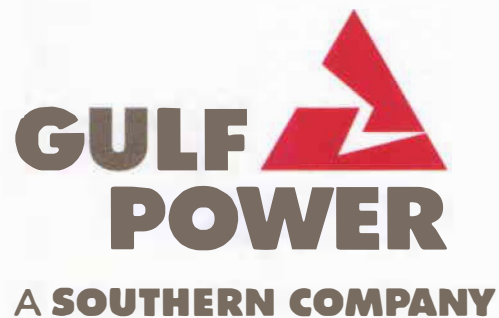


**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

DOCKET NO. 130140-EI



**TESTIMONY AND EXHIBIT
OF
CONSTANCE J. ERICKSON**

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission
3 Prepared Direct Testimony of
4 Constance J. Erickson
5 Docket No. 130140-EI
6 In Support of Rate Relief
7 Date of Filing: July 12, 2013

8 Q. Please state your name and business address.

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

11 Q. By whom are you employed?

12 A. I am employed by Gulf Power Company (Gulf or the Company). I serve as
13 Gulf's Comptroller.

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

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

24

25

1 Q. Please state your prior work experience and responsibilities.

2 A. From 1987 to 1992, I was employed with the audit division of Arthur
3 Andersen & Co. From 1992 to 2002, I held various senior financial
4 positions with GNB and Exide Technologies and with Graco Inc. In 2002, I
5 accepted employment with Southern Company and have held various
6 financial positions, including Comptroller and Director of Customer
7 Operations and Information Technology with Southern Company Gas and
8 Director of Financial and Contract Services with Southern Company
9 Services, until being named Comptroller of Gulf effective January 14, 2006.

10

11 Q. What is your educational background and professional certification?

12 A. I graduated from the University of North Dakota in 1987 with a Bachelor of
13 Accountancy degree. Also, I am a licensed Certified Public Accountant and
14 a member of the American Institute of Certified Public Accountants.

15

16 Q. What is the purpose of your testimony?

17 A. My testimony (a) sets forth and supports Gulf's 2014 Operations &
18 Maintenance (O&M) expense budget within the Administrative & General
19 (A&G) function, (b) justifies Gulf's 2014 A&G benchmark variance for
20 expenses other than pension costs, (c) addresses why Directors and
21 Officers (D&O) liability insurance expense should be allowed, (d) supports
22 the need to increase Gulf's annual property damage accrual for the property
23 damage reserve, (e) supports the changes in depreciation and
24 dismantlement expense included in the test year, and (f) discusses income
25 tax expense included in the test year.

1 Q. Are you relying on any independent studies performed in the regular course
2 of business?

3 A. Yes. I am relying on the results of a Depreciation Study (Depreciation
4 Study) prepared by Gulf Witness Huck, who is employed with American
5 Appraisal Associates, Inc., a Dismantlement Study (Dismantlement Study)
6 prepared by Southern Company Services, and the Transmission and
7 Distribution Hurricane Loss and Reserve Performance Analyses (Storm
8 Study) prepared by Gulf Witness Harris, who is employed with EQECAT,
9 Inc.

10

11 Third party studies performed by recognized experts are commonly used
12 and relied upon by accounting experts to make accounting judgments.
13 Commission Rules 25-6.0436 and 25-6.04364 require Gulf to file a
14 depreciation study and dismantlement study, respectively, a minimum of
15 every four years. Commission Rule 25-6.0143 requires Gulf to file a Storm
16 Damage Self-Insurance Reserve Study at least once every five years.
17 These studies are regularly used by accounting professionals as the
18 primary basis for determining proper levels of accounting accruals. In
19 addition, the studies I rely upon to corroborate my opinion were
20 commissioned by Gulf in order to fulfill its obligations under mandates of the
21 Commission.

22

23 Q. Are you sponsoring any exhibits?

24 A. Yes. I am sponsoring Exhibit CJE-1, Schedules 1 through 5. Exhibit
25 CJE-1 was prepared under my direction and control, and the information

1 contained therein is true and correct to the best of my knowledge and belief.

2

3 Q. Are you sponsoring any of the Minimum Filing Requirements (MFRs) filed
4 by Gulf?

5 A. Yes. The MFRs that I sponsor or co-sponsor are listed on Schedule 1 of
6 Exhibit CJE-1. The information contained in the MFRs I sponsor or co-
7 sponsor is true and correct to the best of my knowledge and belief.

