

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 160186-EI

PETITION FOR RATE INCREASE BY
GULF POWER COMPANY.

DOCKET NO. 160170-EI

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.

VOLUME 1

(Pages 1 through 253)

PROCEEDINGS: HEARING

COMMISSIONERS
PARTICIPATING: CHAIRMAN JULIE I. BROWN
COMMISSIONER ART GRAHAM
COMMISSIONER RONALD A. BRISÉ
COMMISSIONER DONALD J. POLMANN

DATE: Monday, March 20, 2017

TIME: Commenced at 1:00 p.m.
Concluded at 2:53 p.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: LINDA BOLES, CRR, RPR
Official FPSC Reporter
(850) 413-6734

1 APPEARANCES:

2 JEFFREY A. STONE, RUSSELL A. BADDERS, STEVEN
3 R. GRIFFIN, RUSSELL VanSICKLE, and CHARLES WIGGINS,
4 ESQUIRES, Beggs & Lane, P.O. Box 12950, Pensacola,
5 Florida 32591-2950; and CHARLES A. GUYTON, ESQUIRE,
6 Yoakley & Stewart, P.A., 215 South Monroe Street, Suite
7 601, Tallahassee, Florida, 32312; and RICHARD MELSON,
8 ESQUIRE, 705 Piedmont Drive, Tallahassee, Florida 32312,
9 appearing on behalf of Gulf Power Company.

10 J.R. KELLY, PUBLIC COUNSEL, CHARLES REHWINKEL,
11 DEPUTY PUBLIC COUNSEL, and STEPHANIE A. MORSE, ESQUIRES,
12 Office of Public Counsel, c/o the Florida Legislature,
13 111 W. Madison Street, Room 812, Tallahassee, Florida
14 32399-1400, appearing on behalf of the Citizens of the
15 State of Florida.

16 MAJOR ANDREW J. UNSICKER and LIEUTENANT
17 COLONEL CHRIS COLCLASURE, ESQUIRES, Federal Executive
18 Agencies, AFCED/JA-ULFSC, 139 Barnes Drive, Suite 1,
19 Tyndall Air Force Base, Florida 32403, appearing on
20 behalf of the Federal Executive Agencies.

21 BRADLEY MARSHALL and ALISA COE, ESQUIRES,
22 Earthjustice, 111 South Martin Luther King Jr.
23 Boulevard, Tallahassee, Florida 32301, appearing on
24 behalf of the League of Women Voters of Florida and
25 Southern Alliance for Clean Energy.

1 APPEARANCES (CONTINUED):

2 LANE JOHNSON, ESQUIRE, Law Office of Lane
3 Johnson, 1722 Newton Street, N.W., Washington, DC 20010,
4 and DIANA CSANK, ESQUIRE, 50 F Street, NW, 8th
5 Floor, Washington, DC 20001, appearing on behalf of
6 Sierra Club.

7 ROBERT SCHEFFEL WRIGHT and JOHN T. LaVIA III,
8 ESQUIRES, Gardner Law Firm, 1300 Thomaswood Drive,
9 Tallahassee, Florida 32308, appearing on behalf of
10 Wal-Mart Stores East, LP, and Sam's East, Inc.

11 JON C. MOYLE JR. and KAREN PUTNAL, ESQUIRES,
12 Moyle Law Firm, P.A., 118 North Gadsden Street,
13 Tallahassee, Florida 32301, appearing on behalf of the
14 Florida Industrial Power Users Group.

15 KELLEY CORBARI, BIANCA LHERISSON, STEPHANIE
16 CUELLO, and KEINO YOUNG, ESQUIRES, FPSC General
17 Counsel's Office, 2540 Shumard Oak Boulevard,
18 Tallahassee, Florida 32399-0850, appearing on behalf of
19 the Florida Public Service Commission staff.

20 KEITH HETRICK, GENERAL COUNSEL, and MARY ANNE
21 HELTON, DEPUTY GENERAL COUNSEL, ESQUIRES, Florida Public
22 Service Commission, 2540 Shumard Oak Boulevard,
23 Tallahassee, Florida 32399-0850, appearing as Advisors
24 to the Florida Public Service Commission.

25

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P R O C E E D I N G S

1
2 **CHAIRMAN BROWN:** Thank you so much. Today is
3 March 20th, and I'd like to call this hearing to order
4 in the Gulf Power rate case. At this time, I would like
5 to ask staff to read the notice, please.

6 **MS. CORBARI:** Good afternoon, Commissioners.
7 By notice issued on February 14th, 2017, by the
8 Commission Clerk, this time and place has been set for a
9 hearing in Docket No. 160186-EI and 160170-EI. The
10 purpose of the hearing is more fully set out in the
11 notice.

12 **CHAIRMAN BROWN:** Thank you so much. At this
13 time, we will take appearances of counsel, starting with
14 the petitioner, Gulf Power.

15 **MR. STONE:** Thank you, Madam Chairman. I'm
16 Jeffrey A. Stone of the law firm Beggs & Lane serving as
17 general counsel to Gulf Power Company. Appearing with
18 me today on behalf of Gulf Power Company are my partners
19 Russell A. Badders, Steven R. Griffin, Russell
20 VanSickle, and Charles Wiggins. Also appearing on
21 behalf of Gulf Power Company are Charles A. Guyton of
22 the Gunster firm and Richard D. Melson.

23 **CHAIRMAN BROWN:** Thank you.

24 FIPUG.

25 **MR. MOYLE:** Good afternoon. Jon Moyle on

1 behalf of the Florida Industrial Power Users Group with
2 the Moyle Law Firm, and Karen Putnal with our firm
3 should also be shown as entering an appearance. Thank
4 you.

5 **CHAIRMAN BROWN:** Thank you.

6 Sierra.

7 **MS. JOHNSON:** Good afternoon. I'm Lane
8 Johnson on behalf of the Sierra Club, and I would also
9 like to enter an appearance for Diana Csank.

10 **CHAIRMAN BROWN:** Thank you.

11 FEA.

12 **MAJOR UNSICKER:** Thank you, ma'am. I'm Major
13 Andrew Unsicker on behalf of the Federal Executive
14 Agencies, and also appearing with me is Lieutenant
15 Colonel Christopher Colclasure.

16 **CHAIRMAN BROWN:** Thank you.

17 League of Women Voters/SACE.

18 **MR. MARSHALL:** Thank you. Good afternoon. My
19 name is Bradley Marshall, and I'm with Earthjustice, and
20 we're representing the Southern Alliance for Clean
21 Energy and the League of Women Voters of Florida. And
22 also appearing with me today is Alisa Coe.

23 **CHAIRMAN BROWN:** Thank you.

24 Wal-Mart.

25 **MR. WRIGHT:** Thank you, Madam Chairman,

1 Commissioners. Robert Scheffel Wright and John T. LaVia
2 III of the law firm of Gardner, Bist, Bowden, Bush, Dee,
3 LaVia & Wright appearing on behalf of Wal-Mart Stores
4 East, LP, and Sam's, Incorporated -- Sam's East,
5 Incorporated. Thank you.

6 **CHAIRMAN BROWN:** Thank you.

7 Office of Public Counsel.

8 **MR. REHWINKEL:** Good afternoon, Chairman. My
9 name is Charles Rehwinkel. With me is Stephanie Morse.
10 And also I would like to enter an appearance for J.R.
11 Kelly, the Public Counsel, with the Office of Public
12 Counsel on behalf of Gulf's customers. Thank you.

13 **CHAIRMAN BROWN:** Thank you.

14 Commission staff.

15 **MS. CORBARI:** Kelly Corbari, Keino Young,
16 Bianca Lherisson, and Stephanie Cuello for Commission
17 staff.

18 **MS. HELTON:** And Mary Anne Helton. I'm here
19 as your advisor, along with your General Counsel, Keith
20 Hetrick.

21 **CHAIRMAN BROWN:** Thank you. And I would like
22 to note for the record that Commissioner Patronis is
23 unable to be here today at this time because of a
24 scheduling conflict with a CRC organizational meeting;
25 however, he will be here later on.

1 And with that, we have some preliminary
2 matters to address. My understanding is that the
3 parties have been very busy over the past day or so or
4 more.

5 **MS. CORBARI:** Yes, ma'am. This morning Gulf
6 and OPC filed a stipulation and settlement agreement
7 that resolves all the issues identified in this
8 proceeding as well as a few additional issues not
9 previously included in this proceeding. At this time,
10 it is not known whether any of the other parties joined
11 in the settlement.

12 **CHAIRMAN BROWN:** Thank you. And what I'm
13 going to do is just go down the row here and ask the
14 parties to state their position on the settlement
15 agreement -- and if they'd like to add an explanation,
16 please feel free to do so -- with Gulf Power.

17 **MR. STONE:** Thank you, Madam Chairman. On
18 behalf of Gulf Power Company, first I would like to
19 extend my appreciation to the team at the Office of
20 Public Counsel. Mr. Rehwinkel could probably do a more
21 eloquent job of explaining the unusual circumstances
22 that led to us being able to reach an agreement this
23 weekend. But they put an awful lot of effort, once we
24 had reached a verbal agreement, to first reducing that
25 to a signed term sheet and then within 48 hours changing

1 that time -- that term sheet into the stipulation and
2 settlement agreement that was filed with your Clerk's
3 office under Document No. 03681-17 this morning.

4 We have a long-standing history of believing
5 that settlements are in the best interest of all parties
6 and in the public interest, and we believe we have
7 reached such a settlement in this case. And we are
8 looking forward to the opportunity to talk with you
9 about it.

10 Although there is only one other signatory
11 besides Gulf on the document as it exists at this
12 moment, there is provision in there for others to join,
13 if they can. And we understand, and they will confirm
14 for you, that the parties that are not able to join the
15 stipulation have concluded that they will not oppose the
16 stipulation. And in that sense, we look forward to your
17 consideration at the appropriate time about the
18 stipulation being in the public interest.

19 When you've had a chance to poll everyone
20 else, I'd have some other preliminary matters with
21 regard to the process that I'd like to address.

22 **CHAIRMAN BROWN:** Absolutely. And I am in
23 receipt of the settlement agreement. I believe my
24 colleagues are also in receipt of it, as is our Clerk's
25 office. And we will go to Office of Public Counsel, and

1 then I'll take comment from the other parties here.

2 **MR. REHWINKEL:** Thank you, Madam Chairman.
3 And we appreciate the opportunity to present this
4 settlement to you in lieu of our advocacy on behalf of
5 Gulf's customers in this case. I won't, at this time,
6 give you my views on the settlement for purposes of your
7 determination, but I do want to thank Gulf Power for the
8 time they put in to put this deal into writing. I want
9 to thank your staff for working with us over the last
10 few hours to make sure that we were able to present this
11 to you in a way that makes sense.

12 At the appropriate time, we will present our
13 views on the settlement. I can tell you that all of the
14 parties have worked for a long time to narrow the issues
15 and get to this point today. Even the parties that may
16 not affirmatively sign on have devoted extensive time
17 and effort to litigating the case and, outside of public
18 view, negotiating in good faith with everyone. So what
19 you have is a product, I think, of all of that milieu in
20 the best interest of the customers.

21 So we do support it because we signed it. And
22 we look forward to the process that comes forward, and
23 we look forward to, as many others that can support or
24 not oppose it, stating so for you today. Thank you.

25 **CHAIRMAN BROWN:** Thank you. And we'll talk

1 about the process in a moment. But we'll just poll the
2 rest of the parties sitting here today, starting with
3 Wal-Mart.

4 **MR. WRIGHT:** Thank you, Madam Chairman and
5 Commissioners. Schef Wright appearing on behalf of
6 Wal-Mart Stores East and Sam's East.

7 Wal-Mart greatly appreciates the opportunity
8 to present brief comments to you regarding the proposed
9 settlement. Over the past several weeks, echoing what
10 Mr. Rehwinkel said, Wal-Mart has participated diligently
11 and in good faith in settlement discussions with Gulf,
12 the Office of Public Counsel, and all other parties in
13 this docket. Unfortunately until very late last week
14 the parties appeared to be too far apart in their
15 positions to reach a settlement. Fortunately on
16 Thursday evening that turned around, and Gulf and the
17 Public Counsel were able to reach the settlement that
18 has been presented to you this morning.

19 Consistent with Wal-Mart's position relative
20 to the settlement in last year's FPL rate case, Wal-Mart
21 has decided not to join the current settlement because
22 Wal-Mart simply cannot affirmatively support the high
23 return on equity agreed upon by the settling parties in
24 this docket, and this is for the reasons as explained
25 more fully in the testimony of Wal-Mart's witness,

1 Mr. Steve Chriss.

2 On balance, however, Wal-Mart does not oppose
3 approval of the settlement agreement as a whole.
4 Wal-Mart appreciates the opportunity to have been deeply
5 involved in the negotiations and looks forward to
6 continuing to work diligently and cooperatively with
7 Gulf, the Public Counsel, and other parties on any
8 follow-on procedures or proceedings that may flow from
9 this settlement.

10 Also, as stated in Mr. Chriss's testimony,
11 Wal-Mart looks forward to working collaboratively with
12 Gulf and other parties, stakeholders, either formally or
13 informally, toward finding additional ways of promoting
14 renewable energy and economic development in northwest
15 Florida. Thank you very much.

16 **CHAIRMAN BROWN:** Thank you.

17 SACE, League of Women Voters.

18 **MR. MARSHALL:** Thank you, Madam Chair. We had
19 one point of clarification that we would like to receive
20 from Gulf Power before stating our position on this
21 settlement agreement, and that's with regards to a
22 provision within the -- in the stipulation and
23 settlement agreement.

