



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 Susan D. Ritenour.

(Document 13 of 16)

Sincerely,

A handwritten signature in blue ink that reads "Robert L. McGee, Jr." in a cursive style.

Robert L. McGee, Jr.
Regulatory & Pricing Manager

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

DOCKET NO. 160186-EI



Gulf Power

**REBUTTAL TESTIMONY AND EXHIBIT
OF
SUSAN D. RITENOUR**

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission
3 Rebuttal Testimony of
4 Susan D. Ritenour
5 Docket No. 160186-EI
6 In Support of Rate Relief
7 Date of Filing: February 8, 2017

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

9 A. My name is Susan Ritenour. My business address is One Energy Place,
10 Pensacola, Florida 32520. I am the Corporate Secretary, Treasurer and
11 Corporate Planning Manager for Gulf Power Company (Gulf or the
12 Company).

13 Q. Have you previously filed testimony in this proceeding?

14 A. Yes.

15 Q. What is the purpose of your rebuttal testimony?

16 A. The purpose of my rebuttal testimony is to explain why the Commission
17 should reject the adjustment proposed by Office of Public Counsel (OPC)
18 Witness Ramas to disallow a number of necessary and valuable employees
19 included in the 2017 test year. I also point out the errors in her calculations.
20 I discuss the actual pension funding made by Gulf in December of 2016 and
21 provide the impact on the requested rate base and operating expenses.
22 Finally, I provide information regarding the Company's Smart Energy
23 Center.

24

25

1 Q. Are you sponsoring any rebuttal exhibits?

2 A. Yes. I am sponsoring Exhibit SDR-2 consisting of Schedules 1 through 3.
3 Exhibit SDR-2 was prepared under my supervision and direction, and the
4 information contained in the exhibit is true and correct to the best of my
5 knowledge and belief.

6
7 Q. Do you agree with Ms. Ramas's adjustment to reduce the number of
8 employees included in Gulf's 2017 test year request?

9 A. No, I do not. There are several flaws in the arguments put forth by Ms.
10 Ramas in her attempt to justify disallowance of employees that are essential
11 to providing safe and reliable electric service for our customers, which I will
12 describe in my testimony.

13
14 Q. Do you have any concerns about the number of positions that Ms. Ramas
15 recommends be disallowed?

16 A. Yes. Ms. Ramas calculates her disallowance by simply comparing actual
17 September 2016 employees (1,357) to budgeted employees for that month
18 (1,477) to derive a variance of 120 employees. She then proceeds to
19 reduce Gulf's requested O&M expense, which is based on 1,450
20 employees, by her calculated impact of these 120 employees. The result is
21 that she proposes 1,330 employees (1,450 less the 120 adjustment) be
22 included in Gulf's 2017 test year for ratemaking purposes. This is 27
23 employees less than Gulf actually employed in September 2016, the month
24 she used for her adjustment. It is illogical and inconsistent to calculate a
25 variance based on 1,477 budgeted employees and apply this variance as

1 an adjustment to a requested level of 1,450 employees in the test year.
2 This error alone overstates Ms. Ramas's adjustment to payroll and benefit
3 expenses by \$2 million, which impacts revenue requirements by \$2 million.
4 Although I do not agree with her recommendation to disallow any
5 employees, the comparison of September 2016 actual employees (1,357) to
6 the 2017 test year requested level (1,450) yields a difference of 93
7 employees, not 120.

8

9 Q. Ms. Ramas argues that her reduction in labor costs does not result in a
10 double-counting of the hiring lag adjustment. Do you agree?

