FILED FEB 08, 2017
DOCUMENT NO. 01640-17
FPSC - COMMISSION CLERK

Gulf Power

Robert L. McGee, Jr.
Regulatory & Pricing Manager

One Energy Place
Pensacola, FL 32520-0780
850 444 6530 tel
850 444 6026 fax
rlmcgee@southernco.com

February 8, 2017

VIA ELECTRONIC FILING

Ms. Carlotta Stauffer
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Petition for rate increase by Gulf Power Company, Docket No. 160186-EI

Dear Ms. Stauffer:

Attached is the Rebuttal Testimony and Exhibit of Gulf Power Company Witness Jeffrey A. Burleson.

(Document 1 of 16)

Sincerely,

Robert L. McGee, Jr.

Robert L. McGee, Jr.
Regulatory & Pricing Manager

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 160186-EI

Gulf Power

REBUTTAL TESTIMONY AND EXHIBIT

OF

JEFFREY A. BURLESON

GULF POWER COMPANY

Before the Florida Public Service Commission
Rebuttal Testimony of
Jeffrey A. Burleson
Docket No. 160186-EI
In Support of Rate Relief
Date of Filing: February 8, 2017

Q. Please state your name, business address and occupation.

A. My name is Jeff Burleson. My business address is 600 North 18th Street, Birmingham, AL 35203. I am the Commercial Services and Planning Vice President for Southern Company Services (SCS).

Q. Have you previously filed testimony in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to address the testimony of Office of Public Counsel (OPC) Witness Dauphinais and Sierra Club Witness Mosenthal. First, I will address Mr. Dauphinais's claims that Gulf Power Company (Gulf) has broken the regulatory compact with regard to Gulf's ownership interest in Plant Scherer Unit 3 (Scherer 3). Next, I will show that Gulf has made decisions that were in the best interest of retail customers and that were consistent with the regulatory compact throughout Scherer 3's history. Then, I will respond to Witnesses Dauphinais and Mosenthal's economic comparisons of Scherer 3 and will show that, under an appropriate comparison, Scherer 3 provides value to Gulf's retail customers. Finally, I will address other portions of the testimonies of Witnesses

Dauphinais and Mosenthal that are misleading or factually incorrect and will provide clarification or correction for the Commission regarding these assertions.

Q. Are you sponsoring any rebuttal exhibits?

A. Yes. Exhibit JAB-3 includes two schedules. Schedule 1 of Exhibit JAB-3 shows Gulf's capacity need and type by year, as embedded in the Budget 2003 Southern Electric System Integrated Resource Plan (IRP). Schedule 2 of Exhibit JAB-3 is a table from the response Gulf provided to Staff's Eleventh Set of Interrogatories, Item No. 376, which shows the results of an economic analysis of continuing to operate Scherer 3 on behalf of Gulf's customers in Northwest Florida. Exhibit JAB-4 is a listing of misleading and/or incorrect assertions made by Witnesses Dauphinais and Mosenthal, along with my clarification regarding those assertions. These exhibits were prepared under my direction and control, and the information contained therein is true and correct to the best of my knowledge and belief.

I. SCHERER 3 AND THE REGULATORY COMPACT

Q. What is the regulatory compact?

A. As Gulf Witness Deason describes in his direct testimony, the regulatory compact is an implied contract that exists among a regulated public utility, its regulators, and its customers. It lays the foundation for regulation and balances the interests (and risks) of all stakeholders. It has been employed to characterize the set of mutual rights, obligations, and benefits that exist between the utility and its customers.

Q. Does Mr. Dauphinais address the regulatory compact?

A. Yes. Mr. Dauphinais refers to the regulatory compact five times in his testimony. It should be noted that Mr. Dauphinais does not testify that the concept of a regulatory compact does not exist among a regulated public utility, its regulators, and its customers. However, as Mr. Deason points out, Mr. Dauphinais demonstrates a lack of understanding of the nature of the regulatory compact.

Q. Does Mr. Dauphinais testify that the regulatory compact did not apply when Gulf acquired an ownership share of Scherer 3?

A. No, Mr. Dauphinais does not dispute the existence of a regulatory compact. Moreover, he does not dispute the facts that Gulf committed to cancel Caryville Unit 1, acquire an interest in Scherer 3 for the benefit of retail customers, and secure temporary off-system wholesale contracts for the benefit of its retail customers. All of these actions were taken at the encouragement of the Commission. As described by Mr. Deason, these actions were taken pursuant to and consistent with the regulatory compact.

Q. What specifically does Mr. Dauphinais claim in his testimony?

A. Mr. Dauphinais wrongly claims that the regulatory compact was broken. (Page 22, lines 7 to11).

Q. What evidence does Mr. Dauphinais give that the regulatory compact regarding Scherer 3 has been broken by the course of action Gulf chose to follow over the past 35 years?

A. None. Mr. Dauphinais does not offer evidence in support of his claim. Instead, he merely suggests that the timing of returning Scherer 3 to retail service, coupled with his misperception of the motivation for doing so, has broken the regulatory compact.

Q. What does Mr. Dauphinais claim regarding how the timing of returning Scherer 3 to retail service has broken the regulatory compact?

A. Mr. Dauphinais suggests that Scherer 3 should have been utilized to serve Gulf's retail customers "within six years of entering service, not 29 years after entering service." (Page 24, line 5)

Q. Was it 29 years after entering service before Scherer 3 began serving Gulf's retail customers?

A. No, in fact Scherer 3 has been serving Gulf's retail customers in varying amounts at various times, starting with the day it was declared to be in commercial operation. Notably, portions of Scherer 3 served retail customers from January 1, 1987 through December 31, 1994 and from January 1, 2016 through today. Portions of Scherer 3 have been dedicated to retail customers in more than 25 percent of the years since it went in service. Additionally, since Scherer 3 went commercial, it has been available to serve, and in fact has served, Gulf's retail customers through economic dispatch whenever the off-system wholesale customers were not calling on their contracted portion of the output.

Q. Should the timing and amount of Scherer 3 that served Gulf's retail customers at any given point in time invalidate or break the regulatory compact?

A. No, absolutely not. The Commission encouraged Gulf to acquire the asset and secure temporary off-system wholesale contracts for the benefit of retail customers. As I will describe below, the date at which Scherer 3 would be fully dedicated to retail service was appropriately postponed three times in Scherer 3's history. Each time, the decision was enabled by the availability of off-system wholesale opportunities, was in the best interest of Gulf's retail customers, and was consistent with the regulatory compact. Because of the ability to secure off-system wholesale contracts at each of these times, to have fully dedicated Scherer 3 to serve retail customers at any one of those three decision points would not have been in the best interest of retail customers.

Q. What is Mr. Dauphinais's claim regarding how Gulf's motivation for returning Scherer 3 to retail service has broken the regulatory compact?

