GULF POWER COMPANY

Before the Florida Public Service Commission

Prepared Direct Testimony of

Susan D. Ritenour

Docket No. 130140-EI

In Support of Rate Relief

Date of Filing: July 12, 2013

Q. Please state your name and business address.

A. My name is Susan Ritenour. My business address is One Energy Place, Pensacola, Florida 32520.

Q. By whom are you employed?

A. I am employed by Gulf Power Company (Gulf or the Company) as Corporate Secretary, Treasurer and Corporate Planning Manager.

Q. What are your responsibilities as Gulf’s Corporate Secretary, Treasurer and Corporate Planning Manager?

A. I am responsible for Gulf’s overall planning and budgeting process and the resulting financial forecast. This includes the ongoing development and maintenance of the Construction Budgeting System and other financial forecasting models and projections. The Corporate Planning Department also provides decision support and financial analyses for Gulf’s management and business units. In addition, I am responsible for various treasury and corporate secretary activities.

Q. Please describe your educational and professional background.

A. I graduated from Wake Forest University in Winston-Salem, North Carolina in 1981 with a Bachelor of Science Degree in Business and from the University of West Florida in 1982 with a Bachelor of Arts Degree in Accounting. I am also a Certified Public Accountant licensed in the State of Florida. I joined Gulf in 1983 as a Financial Analyst and have held various positions of increasing responsibility, including Computer Modeling Analyst, Senior Financial Analyst, Supervisor of Rate Services, and Assistant Secretary and Assistant Treasurer. Prior to assuming my current responsibilities in September 2012, I held the position of Secretary and Treasurer and Regulatory Manager since September 2003.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide an overview of Gulf’s rigorous planning and budgeting process and to present the calculation of the rate relief requested by Gulf in this proceeding.

Gulf’s annual planning and budgeting process results in a financial forecast on which the Company relies to make decisions about how to provide efficient and reliable service to its customers. I will describe the Capital Additions and Operations and Maintenance (O&M) budget processes, identify the component budgets used in developing the financial forecast, and outline the assumptions used in developing Gulf’s financial forecast. The financial forecast is used by Gulf’s management for a variety of

purposes, and in this instance is also the basis for Gulf’s projected data for the 2014 test year used in this rate case.

Using this financial forecast and the jurisdictional factors from the cost-of-service study discussed by Gulf Witness O’Sheasy, I develop the test year jurisdictional adjusted rate base, net operating income and capital structure, and calculate the resulting retail base rate revenue deficiency, which the Company has identified in this filing. I also discuss the adjustments related to the Unit Power Sales (UPS) from Scherer Unit 3 and present and support the general plant capital additions budget and investment.

Finally, I discuss the recovery through rates of the compliance-related transmission costs Gulf will incur in order to comply with the Mercury and Air Toxics Standards (MATS), and I calculate the step increase that Gulf is requesting if these costs are not approved for recovery through the Environmental Cost Recovery Clause (ECRC).

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exhibit SDR-1, Schedules 1 through 25 and Exhibit SDR-2, Schedules 1 through 3. Exhibits SDR-1 and SDR-2 were prepared under my supervision and direction, and the information contained in the exhibits is true and correct to the best of my knowledge and belief.

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

A. Yes. The MFRs that I sponsor in their entirety and that I jointly sponsor are listed on Schedule 1 of Exhibit SDR-1. To the best of my knowledge and belief, all of the information presented in the MFRs that I sponsor or co-sponsor is true and correct.

**I. GULF’S PLANNING AND BUDGETING PROCESS**

Q. Please provide an overview and description of Gulf’s planning and budgeting process.

A. Gulf’s planning and budgeting process is an ongoing process that is designed to help the Company achieve operational and financial goals and objectives, while taking into account economic and financial conditions. This process produces a budget for the current year and a budget forecast for the four subsequent years. These are utilized by management as tools for evaluating and making decisions to ensure the Company provides efficient and reliable service to its customers. The annual 2013 Budget and Forecast, including the forecasted financial statements for the test year, is the basis for Gulf's projected data for the 2014 test year used in this rate case. Both the 2013 and 2014 budgeted levels of O&M and Capital Additions from the 2013 Budget and Forecast are reasonable, prudent and necessary. The budgeting process for 2013 was consistently applied and

produced reliable results which are suitable for establishing the revenue requirements for the 2014 test year.

Q. Please describe Schedule 2 of your Exhibit SDR-1.

A. Schedule 2 of Exhibit SDR-1 is a flow chart of Gulf's annual planning and budgeting process. There are eight component budgets, which are shaded on Schedule 2, that are incorporated into Gulf's financial forecast. Preparation of the Customer, Energy, and Demand budgets begins the process, and these budgets are used as inputs in the derivation of the Revenue, Fuel, Interchange, Capital Additions and O&M budgets. I am responsible for the financial forecast, which integrates the eight component budgets, along with various other financial assumptions and estimates, and results in projected financial statements. I then use these financial statements to develop the net operating income, rate base, capital structure and revenue requirements that Gulf is requesting in this filing.

Q. Who will testify on the preparation of the component budgets in Gulf's financial forecast?

A. The Customer, Energy, Demand, and Revenue Budgets are the responsibility of Gulf Witness Alexander. Gulf Witnesses Grove, Caldwell, McQuagge, and I will discuss the Capital Additions Budget. Gulf Witnesses Neyman, Strickland, Erickson, Garvie, and McMillan, along with Mr. Grove, Mr. Caldwell, and Mr. McQuagge will discuss the O&M Budget. Gulf Witness Burroughs is responsible for the Fuel Budget, and Mr. Grove is responsible for the Interchange Budget.

Q. Please describe the annual planning and budgeting process.

A. The annual planning and budgeting process is administered by the Corporate Planning and Budgeting departments under the direction of the Chief Financial Officer (CFO), Mr. Teel.