8

9 Q. How are the Company's accounting records maintained?

10 A. Gulf maintains its books and records in accordance with GAAP and the
11 rules and regulations prescribed for public utilities in the Uniform System of
12 Accounts published by the FERC and adopted by the FPSC.

13

14

15 **I. ADMINISTRATIVE AND GENERAL EXPENSES**

16

17 Q. What is Gulf's A&G O&M expense budget for the 2014 test year?

18 A. Gulf projects an O&M expense level for the A&G function of \$89,767,000 in
19 the test year.

20

21 Q. Is Gulf's projected level of A&G expenses of \$89,767,000 in 2014
22 reasonable and prudent?

23 A. Yes. The projected level of A&G expenses is both reasonable and prudent.
24 Gulf's 2014 A&G O&M expenses are based on the extensive budget
25 preparation and review process that each planning unit follows as discussed

1 by Gulf Witness Ritenour. This process ensures that every item included in
2 the budget is based upon the most accurate and up-to-date assumptions
3 and reflects the reasonable needs of each unit to fulfill its business function.
4

5 The A&G expense budget consists of a wide range of corporate expenses
6 that are not associated with any particular operating function. There are a
7 number of planning units within the A&G function. Some of these include
8 Accounting, Finance, Treasury, Human Resources, Information Technology,
9 External Affairs, Supply Chain, and Corporate Services. Each planning unit
10 within the A&G function is responsible for developing budgets for
11 employees as well as office supplies and expenses within its unit. The
12 remaining A&G expenses—insurance, employee benefits, and other
13 miscellaneous expenses—are budgeted at a corporate level using the latest
14 assumptions for the projected period.
15

16 Q. Is Gulf's projected level of A&G expenses of \$89,767,000 in 2014
17 representative of a going forward level of A&G expense beyond 2014?

18 A. Yes. As noted above and discussed by Ms. Ritenour, the Company's
19 budget process is very thorough, and O&M projections are prepared at a
20 detailed level for a five year period. Schedule 2 of Exhibit CJE-1
21 compares total A&G expenses, including the net operating income (NOI)
22 adjustments, for the 2014 test year with the projections for the three years
23 2015 through 2017. A&G expenses identified in the budget process for the
24 years 2015 through 2017 are in line with the 2014 A&G expenses.
25

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

3 A. Other than pension costs, which are addressed by Gulf Witness Garvie,
4 there are two primary factors that have resulted in increases in Gulf's A&G
5 expense since Gulf's last base rate increase.

6
7 The first major driver of increased A&G expense is the annual accrual to the
8 property damage reserve. The balance in Gulf's Property Damage Reserve
9 is approximately \$32,883,000 as of March 31, 2013. In Gulf's last rate
10 case, the Commission determined the appropriate range for that reserve is
11 \$48,000,000 to \$55,000,000. Based on the Storm Study's expected
12 average annual loss to be covered by the reserve of \$6,800,000 and the
13 balance in the reserve as of March 31, 2013, Gulf has determined that an
14 annual accrual to the reserve of \$9,000,000 is necessary to allow Gulf a
15 reasonable opportunity to achieve the minimum of the Commission's target
16 range in seven years, assuming actual losses do not materially exceed the
17 projected losses.

18
19 The second major driver of increased A&G expense is rate case expense,
20 which increased due to the expected costs of filing this rate case.

21
22 Q. How does Gulf's 2014 A&G expense forecast compare to the A&G O&M
23 expense benchmark calculation historically employed by the Commission?

24 A. The A&G benchmark is \$78,744,000. This calculation is described in Gulf
25 Witness McMillan's testimony. Gulf's projected 2014 A&G expenses are

1 **\$89,767,000. These A&G expenses exceed the A&G benchmark by**
2 **\$11,023,000. These values are shown on Exhibit CJE-1, Schedule 3.**

3

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

7 **A. Gulf's 2014 A&G expense budget is the product of a sophisticated and**
8 **demanding budget process that has been described at a corporate level by**
9 **Ms. Ritenour and at a functional level by me and other witnesses. This is**
10 **the budget process that Gulf employs year in and year out to manage its**
11 **business. In that process, Gulf does not use the Commission's O&M**
12 **benchmark approach. Gulf's budget process is very robust and considers**
13 **matters beyond the Consumer Price Index (CPI) and customer growth.**

