FILED FEB 21, 2017
DOCUMENT NO. 02121-17
FPSC - COMMISSION CLERK

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February 21, 2017

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

Re: Docket No. 160186-EI

Dear Ms. Stauffer:

Pursuant to the Order Establishing Procedure in this docket, Order No. PSC-16-0473-PCO-EI, issued on October 20, 2016, Gulf Power Company hereby submits this Prehearing Statement to be filed in the above-referenced docket. Also, attached is a copy of this Prehearing Statement prepared using Microsoft Word to be provided to Commission staff and all parties.

Sincerely,

Robert L. McGee, Jr.
Regulatory and Pricing Manager

md

Attachments

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

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for increase in rates by Gulf Power Company.	)))	Docket No. 160186-EI
In re: Petition for approval of 2016 depreciation and dismantlement studies, approval of proposed depreciation rates and annual dismantlement accruals and Plant Smith Units 1 and 2 regulatory asset amortization, by Gulf Power Company.	))))))))	Docket No. 160170-EI Date Filed: February 21, 2017

GULF POWER COMPANY'S PREHEARING STATEMENT

Gulf Power Company ("Gulf Power," "Gulf," or "the Company"), by and through its undersigned attorneys, and pursuant to Order No. PSC-16-0473-PCO-EI, files this prehearing statement, saying:

A. APPEARANCES

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

B. WITNESSES

The order of Gulf's witnesses listed in the two tables below (both direct and rebuttal) is alphabetical and is NOT the intended order for appearance for Gulf's witnesses at the hearing. The order of Gulf's witnesses for the hearing will be provided at the Prehearing Conference.

Witness (Direct)	Subject Matter	Issues
J. A. Burleson	Resource Planning and Procurement; Scherer 3 Purchase Decision; Scherer 3 Environmental Controls Decision; Scherer 3 Benefits	19
M. L. Burroughs	Generation Fleet; Plant Scholz and Plant Smith Units 1 and 2 Closure; Production Safety and Reliability; Production Planning and Budget Process; Production Plant and O&M; Plant Held for Future Use; Fuel Inventory	7, 27, 31-34, 56
S. W. Connally, Jr.	Rate Case Overview	
J. T. Deason	Gulf's Ownership History of Scherer 3; Regulatory Treatment of Scherer 3	19
L. P. Evans	Rate Design; Business Incentive Riders; Miscellaneous tariff changes; Load Research	87, 89-100, 105
J. N. Floyd	New and Modified DSM Programs	102-105
J. M. Garvie	Compensation and Benefits	36, 59-63
S. P. Harris	Hurricane Loss Analysis; Reserve Performance Analysis	64, 65

Witness (Direct cont.)	Subject Matter	Issues
J. J. Hodnett	Administrative and General O&M; Property Damage Accrual; Rate Case Expense; D&O Liability Insurance Expense; Depreciation and Dismantlement; Cost of Removal Regulatory Asset; SCS Expense and Affiliate Transactions; Taxes	13, 15-18, 29, 39, 40, 64-67, 71, 72, 74-76, 78
X. Liu	Need for Rate Relief; Appropriateness of 2017 Test Year; Financial Performance; Rededication of Scherer 3; Rate Case Drivers; Financial Integrity and Credit Quality; Capital Structure and Cost of Capital; Parent Debt Adjustment	2, 19, 45-47, 77
J. J. Mason	Budget Process; 2017 Projected Test Year Financial Forecast	6
R. L. McGee, Jr.	Residential Advanced Pricing Package	88-91,102-104
M. T. O'Sheasy	Cost of Service Study	83-86
J. K. Park	Customer, Energy Sales, Peak Demand and Base Rate Revenue Forecasts	3-6
S. D. Ritenour	Net Operating Income; Rate Base; Capital Structure; Revenue Deficiency; Hiring Lag Adjustment; Amortization of Remaining Investment in Plants Scholz and Smith; Amortization of Deferred Return on Transmission Capital Projects; O&M Benchmark; General Plant Additions; Scherer 3 Off-System Sales Calculation	2, 14, 20, 21, 24, 25, 28-32, 34-44, 47-52, 60, 67, 73, 74, 78-82, 101

Witness (Direct cont.)	Subject Matter	Issues
W. E. Smith	Transmission and Distribution System Overview; Transmission and Distribution Investment; Transmission and Distribution Budget Process; Transmission and Distribution Capital and O&M; Transmission and Distribution System Performance and Safety	7, 23, 54, 55, 57, 58
J. H. Vander Weide	Cost of Equity	46
D. A. Watson	Depreciation	8-13
J. T. Young (Adopting the prefiled direct testimony of B. C. Terry)	Customer Service; Economic Development; Business Incentive Riders; Customer Satisfaction; Customer Service and Information, Customer Accounts and Sales O&M Expenses; General Plant Capital Additions; Uncollectibles; Service Fees	1, 7, 22, 26, 53, 68-70, 93, 94

Witness (Rebuttal)	Subject Matter	Issues
J. A. Burleson	Scherer 3 Decision Points, Consistency with Regulatory Compact and Best Interests of Customers; Scherer 3 Economic Analysis	19
S. W. Connally, Jr.	Importance of Commission Decision on Scherer 3	19
J. T. Deason	Regulatory Compact for Scherer 3; At-Risk Compensation; Amortization of Deferred Return on Transmission Capital Projects	19, 35, 59
L. P. Evans	Load Research; Rate Design	87

Witness (Rebuttal cont.)	Subject Matter	Issues
J. M. Garvie	Compensation and Benefits	36, 59-61, 63
S. P. Harris	Property Damage Accrual	64, 65
J. J. Hodnett	Property Damage Reserve Accrual; SCS Allocations; Accounting for Sale of Pace Boulevard Office	64, 65, 72
X. Liu	Financial Impact of Intervenor Recommendations; Scherer 3; Cost of Capital; OPC's Inappropriate NOI Adjustments	19, 36, 45-47, 59, 60
R. M. Markey	North Escambia Consumptive Use Permit Requirements; North Escambia Preliminary Survey and Investigation Costs	31, 32
R. L. McGee, Jr.	Residential Advanced Pricing Package	3, 88-91, 102-104
D. S. Merilatt	Residential Advanced Pricing Package, Residential Energy Forecast	3, 88, 91
M. T. O'Sheasy	Minimum Distribution System; Cost Allocators for Distribution and Production Investment	84, 86
S. D. Ritenour	Employee Complement; Pension Funding; Adjustments for Smart Energy Center	26, 27, 36, 60, 61, 74
J. H. Vander Weide	Cost of Equity	46
D. A. Watson	Depreciation	8-13
J.T. Young	Energy Innovation Center Expenses; Customer Complaints	7, 71

C. EXHIBITS

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

Witness (Direct)	Proffered By	I.D. No.	Description
Various	Gulf		Minimum Filing Requirement (MFR) Schedules - Sections A, B, C, D, E and F
J. A. Burleson	Gulf	______ JAB-1	Joint Exhibit with J. T. Deason. Chronology of Key Planning and Regulatory Events Regarding Gulf's Purchase and Ownership in Scherer 3.
		______ JAB-2	1976 Certification of Gulf's Caryville Site under Florida Electrical Power Plant Siting Act (PPSA)
M. L. Burroughs	Gulf	______ MLB-1	MFR responsibility; Owned and Operated or Jointly Owned Generating Capacity; Power Purchase Agreements; Annual EFOR; Peak Season EFOR; Gulf EFOR Compared to Peer Group; 2013-2015 Major Production Non-ECRC Capital Additions; 2016 Non-ECRC Production Capital Additions Budget; 2017 Non-ECRC Production Capital Additions Budget; Benchmark Comparison; Production O&M Expense Budget; Smith Unit 3 Benchmark and Average Historical and Forecast O&M Expenses; Natural Gas Inventory
J. T. Deason	Gulf	______ JTD-1	Curriculum Vitae
		______ JTD-2	Reference Compendium of Documents Related to Gulf's Acquisition of Scherer 3
		______ JAB-1	Co-Sponsored with J.A. Burleson-Chronology of Key Planning and Regulatory Events Regarding Gulf's Purchase and Ownership in Scherer 3.

Witness (Direct cont.)	Proffered By	I.D. No.	Description
L. P. Evans	Gulf	______ LPE-1	MFR responsibility; Allocation of Revenue Increase; Proposed Tariff Sheets
J. N. Floyd	Gulf	______ JNF-1	Insulation Improvement Program; HVAC Efficiency Improvement Program; Annual Energy and Demand Savings of New/Modified Residential DSM Programs; Critical Peak Option (CPO) Program
J. M. Garvie	Gulf	______ JMG-1	Total Compensation Mix between Base and At-Risk Pay; Base Salary and Total Compensation to Market Median; Willis Towers Watson Memorandum on Audit of Gulf Power Company's Compensation Programs; Willis Towers Watson Comparison of Employer-Paid Benefit Value; Aon Hewitt Comparison of Employer-Paid Benefit Value
S. P. Harris	Gulf	______ SPH-1	Selected Charts from the CoreLogic Storm Study
		______ SPH-2	Revised 2016 Hurricane Loss and Reserve Performance Analysis filed on April 8, 2016
J. J. Hodnett	Gulf	______ JJH-1	MFR responsibility; Administrative and General (A&G) O&M; A&G Benchmark Variance; Non-Hurricane Charges to Property Damage Reserve 2011 – August 2016; Depreciation and Dismantlement; Gulf Power's 2016 Dismantlement Study filed July 14, 2016

Witness (Direct cont.)	Proffered By	I.D. No.	Description
X. Liu	Gulf	______ XL-1	MFR responsibility; Base Retail ROE; Retail Energy Sales 2012-2017; 2017 Test Year Revenue Request; Residential and Commercial Use Per Customer; Equity Percentages and Return on Equity for Florida Investor-Owned Utilities; Parent Debt Adjustment Rule; Gulf Dividends Compared to Southern Company Capital Contributions 2003-2017
J. J. Mason	Gulf	______ JJM-1	MFR responsibility; Financial Planning Process Chart; Budget Process; 2017 Test Year Capital Additions Budget by Function; 2017 Test Year Operation and Maintenance Expense by Function; Financial Model Flowchart; Gulf Power Company Balance Sheet December 2016 through December 2017; Gulf Power Company Income Statement for Twelve Months Ending December 31, 2017; Gulf Power Company Utility Plant Balances for the Periods Ended December 2016 through December 2017
R. L. McGee	Gulf	______ RLM-1	Residential Rates Summary-Current/Proposed; Graphic Representation of Rate Structures and Their Relationships to Costs; Bill Variability; Residential Customer Load Factors; Blank and Gegax Methodology; Bill Comparison; Low Income Rider Credit
M. T. O'Sheasy	Gulf	______ MTO-1	MFR responsibility; Illustration of Simple Distribution Network; MDS Customer/Demand Percentages by FERC Account
		______ MTO-2	Analysis and Results of Cost of Service Study

