

**Dorothy Menasco**

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**Subject:** Gulf Power Company's Prehearing Statement; Docket No. 130140-EI  
**Attachments:** 11.8.13 Gulf Power Company Prehearing Statement.pdf; Gulf Prehearing Statement Docket No 130140.docx

A. s/Robert L. McGee

Gulf Power Company

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B. Docket No. 130140-EI

C. Gulf Power Company

D. Document consists of 48 pages.

E. The attached document is Gulf Power Company's Prehearing Statement.

Melissa Darnes

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November 8, 2013

Ms. Ann Cole, Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

Re: Docket No. 130140-EI

Dear Ms. Cole:

Pursuant to the Order Establishing Procedure in this docket, Order No. PSC-13-0342-PCO-EI, issued on July 31, 2013, Gulf Power Company hereby submits this Prehearing Statement to be filed in the above referenced docket. Also, enclosed is a CD containing the Prehearing Statement of Gulf Power in Microsoft Word as prepared on a Windows based computer.

Sincerely,

A handwritten signature in cursive script that reads "Robert L. McGee, Jr.".

Robert L. McGee, Jr.

md

Enclosures

cc: Beggs & Lane  
Jeffrey A. Stone, Esq.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

Docket No. 130140-EI  
Date Filed: November 8, 2013

**GULF POWER COMPANY'S PREHEARING STATEMENT**

Gulf Power Company, ("Gulf Power", "Gulf", or "the Company"), by and through its undersigned attorneys, and pursuant to Order No. PSC-13-0342-PCO-EI, files this prehearing statement, saying:

**A. APPEARANCES**

JEFFREY A. STONE, Esquire, RUSSELL A. BADDERS, Esquire, STEVEN R. GRIFFIN, Esquire, and RUSSELL VAN SICKLE, Esquire of Beggs and Lane, P. O. Box 12950, Pensacola, FL 32576, CHARLES A. GUYTON, Esquire, Gunster, Yoakley & Stewart, P.A., 215 South Monroe Street, Suite 601, Tallahassee, FL 32301, and RICHARD D. MELSON, Esquire, 705 Piedmont Drive, Tallahassee, FL 32312.  
On behalf of Gulf Power Company.

**B. WITNESSES**

<u>Witness</u> (Direct)	<u>Subject Matter</u>	<u>Issues</u>
S. W. Connally	Rate Case Overview	
M. D. Neyman	Customer Service; Customer Accounts O & M; Uncollectibles; Service Fees	7, 53, 74
A. G. Strickland	Marketing; Economic Development; Customer Satisfaction; Customer Service and Information O & M	7, 36, 70, 71
J. A. McQuagge	Distribution System Overview; Distribution Planning and Budget Process; Distribution Plant and O & M; Distribution System Performance	7, 37, 38, 41
M. L. Burroughs	Generation Fleet; Fuel Inventory	7, 19
R. W. Grove	Generation Fleet; Resource Planning Process; Production Planning and Budget Process; Production Plant and O & M	7, 39
J. O. Vick	2013 Environmental Compliance Program Update; Mercury and Air Toxics Standards (MATS) compliance strategy	Transmission Projects (Issue Nos. not assigned)
N. M. Cain	Economic analysis supporting Gulf's MATS compliance strategy for Plant Crist and Plant Smith	Transmission Projects (Issue Nos. not assigned)

<u>Witness</u> (Direct Cont.)	<u>Subject Matter</u>	<u>Issues</u>
P. C. Caldwell	Transmission System Overview; Transmission System Oversight and Management Process; Transmission Planning Process; Capital Budget Process; Transmission Plant and Capital Additions Budget; 2015 Compliance-related Capital Additions; Transmission O & M Budget Process; Transmission Maintenance Programs and O & M Budget; Transmission System Performance	7, Transmission Projects (Issue Nos. not assigned), 40, 65
R. J. Alexander	Customer, Energy, Demand and Base Rate Revenue Forecasts	2, 3, 4, 5, 31
R. S. Teel	Need for Rate Relief; Appropriateness of 2014 Test Year; Financial Integrity and Credit Quality; Steps to avoid rate case; Capital Structure and Cost of Capital; Importance of financial goals in employee compensation package; Parent Debt Adjustment	1, 29, 30, 42, 59
J. H. Vander Weide	Cost of Equity Capital; Rate of Return on Equity	29
J. M. Garvie	Compensation and Benefits. Medical Benefits	20, 42, 44, 45, 46, 47
S. P. Harris	Hurricane Loss Analysis; Reserve Performance Analysis	48
P. S. Huck	Depreciation	8, 8B, 8C, 9, 12, 56



<u>Witness</u> (Direct Cont.)	<u>Subject Matter</u>	<u>Issues</u>
C. J. Erickson	Administrative and General O & M; D & O Liability Insurance Expense; Property Damage Accrual; Depreciation and Dismantlement; Taxes	8, 9, 10, 10A, 10B, 10C, 11, 12, 23, 24, 48, 49, 51, 52, 56, 57, 58, 60
R. J. McMillan	O & M Benchmark; Affiliate Transactions; Employee Complement; Hiring lag adjustment	43, 44, 54
S. D. Ritenour	Planning and Budgeting Process Overview; Projected Test Year Financial Forecast; Net Operating Income; Rate Base; Capital Structure; Revenue Deficiency; Recovery of compliance-related transmission; Step increase associated with compliance-related transmission	1, 5, 13, 14, 15, 16, 17, 18, 20, 21, 22, 23, 24, 25, 26, 27, 28, 30, 31, 32, 33, 34, 35, 55, 56, 61, 62, 63, 64, 65, 82, Transmission Projects (Issue Nos. not assigned)
M. T. O'Sheasy	Cost of Service Study	6, 66, 67,
J. I. Thompson	Rate Design; Miscellaneous tariff changes; Load research; Base Charge; SBIR; LBIR	68, 69, 70, 71, 72, 73, 75, 76, 77, 78, 79, 80, 81
(Rebuttal)		
J. H. Vander Weide	Rate of Return on Equity	29
S. M. Fetter	Financial Integrity and Credit Ratings, Capital Structure; Rate of Return on Equity	29
R. J. Alexander	Forecast	2, 3, 4
M. L. Burroughs	Depreciation-Production Plant	8, 8A, 9
R. W. Grove	Production O & M	39

<u>Witness</u> ( <u>Rebuttal Cont.</u> )	<u>Subject Matter</u>	<u>Issues</u>
P. S. Huck	Depreciation	8, 8A, 8B, 8C, 9, 12, 56
J. A. Burleson	Compliance related transmission projects; MATS Compliance Economic Evaluation	65, Transmission Projects
P. C. Caldwell	Compliance related transmission projects	Transmission Projects
A. G. Strickland	Customer Satisfaction; Economic Development-LBIR	7, 71
A. D. Whaley	Medical Expense	Unnumbered issue
J. M. Garvie	At-Risk Compensation; Supplemental Pension Expense;	42, 45
R. J. McMillan	Aircraft Expense; Labor Expense; Capitalized At-Risk Compensation	15, 50
S. D. Ritenour	Property Damage Reserve; Transmission Rent Expense	40, 48
J. T. Deason	At-Risk Compensation; Depreciation and Dismantlement; Construction Work In Progress; Reconciliation of Rate Base and Capital Structure; Storm Damage Accrual; Step Increase	8, 8C, 9, 10, 10A, 10B, 10C, 17, 30, 42, 48, 56, 65
R. S. Teel	Impact of Intervenors' recommendations; Financial Integrity; Cost of Capital	29, 30

**C. EXHIBITS**

<u>Witness (Direct)</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Various	Gulf		Minimum Filing Requirement (MFR) Schedules - Sections A, B, C, D, E and F
M. D. Neyman	Gulf	<u>MDN-1</u>	MFR responsibility; Gulf's FPSC Complaint Activity 2002-2012; Customer Accounts O & M; Service Fees
A. G. Strickland	Gulf	<u>AGS-1</u>	MFR responsibility; Customer Value Benchmark Results; Customer Service and Information O & M expense; O & M Benchmark Variance
J. A. McQuagge	Gulf	<u>JAM-1</u>	MFR responsibility; Distribution System Components; Description of Typical Electric System; Gulf Power District Service Areas; Gulf Power Service Area and Customer Density Areas; Vaisala's National Lightning Detection Network Cloud-to-Ground Lightning 1997-2012; Distribution O & M Budget 2013-2017; Distribution O & M Benchmark Variance; 2013-2014 Distribution/Fleet Capital Additions Budget; Distribution Performance with CVB Survey
M. L. Burroughs	Gulf	<u>MLB-1</u>	MFR responsibility; Owned and Operated or Jointly Owned Generating Capacity; Power Purchase Agreements; Annual EFOR; Peak Season EFOR; Gulf EFOR compared to peer group; Natural Gas Inventory



<u>Witness</u> (Direct Cont.)	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
R. W. Grove	Gulf	<u>          </u> RWG-1	MFR responsibility; Net Generation Capability by Type; Owned and Operated or Jointly Owned Generating Capacity; Power Purchase Agreements; 2013 Production Capital Additions Budget; 2014 Production Capital Additions Budget; 2014 Production O & M Budget; Planned Outages 2013 to 2017; Production O & M Expenses; Benchmark Comparison
J. O. Vick	Gulf	<u>          </u> JOV-1	Gulf's 2013 Environmental Compliance Program Update
J. O. Vick	Gulf	<u>          </u> JOV-2	Federal Register publication of the Mercury and Air Toxics Standards (MATS) rule
P. C. Caldwell	Gulf	<u>          </u> PCC-1	MFR responsibility; Transmission Capital Budget 2013 to 2014; MATS transmission projects through 2015; Gulf Transmission O & M Budget 2013-2017; Transmission O & M Benchmark Comparison; Transmission Reliability History
R. J. Alexander	Gulf	<u>          </u> RJA-1	MFR responsibility; Forecast 2011 and 2012 Cumulative Annual Growth in U.S. Real GDP; Residential Regression Model-Predicted vs. Actual; Small Commercial Regression Model-Predicted vs. Actual; Large Commercial Regression Model-Predicted vs. Actual