24 In the agreement, there's a provision that
25 states that the residential rates will be designed using

1 the methods from the 2013 settlement. However, when the
2 tariff sheets are listed and what the changes are for
3 tariff sheets 6.3, 6.76, and 6.98, it states that it
4 will adjust the revenue requirements but doesn't state
5 what method will be used to design the rates. So we
6 just want a point of clarification on whether indeed the
7 2013 -- the method from the 2013 settlement will be used
8 and the Blank & Gegax method will not be used.

9 **CHAIRMAN BROWN:** Mr. Stone?

10 **MR. STONE:** Thank you. I will confirm that
11 the language elsewhere in the stipulation confirms that
12 point. And the fact that the tariff sheet summary is
13 abbreviated and does not specifically say that it will
14 not use the Blank & Gegax methodology is not intended to
15 be anything other than just it was an abbreviation. We
16 are returning to the methodology and process that was
17 utilized in our 2011 case that went through full
18 litigation in our 2013 case, which was resolved by
19 settlement.

20 **CHAIRMAN BROWN:** Does that suffice?

21 **MR. MARSHALL:** It does. I thank Mr. Stone for
22 that clarification. And with that clarification, the
23 Southern Alliance for Clean Energy and the League of
24 Women Voters of Florida will not oppose the settlement.

25 **CHAIRMAN BROWN:** Thank you.

1 FEA.

2 **MAJOR UNSICKER:** Thank you, Chairman. The
3 Federal Executive Agencies had a chance to review the
4 settlement agreement. At this point in time, we will
5 not oppose the agreement. Thank you.

6 **CHAIRMAN BROWN:** Thank you for your comments.
7 Sierra.

8 **MS. JOHNSON:** Thank you, Madam Chair. Sierra
9 Club will not oppose the agreement. Thank you.

10 **CHAIRMAN BROWN:** Thank you.

11 FIPUG.

12 **MR. MOYLE:** Thank you, Madam Chair. And I
13 believe I'm at liberty to discuss a little bit with
14 respect to the timing of things. Mr. Wright did. And
15 if I can, I don't think it's a secret that this is
16 something that has happened kind of very late in the
17 proverbial day. We didn't see a term sheet until
18 Saturday and didn't see an agreement until nearly
19 midnight last night.

20 So in terms of being able to, you know, give
21 you a definitive position right now, I've had some
22 discussions with Gulf, I've had some discussions with my
23 client representatives, and I think -- don't know how
24 you plan to proceed, but like counsel for the League of
25 Women Voters, we have a couple of clarification points,

1 and I think we're comfortable handling those informally
2 off-line. But a little ability to have some time to
3 clarify a couple of points in the settlement agreement,
4 again that was just seen late, well, I guess, yesterday,
5 would be helpful.

6 So I'm cautiously optimistic with respect to
7 the position that FIPUG would be able to take, but the
8 ability to have a couple of discussions and points of
9 clarification would be quite helpful.

10 **CHAIRMAN BROWN:** Thank you for those comments.
11 I spoke with -- as you mentioned, the settlement
12 agreement was just filed this morning with our Clerk,
13 and I got it about an hour ago. I read through it
14 briefly and conferred with staff on process and how we
15 are going to proceed.

16 I think it may be in the best interest of
17 everyone to maybe recess for about an hour to look at
18 the other stipulations that were previously filed in
19 this docket that may be impacted by the settlement
20 agreement and then come back, say, at 2:15 -- or let's
21 just round it, 2:30, and come back with a clear process
22 for consideration of the settlement agreement along with
23 the current hearing that is pending. Does that sound
24 fair?

25 **MR. STONE:** Yes, Madam Chairman, that works

1 very well for us.

2 **CHAIRMAN BROWN:** Okay. OPC?

3 **MR. REHWINKEL:** Yes. Thank you, Madam Chair.
4 And before we adjourn (sic) for that, and I tell you we
5 really do --

6 **CHAIRMAN BROWN:** Recess.

7 **MR. REHWINKEL:** I mean, recess. That is the
8 wrong word. Thank you.

9 Before we recess to do that, which is
10 something that we think is valuable, I wanted to take
11 the opportunity to recognize that there are a lot of
12 customers here today in the audience. They --

13 **CHAIRMAN BROWN:** I appreciate you doing that.
14 I was wondering who these folks are in the back with the
15 red shirts on. So thank you for the clarification.

16 **MR. REHWINKEL:** They came, I think, expecting
17 to watch the beginning of a contested hearing. And
18 they, like even Mr. Moyle, a party who was intimately
19 and in great detail involved in the process, they now
20 are learning that there is a settlement before the
21 Commission.

22 And I just wanted to state for the record, and
23 I think it's Mr. Marshall stated on behalf of League of
24 Women Voters and SACE, the -- one of the most
25 controversial and lightning rod issues in this case was

1 the proposed redesign of residential rate structure.
2 That is no longer before the Commission, and it has been
3 resolved in the settlement, and hopefully the settlement
4 will be approved such that those customers are not at
5 jeopardy for that kind of rate change.

6 And I just wanted to -- because we're going to
7 recess, if they're not here when we get back, I wanted
8 to make sure it was clear on the record that that was
9 something that was achieved. And there was litigation
10 from -- advocacy from Sierra Club and Earthjustice,
11 SACE, League of Women Voters was very effective in that
12 regard. And so I just felt like it was important to say
13 that before we recess.

14 **CHAIRMAN BROWN:** I appreciate that. And just
15 so that the public is aware, we are not voting on the
16 settlement agreement at all today. That is not part of
17 consideration. We are going to talk about the process
18 for review of the settlement agreement. So we're going
19 to take -- does staff have anything to add?

20 (No response.)

21 Do any of the Commissioners have any comments
22 or questions?

23 (No response.)

24 Seeing none, we're going to take a recess
25 until 2:30, and we'll be back right here. Thank you.

1 (Recess taken.)

2 **CHAIRMAN BROWN:** We are back on the record,
3 and this hearing is reopened and -- or reconvened.
4 Pardon me. And at this time, I believe we have some
5 preliminary matters, and I'll turn to Mr. Stone first.

6 **MR. STONE:** Yes, Madam Chairman. I sheepishly
7 must inform the Commission that I gave you an incorrect
8 version of page 11 on our stipulation.

9 **CHAIRMAN BROWN:** Okay.

10 **MR. STONE:** And I will supply a corrected
11 version officially this afternoon as soon as we recess
12 from this meeting.

13 **CHAIRMAN BROWN:** Can you go over the --

14 **MR. STONE:** But I can tell you -- I can tell
15 you what the changes are. If you were to look at page
16 11, on sheet No. 6.38, it says the disposition would be
17 as filed. That's an error. It should have said that it
18 would -- and I'm not going to have the exact language,
19 but it should have said that the -- it would remain as
20 it is until the ECCR hearings in November, and the
21 changes that result will be effective 1/1/18. And so I
22 don't have the exact language of how that's supposed to
23 be in there, but that was a mistake on my part. Again,
24 I take full responsibility for it, and I apologize to
25 everyone for that inconvenience.

1 **CHAIRMAN BROWN:** Okay. I'm going to just turn
2 to the other signatories and make --

3 **MR. STONE:** There's one other -- there's one
4 other change on that same page. We completely omitted
5 tariff sheet 6.35. And just by way of background, sheet
6 6.38 and 6.35 are clause-related sheets affected by the
7 stipulation, and that's how they got omitted and not
8 addressed like they should have. And so -- well, the
9 corrected page will say that. And the one about 6.35
10 will say -- it will adjust the PPCC to the revenue
11 requirements in this stipulation.

12 With those two changes, corrections, if you
13 will, I will supply the corrected page 11. I have
14 reviewed this with Mr. Kelly and Mr. Rehwinkel. They
15 are completely supportive of me correcting it. And I
16 will take care of my mistake as quickly as we can as
17 soon as we recess from this hearing.

18 **CHAIRMAN BROWN:** Thank you. And you will file
19 it with the Clerk?

20 **MR. STONE:** We'll file it with the Clerk.
21 We'll serve it on the parties.

22 **CHAIRMAN BROWN:** Thank you.

23 And for the record?

24 **MR. REHWINKEL:** The Public Counsel agrees that
25 these corrections should be made and we support it.

1 **CHAIRMAN BROWN:** Thank you.

2 And before we broke, I wanted to give
3 Mr. Moyle an opportunity to have some time to look over
4 the document and confer with the parties and see if you
5 were able to make a statement.

6 **MR. MOYLE:** Thank you, Madam Chair, and I do
7 appreciate the time to do that. And thank you, your
8 staff, and for Gulf for being of assistance during that
9 hour. I think it was time well spent. And after some
10 clarification of some points that took place in
11 discussions with Gulf and some of the FIPUG folks, they
12 were very gracious with their time, and it's very
13 complicated, as you know, FIPUG is going to be able to
14 join OPC as a signatory to the agreement. So we'll get
15 with Mr. Stone and get a signature page. And the
16 agreement, I think, contemplates that others may be
17 joining. But for the record, FIPUG will be
18 affirmatively supporting the agreement.

19 **CHAIRMAN BROWN:** Thank you for that.

20 And to get to the schedule, I've had an
21 opportunity to confer with our staff on how procedurally
22 to take this up, and the suggestion is to recess the
23 hearing at the conclusion of all preliminary matters,
24 and we'll go through some of those. We should also
25 include the proposed stipulations, the Category 1 and

1 Category 2 stipulations, which we will discuss and vote
2 on here today.

3 But after -- at the conclusion of that, we
4 will recess this hearing until a time certain on
5 April 4th, which is a Tuesday, at a time certain of
6 9:00 am. And at that time, we will take arguments from
7 the parties on the merits of the settlement agreement,
8 questions from Commissioners on the settlement
9 agreement, and contemplation of a vote. So all that
10 will occur at 9:00 o'clock, with the regular Agenda
11 Conference to follow thereafter.

12 Any questions, comments on that, suggestions?
13 Staff? Yes, Mr. Stone.

14 **MR. STONE:** I have no questions about that
15 April 4th date. That makes perfect sense to me, Madam
16 Chair.

17 We do want to be sure, though, before we
18 recess the record today, we would like to take care of
19 the preliminary matters, including the Category 1 and
20 Category 2 stipulations --

21 **CHAIRMAN BROWN:** We will.

22 **MR. STONE:** -- and the witnesses being
23 stipulated into the record. And then also we all need
24 to be relieved of a briefing obligation due on
25 March 31st.

1 **CHAIRMAN BROWN:** Yes. Patience. We will get
2 to all of that in just a moment.

3 **MR. STONE:** I'm a little wired. I'm sorry.

4 **CHAIRMAN BROWN:** Had a lot of caffeine, I'm
5 sure, over the weekend.

6 All right. So we do have some other
7 preliminary matters to get to. The first, before we get
8 into the more substantive ones, there was an outstanding
9 motion which I believe could be potentially withdrawn at
10 this time. It was Sierra Club's motion for official
11 recognition. Ms. Lane.

12 **MS. JOHNSON:** Yes. Thank you, Madam Chair.
13 Given the recent developments in this case, Sierra Club
14 will be withdrawing that motion at this time. Thank
15 you.

16 **CHAIRMAN BROWN:** Thank you.

17 All right. Now moving into staff, would you
18 like to take up the stipulations first, or would you
19 like to take up the record?

20 **MS. CORBARI:** I believe staff -- it's
21 appropriate to take up the stipulations at this time as
22 the proposed stipulations have been tentatively marked
23 as Exhibit No. 248. The parties have reached
24 stipulations on several issues. These issues fall into
25 one of two categories as listed.

1 Category 1 stipulations reflect the agreement
2 of Gulf, staff, and at least one of the intervenors in
3 this proceeding. Intervenors who have not affirmatively
4 --

5 **CHAIRMAN BROWN:** Could you just hold on one
6 moment and make sure that all of the parties have what
7 has been marked?

8 **MS. CORBARI:** Oh, sure.

9 **CHAIRMAN BROWN:** We've gone ahead and marked
10 it as staff's Exhibit No. 248.

11 (Exhibit 248 marked for identification.)

12 And if our staff can make sure all the parties
13 here have copies, along with the Commissioners, I
14 believe, have copies of it.

15 I have -- we have copies. Do you have copies?
16 Go ahead, please. Please go ahead.

17 **MS. CORBARI:** Okay. Category 1 stipulations
18 reflect the agreement of Gulf, staff, and at least one
19 of the intervenors in this proceeding. Intervenors who
20 have not affirmatively agreed with a particular
21 Category 1 stipulation but otherwise take no position on
22 the issue are included in the stipulation. Category 2
23 stipulations reflect the agreement of Gulf and staff
24 where no other party has taken a position on the issue.

25 The proposed stipulations, which have been

1 marked as staff Exhibit 248, the Category 1 stipulations
2 include Issues 18, 20, 26, 36, 61. The Category 2
3 stipulations include Issues, 8, 9, 10, 11, 12, 14, 15,
4 21, 23, 24, 25, 33, 34, 41, 42, 43, 44, 48, 49, 50, 51,
5 62, 65, 83, 94 -- I'm sorry, 93, 94, 98, 99, 100, 101,
6 102, 103, 104, and 106.

7 **CHAIRMAN BROWN:** Thank you.

8 **MS. CORBARI:** In addition, staff would ask
9 that the -- staff's Comprehensive Exhibit List, which
10 has been marked as Exhibit 1 --

11 **CHAIRMAN BROWN:** Well, let's just get to the
12 stipulations first before we get to the exhibits and the
13 witness list.

14 **MS. CORBARI:** Okay.