Witness (Direct cont.)	Proffered By	I.D. No.	Description
J. K. Park	Gulf	JKP-1	MFR responsibility; Residential Use per Customer and Customer Growth Trends; Commercial Use per Customer and Customer Growth Trends; Residential Regression Model-Predicted vs. Actual and Statistics; Small Commercial Regression Model-Predicted vs. Actual and Statistics; Large Commercial Regression Model-Predicted vs. Actual and Statistics
S. D. Ritenour	Gulf	SDR-1	MFR responsibility; 13-Month Average Rate Base; 13-Month Average Working Capital; Net Operating Income; Fuel Revenues and Expenses; Purchase Power Capacity Cost Recovery Clause Revenues and Expenses; Energy Conservation Cost Recovery Clause Revenues and Expenses; Environmental Cost Recovery Clause Revenues and Expenses; Smith 1 and 2 Investment Amortization; Deferred Return on Transmission Investment Amortization; FPSC Assessment Fees; Income Tax Adjustments; Interest Synchronization Adjustment; 13-Month Average Jurisdictional Cost of Capital; Proration of Accumulated Deferred Income Taxes Activity Associated with Book/Tax Depreciation; FPSC Adjusted Achieved Rate of Return and Return on Common Equity; Calculation of Revenue Deficiency; Revenue Expansion Factor and NOI Multiplier; Operation and Maintenance Expenses Benchmark Variance by Function; Benchmark Year Recoverable Operation and Maintenance Expenses by Function; Operation and Maintenance Expenses 2017 Test Year Adjustments by Function; Hiring Lag; General Plant Capital Additions for the Prior Year ended 12/31/2016 and the Test Year

Witness (Direct cont.)	Proffered By	I.D. No.	Description
S. D. Ritenour (cont.)			ended 12/31/2017; Investment and Net Operating Income Associated with Scherer 3 Off-System Sales for the period ended December 31, 2017
W. E. Smith	Gulf	______ WES-1	MFR responsibility; Map of Wind Field Standards; Vaisala's National Lightning Detection Network Cloud-to-Ground Lightning 2005-2014; Transmission Capital Additions Budget; Transmission O&M Budget; Distribution Capital Additions Budget; Corporate General Plant Budget; Distribution O&M Budget; Distribution Reliability 2012-2015; Transmission Reliability 2012-2015
J. H. Vander Weide	Gulf	______ JVW-1	Summary of Discounted Cash Flow Analysis for Electric Utilities; Comparison of the DCF Expected Return on an Investment in Electric Utilities to the Interest Rate on Moody's A-Rated Utility Bonds; Comparative Returns on S&P 500 Stock Index and Moody's A-Rated Bonds 1937—2016; Comparative Returns on S&P Utility Stock Index and Moody's A-Rated Bonds 1937—2016; Using the Arithmetic Mean to Estimate the Cost of Equity Capital; Calculation of Capital Asset Pricing Model Cost of Equity Using an Historical Risk Premium; Comparison of Risk Premiums on S&P 500 and S&P Utilities 1937 – 2016; Calculation of Capital Asset Pricing Model Cost of Equity Using an Historical Risk Premium and a 0.90 Utility Beta; Calculation of Capital Asset Pricing Model Cost of Equity Using DCF Estimate of the Expected Rate of Return on the Market Portfolio; Calculation of Cost of Equity Required for the Company to Have the Same Weighted Average Cost of Capital as Comparable Electric Utilities

Witness (Direct cont.)	Proffered By	I.D. No.	Description
J. H. Vander Weide (cont.)	Gulf	______ JVW-2	Qualifications of James H. Vander Weide; Derivation of the Quarterly DCF Model; Adjusting for Flotation Costs in Determining a Public Utility's Allowed Rate of Return on Equity; Ex Ante Risk Premium Method; Ex Post Risk Premium Method
D. A. Watson	Gulf	______ DAW-1	Gulf Power's 2016 Depreciation Study filed on September 20, 2016 in Docket No. 160170-EI
		______ DAW-2	Comparison of Annual Depreciation Accrual Expense; Interim Net Salvage; Comparison of Net Salvage Percentages; Proposed Interim Retirement Ratios, Comparison of Life Parameters
		______ DAW-3	Previous Testimony
J. T. Young (Adopting the prefiled direct testimony of B. C. Terry)	Gulf	______ BCT-1	MFR responsibility; Customer Value Benchmark Results; Customer Accounts Expense; Customer Service and Information Expense; Sales Expense; Test Year Benchmark vs. 2017 Budget; Service Fees; Gulf's FPSC Complaint Activity 2002-2015

Witness (Rebuttal)	Proffered By	I.D. No.	Description
J. A. Burleson	Gulf	______ JAB-3	Gulf 2003 Integrated Resource Plan Incremental Additions; Comparative Analysis of Scherer 3 and Replacement CT
		______ JAB-4	Clarification and Correction of Intervenor Statements

Witness (Rebuttal cont.)	Proffered By	I.D. No.	Description
L. P. Evans	Gulf	______ LPE-2	Rate Schedule ECC Cost Recovery Clause Energy Conservation
J. M. Garvie	Gulf	______ JMG-2	January 24, 2017, Aon Pension Cost Letter; Gulf Tax-Qualified Pension Plan Scenarios
S. P. Harris	Gulf	______ SPH-3	Comparison of $3.5 Million vs. $8.9 Million Annual Storm Accrual
J. J. Hodnett	Gulf	______ JJH-2	SCS Cost Decreases due to 2016 Southern Company Mergers and Acquisitions
X. Liu	Gulf	______ XL-2	Corporate and Base Retail Return on Equity (2002 to June 2017)
R. M. Markey	Gulf	______ RMM-3	Late-Filed Exhibit No.3 to the Deposition of Michael Burroughs (Redacted); North Escambia Preliminary Well Field Location (Confidential); North Escambia Summary of PS&I Costs
R. L. McGee, Jr.	Gulf	______ RLM-2	Residential Rate Structure and Clause Effects on Solar PV Payback; Advisory Council for the Center for Public Utilities; Effect of Customers Choosing Optional RSD Rate; Factors to Consider in Implementing the Advanced Pricing Package
D. S. Merilatt	Gulf	______ DSM-1	Merilatt Resume
		______ DSM-2	Article by Ross C. Eriksson, David L. Kaserman, and John W. Mayo entitled “Targeted and Untargeted Subsidy Schemes: Evidence from Postdivestiture Efforts to Promote Universal Telephone Service.”

Witness (Rebuttal cont.)	Proffered By	I.D. No.	Description
S. D. Ritenour	Gulf	______ SDR-2	Vacancy Analysis; Additional Pension Funding; Smart Energy Center
J. H. Vander Weide	Gulf	______ JVW-3	Research Literature that Studies the Efficacy of Analysts' Earnings Forecasts
D. A. Watson	Gulf	______ DAW-4	Revised Appendices to Depreciation Rate Study
		______ DAW-5	Simulated Plant Record Analysis for Distribution Account 364 - Poles, Towers and Fixtures
		______ DAW-6	Simulated Plant Record Analysis for Distribution Account 364 - Poles, Towers and Fixtures
		______ DAW-7	Simulated Plant Record Analysis for Distribution Account 365 - Overhead Conductors and Devices
		______ DAW-8	Simulated Plant Record Analysis for Distribution Account 369.1 – Overhead Services
		______ DAW-9	Retirements, Gross Salvage, and Cost of Removal for Account 390 - Structures and Improvements (Pace Blvd. Building)

D. STATEMENT OF BASIC POSITION

Gulf Power Company's Statement of Basic Position:

Gulf Power Company's current rates and charges will not provide Gulf a reasonable opportunity to earn a fair and reasonable rate of return for the period January 2017 through December 2017 and beyond. Gulf filed this case seeking an annual increase in its rates and charges of approximately $106.8 million. The most reasonable period on which to base new rates and charges for Gulf is January 2017 through December 2017. The use of a projected test year that includes information related to rate base, net operating income, and capital structure for the time that new rates would be in effect is consistent with the Florida Public Service Commission's (FPSC or Commission) long standing practice of approving projected test years. The purpose of a test year in retail ratemaking is to allow the Commission to make a reasonable determination as to whether existing rates are adequate on a going forward basis given the expectations of conditions Gulf will experience during the period new rates will be in effect. Although there are known changes between the projected test year as presented in the MFRs and testimony filed by Gulf in this case and actual experience since the filing, the aggregate of these changes would not reduce the total revenue deficiency that should be addressed through the requested increase in base rates. None of the adjustments to the test year identified through intervenor testimony filed in these proceedings warrant a change in the amount of rate relief that should be granted, particularly in light of the known changes to Gulf's revenue forecast for the test year. Nothing presented in intervenor testimony suggests that the 2017 test year as filed fails to provide a reasonable and appropriate basis on which to quantify the revenue deficiency that must be addressed through an increase in Gulf's base rates and charges. The requested increase based on test year data is necessary in order to provide Gulf a reasonable opportunity both to continue to provide reasonable and adequate service to its customers and simultaneously to recover the costs of providing that service including a reasonable and adequate rate of return on invested capital commensurate with the federal and Florida constitutions and the regulatory compact.

The Company's adjusted 13-month average jurisdictional rate base for the period January 2017 through December 2017 (the "test year") is projected to be $2,418,917,000; and the jurisdictional achieved net operating income is projected to be $80,723,000 using the rates currently in effect. The resulting adjusted achieved jurisdictional rate of return on average rate base is projected to be 3.34 percent, while the achieved return on common equity is projected to be 4.27 percent for the projected test year. Such a return is so low that it would severely jeopardize the Company's ability to finance future operations. The continued compulsory application of Gulf's present rates and charges will result in the unlawful taking of the Company's property without just compensation, resulting in confiscation of the Company's property in violation of the guarantees of the state and federal constitutions.

As a provider of retail electric service to the people of Northwest Florida, Gulf is obligated by statute to provide such service in a reasonable, "sufficient, adequate, and efficient" manner. Gulf has a similar obligation to provide its shareholders with a reasonable and adequate return on their investment. Without the revenue increase requested, Gulf cannot meet its obligations to either constituency in the long run. If Gulf is rendered unable to meet its obligations to the customers and shareholders due to inadequate rates, both stakeholder groups will suffer. The customers

will suffer from less reliable service and eventually higher costs of electricity than would otherwise be the case, while the shareholders will suffer from an inadequate and confiscatory return on investment and will seek other places to invest their money.

Rates approved in Gulf's 2013 base rate case are not projected to be adequate to cover Gulf's cost of providing electric service. Gulf continues to invest heavily in infrastructure required for us to serve our customers. One important driver of the need for a rate increase is the rededication to retail service of 160 MW of Gulf's ownership interest in Plant Scherer Unit 3 (Scherer 3). This rededication occurred on January 1, 2016 (110 MW) and June 1, 2016 (50 MW) as the most recent contracts committing this capacity to off-system wholesale sales expired. Since the rededication, this capacity has been used and useful in providing service to retail customers. The 160 MW of Scherer 3 represents five percent of Gulf's capacity that serves retail customers today and since mid-2016, this capacity has supplied six percent (over 400,000 MWH) of the energy needs of those retail customers.

