BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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| IN RE: Petition for an increase in rates by Gulf Power Company. | Docket No. 130140-EI  Date Filed: July 12, 2013 |
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PETITION

Gulf Power Company (“petitioner,” “Gulf Power,” “Gulf,” or “the Company”), by and through its undersigned attorneys, and pursuant to the provisions of Chapter 366, Florida Statutes, respectfully petitions the Florida Public Service Commission (“Commission”) for authority to increase the Company’s retail rates and charges to the extent necessary to generate additional gross annual revenues in the amount of $74,393,000. The requested increase will give the petitioner a reasonable opportunity to earn a fair rate of return of 6.47 percent on the cost of the Company’s property used and useful in serving the public, and an 11.5 percent rate of return on the Company’s common equity capital.

In support of this petition and as the basis for the requested increase, the Company respectfully states:

1. Notices and communications with respect to this petition and docket should be addressed to:

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| Jeffrey A. Stone, Esquire  jas@beggslane.com  Russell A. Badders, Esquire  rab@beggslane.com  Steven R. Griffin, Esquire  srg@beggslane.com  Beggs & Lane  P. O. Box 12950  Pensacola, FL 32576-2950 | Robert L. McGee, Jr.  rlmcgee@southernco.com  Regulatory and Pricing Manager  Gulf Power Company  One Energy Place  Pensacola, FL 32520-0780 |

2. Gulf is a corporation with its headquarters located at 500 Bayfront Parkway, Pensacola, Florida. The Company is an investor-owned electric utility operating under the jurisdiction of this Commission pursuant to the provisions of Chapter 366, Florida Statutes. The mailing address for the Company at its headquarters is One Energy Place, Pensacola, Florida 32520, and its telephone number is (850) 444-6111.

3. The Company has provided electric utility service to its customers since 1926 and now serves more than 436,000 retail customers across 8 counties in Northwest Florida through the generation, transmission, distribution, and sale of electric energy and energy related services. Gulf Power is a wholly-owned subsidiary of The Southern Company (“Southern Company”). The common stock of Southern Company is owned by approximately 147,000 registered shareholders of record, over 12,000 of whom reside in Florida.

4. The Company’s current retail rates and charges are inadequate to afford Gulf a reasonable opportunity to earn a fair rate of return currently or for the foreseeable future. The base rate portions of the Company’s current rates and charges were established in Docket No. 110138-EI, by Order No. PSC-12-0179-FOF-EI, dated April 3, 2012, based on a projected test year and 13-month average rate base ending December 31, 2012. In its order, the Commission established the overall authorized rate of return at 6.39 percent. This included a rate of return on equity of 10.25 percent for all regulatory purposes, with a range of return on equity of 9.25 percent to 11.25 percent.

5. The projected period January 1, 2014 through December 31, 2014 serves as the test year on which Gulf has calculated its revenue deficiency in this case. The test year in a rate case provides an appropriate period of utility operations that may be analyzed so the Commission can set reasonable rates for the period the new rates will be in effect. The period January 1, 2014 through December 31, 2014 has been used as the test year for preparing this case because it appropriately represents expected future operations of Gulf Power as the regional economy emerges from the recession. The test year used in preparing this case is the Company’s first fiscal year during which new rates could go into effect. As a result, the test year used in preparing this case will match projected revenues with the projected costs of service and investment required to provide customers with service during the period following the effective date of the anticipated final order in this case. The test year used in preparing this case is more representative of the actual revenues, costs of service and investments during the initial twelve months new rates will be in effect and beyond than would be the case with a test year based on any prior calendar year period. As part of this petition, Gulf seeks the Commission’s approval of the projected January 1, 2014 through December 31, 2014 test year (“requested test year” or “test year”) as a reasonable representation of the Company’s expected future operations.

6. The Company’s jurisdictional 13-month average rate base for the period ended December 31, 2014 is projected to be $1,883,901,000. Gulf’s jurisdictional net operating income for the same period is projected to be $76,359,000, using the Company’s jurisdictional base rates currently in effect. The resulting adjusted jurisdictional rate of return on average rate base is projected to be 4.05 percent, while the return on common equity is projected to be 5.14 percent for the test year of January 1, 2014 through December 31, 2014. In this case, the Company requests that it be allowed an overall rate of return of 6.47 percent, which equals Gulf’s total cost of capital, including an 11.5 percent rate of return on common equity.[[1]](#footnote-1) The resulting revenue deficiency is $74,393,000 which is the amount of additional annual gross revenues requested by the Company in this proceeding.

7. As presented in the testimony and exhibits of Gulf’s witnesses, the management and employees of Gulf have worked diligently to control costs and maintain reliable service to the Company’s customers. For the last two years, Gulf has been able to extend the outage cycles of coal-fired generating units, since the output from these units has been less than in previous years. Market prices for natural gas have been low; consequently, the Company’s coal-fired units have run less. Additionally, Gulf has taken advantage of current low interest rates in the market to refinance long-term debt which has resulted in lower interest expense. These savings have a short- and long-term positive benefit for customers. On an aggregate basis, the Company’s requested test year O&M expenses are only $2,505,000 above the Commission’s O&M Benchmark. Gulf’s witnesses justify the overages in specific functional areas, but the overall benchmark variance could be explained either by a requested increase of $5,500,000 in the annual storm accrual or by the $5,871,000 overage in pension expense. The pension expense variance primarily results from factors in the financial markets beyond Gulf’s control.