A. Mr. Dauphinais claims that Gulf has broken the regulatory compact by seeking to serve its retail customers with its Scherer capacity only "when it has been unable to find better market opportunities for itself…" (Page 24, lines 9 to 10)

Q. Is it true that Gulf is only seeking to serve its retail customers with its Scherer capacity because it has been unable to find better market opportunities for itself?

A. No. Unlike previous decision points, and despite Gulf's consistent efforts, Gulf has been unable to find off-system wholesale market opportunities that would temporarily relieve retail customers from the revenue requirements of Scherer 3. Thus, Gulf has the decision either to rededicate Scherer 3 to serve retail customers and allow retail customers to get the full benefits of Scherer 3, or to divest its share of the unit, as discussed by Gulf Witnesses Connally and Liu. In the event Gulf divests its Scherer 3 asset, customers will have a cost obligation under the regulatory compact without the many benefits that Scherer 3 can provide. It is in the best interest of customers and entirely consistent with the regulatory compact to now return Scherer 3 to retail service as it was originally intended.

Q. What is your conclusion regarding Mr. Dauphinais's testimony that Gulf has broken the regulatory compact regarding Scherer 3?

A. Gulf has not broken the regulatory compact regarding Scherer 3. Rather, it has consistently acted in accordance with the regulatory compact. At each decision point in Scherer 3's history, Gulf made decisions that were in the best interest of retail customers. Moreover, the 1989 rate order, in referring to Scherer 3, states "This capacity will not be available to serve Gulf's territorial customers until the year 2010." (Order 23573, p. 12) Clearly, the Commission did not view the regulatory compact as broken at that time.

II. HOW SCHERER 3 DECISIONS WERE IN THE BEST INTEREST OF RETAIL CUSTOMERS

Q. What were the major decision points in Scherer 3's history?

A. There are five major decision points in Scherer 3's history.

(1) The 1981 decision to purchase a 25 percent ownership share in Scherer 3 in lieu of building the more costly Plant Caryville Unit 1.

(2) The decision to enter into off-system Unit Power Sales contracts that were executed in 1982 for the period 1987 through 1995.

(3) The decision to enter into the off-system Unit Power Sales contracts in 1988 that extended wholesale coverage through 2010.

(4) The decision to enter into off-system wholesale Power Purchase Agreements in 2004 to extend full wholesale coverage from 2010 through 2015.

(5) The decision to rededicate the uncovered portion of Scherer 3 to retail customers beginning in 2016.

Q. Were Gulf's decisions consistent with the regulatory compact and in the best interest of customers at each of these five major decision points?

A. Yes, at each of these major decision points, Gulf made decisions that were consistent with the regulatory compact's foundation of Gulf economically meeting its obligation to serve based on the information known at the time of each decision.

Q. How was the decision to purchase a 25 percent ownership share of Scherer 3 in 1981 consistent with the regulatory compact and in the best interest of customers?

A. The acquisition of a 25 percent ownership interest in Scherer 3 was a lower cost and better alternative for retail customers than the planned Caryville Unit 1 for three reasons.

First, the 1977 Clean Air Act amendments required all new coal generating units that had not begun construction to be equipped with scrubbers. Scherer 3 had already begun construction by 1977, whereas Caryville Unit 1 had not. As a result, the acquisition of an ownership interest in Scherer provided cost savings to Gulf's retail customers by avoiding the requirement for a scrubber at the time the unit went in service.

Second, in 1984, Gulf was able to modify the original February 19, 1981 agreement with Georgia Power Company for the purchase of a 25 percent ownership interest in both Units 3 and 4 at Plant Scherer to be only a 25 percent ownership interest in Scherer 3. This flexibility allowed Gulf, based on information available at that point in time, to more closely align the amount of capacity purchased to the need of its retail customers in a period where load forecasts were declining. The decision to purchase a 25 percent ownership interest only in Scherer 3 was in the best interest of retail customers based on everything known at that point in time.

Third, the units at Plant Scherer were designed as larger units than the planned units at Caryville because of the larger load growth at Georgia Power. Their size allowed Gulf to secure the benefits of the economies of scale associated with Plant Scherer, resulting in a more efficient unit with a lower cost per kilowatt than would have been achieved with the planned Caryville units.

This set of conditions and actions allowed Gulf to meet its obligation to serve with a lower cost, more efficient resource than would have been available with Caryville, all while maintaining consistency with the regulatory compact by acting in the best interest of retail customers. Therefore, it is not at all surprising that the Commission encouraged the acquisition of Scherer 3.

Q. How was the decision to enter into the off-system Unit Power Sales contracts that were executed in 1982 consistent with the regulatory compact and in the best interest of customers?

A. Gulf entered into the 1982 off-system UPS agreements to temporarily relieve retail customers of revenue requirement responsibility for the units in the early life of Scherer 3 in response to declining load forecasts. The decision to temporarily sell the capacity in the wholesale market provided significant benefits to Gulf's retail customers by enabling efficient, low cost capacity to be secured for the future use of retail customers while, at the same time, temporarily relieving them of the early year revenue requirements. Gulf entered into these agreements at the encouragement of the Commission and deferred the retail use of Scherer 3 in order to minimize costs for its retail customers, an action which was consistent with the regulatory compact.

Q. How was the decision to enter into the off-system Unit Power Sales contracts in 1988 that extended wholesale coverage through 2010 consistent with the regulatory compact and in the best interest of customers?

A. The option to enter into the 1988 UPS agreements enabled Gulf to continue to temporarily defer the retail rate basing of Scherer 3 until its availability better aligned with a baseload need, at which time Gulf's retail customers would realize cost savings when they began to be served by a low variable cost, efficient and partially depreciated unit.

By the latter part of the 1980's, due to continued declines in load forecasts, reserves were projected to be adequate beyond the mid-1990s. At the same time, the optimal type of capacity addition began to change from baseload to peaking based on the lower load forecasts and the then-current mix of existing generation. The 1988 agreements allowed Gulf to further defer and reduce the revenue requirements for the benefit of retail customers during a period when peaking capacity was a more cost-effective addition than baseload capacity. Thus, the ability to enter into the 1988 agreements, along with Gulf's decision to execute the agreements, assured that Gulf continued to meet its obligation to serve in a low cost manner while remaining consistent with the regulatory compact.

Q. How was the decision to enter into wholesale Power Purchase Agreements (PPAs) in 2004 to extend full off-system wholesale coverage from 2010 through 2015 consistent with the regulatory compact and in the best interest of customers?

A. The opportunity to enter into the 2004 PPAs, and Gulf's decision to execute the 2004 PPAs that committed capacity to be supplied off-system starting in 2010, again temporarily deferred the retail rate basing of Scherer 3 to a time when a better match was projected between the Scherer 3 capacity and the capacity needed for Gulf to economically meet its obligation to serve.