Scherer 3 was originally planned, acquired and built – with the encouragement of the Commission – to serve retail customers as a more cost-effective alternative to the construction of a coal-fired unit known as Caryville Unit 1. The Caryville unit had been found by the Commission to be needed to serve retail customers and had been certified for construction by the Governor and Cabinet under the Florida Electrical Power Plant Siting Act. When the more cost-effective option of purchasing an interest in Plant Scherer became available, the Commission allowed Gulf to recover cancellation charges associated with Caryville Unit 1, but required Gulf to hold those revenues subject to refund pending the consummation of an agreement to purchase the Scherer capacity. Prior to entering into such an agreement, Gulf informed the Commission that, due to changes in load forecasts, there would not be an immediate retail need for the capacity on the unit's in-service date, but that Gulf expected to be able to enter into off-system wholesale contracts to temporarily relieve retail customers of cost responsibility for the capacity. The Commission recognized that purchase of an interest in Scherer remained a good option for retail customers and it continued to require Gulf to hold the Caryville cancellation charge revenues subject to refund until the agreement to purchase Scherer was finally approved by the Securities and Exchange Commission and Gulf actually closed on the purchase transaction.

Under the regulatory compact that exists between a utility and its regulator, a utility is entitled to the opportunity to earn a fair rate of return on prudent investments made for the benefit of its customers. The initial acquisition of Scherer 3 was consistent with the regulatory compact and the off-system sales contracts were appropriately designed to temporarily relieve retail customers of cost responsibility. Beginning on its 1987 in-service date, with the full knowledge and assent of the Commission, a majority of Gulf's interest in Scherer 3 was committed to long-term off-system wholesale contracts, and from 1995 until 2016, all of Gulf's interest in Scherer 3 was so committed under a series of such contracts. At each decision point where Gulf had the flexibility to return the capacity to retail service or to continue to sell it at wholesale, planning projections showed that returning the unit to retail service did not match up with the type and timing of a retail capacity need and a wholesale market existed that enabled Gulf to continue to temporarily relieve retail customers of cost responsibility for the capacity. Gulf's decisions to continue to sell into the wholesale market were both consistent with the regulatory compact and in the best interests of Gulf's retail customers.

Gulf has rededicated the portion of Scherer 3 previously committed to long-term off-system sales to serving the retail customers for whom it was original planned, acquired and built. Returning Scherer 3 to retail service is a more cost-effective option to retail customers than divesting the unit and constructing an equivalent amount of combustion turbine capacity to meet Gulf's anticipated capacity needs. In addition to this economic benefit, continued ownership and operation of the unit to serve retail customers complements Gulf's resource plans by offsetting a portion of the lost fuel diversity associated with recently retired coal-fired units and serving as a form of protection from the volatility of natural gas prices.

Gulf is requesting that the Commission now include in retail rates the portion of Scherer 3 that is no longer committed under long-term off-system wholesale contracts. This action is necessary to honor the regulatory compact that contemplates that Gulf is entitled to the opportunity to earn a fair return on prudent investments that are used and useful in the public service. In the circumstances of Scherer 3, the prudency determination was made over 35 years ago and, contrary to assertions by the intervenors, should not now be revisited. The failure to include Scherer 3 in retail rates would have devastating financial consequences for Gulf. If the Commission were to deny recovery in this case, Gulf would have no choice but to diligently pursue an immediate disposition of the asset. This would deprive retail customers of the benefits of continuing to operate Scherer 3, while leaving them responsible for any stranded costs that result from the disposition. Such a result would not be in their best interests.

For these and other reasons detailed in the testimony and exhibits of Gulf's witnesses filed with its petition in this case, Gulf is respectfully requesting an increase in rates and charges that will produce an increase in total annual revenues of at least $106.8 million.

E. STATEMENT OF ISSUES AND POSITIONS

Legal/Threshold Issues

ISSUE 1: Should the Commission address Gulf's requests related to electric vehicle charging stations in this case (Issue 13 and Issue 22)?

GULF: Yes. Gulf Power has requested Commission approval of a depreciation rate for electric vehicle chargers which Gulf intends to install and maintain at commercial customers' requests behind their electric meters. Gulf has also requested to include $1,072,000 in Plant in Service for the 2017 test year for these chargers and included a net operating income adjustment of $239,000 reflecting revenues Gulf projects to receive in the test year from customers who have requested the chargers. Gulf's requests are reasonable and appropriate. There is no impediment, legal or otherwise, to the Commission addressing or granting Gulf's requests in this proceeding. While there is statutory authority which grants non-utilities the right to offer electric vehicle charging to the public, this statutory authority does not implicitly or explicitly prohibit utilities from offering such

services on a regulated basis. This service is one that Gulf's customers are requesting Gulf to provide and, much like outdoor lighting and other services Gulf presently provides, Gulf is well-positioned to serve its customers' needs. (Young)

Test Year Period and Forecasting

ISSUE 2: Is Gulf's projected test year period of the 12 months ending December 31, 2017 appropriate?

GULF: Yes. The 12 months ending December 31, 2017 as presented in Gulf's MFRs filed in this case is the most appropriate test period, as it is representative of future operations. It properly matches Gulf's projected revenues with the projected costs and investment required to provide service during the period following the effective date of new base rates in this case. This issue is not addressed in the testimony of any intervenor witness. Since this issue is not contested in testimony, it appears it could and should be stipulated. (Liu, Ritenour)

ISSUE 3: Are Gulf's forecasts of Customers, kWh, and kW by rate class, for the 2017 projected test year appropriate? If not, what adjustments should be made?

GULF: Yes. Gulf's forecasts of customers and energy sales (kWh) by rate class and demand (kW) for the 2017 projected test year are based on sound methods which consistently produce accurate results, have been relied on by Gulf and the Commission in a number of other proceedings, and are appropriate for use in this proceeding. (Park, McGee, Merilatt)

ISSUE 4: Are Gulf's forecasts of billing determinants by rate schedule for the 2017 projected test year appropriate? If not, what adjustments should be made?

GULF: Yes. Gulf's forecasts of billing determinants by rate schedule for the 2017 projected test year are based on sound methods, include all billing components necessary for the development of the base revenue forecast, and are appropriate for use in this proceeding. (Park)

ISSUE 5: Are Gulf's estimated revenues from sales of electricity by rate class at present rates for the projected 2017 test year appropriate? If not, what adjustments should be made?

GULF: Yes. Gulf appropriately applied present rates to forecast billing determinants, resulting in estimated revenues from sales of electricity by rate class at present rates for the projected 2017 test year that are appropriate for use in this proceeding. (Park)

ISSUE 6: What are the appropriate inflation, customer growth, and other trend factors for use in forecasting the 2017 projected test year budget?

GULF: The inflation, customer growth and other trend factors shown on MFR F-8 are appropriate for use as needed in calculating a reasonable and appropriate forecast of the 2017 projected test year budget. These factors were based on the most current information available at the time the 2017 test year budget was prepared. (Mason, Park)

Quality of Service

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

GULF: Yes. Gulf's quality and reliability of electric service is more than adequate, as evidenced by Gulf's low customer complaint activity with the Florida Public Service Commission and numerous performance measures. In the Production area, Gulf's Equivalent Forced Outage Rate is well-below the industry average and even the average for the top decile performers. Gulf's Production safety performance has been 33.65 percent better than the performance of the industry from 2006 – 2015. Gulf's Transmission and Distribution SAIDI and SAIFI performance has markedly improved from 2012 through 2015, evidencing improved reliability. Additionally, Gulf's service and reliability attributes in customer surveys are consistently among the best in the industry. This issue is not addressed in the testimony of any intervenor witness. Since this issue is not contested in testimony, it appears it could and should be stipulated. (Burroughs, Smith, Young)

Depreciation and Dismantlement

ISSUE 8: What are the appropriate capital recovery schedules?

GULF: None. Gulf has proposed no capital recovery schedules. (Watson)

ISSUE 9: What are the appropriate depreciation parameters (remaining life [including the production unit retirement date or life span and the interim retirement ratio for production plant accounts], net salvage percentage [including interim net salvage percent for production plant accounts], and reserve percentage) and resulting depreciation rates for each production unit and each production plant account?

GULF: All appropriate parameters and rate components are included within the depreciation study filed by Gulf and modified in Gulf Witness Watson's rebuttal testimony as shown on Appendix A-1 and D-2 of Exhibit DAW-4. Gulf's depreciation rates for production plant are based upon the depreciation study performed by Alliance Consulting Group (Alliance), a well-respected and independent third party with significant experience in depreciation matters related to utility companies. Intervenors' attacks on selective elements of Gulf's production depreciation rates are without merit. (Watson)

ISSUE 10: What are the appropriate depreciation parameters (average service life, remaining life, net salvage percentage and reserve percentage) and resulting depreciation rates for each transmission, distribution, and general plant account?

GULF: All appropriate parameter and rate components are included within the depreciation study filed and modified in Gulf Witness Watson's rebuttal testimony as shown on Appendix A-3 of exhibit DAW-4. The depreciation study filed by Gulf was performed by Alliance in accordance with the customary and standard practices historically relied upon by this Commission. It should be used to set Gulf's depreciation rates. Intervenors' witnesses apparently agreed with significant portions of Gulf's depreciation study, and the limited attacks on selective elements of Gulf's comprehensive study are without merit. (Watson)

ISSUE 11: Based on the application of the depreciation parameters that the Commission has deemed appropriate to GPC's data, and a comparison of the theoretical reserves to the book reserves, what are the resulting imbalances, if any?

GULF: There are no material reserve imbalances. Any immaterial balances are appropriately adjusted prospectively in future depreciation studies. (Watson)

ISSUE 12: What, if any, corrective depreciation reserve measures should be taken with respect to the imbalances identified in **Issue 11?**

GULF: None. (Watson)

ISSUE 13: What is the appropriate depreciation rate for Gulf's electric vehicle charging stations?

GULF: A 15-year life for electric vehicle charging infrastructure and a net salvage of zero percent are appropriate. (Hodnett, Watson)

ISSUE 14: What is the appropriate recovery period for the regulatory asset related to the retirement of Plant Smith Units 1 and 2 approved in Docket No. 160039-EI?

GULF: The regulatory asset related to the retirement of Plant Smith Units 1 and 2 approved in Docket No. 160039-EI should be amortized over 15 years commencing with the date new rates become effective. (Ritenour)

ISSUE 15: What is the appropriate current total estimated cost of dismantling Gulf Power Company's generation fleet?

GULF: Gulf's dismantlement study projects a current cost to dismantle of $79,824,000 in year-end 2016 dollars. Based on the plant life estimates and adjusted for inflation, the estimated cost would be $130,425,384. (Hodnett)

ISSUE 16: What, if any, corrective dismantlement reserve allocations should be made?

GULF: No specific set of reserve allocation adjustments is necessary. To reduce costs to the customer, Gulf proposes a single reserve balance for funding needed dismantling activities. Gulf's dismantlement study provides an illustration of the benefits to this approach. (Hodnett)

ISSUE 17: Based on the decisions in **Issues 15 and 16**, what is the appropriate annual accrual for dismantlement?

GULF: Gulf's recommended base rate annual dismantlement accrual is zero. (Hodnett)

ISSUE 18: What should be the implementation date for revised depreciation rates, capital recovery schedules, dismantlement accruals, and amortization schedules?

GULF: The implementation date should coincide with the effective date of the base rates set in this docket. (Hodnett)

Rate Base

ISSUE 19: Should the Commission allow recovery through retail rates of any portion of Scherer Unit 3? If so, what adjustments, if any, should be made to the treatment of Scherer Unit 3 in the Company's filing?