The Corporate Planning and Budgeting departments work together to establish the budget schedule, develop the Budget Message, which is submitted to the CFO for review and approval, and transmit the Budget Message on behalf of the CFO. Corporate Planning and Budgeting also coordinate the Capital Additions and O&M Budget processes, respectively, ensuring that all personnel involved with the processes are kept informed of the key assumptions, goals and any strategic issues facing the Company. In addition, Corporate Planning inputs information from the eight component budgets, along with other financial assumptions and estimates, into the financial model. Finally, Corporate Planning is responsible for the ongoing process of analyzing and maintaining the financial model logic and inputs to ensure the most accurate forecast based on current assumptions.

Q. Please describe the role of the Corporate Planning and Budgeting departments in preparation of the Capital Additions and O&M component budgets.

A. The Corporate Planning and Budgeting departments are responsible for establishing a process for the preparation of the Capital Additions and O&M Budgets, for administering the process under the direction of the CFO and for preparing the summaries, comparisons, and other information that may be requested. The Executive Management Team (the Chief Executive Officer and the four vice presidents) reviews and approves these Budgets. Schedule 3 of Exhibit SDR-1 is a flow chart outlining the Capital Additions and O&M Budget process.

Q. One of the initial steps in the budget process described on Schedule 3 of Exhibit SDR-1 is the Budget Message. Please describe the Budget Message.

A. Each year, to begin the O&M and Capital Additions Budget process, the Budget Message is provided by the CFO to the Planning Units, which are organizations within the Company that have budget responsibilities. The Budget Message provides budget guidelines, assumptions and other information to be used in the budget preparation process. Corporate Planning and Budgeting assist the CFO in developing the information included in the Budget Message.

Q. Does the Budget Message include a rate of inflation?

A. Yes. The inflation rates for 2013 and 2014 included in the Budget Message were 2.7 percent and 2.5 percent, respectively. These rates of inflation were based upon forecast data for the Consumer Price Index (CPI) obtained from Moody’s Analytics.

Q. How is the rate of inflation used by Gulf in the preparation of its O&M Budget?

A. The inflation rate is provided as part of the Budget Message as an aid to

Planning Units in the development of their budget details. However, justification of O&M expenses by the Planning Units requires more than mere escalation by the CPI or any other measure of inflation. Each Planning Unit develops its O&M budget by examining the activities necessary to meet its goals and objectives, not by simply escalating costs associated with prior periods.

Q. Describe the budget process after the issuance of the Budget Message.

A. This is a multi-step, iterative process. Upon receipt of the Budget Message, each Planning Unit follows its own internal process to prepare its O&M and Capital Additions Budgets. Those internal processes are described in the testimony of other witnesses. However, there is a common element among the processes used by each individual Planning Unit – each Planning Unit closely examines and analyzes the activities necessary to accomplish its goals and objectives and then builds the budgets necessary to meet these responsibilities. Each Planning Unit prepares the detailed budgets that support its goals and objectives. The Vice President for each Planning Unit reviews and, if necessary, modifies that function’s budgets prior to the submission of the Planning Unit’s budgets to the Corporate Planning and Budgeting departments.

Corporate Planning and Budgeting review submittals for consistency with the Budget Message and compile the data for review by the CFO and the other executives. Any changes resulting from the executive review and approval process are communicated to the Planning Unit by Corporate Planning or Budgeting. The final approved budgets for O&M and Capital Additions are summarized and communicated to the Planning Units in a letter from the CFO.

Q. Please describe Gulf’s Capital Additions Budget.

A. The Capital Additions Budget consists of Plant Expenditures (PEs) for investments that are categorized by function as Production, Transmission, Distribution, and General Plant. The PEs are further identified as Specific PEs and Blanket PEs. Specific PEs are generally individual projects costing $50,000 or more that require expenditures in one or more years. Blanket PEs reflect repetitive expenditures based on historical trends and projected customer growth, such as pole replacements and transformers, that are not identified as individual or separate projects at the time the budget is prepared.

Q. Who is responsible for developing PEs?

A. Planning Units are responsible for developing the PEs for their areas. The majority of the PEs are prepared under the direction of Mr. Grove, Mr. Caldwell, and Mr. McQuagge.

Q. Who is responsible for reviewing and approving the overall Capital Additions Budget?

A. Gulf’s Executive Management Team reviews all Capital Additions Budget requests. After review and approval by the executives, the Capital

 Additions Budget is approved annually by the Company’s Board of Directors.

Q. Does Gulf monitor the actual construction expenditures against its approved budget?

A. Yes. Corporate Planning monitors and prepares a comparison of actual to budget expenditures each month. For quarter-end months, the Planning Units must submit variance explanations for each PE that has a year-to-date variance that exceeds 10 percent or $250,000, whichever is less. For non-quarter-end months, explanations are only required for variances that exceed $250,000. Variances less than $10,000 do not require an explanation. In addition to researching and explaining year-to-date variances, the appropriate Planning Unit is required to prepare a quarterly estimate of the budget status at year-end or at completion of the project. Corporate Planning is responsible for monitoring the variances and ensuring this process is followed.

Q. What is the amount of Gulf’s 2014 test year Capital Additions Budget?

A.Gulf’s 2014 test year total company Capital Additions Budget is $477,982,000. The 2014 test year Capital Additions Budget excluding wholesale, cost recovery clauses and non-utility expenditures is $206,957,000. These projections are shown by major functional category on Schedule 4 of Exhibit SDR-1.

Q. Please describe Gulf’s O&M Budget.

A. The O&M Budget consists of expenses required to safely provide efficient and reliable service to Gulf’s customers, covering a period of five years. Gulf’s Planning Units submit detailed budget requests through the Company’s computerized budget input system. All O&M budget amounts are required to be submitted through this process, with the exception of the fuel and interchange information, which is derived from the Fuel and Interchange component budgets. The O&M Budget is provided to the Executive Management Team for their review and approval.

Q. How does the Budgeting department monitor O&M budget variances?

A. The Budgeting department monitors budget variance reports each month, using Gulf’s accounting and reporting system. Each quarter, the Planning Units are required to submit year-to-date reports that include explanations of all variances of 10 percent or more that equal or exceed $25,000. Any variance amount that exceeds $500,000, regardless of the percentage, must also be explained. Projections for the year-end expenses are also submitted quarterly and reviewed by the CFO.