In the 2003 timeframe, Gulf's Ten Year Site Plan showed that Gulf's first capacity need was for peaking resources in 2007, and Gulf's first planned resource addition was 314 MW of peaking capacity. As shown in Exhibit JAB-3, Schedule 1, the Budget 2003 Southern Electric System IRP, which extended the planning horizon beyond the 10 years included in the Ten Year Site Plan, indicated that Gulf had a base load need in the 2016 timeframe.

In 2003, Florida Power and Light Company (FPL) and Progress Energy Florida (Progress) each issued Request for Proposals (RFPs) seeking capacity and energy for the 2010-2015 timeframe. A response to the RFPs resulted in execution of new PPAs in 2004 to sell the output of Gulf's interest in Scherer Unit 3 at wholesale to FPL and Progress starting in 2010 and an additional agreement was separately secured with Flint Energies starting in 2010. Importantly, the ability to secure the off-system wholesale PPAs allowed Gulf to meet its projected near-term peaking need with peaking capacity while continuing to temporarily defer the retail rate basing of Scherer Unit 3 costs until a better match existed between the Scherer 3 capacity and Gulf's need for the baseload resource. Based on everything known to Gulf at that time, securing the PPAs was the best decision on behalf of retail customers and was consistent with the regulatory compact.

Q. Finally, how was the decision to rededicate the uncovered portion of Scherer 3 to retail customers beginning in 2016 consistent with the regulatory compact and in the best interest of retail customers?

A. The decision to rededicate Scherer 3 to serve retail customers provides the best value to Gulf customers who will receive all the benefits of this efficient, low variable cost, well-controlled, reliable coal unit. At each of the previous decision points, based on the availability of the wholesale market and everything known at those specific points in time, Gulf was able to better match the Scherer 3 capacity with the projected amount, timing and type of capacity needed by its retail customers by entering into off-system wholesale contracts that temporarily deferred the rate basing of the full amount of the Scherer 3 capacity. This benefited Gulf's retail customers by having off-system wholesale customers bear the majority of the Scherer 3 capacity costs during the highest annual revenue requirement years of Scherer 3.

Gulf has marketed the output of Scherer 3 in recent years but has been unable to find a buyer for the output of the unit due to wholesale market conditions following the Great Recession. The only alternative to rededicating the unit to retail service would be to divest the asset, likely at a loss, which would put an unnecessary cost burden on the retail customers for whom Scherer 3 was originally acquired. It is in the best interest of Gulf's customers to place Scherer 3 in rate base now and receive all of the future benefits of the unit, as opposed to making a decision that would result in costs to retail customers without corresponding benefits.

Q. Have retail customers benefited from Gulf's decision to purchase a 25 percent ownership interest in Scherer 3?

A. Yes, had the Commission not given Gulf encouragement to purchase an ownership interest in Scherer 3, Gulf would have almost certainly had to build Caryville Unit 1. Due to the long lead times for new generation and associated transmission, commitments to Caryville-related equipment and construction would have been needed far in advance of its commercial operation date. These commitments would have almost certainly been needed before the growth rates of load forecasts began to slow enough to significantly defer the need.

A commitment to Caryville Unit 1 would have been a commitment to a unit with a significantly higher capital cost per kilowatt, lower efficiency and a larger amount of capacity than Gulf's ownership interest in Scherer 3. These Caryville commitments would mean that Gulf's customers would have been served by a higher cost and less efficient unit than Scherer 3. In addition, Gulf's customers would have been obligated to a larger number of MWs than Scherer 3, despite load forecast growth rates and the associated need for new capacity that were both declining.

III. SCHERER 3 ECONOMIC ANALYSIS

Q. Both Witnesses Dauphinais and Mosenthal assert that Gulf should be required to perform an economic need analysis for Scherer 3 as if it were a new generating resource being developed to meet a current capacity need. Is such an analysis appropriate?

A. No. A capacity need assessment is required before the addition of new generating capacity. An economic analysis is appropriate at that time to demonstrate the economics of the type of generation targeted to fill the need. The fundamental decision on the need and cost-effectiveness of Scherer 3 was made when the Commission encouraged Gulf to enter into the purchase of an interest in Plant Scherer as a lower cost alternative to construction of a unit at Caryville. It would be fundamentally unfair and, moreover, would violate the regulatory compact, to second-guess that decision – or any other past decision to invest in generating resources for the benefit of retail customers – 30 years after the fact with the benefit of hindsight.

The inappropriate approach proposed by Witnesses Dauphinais and Mosenthal implies that every existing generating resource serving retail customers under the regulatory compact could be subjected to an economic need re-assessment at any time. It further implies that if some of those resources are found not to be needed or not economic at a given point in time, then customers should be relieved of the associated revenue requirements. This approach would require the Commission to continually reassess past generating decisions with the benefit of 20-20 hindsight and would be totally inconsistent with the regulatory framework under which the Commission and utilities operate.

Q. What type of analysis would be appropriate for evaluating Gulf's ownership interest in Scherer 3 or any other generating resource serving retail customers under the regulatory compact?

A. The appropriate analysis would compare the incremental costs and incremental benefits of Scherer 3 relative to the incremental cost and incremental benefits of a reasonable alternative. This type of analysis ignores sunk costs that are already committed based on the regulatory compact. This type of approach is standard practice in the industry for assessing whether to continue operating a unit for retail service or whether to retire a unit and replace it with another capacity option. Mr. Deason discusses Commission precedent on the use of incremental costs instead of total costs (including sunk costs) in making forward-looking economic analyses regarding assets under construction. The same principles apply to existing assets covered under the regulatory compact.

Q. Did Witnesses Dauphinais and Mosenthal provide economic comparisons of alternatives to Scherer 3 that did not consider the regulatory compact?

A. Yes, they inappropriately provided comparisons between Scherer 3 and other resource options such as a new natural gas-fired generating unit, solar and wind generation, and demand side management as though Scherer 3 were a new, uncommitted resource.

Q. Has Gulf conducted an economic analysis that utilizes the appropriate analytical approach you describe for a resource like Scherer 3 which has already met the economic need test?

A. Yes, in response to Staff's Eleventh Set of Interrogatories, Item No. 376, Gulf performed an analysis of the benefits and costs of Scherer 3 serving Gulf's retail customers over the next 30 years versus a discontinuation of the unit's service to retail customers coupled with replacement capacity to maintain adequate reliability. A table from Gulf's response to this interrogatory is included as Exhibit JAB-3, Schedule 2.

Q. What type of replacement unit for Scherer 3 was considered in the analysis?

A. The replacement unit considered was the addition of approximately 210 MW of new gas-fired combustion turbine (CT) capacity. Without Scherer 3 in its generation portfolio, Gulf's next capacity need would be approximately 210

MW higher. The capacity type currently contemplated in Gulf's Ten Year Site Plan to meet the Company's next capacity need is a new CT generation facility. Accordingly, the analysis assumes the Scherer 3 replacement capacity is a hypothetical new CT resource scaled to exactly match the amount of capacity provided by Gulf's ownership interest in Scherer 3.