GULF: Yes. As described in Gulf's statement of basic position, Gulf's interest in Scherer 3 was originally planned, acquired and built to serve retail customers as a cost-effective alternative to the continued development of a Gulf-owned unit at the Caryville site that had been certified under the Florida Electrical Power Plant Siting Act to meet a retail need. With the encouragement of the Commission, Gulf pursued the acquisition of an interest in Scherer 3 and entered into long-term off-system wholesale contracts to temporarily relieve retail customers of cost responsibility for the unit. Seventy-six percent of Gulf's interest in Scherer 3 has now been rededicated to serve the retail customers for whom the unit was originally planned, acquired and built. Since mid-2016, this portion of Scherer 3 has represented five percent of Gulf's generating capacity and has provided six percent (more than 400,000 MWH) of the energy consumed by Gulf's retail customers. Gulf's decision to use Scherer 3 to serve retail customers – and its earlier decisions to temporarily cover the unit's revenue requirements through off-system wholesale contracts – have all been prudent, in the best interests of retail customers, and consistent with the regulatory compact. The Commission should allow recovery of the portion of the unit that has been rededicated to retail service and no adjustment should be made to the treatment requested for Scherer 3 in Gulf's filing. (Burleson, Deason, Liu, Connally)

ISSUE 20: Should costs currently approved by agreement and stipulation for recovery through the Environmental Cost Recovery Clause associated with Scherer Unit 3 be included in base rates for Gulf? If so, what adjustments, if any, should be made?

GULF: No, these costs should continue to be recovered through the Environmental Cost Recovery Clause (ECRC). These environmental costs are identical in type and scope to environmental costs associated with Gulf's other owned generation assets. (Ritenour)

ISSUE 21: Are there any capital costs currently being recovered by Gulf through cost recovery clauses that should be moved from the cost recovery clauses to base rates? If so, what capital costs should be moved to base rates and what adjustments should be made, if any?

GULF: No. The capital items currently approved for recovery through cost recovery clauses should continue to be recovered in those clauses. In this filing, Gulf

removed from rate base all investment currently approved for cost recovery in a clause; therefore, no additional adjustment is necessary. This issue is not addressed in the testimony of any intervenor witness. Since this issue is not contested in testimony, it appears it could and should be stipulated. (Ritenour)

ISSUE 22: What is the appropriate amount, if any, to include in Plant in Service for Gulf's electric vehicle charging stations?

GULF: The appropriate amount of Plant in Service for Gulf's electric vehicle charging stations is $1,042,000 ($1,072,000 system) for the 2017 projected test year. (Young)

ISSUE 23: What is the appropriate amount of Plant in Service for Gulf's Transmission Capital Additions?

GULF: The appropriate amount of Plant in Service for Gulf's Transmission function is $697,818,000 ($717,938,000 system) for the 2017 projected test year. This includes the 13 transmission projects identified in the 2013 Stipulation and Settlement Agreement that were completed prior to the 2017 test year. No intervenor witness has filed testimony challenging this investment. Since this issue is not contested in testimony, it appears it could and should be stipulated. (Smith)

ISSUE 24: Has Gulf made the appropriate test year adjustments to remove from rate base costs recovered under the Environmental Cost Recovery Clause?

GULF: Yes. The capital items currently approved for recovery through the ECRC should continue to be recovered through the ECRC. In this filing, Gulf removed from rate base all investment currently approved for cost recovery through the ECRC; therefore, no additional adjustment is necessary. This issue is not addressed in the testimony of any intervenor witness. Since this issue is not contested in testimony, it appears it could and should be stipulated. (Ritenour)

ISSUE 25: Has Gulf made the appropriate test year adjustments to remove from rate base costs recovered under the Energy Conservation Cost Recovery Clause?

GULF: Yes. The capital items currently approved for recovery through the Energy Conservation Cost Recovery Clause (ECCR) should continue to be recovered through the ECCR. In this filing, Gulf removed from rate base all investment currently approved for cost recovery through the ECCR; therefore, no additional adjustment is necessary. This issue is not addressed in the testimony of any

intervenor witness. Since this issue is not contested in testimony, it appears it could and should be stipulated. (Ritenour)

ISSUE 26: Should the Commission allow recovery through rates of the costs associated with the proposed new Gulf Smart Energy Center? What adjustments, if any, should be made to the Gulf Smart Energy Center costs included in the 2017 projected test year?

GULF: No. The Smart Energy Center is no longer planned for the 2017 test year. The following rate base and expense items should be reduced to reflect the removal of this project: Plant in Service $2,120,000 ($2,154,000 system); Accumulated Depreciation $11,000 ($11,000 system); CWIP $1,017,000 ($1,038,000 system) and Depreciation Expense $41,000 ($42,000 system). (Ritenour, Young)

ISSUE 27: Are Gulf's projected capital expenditures associated with maintenance outages for 2016 and 2017 appropriate? If not, what adjustments should be made?

GULF: Yes. The projected capital expenditures that formed the basis for the investment included in Gulf's 2017 test year are appropriate and representative of costs of future operations. The Commission should not consider attempts by any party to interject selective updates to projected costs included in the projected test year; allowing such selective updates is inconsistent with the use of a projected test year. No adjustment to the 2017 test year is necessary or appropriate. (Burroughs, Ritenour)

ISSUE 28: Is Gulf's requested level of Plant in Service for the 2017 projected test year appropriate? If not, what is the appropriate amount? (Fallout Issue)

GULF: Yes. Gulf's requested level of Plant in Service in the amount of $3,457,741,000 ($3,521,584,000 system) is appropriate, once adjusted for Gulf's position on Issue 26. (Ritenour)

ISSUE 29: Is Gulf's requested level of Accumulated Depreciation for the 2017 projected test year appropriate? If not, what is the appropriate amount? (Fallout Issue)

GULF: Yes. Gulf's requested level of Accumulated Depreciation in the amount of $1,350,342,000 ($1,374,660,000 system) is appropriate, once adjusted for Gulf's position on Issue 26. (Hodnett, Ritenour)

ISSUE 30: Is Gulf's requested level of Construction Work in Progress for the 2017 projected test year appropriate? If not, what is the appropriate amount?

GULF: Yes. Gulf's requested level of Construction Work in Progress (CWIP) is not eligible to accrue an Allowance for Funds Used during Construction (AFUDC) and should be allowed in rate base consistent with Commission policy. CWIP in the amount of $40,163,000 ($41,006,000 system), once adjusted for Gulf's position on Issue 26, is appropriate in order to continue to maintain reliability and meet the service needs of our customers. (Ritenour)

ISSUE 31: Is Gulf's requested level of Property Held for Future Use for the 2017 projected test year, including the North Escambia site, appropriate? If not, what is the appropriate amount?

GULF: Yes. Gulf's requested level of Plant Held for Future Use (PHFU) in the amount of $14,345,000 ($14,757,000 system) for the 2017 projected test year is appropriate. The only parcel of PHFU that has been contested by any witness is the North Escambia site.

The North Escambia site is the best site available for new generation necessary to serve Gulf's customers. Gas-fired generation at that site is lower cost than generation at any other site available to Gulf. The entire 2,728 acres at the site will be necessary to mitigate risks, including adequate water supply, associated with the site. Gulf's customers are fortunate that Gulf's management has held this site for their benefit, but it cannot be reasonably assumed that the site will remain available if it is not included in PHFU in this case.

OPC Witness Ramas's arguments against including this site in PHFU are not compelling. The Commission's disallowance for a larger, more costly site for a nuclear unit is inapplicable. The preliminary site investigation costs that Gulf seeks do not include any nuclear-specific costs and are limited to the costs that can and will be used for siting gas-fired generation. The entire existing site is necessary for water supply and risk mitigation. Finally, it is not necessary for Gulf to have final plans to build at the site for the site to be included in PHFU; Gulf has shown that it has a forecasted need for capacity by 2023 and that this site is the single best site available to develop Gulf's self-build option to meet that need. Gulf should employ its lowest cost self-build option to assess properly any third party options such as potential PPAs or asset purchases. If Gulf's lowest cost self-build option is to be preserved for Gulf's customers, the North Escambia site needs to be included in PHFU. (Burroughs, Markey, Ritenour)

This issue is duplicative of the subsequent issue. Issue 31 can be dropped.

ISSUE 32: Is Gulf's requested level of Property Held for Future Use for the 2017 projected test year appropriate? If not, what is the appropriate amount?

GULF: Yes. Gulf's requested level of Plant Held for Future Use (PHFU) in the amount of $14,345,000 ($14,757,000 system) for the 2017 projected test year is appropriate. The only parcel of PHFU that has been contested by any witness is the North Escambia site.

The North Escambia site is the best site available for new generation necessary to serve Gulf's customers. Gas-fired generation at that site is lower cost than generation at any other site available to Gulf. The entire 2,728 acres at the site will be necessary to mitigate risks, including adequate water supply, associated with the site. Gulf's customers are fortunate that Gulf's management has held this site for their benefit, but it cannot be reasonably assumed that the site will remain available if it is not included in PHFU.

OPC Witness Ramas's arguments against including this site in PHFU are not compelling. The Commission's disallowance for a larger, more costly site for a nuclear unit is inapplicable. The preliminary site investigation costs that Gulf seeks do not include any nuclear-specific costs and are limited to the costs that can and will be used for siting gas-fired generation. The entire existing site is necessary for water supply and risk mitigation. It is not necessary for Gulf to have final plans to build at the site for the site to be included in PHFU; Gulf has shown that it has a forecasted need for capacity by 2023 and that this site is the single best site available to develop Gulf's self-build option to meet that need. Gulf should employ its lowest cost self-build option to assess properly any third party options such as potential PPAs or asset purchases. If Gulf's lowest cost self-build option is to be preserved for Gulf's customers, the North Escambia site needs to be included in PHFU. (Burroughs, Markey, Ritenour)

This issue is duplicative of the prior issue. The prior issue can be dropped.

ISSUE 33: Should any adjustments be made to Gulf's fuel inventories for the projected 2017 test year?

GULF: No adjustment is necessary. The fuel inventories for 2017 were developed pursuant to Gulf's fuel inventory policy that has been reviewed and approved in the last several rate cases. In addition, those balances have not been contested by any intervenor witness. Consequently, it appears that Gulf's 2017 fuel inventory could and should be stipulated.

In contrast, Gulf's balance for in-transit coal at the McDuffie terminal has been contested by OPC Witness Ramas. Gulf Witness Burroughs addressed why in-transit coal should be included in working capital – it is paid for upon loading at the supplier's originating point; therefore, it belongs to Gulf for use of its

customers and should earn a return. This is consistent with prior Commission treatment of in-transit coal. (Burroughs)

ISSUE 34: What is the appropriate treatment of the remaining equipment inventory balance resulting from the closure of Plant Scholz?

GULF: The balance of $593,000 ($609,000 system) remains after Gulf took appropriate measures to minimize equipment inventory at Plant Scholz. This investment was prudently incurred in providing electric service to our customers from Plant Scholz; therefore, the remaining equipment inventory balance should be transferred to a regulatory asset and amortized over four years. This issue is not addressed in the testimony of any intervenor witness. Since this issue is not contested in testimony, it appears it could and should be stipulated. (Burroughs, Ritenour)

ISSUE 35: Is Gulf's proposed Deferred Return on Transmission Investments and the amortization thereof consistent with the terms of the 2013 Settlement Agreement in Docket No. 130140-EI, correctly calculated, and appropriate? If not, what is the appropriate amount?