<u>Witness</u> (Direct Cont.)	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
R. S. Teel	Gulf	<u>          </u> RST-1	MFR responsibility; 2011 Forecast vs. 2013 Forecast; Base Rate Capital Expenditures 2002 – 2014; Rate Case Drivers; Base Retail Return on Equity; Total Retail Capital Expenditures 2002 to 2014; Rule 25-14.004, Florida Administrative Code; Gulf Power Dividends Compared To Southern Company Capital Contributions 2011 to 2014
Vander Weide	Gulf	<u>          </u> JVW-1	Summary of Discounted Cash Flow Analysis for Electric Utilities; Comparison of the DCF Expected Return on an Investment in Electric Utilities to the Interest Rate on Moody's A-Rated Utility Bonds; Comparative Returns on S&P 500 Stock Index and Moody's A-Rated Bonds 1937-2013; Comparative Returns on S&P Utility Stock Index and Moody's A-Rated Utility Bonds 1937-2013; Using the Arithmetic Mean to Estimate the Cost of Equity Capital; Calculation of Capital Asset Pricing Model Cost of Equity Using the SBBI 6.7 Percent Risk Premium; Comparison of Risk Premiums on S&P 500 and S&P Utilities Index 1937-2013; Calculation of Capital Asset Pricing Model Cost of Equity Using DCF Estimate of the Expected Rate of Return on the Market Portfolio; Illustration of Calculation of Cost of Equity Required for the Company to have the same Weighted Average Cost of Capital As Comparable Electric Utilities

<u>Witness</u> (Direct Cont.)	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Vander Weide	Gulf	_____ JVW-2	Qualifications of James H. Vander Weide; Derivation of the Quarterly DCF Model; Adjusting for Flotation Costs in Determining a Public Utility's Allowed Rate of Return on Equity; Ex Ante Risk Premium Method; Ex Post Risk Premium Approach
J. M. Garvie	Gulf	_____ JMG-1	Fundamental beliefs regarding compensation and benefits; Base salary and total compensation to market median; Towers Watson memorandum on Audit of Gulf Power Company's compensation programs; Aon Hewitt comparison of employer-paid benefit value; Towers Watson comparison of employer-paid benefit value
S. P. Harris	Gulf	_____ SPH-1	Selected charts from the EQECAT Study
S. P. Harris	Gulf	_____ SPH-2	Gulf Power Company Transmission and Distribution Hurricane Loss and Reserve Performance Analysis performed by EQECAT (EQECAT Study)
P. S. Huck	Gulf	_____ PSH-1	Gulf's Depreciation Study
C. J. Erickson	Gulf	_____ CJE-1	MFR responsibility; A & G Budgeted Expenses; A & G Benchmark Variance; Depreciation and Dismantlement Calculation; Gulf Power's 2013 Dismantling Study
R. J. McMillan	Gulf	_____ RJM-1	MFR responsibility; O & M Expenses Benchmark Variance by Function; Benchmark Year Recoverable O & M Expenses by Function; O & M Adjustments by Function; Hiring Lag

<u>Witness</u> (Direct Cont.)	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
S. D. Ritenour	Gulf	<u>SDR-1</u>	MFR responsibility; Planning and Budgeting Process Chart; Budget Process Chart; 2014 Test Year Capital Additions Budget By Function; 2014 Test Year Operation and Maintenance Expense By Function; Financial Model Flowchart; Gulf Power Balance Sheet December 2013 through December 2014; Gulf Power Income Statement for twelve months ended December 31, 2014; Gulf Power Utility Plant balances December 2013 through December 2014; 13-Month Average Rate Base; 13-Month Average Working Capital; Net Operating Income; Fuel Revenues and Expenses; Purchase Power Capacity Cost Recovery Clause Revenues and Expenses; Energy Conservation Cost Recovery Clause Revenues and Expenses; Environmental Cost Recovery Clause Revenues and Expenses; 2013 Rate Case Amortization; FPSC Assessment Fees; Income Taxes Adjustments; Interest Synchronization Adjustment; 13-Month Average Jurisdictional Cost of Capital; FPSC Adjusted Achieved Rate of Return and Return on Common Equity; Calculation of Revenue Deficiency; Revenue Expansion Factor & NOI Multiplier; General Plant Capital Additions for the Prior Year Ended 12/31/2013 and Test Year Ended 12/31/2014



<u>Witness</u> (Direct Cont.)	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
S. D. Ritenour	Gulf	<u>SDR-2</u>	Compliance-Related Transmission Investment and Expenses in Test Year ended 12/31/2014; Calculation of Step-Increase Effective July 1, 2015 for Compliance-Related Transmission (CRT) Costs for the period ended June 30, 2016; CRT-Deferred Return/Regulatory Asset
M. T. O'Sheasy	Gulf	<u>MTO-1</u>	MFR responsibility; Illustration of Simple Distribution Network; MDS Customer/Demand Percentages by FERC Account
M. T. O'Sheasy	Gulf	<u>MTO-2</u>	Analysis and Results of Cost of Service Study
J. I. Thompson	Gulf	<u>JIT-1</u>	MFR responsibility; Allocation of Revenue Increase
J. I. Thompson	Gulf	<u>JIT-2</u>	Proposed Tariff Sheets
<u>Witness</u> (Rebuttal)	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Vander Weide	Gulf	<u>JVW-3</u>	Research Literature that Studies the Efficacy of Analysts' Earnings Forecasts; Summary of Discounted Cash Flow Analysis for Electric Utilities; Comparison of DCF expected return on an investment in electric utilities to the interest rate on Moody's A-rated utility bonds; Ex Post Risk Premium Cost of Equity; Calculation of Capital Asset Pricing Model Cost of Equity Using the Ibbotson® SBBI® 6.7 Percent Risk Premium; Calculation of Capital Asset Pricing Model Cost of Equity Using DCF Estimate of the Expected Rate of Return on the Market Portfolio



<u>Witness</u> (Rebuttal Cont.)	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
S. M. Fetter	Gulf	<u>SMF-1</u>	Qualifications of S. M. Fetter; "The A Rating" by Steven M. Fetter, Electric Perspectives, EEI. May/June 2009
R. J. Alexander	Gulf	<u>RJA-2</u>	Residential Energy Sales Model-Impact of Independent Variables on Energy Sales and Base Revenue Comparison
M. L. Burroughs	Gulf	<u>MLB-2</u>	Account 343- Prime Movers Combined Cycle
R. W. Grove	Gulf	<u>RWG-2</u>	Prior base rate case testimony
J. A. Burleson	Gulf	<u>JAB-1</u>	MATS Compliance Evaluation; Florida Department of Environmental Protection letter stating transmission is valid compliance method for MATS
P. C. Caldwell	Gulf	<u>PCC-2</u>	Transmission Ten Year Plan (Confidential); MATS Transmission Projects List
A. G. Strickland	Gulf	<u>AGS-2</u>	2013 Summary CVB Rank Chart-All Customer Classes; 2013 Perceived Value Rank Chart-Residential Customers; 2013 Perceived Value Rank Chart-General Business Customers; 2013 Perceived Value Rank Chart-Large Business Customers
A. D. Whaley	Gulf	<u>ADW-1</u>	Survey data excerpts from Towers Watson 18 <sup>th</sup> Annual Employer Survey on Purchasing Value in Health Care
R. J. McMillan	Gulf	<u>RJM-2</u>	Bureau of Labor Statistics Release dated May 2013-"Productivity and Cost by Industry: Selected Service-Providing and Mining Industries, 2011"; Industry Labor Productivity and Costs: Percent Changes August 29, 2013

J. T. Deason	Gulf	<u>          </u> JTD-1	Biographical Information for Terry Deason
R. S. Teel	Gulf	<u>          </u> RST-2	Updated Base Retail ROE Chart

\*\*Gulf reserves the right to use additional exhibits for the purposes of cross-examination.

#### **D. STATEMENT OF BASIC POSITION**

##### **Gulf Power Company's Statement of Basic Position:**

Gulf Power Company's current rates and charges will not provide Gulf a reasonable opportunity to earn a fair and reasonable rate of return for the period January 2014 through December 2014 and beyond. Gulf filed this case seeking an annual increase in its rates and charges of approximately \$74.4 million. The most reasonable period on which to base new rates and charges for Gulf is January 2014 through December 2014. In addition, Gulf is seeking a step increase of \$16,392,000, effective July 1, 2015, for the Plant Crist and Plant Smith transmission upgrade projects.

The Company's adjusted 13-month average jurisdictional rate base for the period January 2014 through December 2014 (the "test year") is projected to be \$1,883,901,000; and the jurisdictional achieved net operating income is projected to be \$76,359,000 using the rates currently in effect. The resulting adjusted achieved jurisdictional rate of return on average rate base is projected to be 4.05%, while the achieved return on common equity is projected to be 5.14% for the projected test year. Such a return is so low that it would severely jeopardize the Company's ability to finance future operations. The continued compulsory application of Gulf's present rates and charges will result in the unlawful taking of the Company's property without just compensation, resulting in confiscation of the Company's property in violation of the guarantees of the state and federal constitutions.

As a provider of retail electric service to the people of Northwest Florida, Gulf is obligated by statute to provide such service in a reasonable, "sufficient, adequate, and efficient" manner. Gulf has a similar obligation to provide its shareholders with a reasonable and adequate return on their investment. Without the revenue increase requested, Gulf cannot meet its obligations to either constituency in the long run. If Gulf is rendered unable to meet its obligations to the customers and shareholders due to inadequate rates, both stakeholder groups will suffer. The customers will suffer from less reliable service and eventually higher costs of electricity than would otherwise be the case, while the shareholders will suffer from an inadequate and confiscatory return on investment and will seek other places to invest their money.

Rates approved in Gulf's 2011 base rate case have not been and are not projected to be adequate to cover Gulf's cost of providing electric service. As projected in Gulf's 2011 base rate



case, Gulf has continued to invest heavily in infrastructure required for us to serve our customers. The investment in transmission assets has been particularly heavy. At the same time that Gulf has been investing increasing amounts in infrastructure, sales growth has been far less than expected. The requested rate relief should restore the relationship between growing capital requirements and base rate revenues necessary for Gulf to achieve the fair rate of return that would allow Gulf to attract capital necessary to serve our customers.