11 A. Absolutely not. Again, her logic is flawed. As I stated in my direct
12 testimony, even if Gulf makes every effort to fill all employee positions, there
13 are employee positions that will be temporarily unfilled due to employee
14 turnover – transfers to other positions, retirements, separation from the
15 Company, etc. This is true in any business, not just at Gulf. Consistent with
16 this fact, the actual number of employees in September 2016, which Ms.
17 Ramas used in calculating her adjustment, includes positions that are in this
18 normal, expected state of being vacant. Her calculation, although
19 erroneous, of 120 vacancies most certainly takes into account vacancies
20 that are the result of normal turnover. Making a hiring lag adjustment in
21 addition to the adjustment to remove all vacancies as of a certain point in
22 time results in a double-counting of the impact of this normal turnover.

23

24

25

1 Q. Do you agree with the average salary used by Ms. Ramas to calculate the
2 impact of her recommended disallowance of employees?

3 A. No. Ms. Ramas calculated an average salary using base payroll included in
4 O&M divided by the 1,450 employees included in the 2017 test year. She
5 incorrectly assumes that the salaries associated with the vacancies she has
6 identified are consistent with total company average salaries charged to
7 O&M expense. As I discussed previously, the correct number of employees
8 representing the difference between September 2016 actual and the 2017
9 test year is 93. The average salary charged to O&M of these 93 specific
10 employees is \$51,146 as compared to Ms. Ramas's calculation of \$55,435.
11 Besides being overstated for the difference between 120 and 93 employees
12 as I discussed previously, Ms. Ramas's quantification of the O&M costs
13 associated with these employees is overstated. While I disagree with the
14 appropriateness of Ms. Ramas's adjustment, using the more accurate
15 average salary of \$51,146 and the correct number of vacancies of 93, Ms.
16 Ramas's adjustment should be decreased by \$400,000 [$(\$55,435 -$
17 $\$51,146) \times 93$]. A total of \$2.4 million (this \$400,000 plus the \$2 million I
18 described earlier) should be removed from Ms. Ramas's adjustment for the
19 "removal of vacant positions" simply due to her erroneous assertions on the
20 number of vacancies and the average salary associated with them.

21

22 Q. Besides the logic errors described above, do you have any other concerns
23 with Ms. Ramas's disallowance of employee positions?

24 A. Yes, I do. I am very concerned that Ms. Ramas fails to consider that there
25 are valid explanations for the difference between the number of actual

1 employees at a point in time in 2016 and the number of employees
2 requested in the 2017 test year. First, since September 2016, five positions
3 have already been filled. Also, eight line service and customer service
4 positions have been vacant because Gulf routinely fills these jobs as a
5 group in order to efficiently and productively train these individuals; these
6 eight will be on board and beginning training classes in February or March.
7 In addition to these 13 positions that are or will be filled in the next few
8 weeks, another 11 positions have been approved and are in the process of
9 being filled.

10
11 Another reason for the difference in September 2016 actual employees and
12 the 2017 test year request relates to an organizational change planned for
13 the security function at Gulf's Plant Crist. The 2017 test year number of
14 employees includes an additional 16 positions required to replace security
15 contractors with Gulf employees to provide security at Plant Crist.
16 Previously, the related security costs were budgeted and incurred as
17 contractor expense in O&M. In the 2017 test year, the costs associated
18 with this security function are included as employee salaries and benefits in
19 O&M expense instead due to this planned organizational change. Since the
20 2017 test year does not include the cost of the contractors that have been
21 used to provide security at Plant Crist, the effect of removing these 16
22 positions would be to remove all costs associated with this vital security
23 function at our largest generating plant.

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1 An additional eight positions in the power delivery area were vacant due to
2 timing in order to either fill a 2017 apprentice class or to hire cooperative
3 engineering students when they have completed their educational
4 programs. In order to meet our need for skilled line workers and proficient
5 engineers, Gulf utilizes apprentice and cooperative programs. Such
6 positions are sometimes temporarily vacant due to the business need to
7 hire apprentices as a group to facilitate training, or due to the timing of
8 educational requirements of cooperative engineering students.