14

15 **Moreover, as the discussion below shows, some A&G expense increases in**
16 **the electric utility industry are unrelated to either customer growth or**
17 **inflation. In the A&G area, costs can be and are driven by other outside**
18 **factors. An example of this includes pension expense in excess of the CPI.**
19 **Given the increasing trend in A&G costs, the test year is a conservative**
20 **representation of the on-going level of expenses. Gulf's projected A&G**
21 **O&M expenses are reasonable, prudent, and necessary.**

22

23 **Q. Please address how Gulf has justified its \$11,023,000 A&G benchmark**
24 **variance.**

25 **A. Gulf's A&G benchmark variance is justified by Mr. Garvie and by me.**

1 Mr. Garvie provides a justification of pension expense that is \$5,871,000
2 over the benchmark.

3
4 I justify the remaining A&G O&M benchmark variance for the areas listed
5 below as shown on Exhibit CJE-1, Schedule 3:

6		
7	Property Damage Accrual	\$5,249,000
8	Rate Case Expense	<u>880,000</u>
9	Total	\$6,129,000

10

11 Additionally, I justify why there should be no disallowance of D&O liability
12 insurance expense.

13

14 A. Property Damage Accrual

15 Q. What is the benchmark variance for the property damage reserve accrual
16 on Exhibit CJE-1, Schedule 3?

17 A. The 2014 level for the property damage reserve accrual is \$9,000,000,
18 which is \$5,249,000 above the benchmark.

19

20 Q. Please address why Gulf's 2014 annual accrual to the property damage
21 reserve exceeds the benchmark by \$5,249,000.

22 A. As I discuss later in my testimony, this annual accrual level is the level of
23 the expected average annual loss to be covered by the reserve,
24 \$6,800,000, as determined in Gulf's 2011 Storm Study, and an additional
25 annual amount of \$2,200,000 as an increase to the reserve. Allowing the

1 proposed annual accrual at this level would enable Gulf to reach the bottom
2 of its Commission-approved target range for the property damage reserve in
3 seven years assuming actual losses do not materially exceed the projected
4 losses. Maintenance of a property damage reserve that can handle a
5 significant but not catastrophic storm spreads the cost of the storms out to
6 each generation of Gulf's customers, recognizing that property damage cost
7 recovery is a continuing cost of service even in years when there are no
8 storms. A properly funded property damage reserve helps mitigate a
9 situation where customers who happen to be served during a storm event or
10 shortly thereafter absorb the entire storm's cost through a storm surcharge.

11
12 The current annual property damage accrual was approved in November
13 1996 in Order No. PSC-96-1334-FOF-EI in Docket No. 951433-EI. This
14 \$3,500,000 accrual has not been adjusted for inflation or customer growth.
15 Gulf's proposed \$9,000,000 annual accrual to achieve the Commission-
16 approved reserve target is a \$5,500,000 increase in the annual accrual and
17 a \$5,249,000 increase over the benchmark. The increase is justified
18 because it supports the Commission's goal of building an adequate reserve
19 to cover most storms and recognizes that storm costs are a recurring cost of
20 service.

21 22 B. Rate Case Expense

23 Q. The next category of A&G O&M benchmark justification is rate case
24 expense. Please explain how the estimated rate case expense for the 2013
25 rate case was calculated and address the associated benchmark variance

1 for rate case expense on Exhibit CJE-1, Schedule 3.

2 A. Gulf's recent rate case experience shows that the cost of a rate case
3 continues to increase due to more discovery, more contested issues and
4 more witnesses as part of a rate case. To address these additional
5 demands, Gulf anticipates incurring more expenses for incremental labor
6 resources, additional outside consulting and legal fees than was approved
7 in its last rate case after escalation for CPI and customer growth.

8

9 The Company estimates rate case expense for its 2013 rate case to be
10 \$4,922,000. This amount was calculated by taking the rate case expense
11 incurred in Gulf's 2011 rate case, \$4,268,000 and adding an additional
12 amount for attorney resources for Human Resource issues and discovery,
13 depreciation and storm study witnesses and incremental labor due to the
14 demands of a rate case. The incremental labor represents certain positions
15 which have been temporarily backfilled with contract employees in order to
16 meet the incremental labor demands associated with a rate case filing. This
17 incremental labor is necessary to ensure that both normal business
18 operations and internal controls continue to operate effectively while the
19 Company is handling the demands of a case. The additional amount was
20 partially offset by one less rate design consultant.