8. Despite these successful efforts on the part of Gulf’s management and employees to control and reduce expenses, the cost of continuing to provide reliable service to Gulf’s customers has increased which makes the filing of this request for rate relief necessary. As projected during the Company’s last case, Gulf has continued to invest heavily, particularly in transmission assets. After an eight-year period (2002-2009) of averaging approximately $96 million a year of capital expenditures (excluding non-jurisdictional and clause related investment), Gulf has invested an average of $195 million a year over the three-year period of 2010-2012. The associated increase in rate base has outpaced relatively flat sales and customer growth. As a result of the relatively flat sales and customer growth, Gulf’s base revenues in 2012 were over $30 million less than expected. That revenue shortfall represents more than 50 percent of the annual rate relief authorized in 2012. Gulf is requesting rate relief in order to continue to fulfill the public service requirements set forth in the statutes.

9. The details of the rate base, O&M expenses, and other factors driving the need for rate relief are more fully reflected in the testimony and exhibits of Gulf’s witnesses filed contemporaneously with this petition and which are incorporated herein by this reference. As explicitly shown therein, 2012 base rates and charges simply cannot cover the corresponding 2014 costs of providing electric service.

10. Gulf’s depreciation expense reflects the depreciation rates approved by the Commission in Order No. PSC-10-0458-PAA-EI issued on July 19, 2010 in Docket No. 090319-EI, the depreciation rate for the Perdido Landfill Facility approved by the Commission in Order No. PSC-10-0674-PAA-EI issued on November 9, 2010 in Docket No. 100368-EI, and the depreciation rate for the Advanced Metering Infrastructure meters approved by the Commission in Order No. PSC-12-0179-FOF-EI issued on April 3, 2012 in Docket No. 110138-EI. In accordance with Commission Rule 25-6.0436, which requires Gulf to file a new depreciation study every four years, Gulf filed its 2013 Depreciation Study with the Commission on May 24, 2013. The Company asks that the final outcome of the Commission’s review and approval of the Depreciation Study be reflected in the expenses used as the basis for setting rates in this docket. Likewise, Gulf’s dismantlement expense reflects the dismantlement amounts approved by the Commission in Order No. PSC-10-0458-PAA-EI issued on July 19, 2010 in Docket No. 090319-EI. In accordance with Commission Rule 25-6.04364, which requires Gulf to file a new dismantlement study every four years, Gulf filed its 2013 Dismantlement Study with the Commission on May 24, 2013. The Company asks that the final outcome of the Commission’s review and approval of the Dismantlement Study be reflected in the expenses used as the basis for setting rates in this docket. The Commission has assigned Docket No. 130151-EI to its review of Gulf’s Depreciation Study and Dismantlement Study.

11. On April 1, 2013, Gulf filed its Environmental Compliance Program Update and Third Supplemental Petition of Gulf Power Company Regarding Its Environmental Compliance Program (the Update and Petition) in Docket No. 130092-EI, along with the testimony of two Gulf witnesses. Among other things, the Update and Petition describe Gulf’s compliance plan and request approval of Gulf’s strategies necessary to meet the requirements of the Mercury and Air Toxics Standards (MATS) rule. The addition of certain transmission upgrades is the best, most cost-effective option for compliance with the MATS rule. The costs associated with these transmission upgrades meet the criteria for ECRC cost recovery as established by the Commission in Order No. PSC-94-0044-FOF-EI in Docket No. 930613-EI and should be recovered through the ECRC. However, if the Commission finds that these transmission costs should be included in base rates, Gulf is requesting a step increase of $16,392,000 effective July 1, 2015. This represents the annual revenue requirements for the twelve months ending June 30, 2016, which is the first twelve months that the completed transmission projects would be reflected in base rates.

12. 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 must also offer a reasonable and fair return to investors in order to continue to attract the capital required to provide that service to customers. Without the revenue increase requested, Gulf cannot meet its obligations to either its customers or investors in the long run. If Gulf is rendered unable to meet its obligations to its customers and shareholders due to inadequate rates, both stakeholder groups will suffer. Customers will suffer from less reliable service and eventually higher costs of electricity, while the shareholders will suffer from an inadequate and confiscatory return on investment and will seek other places to invest their money. For these and other reasons detailed in the testimony and exhibits of Gulf’s witnesses filed with this petition, Gulf is respectfully requesting an increase in rates and charges that will produce an increase in total annual revenues of $74,393,000.