Q. What is the amount of Gulf’s test year O&M Budget?

A. The test year System Per Books O&M Budget is $1,073,580,000, and the test year Total Adjusted O&M Budget is $295,916,000, as shown by major functional category on Schedule 5 of Exhibit SDR-1. The witnesses responsible for O&M expenses by function will address their test year O&M budgets and any O&M benchmark variances. Schedule 4 of Exhibit RJM-1 to Mr. McMillan’s testimony shows the calculation of Total Adjusted O&M, including each adjustment to O&M expense by function.

Q. Have there been any significant changes in Gulf’s budget process since the development of the forecast that was used to support Gulf’s last base rate case?

A. No. Gulf’s budget process continues to successfully produce reliable budgets and forecasts. Therefore, there have not been any significant changes in Gulf’s budget process since the last base rate case, and this process has been consistently applied in preparing the 2013 Budget and Forecast, which includes the 2014 test year.

Q. Turning now to the financial forecast, please explain how this forecast is developed.

A. The outputs of the component budgets that I described earlier in my testimony are input into Gulf’s financial model. Additionally, various income statement and balance sheet items not captured in the component budgets are analyzed, developed and input into the financial model. The financial model, in turn, processes this data using a number of integrated calculation modules to generate the financial and accounting statements that comprise Gulf’s financial forecast. This dynamic iterative process ensures that these various items are consistent with the other budgeted items. For example, forecasted debt issuances and associated interest expense are analyzed and updated when necessary due to other budget changes.

Q. What is the financial model to which you have referred?

A. The financial model is a proprietary, computer-based model that simulates Gulf’s actual financial and accounting results based on a given set of inputs. Schedule 6 of Exhibit SDR-1 is a summarized flowchart of the financial model inputs and outputs required to produce the financial forecast.

Q. Does Gulf prepare financial forecasts for purposes other than rate cases?

A. Yes. Gulf prepares and updates its financial forecast in the regular course of its business to provide management with the most accurate and up-to-date projections to manage the business and to help the Company achieve operational and financial goals.

Gulf uses the financial model to prepare the Annual Budget and Forecast, and also to continually update financial projections. These financial forecasts are also used for external purposes such as analyst earnings calls, rating agency information, forecasted earnings surveillance reports filed with the Florida Public Service Commission (FPSC or the Commission), and other financial requests.

Q. Please describe the financial statements shown on Schedules 7 and 8 of Exhibit SDR-1.

1. Schedule 7 is Gulf’s projected monthly Balance Sheet for the period December 2013 through December 2014, which is the basis for developing the test year rate base and capital structure. Schedule 8 is the projected monthly Income Statement for the twelve months ended December 31, 2014, used in developing net operating income. These financial statements from the financial model are based on current budget estimates for 2014 from the 2013 Budget and Forecast.

Q. You have summarized utility plant data on Schedule 7. Have you prepared a report with a further breakdown of the plant balances?

A. Yes. Schedule 9 of Exhibit SDR-1 presents a further breakdown of the utility plant balances along with the monthly activity in these accounts for the test period. The projected plant data is based on the approved Capital Additions Budget, which is supported by various witnesses as noted on Exhibit SDR-1, Schedule 4.

Q. Has Gulf Power filed a list of the assumptions used in developing Gulf’s financial forecast?

A. Yes. MFR F-8 lists the assumptions used in developing Gulf’s financial forecast and the supporting basis for each assumption. The assumptions used in this financial forecast, as outlined on MFR F-8, are reasonable based on our experience and consideration of the circumstances known or anticipated at the time the assumptions were developed.

**II. RATE BASE**

Q. Have you prepared a schedule which shows the derivation of rate base?

A. Yes. Exhibit SDR-1, Schedule 10, entitled “13-Month Average Rate Base

for the Period Ended December 31, 2014,” reflects Gulf’s test year rate base. Column 1 is calculated based on the budget data presented on Schedules 7 and 9 of that exhibit. The second column includes the regulatory adjustments required in order to restate the system, or per books, amounts to the proper basis for computing base rate revenue requirements. The third column includes the Plant Scherer UPS adjustments, which I will address in more detail later in my testimony. The resulting net amounts in column 4 have been jurisdictionalized in the cost-of-service study filed in this case by Mr. O’Sheasy in Exhibit MTO-2.

Q. Have you made the proper adjustments to remove the investment related to the cost recovery clauses from rate base?

A. Yes. These and other rate base adjustments are listed on page 2 of Schedule 10 of Exhibit SDR-1. Adjustments 1, 2, 6, 7 and 14 are to remove the plant-in-service, accumulated depreciation, and non-interest bearing construction work in progress (CWIP-NIB) being recovered through the ECRC and the Energy Conservation Cost Recovery (ECCR) Clause. I have also removed the working capital recovered through the ECRC and ECCR Clauses in adjustment 15 as shown on Exhibit SDR-1, Schedule 11. The investments which are being recovered through the adjustment clauses must be excluded in developing the rate base used to establish Gulf’s base rates.

Q. Please explain adjustments 3 and 8 related to Asset Retirement Obligations (AROs).

A. Adjustments 3 and 8 are to remove the plant-in-service and accumulated depreciation amounts related to the implementation of Financial Accounting Standards (FAS) 143, Accounting for Asset Retirement Obligations (AROs). This accounting standard required the Company to record an asset and the related liabilities and expenses associated with the legal obligations related to the retirement of long-lived assets. I have also removed the regulatory assets and liabilities related to FAS 143 in the working capital adjustments as shown in Schedule 11. The adjustments to remove these amounts are necessary to eliminate the impact of these accounting entries in accordance with FPSC Rule 25-14.014, which requires that the application of FAS 143 be revenue neutral.

Q. Please explain the rate base adjustments related to Perdido Unit 3.

A. Adjustments 4 and 9 are to remove the plant-in-service and accumulated depreciation associated with the addition of a third unit at the landfill gas-to-energy facility at the Perdido landfill. When the capital budget used in the development of Gulf’s 2014 test year was developed, it was assumed that this unit would be in service throughout the 2014 test year. However, because of uncertainties associated with this unit, Gulf is removing it from the 2014 test year.