For these and other reasons detailed in the testimony and exhibits of Gulf's witnesses filed with its petition in this case, Gulf is respectfully requesting an increase in rates and charges that will produce an increase in total annual revenues of at least \$74.4 million with an additional step increase of \$16,392,000, effective July 1, 2015, for the Plant Crist and Plant Smith transmission upgrade projects.

## **E. STATEMENT OF ISSUES AND POSITIONS**

### **Test Period and Forecasting**

**Issue 1:** Is Gulf's projected test period of the 12 months ending December 31, 2014 appropriate?

**GULF:** Yes. The 12 months ending December 31, 2014 is the most appropriate test period, as it is representative of future operations, with respect to investment, operations and maintenance expenses, and future expected revenues. This issue is not contested in testimony and it appears it could be stipulated. (Teel, Ritenour)

**Issue 2:** Are Gulf's forecasts of Customers, kWh, and kW by rate class, for the 2014 projected test year appropriate? If not, what adjustments should be made?

**GULF:** Yes. Gulf's forecasts of customers and energy sales (kWh) by rate class and demand (kW) for the 2014 projected test year are based on sound methods which consistently produce accurate results, have been relied on by Gulf and the Commission in a number of other proceedings, and are appropriate for use in this proceeding. FEA's proposed adjustment ignores the fact and evidence that Gulf has already appropriately included projected effects of economic recovery in its forecast. OPC's proposed adjustment is unsupported and uses an unusual method to alter Gulf's revenue projection with a miscalculation of customers in the test year. Both of these proposed adjustments should be rejected because they are based on inappropriate methods and erroneous conclusions. (Alexander)

**Issue 3:** Are Gulf's forecasts of billing determinants by rate schedule for the 2014 projected test year appropriate? If not, what adjustments should be made?

**GULF:** Yes. Gulf's forecasts of billing determinants by rate schedule for the 2014 projected test year are based on sound methods, include all billing components necessary for the development of the base revenue forecast, and are appropriate for use in this proceeding. FEA's proposed adjustment ignores the fact and evidence that Gulf has already appropriately included projected effects of economic recovery in its forecast. OPC's proposed adjustment is unsupported and uses an unusual method to alter Gulf's revenue projection with a miscalculation of customers in the test year. Both of these proposed adjustments should be rejected because they are based on inappropriate methods and erroneous conclusions. (Alexander)

**Issue 4:** Are Gulf's estimated revenues from sales of electricity by rate class at present rates for the projected 2014 test year appropriate? If not, what adjustments should be made?

**GULF:** Yes. Gulf appropriately applied present rates to forecast billing determinants, resulting in estimated revenues from sales of electricity by rate class at present rates for the projected 2014 test year that are appropriate for use in this proceeding. FEA's proposed adjustment ignores the fact and evidence that Gulf has already appropriately included projected effects of economic recovery in its forecast. OPC's proposed adjustment is unsupported and uses an unusual method to alter Gulf's revenue projection with a miscalculation of customers in the test year. Both of these proposed adjustments should be rejected because they are based on inappropriate methods and erroneous conclusions. (Alexander)

**Issue 5:** What are the appropriate inflation, customer growth, and other trend factors for use in forecasting the 2014 projected test year budget?

**GULF:** The inflation, customer growth and other trend factors shown on MFR F-8 result in a reasonable and appropriate forecast of the 2014 projected test year budget. This issue is not contested in testimony and it appears it could be stipulated. (Ritenour, Alexander)

**Issue 6:** Is Gulf's proposed separation of costs and revenues between the wholesale and retail jurisdictions appropriate? If not, what adjustments should be made?

**GULF:** Yes. Wholesale allocations are predominantly based upon the 12 MCP methodology with some revenues, investments, and expenses allocated upon the energy allocator and customer allocator. These methods are based upon cost causation. This is consistent with Gulf's prior rate case and was approved by this



Commission. It is in fact consistent with Gulf's last three retail filings and subsequent Commission approvals over the past 23 years. The 12 MCP methodology has also traditionally been FERC's preferred methodology. This issue is not contested in testimony and it appears it could be stipulated. (O'Sheasy)

### Quality of Service

**Issue 7:** Is the quality and reliability of electric service provided by Gulf adequate?

**GULF:** Yes. Gulf's quality and reliability of electric service is adequate as evidenced by Gulf's low customer complaint activity with the Florida Public Service Commission. Additionally, Gulf's service and reliability attributes in customer surveys are consistently among the best in the industry. This issue is not contested in testimony and it appears it could be stipulated. (Burroughs, Caldwell, Grove, McQuagge, Neyman, Strickland)

### Depreciation and Dismantlement

**Issue 8:** Are the depreciation parameters for production plant proposed by Gulf appropriate? If not, what adjustments should be made?

**GULF:** Yes. Gulf's depreciation rates for production plant are based upon the depreciation study performed by American Appraisal, a well-respected and independent third party upon which the Commission has previously relied. OPC's attacks on selective elements of Gulf's production depreciation rates are without merit. (Huck, Erickson, Burroughs, Deason).

**Issue 8A:** Is Gulf's level of estimated interim retirements appropriate? If not, what adjustments should be made?

**GULF:** Yes. All 17 Interim Retirement Rates (IRR) proposed by Gulf are appropriate. Fifteen are uncontested. OPC's reduction to Account 312 IRR is inconsistent with historic data and improperly calculated. OPC's adjustment to Account 343 IRR is based upon factual inaccuracies and is without merit. (Huck, Burroughs)

**OPC ISSUE:** Is Gulf's quantification of the level of interim retirements for Account 312-Steam Production Boiler Plant appropriate? If not, what adjustment should be made?

**GULF:** Yes. Gulf's 1% interim retirement rate for Account 312 was developed by a reputable, independent third party and is lower than Gulf's historic interim



retirement data. OPC's interim retirement rate of .65% is based upon faulty math and logic, is much lower than FPL's rate of .94% and is without merit. (Huck)

**OPC ISSUE:** Is Gulf's quantification of the level of interim retirements for Account 343-Other Production Prime Movers appropriate? If not, what adjustment should be made?

**GULF:** Yes. Gulf's conservative \$2.3 million Account 343 interim retirement was developed by a reputable, independent third party and is significantly lower than Gulf's historic (\$6.7 million) and projected (\$7 million) interim retirement data. OPC's \$1.2 million interim retirement is based upon demonstrably inaccurate assertions and a misleading comparison to FPL. OPC's implication that they know more about maintenance cycles of Gulf's generation equipment than Gulf does is clearly unfounded and their suggested adjustment should be rejected. (Huck, Burroughs)

**Issue 8B:** What is the appropriate level of interim retirement-related production net salvage?

**GULF:** Gulf's proposed level of interim retirement-related production net salvage is appropriate. Mr. Huck's 25% net removal for Steam Production interim retirements is appropriate. OPC's 20% net removal for Steam Production overstates the import of recent retirements, is inconsistent with historic experience prior to recent retirements and makes a misleading comparison to the recent FPL decision. (Huck)

**Issue 8C:** Based on the decisions made in Issues 8A and 8B, what are the appropriate depreciation rates for production plant?

**GULF:** The appropriate depreciation rates for Gulf's production plant are the rates proposed by American Appraisal, a reputable and independent third party, the only entity providing a depreciation study. The three adjustments offered by OPC witness Pous suffer from a variety of infirmities and are without merit. (Huck, Deason)

**Issue 9:** Are Gulf's proposed depreciation parameters and resulting rates for transmission, distribution, general and intangible plant accounts appropriate? If not, what adjustments should be made?

**GULF:** Yes. American Appraisal's depreciation study was performed consistently with prior studies relied upon by this Commission. It is well documented and thoroughly defended. It should be used to set Gulf's depreciation rates. There are more instances where OPC witness Pous agrees than disagrees with the study, and his attacks on selective elements of Gulf's comprehensive study are without merit. (Huck, Deason, Erickson, Burroughs)

**OPC ISSUE 9A:** What are the appropriate average service lives for the following mass property accounts?

- Account 350.2 – Transmission Easements and Rights-of-Way
- Account 353- Transmission Station Equipment
- Account 356 – Transmission Overhead Conductors
- Account 364- Distribution Poles and Fixtures
- Account 365 – Distribution Overhead Conductors
- Account 367 – Distribution Underground Conductors and Devices
- Account 368- Distribution Line Transformers
- Account 369.1 - Distribution Overhead Services
- Account 370.1 – Distribution Meters – AMR
- Account 373- Distribution Street Lights
- Account 390- General Plant Structures and Improvements
- Account 303 – Intangible Plant- Software

**GULF:** The following life-curve combinations show the appropriate average service lives by account.

- Account 350.2 – 65R5
- Account 353- 45S0
- Account 356 – 50R1.5
- Account 364- 32L0
- Account 365 – 40R1
- Account 367 – 34S2
- Account 368- 32S0
- Account 369.1 - 40R1
- Account 370.1 – 15R1
- Account 373- 22L1
- Account 390- 45S1.5
- Account 303 – 7 yr. Amortization

**OPC ISSUE 9B:** What is the appropriate net salvage for the following mass property accounts?

- Account 356- Transmission Overhead Conductors and Devices
- Account 362 – Distribution Station Equipment
- Account 368- Distribution Line Transformers
- Account 390- General Plant Structures and Improvements
- Account 392.3 – General Plant Heavy Trucks

**GULF:** The appropriate net salvage rates by account are listed below.

- Account 356 -30%
- Account 362 - 8%
- Account 368 - 24%
- Account 390 - 5%
- Account 392.3 +13%

**Issue 10:** Is Gulf's base cost of dismantlement appropriate? If not, what adjustments should be made?

**GULF:** Yes. Gulf's dismantlement cost of \$7 million is based upon Gulf's dismantlement study and is a \$2.6 million reduction from the currently approved cost. In contrast, OPC witness Pous' \$0.7 million expense is a 92% reduction from the current Commission-approved level and is an attack on the Commission's dismantlement rule and prior orders. (Erickson, Deason)

**Issue 10A:** Is Gulf's 10% contingency component for dismantlement appropriate?

**GULF:** Yes. The Commission's dismantlement rule envisions the use of a contingency factor, and the 10% factor chosen for use in Gulf's study is below other recently approved factors. OPC witness Pous' removal of any contingency factor is inconsistent with the Commission's dismantlement rule and past Commission practice. (Erickson, Deason)

**Issue 10B:** Did Gulf properly apply the Commission's methodology as set forth in Rule 25-6.04364, F.A.C., for escalating future costs and discounting those costs to net present value?