9
10 Finally, there are 45 positions that have not yet been filled due to resource
11 constraints. Seventeen of these positions are being backfilled by
12 contractors, overtime and SCS employees. Thus, Gulf continues to incur the
13 expenses of accomplishing the responsibilities of these positions. The
14 remaining positions are vacant in an effort to manage the financial
15 resources available to the Company. As Gulf Witness Liu testifies in her
16 rebuttal testimony, Gulf's management must constantly make decisions
17 regarding the best use of all of the Company's resources to serve
18 customers. These decisions are more challenging when the costs of
19 needed positions are not included in the revenues received from customers.
20 Further, during the period covered by the 2013 Stipulation and Settlement
21 Agreement (the Settlement) in Docket No. 130140-EI, Gulf made concerted
22 efforts to control costs in order to avoid the need for an increase in base
23 rates prior to July 1, 2017, efforts that included holding positions vacant for
24 some period of time. As a result, several positions remained vacant during
25 the Settlement period. This is simply not a situation that can be sustained

1 over time while still maintaining the level of service and reliability our
2 customers expect and deserve.

3

4 Schedule 1 of my Exhibit SDR-2 summarizes the information I've described
5 in my testimony related to the difference of 93 employees between
6 September 2016 actual employees of 1,357 and 2017 test year employees
7 of 1,450.

8

9 Q. In her testimony, Ms. Ramas recommends the removal of working capital
10 and O&M expense adjustments related to Gulf's additional pension plan
11 funding. Is this appropriate?

12 A. No. In his rebuttal testimony, Gulf Witness Garvie explains why the
13 additional pension funding is necessary and appropriate, and supports the
14 actual amounts of additional funding and the associated O&M expense
15 impacts. As Mr. Garvie explains, the actual funding was done in December
16 2016 and was less than Gulf's estimate at the time our rate case filing was
17 prepared. The actual funding totaled \$55,816,000 instead of the
18 \$81,000,000 we projected.

19

20 Because of the reduction in funding, the rate base adjustments that I made
21 in my direct testimony and exhibits should be revised and Gulf's requested
22 rate base should be decreased by \$25,184,000 (\$24,498,000 on a
23 jurisdictional basis). In addition, the O&M adjustment associated with
24 pension expense made in the filing, a decrease of \$665,000, should be
25 revised to be a decrease of \$880,000. This change serves to decrease

1 requested O&M by \$215,000 (\$212,000 on a jurisdictional basis). The
2 calculation of these amounts is shown on Schedule 2 of my rebuttal exhibit.
3 The impact of these revised adjustments is to reduce Gulf's revenue
4 requirement by \$2.4 million.

5
6 Q. Please comment on Ms. Ramas's adjustments related to the Smart Energy
7 Center.

8 A. After the MFRs were filed, the Company decided not to construct the Smart
9 Energy Center (SEC) during the 2017 test year and for that reason an
10 adjustment is appropriate. However, Ms. Ramas's adjustments are not
11 correct, and she understates the impact on the test year of the SEC by
12 incorrectly assuming that the SEC was projected to be placed in service in
13 December 2017. The in-service date for this project as reflected in the test
14 year was June 2017. Schedule 3 of my rebuttal exhibit provides the correct
15 amount of the CWIP, plant-in-service, accumulated depreciation and
16 depreciation expense that should be removed from Gulf's 2017 test year
17 related to the SEC. The total impact on rate base is a reduction of
18 \$3,181,000 (\$3,126,000 on a jurisdictional basis) along with a reduction to
19 depreciation expense of \$42,000 (\$41,000 on a jurisdictional basis). The
20 revenue requirement impact of removing the SEC is a reduction of
21 \$322,000, which is \$100,000 more than the impact of the adjustments as
22 quantified by Ms. Ramas.

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1 Q. Do you have any other observations on Ms. Ramas's testimony?