21

22 The benchmark variance of \$880,000 is due to an NOI adjustment of
23 \$930,000 in the 2014 test year. This NOI adjustment, which accounts for
24 both the current rate case expense estimate and unrecovered expenses
25 from the prior rate case, is discussed in Ms. Ritenour's testimony.

1 **C. Directors and Officers Liability Insurance**

2 **Q. Should the Commission allow the Company's test year expense for D&O**
3 **liability insurance?**

4 **A. Yes. The \$95,000 premium paid by Gulf for D&O liability insurance directly**
5 **benefits customers and is a necessary and reasonable expense for the**
6 **Company to do business.**

7
8 **Q. How do customers benefit from D&O liability insurance?**

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

16
17 **Q Please provide a brief summary of the Commission's approach in Gulf's last**
18 **rate case related to D&O liability insurance.**

19 **A. In Gulf's last rate case, the Commission agreed with Gulf that D&O liability**
20 **insurance is prudent and necessary for a publicly held company to have,**
21 **and that it ensures the Company will be able to attract and retain skilled**
22 **leadership. However, the Commission felt that both shareholders and**
23 **customers receive benefits from D&O liability insurance and the associated**
24 **cost should be shared equally between the shareholders and the**
25 **customers.**

1 Q. Does Gulf's request for \$95,000 of D&O liability premiums include
2 premiums related to protection of Southern Company shareholders?

3 A. No. The total Southern System D&O liability premiums are already split
4 between Southern Company shareholders and customers. Southern
5 allocates approximately 51 percent of the D&O liability premiums to
6 Southern Company as a cost to the shareholders. The remaining 49
7 percent of the premiums are allocated to the subsidiary companies, which
8 includes Gulf. The \$95,000 in Gulf's test year represents the premiums
9 allocated to Gulf D&O liability coverage only for Gulf's Directors and
10 Officers, which benefit Gulf's customers, not shareholders.

11
12 Q. What would a stand-alone D&O utility insurance policy cost Gulf's
13 customers?

14 A. If Gulf had to procure its own D&O liability insurance policy, a stand-alone
15 policy is estimated to cost approximately \$825,000 to \$1,048,000 annually
16 based on the asset size of Gulf and the level of coverage normally
17 requested for companies the size of Gulf. Assuming that the costs would be
18 split evenly between shareholders and customers, the amount requested for
19 retail recovery would be approximately \$413,000 to \$524,000, compared to
20 the amount being requested for recovery, \$95,000.

21
22
23
24
25

1 **II. PROPERTY DAMAGE ACCRUAL**

2

3 **Q. What is the property damage accrual designed to cover?**

4 **A. Per Commission Rule 25-6.0143, this account is established to provide for**
5 **losses through accident, fire, flood, storms and similar type hazards to the**
6 **utility's own property or property leased from others, which is not covered by**
7 **insurance. This account would also include provisions for the deductible**
8 **amounts contained in property loss insurance policies held by the utility.**

9

10 **Q. What is Gulf asking to recover in its property damage accrual?**

11 **A. Gulf has taken a conservative approach to the request for this accrual. Gulf**
12 **is asking to set the accrual amount based only on potential hurricane**
13 **damage. The accrual amount requested does not include any expected**
14 **damage for tropical storms, fire, flood or other storms not covered by**
15 **insurance or any expected insurance deductibles.**

16

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

19 **A. Gulf has included a property damage accrual of \$9,000,000 in the 2014 test**
20 **year. This represents an increase from Gulf's current accrual of \$3,500,000**
21 **per year approved by the Commission in Order No. PSC-12-0179-FOF-EI,**
22 **issued on April 3, 2012 in Docket No. 110138-EI and results in an NOI**
23 **adjustment of \$5,500,000 for the test year as discussed in Ms. Ritenour's**
24 **testimony.**

25

1 Q. When was the current annual accrual first approved?

2 A. The current annual property damage accrual of \$3,500,000 was first
3 approved in 1996 in Docket No. 951433-EI, Order No. PSC-96-1334-FOF-
4 EI. If that annual accrual were escalated for CPI and customer growth
5 during the intervening period, the accrual would be approximately
6 \$7,217,000.