13. Attachment A to this petition contains updated tariff sheets including new rate schedules designed to produce the additional revenue sought in paragraph 12 of this petition and needed to give the Company a realistic opportunity to provide its investors with a fair and reasonable rate of return. [[2]](#footnote-2) The petitioner respectfully requests that the Commission consent to these updated tariff sheets and rate schedules going into operation as soon as possible. Attachment B to this petition contains updated tariff sheets including new rate schedules, in both clean and legislative format, designed to produce the additional revenue sought in paragraph 11 of this petition. The petitioner respectfully requests that the Commission consent to these updated tariff sheets going into operation on July 1, 2015, in the event the Commission finds that these transmission costs should be included in base rates.

14. If consent to the operation of all or any portion of the new rate schedules included as Attachment A to this petition has not been given by the Commission or if a final decision on this petition has not been entered by the Commission within eight months from the date of this filing, Gulf understands that such new rates, or any portion thereof not consented to, shall automatically go into effect in accordance with section 366.06(3) of the Florida Statutes.[[3]](#footnote-3) Gulf readily acknowledges that any increased revenues collected through operation of all or a portion of the attached rate schedules pursuant to the consent of the Commission or by operation of the statute would be subject to refund pending completion of the hearings and final decision by the Commission on the relief requested in this petition within 12 months after the official date of filing of this petition. Gulf is willing to post bond or other corporate undertaking, as the Commission may determine to be appropriate, for the protection of the Company’s customers.

15. Gulf is also filing simultaneously with this petition, and as a part hereof, schedules containing the information required by Rule 25-6.043(1)(a)1, Florida Administrative Code (minimum filing requirements or “MFRs”).[[4]](#footnote-4) Pursuant to Rule 25-6.043(1)(b), Florida Administrative Code, Gulf has compiled the MFRs by following the policies, procedures and guidelines prescribed by the Commission in relevant rules and/or in the Company’s last rate case. Additionally, the verified supporting testimony and exhibits of Gulf’s witnesses are being pre-filed contemporaneously with this petition (and incorporated herein, and made a part hereof, by this reference) so that the Commission will have an immediate opportunity for the review of the Company’s case.

WHEREFORE, Gulf Power Company respectfully petitions the Florida Public Service Commission to:

1. Accept this filing for final agency action;
2. Set an early hearing for purposes of granting relief and entering its final order herein, in accordance with controlling statutes and court decisions, so as to adequately protect the financial integrity of the Company by giving it a reasonable opportunity to earn a fair rate of return;
3. Find and determine that the Company’s present rates are insufficient to yield a fair rate of return and that the continued compulsory application of the Company’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;
4. Authorize the Company to reflect the final outcome of the Commission’s review and approval of Gulf’s 2013 Dismantlement Study and 2013 Depreciation Study (Docket No. 130151-EI) in the expenses used as the basis for setting rates in this docket;
5. Authorize the Company to revise and increase its retail base rates and charges to generate additional gross revenues of $74,393,000 on an annual basis, so that Gulf will have an opportunity to earn a fair overall rate of return of 6.47 percent including a rate of return of 11.5 percent on common equity capital and thereby maintain the Company’s financial integrity and its ability to serve the public adequately and efficiently;
6. Authorize the Company to revise and increase its retail base rates and charges to generate additional gross revenues of $16,392,000 on an annual basis effective July 1, 2015, if the Commission finds that the compliance-related transmission projects specified in its Environmental Compliance Program Update should be included in base rates instead of the Environmental Cost Recovery Clause; and
7. Grant to the Company such other and further relief as the Commission may find to be reasonable and proper pursuant to the authority granted to the Commission under Chapter 366 of the Florida Statutes.

Respectfully submitted this 12th day of July, 2013.

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1. Upon approval, the requested return on common equity of 11.5 percent would serve as the midpoint of Gulf’s authorized range. The resulting authorized range would be from 10.5 percent to 12.5 percent. [↑](#footnote-ref-1)
2. The proposed tariff sheets, in legislative format, are included as part of Gulf’s filed minimum filing requirements (MFRs) in Section E titled Cost of Service and Rate Design Schedules. [↑](#footnote-ref-2)
3. If the Commission has not reached a final decision on this petition prior to March 12, 2014, the new rates attached to this petition as Attachment A will automatically go into effect on that date with the increased revenues collected subject to refund in accordance with the statute, pending a final order by the Commission. [↑](#footnote-ref-3)
4. To the extent that the Commission deems it necessary in order that this petition comply with Rule 28-106.201(2) F.A.C., Gulf states that this petition seeks to initiate proceedings that may involve disputed issues of material fact. This case does not involve reversal or modification of an agency decision or an agency’s proposed action. Therefore subparagraph (c) and portions of subparagraphs (b), (e), (f) and (g) are not applicable to this petition. It is not known which, if any, of the issues of material fact set forth in the body of this petition, or in the testimony, exhibits and MFR schedules filed herewith, may be disputed by others planning to participate in the proceeding initiated by this petition. All other requirements for petitions filed under Rule 25-106.201, F.A.C. have been substantially met in the body of this petition. [↑](#footnote-ref-4)