**GULF:** Yes. Gulf properly and appropriately applied the Commission's methodology and no intervenor has supplied testimony to the contrary. OPC witness Pous' proposed adjustment, on the other hand, is inconsistent with the method set forth in the Commission's rule. (Erickson, Deason)



**Issue 10C:** Based on the decisions in Issues 10 through 10B, what is the appropriate annual accrual for dismantlement?

**GULF:** \$7,023,000 is the annual accrual for dismantlement that Gulf's dismantlement study supports. This is \$2.6 million less than or a 27% reduction from the currently-approved level of the dismantlement accrual. (Erickson, Deason)

**Issue 11:** What should the implementation date for the recommended depreciation rates, amortizations and dismantlement provisions be?

**GULF:** The implementation date should be January 1, 2014. (Erickson)

**Issue 12:** What, if any, corrective reserve allocations should be made?

**GULF:** None. No corrective reserve allocations have been proposed by any intervenors. (Huck, Erickson)

### **Transmission Projects**

#### **1<sup>st</sup> GULF/STAFF ISSUE:**

**Issue \_\_\_:** Are the following transmission projects related to Plant Crist appropriate and prudent for cost recovery?

- a. Pensacola SVC (Alligator Swamp)( in-service date 2015)
- b. Alligator Swamp Capacitor Bank (in-service date 2015)
- c. North Brewton – Alligator Swamp 230 kV line (in-service date 2015)
- d. Alligator Swamp Substation (in-service date 2015)
- e. West Pensacola Capacitor Bank (Bellview) (in-service date 2016)
- f. Brentwood – Scenic Hills 115 kV Transmission Line Reconductor (in-service date 2017)
- g. West Pensacola +/- 100 MVAR Static VAR Compensator (SVC) (in-service date 2018)

**GULF:** Yes. These transmission projects represent the most reasonable, cost-effective means of complying with the new Mercury and Air Toxics Standards (MATS) while maintaining compliance with NERC Reliability Standards. With the present transmission system, some combination of the four units at Plant Crist must be available to operate to maintain transmission reliability under certain system conditions. Therefore, under certain system conditions, the Plant Crist Units have been designated as Must-Run to support transmission reliability. These four units utilize a common scrubber that today may be by-passed to allow a combination of the units to continue to operate in order to provide transmission system reliability when the scrubber is offline. Beginning in April 2015, the new

MATS requirements eliminate Gulf's ability to bypass the scrubber and continue to generate coal-fired power from any of the four units at Plant Crist. Therefore, in order to continue to meet existing NERC reliability requirements and keep the lights on for Gulf's customers in the Pensacola area, Gulf studied available options to determine how to also meet the new MATS requirements. The specific options considered were: 1) increasing the capability of natural gas generation at the plant, 2) adding injections of activated carbon and sorbent at the plant, 3) a combination of transmission upgrades to reduce the Must-Run requirements and conversion of some of Plant Crist's units to gas generation and 4) relying solely on transmission upgrades with no injections and with no Must-Run requirement for any of the units. The economic analysis performed shows that the addition of these transmission upgrades (option 4) is the lowest cost to customers and is also the least risk option of the available compliance options. Gulf's Ten Year Transmission Plan identifies the specific transmission upgrades as well as the needed timing of those upgrades. (Vick, Cain, Caldwell, Burleson)

**2<sup>nd</sup> GULF/STAFF ISSUE:**

**Issue\_\_\_:** If the Commission approves Gulf's request to recover the costs of transmission upgrades for Plant Crist listed in Issue {1<sup>st</sup> GULF/STAFF ISSUE} above, should those costs be recovered through the Environmental Cost Recovery Clause (ECRC)?

**GULF:** These transmission projects represent the most reasonable, cost-effective means of complying with the new Mercury and Air Toxics Standards (MATS) while maintaining compliance with NERC Reliability Standards. These transmission upgrades are reasonable and prudent expenditures necessary for Gulf to continue providing reliable electric service to our customers. These transmission projects clearly meet the requirements for inclusion in base rates. Moreover, unless and until recovery is provided for through base rates or some other cost recovery mechanism, these projects meet the criteria for ECRC cost recovery set forth in Order No. PSC-94-0044-FOF-EI in that (1) they will be prudently incurred after April 13, 1993; (2) the activities are legally required to comply with an environmental regulation (MATS rule) that became effective after the Company's last test year upon which rates are based; and (3) the costs are not being recovered through any other cost recovery mechanism or through base rates. (Vick, Ritenour, Burleson)



**3<sup>rd</sup> GULF/STAFF ISSUE:**

- Issue \_\_\_:** Are the following transmission projects related to Plant Smith appropriate and prudent for cost recovery?
- a. Rebuild Holmes Creek – Bonifay Tap Section Double Circuit (in-service date 2014)
  - b. Holmes Creek – Highland City Capacitor New 230 kV – Autobank (in-service date 2014)
  - c. Holmes Creek – Highland City new 230 kV – Cap Bank (in-service date 2014)
  - d. Holmes Creek – Highland City New 230 kV Transmission Line (in-service date 2015)
  - e. Panama City SVC (Highland City) (in-service date 2015)

**GULF:** Yes. The transmission projects associated with Plant Smith represent the most reasonable, cost-effective means of complying with the New Mercury and Air Toxics Standards (MATS) while maintaining compliance with NERC Reliability Standards. Beginning in April 2015, the new MATS requirements eliminate Gulf's ability to operate Plant Smith Units 1 and 2 without the installation of additional environmental controls. With the present transmission system, a combination of the coal units at Plant Smith must be available to operate in order to provide transmission reliability under certain system conditions requiring the Company to designate these units as Must-Run. Therefore, in order to continue to meet existing NERC reliability requirements, and keep the lights on for Gulf's customers in the Panama City area, Gulf evaluated options that would allow it to meet the new MATS requirements and existing NERC Reliability requirements. After a thorough review of available options for compliance, Gulf determined that there are only two cost-effective and reliable means of compliance for Plant Smith. One of these two options would be to retire and replace the Plant Smith coal generation offsite which also requires the identified transmission projects. The other would be to install environmental controls along with the removal of the Must-Run requirements which requires the same identified transmission projects. Since each option requires the same identified transmission upgrades, these transmission projects are clearly a necessary part of Gulf's cost-effective MATS compliance strategy. Gulf is continuing to evaluate the two remaining options to determine which represents the most cost-effective means of compliance. In the meantime, Gulf must proceed with the transmission upgrades that are a common requirement for either of the two remaining compliance options or risk significant customer outages in the Panama City area. Gulf's Ten Year Transmission Plan identifies the specific transmission upgrades associated with Plant Smith that are needed for MATS compliance as well as the needed timing of those upgrades. (Vick, Cain, Caldwell, Burlson)

**4<sup>th</sup> GULF/STAFF ISSUE:**

**Issue \_\_\_:** If the Commission approves Gulf's request to recover the costs of transmission upgrades for Plant Smith listed in Issue {3rd GULF/STAFF ISSUE} above, should those costs be recovered through the Environmental Cost Recovery Clause (ECRC)?

**GULF:** These transmission projects represent the most reasonable, cost-effective means of complying with the new Mercury and Air Toxics Standards (MATS) while maintaining compliance with NERC Reliability Standards. As such, these transmission upgrades are reasonable and prudent expenditures necessary for Gulf to continue providing reliable electric service to our customers. These transmission projects clearly meet the requirements for inclusion in base rates. Moreover, unless and until recovery is provided for through base rates or some other cost recovery mechanism, these projects meet the criteria for ECRC cost recovery set forth in Order No. PSC-94-0044-FOF-EI in that (1) they will be prudently incurred after April 13, 1993; (2) the activities are legally required to comply with an environmental regulation (MATS rule) that became effective after the Company's last test year upon which rates are based; and (3) the costs are not being recovered through any other cost recovery mechanism or through base rates. (Vick, Ritenour, Burluson)

**5<sup>th</sup> GULF/STAFF ISSUE:**

**Issue \_\_\_:** Should the Commission approve Gulf's request to recover \$637,000 in revenue requirements for the following transmission projects that are projected to go into service during the 2014 projected test year?

- a. Rebuild Holmes Creek – Bonifay Tap Section Double Circuit
- b. Holmes Creek – Highland City Capacitor new 230 kV – Autobank
- c. Holmes Creek – Highland City New 230 kV – Cap Bank

**GULF:** Yes, unless the Commission decides to allow recovery of these projects through the ECRC. These three transmission projects associated with Plant Smith are the first three projects listed in Issue {3<sup>rd</sup> GULF/STAFF ISSUE} and are scheduled to go into service in 2014. Since these projects are part of the investment placed in service during the 2014 test year and, as discussed in Gulf's position on Issue {3<sup>rd</sup> GULF/STAFF ISSUE}, these transmission projects are required for compliance with the MATS rule while maintaining compliance with NERC Reliability Standards, the revenue requirements associated with these projects clearly meet the requirements for inclusion in base rates. Moreover, as discussed in Gulf's position on Issue {4<sup>th</sup> GULF/STAFF ISSUE}, unless and until recovery is provided for through base rates or some other cost recovery mechanism, these projects meet the criteria for ECRC cost recovery. (Ritenour)



**\*\*\*Gulf objects to the following two issues raised by the Office of Public Counsel\*\*\***

OPC ISSUE: With respect to the Plant Crist transmission upgrade project that Gulf has identified, which includes the following components, projected in-service dates, and projected expenditures ("PE"):

- a. Pensacola SVC (Alligator Swamp)( in-service date 2015)(PE \_\_\_\_)
- b. Alligator Swamp Capacitor Bank (in-service date 2015) (PE \_\_\_\_)
- c. North Brewton–Alligator Swamp 230 kV line (in-service date 2015)(PE \_\_\_\_)
- d. Alligator Swamp Substation (in-service date 2015) (PE \_\_\_\_)
- e. West Pensacola Capacitor Bank (Bellview) (in-service date 2015) (PE \_\_\_\_)

A. Has Gulf Power demonstrated that the above Plant Crist transmission upgrade project components satisfy the eligibility criteria of the Environmental Cost Recovery Clause (ECRC) established in Order No. PSC-94-0044-FOF-EI, such that the Commission should grant Gulf's request for authority to recover the costs of the project through the ECRC as they are incurred?