7

8 Q. Please explain the increase over the approved annual accrual amount.

9 A. The Commission approved a new target range for the property damage
10 reserve of \$48,000,000 to \$55,000,000 in Docket No. 110138-EI, Order No.
11 PSC-12-0179-FOF-EI. Based on the current approved annual accrual of
12 \$3,500,000 and the expected average annual loss of \$6,800,000 charged to
13 the reserve, it is unlikely Gulf will reach the bottom of the approved target
14 range established by the Commission. The annual accrual of \$9,000,000 is
15 based on the expected average annual hurricane loss charged to the
16 reserve of \$6,800,000 and an additional annual amount of \$2,200,000 to
17 increase the reserve. This accrual level would allow the Company to build
18 the reserve over a period of approximately seven years to potentially reach
19 the bottom of the approved range for the reserve assuming actual losses do
20 not materially exceed the projected losses.

21

22 Q. Have you reached any conclusion about the adequacy of the current
23 \$3,500,000 annual accrual?

24 A. Yes. The goal of the Commission, as stated in Gulf's last rate case, Order
25 PSC-12-0179-FOF-EI, Docket No. 110138-EI, is that the reserve shall be

1 sufficient to cover most, but not all storms. As Mr. Harris shows in his
2 testimony, the reserve balance that a \$3,500,000 annual property damage
3 accrual is projected to produce is too small to pay for many losses from
4 even Category 1 and Category 2 hurricanes.

5
6 What this tells me is that the Commission was wise to increase the property
7 damage reserve target in the last case to a range of \$48,000,000 to
8 \$55,000,000. However, for Gulf to be able to reach those increased reserve
9 target levels, it must also increase its annual accrual. Increasing the
10 reserve target without increasing the annual accrual necessary to achieve
11 the target makes the increase in the reserve target unattainable or
12 dependent upon an extended period of time with annual hurricane damage
13 well below the projected average. For Gulf to have a reserve adequate to
14 cover all Category 1 and Category 2 hurricanes, the Company needs to
15 have not only a higher reserve level, but also a higher annual accrual.

16
17 Q. Is the January 2011 Storm Study the most current study?

18 A. Yes. Commission Rule 25-6.0143 requires that a storm study be filed at
19 least once every five years. This study was completed in January 2011,
20 and the next study is due January 2016.

21
22 Q. Since the Storm Study was done several years ago are the results still
23 valid?

24 A. Yes. Given the recent vintage of the last study, Gulf did not see the need to
25 increase rate case expense by commissioning a new study.

1 Gulf's judgment that an updated study was not needed was based on its
2 expectation that a new study would not likely yield lower results. For
3 instance, adding two years of additional experience to the existing 107 year
4 historical record used by EQECAT would not likely result in significant
5 changes in storm frequency and severity distributions. While Gulf's reserve
6 balance has grown from the \$27,000,000 used in the Storm Study to over
7 \$32,000,000 when we began putting our case together, that growth in the
8 reserve is offset by a much larger balance of transmission and distribution
9 (T&D) assets at risk today compared to the end of 2009, the date used to
10 value the at-risk assets used in Gulf's Storm Study. The existing assets
11 have increased by the value of inflation over three years. In addition, Gulf
12 has made additional investment in T&D assets of over \$128,000,000, or
13 more than 16 percent, over the last three years. Given these factors, Gulf
14 thought it wise to forego additional costs to likely come to the same
15 conclusion – the current \$3,500,000 annual reserve accrual is too small to
16 grow the reserve to targeted levels and is too small to cover most storms.

17
18 Q. What are the key policy considerations relating to the recovery of property
19 damage costs?

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

25

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

6

7 Q How much does Gulf's requested \$5,500,000 increase in the annual accrual
8 to the property damage reserve affect a 1,000 kWh monthly residential bill?

9 A. It would increase such a bill by \$0.49 for customers using 1,000 kWh per
10 month.

11

12 Q. How does the increase of \$0.49 for residential customers using 1,000 kWh
13 per month compare to the storm surcharge approved by the Commission
14 after Hurricane Ivan because the property damage reserve was completely
15 exhausted?