15 **CHAIRMAN BROWN:** Commissioners, I don't know
16 if you've all had a chance to look over the proposed
17 stipulations. As Ms. Corbari identified, there are two
18 different types. One is a Category 1, which has four
19 issues, and another has -- Category 2, which has several
20 issues.

21 For ease of approving this particular
22 document, we've gone ahead and marked it as Exhibit 248,
23 and we'll go ahead and enter that into the record after
24 we vote on it. But just so you know, the number is 248.

25 So at this time, if Commissioners have any

1 questions on any of the stipulations, now is the time to
2 ask. And I would ask that you direct your questions to
3 our legal staff and technical staff for clarification.

4 I'll start out. We have -- I have just two
5 questions on it. With regard to Issue 62, which is, "Is
6 Gulf's proposed other post-employment benefits expense
7 for the 2017 projected test year appropriate? If not,
8 what adjustment should be made?"

9 I just wanted a little bit more explanation on
10 the post-employment benefits and what this necessarily
11 includes -- and they're looking for staff, technical
12 staff -- what this includes along with how many
13 employees this would apply to, this expense would apply.

14 **MR. VOGEL:** Good morning.

15 **CHAIRMAN BROWN:** Good afternoon.

16 **MR. VOGEL:** Good afternoon. Good afternoon.

17 Matthew Vogel with Commission staff.

18 The other post-employment benefits include
19 some healthcare costs as well as other items that have
20 been approved in other cases. As far, as far back as
21 the record as 2012 they've been approved, very similar
22 numbers, in every case every year they've had --

23 **CHAIRMAN BROWN:** For Gulf?

24 **MR. VOGEL:** Yes.

25 **CHAIRMAN BROWN:** Do you know how many

1 employees are covered under that?

2 **MR. VOGEL:** I do not off the top of my head.

3 **CHAIRMAN BROWN:** Is this relatively similar to
4 what we approved in the last rate case?

5 **MR. VOGEL:** Yes, ma'am.

6 **CHAIRMAN BROWN:** Do you have the exact number
7 of what we approved?

8 **MR. VOGEL:** I believe it was slightly higher
9 in the last case. This case is around \$2.6 million, and
10 I think in the last case it was around 2.8.

11 **CHAIRMAN BROWN:** 1.96, but --

12 **MR. VOGEL:** 1.96?

13 **CHAIRMAN BROWN:** Uh-huh. Okay. Thank you.
14 Commissioners, any questions on that item?

15 (No response.)

16 One more question on Issue 102, actually
17 Issues 102 through 104, which contemplate consideration
18 to a -- of these items to a future proceeding.

19 When could we expect to see this again? In
20 the DSM docket or a program modification?

21 **MR. STONE:** Madam Chair, may I speak to that?

22 **CHAIRMAN BROWN:** Yes, sure.

23 **MR. STONE:** As a result of the stipulation,
24 those items would not need to be deferred. They simply
25 need to be dropped.

1 **CHAIRMAN BROWN:** Okay. Thank you.

2 **MR. STONE:** Upon approval of the stipulation.

3 **CHAIRMAN BROWN:** So it says, though, the
4 testimony filed in this docket related to Issues
5 102 through 104 will not be entered into the record, but
6 it does say the consideration of the issues will be
7 deferred to a future proceeding.

8 **MR. STONE:** But these issues are rendered moot
9 by the stipulation and settlement agreement because we
10 are not moving to the Blank & Gegax method.

11 **CHAIRMAN BROWN:** Got it. Thank you.

12 Commissioners, any other questions on any
13 items?

14 (No response.)

15 If not, I'm ready to entertain a motion on
16 Exhibit 248. Commissioner Brisé.

17 **COMMISSIONER BRISÉ:** I have a question before
18 we make that motion. So with what has been stated by
19 Gulf, Issues 102 through 106, should those be considered
20 as part of Exhibit 248, or how do we want to handle
21 that? I think that's a question for our staff.

22 **MS. CORBARI:** I believe with -- at this time,
23 as the settlement agreement has not been voted and
24 approved, staff would recommend you vote on the proposed
25 stipulations as they appear.

1 **COMMISSIONER BRISÉ:** Sure.

2 **CHAIRMAN BROWN:** Uh-huh.

3 Okay. Commissioner Polmann.

4 **COMMISSIONER POLMANN:** I believe I had the
5 same question. Are any of the issues in 248 altered
6 beyond what's already been identified through the
7 stipulation and settlement? And if I understand, you
8 just answered that question for Commissioner Brisé. And
9 we'll address those in the final action on the
10 settlement agreement; is that correct?

11 **MS. CORBARI:** Yes, Commissioner.

12 **COMMISSIONER POLMANN:** Thank you.

13 **CHAIRMAN BROWN:** Thank you. Commissioners,
14 any other questions?

15 (No response.)

16 Seeing none, I'm ready for a motion on Exhibit
17 248. Commissioner Brisé.

18 **COMMISSIONER BRISÉ:** Thank you, Madam Chair.
19 So I move that we approve the stipulations, the proposed
20 stipulations as shown on staff Exhibit No. 248 in Docket
21 No. 160186-EI and 160170-EI.

22 **CHAIRMAN BROWN:** Is there a second?

23 **COMMISSIONER GRAHAM:** Second.

24 **CHAIRMAN BROWN:** Any further discussion?

25 (No response.)

1 All those in favor, say aye.

2 (Vote taken.)

3 All right. The motion passes unanimously.

4 Thank you.

5 And thank you to all of the parties for
6 working on those stipulations too, for streamlining this
7 for us here today.

8 Now, staff, any other preliminary matters?

9 **MS. CORBARI:** Yes, Chairman. In addition,
10 staff would ask that staff's Comprehensive Exhibit List,
11 which has been marked as Exhibit 1, and all exhibits
12 listed on the Comprehensive Exhibit List, including
13 exhibits received at the customer service hearings,
14 exhibits attached to the witnesses' prefiled testimony,
15 staff exhibits, and the list of proposed stipulations,
16 and also the recent -- all the recent witness errata
17 sheets that have been filed be moved into the record at
18 this time. Staff would ask that all the witnesses'
19 prefiled testimony and any erratas filed be inserted
20 into the record as though read.

21 **CHAIRMAN BROWN:** Okay. Seeing -- let's take
22 up the exhibits. Seeing no objections to going ahead,
23 and I see none, we'll go ahead and move all of the
24 exhibits into the record marked on the Comprehensive
25 Exhibit List, which are 1 through -- Exhibits 1 through

1 248.

2 (Exhibits 1 through 247 marked for
3 identification.)

4 (Exhibits 1 through 248 admitted into the
5 record.)

6 We'll also go ahead and enter in all of the
7 prefiled testimony along with the exhibits attached to
8 the witnesses' prefiled testimony, seeing no objection.
9 We'll go ahead and -- I think we've moved everything
10 else into the record, which includes staff's exhibits as
11 well.

12 **MS. CORBARI:** Yes, Chairman.

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GULF POWER COMPANY
Before the Florida Public Service Commission
Prepared Direct Testimony of
S. W. Connally, Jr.
Docket No. 160186-EI
In Support of Rate Relief
Date of Filing: October 12, 2016

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

A. My name is Stan Connally. My business address is One Energy Place, Pensacola, Florida, 32520. I am Chairman, President and Chief Executive Officer of Gulf Power Company (Gulf or the Company).

Q. Please summarize your educational background and professional experience.

A. I graduated with a Bachelor of Mechanical Engineering from The Georgia Institute of Technology in 1993. In 2004, I completed the Goizueta Executive Education Program at Emory University. I began my career with the Southern Company in 1989 as a co-op student at Georgia Power's Plant Yates. Since that time, I have held positions of increasing responsibility in Customer Operations, Sales and Marketing, and Power Generation at Georgia Power, Alabama Power, and Mississippi Power. Immediately prior to coming to Gulf Power, I served as the Senior Vice President of Generation and Senior Production Officer at Georgia Power. In July 2012, I assumed my current role at Gulf Power.

1 Q. What is the purpose of your testimony?

2 A. My testimony is primarily intended to provide an overview of our filing and to
3 introduce our witnesses and case. I will summarize Gulf's need for timely
4 and adequate rate relief and describe the major factors causing this need.

5

6 Q. As the leader of Gulf Power Company, please describe the core values of
7 the Company and its employees.

8 A. Our core values begin with safety. We want our employees to work safely
9 every day in every job so that they can go home to their families at the end
10 of the day in the same condition they were in when they came to work. A
11 safe work environment also creates a productive work environment which
12 benefits the Company, the employees and certainly our customers.

13

14 Further, as you will hear over and over again from the testimony of our
15 witnesses, customers are at the center of everything we do. The decisions
16 we make and the actions we take every single day are a reflection of that
17 belief. This belief drives us to maintain reliable service, to be responsive
18 and effective in our customer contacts, and to deliver value through the
19 services we provide.

20

21 We cannot achieve our customer-focused business objectives without our
22 employees and our investors. We have an obligation to continue staffing
23 our business with qualified and experienced personnel dedicated to fulfilling
24 our mission of service to our customers. We must continue to maintain a
25 competitive compensation and benefits program that allows us to attract

1 and retain our talented and experienced work force to meet the service
2 requirements and evolving expectations of our customers.

3
4 Lastly, in order to ensure that our customers' needs are securely met now
5 and into the future, we have a responsibility to provide an adequate return
6 to our shareholders who provide us with the funds necessary to build and
7 service our growing infrastructure and customer base.

8
9 Q. Why has Gulf initiated this rate review proceeding by petitioning the
10 Commission to approve an increase in Gulf's retail base rates beginning
11 July 1, 2017?

12 A. Our business as an investor-owned electric utility is capital intensive and
13 requires long-term investments to provide an essential service to
14 customers. Timely and adequate revenues through rates are a key
15 component of our ability to attract capital at reasonable rates in order to
16 continue to make these long-term investments.

17
18 We simply cannot put off the need for permanent rate relief any longer.
19 Since 2012, the test year of our last fully litigated case, Gulf will have made
20 more than \$900 million of additional investment in generation, transmission,
21 distribution and general plant in order to continue providing reliable service
22 to our customers. These necessary investments along with reasonable
23 growth in expenses and working capital must be covered by rates.
24 Unfortunately, Gulf's revenue growth since 2012 has not kept pace with
25 these increases in investment and expenses. Gulf is requesting rate relief

1 in order to continue to fulfill the public service requirements set forth in the
2 statutes and to meet the needs and expectations of our customers.

3
4 The timing of this request is driven by two additional factors. The first is the
5 expiration of two long-term off-system sales agreements from our
6 investment in Plant Scherer Unit 3 (Scherer 3) – agreements that have
7 insulated our retail customers from supporting this investment made on their
8 behalf nearly 30 years ago. The second is the upcoming end of the period
9 covered by the 2013 Stipulation and Settlement Agreement (2013
10 Settlement Agreement or Settlement). The combination of all these factors
11 results in an immediate need for permanent rate relief.

12
13 Gulf initiated a rate review proceeding in 2013 because the rate relief we
14 had been granted by order in early 2012 was not sufficient to cover our
15 costs of providing reasonable and adequate service to our customers and
16 simultaneously fulfill our obligations to our employees and shareholders. As
17 we stated at the time, the base rate increase we requested in 2013 was
18 needed to maintain customer satisfaction and the quality of service our
19 customers expect and deserve.

20
21 Gulf and all of the intervenors reached a settlement agreement that
22 provided a mixture of limited rate relief and other mechanisms that
23 facilitated postponement of further changes in base rates for the period
24 covered by the Settlement. The Settlement and the mechanisms it provided
25 allowed us to complete the critical transmission projects that were a major

1 component of our need for rate relief at the time of our 2013 rate review
2 proceeding. However, the 2013 Settlement Agreement stopped short of
3 providing the permanent rate relief needed to support those investments
4 beyond the end of the period covered by the Settlement. Now that the
5 projects undertaken within the scope of the Settlement are complete and in
6 service, the period covered by the Settlement is coming to a close, and a
7 majority of Gulf's investment in Scherer 3 has been rededicated to serving
8 our native load customers, the time has come that permanent rate relief
9 must be provided for the long-term best interests of our customers.
10

11 Q. Would you please provide an overview of the case that will be presented by
12 Gulf's witnesses?

13 A. Our case will be presented by a number of witnesses testifying in detail on
14 behalf of the Company. These witnesses include Company officers and
15 employees, as well as consultants from outside the Company with expertise
16 on specific subject matters. Collectively, these witnesses will demonstrate:
17 that our focus continues to be on our customers; that Gulf's costs of
18 providing retail service are reasonable, prudent, and have outpaced Gulf's
19 revenues; that without rate relief Gulf's projected rate of return will fall well
20 below any reasonable level necessary to serve customers and attract
21 capital for the long term; and that the rates Gulf has proposed in this case
22 are just and reasonable.
23

24 During the presentation of our case, you will hear from a group of witnesses
25 who manage operational areas within our company that focus directly on

1 service to our customers. Bentina Terry, our Vice President of Customer
2 Service and Sales, discusses Gulf's commitment to customer service and
3 its measurement of customer satisfaction, as well as the Company's
4 marketing and economic development activities. Wendell Smith, our Vice
5 President of Power Delivery, will address Gulf's power delivery systems and
6 the Company's performance and investment in these systems. Michael
7 Burroughs, our Vice President of Power Generation and Senior Production
8 Officer, discusses the continued diversification of Gulf's generating
9 resources, resource planning for the future needs of our customers, and
10 closure-related activities for the coal-fired assets at Plants Scholz and
11 Smith. These witnesses will also discuss their operations and maintenance
12 budgets for the 2017 test year.