Q. What costs did you assume for your analysis?

A. For Scherer 3, the analysis considered all costs that could be avoided if Gulf's interest in Scherer 3 were sold or retired. These costs include projections over the next 30 years of all maintenance capital, ongoing operations and maintenance costs, fuel, and transmission costs. Costs that are unavoidable such as the net book value that is ultimately a retail obligation under the regulatory compact were excluded. For the replacement unit, the analysis considered the construction costs, as well as all costs to support operations over the next 30 years.

Q. What benefits did you assume for your analysis?

A. The analysis considered the capacity and energy benefits for both Scherer 3 and the replacement unit. Capacity benefits were calculated based on the Retail Capacity Price Forecast used by Gulf. Energy benefits for Scherer 3 and the replacement unit were estimated by comparing the cost of each option to the projected hourly Southern Electric System marginal replacement costs.

Q. What did you assume happens to the Scherer 3 net book value if it is replaced by the combustion turbine?

A. We assumed it would be a stranded cost. We did not assume any proceeds if the asset were to be divested. Any reasonable estimate of such proceeds would not materially change the results of the analysis.

Q. Did you perform your analysis for more than one scenario?

A. Yes. The analysis was performed across nine scenarios in order to capture variations in the operating environments that could affect the units. The nine cases are developed around uncertainty in long-term natural gas prices and potential CO_2 prices.

Q. What were the results of the analysis?

A. The results in eight of the nine scenarios show that continuing to operate Scherer 3 over the next 30 years provides more value for Gulf's customers than replacing the unit. The average value across the eight positive scenarios was $198 million Net Present Value. Only one scenario showed that replacing Scherer 3 provides more value to Gulf's customers than continuing to operate it, with only a $5 million Net Present Value. The analysis conclusively shows that there is more value to Gulf's customers by continuing to operate Scherer 3 than replacing it.

Q. Are there any other considerations for the value of Scherer 3 to Gulf's customers that were not captured in your economic analysis?

A. Yes. Plant Scherer was selected by the PRB Coal Users' Group as the 2017 Plant of the Year. This prestigious award recognizes a power plant for its innovation and the implementation of "best practices and continual improvements in areas including safety, environmental performance, coal handling, boiler and combustion and risk management." This award is recognition of the value that Scherer 3 brings to the customers of its co-owners. Furthermore, as described in my direct testimony, retaining Scherer 3 complements Gulf's resource plans by offsetting a portion of the lost fuel diversity associated with recently retired coal-fired units and serves as a hedge to the volatility of natural gas prices.

Q. Mr. Mosenthal asserts that Scherer 3 is not used and useful for the retail customers of Gulf Power. Is Scherer 3 used and useful for Gulf's retail customers?

A. Yes. Scherer 3 is both used and useful for Gulf's retail customers. Scherer 3 is operating and economically dispatching in the Southern Company system for the benefit of Gulf's retail customers. Since the 160 MWs became available to serve retail customers starting in June, Scherer 3 has operated at an average capacity factor of 59 percent. During this period, Scherer 3 represented five percent of Gulf's total capacity dedicated to retail and supplied six percent (more than 400,000 MWh) of Gulf's retail customers' total energy. Additionally, Scherer 3 is "used and useful" in that it is reducing reliability risk for Gulf's customers today and will partially fill the large capacity need that Gulf has in the next several years.

Q. What is your conclusion concerning the value of Scherer 3 as it relates to this case?

A. A traditional economic need analysis of the type suggested by the intervenor witnesses is neither necessary nor appropriate to evaluate the benefits provided by the rededication of Scherer 3 to serve retail customers, because Scherer 3's economic need test occurred approximately 30 years ago. The appropriate analysis reflected in Schedule 2 of Exhibit JAB-3 shows that the rededication provides decisively positive value for Gulf's customers across a wide range of future scenarios. Scherer 3 also provides other non-quantifiable benefits related to its excellent operations and as a hedge against natural gas prices.

IV. OTHER CLARIFICATIONS

Q. Are there other statements in the testimony of Witnesses Dauphinais and Mosenthal that are misleading and/or incorrect?

A. Yes, there are a number of statements in their testimonies that are misleading, factually incorrect, and/or distract from the central point of the regulatory compact.

Q. Which statements do you believe are misleading, incorrect, or distracting from the main point?

A. In Exhibit JAB-4, I have summarized the primary statements that I want to clarify for the Commission so that there will be no misunderstanding that the decision to rededicate Scherer 3 to Gulf's retail customers is in their best interest, is consistent with the regulatory compact, and is the right decision.

Q. Please summarize your testimony.

A. Contrary to the testimony of Mr. Dauphinais, the regulatory compact as it relates to Gulf's 25 percent ownership interest in Scherer 3 is in full effect. It is this regulatory compact and Gulf's associated focus on consistently making decisions in the best interest of its retail customers that led the Company to purchase an interest in Scherer 3 and to determine the best use of Scherer 3 at each subsequent decision point. Each of the three times Gulf entered a set of long-term off-system wholesale sales contracts for the capacity and energy output of Scherer 3, retail customers benefited. As I have detailed in my testimony, in each of the times Gulf executed wholesale contracts (1982, 1988, and 2004), Gulf leveraged an available wholesale market to defer the rate basing of Scherer 3 until a time when Scherer 3 better matched the needs of Gulf's retail customers. These decisions assured Gulf's retail customers would receive the benefit of a partially depreciated, low variable cost, reliable generating resource.

Today, there are no more long-term off-system sales opportunities for Scherer 3. Additionally, Gulf does have a large future capacity need in the next several years. This capacity need is reduced by rededicating Scherer 3 to retail service as it was originally intended. The appropriate time for rededication is now, and it is in the retail customers’ best interest to retain Scherer 3, along with all the capacity and energy benefits it provides.

The regulatory compact is the appropriate lens with which to view the decision to rededicate Scherer 3 to the benefit of retail customers now, as opposed to an economic analysis against other alternatives that would accompany a capacity need re-assessment as Mr. Mosenthal asserts. That economic need test was met when the Commission encouraged and Gulf made the decision to purchase a 25 percent interest in Scherer 3 instead of building Caryville 1. The appropriate economic analysis of an existing unit consists of a comparison of the future avoidable costs and incremental benefits of the unit versus that of a replacement unit. Gulf did perform that analysis for Scherer 3 at the request of Staff, and the results confirmed that continuing to operate Scherer 3 on behalf of retail customers is in their best interest.

