA
15	New Mexico	Public Service Company of NM	10.00%
16	North Dakota	MDU Resources, Group	10.75%
17	Oklahoma	Public Service Company of OK	10.15%
18	South Carolina	South Carolina Electric & Gas	11.00%
19	Utah	PacifiCorp	10.00%
20	Virginia	Virginia Electric & Power Co.	12.30%
21	Virginia	Virginia Electric & Power Co.	12.30%
22	Virginia	Kentucky Utilities	10.30%
23	Virginia	Appalachian Power Co.	10.90%
24	Washington	PacifiCorp	9.80%
25	West Virginia	Appalachian Power Co.	10.00%
26	Wisconsin	Madison Gas & Electric Co.	10.30%
27	Wisconsin	Wisconsin Public Service Corp.	10.30%
28	Wisconsin	Wisconsin Electric Power Co.	NA
29	Wisconsin	Northern States Power Co - WI	10.40%
30	Wyoming	PacifiCorp - WY	10.00%
		Average Including VEPCo	**10.46%**
		Average Excluding VEPCo.	10.31%
		Mode	10.00%

Source: GP Exhibit 186.

Further, the record evidence shows that authorized ROEs have generally supported the electric utility industry's strong investment grade bond ratings, and strong stock price performance over the last five years. (Gorman Direct at 3-7). All of this evidence clearly shows that a ROE of no higher than 10.0% would be just and reasonable for Gulf in this proceeding.

Gulf's ROE Study is Flawed

Gulf's recommended ROE of 11.7% is flawed. Gulf's proposed ROE is based on a flawed methodology and includes an unjustified adder of 0.90% for leverage risk. Gulf witness Dr. Vander Weide estimated Gulf's proposed ROE by increasing a bare bones return estimate of 10.8% by 0.90% to account for Gulf's greater book value financial risk compared to the proxy utility group market value financial risk. This leverage adder is flawed and will provide Gulf with excess profits. Dr. Vander Weide's 10.8% base ROE is overstated because he used flawed DCF parameters and projected utility bond yields that significantly exceed current observable bond yields. Excluding his revenue adjustment, and using reasonable ROE study parameters, Dr. Vander Weide's studies support an ROE of under 10.0%.

Dr. Vander Weide's Leverage Adjustment Should be Rejected

As discussed in great detail by Mr. Gorman and Mr. Woolridge, this 90 basis point adjustment is erroneous, without merit and should be rejected. Dr. Vander Weide's premise for adding 90 basis points to his bare bones ROE estimate is that Gulf's book value financial leverage understates the financial risk stated on a market value basis. However, this theory is fundamentally flawed and without merit. Gulf's financial risk is tied to both its book value capitalization, which in turn drives its market value financial risk. Indeed, market participants gauge financial risk using book value data not market value data. Hence, Dr. Vander Weide's premise is erroneous. (Gorman Direct at 43-46).

Further, Dr. Vander Weide's leverage adjustment is also flawed because it will produce excessive ROE. Mr. Gorman described this at page 41 of his direct testimony. There, he observed that if Dr. Vander Weide's leverage adjustment was approved, then Gulf would be provided an opportunity to earn an excessive risk-adjusted return on the incremental utility plant investment. As explained by Mr. Gorman, using Dr. Vander Weide's proposed methodology, Gulf could be faced with reinvesting its earnings and utility plant investment and be allowed to earn a return of 11.7%, or to repurchase its own stock and expect a return of 10.8%. These are comparable risk investments and should produce comparable risk-adjusted returns. However, Dr. Vander Weide's proposed leverage adjustment would provide incentives for utilities to gold-plate utility plant investment because they would be allowed to earn an above market return on those investments. (*Id.* at 47).

Dr. Vander Weide's Flotation Cost Adder is Not Reasonable

Dr. Vander Weide increases his DCF, risk premium and CAPM ROE estimates by approximately 0.26% to include flotation cost adjustment. As discussed in Mr. Gorman's testimony, this adjustment should be rejected because it is not based on Gulf's actual cost. Rather, it is derived from published academic literature. Therefore, there is no means of verifying whether Dr. Vander Weide's proposed flotation expense is reasonable or appropriate. (Gorman Direct at 48 and Woolridge at 77).