B. (If the answer to A above is in the negative) In the alternative, has Gulf demonstrated that any portions of the transmission upgrade project for Plant Crist identified in (A) above are reasonable, prudent and will enter into service in 2014, such that the Commission should authorize Gulf to include said portions in rate base and recover related costs through the 2014 base rates established in this proceeding? If the answer is in the affirmative, what is the amount of the project costs that should be included in test year revenue requirements?

C. (If the answer to A is in the negative): Has Gulf demonstrated that any portions of the Plant Crist transmission upgrade project are reasonable, prudent, and will be in service as of June 30, 2015? If the answer is in the affirmative, should the Commission approve now any portion of the \$16,392,000 (total) "step increase" sought by Gulf to become effective on July 1, 2015 that is associated with Plant Crist transmission upgrade costs?

OPC ISSUE: With respect to the Plant Smith transmission upgrade project that Gulf has identified, which includes the following components:

- a. Rebuild Holmes Creek – Bonifay Tap Section Double Circuit (in-service date 2014) (PE \_\_\_\_)
- b. Holmes Creek – Highland City Capacitor New 230 kV – Autobank (in-service date 2014) (PE \_\_\_\_)
- c. Holmes Creek – Highland City new 230 kV – Cap Bank (in-service date 2014) (PE \_\_\_\_)
- d. Holmes Creek – Highland City New 230 kV Transmission Line (in-service date 2015) (PE \_\_\_\_)
- e. Panama City SVC (Highland City) (in-service date 2015) (PE \_\_\_\_)

A. Has Gulf Power demonstrated that the above Plant Smith transmission upgrade project components satisfy the eligibility requirements of the Environmental Cost Recovery Clause (ECRC) established in Order No. PSC-94-0044-FOF-EI, such that the Commission

should grant Gulf's request for authority to recover the costs of the project through the ECRC as they are incurred?

B. (If the answer to (A) is in the negative) In the alternative, has Gulf demonstrated that portions of the Plant Smith transmission upgrade project identified in (A) above are reasonable, prudent and will enter into service in 2014, such that the Commission should authorize Gulf to include said portions scheduled for completion in 2014 in rate base and recover the related costs through the 2014 base rates established in this proceeding? If the answer to (B) is yes, what is the amount of project costs that should be included in test year revenue requirements?

C. (If the answer to (A) is in the negative): Has Gulf demonstrated that portions of the Plant Smith transmission upgrade project are reasonable, prudent, and will be in service as of June 30, 2015? If the answer is in the affirmative, should the Commission approve now any portion of the \$16,392,000 (total) "step increase" sought by Gulf to become effective on July 1, 2015 that is associated with the Plant Smith transmission upgrade project costs?

#### Rate Base

**Issue 13:** Should capital items currently approved for recovery through the Environmental Cost Recovery Clause be included in rate base for Gulf? If not, what adjustment should be made?

**GULF:** No. The capital items currently approved for recovery through the Environmental Cost Recovery Clause (ECRC) should continue to be recovered through the ECRC. In its filing, Gulf removed from rate base all investment currently approved for recovery through the ECRC; therefore, no additional adjustment is necessary. (Ritenour)

**Issue 14:** Has the Company removed all non-utility activities from rate base? If not, what adjustment should be made?

**GULF:** Yes. Gulf has removed all amounts related to non-utility activities from rate base for the 2014 projected test year. Therefore, no additional adjustment is necessary. (Ritenour)

**Issue 15:** Is Gulf's requested level of Plant in Service in the amount of \$2,944,168,000 (\$2,999,897,000 system) for the 2014 projected test year appropriate? If not, what is the appropriate amount?

**GULF:** Yes. Gulf's requested level of Plant in Service in the amount of \$2,944,168,000 (\$2,999,897,000 system) for the 2014 projected test year is appropriate. (Ritenour, McMillan)



**Issue 16:** Is Gulf's requested level of Accumulated Depreciation in the amount of \$1,243,319,000 (\$1,268,049,000 system) for the 2014 projected test year appropriate? If not, what is the appropriate amount?

**GULF:** Yes. Gulf's requested level of Accumulated Depreciation in the amount of \$1,243,319,000 (\$1,268,049,000 system) for the 2014 projected test year is appropriate. (Ritenour)

**Issue 17:** Is Gulf's requested level of Construction Work in Progress in the amount of \$26,656,000 (\$27,290,000 system) for the 2014 projected test year appropriate? If not, what is the appropriate amount?

**GULF:** Yes. Gulf's requested level of Construction Work in Progress (CWIP) is not eligible to accrue an Allowance for Funds Used During Construction (AFUDC) and should be allowed in rate base consistent with Commission policy. CWIP in the amount of \$26,656,000 (\$27,290,000 system) is necessary in order to continue to maintain reliability and meet the service needs of our customers. (Deason, Ritenour)

**Issue 18:** Is Gulf's requested level of Property Held for Future Use in the amount of \$5,276,000 (\$5,435,000 system) for the 2014 projected test year appropriate? If not, what is the appropriate amount?

**GULF:** Yes. Gulf's requested level of Property Held for Future Use in the amount of \$5,276,000 (\$5,435,000 system) for the 2014 projected test year is appropriate. This issue is not contested in testimony and it appears it could be stipulated. (Ritenour)

**Issue 19:** Should any adjustments be made to Gulf's fuel inventories for the projected 2014 test year?

**GULF:** No adjustment is necessary. The fuel inventories for 2014 were developed pursuant to Gulf's fuel inventory policy that has been reviewed and approved in the last several rate cases. This issue is not contested in testimony and it appears it could be stipulated. (Burroughs)

**Issue 20:** Should any adjustments be made to the net Prepaid Pension Assets included in the Working Capital Allowance?

**GULF:** No adjustment is necessary. Gulf has included the appropriate amount of Prepaid Pension Assets in Working Capital in the 2014 test year. This issue is not contested in testimony and it appears it could be stipulated. (Ritenour, Garvie)



**Issue 21:** Is Gulf's proposed level of Working Capital for the 2014 projected test year appropriate? If not, what is the appropriate amount?

**GULF:** Yes. Gulf's requested level of Working Capital in the amount of \$151,120,000 (\$155,196,000 system) for the 2014 projected test year is appropriate. (Ritenour)

**Issue 22:** Is Gulf's requested rate base in the amount of \$1,883,901,000 (\$1,919,769,000 system) for the 2014 projected test year appropriate? If not, what is the appropriate amount?

**GULF:** Yes. Gulf's requested level of rate base in the amount of \$1,883,901,000 (\$1,919,769,000 system) for the 2014 projected test year is appropriate. (Ritenour)

#### **Cost of Capital**

**Issue 23:** What is the appropriate amount of accumulated deferred taxes to include in the capital structure for the 2014 projected test year?

**GULF:** Gulf's requested level of accumulated deferred taxes in the amount of \$354,200,000 (\$361,019,000 system) for the 2014 projected test year is appropriate. (Ritenour, Erickson)

**Issue 24:** What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure for the 2014 projected test year?

**GULF:** Gulf's requested level of unamortized investment tax credits in the amount of \$1,812,000 (\$1,847,000 system) for the 2014 projected test year is appropriate. The appropriate cost rate is 8.18% for purposes of calculating the weighted average cost of capital. (Ritenour, Erickson)

**Issue 25:** What is the appropriate cost rate for customer deposits for the 2014 projected test year?

**GULF:** The appropriate cost rate for customer deposits for the 2014 projected test year is 2.30%. This issue is not contested in testimony and it appears it could be stipulated. (Ritenour)

**Issue 26:** What is the appropriate cost rate for short-term debt for the 2014 projected test year?

**GULF:** The appropriate cost rate for short-term for the 2014 projected test year is 0.82%. This issue is not contested in testimony and it appears it could be stipulated. (Ritenour)

**Issue 27:** What is the appropriate cost rate for long-term debt for the 2014 projected test year?

**GULF:** The appropriate cost rate for long-term debt for the 2014 projected test year is 4.96%. This issue is not contested in testimony and it appears it could be stipulated. (Ritenour)

**Issue 28:** What is the appropriate cost rate for preference stock for the 2014 projected test year?

**GULF:** The appropriate cost rate for preference stock for the 2014 projected test year is 6.00%. This issue is not contested in testimony and it appears it could be stipulated. (Ritenour)

**Issue 29:** What is the appropriate return on equity (ROE) to use in establishing Gulf's revenue requirement?

**GULF:** Evaluating both the operational and financial risks facing Gulf Power indicates that the market would expect a company with Gulf Power's profile to earn a return of 11.5% commensurate with the risk to investors' equity capital. Gulf's ROE must include consideration of its higher financial risk associated with a lower equity ratio compared to the proxy group and to other Florida utilities. It must also consider the impact on Gulf's financial integrity, including its ability to access credit markets at all times on reasonable terms. (Vander Weide, Fetter, Teel)

**Issue 30:** What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure for the 2014 projected test year?

**GULF:** Based on an 11.5% cost of equity, the appropriate weighted average cost of capital for Gulf Power for the 2014 projected test year is 6.47%. Except for five adjustments which Gulf has appropriately made to specific classes of capital, rate base adjustments should be allocated pro rata over all sources of capital in reconciling jurisdictional rate base and capital structure. (Ritenour, Deason, Teel)

**Net Operating Income**

**Issue 31:** Is Gulf's projected level of Total Operating Revenues in the amount of \$528,651,000 (\$544,999,000 system) for the 2014 projected test year appropriate? If not, what is the appropriate amount?

**GULF:** Yes. Gulf's projected level of Total Operating Revenues in the amount of \$528,651,000 (\$544,999,000 system) for the 2014 projected test year is appropriate. (Alexander, Ritenour)

**Issue 32:** Has Gulf made the appropriate test year adjustments to remove fuel revenues and fuel expenses recoverable through the Fuel Cost Recovery Clause?

**GULF:** Yes. Gulf has made the appropriate test year adjustments to remove fuel revenues and fuel expenses recoverable through the Fuel Cost Recovery Clause. This issue is not contested in testimony and it appears it could be stipulated. (Ritenour)

**Issue 33:** Has Gulf made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Energy Conservation Cost Recovery Clause?