16 A. The storm surcharge approved by the Commission after Hurricane Ivan
17 was \$2.71 per 1,000 kWh per month for the first twelve months and was
18 projected to run an additional twelve months at \$2.57 per 1,000 kWh per
19 month during a time when Gulf's customers were also paying for their
20 individual hurricane losses. The \$2.57 surcharge per 1,000 kWh per month
21 was extended another 27 months due to Hurricanes Dennis and Katrina
22 hitting the next hurricane season and driving the property damage reserve
23 into a further deficit position. Gulf seeks a monthly increase of \$0.49 per
24 1,000 kWh per month to mitigate the prospect of much higher storm

25

1 surcharges at a time when Gulf's customers would be paying for their own
2 hurricane losses.

3

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

6 A. The Commission has consistently endorsed an overall framework related
7 to storm restoration costs which consists of three main parts:

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

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

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

14

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

17 A. These mechanisms allow for on-going recovery of reasonable amounts to
18 provide for the costs of future storms by spreading the costs over a number
19 of years. The property damage accrual also ensures that all customers
20 contribute to the cost of recovering from storms, whose timing is unknown.

21

22 Q. In Gulf's last rate case, the Commission approved an increase to the target
23 amount for Gulf's property damage reserve. Why is it important to maintain
24 an adequate reserve?

25 A. There are numerous reasons for maintaining an adequate reserve. First, an

1 adequate reserve diminishes (but does not eliminate) the likelihood of
2 having to impose surcharges on customers to pay for hurricane losses.
3 Avoiding surcharges in a post-hurricane period is greatly beneficial to
4 customers as they too must struggle with the challenges of hurricane
5 recovery. Second, an adequate reserve acts like an effective insurance
6 policy. It allows “premiums” in the form of rates to be recovered from all
7 customers a little at a time to cover large losses of an infrequent nature.
8 Third, an adequate reserve assures that financial resources are available to
9 quickly and efficiently repair damages and restore service to customers.
10 Fourth, an adequate reserve diminishes the likelihood of the reserve going
11 negative as it did twice in the 2004-2005 time period. And fifth, an adequate
12 reserve allows for insurance deductibles for Gulf’s generating plants and
13 other non-T&D assets. For instance, the deductible for the All Risk policy
14 covering non-T&D assets is \$25,000,000 for named windstorm and wind
15 driven water, and any such deductible would also be charged to the
16 property damage reserve.

17 18 19 **III. DEPRECIATION**

20
21 **Q. What is the basis for Gulf’s depreciation expense in 2014?**

22 **A. Gulf’s depreciation expense reflects the depreciation rates approved by the**
23 **Commission in Order No. PSC-10-0458-PAA-EI, issued on**
24 **July 19, 2010 in Docket No. 090319-EI, the depreciation rate for the Perdido**
25 **Landfill Facility approved by the Commission in Order No. PSC-10-0674-**

1 PAA-EI, issued on November 9, 2010 in Docket No. 100368-EI, and the
2 depreciation rate for the Advanced Metering Infrastructure meters approved
3 by the Commission in Order No. PSC-12-0179-FOF-EI, issued on April 3,
4 2012 in Docket No. 110138-EI. In accordance with Commission Rule 25-
5 6.0436, which requires Gulf to file a new depreciation study every four
6 years, Gulf filed its 2013 Depreciation Study, Docket No. 130151-EI, with
7 the Commission on May 24, 2013. The Depreciation Study is sponsored by
8 Mr. Huck as Exhibit PSH-1, and the Company has made an NOI adjustment
9 of \$2,199,000 to the 2014 test year to reflect an increase in depreciation
10 expense based on the results of the Depreciation Study. A reconciliation of
11 total depreciation expense in Gulf's 2014 test year to the calculated
12 expense based on the proposed rates in Gulf's 2013 Depreciation Study
13 can be found on Exhibit CJE-1, Schedule 4.

14
15 Q. Did the Depreciation Study follow generally accepted practices in the field of
16 depreciation?

17 A. Yes. The methods and practices are discussed in Mr. Huck's testimony.

18
19 Q. What is the basis for the plant balances used in Gulf's new Depreciation
20 Study?

21 A. The new Depreciation Study's analysis is based on projected plant and
22 reserve balances as of December 31, 2013. The results of these analyses
23 are then applied to estimated balances through the end of 2014. The
24 composite depreciation rates, which are based on the new Depreciation
25 Study, are used to calculate the Company adjustment to the 2014 test year.