Dr. Vander Weide's Bare Bones 10.8% ROE is Overstated

Dr. Vander Weide's 10.8% bare bones DCF return estimate is overstated and flawed. Dr. Vander Weide's 10.8% ROE is primarily derived by DCF and risk premium studies. Dr. Vander Weide's DCF study is flawed because he relied on excessive long-term growth rate estimates. Dr. Vander Weide's DCF growth rate is not sustainable in the long run as required by the DCF model. The analysts' projected growth rates reflect an outlook over the next three to five years and significantly exceed the long-term sustainable growth of the U.S. economy. Therefore, the DCF return estimates currently produce a return that is not reliable. Further, Dr. Vander Weide relies on a quarterly compounding version of the DCF model, which overstates the utility's cost of capital because it provides utilities with an opportunity to earn the dividend reinvestment return twice, first through authorized returns on equity and earnings to the utility and second after dividends are actually paid to investors and reinvested in alternative investments to the utility stock the dividend was earned upon. Using reasonable growth outlooks and data in Dr. Vander Weide's DCF model would support an ROE of 10.09%. (*Id.* at 48-54).

Dr. Vander Weide's risk premium studies are flawed because they are based on "A" utility bond yields of 6.15%. Dr. Vander Weide's projected utility bond yields substantially exceed current observable utility bond yields of "A" of 4.92%. Using Dr. Vander Weide's ex-ante market risk premium estimate of 4.6% and current bond yield indicates an ROE of 9.52% (*Id.* at 55).

Dr. Vander Weide offered two CAPM studies. Mr. Gorman took issue with his CAPM study based on market DCF risk premium estimates. Mr. Gorman outlined reasons why his market risk premium estimate using a DCF on the S&P 500 is not reliable. Specifically, the DCF return on the market is based on a growth rate estimate that is far too high to be sustainable;

therefore, his market DCF and market risk premium estimates are overstated. Simply relying on the actual observable market risk estimate of 6.7% and a more reasonable and a current observable utility bond yield, will produce a more reasonable CAPM return estimate.

Revising Dr. Vander Weide's ROE estimates to remove the flawed flotation cost and leverage ROE adders and properly applying growth rates in a DCF study will produce a fair ROE for Gulf below 10.0%. Most importantly, an ROE below 10.0% is just and reasonable because it fairly compensates investors and ratepayers, and will preserve Gulf's financial integrity. (*Id.* at 57-58).

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

FEA: Using Gulf's proposed capital structure ratios, costs, and FEA witness Gorman's ROE of 9.75%, the appropriate weighted average cost of capital is 6.30%.

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

FEA: FEA adopts the position of OPC.

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

FEA: FEA adopts the position of OPC.

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

FEA: FEA adopts the position of OPC.

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

FEA: No. The appropriate amount of operating revenue should reflect FEA's position on Sales for Resale.

Gulf proposes to recognize $16.3 million of margins (profits) from Sales for Resale for the test year ending 2012. Gulf also predicted that in 2011, Gulf would recognize $16.3 million of margins from Sales for Resale. FEA recommends that the margins from Sales for Resale proposed by Gulf are understated and proposes to increase Gulf's margins by $1.8 million.

Gulf's proposed margins are understated when comparing Gulf's forecasted 2011 and 2012 sales revenues and margins to actual results. Table 4 below compares Sales for Resale revenues and margins from 2010 forward and includes Gulf's forecasted sales revenues and margins for 2011 and 2012.