**GULF:** Yes. Gulf has made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Energy Conservation Cost Recovery Clause. This issue is not contested in testimony and it appears it could be stipulated. (Ritenour)

**Issue 34:** Has Gulf made the appropriate test year adjustments to remove capacity revenues and capacity expenses recoverable through the Capacity Cost Recovery Clause?

**GULF:** Yes. Gulf has made the appropriate test year adjustments to remove capacity revenues and capacity expenses recoverable through the Capacity Cost Recovery Clause. This issue is not contested in testimony and it appears it could be stipulated. (Ritenour)

**Issue 35:** Has Gulf made the appropriate test year adjustments to remove environmental revenues and environmental expenses recoverable through the Environmental Cost Recovery Clause?

**GULF:** Yes. Gulf has made the appropriate test year adjustments to remove environmental revenues and environmental expenses recoverable through the Environmental Cost Recovery Clause. (Ritenour)



**Issue 36:** Is Gulf's proposed advertising expense for the 2014 projected test year appropriate? If not, what adjustment should be made?

**GULF:** Yes. Gulf's projected advertising expense for the 2014 test year of \$1,232,000 (\$1,232,000 system) is reasonable and appropriate for inclusion in base rates. This amount is consistent with the advertising expense of \$1,132,000 which was approved by the Commission for inclusion in base rates during Gulf's previous base rate proceeding. Gulf Power depends on advertising as one of the primary methods of communicating with our customers. This communication results in educating customers about the safe and efficient use of electricity and provides them with a greater awareness of the various products and services that are available and from which they can derive benefits. Gulf Power advertises programs like the EarthCents Home Program for new and existing homes. This advertising includes tips on energy efficient end-use technologies and provides actions that customers can take to save money and be more comfortable in their homes. This issue is not contested in testimony and it appears it could be stipulated. (Strickland)

**Issue 37:** Is Gulf's proposed tree trimming expense for the 2014 projected test year appropriate? If not, what adjustment should be made?

**GULF:** Yes. Gulf's proposed \$5,948,000 (\$5,948,000 system) tree trimming expense for the 2014 projected test year is necessary to allow Gulf Power to meet its three-year main line and four-year lateral maintenance trim cycles as filed in its Commission-approved storm hardening plan. This issue is not contested in testimony and it appears it could be stipulated. (McQuagge)

**Issue 38:** Is Gulf's proposed pole inspection expense for the 2014 projected test year appropriate? If not, what adjustment should be made?

**GULF:** Yes. Gulf's proposed \$478,000 (\$478,000 system) pole inspection expense for the 2014 projected test year is necessary for Gulf to meet the requirements of an eight-year inspection program as filed in its Commission-approved storm hardening plan. This issue is not contested in testimony and it appears it could be stipulated. (McQuagge)

**Issue 39** Is Gulf's proposed production plant O&M expense for the 2014 projected test year appropriate? If not, what adjustment should be made?

**GULF:** Yes. Gulf's \$103,580,000 (\$106,736,000 system) O&M production expense for the 2014 projected test year was developed by knowledgeable professionals in a rigorous budget process. The only adjustment proposed by intervenors is analytically infirm, is unrepresentative of future conditions and would not provide



sufficient funds for Gulf to operate its power plants as it should to serve its customers. (Grove)

**Issue 40:** Is Gulf's proposed transmission O&M expense for the 2014 projected test year appropriate? If not, what adjustment should be made?

**GULF:** Yes. Gulf's proposed transmission O&M expense for the 2014 projected test year of \$13,329,000 (\$13,733,000 system) is reasonable and necessary to continue to provide reliable electric service to Gulf's customers. This issue is not contested in testimony and it appears it could be stipulated. (Caldwell, Ritenour)

**Issue 41:** Is Gulf's proposed amount of distribution O&M expense for the 2014 projected test year appropriate? If not, what adjustment should be made?

**GULF:** Yes. Gulf's proposed distribution O&M expense for the 2014 projected test year of \$42,032,000 (\$42,070,000 system) is reasonable and necessary to continue to provide reliable electric service to Gulf's customers and is lower than the level approved in Gulf's last rate case when adjusted for customer growth and inflation since that case. This issue is not contested in testimony and it appears it could be stipulated. (McQuagge)

**Issue 42:** Is Gulf's proposed Incentive Compensation included in the 2014 projected test year appropriate? If not, what adjustment should be made?

**GULF:** Yes. Gulf's proposed \$17,312,000 (\$17,653,000 system) of total at-risk compensation (consisting of \$11,809,000 of Gulf at-risk compensation and \$5,503,000 of at-risk compensation allocated to Gulf) for the 2014 projected test year is appropriate. At-risk pay is a necessary component Gulf's market competitive total compensation program, allowing Gulf to cost-effectively retain, attract, and engage employees to deliver safe and reliable service to our customers. OPC's proposal to disallow at-risk compensation tied to financial goals is not based on a claim that the dollar amount of the expense is not market competitive. Instead it is based on the erroneous premise that at-risk compensation tied to financial performance does not benefit our customers. Gulf's total compensation program benefits customers by balancing operational and financial goals, annual and long term, to motivate employees to deliver high levels of customer service at reasonable costs to our customers in the current and later years. OPC's proposal to further disallow a portion of at-risk compensation related to customer satisfaction goals is based on the erroneous and arbitrary grounds that prior year survey results from a customer survey should be taken into account when determining reasonable compensation expense for the test year. Using prior year survey results to reduce the level of compensation expense allowed for the test year would be contrary to good compensation plan design to

motivate employees to improve customer service going forward. Gulf appropriately measures customer satisfaction as a part of its total compensation program. Allowing the at-risk portion of Gulf's market competitive total compensation expense, both the annual and long term components, is in the customers' best interests. (Garvie, Deason, Teel)

**Issue 43:** Is Gulf's proposed hiring lag adjustment for the 2014 projected test year appropriate? If not, what adjustment should be made?

**GULF:** If the Commission determines that a labor expense adjustment related to hiring lag or vacancies is appropriate, then Gulf's proposed hiring lag adjustment of \$549,000 (\$558,000 system) for the 2014 projected test year represents the appropriate amount. (McMillan)

**Issue 44:** Is Gulf's proposed total Payroll Expense for the 2014 projected test year appropriate? If not, what adjustment should be made?

**GULF:** Yes. Gulf's proposed \$84,785,000 (\$86,455,000 system) of total Payroll Expense for the 2014 projected test year is appropriate and necessary based on (1) the number of employees projected for the test year and (2) the Company's compensation plan which budgets the total compensation for these employees based on a mixture of base and at-risk compensation, the combination of which is targeted to the median of the market. These employees and this total compensation are needed by the Company in order to continually deliver safe and reliable service to our customers in a cost effective manner that benefits customers for both the short and long term. (Garvie, McMillan)

**Issue 45:** Is Gulf's proposed Supplemental Executive Pension Expense for the 2014 projected test year appropriate? If not, what adjustment should be made?

**GULF:** Yes. Gulf's proposed \$1,569,000 (\$1,599,000 system) Supplemental Executive Pension Expense is appropriate and necessary to retain and attract the employees needed to deliver safe and reliable service to our customers at reasonable cost. OPC's proposal to disallow this expense is not based on any market analysis, but is instead based on the erroneous premise that these pension costs are not needed for the provision of utility service. In order to fulfill our responsibilities to deliver safe and reliable electric service to all of our customers at reasonable cost, Gulf needs, and our customers benefit from, qualified and effective leadership. The employment market demands that we offer all of our employees competitive retirement benefits commensurate with their compensation. (Garvie)



**Issue 46:** Is Gulf's proposed Pension Expense for the 2014 projected test year appropriate? If not, what adjustment should be made?

**GULF:** Yes. Gulf's proposed \$6,557,000 (\$6,686,000 system) Pension Expense for the 2014 projected test year is appropriate and necessary to retain and attract the employees needed to deliver safe and reliable service to our customers at reasonable cost. This issue is not contested in testimony and it appears it could be stipulated. (Garvie)

**Issue 47:** Is Gulf's proposed Other Post Employment Benefits Expense for the 2014 projected test year appropriate? If not, what adjustment should be made?

**GULF:** Yes. Gulf's proposed \$2,411,000 (\$2,459,000 system) Other Post Employment Benefits expense for retirement medical care and life insurance benefits is appropriate and necessary to retain and attract the employees needed to deliver safe and reliable service to our customers at reasonable cost. This issue is not contested in testimony and it appears it could be stipulated. (Garvie)

**NEW OPC ISSUE:**

Is Gulf's proposed Employee Medical Expense for the 2014 projected test year for current employees appropriate? If not, what adjustment should be made?

**GULF:** Yes. Gulf's proposed \$9,360,000 (\$9,544,000 system) Employee Medical expense for current employees is an appropriate and necessary expense. OPC's proposal to limit the expense for the test year is based on a misinterpretation and misapplication of a multi-industry health care survey that was not designed to project health care expenses for a particular utility in 2014. Gulf's projected medical expense was determined using data specific to Gulf and appropriate for use in this proceeding. (Garvie, Whaley)

**Issue 48:** Is Gulf's proposed reserve target level and annual storm damage accrual of \$8,861,000 (\$9,000,000 system) for the 2014 projected test year appropriate? If not, what is the appropriate amount?

**GULF:** Yes. Gulf's proposed annual property damage accrual of \$8,861,000 (\$9,000,000 system) for the 2014 projected test year is appropriate. For Gulf to achieve the Commission-approved property damage reserve target, its property damage accrual must be increased above the annual average level of charges to the reserve per Gulf's storm study. OPC's adjustment is inconsistent with Commission policy; FEA's adjustment never allows the target reserve level to be reached. (Erickson, Harris, Deason, Ritenour)



**Issue 49:** Is Gulf's proposed accrual for the Injuries & Damages reserve for the 2014 projected test year appropriate? If not, what adjustment should be made?

**GULF:** Yes. This issue is not contested in testimony and it appears it could be stipulated. (Erickson)

**Issue 50:** Are Gulf's proposed expenses related to company-owned or affiliate company-owned aircraft and related travel appropriate? If not, what adjustment should be made?