13
14 In addition, Gulf will present a number of other professionals who provide
15 testimony related to the Company's finances and financial needs which are
16 also critical to our ability to serve our customers. Jun Park, our Supervisor
17 of Forecasting, will address the Company's forecast methodologies and
18 results for customers, energy sales, peak demand and base rate revenue.
19 Josh Mason, our Financial Planning and Budgeting Manager and Assistant
20 Treasurer, will describe the Company's rigorous planning and budgeting
21 process. Xia Liu, our Vice President and Chief Financial Officer, will
22 address the overall need for rate relief, the importance of maintaining the
23 Company's financial integrity and the resulting benefit to customers, Gulf's
24 capital structure and related cost of capital, and other financial matters
25

1 pertinent to our request for rate relief. Dr. Vander Weide, President of
2 Financial Strategy Associates, discusses Gulf's cost of common equity.

3
4 Two witnesses focus upon the rededication of Scherer Unit 3 to retail
5 customers. Jeff Burleson, the Vice President of Commercial Services and
6 Planning for Southern Company Services, provides an overview of Gulf's
7 resource planning, including the decision over 30 years ago to purchase an
8 ownership interest in Plant Scherer. Terry Deason, a special consultant for
9 the Radey Law Firm, discusses the history of Gulf's ownership interest in
10 Plant Scherer Unit 3 and addresses the appropriate regulatory treatment of
11 that asset.

12
13 Two other third-party professionals address necessary and essential costs
14 associated with storm cost recovery and depreciation. Steven Harris,
15 Senior Manager with CoreLogic, Inc. Insurance & Spatial Services,
16 Consulting Services Group, will present the results of the Company's recent
17 storm study that focuses on the risk of uninsured loss to Gulf's transmission
18 and distribution assets. Dane Watson, Managing Partner in Alliance
19 Consulting Group, will describe and support the depreciation study recently
20 conducted for Gulf.

21
22 Jan Hodnett, our Comptroller, will outline the need to increase the annual
23 property damage accrual, provide support for the depreciation,
24 dismantlement and rate case expenses included in the test year and
25 discuss how the Company utilizes Southern Company Services. James

1 Garvie, Compensation, Benefits & Human Resources Operations Vice
2 President for Southern Company Services, discusses Gulf's compensation
3 and benefit programs which are designed as a total compensation package
4 to attract, engage, retain and motivate a highly trained, skilled and
5 customer-focused workforce that delivers safe and reliable electric service.
6 Susan Ritenour, our Corporate Secretary, Treasurer and Corporate
7 Planning Manager, will present the calculation of the rate relief requested in
8 this case including the calculation of Gulf's O&M expense benchmark and
9 the general plant capital additions budget and investment.

10
11 Another group of witnesses will present testimony on Gulf's cost-of-service
12 study, conservation programs, and rate design. Mike O'Sheasy, Vice
13 President with Christensen Associates, Inc., will address the cost-of-service
14 study presented in this case. Bob McGee, our Regulatory and Pricing
15 Manager, presents proposed improvements to the Company's residential
16 rates. John Floyd, our Energy Efficiency and Renewables Manager,
17 discusses new and modified conservation programs. Lee Evans, our
18 Pricing Supervisor, discusses rate design and other tariff issues.

19
20 Q. Please describe some of the steps that Gulf has taken to improve its
21 operations and customer service.

22 A. Keeping our system reliable continues to be a strong driver of customer
23 satisfaction, and our ongoing investments in the system are bringing value
24 to customers. Additional transmission lines were constructed and
25 substations were rebuilt and upgraded to higher voltage to provide

1 additional reliability to our customers. Mr. Smith discusses power delivery
2 investments and their benefit to our customers.

3
4 As discussed by Ms. Terry, Gulf is focused on providing service to our
5 customers that fits their lives by giving them convenience, customization
6 and control. In recognizing that the way we serve customers continues to
7 evolve, we now provide expanded options for customers to access their
8 information and pay their bill.

9
10 While we continue to provide in-person services through our local offices,
11 customers can now pay their bill, view and report outages and receive
12 energy efficiency tips and recommendations through our website,
13 GulfPower.com or through the Gulf Power app for on-the-go access.
14 Customers can also view their usage data and set up customized alerts
15 when their usage exceeds their defined thresholds at GulfPower.com.

16
17 Based on customer feedback, we now offer a wide variety of methods to
18 make payments including via U.S. mail, in person at our local offices,
19 through our payment kiosks, online or by telephone, and through new
20 alternate payment locations, such as MoneyGram or Western Union.

21
22 These are just a few examples of the actions Gulf has taken to improve
23 operations and customer service. These efforts are described in greater
24 detail by Gulf's other witnesses.

25

1 Q. How does Gulf rank in customer value as compared to its peer utilities?

2 A. When measured against a peer group of utilities, Gulf has consistently been
3 ranked in the top quartile for customer value every year since 2000. Our
4 goal is to be among the best utilities in the country in regard to customer
5 value, and we are proud of our performance when compared to these
6 peers. This outstanding performance is a testament to the focus Gulf's
7 employees maintain on exceeding our customers' expectations each and
8 every day. Ms. Terry discusses Gulf's customer service strategy and
9 provides more detail on how we compare the Company's performance to
10 our utility peers.

11

12 Q. Does Gulf monitor other operational measures as part of the Company's
13 commitment to performance, reliability, and ultimately customer
14 satisfaction?

15 A. Yes. For example, the reliability of our generation fleet is critical to our
16 ability to deliver electricity to our customers. Mr. Burroughs describes in his
17 testimony the excellent performance achieved by Gulf's generation fleet
18 during the last several years. Limiting the number and duration of outages
19 on the distribution and transmission systems also helps us to maintain or
20 improve reliability from the perspective of our customers. Mr. Smith
21 discusses the importance of grid reliability and how the value and quality of
22 Gulf's Power Delivery systems are measured. These are examples of how
23 we use operational measures monitored on a continuous basis to ensure
24 we are meeting our commitment to maintaining the reliability of our electric
25 system, strong customer service and high customer satisfaction.

1 Q. How does Gulf's requested increase compare to Gulf's revenues before
2 consideration of the increase?

3 A. Gulf is requesting a base rate increase of \$106.8 million over the total base
4 rate revenues produced by today's rates. Gulf's other witnesses in this
5 case provide details regarding how and why many of our costs of doing
6 business continue to increase. We are only asking for recovery of those
7 costs necessary to provide safe and reliable service and maintain customer
8 satisfaction over the long term.

9

10 Q. What is Gulf's projected return on equity for the test year without rate relief?

11 A. As shown on Ms. Liu's Exhibit XL-1, Schedule 2, based on current
12 projections, Gulf's projected return on equity will fall to approximately 7.30
13 percent, well below the bottom of its authorized range, before rates from this
14 case can be put into effect on July 1, 2017. Without rate relief, Gulf's return
15 would continue to decline.

16

17 Q. Please summarize your testimony.

18 A. Our objective at Gulf is to provide safe, reliable and efficient electric service
19 to customers, while working to improve the communities we serve. We are
20 very proud of our commitment to our customers and Northwest Florida. Our
21 successes are a result of the dedicated employees who serve our
22 customers all across the region.

23

24 We understand that price increases can place an economic burden on our
25 customers; however, our inability to meet our customers' service

1 requirements would place an even greater burden on Gulf's customers and
2 our local economy. Gulf has made and must continue to make capital
3 investments in the infrastructure and equipment necessary to maintain
4 reliability and to strengthen our ability to serve customers both now and in
5 the future.

6
7 We are not able to defer our request for this increase in base revenues.
8 Under current rates, Gulf's earned return on equity will be well below the
9 level the Commission found to be fair and reasonable in approving the 2013
10 Settlement Agreement. Without rate relief, Gulf's ability to continue to raise
11 the capital necessary to serve its customers will be jeopardized.

12
13 This price adjustment will provide Gulf the ability to continue providing safe,
14 reliable, and efficient service at the levels our customers have come to
15 expect. Keeping Gulf financially healthy by granting the requested
16 increases in retail revenues is in the best interest of our customers.

17
18 Q. Does this conclude your testimony?

19 A. Yes.

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GULF POWER COMPANY

Before the Florida Public Service Commission
Direct Testimony of
Bentina C. Terry
Docket No. 160186-EI
In Support of Rate Relief
Date of Filing: October 12, 2016

- Q. Please state your name and business address.
- A. My name is Bentina Chisolm Terry. My business address is One Energy Place, Pensacola, Florida 32520.
- Q. What is your position?
- A. I am the Customer Service and Sales Vice President for Gulf Power Company (Gulf or the Company).
- Q. What are your responsibilities as the Customer Service and Sales Vice President?
- A. In this role, I am responsible for the Company's customer service, marketing and community and economic development organizations. I lead Gulf's teams of customer facing employees who serve the Company's 450,000 customers, strengthen the communities Gulf Power serves, and help its customers and communities grow.
- Q. Please state your prior work experience and responsibilities.
- A. I began my career with Southern Company in 2001 at Georgia Power Company. I progressed through leadership roles in compliance, ethics and power delivery, including customer service, external affairs and

1 customer operations. I also served as General Counsel and Vice President
2 of External Affairs for Southern Nuclear. Prior to my current role, I served
3 as Vice President of External Affairs and Corporate Services for Gulf Power.
4 Prior to joining Southern Company, I served as Associate General Counsel
5 for Progress Energy.

6

7 Q. What is your educational background?

8 A. I hold a Juris Doctorate degree from the University of Michigan Law School
9 and a Bachelor of Arts in English from North Carolina State University. I am
10 a member of the North Carolina State Bar and the Georgia State Bar.

11

12 Q. What is the purpose of your testimony?

13 A. My testimony describes the essential role that Gulf plays in serving our
14 customers and helping to build and sustain the communities in which we
15 reside. I describe the functions within the Company that serve and interact
16 with our customers and communities on a daily basis.

17

18 I will explain, in detail, the functions in our Customer Service and Marketing
19 and Sales organizations and how we provide "service to fit the lives" of our
20 customers. I will describe how we provide customer offerings (product and
21 services) and customer experiences that offer our customers the
22 customization, convenience and control they desire. I will set forth the
23 Company's goal to lead the industry in customer satisfaction and our
24 success in achieving that goal.

25

1 I will discuss Gulf's strategy for Economic Development, including our
2 success in this area and how that success benefits not only Gulf's customer
3 base, but also the region and the state. I also discuss Gulf's pilot economic
4 development riders and some changes that we propose to enhance the
5 riders and a request to establish them as permanent to better position both
6 the Company and the region for success.

7
8 My testimony further addresses the Operations and Maintenance (O&M)
9 expenses forecast for the 2017 test year in the Customer Service and
10 Information (CS&I), Customer Accounts and Sales groups as they are
11 defined by the Federal Energy Regulatory Commission (FERC) Uniform
12 System of Accounts. I show that these O&M expenses are reasonable,
13 prudent and representative of conditions when new rates will be in effect
14 and should be used to establish new base rates for Gulf to charge for its
15 service to customers. Finally, I address certain General Plant capital
16 additions in my areas of responsibility which are planned during 2016 and
17 2017.

18
19 Q. Are you sponsoring any exhibits?

20 A. Yes, I sponsor Exhibit BCT-1, Schedules 1 through 6. This exhibit was
21 prepared under my direction and control, and the information contained
22 therein is true and correct to the best of my knowledge and belief.

23
24
25

1 Q. Are you sponsoring any of the Minimum Filing Requirements (MFRs)
2 submitted by Gulf?

3 A. The MFRs that I sponsor or co-sponsor are listed on Schedule 1 of Exhibit
4 BCT-1. To the best of my knowledge and belief, the information contained
5 in these MFRs is true and correct.

6

7

8 **I. GULF'S CUSTOMER SERVICE BUSINESS UNITS**

9

10 Q. Please describe the business units within Gulf's Customer Service
11 organization.

12 A. Gulf's Customer Service organization handles the individual needs of our
13 customers every day. There are three departments within the Customer
14 Service organization at Gulf: the Customer Care Center (CCC), Customer
15 Service Support and District Customer Service.

16

17 The CCC is the most common point of contact for Gulf's customers.

18 Telephonic assistance is available 24 hours a day, 7 days a week. Gulf's

19 CCC is staffed by customer service representatives who are trained to

20 assist customers with a wide range of issues including service requests,

21 billing inquiries, outdoor lighting requests, efficiency options and outage

22 information. The CCC is also the hub for Gulf's online service options.

23 Gulf's Online Customer Care (OCC) options are managed within our CCC

24 to ensure consistency in the customer's experience whether on the phone

25 or online. Using the OCC portal on the Company's website, customers can

1 access self-service choices such as bill payment, billing arrangements,
2 payment options, usage information, outage status and various service
3 requests.

4
5 For Gulf's customers whose needs are also served by face to face
6 interaction, Gulf's District Customer Service teams are located in our district
7 offices in Panama City, Fort Walton Beach and Pensacola, as well as local
8 business offices in Chipley, Crestview, DeFuniak Springs, Milton and
9 Niceville. In addition to payment and billing inquires, the customer
10 representatives in our district locations can provide customers with a copy
11 of their recent bill activity and help them understand the resources that Gulf
12 provides all of its customers. At these sites, customers can also make
13 payment arrangements, provide proof of residency or complete other
14 transactions that necessitate an in person visit. Gulf's field service
15 personnel, who work out of district and local offices, set, remove and
16 inspect meters, perform revenue protection inspections and conduct field
17 audits.