In Exhibit JAB-4, I provide clarifications or corrections for a number of other statements in Witnesses Dauphinais and Mosenthal's testimonies that are incorrect or misleading. Many of these statements attempt to distract from the central matter that Scherer 3 was acquired for Gulf's retail customers in full view of the regulatory compact, and each decision that was made in Scherer 3's history was consistent with the regulatory compact and benefited retail customers. This decision to rededicate Scherer 3 to serve the retail customers for whom it was acquired is the right decision and is in the retail customers' best interests.

Q. Does this conclude your testimony?

A. Yes.

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 160186-EI

Before me the undersigned authority, personally appeared Jeffrey A. Burleson, who being first duly sworn, deposes, and says that he is the Vice President of Commercial Services and Planning at Southern Company Services, a Georgia Company, and that the foregoing is true and correct to the best of his knowledge, information, and belief. He is personally known to me.

s/ Jeffrey A. Burleson

Jeffrey A. Burleson
Vice President of Commercial Services and Planning

Sworn to and subscribed before me this 3rd day of February, 2017.

Melissa Darnes

Notary Public, State of Florida

Commission No. FF912698

My Commission Expires December 17, 2019

NOTARY PUBLIC STATE OF FLORIDA
MELISSA DARNES
MY COMMISSION # FF 912698
EXPIRES: December 17, 2019
Bonded Thru Budget Notary Services

Exhibit

Gulf 2003 Integrated Resource Plan: Incremental Additions					
Year	Peak	Int	Base	Purch.	Total
2003	0	0	0	0	0
2004	0	0	0	0	0
2005	0	0	0	0	0
2006	120	0	0	0	120
2007	90	0	0	0	90
2008	150	0	0	0	150
2009	0	0	0	0	0
2010	0	0	0	0	0
2011	0	0	0	0	0
2012	30	0	0	0	30
2013	30	0	0	0	30
2014	60	0	0	0	60
2015	120	0	0	0	120
2016	210	0	360	0	570
2017	120	0	30	0	150
2018	120	0	180	0	300
2019	510	0	60	0	570
2020	60	0	0	0	60
2021	0	0	90	0	90
2022	0	0	90	0	90

Florida Public Service Commission
Docket No. 160186-EI
GULF POWER COMPANY
Witness: Jeffrey A. Burleson
Exhibit No. ____ (JAB-3)
Schedule 2
Page 1 of 1

Excerpt from response to Staff ROG 376

The results of the comparative analysis between Scherer 3 and the replacement CT are shown in the table below. A positive number means continuing to operate Scherer 3 is more economical for Gulf's customers versus replacing it with a CT in that particular scenario.

2017 NPV (M$)	$0 CO2	$10 CO2	$20 CO2
High Gas	$560	$325	$115
Mod Gas	$315	$120	$30
Low Gas	$100	$20	($5)

Note: The analysis assumes no proceeds from an asset sale that could occur if Gulf replaced the capacity with a CT. Any proceeds would be subtracted across the nine scenarios.

	Witness	Page	Incorrect and/or Misleading Statement	Correct Information
1	Dauphinais	Page 6	"Except on a very limited basis, Gulf's entire share of Scherer Unit 3 was committed to Gulf's firm wholesale power customers from the beginning of its operation in 1987 until the end of 2015 -- a total of 29 years." (Misleading)	Portions of Scherer 3 have served retail customers in more than 25% of the 29 years cited by Mr. Dauphinais, and in amounts up to 30% of Gulf's ownership. So, it is misleading to imply that the unit was almost fully sold at wholesale for 29 years.
2	Dauphinais	Page 7	"However, over the operating life of Scherer Unit 3, the Commission has never recognized any more than 19 MW of Scherer Unit 3 being dedicated to serve Gulf's retail customers…" (Misleading)	This statement implies that because only 19 MW has been recognized by the Commission for ratemaking (tax savings) purposes, that this is the only portion dedicated to serve retail customers. To the contrary, up to 64 MW (30%) actually served retail customers from 1987-1994. In addition, Gulf has been authorized by the Commission to recover the environmental compliance costs in current rates, pending the outcome of this base rate case.
3	Dauphinais	Page 7	"While Gulf's retail customers have never been responsible in rates for any portion of Scherer Unit 3, neither did Gulf's retail customers ever receive the benefit of any portion of Gulf's profits from the wholesale unit power sales from its share of Scherer Unit 3 during the 29-year period that ended in December 2015." (Misleading)	Although retail customers did not share in any return on capital investment for the portions of Scherer 3 sold in the off-system wholesale market at various times, they likewise did not bear the losses that Gulf experienced as a result of the Gulf States Utilities default nor in covering costs during 1987-1994 when cost-based rates supported less than 100% of Gulf's investment. This risk/reward was the result of the Commission decision in Gulf's1989 rate case allocating risks of default between Gulf and customers.

	Witness	Page	Incorrect and/or Misleading Statement	Correct Information
4	Dauphinais	Page 12	Regarding the 1989 Rate Order, Mr. Dauphinais stated "The importance of this last finding is that it shows that the Commission at the time was not going to allow Gulf to use its retail customers as the guarantor of cost recovery with respect to Gulf's losses in the wholesale market associated with its share of Scherer Unit 3, since all the profits from Gulf's wholesale unit power sales from Scherer Unit 3 go to Gulf's stockholder(s), and are not shared with Gulf's retail customers." (Misleading)	This conclusion misses the importance of key facts that the Commission relied on: namely that 44 MW of uncovered capacity was the result of a default on an off-system wholesale contract for which Gulf should bear the risk, and that all of the capacity would be covered by wholesale contracts from 1995 through 2010.
5	Dauphinais	Page 13	"Mr. Deason is referring to the 1998 tax savings refund proceeding in Docket No. 890324-EI…". "However, this decision did not go to the much more impactful question of whether any portion of Scherer Unit 3 (either the 19 MW or the other 44 MW) should actually be recoverable in Gulf's rates. This latter issue was addressed just six days later in Commission Order No. 23573 on October 3, 1990." (Misleading)	Mr. Dauphinais asserts that the more important issue was recovery through rates after the off-system wholesale contract default but he misses the most important point which was the fact that the order implies that Scherer was anticipated to return to retail service in 2010 at the conclusion of the contracts.