**GULF:** Yes. Gulf's system air cost is a reasonable and necessary business expense that benefits customers by improving the productivity and efficiency of Gulf employees whose duties require business travel. (McMillan)

**Issue 51:** Is Gulf's proposed expense related to Directors and Officers Liability Insurance appropriate? If not, what adjustment should be made?

**GULF:** Yes. More than half (51%) of Gulf's share of the Southern system's D & O premium expense is allocated to Southern Company, not SCS, and is borne by the shareholders. Gulf's share of the remaining 49% is \$93,000 (\$95,000 system) and is included in the 2014 projected test year. Clearly Gulf's request includes less than half of Gulf's share of the Southern system D & O premium expense. No additional adjustment is appropriate. (Erickson)

**Issue 52:** Is Gulf's proposed Rate Case Expense for the 2014 projected test year appropriate? If not, what adjustment should be made?

**GULF:** Yes. This issue is not contested in testimony and it appears it could be stipulated. (Erickson)

**Issue 53:** Is Gulf's proposed Bad Debt Expense for the 2014 projected test year appropriate? If not, what adjustment should be made?

**GULF:** Yes. Gulf's proposed Bad Debt Expense of \$3,795,000 (\$3,795,000 system) for the 2014 projected test year is appropriate. Gulf's calculation of Bad Debt Expense is consistent with the method the Commission used in Gulf's most recent rate case. (Neyman)

**Issue 54:** What adjustment, if any, should be made to account for affiliated activities/transactions for the 2014 projected test year?

**GULF:** No adjustment should be made related to affiliated activities or transactions. (McMillan)

**Issue 55:** Is Gulf's requested level of O&M Expense in the amount of \$290,199,000 (\$295,916,000 system) for the 2014 projected test year appropriate? If not, what is the appropriate amount?

**GULF:** Yes. Gulf's requested level of O&M Expenses in the amount of \$290,199,000 (\$295,916,000 system) for the 2014 projected test year is appropriate. (Ritenour)

**Issue 56:** What is the appropriate amount of depreciation and fossil dismantlement expense for the 2014 projected test year?

**GULF:** The appropriate amount of depreciation and fossil dismantlement expense for the 2014 projected test year is \$104,505,000 (\$106,427,000 system). These are the expenses developed in Gulf's extensive depreciation and dismantlement studies. No adjustments proposed by the intervenors to either study are warranted. (Erickson, Huck, Ritenour, Deason)

**Issue 57:** Should an adjustment be made to Taxes Other Than Income Taxes for the 2014 projected test year?

**GULF:** No. This issue is not contested in testimony and it appears it could be stipulated. (Erickson)

**Issue 58:** Should the current amortization of investment tax credits (ITCs) and flow back of excess deferred income taxes (EDITs) be revised to reflect the approved depreciation rates and amortizations?

**GULF:** Yes, once new depreciation rates and amortizations have been approved. (Erickson)

**Issue 59:** Is it appropriate to make a parent debt adjustment per Rule 25-14.004, Florida Administrative Code? If so, what adjustment should be made?

**GULF:** No. Gulf has rebutted the presumption in the rule by demonstrating that equity contributions from Southern Company since the date of the last rate case have been supported by dividends paid to Southern by Gulf. This is the same basis on which the Commission rejected a parent debt adjustment in Gulf's last rate case. (Teel)

**Issue 60:** Should an adjustment be made to Income Tax expense for the 2014 projected test year?

**GULF:** No. This issue is not contested in testimony and it appears it could be stipulated. (Erickson)

**Issue 61:** Is Gulf's requested level of Total Operating Expenses in the amount of \$452,292,000 (\$463,445,000 system) for the 2014 projected test year appropriate? If not, what is the appropriate amount?

**GULF:** Yes. Gulf's requested level of Total Operating Expenses in the amount of \$452,292,000 (\$463,445,000 system) for the 2014 projected test year is appropriate. (Ritenour)

**Issue 62:** Is Gulf's projected Net Operating Income in the amount of \$76,359,000 (\$81,554,000 system) for the 2014 projected test year appropriate? If not, what is the appropriate amount?

**GULF:** Yes. Gulf's projected Net Operating Income in the amount of \$76,359,000 (\$81,554,000 system) for the 2014 projected test year is appropriate. (Ritenour)

### **Revenue Requirements**

**Issue 63:** What is the appropriate revenue expansion factor and the appropriate net operating income multiplier, including the appropriate elements and rates for Gulf?

**GULF:** The appropriate revenue expansion factor is 61.2006 and the appropriate net operating income multiplier is 1.633971. This issue is not contested in testimony and it appears it could be stipulated. (Ritenour)

**Issue 64:** Is Gulf's requested annual operating revenue increase of \$74,393,000 for the 2014 projected test year appropriate? If not, what is the appropriate amount?

**GULF:** Yes. Gulf's requested annual operating revenue increase of \$74,393,000 for the 2014 projected test year is appropriate. (Ritenour)



**Issue 65:** Should the Commission approve Gulf's request to recover a step increase of \$16,392,000, effective July 1, 2015, for the Plant Crist and Plant Smith transmission upgrade projects listed in Issue Nos. \_\_\_\_ and \_\_\_\_ above?

**GULF:** These transmission projects are the most reasonable, cost-effective means of complying with the new Mercury and Air Toxics Standards (MATS) while maintaining compliance with NERC reliability standards. The \$16,392,000 represents the annual revenue requirements for the period ended June 30, 2016 associated with compliance-related transmission projects that go into service prior to July 1, 2015. Contrary to OPC's unsupported claim of uncertainty, these projects will all be in service six months after the test year and their cost is known and measurable. The Commission should either approve the projects for recovery through the ECRC or should approve the requested step increase. (Ritenour, Caldwell, Burleson, Deason)

#### **Cost of Service and Rate Design**

**Issue 66:** What is the appropriate treatment of distribution costs within the cost of service study?

**GULF:** Distribution costs are either assigned, where possible, or allocated to Rate Class. Demand-related distribution costs at Level 3 are allocated on a Coincident Peak Demand (CP) Level 3 allocator. Demand-related distribution costs at Levels 4 and 5 are allocated on, their respective level, Non-Coincident Peak Demand (NCP) allocator. An example of a Level 3 Distribution Common Demand-related Investment is Account 362 - Station Equipment, which is allocated to Rate Class on a Level 3 CP demand allocator. An example of a Level 4 and Level 5 Common Distribution Demand-related Investment is Account 365 - Overhead Conductors. This Account has both Level 4 and Level 5 Common Investment. The Level 4 Common Investment is allocated to Rate Class on a Level 4 NCP demand allocator, and the Level 5 Common is allocated to Rate Class on a Level 5 NCP demand allocator. Customer-related Distribution costs are at both Level 4 and Level 5. These customer-related costs are allocated on their respective Level average number of customers' allocator. An example of Level 5 Distribution Customer-related Investment is Account 365 - Overhead Conductors. This customer-related investment at Level 5 is allocated to Rate Class on the average number of customers at Level 5. Note: Where cost must be divided into demand and customer component, the Minimum Distribution System (MDS) is appropriate in order to adhere more closely with sound cost causative principles. This issue is not contested in testimony and it appears it could be stipulated. (O'Sheasy)

**Issue 67:** What is the appropriate Cost of Service Methodology?

**GULF:** The appropriate methodology is that filed by Gulf in this proceeding as Attachment A to MFR Schedule E-1 and in the Exhibit MTO-2. This cost of service methodology was the approved method of the Commission in Gulf's previous rate case. This issue is not contested in testimony and it appears it could be stipulated. (O'Sheasy)

**Issue 68:** How should any change in the revenue requirement approved by the Commission be allocated among the customer classes?

**GULF:** The increase should be spread among the rate classes as shown in MFR E-8 of Gulf's filing. This allocation gives consideration to cost-of-service, moving rate classes toward parity, fairness, and value. All of these are important and appropriate considerations. This issue is not contested in testimony and it appears it could be stipulated. (Thompson)

**Issue 69:** Is Gulf's proposal to restate the residential Base Charge as a daily amount rather than a monthly amount appropriate?

**GULF:** Yes. Customers will be billed a Base Charge which reflects the precise number of days in the billing period. That information – the number of days covered by the billing period – is already shown on customer bills. The extension of that number of days multiplied by the approved Base Charge per day will be easy for customers to understand and will better align the total monthly Base Charge with the service period. This issue is not contested in testimony and it appears it could be stipulated. (Thompson)

**Issue 70:** Should Gulf's proposed new experimental Small Business Incentive Rider (SBIR) be approved?

**GULF:** Yes. This Commission has a long history of approving experimental utility rates and other programs which are designed to encourage economic development in recognition of the fact that economic development ultimately benefits utility customers. Load produced by new and expanding businesses along with the customers and commercial enterprises that support these businesses helps utilities run an efficient system and spread fixed costs across a larger customer base. Gulf's proposed Small Business Incentive Rider is designed to achieve these objectives and should be approved on an experimental basis. This issue is not contested in testimony and it appears it could be stipulated. (Strickland, Thompson)



**Issue 71:** Should Gulf's proposed new experimental Large Business Incentive Rider (LBIR) be approved?

**GULF:** Yes. This Commission has a long history of approving experimental utility rates and other programs which are designed to encourage economic development in recognition of the fact that economic development ultimately benefits utility customers. Load produced by new and expanding businesses along with the customers and commercial enterprises that support these businesses helps utilities run an efficient system and spread fixed costs across a larger customer base. Wal-Mart's proposal to lower the LBIR minimum threshold to the same level as the proposed SBIR would undermine objectives of the LBIR, including attracting large loads to Gulf's system. Gulf's proposed LBIR should be approved as designed on an experimental basis. (Strickland, Thompson)

**Issue 72:** Is Gulf's proposed change in designation of revenues received under the Real Time Pricing (RTP) rate schedule appropriate?