18
19 The Customer Service Support organization provides back office support for
20 both the CCC and the District Customer Service teams. The representatives
21 on the Customer Service Support team provide all of the training for the
22 customer service personnel in the CCC and districts. The Support team also
23 handles customer inquiries that Gulf receives from the Florida Public Service
24 Commission (FPSC or Commission), billing exceptions, advanced metering
25 infrastructure (AMI) alerts, service order completion, and final bill collections.

II. GULF'S CUSTOMER SERVICE STRATEGY

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Q. What is Gulf's customer service philosophy?

A. Gulf's customer service philosophy is simple: we put our customers at the center of everything we do.

Q. Would you please elaborate on that philosophy?

A. Putting our customers at the center of everything we do means we provide service that fits the lives of our customers by giving them convenience, customization and control. That philosophy can take form in many different ways and rests on (1) capable employees, (2) tools and technology to anticipate customers' needs and (3) credible, trusting relationships. Gulf believes in empowering our customer service employees to assist customers as quickly and efficiently as possible, thereby enhancing the customer experience. Our customer service representatives both in the CCC and district offices are multi-skilled and able to address a multitude of customer requests, minimizing the number of transfers required to meet a customer's need. Training includes not only solid technical training (the whats), but also customer service training (the hows). As an example, since 2010, all of Gulf's customer-facing employees complete Power of Integrity training. This training is designed to reinforce the principles of listening to and addressing customer needs, creating value for our customers, taking responsibility and doing the right thing. This type of "soft skills" training is also included as part of the on-boarding process for all of our customer care representatives.

1 Q. In what other ways does Gulf's customer service philosophy take shape?

2 A. Gulf's customer service philosophy also takes shape in the tools and
3 technology that we use to serve our customers. Customers' needs continue
4 to evolve, but faster than that, their expectations are changing. Gulf's
5 customers are being influenced not only by local merchants, but also by a
6 global economy led by retailers such as Amazon. Customers expect
7 convenience – service on their schedule, customization – service
8 personalized to them and their needs, and control – service that allows
9 them to make decisions. Said another way, customers expect, and we aim
10 to deliver, service to fit their lives. We have developed an innovative
11 customer service strategy not only to modernize our customer experience,
12 but also to anticipate the changing needs of our customers.

13

14 Q. Ms. Terry, please describe your strategy for serving customers.

15 A. At the core of our strategy is the recognition that customer needs are
16 different. At the most basic level, the way we serve the needs of our
17 residential customers is very different from that of our commercial and
18 industrial customers whose needs can be much more unique and complex.

19

20 The majority of our residential customers reach out to us through our CCC.
21 Gulf continues to implement new processes or technologies at the CCC to
22 make our customers' experience as convenient as possible. We have
23 enhanced our voice response unit (VRU) to allow customers to use their
24 phone's keypad or their voice to make selections depending on their
25 preferences and abilities. We enhanced the VRU capability, expanding

1 qualifying customers' ability to make payment arrangements and enroll in
2 rate options using the automated system. We enhanced the electronic
3 communication provided to customers who request to connect, transfer or
4 stop service. These automated communications keep customers abreast of
5 the status of their request, minimizing their need to call back for status
6 information. The Company launched the Customer Preference Center, an
7 online platform allowing customers to control how Gulf communicates with
8 them. They can select to receive communication via telephone, email or
9 text messages. Enabled by the Company's advanced metering
10 infrastructure, CCC representatives have access to customers' daily usage
11 and are trained to assist customers by coupling that information with
12 weather impacts to help them understand how usage and weather affect
13 their bill.

14
15 Q. Does your strategy for serving customers include an enhanced digital
16 experience?

17 A. Yes, it does.

18
19 Q. Would you please elaborate?

20 A. Gulf offers an app which customers can install on their mobile device. The
21 Gulf Power app conveniently allows customers to pay their bill, view and
22 report outages and receive energy efficiency tips and recommendations all
23 while on the go.

1 Another tool for residential customers to enhance their experience in the
2 digital channel is Gulf's My Power Usage offered through our OCC portal.
3 My Power Usage provides customers with their home's usage data. In
4 addition to viewing data, customers can set up My Power Usage to alert
5 them daily if their usage exceeds their defined thresholds, putting the
6 control of their electric data in their hands in a customizable way.

7

8 Q. While most of your residential customers reach out to you through the CCC,
9 how do you meet the needs of the Company's customers that walk into one
10 of your district or local offices?

11 A. We have local offices, integrated into our local communities, where we
12 provide in-person services for customers who desire it. This is an important
13 and necessary part of our strategy. We also recognize that how we serve
14 customers within their communities will continue to evolve as customer
15 needs and expectations change. This evolution will necessitate changes to
16 the customer experience provided by Gulf.

17

18 Q. What changes are you making to the way you serve customers in your local
19 offices?

20 A. Continuing the Company's focus on providing service to fit the lives of our
21 customers, during 2016 and 2017, we will be deploying payment kiosks in
22 all of our district and local offices. This enhancement offers more flexibility
23 and helps to meet the changing needs of our customers. Surveys
24 conducted with our local office customers indicate that seventy percent of
25 these customers would welcome a self-service option at the local office.

1 These kiosks provide that option and allow customers to pay their bill
2 conveniently and privately using a variety of payment options. In addition,
3 the kiosks will have the capability to offer multi-lingual services and
4 recognize payment arrangements or other billing adjustments that were
5 previously made. Some locations will also be equipped with kiosks on the
6 outside of the building. This feature opens up these services to customers
7 at certain local offices 24 hours per day, 7 days per week.

8
9 Our local offices will continue to be staffed with employees who can assist
10 customers who require face to face service. For example, some customers
11 do not have routine access to technology, or they may have relatively
12 complex billing or energy usage situations and prefer to meet with a
13 customer service representative to discuss such specific needs. Others
14 may seek to meet with a customer service representative to learn more
15 about energy efficiency opportunities for their home or business. These
16 representatives will also be trained and available to consult with customers
17 on the benefits of electric end-use technologies. In addition, some
18 customers prefer the value of the personal touch afforded by face to face
19 services in resolving issues with finality and with the assurance that they
20 have, in fact, worked directly with the Company.

21
22 Q. Are you implementing other changes to make customers' experience with
23 the Company more convenient?

24 A. Yes. Our goal is to have efficient payment options to meet the needs of our
25 diverse customer base. In addition to the enhancements to payment

1 options offered by the kiosks at our local offices, and offering customers the
2 ability to conveniently pay online and by telephone, Gulf has also recently
3 contracted for authorized payment locations (APLs) such as MoneyGram
4 and Western Union. The Company is offering these APLs to allow for cash
5 based payment services typically only offered at the Company's offices.
6 This enhancement responds to customer feedback and offers more
7 convenience for customers. Those customers who require more full service
8 options will still be able to visit one of our business office locations.

9

10 Q. Ms. Terry, you mentioned that commercial customers have unique needs.
11 Would you please discuss how you meet the needs of your small business
12 or commercial customers?

13 A. Gulf recognizes that small business customers are working tirelessly to
14 meet the needs of their own customers and make their businesses
15 successful. To that end, we want to make their interactions with us as
16 efficient as possible. When calling our CCC, business customers are
17 promptly directed to a customer representative who is skilled in handling
18 business customers' needs. These representatives have specific training
19 and are able to efficiently resolve the customer's issue and provide more
20 customized service.

21

22 Our small business customers tell us that they need customized
23 recommendations and support, but have little time to reach out to the
24 Company during their business hours. As a result, Gulf's representatives

25

1 attempt to reach out to these customers offering energy audits and
2 providing other valuable energy advice.

3
4 We recognize that we cannot reach all of our business customers in person
5 during business hours. As a result, we have recently launched our Small
6 Business Resource Center. This is an innovative web portal offering small
7 business customers access to necessary Gulf Power services 24 hours a
8 day, 7 days a week, while also providing a host of other valuable resources.
9 This portal is available to small business customers at any time of the day
10 or night, so they can take advantage of the services at their convenience,
11 offering small business customers service to fit their lives. The portal allows
12 small business customers the opportunity to obtain specific information
13 regarding their energy usage and relevant Company programs and rate
14 offerings as well as additional data and information aligning with their
15 business needs. For example, through the portal, a customer can obtain
16 demographic information that is helpful in making location or expansion
17 decisions. The portal also provides a one stop shop for small business
18 customers to access resources such the Small Business Development
19 Council (SBDC) as well as entities that provide local, regional, state and
20 federal resources.

21
22 Q. Do you manage the needs of your large commercial and industrial
23 customers in the same way?

24 A. No, as I describe later in my testimony, our Major Accounts team handles
25 the complex and unique needs of these customers on an individual basis.

1 **III. GULF'S MARKETING AND SALES BUSINESS UNITS**

2

3 Q. What is Gulf's marketing and sales philosophy?

4 A. In Marketing and Sales, we also strive to provide products and services that
5 fit the lives of our customers. Again, we look for opportunities to provide
6 customers with more customization, convenience and control.

7

8 Q. Please describe Gulf's Marketing and Sales organization.

9 A. The employees that serve Gulf's customers in the Marketing and Sales
10 organization are made up of the following departments: District Energy
11 Sales and Efficiency, Major Accounts, Lighting Services, Energy Efficiency
12 and Renewables, Innovation and Sales, and Marketing Services.

13

14 Q. Please describe the District Energy Sales and Efficiency department.

15 A. The District Energy Sales and Efficiency team performs energy audits and
16 assists customers with managing their energy usage, equipment purchasing
17 decisions and energy related building construction, including heating and
18 cooling system sizing and building envelope recommendations. This team
19 supports all of Gulf's residential and small to medium commercial
20 customers.

21

22 Q. Please describe the Major Accounts organization.

23 A. The Major Accounts team supports Gulf's largest industrial and commercial
24 accounts. These are the Company's largest and most specialized
25 customers. These customers are grouped into industry segments (e.g.,

1 forest products, military, health care, etc.), and each segment is assigned to
2 an account manager. Because of the unique nature of these customers, it
3 is necessary that each segment account manager be extremely
4 knowledgeable about the assigned businesses and their processes,
5 outputs, markets, and competition. This level of customized service is
6 necessary given the complexity of their energy demands.

7

8 Q. Please describe the Lighting Services department.

9 A. Lighting Services helps customers design, install and maintain outdoor
10 lighting systems tailored to meet their specific needs. These solutions
11 range in size from a single street light to a lighting project that involves large
12 roadways, an entire subdivision or downtown area. Through these
13 customized solutions, Gulf's experienced lighting team brings value to
14 customers on a daily basis.

15

16 Q. Describe the Energy Efficiency and Renewables team.

17 A. This team develops and supports conservation programs, products, and
18 services for the benefit of the residential and small business customers. An
19 important aspect of these offerings is how they allow customers to control
20 their energy usage. Many of the program offerings supported by this group
21 are included in Gulf's approved Demand-Side Management (DSM) Plan.
22 Program offerings include conservation programs like Gulf's
23 **EnergySelect®** program. This team is also responsible for Gulf's demand-
24 side renewable generation programs and services. Finally, this team
25 includes Gulf's Energy Services organization, which provides project

1 management and consulting services to the Company's federal government
2 customers located within the area Gulf serves. The bulk of these customers
3 consist of military installations.
4

5 Q. Describe the Innovation and Sales team.

6 A. This team develops and supports products and services that promote the
7 sale of efficient electric end uses. This includes ensuring Gulf's team of
8 Marketing representatives are trained and credible experts in the areas of
9 electro-technologies like heating ventilation and air conditioning (HVAC)
10 systems, water heating, electric transportation, etc. This team is engaged in
11 organizations like the American Society of Heating, Refrigerating and Air
12 Conditioning Engineers (ASHRAE) and the Electric Power Research
13 Institute (EPRI) to follow trends in technologies, participate in new
14 technology research and thoroughly understand building codes. This
15 expertise is transferred to our District Sales and Efficiency team so that they
16 are equipped as energy experts and can credibly consult with customers,
17 builders, developers and others when making energy decisions.
18

19 Q. Please describe the Marketing Services organization.

20 A. The Marketing Services team includes end-use research, customer
21 research, market reporting, contracts administration and economic
22 evaluation. Marketing Services is responsible for measuring Gulf's
23 customers' satisfaction and also for the development and reporting of the
24 Company's demand side management plan, including the projection and
25 true-up filings for the Energy Conservation Cost Recovery (ECCR) clause.

1 This team is also responsible for developing and administering customer
2 contracts and performing cost effectiveness and economic evaluations.

3

4 Q. How does your Marketing and Sales team meet the needs of your
5 customers?

6 A. Gulf's Marketing and Sales team is unique in that it is among a small group
7 of Gulf employees who are invited to assist customers inside their homes
8 and businesses every day. This positions this team of Gulf personnel to
9 understand the customer situation and provide very customized
10 recommendations and solutions. Gulf's team of energy consultants is
11 viewed by customers as energy experts. They are called upon by
12 customers to provide advice about the energy usage in their homes or
13 businesses. They partner with local builders, developers and architects to
14 provide energy advice as they design new residential and commercial
15 developments. Gulf's team of energy experts is in homes and businesses
16 every day performing energy audits. In the last five years, each of our
17 residential and commercial energy consultants performed, on average, 457
18 and 320 energy audits per year, respectively. In addition, through our
19 online audit tool, over 26,000 customers have taken advantage of
20 completing an online energy audit. As part of an energy audit, our energy
21 experts evaluate a customer's energy usage, equipment and building
22 envelope. They provide customized recommendations to the customer
23 addressing their concerns and providing credible and actionable
24 recommendations for how to make the most of their energy purchases.