2 A. Yes. Ms. Ramas makes a number of adjustments, such as those related to
3 maintenance outage investment, that selectively seek to update
4 assumptions or reflect actual data that became available following the filing
5 of Gulf's rate case based on the 2017 test year. She ignores the fact that in
6 the months following the preparation and filing of the case, assumptions and
7 inputs may have changed. For example, as noted in the direct testimony of
8 Gulf Witness Park, Gulf's updated forecast of base rate revenues is \$5.7
9 million less than the revenues included in the 2017 test year as filed. It is
10 inappropriate to consider only those adjustments that reduce Gulf's
11 requested rate increase and disregard other known changes that would
12 increase Gulf's requested rate increase.

13

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

15 A. Yes.

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AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 160186-EI

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.

s/ Susan D. Ritenour
Susan D. Ritenour
Corporate Secretary, Treasurer and
Corporate Planning Manager

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

Melissa Darnes
Notary Public, State of Florida at Large

Commission No. FF 912698

My Commission Expires December 17, 2019



MELISSA DARNES
MY COMMISSION # FF 912698
EXPIRES: December 17, 2019
Bonded Thru Budget Notary Services

Exhibit

Gulf Power Company
Vacancy Analysis - Reconciliation of Employees
as of September 2016 Actual Compared to the 2017 Test Year
(Number of Employees)

September 2016 Budgeted Headcount	1,477
September 2016 Actual Headcount	1,357
Witness Ramas's Calculation of Vacancies	120
2017 Test Year Headcount	1,450
September 2016 Actual Headcount	1,357
Corrected Calculation of Vacancies	93

Explanation

Positions Filled Since September 2016	5
Line Service and Customer Service Positions that will begin in February or March	8
Other Positions Currently in the Process of Being Filled	11
Security Positions at Plant Crist (replacing existing Contract Labor)	16
Apprentice Class and Cooperative Engineering Students	8
Vacant Positions Currently Being Backfilled by Contractors, SCS and/or Overtime Exp.	17
Other - as explained in my rebuttal testimony on pages 6 and 7	28
Total	93

Gulf Power Company
Additional Pension Funding and Pension O&M
Revision to Rate Base and NOI Adjustments
for the Test Year Ended 12/31/2017
(Thousands of Dollars)

	As Filed Additional Pension Funding <u>Adjustment</u>	Actual Additional Pension Funding <u>Adjustment</u>	Change in <u>Adjustment</u>	Jurisdictional <u>Factor</u>	Jurisdictional Adjustment to Rate Base <u>as Filed</u>
Working Capital:					
Other Property & Investments	71,500	48,000	(23,500)	0.9720412	(22,843)
Current Liabilities	<u>9,500</u>	<u>7,816</u>	<u>(1,684)</u>	0.9826845	<u>(1,655)</u>
Total	81,000	55,816	(25,184)		(24,498)

	As Filed O&M Expense <u>Adjustment</u>	Revised O&M Expense <u>Adjustment</u>	Change in <u>Adjustment</u>	Jurisdictional <u>Factor</u>	Jurisdictional Adjustment to O&M Exp. <u>as Filed</u>
Pension Expense	(665)	(880)	(215)	0.9855595	(212)

Gulf Power Company
Smart Energy Center
Amounts Included in Test Year Ended 12/31/2017
(Thousands of Dollars)

	<u>CWIP</u>	<u>Plant-in-Service</u>	<u>Depreciation Expense</u>	<u>Accumulated Depreciation</u>
Dec 2016	1,000	0	0	0
Jan 2017	1,500	0	0	0
Feb	2,000	0	0	0
Mar	2,500	0	0	0
Apr	3,000	0	0	0
May	3,500	0	0	0
June	0	4,000	0	0
July	0	4,000	7	7
Aug	0	4,000	7	14
Sept	0	4,000	7	21
Oct	0	4,000	7	28
Nov	0	4,000	7	35
Dec	0	4,000	7	42
<hr/>				
12 Month-to-Date			42	
13 Month Average	1,038	2,154		11
Jurisdictional Factor	0.9794420	0.9841068	0.9840739	0.9841036
<hr/>				
Jurisdictional Amount	1,017	2,120	41	11