TABLE 4

Levels of Sales for Resale
Revenues and Margins

Year	Revenues (000's)	Margins (000's)
2010	$219,300	$21,492
Gulf 2011 Forecast	190,396	16,288
12 mos. Ending June 30, 2011	210,977	17,361
12 mos. Ending September 30, 2011	228,959	--
Gulf 2012 Forecast	$188,308	$16,307

From Table 4 above, the level of margins forecasted by Gulf is clearly understated. The actual results for 2010 had a level of margins of $21.5 million. For the 12 months ending June 30, 2011 Gulf recorded $17.4 million of margins. For the 12 months ending September 30, 2011, Gulf recorded total revenues of $229 million[1] from Sales for Resale transactions. The level of sales revenues for the 12 months ending September 30, 2011 is the highest level recorded by Gulf. One must also assume that the margins from these sales levels were also greater than previously recorded levels. If indeed the margin increased from higher levels of sales revenues, FEA proposed adjustment of $1.8 million could be achieved.

Gulf witness McMillan claimed in his rebuttal testimony that the actual results prior to 2011 are lower than Gulf's forecast amount in 2012. Clearly from Table 4 above this is incorrect. Gulf witness McMillan discusses that Gulf's proposed sales margins are based on a modeling process. Mr. McMillan further testifies regarding the different factors which may affect the level of margins. FEA contends that the same factors which derived Gulf's 2012 margin forecast ($16.3 million) would have been used to predict Gulf's 2011 margin forecast ($16.3 million). Comparing Gulf's 2011 forecast of $16.3 million to actual results (June-$17.4 million) reveals that Gulf has under forecasted these sales margins. Furthermore, if FEA is correct, the sales margins for the 12 months ending September 30, 2011 should be even greater and FEA's adjustment of $1.8 million would be recognized.

In summary, FEA has demonstrated that Gulf's forecasted levels of $16.3 million for Sales for Resale margins for 2011 and 2012 are understated, and Gulf's actual results from 2010 forward validates FEA's claims. FEA recommends that the Commission adopt FEA's proposed

[1]*$229 million is derived by taking the 2010 annual level of revenues from Table 4 and subtracting from that level of the revenues recorded for the first nine months of 2010 found on Exhibit 216, line 11. To that total add the sales revenues recorded for the first nine months of 2011 from Exhibit 216, line 11. The following equation details this description. ($219,308 – $174,612) + $184,175 = $228,871.

adjustment of $1.8 million above the level proposed by Gulf. In the alternative, FEA would recommend that the Commission could recognize the increased margins from the actual results for the 12 months ending June 30, 2011 of $17.4 million. This would recognize an additional $1.054 million of margins. Alternatively, FEA would recommend that the Commission require Gulf to provide margins realized from the sales revenues ($229 million) recorded by Gulf for the 12 months ending September 30, 2011, and determine if those margins should be adopted for purposes of the rate case.

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

FEA: FEA adopts the position of OPC.

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

FEA: FEA adopts the position of OPC.

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

FEA: FEA adopts the position of OPC.

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

FEA: FEA adopts the position of OPC.

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

FEA: FEA adopts the position of OPC.

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

FEA: FEA adopts the position of OPC.

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

FEA: FEA adopts the position of OPC.

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

FEA: FEA adopts the position of OPC.

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

FEA: FEA adopts the position of OPC.

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

FEA: FEA adopts the position of OPC.

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

FEA: FEA adopts the position of OPC.

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

FEA: Please refer to stipulation brief.

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

FEA: Please refer to stipulation brief.

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

FEA: FEA adopts the position of OPC.

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

FEA: FEA adopts the position of OPC.

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

FEA: FEA adopts the position of OPC.

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

FEA: No. Please refer to FEA's response to Issue 70.

<u>Issue 70</u>: Are Gulf's proposed increases in employee positions for Gulf appropriate?

FEA: No.

Gulf proposes to include payroll expense and employee benefits for the 2012 test year based on a budgeted level of 1,489 employees. The 1,489 level of employees is the highest level of employees budgeted by Gulf dating back to 2004. In addition, Gulf has operated at a level of employees substantially less than 1,400 employees from 2004-2010. FEA proposed that Gulf's total labor expenses (payroll and benefits) be based on Gulf's latest known level of employees. FEA originally proposed to reduce Gulf's labor adjustment by $5.2 million based on Gulf's labor force (1,365 employees) at June 30, 2011.