25

1 Our Marketing and Sales team participates in many professional
2 organizations such as ASHRAE, the U.S. Green Building Council (USBGC),
3 and the Consortium for Energy Efficiency (CEE) to continuously stay
4 abreast of new technologies, policies, codes and standards that may affect
5 our customers and their energy usage. Our energy consultants are
6 provided technical training to ensure they are well equipped to perform
7 energy audits. Over half of our consultants hold advanced certifications
8 such as certified raters by the Residential Energy Services Network
9 (RESNET) or Certified Energy Managers (CEM). These advanced
10 certifications require that representatives master building science, which
11 includes understanding the physical behavior of a building as a system and
12 how it impacts the overall efficiency of the structure. They are required to
13 be proficient in understanding efficiencies associated with windows, HVAC
14 systems, lighting systems, etc. They are trained in how to identify
15 inefficiencies in a home or business such as leaky ducts, poor insulation
16 and the causes of heat gain and loss. Representatives holding CEMs are
17 further skilled in areas more essential for assisting commercial and
18 industrial customers such as green buildings, energy management systems,
19 boilers, cogeneration, motors, chillers, etc. Ensuring our team of energy
20 experts is trained and prepared to make actionable recommendations that
21 really make a difference for customers is a priority of Gulf.

22
23
24
25

1 Q. Can you provide an example of the service provided by Gulf's energy
2 experts?

3 A. A customer in Niceville, Florida requested that Gulf perform an energy audit
4 at his residence. Upon arriving at the customer's home, the Gulf Marketing
5 representative engaged with the customer to understand his concerns and
6 expectations from the audit. The customer expressed to the representative
7 that he was working hard to improve the efficiency of his home. He recently
8 obtained multiple quotes on a new HVAC system and was considering
9 installing high efficiency windows. However, he was overwhelmed and
10 confused with all of the information. The HVAC dealer had performed the
11 sizing calculation, but the customer suspected the quoted HVAC systems
12 were over-sized for his home. Gulf's Marketing representative completed
13 the audit for the customer, and then recognized the opportunity to help the
14 customer navigate the HVAC option he was considering. Our reputation as
15 energy experts, developed over years of giving credible advice, leads
16 customers to seek counsel from our representatives in cases such as this.
17 For this customer, our skilled representative performed another sizing
18 analysis to re-calculate the home's load and estimate the appropriate HVAC
19 size. Gulf's Marketing representatives are trained to offer credible, technical
20 advice to customers in the area of energy usage. Their training and
21 experience allows them to exceed the customer's expectation. This is one
22 example which left this customer, in his words, feeling "blessed to be one of
23 Gulf's customers."
24
25

1 Another example of our representatives exceeding customer expectations
2 involved a customer in Pensacola. A mother with a disabled child was
3 struggling to pay her bills. Adding to her stress was the fact that her electric
4 bill showed an unusually high increase. This customer rents her home and
5 had already contacted her landlord. Her landlord had multiple contractors
6 come out to try and determine the cause of her bill increase and had not
7 found any issues. When she called Gulf, she was desperate for assistance.
8 Determined to assist this customer, Gulf's representative did a thorough
9 audit of her home including accessing the customer's attic. Upon entering
10 the attic, the Company representative found that the top of her plenum, the
11 heart of the duct system, had come loose. This allowed most all of the
12 conditioned air to blow into the attic instead of the home's duct system,
13 resulting in her system running continuously. The representative identified
14 the problem, and using duct tape, applied a temporary fix until the customer
15 could contact her landlord for a permanent and thorough correction. This
16 customer was delighted with the thoroughness of the Company's
17 representative.

18
19 Q. How are the products and services offered to Gulf's customers developed,
20 evaluated and implemented?

21 A. Gulf recognizes that our success is dependent upon understanding our
22 customers in order to anticipate their needs and provide products and
23 services that fit their lives. The Company uses market research, knowledge
24 from the Company's experienced corporate and district staff, and national
25 and regional information sources such as EPRI on emerging trends to

1 develop our programs. Gulf additionally leverages our affiliation with the
2 Southern Company and the other Southern Company system operating
3 companies in order to better understand consumer trends, preferences,
4 leading edge technologies and marketing techniques. This is another
5 example of the benefits Gulf receives by being part of the larger Southern
6 System.

7
8 Information gathered from these diversified sources is assimilated and
9 translated into new or enhanced products and services. These products
10 and services are then evaluated against criteria to determine customer
11 acceptance. Product implementation includes training for customer-facing
12 employees to ensure they are informed and can provide expert advice to
13 customers. The Company uses market research and customer
14 segmentation data to target products and services in a cost-effective way to
15 customers who are most likely to benefit from them. Products and services
16 are marketed in a variety of ways including promotions, direct mail, e-mail
17 and other mediums focused on reaching the right customers with products
18 and services that match their needs.

19
20 Gulf recognizes that maintaining a high level of customer satisfaction
21 requires that we be proactive and creative in meeting our customers' needs.
22 Innovative programs and pricing options are also examples of how Gulf
23 ensures that our customers have relevant options to manage their energy
24 usage.

25

1 Q. Please describe examples of innovative products or services that you offer
2 that bring value to your customers.

3 A. Gulf is conducting a Commission-approved pilot with residential customers
4 to test customers' response to a time of use (TOU) rate coupled with a
5 smart, learning thermostat. Through this pilot program, named Energy
6 Smart, participating customers receive an ecobee learning thermostat. The
7 ecobee thermostat is designed to work with sensors that can be placed in
8 multiple rooms in a customer's home. These sensors help manage the
9 comfort of the customer's entire home. The thermostat learns a customer's
10 behavior, so it can conserve while no one is at home. It knows to adjust for
11 the weather and lets customers control their thermostat while they are not at
12 home through a simple mobile tool. In addition to the thermostat,
13 participants are placed on a TOU rate that offers pricing signals for them to
14 modify their usage patterns away from peak times. The TOU rate also
15 includes a critical period that can occur at any time under specified
16 conditions. With the Energy Smart program, Gulf has partnered with
17 ecobee to send the critical signal to the customer's smart thermostat.
18 Additionally, the thermostat will run an algorithm that will reduce the
19 customers' HVAC load resulting in a demand reduction on Gulf's electrical
20 system. Customers who do not override the algorithm will receive a five
21 dollar bill credit on their next month's bill. This program is a great example
22 of how Gulf continues to look for ways to provide customization and control
23 to our customers.

24

25

1 Q. Speaking of innovation, please describe how Gulf has been a leader in the
2 area of electric transportation.

3 A. Gulf is committed to supporting electric transportation (ET) technologies,
4 which are quiet, efficient and virtually emission-free. Gulf works closely with
5 organizations such as EPRI and vehicle manufacturers to understand both
6 existing ET products as well as future products so that we are equipped to
7 help customers meet current needs and plan for the future. Our leadership
8 in this area includes not only customer education and consultation, but also
9 education for dealers. During 2015 alone, we touched over 1,200
10 customers with events aimed at increasing customer awareness of the
11 benefits of these products which range from cars to forklifts.

12

13 During 2015 Gulf launched its first in a series of "Coffee and Cars" events.
14 At these events, which are held at coffee shops in the local communities,
15 Gulf personnel educate customers and answer their questions. They also
16 have a variety of electric vehicles available for customers to participate in
17 ride alongs. These events have had strong participation, and we have
18 received great feedback from customers on the value offered at these
19 events.

20

21 Q. As electric vehicles become more popular, how are customers' expectations
22 changing?

23 A. As mentioned previously, Gulf's representatives are viewed by customers
24 as energy experts. Customers value the advice they receive from Gulf
25 personnel. As electric vehicles become more popular, we are seeing an

1 increase in requests for equipment, information and advice. I spoke
2 previously about the customers we have touched through events in this
3 area. In addition to customers who have an interest in the vehicles, we
4 have also seen a response from our commercial customers. As they strive
5 to meet the needs and desires of their customers, they recognize the value
6 to customers of electric vehicle charging. In most cases, these customers
7 look to Gulf to advise them on equipment selection and installation
8 practices. Ultimately, some customers want Gulf, as their energy partner, to
9 own the charging device.

10

11 Q. What actions does the Company propose to take in order to respond to the
12 needs expressed by these customers?

13 A. Our personnel come with great credibility and a track record of providing
14 energy advice that is in the best interest of our customers. While the ET
15 market is new and growing, our role in advising and assisting customers
16 with their energy needs, whether it is electro-technologies or energy
17 sources such as chargers, is tried and true. To support our customers in
18 this area, as Gulf Witness Hodnett discusses in her testimony, we are
19 seeking a depreciation schedule for electric vehicle chargers to allow us to
20 purchase, install and support these devices at customers' locations, behind
21 their electric service meter.

22

23 Q. Gulf Witness McGee discusses a set of proposed rate enhancements for
24 residential customers. How do these improvements fit into the Company's
25 customer strategy?

1 A. These enhancements improve our customers' experience with enhanced
2 service that fits their lives. Control is improved through these
3 enhancements by providing less variation in customers' bills. Significant
4 weather variations can create large swings in customer bills. These
5 fluctuations cause budget hardships and anxiety for many of our customers.
6 During these times, customers reach out to the Company seeking help and
7 understanding in trying to deal with these hardships. The enhanced rate
8 structure will reduce these bill extremes and the resulting customer anxiety.

9
10 Additionally, the enhanced rate structure allows the Company to offer more
11 efficiency options. Because of the lower variable charge (cents per kWh),
12 the Company is able to offer more cost-effective efficiency options to
13 residential customers. Customers who take advantage of these additional
14 offerings will have the opportunity to exercise even more control over their
15 monthly bill. Gulf Witness Floyd speaks in detail to these additional
16 efficiency offerings in his testimony.

17
18 The proposed new rate options offer customers more customization by
19 providing additional rate options from which to choose. While many of our
20 customers value less variation in their bill, some customers are equipped to
21 more closely manage their bill and prefer options that allow them to do so.
22 The two new demand rates open up options for them to consider when
23 determining which rate best fits their lifestyle.

24
25

1 Q. Does Gulf offer lighting products to its customers?

2 A. Yes. Through its Lighting Services organization, Gulf not only installs lighting
3 fixtures, but also partners with our customers to understand their needs and
4 recommend solutions that bring them value. Gulf's Lighting Services
5 organization actively pursues new and innovative lighting solutions that
6 enhance the quality of the lights installed, while at the same time providing
7 more efficient solutions that can help save money and reduce "light pollution."

8

9 Gulf's Lighting Services organization is dedicated to meeting and exceeding
10 the expectations of our customers. During the last two years, in response to
11 customer feedback, we have decreased the time to resolve customer
12 requests from five days to three days. During 2015, our lighting team worked
13 over 23,000 lighting orders, and over 98 percent of those were completed in
14 three days or less.

15

16 Q. Do you have an example of a successful lighting project?

17 A. Yes. Gulf recently completed the installation of special Wildlife Certified
18 Autobahn LED light fixtures at five new pedestrian crosswalks on Perdido
19 Key, one of Gulf's many beachfront communities. These "turtle-friendly"
20 street lights increase pedestrian safety while reducing light pollution that
21 disorients nesting and hatching sea turtles that depend on natural celestial
22 lights to find their way back to the Gulf. The success of this project has led
23 other beachfront customers to turn to Gulf's lighting team to assist in
24 completing similar projects.

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**IV. GULF’S COMMUNITY AND ECONOMIC
DEVELOPMENT BUSINESS UNITS**

Q. Please describe Gulf’s Community and Economic Development organization.

A. Gulf has been engaged in economic development efforts across Northwest Florida and statewide for many years. The objectives of the Economic Development organization are to partner with other state, regional and local community leaders, the Governor’s office, economic development professionals and other interested parties to strengthen the economy of Northwest Florida. All of these efforts focus on cultivating the leadership and business climate necessary for attracting new business and supporting entrepreneurship and existing business expansion in Northwest Florida. This will result in stronger communities, a stronger customer base, and ultimately a stronger state.

Q. How does Gulf support economic development organizations in Northwest Florida and throughout the state?

A. Gulf works very closely with our state and regional economic development organizations to market Northwest Florida as a desired location for businesses. This includes marketing our communities’ assets, such as potential building sites in Northwest Florida, across the country and internationally. We attend trade show missions, conduct inbound and outbound site consultant missions, host prospect visits, cultivate relationships with site selectors and actively help our communities respond

1 to information requests. We also work with and support business
2 incubators across the region and promote statewide programs that
3 encourage new business establishment and business growth.
4

5 Q. What specific programs or activities has Gulf implemented to further
6 economic development in the region?

7 A. In 2013, we launched a site certification program designed to identify and
8 pre-certify large manufacturing sites in Northwest Florida. Alabama,
9 Georgia and Mississippi have over 50 certified sites among them. Because
10 of the rigorous review process undertaken during the certification process,
11 these sites attract the first looks of professional site selectors who are hired
12 by businesses seeking new areas to locate or expand their operations. We
13 are proud to say that because of Gulf's program, Northwest Florida now has
14 nine certified sites. The certification process reviews infrastructure,
15 environmental issues, and other criteria before the site can be certified. This
16 certification often fast tracks the development of the site. Northwest Florida
17 is better positioned with these sites in our toolbox.
18

19 The Company also hosts an annual Economic Symposium to bring
20 business and community leaders, policy makers, and industry experts
21 together to support economic development in Northwest Florida. This event
22 is considered to be Northwest Florida's premier economic development
23 event. The Symposium program includes presentations by subject matter
24 experts, sharing of best practices, and educational topics designed to build
25 partnerships and bridge gaps that will strengthen economic development

1 capacity and the economy of Northwest Florida. The Symposium has
2 hosted speakers of national stature, as well as noted regional and national
3 economic development experts. Past speakers include Governor Rick
4 Scott, Commissioner Adam Putnam, former First Lady Barbara Bush,
5 Secretary of Commerce Gray Swoope, political analyst Joe Scarborough,
6 financial trend analyst Ben Stein, director of the National Entrepreneurial
7 Center Jerry Ross and CEO of International Economic Development
8 Conference Jeffrey Finkle. Attendance at this event has grown significantly
9 each year. More than 600 leaders attended the 2015 event.