GULF: Yes. The appropriate amount of the Deferred Return to be recovered is $25,422,000 ($26,099,000 system). The appropriate period of recovery of the Deferred Return is four years. The amortization period should not be the remaining life of the transmission assets as suggested by OPC Witness Ramas, since the deferred return reflects dollars that under normal ratemaking would have already been recovered from customers through base rates. (Ritenour, Deason)

ISSUE 36: Is Gulf's December 19, 2016 pension contribution impacting the 2017 projected test year appropriate? If not, what is the appropriate amount?

GULF: Yes. The actual pension contribution of $54,339,000 ($55,816,000 system) is appropriate for inclusion in setting rates. The contribution was in the best interests of customers. Compared to what it would have been if no contribution had been made, the contribution reduces Gulf's 2017 revenue requirement by $100,000, and it reduces Gulf's revenue requirement by almost $4 million on a net present value basis over the next 10 years. Because the final contribution was less than the amount originally projected, Gulf Witness Ritenour provides in Schedule 2 of Rebuttal Exhibit SDR-2 the appropriate rate base and NOI adjustments that should be made to Gulf's original filing. (Garvie, Liu, Ritenour)

ISSUE 37: Is Gulf's proposed level of Working Capital for the 2017 projected test year appropriate? If not, what is the appropriate amount? (Fallout Issue)

GULF: Yes. Gulf's requested level of Working Capital in the amount of $256,171,000 ($262,068,000 system) for the 2017 projected test year is appropriate once adjusted for Gulf's position on Issue 36. (Ritenour)

ISSUE 38: Is Gulf's requested rate base for the 2017 projected test year appropriate? If not, what is the appropriate amount? (Fallout Issue)

GULF: Yes. Gulf's requested level of rate base in the amount of $2,418,917,000 ($2,465,619,000 system) for the 2017 projected test year is appropriate. (Ritenour)

Cost of Capital

ISSUE 39: What is the appropriate amount of accumulated deferred taxes to include in the capital structure for the 2017 projected test year?

GULF: Gulf's requested level of accumulated deferred taxes in the amount of $568,999,000 ($580,097,000 system) for the 2017 projected test year is appropriate. (Ritenour, Hodnett)

ISSUE 40: What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure for the 2017 projected test year?

GULF: Gulf's requested level of unamortized investment tax credits in the amount of $721,000 ($735,000 system) for the 2017 projected test year is appropriate. The appropriate cost rate is 8.05% for purposes of calculating the weighted average cost of capital. (Ritenour, Hodnett)

ISSUE 41: What is the appropriate cost rate for customer deposits for the 2017 projected test year?

GULF: The appropriate cost rate for customer deposits for the 2017 projected test year is 2.30%. This issue is not addressed in the testimony of any intervenor witness. Since this issue is not contested in testimony, it appears it could and should be stipulated. (Ritenour)

ISSUE 42: What is the appropriate cost rate for short-term debt for the 2017 projected test year?

GULF: The appropriate cost rate for short-term debt for the 2017 projected test year is 3.02%. This issue is not addressed in the testimony of any intervenor witness. Since this issue is not contested in testimony, it appears it could and should be stipulated. (Ritenour)

ISSUE 43: What is the appropriate cost rate for long-term debt for the 2017 projected test year?

GULF: The appropriate cost rate for long-term debt for the 2017 projected test year is 4.40%. This issue is not addressed in the testimony of any intervenor witness. Since this issue is not contested in testimony, it appears it could and should be stipulated. (Ritenour)

ISSUE 44: What is the appropriate cost rate for preference stock for the 2017 projected test year?

GULF: The appropriate cost rate for preference stock for the 2017 projected test year is 6.15%. This issue is not addressed in the testimony of any intervenor witness. Since this issue is not contested in testimony, it appears it could and should be stipulated. (Ritenour)

ISSUE 45: What is the appropriate capital structure for the 2017 projected test year?

GULF: The appropriate capital structure is 53.1% common equity, 41.7% debt, and 5.2% preferred stock for Gulf's investor-supplied sources of capital. In January 2017, Gulf issued $175 million of common stock to achieve these ratios.

Gulf's equity ratio of 53.1% will still be below the average of the last approved equity ratio of other major Florida investor-owned utilities, and its weighted average cost of capital will be among the lowest in the state. (Liu)

ISSUE 46: What is the appropriate return on equity (ROE) to use in establishing Gulf's revenue requirement?

GULF: The appropriate ROE to use in establishing Gulf's revenue requirement is 11.0%. Gulf estimates the appropriate ROE by applying several cost of equity methods to a large group of comparable-risk publicly-traded utilities. On the basis of its cost of equity studies, Gulf finds that the cost of equity for the comparable-risk publicly-traded utilities is 10.4%. However, the 10.4% cost of equity for the proxy

companies must be adjusted to reflect the higher financial risk associated with Gulf's ratemaking capital structure, which is based on book value, compared to the financial risk associated with the average market value capital structure for the comparable-risk electric utilities. Making this adjustment produces a cost of equity for Gulf equal to 11.0%. (Vander Weide, Liu)

ISSUE 47: What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure for the 2017 projected test year? (Fallout Issue)

GULF: Based on an 11.0% cost of equity, and 53.1% common equity ratio, the appropriate weighted average cost of capital for Gulf Power for the 2017 projected test year is 6.04%. (Ritenour, Liu)

Net Operating Income

ISSUE 48: Has Gulf made the appropriate test year adjustments to remove fuel revenues and fuel expenses recoverable through the Fuel Cost Recovery Clause?

GULF: Yes. Gulf has made the appropriate test year adjustments to remove fuel revenues and fuel expenses recoverable through the Fuel Cost Recovery Clause. This issue is not addressed in the testimony of any intervenor witness. Since this issue is not contested in testimony, it appears it could and should be stipulated. (Ritenour)

ISSUE 49: Has Gulf made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Energy Conservation Cost Recovery Clause?

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

ISSUE 50: Has Gulf made the appropriate test year adjustments to remove capacity revenues and capacity expenses recoverable through the Capacity Cost Recovery Clause?

GULF: Yes. Gulf has made the appropriate test year adjustments to remove capacity revenues and capacity expenses recoverable through the Capacity Cost Recovery Clause. This issue is not addressed in the testimony of any intervenor witness.

Since this issue is not contested in testimony, it appears it could and should be stipulated. (Ritenour)

ISSUE 51: Has Gulf made the appropriate test year adjustments to remove environmental revenues and environmental expenses recoverable through the Environmental Cost Recovery Clause?

GULF: Yes. Gulf has made the appropriate test year adjustments to remove environmental revenues and environmental expenses recoverable through the Environmental Cost Recovery Clause. This issue is not addressed in the testimony of any intervenor witness. Since this issue is not contested in testimony, it appears it could and should be stipulated. (Ritenour)

ISSUE 52: Is Gulf's projected level of Total Operating Revenues for the 2017 projected test year appropriate? If not, what is the appropriate amount? (Fallout Issue)

GULF: Yes. Gulf's projected level of Total Operating Revenues in the amount of $596,666,000 ($615,397,000 system) for the 2017 projected test year is appropriate. (Ritenour)

ISSUE 53: Is Gulf's proposed electric vehicle charging station expense for the 2017 projected test year appropriate? If not, what adjustment should be made?

GULF: Gulf did not include O&M expenses in the 2017 test year for charging stations. Gulf is proposing to install and maintain charging stations behind the electric meters of commercial customers who request this service. Payment agreements will be established with the requesting customers such that O&M expenses, along with all other revenue requirements associated with the chargers, are recovered in their entirety from the requesting customers. (Young)

ISSUE 54: Is Gulf's proposed tree trimming expense for the 2017 projected test year appropriate? If not, what adjustment should be made?

GULF: Yes. Gulf's proposed $8,887,000 ($8,972,000 system) tree trimming expense for the 2017 projected test year is necessary to allow Gulf Power to meet its distribution three-year main line and four-year lateral maintenance trim cycles as filed in its Commission-approved storm hardening plan. Additionally, NERC requirements mandate all lines 200 kV and higher voltage meet its annual vegetation management plan. This issue is not addressed in the testimony of any intervenor witness. Since this issue is not contested in testimony, it appears it could and should be stipulated. (Smith)

ISSUE 55: Is Gulf's proposed pole inspection expense for the 2017 projected test year appropriate? If not, what adjustment should be made?

GULF: Yes. Gulf's proposed $1,197,000 ($718,000 system) pole inspection expense for the 2017 projected test year is necessary for Gulf to meet the requirements of an eight-year wooden pole and six-year transmission structure inspection program as filed in its Commission-approved storm hardening plan. This issue is not addressed in the testimony of any intervenor witness. Since this issue is not contested in testimony, it appears it could and should be stipulated. (Smith)

ISSUE 56: Is Gulf's proposed production O&M expense for the 2017 projected test year appropriate? If not, what adjustment should be made?

GULF: Yes. Gulf's $118,699,000 ($122,154,000 system) O&M production expense for the 2017 projected test year was developed by knowledgeable professionals in a rigorous budget process. This issue is not addressed in the testimony of any intervenor witness. Since this issue is not contested in testimony, it appears it could and should be stipulated. (Burroughs)

ISSUE 57: Is Gulf's proposed transmission O&M expense for the 2017 projected test year appropriate? If not, what adjustment should be made?

GULF: Yes. Gulf's proposed transmission O&M expense for the 2017 projected test year of $16,111,000 ($16,568,000 system) is reasonable and necessary to continue to provide reliable electric service to Gulf's customers. This issue is not addressed in the testimony of any intervenor witness. Since this issue is not contested in testimony, it appears it could and should be stipulated. (Smith)

ISSUE 58: Is Gulf's proposed distribution O&M expense for the 2017 projected test year appropriate? If not, what adjustment should be made?

GULF: Yes. Gulf's proposed distribution O&M expense for the 2017 projected test year of $45,814,000 ($45,874,000 system) is reasonable and necessary to continue to provide reliable electric service to Gulf's customers. This issue is not addressed in the testimony of any intervenor witness. Since this issue is not contested in testimony, it appears it could and should be stipulated. (Smith)

ISSUE 59: Is Gulf's proposed Incentive Compensation (also referred to by Gulf as variable pay or at-risk pay) included in the 2017 projected test year appropriate? If not, what adjustment should be made?

GULF: Yes. Gulf's proposed $23,148,000 ($23,506,000 system) of total at-risk compensation [consisting of $15,481,000 ($15,720,000 system) of Gulf at-risk compensation and $7,667,000 ($7,786,000 system) of at-risk compensation allocated to Gulf] for the 2017 projected test year is appropriate. At-risk pay is determined by subtracting a portion of each position's median total target compensation and allocating it to at-risk pay based on goals that benefit our customers. Gulf's total compensation that includes at-risk pay is comparable to and competitive with utility peers as noted by Willis Towers Watson, a nationally recognized compensation and benefits firm. The at-risk pay component is a necessary component of Gulf's total compensation program, allowing Gulf to cost-effectively attract, retain, engage, and motivate employees to deliver safe and reliable service to our customers. OPC's proposal to disallow at-risk compensation tied to financial goals is not based on a claim that the amount of the expense is not market competitive. Instead, it is based on the erroneous premise that at-risk compensation tied to financial performance does not benefit our customers. It is essential to Gulf's customers that both Gulf and Southern Company achieve financial goals and maintain financial integrity so that they can raise in the financial market the capital necessary to serve customers at a reasonable cost. Gulf's total compensation program benefits customers by balancing operational and financial goals (both annual and long term) and motivating employees to deliver high levels of customer service at reasonable costs to our customers in the current year and later years. (Garvie, Liu, Deason)

ISSUE 60: Are Gulf's proposed employee levels and salary and wage expenses included in the 2017 projected test year appropriate? If not, what adjustments should be made?