Q. Please describe adjustments 5 and 10 related to Distribution New Business.

A. Adjustments 5 and 10 are to reduce the test year amounts for distribution

plant-in-service and accumulated depreciation to reflect a revision to the 2014 distribution capital additions budget as described by Mr. McQuagge.

Q. Please describe adjustment 11 related to the 2013 Depreciation Study and 2013 Dismantlement Study.

A. Adjustment 11 reflects the impact on accumulated depreciation of new depreciation rates and dismantlement expense filed by Gulf on

May 24, 2013, pursuant to Commission Rule 25-6.0436. Gulf Witnesses Huck and Erickson discuss the 2013 Depreciation Study and 2013 Dismantlement Study in their testimonies and have provided the updated information required to determine the impact of these studies on Gulf’s depreciation and dismantlement expense in the 2014 test year.

Q. Please explain adjustment 12 related to Plant Held for Future Use.

A. Adjustment 12 is to exclude the North Escambia site from Plant Held for Future Use (PHFU) consistent with the Commission’s decision in Gulf’s last rate case. I have also removed the Deferred North Escambia Site Costs from Working Capital as shown on Exhibit SDR-1, Schedule 11.

Q. Please explain adjustment 13 related to interest bearing construction work in progress.

A. Adjustment 13 is for the removal of the interest bearing construction work in progress (CWIP) included in the forecast. Since interest bearing projects in CWIP are eligible for Allowance for Funds Used During Construction (AFUDC), they are removed from rate base.

1. Please explain the working capital adjustments included in adjustment 15.
2. The working capital adjustments which comprise adjustment 15 are detailed on Schedule 11 of Exhibit SDR-1, entitled “13-Month Average Working Capital for the Period Ended December 31, 2014.” Gulf has computed the test year working capital requirement utilizing the balance sheet approach in accordance with this Commission’s prior policy and practices. All items on the balance sheet which are not included in Net Utility Plant or the Capital Structure were considered in developing working capital. These items are summarized at the top of the schedule and result in $157,498,000 in total company working capital. Each of these items was examined to determine if a regulatory adjustment should be made to remove it from working capital. As a result of this review, I have excluded the amounts related to the ECRC and ECCR, all accounts which earn or incur interest charges, unamortized rate case expense consistent with prior Commission decisions, and the ARO regulatory assets and liabilities I discussed previously. I have also reduced working capital to reflect the impact of the increase in the property damage reserve accrual discussed by Ms. Erickson in her testimony.

The other adjustments noted in Schedule 11 remove the assets and liabilities related to Gulf’s fuel hedging under FAS 133, Accounting for Derivative Instruments and Hedging Activities, which are ultimately recovered through the Fuel Cost Recovery (FCR) Clause, and remove the minimum pension funding requirements under FAS 158, Employers’ Accounting for Defined Benefit Pension and Other Post Retirement Plans, which requires the recording of certain minimum pension funding requirements. In addition, I have removed the assets and liabilities related to the levelization of capacity expenses related to power purchase agreements (PPAs), which are required by general accounting guidance. The adjustments to total assets and liabilities for the FAS 133, FAS 158, and PPA entries net to zero, and they have been removed from the working capital amounts provided to Mr. O’Sheasy to be jurisdictionalized in the cost-of-service study.

The net of all regulatory adjustments to total working capital is $6,122,000, which is shown in column 2 on page 1 of Schedule 10 as adjustment 15. The Plant Scherer UPS working capital adjustment is shown at the bottom of Schedule 11. This adjustment excludes the amounts directly assigned to UPS for fuel stock, materials and supplies, and prepayments, plus the allocated amounts for other working capital consistent with the treatment in prior rate proceedings. The total system adjusted working capital of $155,196,000 (column 4, page 1 of Schedule 10) resulted in jurisdictional adjusted working capital of $151,120,000 (column 6, page 1 of Schedule 10) as derived by Mr. O’Sheasy in the cost-of-service study.

1. Were there any other adjustments made to rate base in Gulf’s last rate case filed in Docket No. 110138-EI that you are not making in this case?
2. Yes. There were several adjustments made in the last case which are not applicable in this case because they related to the forecast amounts for the prior test year or the circumstances giving rise to the need for these adjustments in Gulf’s last rate case do not apply to the 2014 test year. These include adjustments related to the Company’s implementation of Advanced Metering Infrastructure (AMI) Meters, the Crist 6 & 7 Turbine project which was completed in 2012, adjustments to ECCR and distribution investment, and reclassifications from CWIP and PHFU to Plant-in-Service. In addition, in this case Gulf is not making a rate base adjustment related to

incentive compensation in Net Plant-in-Service. Consistent with Mr. Garvie’s testimony regarding the appropriateness of long-term at risk compensation, Gulf believes this compensation is properly included in jurisdictional rate base. The rate base adjustments, including the adjustments not made, are listed in MFR B-2.

Q. What is the total jurisdictional rate base for the 2014 test year after all the appropriate adjustments have been made?

A. As shown on page 1 of Schedule 10 of Exhibit SDR-1, the total jurisdictional adjusted rate base is $1,883,901,000. This represents the used and useful base rate investment which is required to provide service for Gulf’s retail customers, and all these costs were reasonably and prudently incurred.

**III. NET OPERATING INCOME**

1. Now moving to Net Operating Income (NOI), please explain

Exhibit SDR-1, Schedule 12 entitled “Net Operating Income for the Twelve Months Ended December 31, 2014.”

1. This schedule is formatted in the same manner as the rate base schedule.

Page 1 provides the calculation of the test year net operating income. The first column on page 1 of Schedule 12 is calculated based on the 2014 budget data from Schedule 8 of Exhibit SDR-1. The second column includes the regulatory adjustments, which are detailed on pages 2 and 3 of Schedule 12, with more detailed calculations presented on separate schedules as noted under the heading of Schedule Reference on pages 2 and 3. The third column on page 1 of Schedule 12 sets forth the UPS amounts. I will discuss the UPS adjustments and calculations later in my testimony. The jurisdictional adjusted amounts in column 6 were obtained from Mr. O’Sheasy’s Exhibit MTO-2.