10

11 Q. Is Gulf proposing any new economic development initiatives as part of this
12 proceeding?

13 A. Yes. We are seeking to modify our existing experimental economic
14 development rate riders for small, medium and large businesses and are
15 introducing a new rate rider for businesses with a load of 5 MW or greater.

16

17 Q. Please describe the proposed modifications to Gulf's existing experimental
18 economic development rate riders.

19 A Gulf's existing economic development rate riders—the Large Business
20 Incentive Rider, the Medium Business Incentive Rider and the Small Business
21 Incentive Rider (collectively the Riders)—were approved on a pilot basis in
22 connection with the Stipulation and Settlement Agreement which resolved all
23 outstanding issues in Gulf Power's 2013 base rate proceeding. The Riders
24 are due to expire on December 31, 2017. We are seeking to remove the
25 expiration date for the Riders. We are also proposing to (i) eliminate a

1 requirement that customers provide employment audit documentation from
2 the Florida Department of Economic Opportunity; (ii) modify the Riders to
3 allow for expansion of electric loads through existing delivery points; and (iii)
4 modify the employment requirement on the Large Business Incentive Rider.
5

6 Q. Please elaborate on why Gulf proposes to remove the expiration date for
7 the Riders.

8 A. Economic development is typically a long-term proposition. Prospects
9 looking to locate in Northwest Florida go through a long and thorough vetting
10 process before making a final decision. Removal of the expiration date will
11 provide greater certainty that the riders will be available for customers when
12 they are prepared to take service. For example, we have three eligible
13 customers currently in the pipeline for the Riders whose load will not be in
14 service prior to the expiration of the Riders. These three customers would
15 collectively bring 5,585 jobs to Northwest Florida. The Riders have served
16 as useful tools in aiding Gulf's economic development efforts. To date, the
17 Riders have attracted new load representing incremental electricity sales
18 revenue of approximately \$957,123 over the four year incentive period and
19 added 79 full-time equivalent jobs in Gulf's service area. Elimination of the
20 December 31, 2017 expiration date will ensure that Gulf is able to continue
21 these successes.
22

23 Q. Why are you proposing to eliminate the requirement that customers provide
24 employment audit documentation from the Florida Department of Economic
25 Opportunity?

1 A. Audit documentation from the Florida Department of Economic Opportunity
2 (DEO) is the current mechanism used to determine the number of jobs
3 being created. The DEO has informed us that they are not in a position to
4 provide audit documentation concerning employment figures for customers
5 who participate under the Riders. We are, therefore, requesting that this
6 mechanism be removed and replaced with a requirement that participating
7 customers provide annual attestation that they have met the applicable
8 employment requirement.

9

10 Q. Please address your request to modify the Riders to allow for expansion of
11 electric loads through existing delivery points.

12 A. The Riders currently do not apply to the provision of electric service through
13 existing delivery points. This means that existing customers desiring to
14 expand operations in our service area cannot qualify for the Riders without
15 installing a new delivery point (i.e., meter). Installation of a new metering
16 point can be expensive and, depending on the configuration of the
17 customer's electrical system, difficult. Gulf's proposal removes this barrier
18 to participation.

19

20 Q. What modifications are you seeking to the employment requirement for the
21 existing Large Business Incentive Rider?

22 A. This rider currently requires the prospective customer to have 25 full-time
23 employees per 1,000 kW of qualifying load. Numbers of employees are not
24 necessarily correlated to the load of a prospective customer. Data center
25 and high-tech manufacturing are examples of industries that do not have

1 large numbers of employees, but the number of employees and the amount
2 of load are not correlated. This requirement has proven to be a barrier as
3 some large, capital intensive projects such as manufacturing facilities may
4 not produce a large number of employees. The indirect multiplier effect on
5 manufacturing, however, is seven additional jobs for every one
6 manufacturing job created. We propose that the employment requirement
7 for this rider be changed to a flat 50 full-time employees.

8
9 Q. You also mentioned introduction of a new economic development rate rider
10 for larger businesses. What is the Company proposing in that regard?

11 A. We are seeking approval of an Extra-Large Business Incentive Rider. This
12 rider will be available to customers greater than 5 MW in size. It will include
13 a ten year declining credit schedule, as discussed by Gulf Witness Evans.
14 Similar to the proposed employment requirement for Gulf's existing Large
15 Business Incentive Rider, the employment requirement for this new rider will
16 be a flat 50 jobs. As with the other business incentive riders, customers
17 must provide an affidavit verifying that the availability of this Rider was a
18 significant factor in their decision to request service from Gulf Power.

19
20 Q. Why is Gulf proposing an Extra-Large Business Incentive Rider?

21 A. Gulf is proposing this rider to help better attract large business prospects to
22 Northwest Florida. Capital investments for a facility of 5 MW or greater are
23 typically substantial, and the competition to secure these prospects is
24 particularly high. Our experience with large business prospects has taught
25 us that they are aggressively seeking long-term commitments from

1 communities in which they choose to locate. Based on this experience, we
2 are confident that the proposed offering, with its attendant ten year declining
3 credit schedule, will be an especially effective tool for securing these
4 prospects.

5
6 Q. Can you provide any examples of how Gulf's existing economic
7 development initiatives have been successful to date?

8 A. Over the past three years, 9,919 new jobs were brought to Northwest
9 Florida as a result of our economic development activities. Specific
10 examples of recent successes include an expansion of 5,000 jobs at a
11 national financial services center by the year 2020. Additionally, an aircraft
12 maintenance, repair and overhaul (MRO) facility is locating in the Pensacola
13 area. The aircraft MRO facility is expected to be operational by the fall of
14 2017 creating 404 jobs.

15
16
17 **V. MEASURING GULF'S CUSTOMER SATISFACTION**

18
19 Q. How do you measure the value of service that Gulf provides to customers?

20 A. Gulf's customer facing employees seek every opportunity to solicit feedback
21 from customers as we interact with them on the phone, on the web, in our
22 offices or in their homes and businesses. These informal channels of
23 feedback are an important aspect to how we continually look for ways to
24 better meet their needs.

25

1 One of the Company's stated goals is to be in the upper quartile in customer
2 value when measured against a peer group of utilities. Gulf utilizes a
3 sophisticated research tool to make these comparisons. This proprietary
4 tool, known as the Customer Value Benchmark (CVB), allows the Company
5 to compare and contrast itself against a group of 16 peer utilities in the
6 Southeast and nationally. The participants in the peer group are identified
7 in Schedule 2 of my exhibit. With the CVB, customer value is measured in
8 three customer segments: large business, general business and
9 residential.

10
11 A third party research firm conducts the research for the residential and
12 general business segments by surveying a random sampling of customers
13 in each segment for Gulf and each company in the peer group. Selected
14 customers are called and asked a set of questions based on a pre-
15 determined set of key performance indicators. For the residential segment,
16 online surveys are also conducted.

17
18 For large business customers, data for the CVB is collected through a
19 syndicated study. Large business customers who meet the survey criteria
20 are called and asked a similar set of questions. In the large business
21 segment, the goal is to survey all qualifying customers of the Company and
22 each of the companies in the peer group.

23
24 Q. Where does Gulf rank when compared to the peer utilities in the survey you
25 described?

1 A. As shown in Schedule 2 of my exhibit, Gulf was the number one ranking
2 utility overall. Gulf's overall top quartile performance has been consistent
3 since 2000. We are proud of our performance when compared to the peer
4 utilities across the country. This outstanding performance is a testament to
5 the focus Gulf's employees maintain on exceeding customers' expectations
6 each and every day.

7

8 Q. What other ways does Gulf measure success as it relates to customer
9 satisfaction?

10 A. Gulf continually seeks opportunities to find innovative ways to better meet our
11 customers' needs. To that end, in addition to the CVB, we perform monthly
12 Active Customer Surveys with customers who had a recent contact with the
13 Company. The results of the active surveys are used to identify targeted
14 process improvements that improve our customers' overall experience. For
15 example, in 2012, Active Customer Survey results demonstrated that
16 customers were dissatisfied with the amount of time it took for the Company
17 to resolve lighting requests. Gulf has a five day commitment to resolve
18 lighting requests. The data demonstrated that Gulf was meeting our five day
19 commitment in nearly every instance. Even though the commitments were
20 being met, customers were left dissatisfied. While maintaining a commitment
21 of five days for resolution, the Company's lighting team began an endeavor to
22 resolve most requests within 3 days. During 2015 over 98 percent of all
23 lighting requests were resolved in 3 days or less.

24

25

1 Gulf’s commitment to customer satisfaction is further demonstrated by the
 2 fact that customer complaints to the Commission have remained low. We
 3 take seriously our commitment to resolving any concerns raised by our
 4 customers. In all cases where a customer has a concern about the service
 5 they receive from the Company, we endeavor to promptly and thoroughly
 6 resolve their concern to their satisfaction. Our success in this area is
 7 demonstrated by consistently low complaint activity as shown in Schedule 6
 8 of my exhibit.

9
 10 Surveys and all other customer contacts also help Gulf measure its success
 11 with developing and delivering products and services. We are proud of our
 12 record, and the customer value and satisfaction scores bear out that we are
 13 successful in meeting the needs of our customers.

14
 15
 16 **VI. GULF’S BUDGET PROCESS**

17
 18 Q. Please describe the O&M budget process for your area of responsibility.

19 A. Gulf’s Corporate Planning department prepares a Budget Message that is
 20 distributed to all functional areas. The Budget Message is intended to provide
 21 a budget guideline for preparing the five year budget cycle request.

22
 23 The five-year O&M budgets related to my areas of responsibility are
 24 developed from the bottom up. The managers and supervisors in the districts
 25

1 and corporate functions first develop budgets with the goal of maintaining
2 high customer satisfaction as described in my testimony.

3
4 As managers and supervisors develop their five-year budget proposals, they
5 take into account any known factors that will affect their O&M needs during that
6 period. Their budgets are then submitted to a centralized budget team. The
7 budget team consolidates all of the information and submits a proposal to the
8 department heads. Once the department heads are satisfied that their O&M
9 budgets are reflective of their needs, I meet with my entire leadership team to
10 discuss the O&M budget. At this point in the review process, it is my intention
11 to ensure the most critical needs are met across the organization. In the event
12 there are funding constraints, the leadership team discusses risks associated
13 with projects and prioritizes projects to help ensure the most critical issues are
14 included in the O&M budget. Lastly, the budget is passed to Gulf's Corporate
15 Planning department. Gulf Witness Mason discusses the budget process that
16 takes place after Corporate Planning receives the O&M budget.

17
18 In addition to the rigorous budget approval process, Gulf also follows a
19 detailed process for monitoring and managing current year expenses. Each
20 month actual costs are closely reviewed and any variance to budget is
21 documented. Also, as part of this process, projections are made for the
22 next month and for year end. Actual costs, variance documentation as well
23 as projections are reviewed by me and my leadership team. If expenses
24 are projected to exceed the budget, approval is obtained from executive
25

1 management and then communicated to the Corporate Planning
2 department.

3

4

5

VII. REGULATORY ADJUSTMENTS

6

7 Q. Are there any regulatory adjustments being made to the test year in your
8 areas of responsibility?

9 A. Yes. Adjustment 7 shown on Schedule 4 of Exhibit SDR-1 and discussed in
10 the testimony of Gulf Witness Ritenour was made to reflect an increase in
11 revenues as a result of electric vehicle chargers that will be billed to
12 customers. As discussed previously in my testimony, these chargers will be
13 purchased by Gulf and installed on customers' property, behind their
14 meters.

15

16 Adjustment 28 shown on Schedule 4 of Exhibit SDR-1 and discussed in Ms.
17 Ritenour's testimony was made to reflect an expected decrease in
18 expenses associated with a workforce reduction resulting from the
19 installation of kiosks in Gulf's business and local offices. As I discussed
20 previously, the kiosks will offer payment services to our customers,
21 offsetting the need for some of the customer service representatives in our
22 business and local offices.

23

24 As shown on Schedules 2 and 4 of Exhibit SDR-1, Ms. Ritenour made
25 adjustments to remove net investment and expenses associated with capital

1 dollars budgeted for 2016 and 2017 to build a new business office in the
2 Pensacola area. The Company has decided not to build the office at this
3 time. These adjustments also include the net investment and expenses
4 associated with additional capital dollars budgeted for 2016 and 2017
5 necessary for Gulf to make changes to the Company's business offices to
6 accommodate the installation of kiosks for customer payments. As
7 previously discussed, these kiosks are being installed to meet the changing
8 needs of customers and enhance their customer experience by increasing
9 options and flexibility with payments.

10
11
12 **VIII. GULF'S CUSTOMER ACCOUNTS O&M EXPENSES**

13
14 Q. What is Gulf's Customer Accounts O&M budget for 2017?

15 A. Gulf's Customer Accounts O&M expenses for 2017 are projected to be
16 \$27,730,000.

17
18 Q. Are Gulf's projected levels of Customer Accounts O&M expenses of
19 \$27,730,000 in 2017 reasonable and prudent?