GULF: Yes. Gulf's proposed employee levels were developed from the bottom up in a rigorous budget process. The business units developing the budget know and understand the labor requirements necessary to provide service to Gulf's customers at a reasonable cost. Gulf's salary and wage expenses were developed to reflect the market median. It is essential for Gulf to be able to retain existing employees and attract new employees, and offering wages, salary and benefits at the market median and including appropriate at-risk compensation consistent with the industry assures Gulf being able to retain and attract employees essential to providing service to Gulf's customers.

OPC Witness Ramas's adjustments to lower the employee headcount have several significant flaws and are thoroughly rebutted. The mathematical calculation she employs is erroneous and overstated. It is also duplicative of the hiring lag adjustment the Company proposed. Significantly, it fails to account for employees that the Company is in the process of hiring. Finally, as Gulf Witness

Liu points out, making such an excessive headcount adjustment would create a challenge for the Company in attempting to achieve and maintain the full work force necessary to serve Gulf's customers. (Ritenour, Liu, Garvie)

ISSUE 61: Is Gulf's proposed Pension Expense for the 2017 projected test year appropriate? If not, what adjustment should be made?

GULF: Yes. Gulf's proposed Pension Expense for the 2017 projected test year in the negative amount of $324,000 ($328,000 system) is appropriate and necessary to retain and attract the employees needed to deliver safe and reliable service to our customers at reasonable cost, once adjusted for Gulf's position on Issue 36. (Garvie, Ritenour)

ISSUE 62: Is Gulf's proposed Other Post Employment Benefits Expense for the 2017 projected test year appropriate? If not, what adjustment should be made?

GULF: Yes. Gulf's proposed $1,964,000 ($1,996,000 system) Other Post Employment Benefits expense for retirement medical care and life insurance benefits is appropriate and necessary to retain and attract the employees needed to deliver safe and reliable service to our customers at reasonable cost. (Garvie)

ISSUE 63: Is Gulf's proposed employee benefit expenses for the 2017 projected test year appropriate? If not, what adjustment should be made?

GULF: Yes. Gulf's proposed employee benefit expense projected for the 2017 test year is appropriate. The requested employee benefit expenses are necessary for Gulf to remain at the median of the market and to attract, retain, engage and motivate employees with a focus on customer service. Based on assessments by nationally recognized compensation and benefits firms Aon Hewitt and Willis Towers Watson, the benefits programs and relative value of the benefits Gulf provides its employees are at the median of the market. (Garvie)

ISSUE 64: Is Gulf's proposed annual storm damage accrual for the 2017 projected test year appropriate? If not, what is the appropriate amount?

GULF: Yes. Gulf's proposed annual property damage accrual of $8,760,000 ($8,900,000 system) for the 2017 projected test year is appropriate. Gulf's property damage accrual request is based on a storm study required by this Commission along with an amount to cover non-hurricane property damage. The storm study uses a statistical model to consider a range of potential hurricane characteristics and corresponding losses and then computes Gulf's expected annual damage from hurricanes. OPC's proposal to maintain the annual property damage accrual at its

current level of $3,500,000, which was set by the Commission in 1996, inappropriately ignores in its entirety the results of the storm study filed with the Commission in 2016 and would not allow Gulf to reach even the bottom of the property damage reserve target. Maintaining the annual accrual at its current level would also result in higher storm surcharges to customers when the inevitable destructive hurricanes hit. Those larger surcharges will come when those same customers are paying for their personal storm losses. For Gulf to achieve the Commission-approved property damage reserve target and reduce reliance on customer surcharges when losses occur, its property damage accrual must be increased per both Gulf's storm study and Gulf's experience with non-hurricane related losses. (Harris, Hodnett)

ISSUE 65: Is Gulf's property damage reserve target appropriate? If not, what is the appropriate property damage reserve target?

GULF: Yes. Gulf is not proposing any changes to the property damage target reserve range previously established for Gulf by the Commission. Gulf's current target range of $48 to $55 million as set by the Commission in Gulf's 2012 test year rate case remains appropriate. (Harris, Hodnett)

ISSUE 66: Is Gulf's proposed expense related to Directors and Officers Liability Insurance appropriate? If not, what adjustment should be made?

GULF: Yes. Gulf's $117,000 ($119,000 system) expense for Directors and Officers Liability Insurance premiums is a necessary and reasonable expense for insurance coverage that directly benefits customers. The premiums are negotiated by Gulf's parent company, resulting in substantial savings compared to the approximately $600,000 in annual premiums that Gulf would have to pay for a stand-alone policy. Furthermore, the requested expense of $119,000 should not be reduced any further to reflect a cost to the shareholders because the $119,000 was calculated by first reducing 48 percent of the total premiums as an allocation to shareholders. (Hodnett)

ISSUE 67: Is Gulf's proposed Rate Case Expense for the 2017 projected test year appropriate? If not, what adjustment should be made?

GULF: Yes. Gulf's requested amount of rate case expense of $6,700,000 is reasonable and appropriate. The appropriate amortization period for rate case expense is four years, which is consistent with the amortization period approved by the Commission in Gulf's last rate case. The appropriate amortization period for rate case expense is four years, which is consistent with the amortization period approved by the Commission in Gulf's last four rate cases. (Hodnett, Ritenour)

ISSUE 68: Is Gulf's proposed Bad Debt Expense for the 2017 projected test year appropriate? If not, what adjustment should be made?

GULF: Yes. Gulf's proposed Bad Debt Expense for the 2017 projected test year of $3,994,000 ($3,994,000 system) is appropriate. (Young)

ISSUE 69: Is Gulf's proposed Customer Accounts Expenses for the 2017 projected test year appropriate? If not, what adjustments should be made?

GULF: Yes. Gulf's proposed Customer Accounts expense for the 2017 projected test year of $27,540,000 ($27,730,000 system) is reasonable and necessary to provide the services necessary for customers to conveniently connect and disconnect service, initiate other service requests, report outages, make payments and payment arrangements and take advantage of many other services offered by the Company. (Young)

ISSUE 70: Is Gulf's proposed Customer Service & Information Expenses and Sales Expenses for the 2017 projected test year appropriate? If not, what adjustments should be made?

GULF: Yes. Gulf's proposed Customer Service & Information expense for the 2017 projected test year of $16,983,000 ($16,983,000 system) is reasonable and necessary to support the customer serving functions in Marketing and Sales, provide valuable lighting and energy services, promote innovative product and service offerings and provide customers with expert advice on managing their energy usage. This issue is not addressed in the testimony of any intervenor witness. Since this issue is not contested in testimony, it appears it could and should be stipulated. (Young)

ISSUE 71: Is Gulf's proposed Administrative and General Expenses for the 2017 projected test year appropriate? If not, what adjustments should be made?

GULF: Yes. Gulf's proposed Administrative and General Expense for the 2017 projected test year of $87,516,000 ($89,348,000 system) is appropriate. (Hodnett, Young)

ISSUE 72: What adjustment, if any, should be made to account for affiliated activities/transactions for the 2017 projected test year?

GULF: No adjustments should be made for affiliate activities or transactions. (Hodnett)

ISSUE 73: Is Gulf's requested level of O&M Expense for the 2017 projected test year appropriate? If not, what is the appropriate amount? (Fallout Issue)

GULF: Yes. Gulf's requested level of O&M Expenses in the amount of $313,820,000 ($319,813,000 system), once adjusted for Gulf's position on Issue 61, for the 2017 projected test year is appropriate. (Ritenour)

ISSUE 74: What is the appropriate amount of depreciation and fossil dismantlement expense for the 2017 projected test year?

GULF: The appropriate amount of depreciation and fossil dismantlement expense for the 2017 projected test year is $136,278,000 ($138,870,000 system), once adjusted for Gulf's position on Issue 26. (Hodnett, Ritenour)

ISSUE 75: What is the appropriate amount of Taxes Other Than Income Taxes for the 2017 projected test year? (Fallout Issue)

GULF: The appropriate amount of Taxes Other Than Income Taxes for the 2017 projected test year is $34,362,000 ($35,063,000 system). (Hodnett)

ISSUE 76: Should the current amortization of investment tax credits (ITCs) and flow back of excess deferred income taxes (EDITs) be revised to reflect the approved depreciation rates and amortizations?

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

ISSUE 77: Is it appropriate to make a parent debt adjustment per Rule 25-14.004, Florida Administrative Code? If so, what adjustment should be made?

GULF: No. Gulf has rebutted the presumption in the rule by demonstrating that Gulf has paid more in dividends to Southern than the amount of Southern's equity investments in Gulf since 2003, including the period from 2011 through 2017. Therefore, Gulf effectively provides the funding for Southern's equity investment in Gulf with its own internally generated funds. This is the same basis on which the Commission rejected a parent debt adjustment in Gulf's 2012 test year rate case. This issue is not addressed in the testimony of any intervenor witness. Since this issue is not contested in testimony, it appears it could and should be stipulated. (Liu)

ISSUE 78: What is the appropriate amount of Income Tax expense for the 2017 projected test year? (Fallout Issue)

GULF: The appropriate amount of Income Tax expense for the 2017 projected test year is $31,810,000 ($35,176,000 system). (Hodnett, Ritenour)

ISSUE 79: Is Gulf's requested level of Total Operating Expenses for the 2017 projected test year appropriate? If not, what is the appropriate amount? (Fallout Issue)

GULF: Yes. Gulf's requested level of Total Operating Expenses in the amount of $515,943,000 ($528,589,000 system) for the 2017 projected test year is appropriate. (Ritenour)

ISSUE 80: Is Gulf's projected Net Operating Income for the 2017 projected test year appropriate? If not, what is the appropriate amount? (Fallout Issue)

GULF: Yes. Gulf's projected Net Operating Income in the amount of $80,723,000 ($86,808,000 system) for the 2017 projected test year is appropriate. (Ritenour)

Revenue Requirements

ISSUE 81: What are the appropriate revenue expansion factor and the appropriate net operating income multiplier, including the appropriate elements and rates for Gulf? (Fallout Issue)

GULF: The appropriate revenue expansion factor is 61.2273 and the appropriate net operating income multiplier is 1.633258. This issue is not addressed in the testimony of any intervenor witness. Since this issue is not contested in testimony, it appears it could and should be stipulated. (Ritenour)

ISSUE 82: Is Gulf's requested annual operating revenue increase for the 2017 projected test year appropriate? If not, what is the appropriate amount? (Fallout Issue)

GULF: Yes. Gulf's requested annual operating revenue increase of $106,782,000 for the 2017 projected test year is appropriate. (Ritenour)

Cost of Service and Rate Design

ISSUE 83: Is Gulf's proposed separation of costs and revenues between the wholesale and retail jurisdictions appropriate?