1. Have you made the proper adjustments to remove all revenues and expenses related to the cost recovery clauses from NOI?
2. Yes. The appropriate adjustments to remove the revenues (adjustments 1 through 4) and expenses (adjustments 7 through 14, 27, 28, 32, and 35) related to the retail cost recovery clauses are included on pages 2 and 3 of Schedule 12. Additional details supporting each cost recovery clause adjustment are provided on Schedules 13 through 16 of Exhibit SDR-1. These revenues and expenses are considered in the retail cost recovery clauses; therefore, they must be removed from the test year amounts used for determining base rates. As reflected on Schedules 13 through 16, the system amounts have been removed from NOI in Schedule 12, and I have also reflected the jurisdictional amounts for each cost recovery clause.

Q. Please explain the franchise fee and gross receipts adjustments 5, 6, 33, and 36 on Schedule 12.

1. These adjustments are necessary to eliminate county and municipal franchise fee revenues and expenses and gross receipts taxes from consideration in setting base rates. As required by Commission Order No. 6650 in Docket No. 74437-EU, franchise fees are added directly to the county or municipal customer’s bill. Florida gross receipts taxes were removed from base rates in Gulf’s rate case in Docket No. 010949-EI and are separately calculated and shown on the customer’s bill.

Q. Please explain adjustment 15 related to marketing support activities and adjustment 16 related to wholesale sales activities.

1. Expenses related to marketing support activities (adjustment 15) have been removed from NOI in accordance with the Commission’s policy to disallow expenses that are promotional in nature as stated in Commission Order No. 6465 in Docket No. 9046-EU. Expenses related to wholesale sales activities (adjustment 16) were also removed from NOI in the calculation of retail revenue requirements, since these expenses relate directly to activities supporting Gulf’s wholesale customers.

Q. Please explain adjustment 17 and 18 related to institutional advertising and economic development expenses.

A. Consistent with prior Commission decisions, adjustment 17 removes the test year amount of institutional or image building advertising. All other advertising is either recovered in the ECCR clause or meets the criteria for recovery in base rates and is included in the O&M expenses supported by Ms. Strickland in this proceeding.

Adjustment 18 removes 5 percent of the 2014 test year expenses related to economic development expenses. This treatment is also consistent with the Commission’s decision in Gulf’s last rate case, and Ms. Strickland will support the reasonableness of the test year amount.

Q. Please explain adjustments 19, 21, and 34.

A. These adjustments remove the expenses related to management financial planning services (adjustment 19) and the Tallahassee liaison expenses (adjustments 21 and 34), consistent with the Commission’s decision in Gulf’s last rate case.

Q. Please explain adjustment 20 related to the property damage reserve accrual.

A. Gulf is requesting an increase to the annual property damage reserve accrual from the current approved amount of $3.5 million to $9.0 million based on the increased storm reserve target approved by the Commission in Gulf’s last rate case and the current storm damage study. The study is described by Gulf Witness Harris, and the need for this increase and the amount of the accrual are supported by Ms. Erickson in her testimony.

1. Please explain adjustment 22 related to the recovery of Gulf’s rate case expenses.
2. As reflected in MFR C-10, Gulf estimates the incremental expenses related to this rate case filing will be $4,922,000, as discussed by Ms. Erickson. As of December 31, 2013, Gulf projects an unamortized balance of rate case expense associated with its last rate case of $1,596,000. We are requesting to recover the sum of the expenses associated with the current case and the unrecovered expenses associated with Gulf’s last rate case, a total of $6,518,000, at the rate of $1,630,000 per year over a four-year amortization period, which is consistent with the Commission’s decision in Gulf’s last case and other recent Commission decisions regarding the appropriate period over which to amortize rate case expenses. Because an annual amortization of $700,000 approved in Gulf’s last rate case is already included in Gulf’s O&M budget for 2014, I have made an incremental NOI adjustment of $930,000 as calculated on Schedule 17 of Exhibit SDR-1.
3. Please explain the hiring lag adjustment to O&M (adjustment 23).
4. The hiring lag adjustment of $558,000 is explained and quantified in the testimony of Mr. McMillan, including Schedule 5 of his Exhibit RJM-1. This replaces the adjustment to employee position increases made in Gulf’s last rate case.
5. Please explain adjustments 24, 25, and 31 related to O&M expense, depreciation expense, and property taxes associated with Perdido Unit 3.
6. As I discussed earlier in my testimony, Gulf is removing the costs

associated with the addition of a third unit at the landfill gas-to-energy facility at the Perdido landfill. Adjustments 24, 25 and 31 are being made to remove the O&M expense, depreciation expense, and property taxes associated with Perdido Unit 3 that were included in the budget.

1. Please explain adjustment 26 related to O&M expense at Plant Scholz.
2. As discussed in the testimony of Mr. Burroughs, Gulf will be removing from

service two coal units at Plant Scholz in 2015. This decision had not been made at the time the budget which forms the basis for the 2014 test year was prepared. In light of this decision, Mr. Grove has reduced projected O&M expenses for Plant Scholz in the 2014 test year, and adjustment 26 is being made to reflect the lower O&M level required at that plant.

1. Please explain adjustment 29 related to Distribution New Business depreciation expense.
2. Adjustment 29 is to properly reflect the reduction to depreciation expense associated with the adjustment to distribution plant-in-service that I discussed earlier in my testimony.
3. Please explain adjustment 30 related to depreciation and dismantlement expense.
4. As I discussed earlier in my testimony, Gulf filed its 2013 Depreciation Study and 2013 Dismantlement Study on May 24, 2013. Adjustment 30 reflects the impact of these studies on Gulf’s depreciation and dismantlement expense in the 2014 test year, as further discussed in the testimonies of Mr. Huck and Ms. Erickson.
5. Please explain adjustment 37 to taxes other than income taxes.
6. Adjustment 37 is required to remove the FPSC regulatory assessment fees that are associated with the retail revenues and franchise fee revenues removed in adjustments 1 through 5. Schedule 18 of Exhibit SDR-1 shows the calculation of this adjustment.