	Witness	Page	Incorrect and/or Misleading Statement	Correct Information
6	Dauphinais	Page 14	"Regardless, non-firm, as-available usage of Scherer Unit 3 by Gulf for Gulf's retail customers, by itself, would not justify inclusion of Scherer Unit 3 in Gulf's retail rates any more than, for example, qualifying facilities under the Public Utility Regulatory Policies Act of 1978 ("PURPA") would be for making as-available energy sales to Gulf. The bottom line is that Gulf's retail customers could not rely on the non-firm, as-available energy actually being made available to them from Scherer Unit 3." (Incorrect)	Mr. Dauphinais mistakenly equates the fuel cost savings from Scherer 3 energy to the energy delivered by a QF at avoided cost. By definition, customers do not see a reduction in fuel cost associated with QF energy since the QF is paid what it would have otherwise cost the utility to generate the energy. Scherer 3 on the other hand is a low variable cost unit and is dispatched at actual variable cost, so it can deliver substantial fuel cost savings to customers. Additionally, unlike QFs, the off-system PPAs are scheduled with enough lead time to positively impact commitment and dispatch to the benefit of the retail customer.
7	Dauphinais	Page 15	"In every ten-year site plan that Gulf prepared from 2000 through 2015, its share of Scherer Unit 3 was included throughout the 10-year forecast period with a matching equal wholesale unit power sale obligation, which had the effect of entirely excluding Gulf's share of Scherer Unit 3 from being available to meet the resource planning needs of Gulf's retail customers." (Incorrect)	In Schedule 7.2 of the 2001 and 2002 Ten Year Site Plans, Gulf showed Scherer 3 returning to retail in 2010 when the wholesale contracts expired.

	Witness	Page	Incorrect and/or Misleading Statement	Correct Information
8	Dauphinais	Page 17	"There is no indication in either 10-K filing that Gulf might choose to seek to assign cost recovery for Scherer Unit 3 to its retail customers. However, this all changed when Gulf delivered a letter to the Commission on May 5, 2016 requesting recognition of Gulf's ownership in Scherer Unit 3 as being in service to retail customers when and as the contracts expire." (Misleading)	While Gulf was actively seeking a temporary wholesale customer for the output of Scherer 3 to better match Scherer 3's capacity to Gulf's retail need, the 10-K filings assumed the capacity would continue to be temporarily used in the off-system wholesale market. The 10-K statement that the wholesale contract expirations "may continue to have a material negative impact in future years" reflects that Gulf did not immediately have retail revenue changes nor any wholesale revenues to cover the cost of Scherer 3. The filings do not preclude Gulf from taking actions consistent with the regulatory compact to rededicate this capacity in its portfolio and, in the absence of a wholesale buyer, apply it to retail use. Gulf's May 5, 2016 letter describes the reasons well.
9	Dauphinais	Page 18	"Q. Has Gulf provided any studies or analysis showing it currently has a need for additional capacity to serve its retail customers? A. No, it has not." (Incorrect)	Scherer 3 will serve a portion of Gulf's upcoming large capacity need as identified in Gulf's Ten Year Site Plan. Even before then it will operate in economic dispatch, providing capacity and low variable cost energy for customers.

	Witness	Page	Incorrect and/or Misleading Statement	Correct Information
10	Dauphinais	Page 19	"Regardless, the lack of an analysis, combined with Gulf's statements and assumptions in its annual ten-year site plans from 2000 through 2015, clearly show that Gulf's intention to use its Scherer Unit 3 capacity to serve its retail customers is a very recent development -- not part of a plan that has existed for several years." (Incorrect)	The statement ignores the time period in the early 2000s when Gulf showed Scherer 3 returning to retail when the 2010 contracts expired. The statement also implies that Gulf's motives are not in the best interest of customers. The 2003 contracts were set to expire just in time for Scherer 3 to meet Gulf's then projected baseload need in 2016. Over the past several years, because the capacity need has been shifted further into the future Gulf has sought to extend wholesale coverage beyond 2015 to further delay the time when retail assumed responsibility for the unit, which, if a willing buyer existed, would have been to the retail customers' benefit. It is a recent development that all potential options for a wholesale buyer have been exhausted, so the best option going forward for Gulf's retail customers is to retain Scherer 3 and assume both the benefits and the costs.
11	Dauphinais	Page 25	"As I indicated earlier in my testimony, with or without the Scherer Unit 3 capacity that is not committed to its remaining wholesale unit power sales, Gulf's own projections show that it will not need additional capacity to meet its planning reserve margin target of 15% until 2023." (Incomplete information)	Gulf does not have a need for Scherer 3 capacity to meet its target reserve margin now, but it does have a large need for additional capacity within the next several years. Additionally, having the capacity available to serve retail customers in the meantime reduces reliability risk for customers.

	Witness	Page	Incorrect and/or Misleading Statement	Correct Information
12	Dauphinais	Page 26	"Q. Putting aside that Gulf does not currently need capacity to meet its planning reserve margin target, does Gulf have a need for additional base load capacity? A. No, it does not. Gulf's FERC Form 1 filings for the past 25 years show that Gulf has been a significant net seller of energy at wholesale to the Southern power pool and to the remainder of the wholesale market." (Incomplete information)	The amount of energy Gulf sells into the pool is a function of the variable cost of Gulf's generating resources relative to the variable cost of the other pool members' generating resources. It is not a function of the amount or type of capacity Gulf has in relation to its planning target reserve margin. The amount of energy Gulf sells into the remainder of the wholesale market is a function of the combination of its wholesale PPAs and the opportunity sales made by the pool to market participants. The past 25 years are not a good indicator of the next 25 years. Over almost all of the past 25 years Gulf also had the Scholz and Smith coal units which contributed to Gulf's ability to sell low cost energy but which are no longer in service. So, without Scherer 3 Gulf may become a significant net buyer of energy that is likely to be costlier for customers than the energy from Scherer 3.
13	Dauphinais	Pages 26-28	Discusses reasons stated by Gulf for not performing a need or economic analysis and offers misleading information and conclusions regarding matters such as the outlook for natural gas prices. (Misleading)	Due to the regulatory compact and the fact that Scherer 3 was acquired as a lower cost alternative to serve retail customers, sunk costs such as the depreciation expense for the net book value of Scherer 3 should be borne by those customers. In its analysis of Scherer 3, Gulf considered all incremental costs that were avoidable by retail customers.

	Witness	Page	Incorrect and/or Misleading Statement	Correct Information
				Mr. Dauphinais's statements give the impression, with no evidence, that forward gas prices will remain at the low levels that they are today. Current Henry Hub futures prices are cited as evidence. NYMEX futures prices are not a forecast, but a market assessment of upside and downside risks from a starting point of the prompt spot price. Long term NYMEX prices for natural gas can, and do, fluctuate based on short term conditions such as weather events. NYMEX prices reflect shorter-term transactions made by producers attempting to hedge future production and consumers hedging future purchases. At any given time, there are generally very few, if any, actual transactions occurring at the NYMEX prices beyond the four to five year timeframe. Short term NYMEX prices are not appropriate for use as long-term forecasts since long-term analysis seeks to make investment decisions with cost implications that will be borne for decades. Gas prices have been volatile over Scherer 3's history. It is unlikely that gas prices will remain at the historically low levels they are today. PRB coal, on the other hand, has historically been much less volatile. It can provide a natural hedge against gas prices if they were to rise.