Gulf has historically operated with fewer employees than budgeted. Table 5 below compares Gulf's actual employees versus budgeted employees by year from 2004-2010.

TABLE 5

Gulf's Budgeted Employees vs. Actual Employees

Year	Actual	Budget	Variance
2004	1,340	1,355	15
2005	1,338	1,413	75
2006	1,322	1,426	104
2007	1,341	1,415	74
2008	1,339	1,412	73
2009	1,365	1,443	78
2010	1,330	1,442	112
2011	---	1,489	
2012	---	1,489	

As can be seen from Table 5 above, Gulf has continuously over-budgeted employees. In fact, through the hearings in this case, Gulf still has not reached its budgeted level of employees in 2011 or 2012 of 1,489.

Gulf has budgeted an increase of 159 employees from the actual levels at December 31, 2010. Table 6 below breaks those budgeted increased levels of employees by function:

TABLE 6

Budgeted Increase in Employees by Function

Function	Increase in Employees
Production	52
Transmission	13
Transportation	3
Power Delivery	42
Customer Accounts	7
Customer Service and Information	35
Corporate Support	7
Total	**159**

Gulf has proposed to set rates on a level of budgeted employees it has not achieved. In Gulf's last rate case, Gulf's rates were based on 1,367 full-time equivalents (FTEs). As can be seen from Table 5 above, since 2004 Gulf has not operated at that level of employees. FEA believes that it would be inappropriate regulatory policy for the Commission to rely on Gulf's employee budgets as those levels have never been filled by Gulf dating back to 2004.

During the hearings in this case, Gulf produced Exhibit 217 which lists Gulf's FTE's as of December 12, 2011 for the Production, Transmission and Distribution (Power Delivery) functions. Based on these totals, Gulf was under its 2012 Minimum Filing Requirements (MFRs) by 40 employees and below its revised 2012 budget by 30 employees. In addition, Ms. Neyman testified at the hearings that she still has 4 unfilled service center employees.[2] Thus, the total unfilled employees at December 12, 2011 are 44 utilizing Gulf's MFRs for 2012 or 34 using Gulf's updated 2012 budget.

FEA recommends that the Commission adjust Gulf's proposed level of labor expenses to reflect the 44 employees currently not filled from Gulf's 2012 MFRs. If Gulf can demonstrate

[2]Ms. Neyman is proposing to increase the call center employee levels by 50% over the level that was employed at December 31, 2010. 52 employees at December 31, 2010 plus additions of 19 as identified on Neyman Schedule 4 and 7 employees for the new DSM project (26/52 is a 50% increase in call center work force). Transcript pages 717-718.

that the 10 positions transferred to Production Contract Labor decreased its original labor expense adjustment, included in the rate case, then FEA would recommend that Gulf's labor adjustment reflect 34 fewer employees.

By utilizing the cost of new employees presented in OPC witness Ramas' testimony (page 23), the average wages and benefits for hiring one of the 159 budgeted employees is approximately $60,800.[3] Applying this figure to the vacancies identified by Gulf's MFRs for 2012 yields an adjustment of approximately $1.7 million.[4] Utilizing Gulf's updated 2012 budgeted figures, the adjustment proposed by FEA would be approximately $1.3 million.[5]

In his rebuttal testimony, Gulf witness McMillan attempts to dismiss the FEA and OPC adjustment by arguing that focusing on the labor portion of O&M expenses in isolation is inappropriate. Mr. McMillan argues that Gulf has historically spent 100% or more of its overall O&M budget. FEA believes the argument by Mr. McMillan is baseless. The purpose of a rate case is to examine and audit all aspects of a utility's cost of service. All relevant factors must be considered in setting Gulf's rates. Mr. McMillan is merely trying to preserve the unjustified level of labor expenses included in Gulf's cost of service. If Mr. McMillan wanted to only concentrate on total O&M expenses the issue list in this case would not have exceeded 100 issues. Mr. McMillan's alternative argument should be dismissed.