Q. Please explain adjustment 38 to income taxes on Schedule 12.

1. This adjustment is required to reflect the federal and state income tax effects of adjustments 1 through 37. Schedule 19 of Exhibit SDR-1 shows the calculation of this adjustment.

Q. Have you calculated the appropriate adjustment to income taxes to reflect the synchronized interest expense related to the jurisdictional adjusted rate base?

A. Yes. Adjustment 39 on Schedule 12 reflects the tax effect of synchronizing interest expense to rate base, and Exhibit SDR-1, Schedule 20 shows the calculation of this adjustment. Consistent with prior Commission practice, the synchronized interest expense is computed by multiplying the jurisdictional adjusted rate base by the weighted cost of debt included in the cost of capital. This adjustment ensures that the calculated revenue requirements reflect the appropriate tax deduction for the interest component of the revenue requirement calculation. The jurisdictional capitalization amounts and cost rates were taken directly from Exhibit SDR-1, Schedule 21, and total company interest expense was taken from the projected income statement shown on Exhibit SDR-1, Schedule 8.

Q. Did the Commission make any other NOI adjustments in the last rate case that are applicable in this case?

A. No. The other Commission adjustments to NOI in the last rate case related primarily to expense amounts forecasted for the 2012 test year. These adjustments were specific to the forecast amounts for the prior test year and are not applicable to the forecasts for the 2014 test year. In addition, in this case Gulf is not making NOI adjustments related to incentive compensation or directors and officers liability insurance. Gulf believes these items are properly included in jurisdictional NOI as discussed in the testimony of Mr. Garvie and Ms. Erickson.

Q. Please summarize Gulf’s adjusted O&M request included in the 2014 test year.

A. The Company’s total test year adjusted O&M request is $295,916,000. As discussed in the testimony of the Company’s functional witnesses, the O&M request is reasonable, prudent and necessary to provide reliable electric service to our customers.

Q. What is the total jurisdictional NOI for the 2014 test year after all the appropriate adjustments have been made?

A. Gulf’s jurisdictional NOI for 2014 is $76,359,000.

**IV. JURISDICTIONAL CAPITAL STRUCTURE**

Q. Have you developed the jurisdictional adjusted capital structure and cost of capital for the test year?

A. Yes. Schedule 21, page 1, of Exhibit SDR-1 shows the jurisdictional

13-month average amounts of each class of capital for the test year ended December 31, 2014. It also shows the average cost rates and weighted cost components for each class of capital. Page 2 of this schedule shows how the jurisdictional adjusted capital structure was derived starting with the system amounts in column 1. Pages 3 and 4 show the calculation of the weighted cost rate for long-term debt, and page 5 shows the calculation of the weighted cost rate for preference stock.

Q. How were the cost rates for long-term debt, preference stock, short-term debt, customer deposits, and investment tax credits determined?

A. The cost rates for long-term debt and preference stock reflect their embedded 13-month average costs as calculated on pages 3 through 5 of Schedule 21. The projected interest rate assumptions used in the financial forecast are shown in MFR F-8. The assumptions used in the forecast for new issues were provided by Southern Company Services Finance and were based on the September 2012 market forecast by Moody’s Analytics. The customer deposit cost rate of 2.30 percent was based on the interest rates required pursuant to FPSC Rule 25-6.097, Customer Deposits. The cost for investment tax credits of 8.18 percent was calculated in accordance

with current IRS regulations and past Commission practice, using the weighted average of the three main investor sources of capital.

Q. Please explain how the jurisdictional capital structure was developed.

A. As shown on page 2 of Schedule 21, I started with the 13-month average total company capital structure by class of capital for the test year ended December 31, 2014. These total company amounts were calculated based on the projected balances for each item in the capital structure from the balance sheet shown on Exhibit SDR-1, Schedule 7. In columns 2 through 5 and 7, I have identified five adjustments which were removed from specific classes of capital. The remaining adjustments required to reconcile the rate base and capital structure were made on a pro rata basis as shown in column 10.

Q. Please explain the five items for which you have made adjustments to specific classes of capital.

1. As shown in columns 2 and 3 on page 2, common dividends declared and unamortized debt premiums, discounts, issuing expenses and losses on reacquired debt are account specific and have been directly assigned to the common stock and long-term debt classes of capital, respectively. The third item, shown in column 4, is the removal of non-utility amounts from the common stock class of capital consistent with past Commission policy. The fourth item in column 5 reclassifies the unamortized loss related to interest rate hedges from common equity and deferred taxes to long-term debt. The last item, shown in column 7, is the removal of the UPS capital structure amounts. The UPS capital structure adjustments are consistent with past Commission decisions to remove all investments and expenses related to Plant Scherer from retail jurisdictional calculations since this plant’s output is being sold to non-territorial wholesale customers. I specifically identified the deferred taxes and investment tax credits related to Plant Scherer and then allocated the remaining UPS investment over the other external sources of funds.

Q. Why is it appropriate to make the remaining adjustments on a pro rata basis?

1. When reconciling capital structure to rate base, it is appropriate and necessary to include all sources of funds to avoid potential inconsistencies in the treatment of like expenditures for regulatory purposes. The pro rata treatment is consistent with prior Commission practice and tax normalization problems could result if the treatment is not consistent for all regulatory purposes. Current Commission practice provides an overall return in the cost recovery clauses and AFUDC rate computations; therefore, the base rate treatment should be consistent with these other regulatory requirements to avoid normalization problems and inconsistent regulatory treatment.

Q. Does this conclude your discussion of how you developed the jurisdictional adjusted cost of capital?

A. Yes. These calculations, which are detailed in Schedule 21 of Exhibit SDR-1, result in a cost of capital of 6.47 percent based on a requested return on equity of 11.50 percent, which is supported in the testimony of Gulf Witness Dr. Vander Weide.