	Witness	Page	Incorrect and/or Misleading Statement	Correct Information
14	Dauphinais	Page 29	"Scherer Unit 3 may provide some of these benefits, but it does so at a premium versus other resource choices. The cost of that premium may not outweigh the benefits. This is another reason why a reasonable analysis of Scherer Unit 3 versus other resource options…" (Distracting and misleading)	This allegation is unsubstantiated and is an attempt to offer a red herring to distract from the central issue of the regulatory compact and why an economic need assessment is not appropriate.
15	Mosenthal	Page 3	Suggests the benefits of Scherer 3 are speculative and that Gulf never evaluated alternatives. (Incorrect premise)	These are not the appropriate questions at this point in time. This is a rate case about an existing asset acquired under the regulatory compact for the benefit of retail customers; not a need case about a new asset.
16	Mosenthal	Page 4	Assuming a capacity need beginning in 2023, customers will not see concrete benefits from Scherer 3 for seven years or more, and there is a significant risk that the costs will outweigh any long-term benefits. (Incorrect)	Scherer 3 offers energy and fuel diversity benefits between now and Gulf's next need for additional capacity. These benefits are associated with Scherer 3's relatively low and stable fuel cost over time, as compared to natural gas prices. All of the incremental benefits and incremental costs related to Scherer 3 were taken into account in an analysis provided in response to a Commission Staff Interrogatory. A summary of this analysis is provided in Exhibit JAB-3, Schedule 2 and shows that the continued operation of Scherer 3 for the benefit of Gulf's retail customers is economic versus divesting of the unit and replacing it with peaking capacity at the time of Gulf's next capacity need.

	Witness	Page	Incorrect and/or Misleading Statement	Correct Information
17	Mosenthal	Page 6	"For nearly its entire, thirty-year operating history, Gulf dedicated its portion of Scherer 3 to wholesale power contracts instead of its customers." (Incorrect)	Portions of Scherer 3 have served retail customers in more than 25% of its life, and in amounts up to 30% of Gulf's ownership. So, Mr. Mosenthal's statement is incorrect.
18	Mosenthal	Page 7	Says there is a mismatch because Scherer 3 does not line up with customer needs—not now, in fact, perhaps never. (Misleading)	There is virtually never an exact match between the amount and type of capacity actually brought on line in a given year and the need in that same year. These mismatches are due to the long lead time for planning and procurement of resources, the uncertainty of forecasts, and discrete generating unit sizes. Moreover, Gulf does have a large future need due to an expiring PPA rather than due to projected load growth as Mr. Mosenthal implies. Regardless, the need tests for Scherer 3 occurred some 30 years ago.

	Witness	Page	Incorrect and/or Misleading Statement	Correct Information
19	Mosenthal	Page 7	"Q. You state that Gulf's projected need for new capacity in 2023 is not reliable. What do you base this on? A. Gulf has a history of substantially overestimating load forecasts." (Misleading)	This completely misses the fact of the Great Recession, which impacted not only Gulf's load forecasts for several years, but the forecasts of virtually every other utility. The Staff acknowledged this in its *Review of the 2012 Ten-Year Site Plans* when it said "Due to the unexpected nature of the recent recession, it could not have been included in forecasts as far as 5 years preceding the event." The Staff also noted that Gulf's forecast accuracy for the listed time periods was the most accurate or second most accurate of any of the Florida utilities.
20	Mosenthal	Page 9	Mistakenly suggests Gulf's next need is driven by load growth and that Gulf can't accurately forecast the timing of its next need. (Misleading)	Gulf is confident that it will have a large capacity need in several years that exceeds Gulf's approximately 210 MW ownership share of Scherer 3. Gulf's need is not driven by forecasts of load growth, but rather by the expiration of a PPA for a large generating unit. Gulf currently projects a capacity need of 828 MW in 2023 if Scherer 3 is not included, which is almost four times the capacity amount of Scherer 3.

	Witness	Page	Incorrect and/or Misleading Statement	Correct Information
21	Mosenthal	Page 10	"Furthermore, as shown in Gulf's response to Staff interrogatories, its estimated 211 MW peak contribution in 2023 from Scherer 3 represents only 8% of its projected summer peak. As I discuss, this is well within the range that can be captured solely through efficiency and demand response (DR) programs, and certainly could be made up with a mix of efficiency, DR, distributed generation (DG) and future PPAs. Gulf has ample time to procure the potential resources by 2023, as I will explain" (Misleading)	Whether or not it is possible to build or acquire approximately 210 MW of alternate resources by 2023 is not the point. Scherer 3 itself was acquired as an alternate, more cost effective resource to Plant Caryville Unit 1 as a part of the regulatory compact. That decision was made by the Company and the Commission in the early 1980s.
22	Mosenthal	Page 11	"Gulf has also acknowledged that a peaking unit is more likely what its customers would need next. Thus, Gulf plans to build a 654 MW gas combustion turbine to go online in 2023. Such turbines are designed to serve as peaking units. This makes them better able than Scherer 3 to serve customers' peak demand for electricity." (Misleading)	It is true that Gulf identified a capacity need in 2023 that can be satisfied by peaking resources. However, Scherer 3 has already had its economic and need test some 30 years ago. Additionally, Gulf did analyze the incremental cost and incremental benefits of continued operation of Scherer 3 for retail service versus its proposed solution to meet the 2023 capacity need not served by Scherer 3, which would be a CT. Scherer 3 is more economic for retail customers in eight of the nine planning scenarios.

	Witness	Page	Incorrect and/or Misleading Statement	Correct Information
23	Mosenthal	Page 12	Even assuming a 2023 capacity need, there are many other options that Gulf can rapidly deploy in the future, and which are likely to be less costly and require far less lead-time. (Misleading)	Whether or not it is possible to build or acquire approximately 210 MW of short lead time resources by 2023 is not the point. Scherer 3 itself was acquired as an alternate, more cost effective resource to Plant Caryville Unit 1 as a part of the regulatory compact. That decision was made by the Commission and the Company in the early 1980s. There is no more justification to assume customers shouldn't pay the costs of, and receive the benefits from, Gulf's other capacity resources such as the Smith combined cycle or the Crist coal units than that they shouldn't pay the cost of, and receive the benefits from, Scherer 3.
24	Mosenthal	Pages 12-13	The ultimate, long-term costs of Scherer 3 are uncertain and could be significantly higher in the future due to new and evolving environmental compliance requirements and other risks yet-to-be quantified or disclosed by the Company. As a result, under Gulf's proposal, ratepayers would be committed to paying for unneeded generation with unnecessary risks. (Misleading)	There a number of risks and uncertainties that exist with any generating resource. However, in the analysis results shown in Exhibit JAB-3, Schedule 2, Gulf has considered a range of risks associated with variables such as potential future environmental compliance costs and fuel prices in its planning scenarios. Even with these risks Scherer 3 provided net benefits to customers in eight of the nine scenarios versus the alternative CT replacement. The analysis shows that Scherer 3 is beneficial to customers.