In summary, Gulf has presented a budgeted level of employees which is excessive. As of December 12, 2011, Gulf was still unable to reach its budgeted level of employees. FEA recommends that the Commission reduce Gulf's labor adjustment by $1.7 million based on

[3]Ramas Direct Page 23, line 9. Total cost of new employees = $9,667,180/159. Budgeted increase in employees = $60,800 per employee.

[4]Ramas Direct page 23, line 9. Total cost of new employees = $9,667,180 broken into two categories: (1) Clauses/Capital = 3,546,919 (37%) and (2) Expense = $6,120,261 (63%). 44 unfilled employees X $60,800 X 63% = $1,685,376.

[5]34 unfilled employees X $60,800 (Footnote 3) X 63% (Footnote 4) = $1,302,336.

Gulf's 2012 MFRs. If the Commission decides to utilize Gulf's 2012 updated budget figures, FEA proposes an adjustment of $1.3 million.

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

FEA: FEA adopts the position of FIPUG.

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

FEA: Yes, consistent with FEA's position on payroll discussed in Issue 70.

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

FEA: Yes, consistent with FEA's position on payroll discussed in Issue 70.

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

FEA: Yes, consistent with FEA's response to Issue 27.

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

FEA: FEA adopts the position of OPC.

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

FEA: FEA adopts the position of OPC.

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

FEA: Please refer to stipulation brief.

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

FEA: FEA adopts the position of OPC.

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

FEA: FEA adopts the position of OPC.

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

FEA: FEA adopts the position of OPC.

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

FEA: FEA adopts the position of OPC.

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

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

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

FEA: FEA adopts the position of OPC.

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

FEA: FEA has resolved the AMI meter adjustment. FEA adopts the position of OPC.

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

FEA: FEA adopts the position of OPC.

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

FEA: FEA takes no position on this issue.

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

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

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

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

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

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

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

FEA: FEA adopts the position of OPC.

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

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

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

FEA: Please refer to stipulation brief.

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

FEA: Please refer to stipulation brief.

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

FEA: Please refer to stipulation brief.

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

FEA: FEA takes no position on this issue.

Issue 110: What are the appropriate demand charges?

FEA: FEA takes no position on this issue.

Issue 111: What are the appropriate energy charges?

FEA: FEA takes no position on this issue.

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

FEA: FEA takes no position on this issue.

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

FEA: FEA takes no position on this issue.

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

FEA: FEA adopts the position of FIPUG.

Issue 115: What are the appropriate transformer ownership discounts?

FEA: FEA takes no position on this issue.

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

FEA: FEA adopts the position of OPC.

Issue 119: Should this docket be closed?

FEA: FEA adopts the position of FIPUG.

Respectfully submitted this 9th day of January, 2012

s/ Chris Thompson

CHRISTOPHER C. THOMPSON, Maj, USAF
Staff Attorney
USAF Utility Law Field Support Center
139 Barnes Drive, Suite 1
Tyndall AFB FL 32403-5319
Ph: 850-283-6350
Fax: 850-283-6219
E-mail: chris.thompson.2@tyndall.af.mil

CERTIFICATE OF SERVICE

Docket No. 110138-EI

I HEREBY CERTIFY that a true copy of the foregoing was furnished by electronic mail the 9th day of January, 2012, to the following:

Florida Public Service Commission

Caroline Klancke, Esquire
Keino Young, Esquire
Martha Barrera, Esquire
2540 Shumard Oaks Boulevard
Tallahassee, FL 32399-0850

s/ Chris Thompson

CHRISTOPHER C. THOMPSON, Maj, USAF
Staff Attorney
USAF Utility Law Field Support Center
139 Barnes Drive, Suite 1
Tyndall AFB FL 32403-5319
Ph: 850-283-6350
Fax: 850-283-6219
E-mail: chris.thompson.2@tyndall.af.mil