**V. UPS ADJUSTMENTS**

Q. You have previously mentioned that you are supporting the Plant Scherer UPS adjustments that have been used in developing the rate base, NOI, and capital structure in this filing. Please explain how these amounts were calculated.

A. The UPS amounts, which have been identified on Schedules 10, 12, and 21 of Exhibit SDR-1, were computed in the same manner as they were in Gulf’s last three rate cases. The UPS rate base and NOI adjustments reflect the removal of all amounts related to Plant Scherer. These adjustments include all Scherer investment and expenses, including allocated amounts of general plant, working capital, and administrative and general expenses consistent with prior Commission treatment.

**VI. GENERAL PLANT INVESTMENT**

Q. Schedule 10 of Exhibit SDR-1 shows a total of $2.944 billion of plant-in-service investment in Gulf’s 2014 rate base in this case. Are the General Plant assets associated with these costs used and useful in the provision of electric service to the public?

A. Yes. The General Plant assets of $168,430,000 included in plant-in-service are used and useful in the provision of electric service.

Q. Were these General Plant costs reasonable and prudently incurred?

A. Yes. All General Plant projects are subject to the review and approval process and cost control monitoring which govern our capital budgeting process as described earlier in my testimony.

Q. What is Gulf’s projected General Plant capital additions budget for 2013 and 2014?

A. As shown on Schedule 25 of Exhibit SDR-1, Gulf’s General Plant capital additions budget for 2013 is $17,112,000 and for 2014 is $8,289,000. The major items included in the 2014 test year are:

* Automobiles, Trucks and Equipment $3,340,000
* Office Facility Capital Items $1,260,000
* IT Projects $2,516,000
* Tools and Test Equipment $ 494,000
* Other Projects $ 679,000

Q. Please address what is included in the General Plant capital budget and how it is developed.

A. The General Plant capital budget items include the investment in facilities and equipment not specifically provided for in the other functional accounts. The major types of investment include office buildings and related office furniture and equipment, transportation equipment, communication equipment, and other miscellaneous equipment. The budget requests for these types of investment are coordinated and submitted at a Company level by the responsible Corporate area. Mr. McQuagge discusses the test year amount for automobiles, trucks and equipment since this investment primarily supports the distribution and transmission business units. The General Plant requests are included in the capital budget review and approval by the executives.

Q. How does Gulf control General Plant capital costs after the capital budget is approved?

A. As I discussed earlier in my testimony, detailed explanations are required quarterly for project variances of greater than 10 percent or $250,000 (whichever is lower). Variances less than $10,000 do not require variance explanations.

**V. REVENUE DEFICIENCY**

Q. Based on the 2014 jurisdictional adjusted amounts for rate base of $1,883,901,000, NOI of $76,359,000, and the test year cost of capital of 6.47 percent, have you calculated Gulf’s achieved rate of return and return on common equity for the test year if no rate relief is granted?

A. Yes. Without rate relief, Gulf’s achieved rate of return will be 4.05 percent and the achieved return on common equity will be 5.14 percent for the test year, as shown on Schedule 22 of Exhibit SDR-1.

Q. Have you calculated the jurisdictional revenue deficiency for the test period brought about by the difference in Gulf’s achieved jurisdictional rate of return of 4.05 percent and the test year cost of capital of 6.47 percent?

A. Yes. The revenue deficiency is $74,393,000, as calculated on Exhibit SDR-1, Schedule 23, which references the schedule where each figure was derived. Schedule 24 of that exhibit shows the calculation of the NOI multiplier, which provides for the income taxes, FPSC Assessment Fees and uncollectible expenses needed in addition to the required after tax NOI in order for the Company to achieve the requested rate of return of 6.47 percent.

**VIII. COMPLIANCE-RELATED TRANSMISSION COSTS**

Q. Please discuss the compliance-related transmission costs Gulf will incur in order to comply with MATS requirements.

A. 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 described Gulf’s compliance plan and requested approval of Gulf’s strategies necessary to meet the requirements of the MATS rule. Gulf’s analysis of its options determined that certain transmission upgrades are the best, most cost-effective option for compliance with the MATS rule. Mr. Caldwell discusses the specific projects that comprise these transmission upgrades in his testimony and has provided me with the associated capital additions and clearings to plant-in-service. By July 1, 2015, Gulf projects to have invested $128,945,000 in these compliance-related transmission (CRT) upgrades.

Q. What is the appropriate mechanism for recovery of these CRT costs?

A. The CRT costs should be recovered through the ECRC. These costs 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: (1) they will be prudently incurred after April 13, 1993; (2) the activities are legally required to comply with an environmental regulation 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.

Q. Has the Commission approved Gulf’s compliance plan for MATS and the associated recovery of the CRT costs through the ECRC?

A. As of the date of filing of Gulf’s rate case, Gulf’s MATS compliance plan and the associated mechanism for recovery of MATS compliance costs has not yet been approved by the Commission due to the timing of events in Docket 130092-EI. Therefore, Gulf’s 13-month average 2014 test year in this rate case filing includes a small amount of costs associated with CRT projects that are projected to go into service in May and December of 2014. If Gulf’s request for recovery of these costs through the ECRC is approved prior to the decision in this base rate docket, then the CRT costs included in Gulf’s 2014 test year will need to be removed. Schedule 1 of Exhibit SDR-2 shows the Total Company and Jurisdictional adjustments to rate base and NOI that are necessary to remove the investment and expenses associated with the CRT projects from the 2014 test year. The impact on the Company’s request for rate relief is a reduction of $637,000.

Q. What does Gulf propose if the Commission determines that these compliance-related costs should be included in base rates?

A. As I stated above, the impact on the 2014 test year of the MATS compliance costs is relatively small, especially when compared to the total cost of these projects. As described in more detail in Mr. Caldwell’s testimony, most of the investment associated with these projects does not go into plant-in-service until 2015. The annual revenue requirements associated with the CRT projects once they are placed in service are substantial – approximately $17 million in total in the first full year they are in service – and would have a significant adverse impact on earnings in 2015. Avoiding that negative earnings impact would require Gulf to petition the Commission for a costly limited proceeding or a full rate case soon after completing this rate case. To avoid either a limited proceeding or another full rate case, Gulf is proposing a step increase to base rates to cover the costs associated with CRT projects that go into service by June 2015, in the event that the Commission does not approve their recovery through the ECRC.