**GULF:** Yes. The change would better align the designation of revenue as fuel cost recovery or base rate revenue with the supply cost changes that give rise to the hourly price changes. The factors that cause Gulf's real time prices to change hour to hour and day to day are predominantly fuel related. This reality would be better reflected in a process that allows the designation of fuel revenue received per kWh to vary. This issue is not contested in testimony and it appears it could be stipulated. (Thompson)

**Issue 73:** Are Gulf's proposed modifications to Form 4 which contains the Lighting Pricing Methodology appropriate?

**GULF:** Yes. Gulf proposes to revise Form 4 to update the labor rates and overhead rates, and to better accommodate LED fixtures. The Lighting Pricing Methodology template needs separate sections for LED and non-LED fixtures. This issue is not contested in testimony and it appears it could be stipulated. (Thompson)



**Issue 74:** What are the appropriate service charges (Non-residential connection of initial and existing service, Restoration Charge, Premise Visit Charge)?

**GULF:** The appropriate service charges for Non-residential connection of initial and existing service, Restoration Charge and Premises Visit charge are shown below. These charges are based on the cost to provide the service. This issue is not contested in testimony and it appears it could be stipulated. (Neyman)

**SERVICE FEES**

<b>Service</b>	<b>Fee</b>
Connection of Initial Service - Non-residential	\$50
Connection of Existing Service - Non-residential	\$50
Restoration of Service (After Violation of Rules)	\$60
Restoration of Service After Hours (After Violation of Rules)	\$80
Restoration of Service at Pole (After Violation of Rules)	\$100
Premises Visit	\$30

**Issue 75:** What are the appropriate base charges?

**GULF:** The appropriate base charges based on Gulf's original filing are shown below. These proposed charges reasonably reflect customer-related costs. There are important reasons for ensuring that, to the extent practical, the costs of providing service to customers that do not vary with the amount of consumption are recovered from fixed Base Charges rather than from energy or demand charges. (Thompson)

Rate Schedule	Base Charge
RS, RSVP	\$0.60 per day
GS	\$21.00 per month
LP, LPT	\$250.00 per month
PX, PXT	\$743.22 per month

**Issue 76:** What are the appropriate demand charges?

**GULF:** The appropriate demand charges based on Gulf's original filing are listed below.  
 (Thompson)

Rate Schedule	Monthly Demand Charge
GSD	\$ 6.84
LP	\$12.23
PX	\$10.85
GSDT	\$ 3.66 (On-Peak) \$ 3.24 (Maximum) \$ 1.83 (Critical Peak Option On-Peak) \$ 3.24 (Critical Peak Option Maximum) \$ 5.49 (Critical Peak Option Critical Peak)
LPT	\$ 9.84 (On-Peak) \$ 2.54 (Maximum) \$ 4.92 (Critical Peak Option On-Peak) \$ 2.54 (Critical Peak Option Maximum) \$14.76 (Critical Peak Option Critical Peak)
PXT	\$10.07 (On-Peak) \$ 0.90 (Maximum)

**Issue 77:** What are the appropriate energy charges?

**GULF:** The appropriate energy charges based on Gulf's original filing are listed below. (Thompson)

Rate Schedule	Energy Charge
RS	4.884 ¢/kWh
GS	5.300 ¢/kWh
GSD	1.749 ¢/kWh
LP	0.934 ¢/kWh
PX	0.399 ¢/kWh
RSVP	4.884 ¢/kWh – P <sub>1</sub> 4.884 ¢/kWh – P <sub>2</sub> 4.884 ¢/kWh – P <sub>3</sub> 4.884 ¢/kWh – P <sub>4</sub>
GSTOU	18.691 ¢/kWh (Summer On-Peak) 6.978 ¢/kWh (Summer Intermediate) 2.902 ¢/kWh (Summer Off-Peak) 4.062 ¢/kWh (Winter All-Hours)
GSDT	1.749 ¢/kWh
LPT	0.934 ¢/kWh
PXT	0.399 ¢/kWh

**Issue 78:** What are the appropriate Standby Charges?

**GULF:** The appropriate charges under Rate Schedule SBS are listed below. (Thompson)

Contract Demand	100 to 499 kw	500 to 7,499 kw	7,500 kw and above
Demand Charge			
Local Facilities Charge	-	-	\$1.04
On-Peak	\$3.66	\$9.84	\$10.07
Reservation Charge	\$1.18	\$1.18	\$1.21
Daily Demand Charge	\$0.56	\$0.56	\$0.57
Energy Charge (per kWh)	3.460¢	3.460¢	3.460¢



**Issue 79:** What are the appropriate lighting charges?

**GULF:** The appropriate charges for the outdoor service (OS) are those shown in the Rate Schedule OS found in Schedule 3 of Exhibit JIT-1, attached to the testimony of Gulf Witness Thompson. (Thompson)

**Issue 80:** What are the appropriate transformer ownership credits?

**GULF:** The appropriate transformer ownership credits are shown below, and were developed using the Commission's approved methodology. (Thompson)

Rate Schedule	Voltage Discount
GSD/GSDT	(\$ 0.39) Primary Voltage Level
LP/LPT	(\$ 0.55) Primary Voltage Level (\$ 0.78) Transmission Voltage Level
SBS Contract Level	
100 – 499 KW	(\$ 0.06) Primary Voltage Level
500 – 7,499 KW	(\$ 0.06) Primary Voltage Level (\$ 0.07) Transmission Voltage Level
Above 7,499 KW	(\$ 0.06) Transmission Voltage Level

**Issue 81:** If approved, how should the step increase in revenue requirement effective July 1, 2015, be allocated to the various rate classes?

**GULF:** The increase should be spread among the rate classes as shown in MFR E-8 of Gulf's filing. This allocation gives consideration to cost-of-service, moving rate classes toward parity, fairness, and value. All of these are important and appropriate considerations. This issue is not contested in testimony and it appears it could be stipulated. (Thompson)

**Issue 82:** What is the appropriate effective date for Gulf's revised rates and charges?

**GULF:** The revised rates and charges should be effective for meter readings made on or after 30 days from the date of the Commission's vote. (Ritenour)

### Other Issues

**Issue 83:** Should Gulf be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case?

**GULF:** Yes.

**Issue 84:** Should this docket be closed?

**GULF:** Yes.

### F. STIPULATED ISSUES

**GULF:** Yet to be determined.

### G. PENDING MOTIONS

**GULF:** There are no pending motions at this time.

### H. PENDING CONFIDENTIALITY REQUESTS

1. Request for confidentiality filed on April 1, 2013 regarding portions of GP's Environmental Compliance Program Update for CAIR, National Ambient Air Quality Standards, Mercury and Air Toxics Standards and CAVR in Docket 130007 (DN 01561-13)
2. Request for confidentiality filed on May 24, 2013 regarding GP's Responses to Staff's First Data Request (Nos. 1-22) in Docket 130092 (DN 02877-13)
3. Request for confidentiality filed on July 1, 2013 regarding GP's Staff's Second Data Request in Docket 130092 (DN 03699-13)
4. Request for confidentiality and motion for temporary protective order filed on September 12, 2013 regarding GP's Response to OPC's First Request to Produce Documents (Nos. 1-33) in Docket 130151 (DN 05415-13)

5. Request for confidentiality filed on September 24, 2013 regarding GP's Revised Environmental Compliance Program, exhibit JOV-1 to James O. Vick's testimony in Docket 130092 (DN 05659-13)
6. Request for confidentiality and motion for temporary protective order filed on September 25, 2013 regarding Certain documents and information produced by GP in response to Citizens' 4th Request for Production of Documents (Nos. 74-89) and Citizens' 4th set of Interrogatories (Nos. 116-162) (DN 05699-13)
7. Request for confidentiality filed on September 30, 2013 regarding GP's Revised Responses to Staff's Second Data Request in Docket 130092 (DN 05826-13)
8. GP's Request for confidentiality and motion for temporary protective order filed on September 30, 2013 regarding portions of GP's responses to OPC's 5th Request for Production of Documents (Nos. 90-103) and 5th Set of Interrogatories (Nos. 163-177) (DN 05828-13)
9. GP's Notice of intent to request confidentiality filed on October 16, 2013 regarding portions of testimony filed by OPC relating to Scott Norwood (DN 06268-13)
10. GP's Request for confidentiality and motion for temporary protective order filed on October 28, 2013 regarding GP's Responses to Staff's 7<sup>th</sup> Set of Interrogatories (Nos. 66-91) (DN 06496-13)
11. Request for confidentiality and Motion for Temporary Protective Order filed on October 30, 2013 regarding Staff's audit of GP's request for an increase in rates (ACN 13-207-1-1) (DN 06634-13)
12. Restated Request for confidentiality filed on November 4, 2013 regarding certain portions of GP's Revised Environmental Compliance Program Update for the Clean Air Interstate Rule, National Ambient Air Quality Standards, Mercury and Air Toxics Standards and Clean Air Visibility Rule, exhibit JOV-1 to James O. Vick's testimony (DN 06740-13)
13. Request for confidentiality and Motion for Temporary Protective Order filed on November 6, 2013, regarding portions of the rebuttal testimony of GP's witness P. Chris Caldwell (DN 06785-13)
14. Request for confidentiality and Motion for Temporary Protective Order filed on November 6, 2013, regarding portions of the testimony of OPC's witness Scott Norwood (DN 06781-13)



**I. EXPERT WITNESS OBJECTIONS**

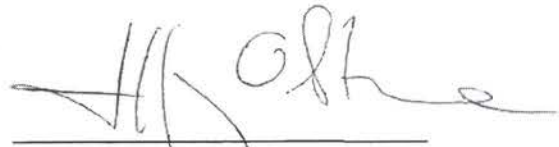
**GULF:** Gulf reserves the right to challenge the qualifications of any expert witness consistent with the procedural order entered in this docket.

**J. OTHER MATTERS**

**GULF:** To the best knowledge of counsel, Gulf has complied, or is able to comply, with all requirements set forth in the orders on procedure and/or the Commission rules governing this prehearing statement. If other issues are raised for determination at the hearing set for December 9 through 13, 2013, Gulf respectfully requests an opportunity to submit additional statements of position and, if necessary, file additional testimony.

Dated this 8th day of November 2013.

Respectfully submitted,



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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Petition for Increase in Rates )  
By Gulf Power Company )  
)

Docket No.: 130140-EI

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing has been furnished by electronic mail to the Commission Clerk and via overnight mail to all remaining parties this 8th day of November, 2013:

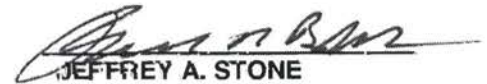
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