1 Further assumptions and details of the Depreciation Study are discussed in
2 Mr. Huck's testimony.

3

4 Q. Has the FPSC approved Gulf's 2013 Depreciation Study?

5 A. Not at this time. The Company asks that the final outcome of the FPSC's
6 review and approval of the Depreciation Study be reflected in the 2014 test
7 year expenses used as the basis for setting rates in this docket.

8

9

10

IV. DISMANTLEMENT

11

12 Q. What is the basis for Gulf's dismantlement expense in 2014?

13 A. Gulf's dismantlement expense reflects the dismantlement amounts
14 approved by the Commission in Order No. PSC-10-0458-PAA-EI, issued on
15 July 19, 2010 in Docket No. 090319-EI. In accordance with Commission
16 Rule 25-6.04364, which requires Gulf to file a new Dismantlement Study
17 every four years, Gulf filed its 2013 Dismantlement Study, Docket No.
18 130151-EI, with the Commission on May 24, 2013. The Dismantlement
19 Study is Exhibit CJE-1, Schedule 5, and the Company has made an NOI
20 adjustment of (\$2,496,000) to the 2014 test year to reflect a decrease in
21 dismantlement expense based on the results of the Dismantlement Study.
22 A reconciliation of total dismantlement expense in Gulf's 2014 test year to
23 the calculated expense based on the proposed rates in Gulf's 2013
24 Dismantlement Study can be found on Exhibit CJE-1, Schedule 4.

25

1 Q. Has the FPSC approved Gulf's 2013 Dismantlement Study?

2 A. Not at this time. The study is performed consistent with generally accepted
3 industry standard dismantlement methods. The study results are based on
4 Gulf's projected plant in service and incorporate the latest disposal, removal
5 and salvage pricing. The Company asks that the final outcome of the
6 FPSC's review and approval of the Dismantlement Study be reflected in the
7 2014 test year expenses used as the basis for setting rates in this docket.

8

9 Q. What is the net effect of the depreciation and dismantlement studies?

10 A. Gulf's combined annual expense for depreciation and dismantlement would
11 decrease by \$297,000.

12

13

14

V. INCOME TAX EXPENSE

15

16 Q. What amount of income tax expense is included for the 2014 test year?

17 A. The total federal and state income tax provision for the test year is
18 \$65,944,000 as shown on MFR C-22.

19

20 Q. How was this amount calculated?

21 A. The income tax expense was calculated in accordance with GAAP and is
22 consistent with the way income tax expense was calculated and approved
23 by the Commission in the last rate case. Income tax expense for the test
24 year was computed in the same manner used for ratemaking purposes over
25 the last two decades.

1 **VI. SUMMARY**

2

3 Q. Please summarize your testimony.

4 A. The level of A&G costs requested in this case is reasonable, prudent and
5 necessary to enable Gulf to continue to provide high quality, reliable electric
6 service to our customers. Although some of these costs exceed the O&M
7 benchmark, I, along with Mr. Garvie, have explained how these variances
8 were influenced by factors outside the control of the Company and justified
9 their levels. Also, the premiums paid by Gulf for D&O liability insurance
10 already exclude the premiums related to D&O liability insurance coverage
11 for Southern Company, which is paid by shareholders. Therefore, there
12 should be no disallowance of any portion of the D&O liability insurance
13 expense in the test year.

14

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

18

19 The requested levels of depreciation, amortization and dismantlement
20 expense are reasonable, prudent and necessary. The test year income tax
21 expense has been calculated appropriately.

22

23 Q. Does this conclude your testimony?

24 A. Yes.

25

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 130140-EI

Before me the undersigned authority, personally appeared
Constance J. Erickson, who being first duly sworn, deposes, and says that she is
the Comptroller of Gulf Power Company, a Florida corporation, and that the
foregoing is true and correct to the best of her knowledge, information, and belief.
She is personally known to me.

Constance J. Erickson
Constance J. Erickson
Comptroller

Sworn to and subscribed before me this 8th day of July, 2013.