GULF: Yes. The jurisdictional separation factors used to separate costs and revenues between the wholesale and retail jurisdictions were developed from Gulf's cost of service study. These factors were calculated according to accepted cost-of-service principles and followed the methodology accepted by the Commission in Gulf's last litigated base rate proceeding –Docket No. 110138-EI. This issue is not addressed in the testimony of any intervenor witness. Since this issue is not contested in testimony, it appears it could and should be stipulated. (O'Sheasy)

ISSUE 84: What is the appropriate treatment of production costs within the cost of service study?

GULF: The appropriate treatment of production investment cost is the use of the 12-MCP (demand) & 1/13 kWh (energy) allocator to Rate Classes. It is superior to 4 CP and 4 summer/1winter production allocator as it properly reflects the Company's need to serve customers in all months of the year, considers the need to schedule maintenance, and the fact that Gulf must satisfy reliability (CP) needs, but must also importantly strive to do so in a least cost manner. This allocator has been accepted by this Commission in numerous Gulf Power filings including the Company's last two base rate proceedings. It has a sound cost basis reflecting Gulf's cost to serve its customers and produces reasonable, stable results. (O'Sheasy).

ISSUE 85: What is the appropriate treatment of transmission costs within the cost of service study?

GULF: Transmission costs are either assigned, where possible, or allocated to Rate Class. Demand-related transmission costs at Level 2 are allocated on a Level 2 Coincident Peak Demand (CP) allocator. Demand-related transmission costs at Level 3 are allocated on a Level 3 Coincident Peak Demand (CP) allocator. An example of an account with both Level 2 and Level 3 Transmission Common Demand-related cost is Account 350 Substation-Land and Land Rights. Account 350 Transmission Common Demand cost at Level 2 is allocated on a Level 2 CP Demand allocator. Account 350 Transmission Common Demand cost at Level 3 is allocated on a Level 3 CP Demand allocator. (O'Sheasy)

ISSUE 86: What is the appropriate treatment of distribution costs within the cost of service study?

GULF: Distribution costs are either assigned, where possible, or allocated to Rate Class. Demand-related distribution costs at Level 3 are allocated on a Coincident Peak Demand (CP) Level 3 allocator. An example of a Level 3 Distribution Common Demand-related cost is Account 362 - Station Equipment, which is allocated to Rate Class on a Level 3 CP demand allocator. Demand-related distribution costs at Levels 4 and 5 are allocated on, their respective level, Non-Coincident Peak Demand (NCP) allocator. NCP is a well-respected and commonly used utility allocator for primary and secondary demand-related cost. An example of a Level 4 and Level 5 Common Distribution Demand-related cost is Account 365 – Overhead Conductors. This account has both Level 4 and Level 5 Common cost as well as Level 4 and Level 5 customer-related cost. The Level 4 Common cost is allocated to Rate Class on a Level 4 NCP demand allocator, and the Level 5 Common is allocated to Rate Class on a Level 5 NCP demand allocator. Customer-related Distribution costs occur at both Level 4 and Level 5. These customer-related costs are allocated on their respective level average number of customers' allocator which is also a well-respected and commonly used utility allocator for primary and secondary customer-related cost. An example of Level 4 and 5 Distribution Customer-related cost is Account 365 - Overhead Conductors. This customer-related cost at Level 4 is allocated to Rate Class on the Level 4 Customer allocator and the customer-related cost at Level 5 is allocated to Rate Class on the Level 5 Customer allocator. Where cost must be divided into demand and customer components, the Minimum Distribution System (MDS) is appropriate in order to adhere more closely with sound cost causative principles. This MDS methodology has its foundation in cost-causation, is in use in many states including Florida, approved by NARUC, and approved within Gulf's two most recent rate case stipulations. (O'Sheasy)

ISSUE 87: How should any change in the revenue requirement approved by the Commission be allocated among the customer classes?

GULF: The increase should be spread among the rate classes as shown in MFR E-8 of Gulf's filing. This allocation gives consideration to cost-of-service, moving rate classes toward parity, fairness and value. All of these are important and appropriate considerations. (Evans)

ISSUE 88: Should Gulf's proposed new methodology to design the residential base and energy charges for the residential rate schedules RS, RSVP, FLAT-RS, and RSTOU that results in an increase from $0.62 to $1.58 per day, or approximately $48 per month, in the base charge and corresponding reduction in the energy charge be approved?

GULF: Yes. Gulf's proposed new methodology to design residential base charges and energy charges will more equitably align residential rates with costs, a primary tenet of utility ratemaking. This issue, along with Issues 89, 90, 91, 102, 103, and 104, which together make up Gulf's proposed Advanced Pricing Package, better serves our residential customers by providing more equitable alignment of rates with costs, more rate options, less month-to-month bill variability, a more efficient subsidy for customers who need it most, and more cost-effective energy efficiency.

The new methodology for designing two-part non-demand rates (the B&G methodology) is built on a strong foundation of traditional, time-tested demand rates. It is a cost-based, objective, methodology for better allocating demand-related (distribution, transmission, and generation) costs between the two components of a two-part residential rate. The B&G methodology, applied to Gulf's customer data, results in a higher base charge (cents per day) and a lower energy charge (cents per kWh). Customers who would rather pay for demand-related costs in direct proportion to the demand they place on Gulf's system, can choose one of the optional demand rates, thereby avoiding the higher base charge. Under the new two-part rate structure, low-use customers are no longer subsidized by high-use customers, but Gulf's proposed new low-income credit will more directly and efficiently provide assistance to those customers who need it most—based on an income standard. Stated simply, the energy charge in Gulf's existing two-part residential rates is too large because all demand-related costs are allocated to it. This misaligned structure results in some customers paying more than they should for demand-related costs and others paying less than they should. The cost-based, objective criteria of the B&G methodology rectifies this, indicating that about half of residential demand-related costs should be left in the energy charge, and the other half should be put into the base charge to appropriately align residential rates with costs. (McGee, Merilatt)

ISSUE 89: Is the proposed new optional Residential Service – Demand (RSD) rate schedule appropriate?

GULF: Yes, especially when coupled with the rate restructure in Issue 88. The RSD three-part demand rate would give customers an option, allowing them to pay only customer-related costs in their base charge and to pay directly for the amount of demand they place on Gulf's system, while also enjoying a lower energy charge which is more in line with our cost to produce and deliver electric service. Assuming approval of Issue 88, many customers will find rate RSD economically

beneficial without making any change to their usage or behavior. Gulf will actively promote this time-tested, equitable rate option and will provide customers with the information necessary to make an informed choice. Participation in rate RSD is expected to be significantly lower without approval of the rate restructure in Issue 88. (McGee, Evans)

ISSUE 90: Is the proposed new optional Residential Service – Demand Time-of-use (RSDT) rate schedule appropriate?

GULF: Yes, especially when coupled with the rate restructure in Issue 88. The RSDT time-of-use demand rate would give customers yet another option that even more closely aligns rates with the costs customers impose on Gulf's system. This rate offers a lower off-peak demand charge for those customers whose usage patterns or their installed equipment (such as rooftop solar PV) may reduce the burden these customers place on Gulf's system during on-peak hours. Like rate RSD, RSDT customers would pay only customer-related costs in their base charge and would pay directly for the amount of demand (off-peak and on-peak) they place on Gulf's system, while also enjoying a lower energy charge which is more in line with our cost to produce and deliver electric service. Customers with rooftop solar PV who maintain zero-usage during on-peak hours will find this rate economically beneficial. Gulf will actively promote this time-tested, equitable rate option and will provide customers with the information necessary to make an informed choice. Participation in rate RSDT is expected to be significantly lower without approval of the rate restructure in Issue 88. (McGee, Evans)

ISSUE 91: Is the proposed new optional Customer Assistance Program Rider (Rate Rider CAP) appropriate? (Moot if Issue 88 is not approved)

GULF: Yes, if Issue 88 is approved. The rate restructure in Issue 88 removes an existing subsidy for low-use customers (some of whom are not low-income customers). Gulf's proposed low-income credit (Rate Rider CAP) replaces the low-use subsidy with a smaller, more focused, income-based subsidy to help those customers who need it most. The new low-income credit is specifically designed to offset the incremental increase in the proposed higher base charge for qualifying low-income customers. Gulf has proposed using Supplemental Nutrition Assistance Program (SNAP) participation as a qualifying criteria for participation in Gulf's CAP Rate Rider for two reasons: (1) SNAP is the largest public assistance program administered by the Florida Department of Children and Families (and also is the largest qualifying program for Lifeline participation), and (2) it simplifies Gulf's role in determining income status of customers. (McGee, Evans, Merilatt)

ISSUE 92: Is Gulf's proposal to remove the critical peak option for the General Service Demand Time-of-use (GSDT) rate schedule appropriate?

GULF: Yes. The option has been available since April 2012 and no customer has ever requested service under the critical peak option from Rate Schedule GSDT. (Evans)

ISSUE 93: Is Gulf's proposed new Extra-Large Business Incentive Rider (Rate Rider XLBIR) appropriate?

GULF: Yes. The Extra-Large Business Incentive Rider (XLBIR) builds upon the success Gulf has had with its existing small, medium, and large Business Incentive Riders. While the existing riders have proven useful, Gulf believes the XLBIR will help better attract large business prospects (5MW or larger) to Northwest Florida. Gulf has learned that competition to secure large business prospects is particularly high and that these prospects are aggressively seeking long-term commitments from communities in which they choose to locate. Gulf's proposed offering, with its attendant ten-year declining credit schedule, will be an especially effective tool for securing large business prospects. (Young, Evans)

ISSUE 94: Are Gulf's proposed changes to its small, medium, and large Business Incentive Riders appropriate?

GULF: Yes. Gulf's proposed changes are based on Gulf's experience during the pilot phase of these offerings and will improve the effectiveness of the riders. Gulf's proposed improvements provide certainty that the riders will be available when customers are ready to take service and make the riders more attractive to existing customers wishing to expand operations and customers, such as data centers and high-tech manufacturing, with high loads but fewer numbers of employees. (Young, Evans)

ISSUE 95: What are the appropriate base charges?

GULF: The appropriate base charges based on Gulf's original filing are shown below. These proposed charges reasonably reflect customer-related costs, and for residential non-demand rates, an appropriate amount of demand-related costs as justified by the B&G methodology addressed in Issue 88. (Evans)

Rate Schedule	Base Charge
RS, RSVP, RSTOU	$1.58 per day
RSD, RSDT	$0.73 per day
GS	$31.78 per month
GSD, GSDT, GSTOU	$50.00 per month
LP, LPT	$262.80 per month
PX, PXT	$925.24 per month
RTP	$1,000.00 per month
SBS Contract Level	
100 – 499 kW	$261.68 per month
500 – 7,499 kW	$261.68 per month
above 7,499 kW	$623.10 per month

ISSUE 96: What are the appropriate demand charges?