Q. What is the amount of the step increase in base rates that Gulf is requesting if the CRT costs are not recovered through the ECRC?

A. If the Commission finds that the CRT 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 CRT projects would be reflected in base rates, less the amount included in the 2014 test year. This amount includes the return on net plant-in-service at the cost of capital requested by Gulf in this docket, along with depreciation expense and property taxes on the CRT projects. In addition, the requested step increase includes a provision that makes the Company whole for the return on investment and depreciation expense on the CRT projects for the portion of 2015 prior to the time the step increase is effective.

Q. How is the step increase calculated?

A. Schedule 2 of my Exhibit SDR-2 shows the 13-month average rate base and 12 month-to-date NOI associated with the CRT projects for the period ending June 30, 2016. In addition, Schedule 2 shows the calculation of the revenue requirements associated with this rate base and NOI using the cost of capital requested in this rate case. As shown on Schedule 2, the requested step increase is $16,392,000.

Q. Please explain the Company’s proposed treatment of the return on investment and depreciation costs incurred by the Company but not recovered through rates prior to the step increase.

A. As I mentioned earlier in my testimony and described in Mr. Caldwell’s testimony, the transmission investment required to comply with the MATS rule is significant to Gulf. During the first six months of 2015, until the proposed step increase becomes effective on July 1, 2015, significant depreciation costs and investment carrying costs that are not included in base rates will be incurred by the Company on these mandatory compliance projects. Gulf is proposing that these costs, totaling $1,958,000 as shown on Schedule 3 of Exhibit SDR-2, be deferred in a regulatory asset for the period January 1, 2015 through June 30, 2015. The calculation of the amount of the regulatory asset is shown on Schedule 3 of Exhibit SDR-2. It includes the depreciation expense and deferred return on each CRT project from the time it goes into service through June 30, 2015. The regulatory asset also includes a deferred return from January 1, 2015 until their in-service date on the investment in two CRT projects that are not eligible for AFUDC and are therefore included in non-interest bearing CWIP. The deferred return on the CRT investment is calculated at Gulf’s currently approved AFUDC rate using our requested Return on Equity (ROE) of 11.50 percent. Beginning July 1, 2015, the regulatory asset should be amortized over a four-year period, with the amortization and the 13-month average unamortized balance of the deferred asset included in the calculation of the step increase. Thus, Gulf would be made whole for the cost of the investment made to comply with the MATS rule. Schedule 3 of Exhibit SDR-2 shows the calculation of the regulatory asset along with the amortization and 13-month average unamortized balance during the period ending June 30, 2016.

Q. How have the rates associated with the step increase been calculated?

A. In his testimony in this proceeding, Gulf Witness Thompson describes how Gulf calculated the rates necessary to implement the step increase effective

July 1, 2015.

**IX. SUMMARY**

Q. Please summarize your testimony.

A. Gulf utilizes a very straightforward, logical and comprehensive budget and financial forecasting process. This process is performed annually and results in a forecast that management uses as a tool in planning and decision making. The assumptions contained in the budget process are reasonable, and the resulting financial forecast provides a reasonable and sound basis for projecting the results of Gulf’s operations during the 2014 test year as incorporated in the MFRs, testimony and exhibits filed in this case.

Gulf’s test year jurisdictional adjusted rate base is $1,883,901,000. This amount represents the retail base rate investments that are used and useful in providing service to Gulf’s retail customers during the test year. As described by other witnesses, these investments are reasonable and prudent.

Gulf’s total achieved jurisdictional adjusted NOI for the 2014 test year is $76,359,000, absent the rate relief requested in this proceeding. The O&M expenses included in the calculation of NOI are supported by witnesses from each functional area. The projected level of expense is reasonable and prudent to continue to provide reliable electric service to our customers, and it is representative of the level of expenses that will be incurred in the future.

Gulf’s weighted average cost of capital for the test year is 6.47 percent. This cost is based on Gulf’s actual or projected cost of each source of capital and a required return on equity of 11.50 percent as recommended by Dr. Vander Weide. The combination of jurisdictional adjusted rate base, NOI and weighted average cost of capital shows that Gulf requires a retail base revenue increase of $74,393,000 in order to have the opportunity to earn a fair rate of return on its investment in property used and useful in the provision of electric service. This increase is crucial to enable Gulf to make the investments and incur the costs required to continue to provide safe, efficient and reliable service to its customers.

Gulf’s compliance plan to meet the MATS rule involves significant transmission upgrades. Gulf believes that the appropriate mechanism for recovery of these costs is through the ECRC. If the Commission approves such recovery, a reduction of $637,000 is necessary to the rate relief requested in this proceeding. However, if the Commission determines that these compliance-related transmission costs should be included in base rates, the Company is requesting a step Increase of $16,392,000 effective July 1, 2015 to provide rates to recover the substantial increase in costs required for compliance with the MATS rule.

Q. Ms. Ritenour, does this conclude your testimony?

A. Yes.

AFFIDAVIT

STATE OF FLORIDA ) Docket No. 130140-EI

 )

COUNTY OF ESCAMBIA )

 Before me the undersigned authority, personally appeared Susan D. Ritenour, who being first duly sworn, deposes, and says that she is the Corporate Secretary, Treasurer and Corporate Planning Manager of Gulf Power Company, a Florida corporation, and that the foregoing is true and correct to the best of her knowledge, information, and belief. She is personally known to me.

 The signed original affidavit is attached to the

 original testimony on file with the FPSC.

 *s/\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_*

 Susan D. Ritenour

 Corporate Secretary, Treasurer and

 Corporate Planning Manager

 Sworn to and subscribed before me this \_\_\_\_\_\_ day of \_\_\_\_\_\_\_\_\_\_\_\_\_, 2013.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Notary Public, State of Florida at Large

Commission No. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

My Commission Expires \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Responsibility for Minimum Filing Requirements

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