	Witness	Page	Incorrect and/or Misleading Statement	Correct Information
25	Mosenthal	Page 14	"Q. Do you have other evidence that PPAs can be an effective hedge against future risks such as price volatility or environmental risk? A. Yes. First, it is common practice for electric utilities to lock in contract prices as a hedge against future financial risks. Second, renewable energy PPAs are now often the cheapest and most prevalent new generation resource, as I discuss below." (Misleading)	A diverse generation portfolio that includes a variety of dispatchable resources is a better price hedge than renewables. With dispatchable resources, some costs are fixed and some are variable and the variable cost which can be 50 percent or more of the total life cycle cost can be avoided during periods when energy from alternative sources are lower cost. However, with renewables, since 100% of the costs are fixed none of the costs can be avoided when an alternative could provide lower cost energy than the renewable. Therefore, renewables are not the best hedge even though renewables do have a role in the mix of generation used to serve customers. The opportunity to retain Scherer 3 and its fuel diversity benefit for retail customers is a one-time opportunity. It is reasonable to expect that Scherer 3 will have a longer useful life than the Crist and Daniel coal units and will thus play a critical role in helping to maintain Gulf's long term fuel diversity. Finally, over the past two years, Gulf has retired four coal units and added both wind and solar resources.

	Witness	Page	Incorrect and/or Misleading Statement	Correct Information
26	Mosenthal	Pages 16-21	Cites the Staff's reference that coal generation will provide 84.9% of Gulf's generation in 2025. States that this is concerning, counter to the industry, and would be a higher percentage than other utilities and states. (Misleading)	His characterization is misleading. The projected coal energy share represents only one of many possible outcomes. Due to the manner in which generation is economically dispatched in each hour based on the differing variable costs of different resources, the actual amount of coal generation in 2025 will depend on a variety of factors, including the relationship between coal prices and gas prices. If natural gas prices are lower, natural gas-fired generation will be dispatched more and coal-fired generation will be displaced. Likewise, if natural gas prices are higher, then coal-fired generation will be dispatched more and natural gas-fired generation will be displaced. On a capacity basis, coal is projected to be approximately 56% of Gulf's capacity mix in 2025, which illustrates that a range of energy mix outcomes is possible depending on the economic dispatch in any given hour based on competing fuel prices.

	Witness	Page	Incorrect and/or Misleading Statement	Correct Information
27	Mosenthal	Page 21	Not analyzing alternatives “leaves the Commission with absolutely no evidence that the Company made a timely effort to investigate and pursue every reasonably available prudent action to minimize its cost of service. Furthermore, since Gulf could not find any buyers for this power in competitive markets, Scherer likely does not represent a least cost resource.” (Incorrect)	In response to a Staff Interrogatory, Gulf did perform an analysis of Scherer 3 versus the alternative of a combustion turbine. This analysis, whose results are shown in Exhibit JAB-3, Schedule 2, shows that Scherer 3 is a lower cost resource in eight of the nine scenarios. It should be noted, however, that proving least cost is not the appropriate standard at this point in time. Scherer 3 was selected as a lower cost alternative to serve Gulf’s customers over Caryville Unit 1 many years ago.
28	Mosenthal	Page 23	“Gulf should have done a comprehensive assessment of all reasonable potential sources of new capacity, generation and demand management.” (Misleading)	Mr. Mosenthal is mistaken in assuming that Gulf is seeking approval of an additional unit, when in fact it is seeking cost recovery for a unit that was committed to under the regulatory compact years ago.
29	Mosenthal	Page 24	“If Scherer 3 does not represent a good value for power purchases or investors, the same is very likely true for Gulf’s customers.” (Incorrect)	This statement is false. In fact retaining Scherer 3 for retail service is shown to be overwhelmingly beneficial for Gulf’s retail customers, as evidenced in Exhibit JAB-3, Schedule 2. Each potential wholesale customer has its own reasons why it has chosen not to enter into a long term contract for the output of Scherer 3. It is incorrect to assume that those potential wholesale customers’ preferences are aligned with the best interests of Gulf’s retail customers.

	Witness	Page	Incorrect and/or Misleading Statement	Correct Information
30	Mosenthal	Pages 24-29	Inappropriately compares the cost of Scherer 3 to the cost of a variety of alternative resources claiming other options are more cost effective. (Misleading)	Bringing up the economics of other alternatives to Scherer 3 more than 35 years after the FPSC encouraged Gulf to acquire an ownership interest in Scherer 3 in lieu of the costlier Caryville project is irrelevant. Scherer 3's need and economic test was made decades ago by the Company and Commission. Moreover, Mr. Mosenthal makes a common mistake of comparing the prices of dispatchable resources to non-dispatchable energy and ignoring the difference in the value to customers of the timing of the energy as well as the contrast between the intermittency and limited capacity value of solar or wind versus a reliable, dispatchable resource such as Scherer 3. For more of an apples to apples comparison one would need to add the cost of support capacity and possibly energy storage to the solar and wind resource cost. Additionally, Gulf has been adding solar and wind energy to its portfolio.

	Witness	Page	Incorrect and/or Misleading Statement	Correct Information
31	Mosenthal	Page 30	Questions the need to add Scherer 3 simply because of a decision that the company made 35 years ago. (Misleading)	Gulf has made decisions that were in the best interest of retail customers at each step of the way in Scherer 3's history. The decisions to purchase the unit and secure the original wholesale contracts were made with the acknowledgment and encouragement of the Commission and helped retail customers avoid the cost of the more expensive Caryville unit that was planned. Subsequent to the acquisition, Gulf's decisions to temporarily extend wholesale coverage were in the best interest of customers. The regulatory compact has been in full view at every turn and the Scherer 3 capacity coupled with the temporary wholesale contracts has provided significant savings to Gulf's customers.
32	Mosenthal	Page 30	[The Commission's 1989 rate case decision] is "clearly analogous to the present situation" (Incorrect)	The circumstances are completely different today. The Commission's decision in 1989 rejecting placement of a portion of Scherer 3 in rate base was based on a default by an off-system wholesale buyer. Additionally, at the time of the rate case Gulf had already secured off-system wholesale contracts through 2010, further deferring the retail customers' revenue requirement obligation for Scherer 3's capacity during a period when reserves were adequate. Today, there is no contract default, nor are there additional wholesale buyers available to bridge the gap to Gulf's need in 2023.

	Witness	Page	Incorrect and/or Misleading Statement	Correct Information
33	Mosenthal	Page 31	Gulf has attempted but failed to find buyers for its excess capacity at its required return and is therefore now proposing to shift the Scherer 3 cost to its customers. (Misleading)	Gulf is placing the portion of Scherer 3 in rate base that it is operating for the benefit of retail customers today. This action benefits retail customers, as evidenced by my Exhibit JAB-3, Schedule 2.