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

Rate Schedule	Monthly Demand Charge
RSD	$ 5.00
RSDT	$ 3.66 (On-Peak) $ 2.17 (Maximum)
GSD	$ 7.92
LP	$13.94
PX	$13.50
GSDT	$ 4.23 (On-Peak) $ 3.77 (Maximum)
LPT	$ 11.20 (On-Peak) $ 2.85 (Maximum) $ 11.20 (Critical Peak Option On-Peak) $ 2.85 (Critical Peak Option Maximum)
PXT	$12.52 (On-Peak) $ 1.11 (Maximum)
SBS Contract Level 100 – 499 kW	$ 3.33 (Local Facilities) $ 4.23 (On-Peak) $ 1.56 (Reservation) $ 0.74 (Daily On-Peak Standby)
500 – 7,499 kW	$ 2.99 (Local Facilities) $11.20 (On-Peak) $ 1.56 (Reservation) $ 0.74 (Daily On-Peak Standby)
above 7,499 kW	$ 1.09 (Local Facilities) $12.52 (On-Peak) $ 1.59 (Reservation) $ 0.75 (Daily On-Peak Standby)

ISSUE 97: What are the appropriate energy charges?

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

Rate Schedule	Energy Charge
RS, RSVP, RSTOU	3.298 ¢/kWh
RSD, RSDT	2.334 ¢/kWh
GS	5.319 ¢/kWh
GSD, GSDT	2.036 ¢/kWh
LP, LPT	1.055 ¢/kWh
PX, PXT	0.496 ¢/kWh
GSTOU	21.802 ¢/kWh (Summer On-Peak)
	8.139 ¢/kWh (Summer Intermediate)
	3.384 ¢/kWh (Summer Off-Peak)
	4.737 ¢/kWh (Winter All-Hours)
SBS Contract Level	
100 – 499 kW	3.957 ¢/kWh
500 – 7,499 kW	3.957 ¢/kWh
above 7,499 kW	3.957 ¢/kWh

ISSUE 98: What are the appropriate transformer ownership discounts?

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

Rate Schedule	Voltage Discount
GSD, GSDT	($ 0.36) Primary Voltage Level
LP, LPT	($ 0.48) Primary Voltage Level ($ 0.72) Transmission Voltage Level
PX, PXT	($ 0.18) Transmission Voltage Level
SBS Contract Level	
100 – 499 kW	($ 0.06) Primary Voltage Level
500 – 7,499 kW	($ 0.06) Primary Voltage Level ($ 0.07) Transmission Voltage Level
above 7,499 kW	($ 0.08) Transmission Voltage Level

ISSUE 99: What are the appropriate lighting charges?

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

ISSUE 100: Should the Commission approve the following modifications to the Outdoor Service (OS) tariff and lighting pricing methodology that have been proposed by Gulf:

a) Remove certain fixtures from the tariff;
b) Close all Metal Halide, 21 High Pressure Sodium, and 16 LED fixtures for new installations;
c) Revisions to the pole options; and
d) Modification to the Outdoor Service Lighting Pricing Methodology contained in Form 4.

GULF: Yes. These lighting fixtures have either been rendered obsolete by technology advances or are being phased out by manufacturers in favor of customers' preference for LED fixtures. The poles referenced have been rendered obsolete by cheaper or more reliable options. The modifications referenced to Form 4 are solely to update the labor rates and overhead rates, as Gulf has done in prior

cases, and to include Revenue Tax in the Maintenance Charge for LED Fixtures. (Evans)

ISSUE 101: What is the appropriate effective date for Gulf's revised rates and charges?

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

Other Issues

ISSUE 102: Should the Commission approve Gulf's proposed modifications to the existing residential HVAC Improvement program in its Demand-Side Management Plan? (Moot if Issue 88 is not approved)

GULF: Yes. Gulf's residential rate restructure (Issue 88) increases the cost-effectiveness of residential DSM programs. As a result, Gulf has proposed these DSM program modifications. These modifications will complement a number of existing equipment maintenance measures that improve the performance of existing and new HVAC systems, resulting in more energy and peak demand savings. The modifications include similar equipment measures to those that were included as part of Gulf's 2010 DSM Plan and were well received by customers and participating contractors.

Alternatively, in light of Staff's desire to consider Gulf's proposed new/modified DSM programs in the context of final decisions in this case, including the disposition of Issue 88, Gulf does not object to this issue being spun off to another docket as appropriate. (Floyd, McGee)

ISSUE 103: Should the Commission approve Gulf's proposed modifications to the existing Residential Building Efficiency program in its Demand-Side Management Plan? (Moot if Issue 88 is not approved)

GULF: Yes. Gulf's residential rate restructure (Issue 88) increases the cost-effectiveness of residential DSM programs. As a result, Gulf has proposed this DSM program modification. This modification will increase the maximum incentive for the reflective roofing measure in order to increase participation, and demand and energy savings, associated with this program.

Alternatively, in light of Staff's desire to consider Gulf's proposed new/modified DSM programs in the context of final decisions in this case, including the disposition of Issue 88, Gulf does not object to this issue being spun off to another docket as appropriate. (Floyd, McGee)

ISSUE 104: Should the Commission approve Gulf's proposed new residential Insulation Improvement program to be added to its Demand-Side Management Plan? (Moot if Issue 88 is not approved)

GULF: Yes. Gulf's residential rate restructure (Issue 88) increases the cost-effectiveness of residential DSM programs. As a result, Gulf has proposed this new DSM program. This program is targeted to customers with little or no existing ceiling insulation –many of whom may also be low-income customers. Adding ceiling insulation is one of the most cost-effective measures a customer can take to reduce heating and cooling expenses.

Alternatively, in light of Staff's desire to consider Gulf's proposed new/modified DSM programs in the context of final decisions in this case, including the disposition of Issue 88, Gulf does not object to this issue being spun off to another docket as appropriate. (Floyd, McGee)

ISSUE 105: Should the Commission approve the following modifications to the Critical Peak Option for the Large Power Time-of-Use (LPT) rate schedule:

a) Establish the Critical Peak Option as a Demand-Side Management Program;
b) Reduce the minimum critical peak demand notification from one business day to one hour;
c) Eliminate the restrictions on the frequency and duration of the critical peak period.

GULF: Yes. The primary function of the Critical Peak Option (CPO) is to provide peak demand savings. It is, therefore, a natural fit within Gulf's existing DSM Plan which also serves to reduce peak demand and energy consumption. Establishing the CPO as a DSM Program will provide for annual opportunities through the Energy Conservation Cost Recovery process to adjust the On-Peak Demand Charge and the Critical Peak Demand Charge to ensure that the rate option remains cost-effective for all of Gulf's customers. Moreover, reduction of the notification requirement and eliminating the restrictions on the frequency and duration of the critical peak periods will enable the Company to utilize the CPO program in a manner which is more consistent with its objective –to provide demand reduction during peak load conditions. (Floyd, Evans)

ISSUE 106: Should Gulf be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case?

GULF: Yes.

ISSUE 107: Should this docket be closed?

GULF: Yes.

F. STIPULATED ISSUES

GULF: The following issues are not addressed in the testimony of any intervenor witness. Since these issues are not contested in testimony, it appears they could and should be stipulated. The issues ripe for stipulation are as follows: 2, 7, 21, 23-25, 34, 41-44, 48-51, 54-58, 70, 77, 81, and 83.

G. PENDING MOTIONS

GULF: There are no pending motions at this time.

H. PENDING CONFIDENTIALITY REQUESTS

1. Request for confidentiality filed on November 28, 2016, relating to certain documents and information produced in response to Staff's 1st request for PODs (Nos. 1-7) (DN 09009-16)

2. Request for confidentiality filed on December 12, 2016, relating to certain documents and information produced in response to staff's 3rd request for PODs specifically (Nos. 14, 20, 21, 25, and 26) and 3rd set of interrogatories specifically (No. 97) (DN 09261-16).

3. Motion for temporary protective order filed on December 13, 2016, relating to certain portions of Gulf's supplemental response to Citizens' 1st request for PODs (DN 09306-16).

4. Request for confidentiality filed on December 14, 2016, relating to certain documents and information produced in response to Staff's 4th set of interrogatories specifically (No. 117) (DN 09311-16)

5. Motion for temporary protective order filed on December 22, 2016 relating to documents and information produced in response to Citizens' 4th set of interrogatories (Nos. 131-151) (DN 09515-16).

6. Request for confidentiality and motion for protective order filed on December 22, 2016 relating to certain documents and information produced in response to staff's 7th request for PODs specifically (Nos. 49, 50, 52, 59, and 60) (DN 09521).

7. Motion for protective order filed on December 28, 2016, relating to certain documents and information produced in response to Citizens; 5th request for PODs (Nos. 110-117) and 5th set of interrogatories (Nos. 152-161) (DN 09570-16)

8. Motion for protective order filed on January 3, 2017, relating to certain documents and information produced in response to Citizens; 6th request for PODs (Nos. 118-132) and 6th set of interrogatories (Nos. 162-188) (DN 00054-17)

9. Request for confidentiality and motion for temporary protective order filed on January 4, 2017, pertaining to documents and information produced in responses to Staff's interrogatory No. 328 (DN 00073-17).

10. Motion for protective order filed on January 4, 2017, pertaining to documents and information produced in response to FEA's 2nd request for PODs (Nos. 6-27) (DN 00101-17).

11. Motion for temporary protective order filed January 12, 2017, relating to documents and information produced in response to SACE's 1st request for PODs (Nos. 1-15) (DN 00419-17).

12. Request for confidentiality and motion for temporary protective order filed on January 13, 2017, relating to portions of late-filed deposition exhibits produced in response to the deposition of Michael Burroughs (DN 00459-17).

13. Request for confidentiality filed on January 18, 2017, relating to information produced in response to Citizens' 3rd request for POD (No. 96) (DN 00590-17).

14. Request for confidentiality and motion for temporary protective order filed on January 23, 2017, relating to certain documents and information produced in response to staff's 10th request for PODs (No. 67) and 11th set of interrogatories (Nos. 376 and 377) (DN 00792-17).

15. Request for confidentiality and motion for protective order filed on January 25, 2017, relating to the direct testimony and exhibits of OPC Witness James R. Dauphinais [x-fed DN 00483-17] (DN 00863-17)

16. Request for confidentiality and motion for protective order filed on January 27, 2017, relating to certain documents produced by staff's audit of GPC's request of an increase in rates (ACN No. 16-295-1-1) (DN 00987-17).

17. Request for confidentiality and motion for temporary protective order filed on February 3, 2017, relating to the direct testimony and exhibits of OPC Witness Donna Ramas [x-fed DN 00483-17] (DN 01389-17).

18. Request for confidentiality and motion for temporary protective order filed February 8, 2017 relating to a portion of exhibit RMM-3 to rebuttal testimony of Richard M. Markey (DN 01618-17).

19. Request for confidentiality and motion for protective order filed February 10, 2017, relating to Responses to OPC's 1st and 6th request to produce document (Nos. 56, 60, and 129) (DN 01798-17).

I. EXPERT WITNESS OBJECTIONS

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

J. OTHER MATTERS

GULF: To the best knowledge of counsel, Gulf has complied, or is able to comply, with all requirements set forth in the orders on procedure and/or the Commission rules governing this prehearing statement. If other issues are raised for determination at the hearing set for March 20 through 24, 2017, Gulf respectfully requests an opportunity to submit additional statements of position and, if necessary, file additional testimony. Gulf does not request sequestration of any witness.

Dated this 21st day of February 2017.

Respectfully submitted,

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Attorneys for Gulf Power Company

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Petition for Increase in Rates)
By Gulf Power Company)
) Docket No.: 160186-EI

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing has been furnished by electronic mail this 21st day of February, 2017 to the following:

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