Monica A. Williams
Notary Public, State of Florida at Large

Commission No. EE1166803

My Commission Expires 2/6/16



Responsibility for Minimum Filing Requirements

<u>Schedule</u>	<u>Title</u>
B-4	Two Year Historical Balance Sheet
B-21	Accumulated Provision Accounts – 228.1, 228.2 and 228.4
B-22	Total Accumulated Deferred Income Taxes
B-23	Investment Tax Credits – Annual Analysis
B-24	Leasing Arrangements
B-25	Accounting Policy Changes Affecting Rate Base
C-6	Budgeted Versus Actual Operating Revenues and Expenses
C-8	Detail of Changes in Expenses
C-9	Five Year Analysis – Change in Cost
C-10	Detail of Rate Case Expenses for Outside Consultants
C-12	Administrative Expenses
C-13	Miscellaneous General Expenses
C-15	Industry Association Dues
C-16	Outside Professional Services
C-17	Pension Cost
C-18	Lobbying Expenses, Other Political Expenses and Civic/Charitable Contributions
C-19	Amortization/Recovery Schedule – 12 Months
C-20	Taxes Other than Income Taxes
C-21	Revenue Taxes

Responsibility for Minimum Filing Requirements

<u>Schedule</u>	<u>Title</u>
C-22	State and Federal Income Tax Calculation
C-25	Deferred Tax Adjustment
C-26	Income Tax Returns
C-27	Consolidated Tax Information
C-28	Miscellaneous Tax Information
C-29	Gains and Losses on Disposition of Plant or Property
C-30	Transactions with Affiliated Companies
C-31	Affiliated Company Relationships
C-41	O&M Benchmark Variance by Function
C-43	Security Costs
F-1	Annual and Quarterly Reports to Shareholders
F-2	SEC Reports
F-8	Assumptions

A&G Budgeted Expenses
(\$000's)

FERC Account	Description	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
920	Administrative and General Salaries	15,690	16,145	16,702	17,256	17,733
921	Office Supplies and Expenses	4,014	4,097	4,128	4,146	4,174
922	Administrative Expenses Transferred - Credit	(333)	(342)	(353)	(363)	(374)
923	Outside Services Employed	18,061	18,948	19,626	20,058	20,594
924	Property Insurance	7,487	13,467	13,629	13,706	13,706
925	Injuries and Damages	3,117	3,162	3,187	3,240	3,292
926	Employee Pensions & Benefits	23,539	24,485	24,544	24,784	24,184
928	Regulatory Commission Expenses	2,091	3,079	3,142	3,209	3,280
929	Duplicate Charges - Credit	(1,027)	(1,054)	(1,079)	(1,105)	(1,133)
930	General Advertising/Miscellaneous General Expenses	6,738	6,841	6,633	7,176	6,990
931	Rents	364	252	258	264	271
935	Maintenance of General Plant	724	687	717	720	724
Total		80,465	89,767	91,134	93,091	93,441

The amounts for 2014-2017 include NOI adjustments discussed in Ms. Ritenour's testimony.

A&G - Benchmark Variance

	<u>(\$000)</u>
Test Year Adjusted Benchmark	78,744
Test Year Adjusted Request	89,767
System Benchmark Variance	11,023
<u>Description</u>	<u>Variance</u>
Pension Expense	5,871
Property Damage Accrual	5,249
Rate Case Expense	<u>880</u>
	<u>12,000</u>

Function (\$000's)	Total Adjusted Utility Depreciation and Dismantlement Base Rate Expense net of UPS	2014 Calculated Base Rate Expense Using Proposed Rates	2014 Company NOI Adjustment
<u>Depreciation</u>			
Steam	\$ 31,153	31,047	(106)
Other Production	\$ 7,229	10,764	3,535
Transmission	\$ 12,914	13,239	325
Distribution	\$ 41,189	39,879	(1,310)
General	\$ 5,711	5,466	(245)
Intangible	\$ 2,294	2,294	-
Total Depreciation	\$ 100,490	102,689	2,199
<u>Dismantlement</u>			
Steam	\$ 4,788	2,241	(2,547)
Other Production	\$ 301	352	51
Total Dismantlement	\$ 5,089	2,593	(2,496)
Total Depreciation and Dismantlement	\$ 105,579	105,282 *	(297)

*Amount does not equal depreciation and amortization on MFR C-1 as it does not include amortization related to regulatory assets.

Florida Public Service Commission
Docket No. 130140-EI
GULF POWER COMPANY
Witness: Connie J. Erickson
Exhibit No. ____ (CJE-1)
Schedule 5
Page 1 of 1

Gulf Power's 2013 Dismantling Study was filed on May 24, 2013 in Docket No. 130151 and is incorporated herein by reference. Gulf's 2013 Dismantling Study is identified in the Commission's records as Document Numbers 02869-13 and 02870-13.