20 A. Yes. The expenses represented in the 2017 budget are reasonable and
21 prudent and were arrived at through Gulf's robust budget process, as
22 described in detail previously in my testimony. These expenses provide the
23 services necessary for our customers to conveniently connect or disconnect
24 service, initiate other service requests, report an outage, make payments or
25 payment arrangements and the many other services previously described in

1 my testimony. These services are essential for customers to be in control of
2 their bill and overall energy purchases. Furthermore, these expenses are
3 necessary for Gulf to maintain our strong history of customer satisfaction.
4

5 Q. Is Gulf's projected level of Customer Accounts O&M expenses of
6 \$27,730,000 in 2017 representative of a going forward level of Customer
7 Accounts O&M expenses beyond 2017?

8 A. Yes. As shown in Exhibit BCT-1, Schedule 3, Page 1, the projected level of
9 Customer Accounts O&M expenses of \$27,730,000 is representative of
10 future periods.
11

12 Q. Please describe the Customer Accounts O&M expenses included in the
13 2017 test year.

14 A. The Customer Accounts test year expenses are represented in three
15 categories: \$22,546,000 for Customer Service, \$1,190,000 in Metering and
16 \$3,994,000 in Uncollectible expenses.
17

18 Q. Please describe expenses in Gulf's Customer Service category.

19 A. The Customer Service category includes expenses related to supervision,
20 administration, billing, dispatch, facilities, Information Technology (IT) and
21 telecommunications, district local offices, collections, training, field service
22 and the Customer Care Center.
23
24
25

1 Q. Please describe Gulf’s Metering category.

2 A. Metering includes expenses related to obtaining meter readings for billing
3 purposes, administering and maintaining meters. Some of the major
4 expenses are related to labor, fleet service and IT. Maintaining and
5 administering meters is essential for billing customers.

6
7 Q. Please describe Gulf’s Uncollectibles category.

8 A. Uncollectibles includes amounts written off when customers leave a debt
9 unpaid on an inactive service account. The Uncollectibles category is
10 described further in section “XII. Uncollectibles” of my testimony.

11
12 Q. The Commission has historically employed an O&M benchmark calculation
13 in base rate proceedings. How do Gulf’s Customer Accounts O&M
14 expenses forecasted for 2017 compare to the O&M benchmark level of
15 Customer Accounts expenses?

16 A. When compared to the O&M benchmark, Gulf’s forecasted Customer
17 Accounts expenses for 2017 are \$365,000 under the benchmark.

18
19
20 **IX. GULF’S CUSTOMER SERVICE AND**
21 **INFORMATION O&M EXPENSES**

22
23 Q. What is Gulf’s Customer Service and Information (CS&I) O&M budget for
24 2017?

25 A. Gulf’s CS&I O&M expenses for 2017 are projected to be \$16,983,000.

1 Q. Are Gulf's projected levels of CS&I O&M expenses of \$16,983,000 in 2017
2 reasonable and prudent?

3 A. Yes. The expenses represented in the 2017 test year are reasonable and
4 prudent and were arrived at through Gulf's robust budget process, as I
5 described in detail previously in my testimony. These expenses are
6 necessary to support customer serving functions in Marketing and Sales
7 that build strategic partnerships with Gulf's key customers, provide valuable
8 lighting and energy services, promote innovative product and service
9 offerings and provide customers with expert advice on managing their
10 energy usage. These activities add value to Gulf's customers and ensure
11 continued levels of high customer satisfaction.

12

13 Q. Is Gulf's projected level of CS&I O&M expenses of \$16,983,000 in 2017
14 representative of a going forward level of CS&I O&M expenses beyond
15 2017?

16 A. Yes. As shown in Exhibit BCT-1, Schedule 3, Page 2, the projected level of
17 CS&I O&M expenses of \$16,983,000 is representative of future periods.

18

19 Q. Please describe the CS&I O&M expenses included in the 2017 test year.

20 A. The CS&I O&M expenses included in the 2017 test year include \$1,660,000
21 for Supervision, \$14,768,000 for Customer Programs and Services and
22 \$555,000 in Advertising.

23

24

25

1 Q. Please describe the expenses included in Gulf's Supervision category.

2 A. The Supervision category includes labor and associated expenses for the
3 supervisory and administrative functions that support Gulf's CS&I
4 organization.

5

6 Q. Please describe the activities included in Gulf's Customer Programs and
7 Services category.

8 A. Customer Programs and Services includes labor and associated expenses
9 for Gulf's District Energy Sales and Efficiency, Major Accounts, Lighting
10 Services, Energy Efficiency and Renewables, Innovation and Sales and
11 Marketing Services functions. Additionally, this category includes
12 operational expenses necessary for customer programs such as lighting,
13 our high efficiency home program (EarthCents Home) and Energy Services.

14

15 Q. Please describe the activities included in Gulf's Advertising category.

16 A. Advertising includes appropriate expenses associated with Gulf's
17 advertising targeted at educating and informing customers about products
18 and services available to them as well as how to use energy efficiently.

19

20 Q. The Commission has historically employed an O&M benchmark calculation
21 in base rate proceedings. How do Gulf's CS&I O&M expenses forecasted
22 for 2017 compare to the O&M benchmark level of CS&I expenses?

23 A. Gulf's 2017 forecasted level of expenses are \$4,617,000 under the O&M
24 benchmark.

25

X. GULF'S SALES O&M EXPENSES

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Q. What is Gulf's Sales Expense O&M Budget for 2017?

A. Gulf's Sales expenses for 2017 total \$1,156,000.

Q. Are Gulf's projected levels of Sales O&M expenses of \$1,156,000 in 2017 reasonable and prudent?

A. Yes. The expenses represented in the 2017 budget are reasonable and prudent and were arrived at as a result of Gulf's robust budget process.

These amounts represent 95 percent of the allowable economic development expenses that the Company has budgeted for the period. As shown on Schedule 3, Page 3 of Exhibit BCT-1, the 2017 budgeted Sales expenses include the following major activities: \$112,000 for Administrative expenses and \$1,044,000 for Programs and Incentives.

Q. Please describe the activities included in Gulf's Administration category.

A. The Administrative category includes expenses for labor associated with economic development activities, information technology expenses and other miscellaneous expenses (e.g., travel, office supplies, etc.)

Q. Please describe the activities included in Gulf's Programs and Incentives category.

A. The Customer Programs and Expenses category includes sponsorships for project development efforts conducted by local, regional and state economic development agencies and organizations. These project development

1 efforts promote Northwest Florida through targeted marketing, site
2 evaluations and development partnership events. It also includes expenses
3 associated with Gulf's annual Economic Symposium.
4

5 Q. Is Gulf's projected level of Sales O&M expenses of \$1,156,000 in 2017
6 representative of a going forward level of Sales O&M expenses beyond
7 2017?

8 A. Yes. As shown in Exhibit BCT-1, Schedule 3, page 3, the projected level of
9 Sales O&M expenses of \$1,156,000 is representative of future periods.
10

11 Q. Are Gulf's Sales expenses consistent with FPSC Rule 25-6.0426 and
12 section 288.035, Florida Statutes?

13 A. Yes. Gulf's Sales expenses are consistent with FPSC Rule 25-6.0426 and
14 section 288.035, Florida Statutes.
15

16 Q. How do Gulf's Sales expenses forecasted for 2017 compare to the O&M
17 benchmark level of Sales expenses?

18 A. When compared to the benchmark, Gulf's 2017 expenses are \$74,000 over
19 the benchmark.
20

21 Q. Please explain the increase in 2017 test year expenses of \$74,000 when
22 compared to the O&M benchmark.

23 A. This increase is due to the addition of an Economic Development analyst
24 position. This position is necessary to provide a variety of research and
25 analysis essential in supporting the Company's economic development

1 function. This position performs research on talent availability,
2 demographics, site readiness factors, quality of life indicators and many
3 other variables that are necessary when working with prospective
4 customers. This position coordinates site visits and serves as the central
5 point in developing economic development packages for local economic
6 development partners. This position actively engages in the recruitment of
7 retail and commercial businesses to the region and cultivates relationships
8 with the commercial brokerage community. This position also administers
9 the Riders previously discussed in my testimony.

10

11

12 **XI. GENERAL PLANT EXPENDITURES**

13

14 Q. Are you responsible for any General Plant expenditures?

15 A. Yes. While Ms. Ritenour discusses General Plant in her testimony, I am
16 responsible for General Plant expenditures that are related to customer
17 service activities.

18

19 Q. What components of General Plant expenditures are related to customer
20 service?

21 A. There are four projects shown on Schedule 23 of Exhibit SDR-1 in Ms.
22 Ritenour's testimony that fall into my area of responsibility. They are listed
23 as "CSS Data Integration Hub Architecture," "On Line Customer Care,"
24 "Customer Kiosks" and "Gulf Smart Energy Center."

25

1 Q. Please describe these projects in more detail.

2 A. The first two projects, "CSS Data Integration Hub Architecture" and "On Line
3 Customer Care" both involve software enhancements for Gulf's customer
4 information system. General Plant expenditures of \$127,000 in 2016 for
5 "CSS Data Integration Hub Architecture" and \$400,000 in 2016 and
6 \$100,000 in 2017 for "On Line Customer Care" are included as test year
7 expenditures. These enhancements provide necessary longevity and new
8 and upgraded functionality for supporting Gulf's customers primarily when
9 they utilize the OCC tool for accessing available self-service options from
10 the Company's website.

11

12 In addition to the software upgrades, the third project, "Customer Kiosks,"
13 includes the capital expenditures required to purchase kiosks for our local
14 offices. The capital expenditures of \$974,000 for 2016 and \$598,000 for
15 2017 associated with this project are shown on Schedule 23 of Exhibit SDR-
16 1 in Ms. Ritenour's testimony. As I previously discussed in my testimony,
17 these kiosks offer Gulf's customers more flexibility and help to meet their
18 changing needs.

19

20 Finally, the fourth project, "Gulf Smart Energy Center," includes \$4,000,000
21 of capital expenditures for the construction of Gulf's Smart Energy Center.
22 Gulf's Smart Energy Center will offer customers hands-on demonstrations
23 where they can learn about the benefits of efficient electric end-use
24 technologies as well as energy efficiency products and improvements. The
25 Smart Energy Center will showcase everything from electric transportation,

1 comfort systems, cooking technologies and energy efficiency ideas for
2 homes and businesses all under one roof. Customers will be able to not
3 only hear about available technologies, but be able to see them in action.
4

5 Q. Are the expenditures associated with these projects reasonable and
6 prudently incurred?

7 A. Yes. These projects directly support the Company's efforts to provide
8 customers with service to fit their lives. Enhanced self-service options,
9 increased flexibility, real life demonstrations and access to services at times
10 and locations convenient to our customers are essential to maintaining
11 Gulf's long-standing history of superior customer service.
12
13

14 XII. UNCOLLECTIBLES

15

16 Q. What level of Uncollectibles expense did Gulf include in the 2017 test year?

17 A. Gulf included \$3,994,000 of Uncollectibles expense in the 2017 test year.
18 The 2016 budgeted Uncollectibles is \$3,891,540. These amounts are
19 reflected in Exhibit BCT-1, Schedule 3, Page 1.
20

21 Q. What level of write-offs does Gulf project in 2017?

22 A. Gulf projects write-offs for 2017 to be 0.2499 percent of revenues, the
23 product of a 4 year historical average. This methodology is consistent with
24 the method the Commission used in Gulf's 2012 test year rate case as set
25 forth in Order No. PSC-12-0179-FOF-EI.

XIII. SERVICE FEES

1

2

3 Q. Please identify Gulf's service fees currently in place.

4 A. Gulf's current service fees are shown in Exhibit BCT-1, Schedule 5.

5

6 Q. Is Gulf proposing adjustments to the Company's customer service fees?

7 A. No, Gulf is not proposing changes to the Company's customer service fees.

8

9

XIV. SUMMARY

10

11

12 Q. Ms. Terry, please summarize your testimony.

13 A. Gulf continues to maintain a solid reputation of exceptional customer
14 service and a consistent dedication to the health and growth of the
15 communities that we serve. The Company's team of customer-facing
16 employees in both Customer Service and Marketing and Sales are
17 committed to meeting and exceeding those customer expectations.

18

19 We recognize that our customers' expectations are evolving. Customers
20 expect convenience, customization and control. We must provide service
21 that fits the lives of our customers. As I have described in my testimony,
22 Gulf continues to bring solutions that meet those expectations. Our CCC,
23 the most common touch point for customers, has implemented technology
24 to enhance the customer's experience and allow them to control how they
25 interact with the Company. Our business and local offices are evolving by

1 using technology to increase options and convenience for customers when
2 making payments. We are deploying solutions for commercial customers
3 providing them information that is easily accessible and important in making
4 business decisions.

5
6 Our skilled Marketing and Sales team meet customers in their homes and
7 businesses to understand and make customized recommendations for how
8 to manage their energy purchases. As I previously described, we not only
9 meet customers' needs, but seek to exceed their expectations with each
10 interaction. Gulf has a long standing history of innovation. We continue to
11 build on that reputation by bringing innovative products and services to our
12 customers. All of these activities are key to maintaining the trust that we
13 have built with our customers. We understand that our success is
14 dependent upon building and maintaining that relationship.

15
16 Gulf Power continues to focus on the important role that we have in the area
17 of economic development. Successful economic development activities result
18 in stronger communities, a stronger customer base and ultimately a stronger
19 state. Gulf's success in this area, including nine certified sites and over 9,000
20 jobs brought to Northwest Florida demonstrates our commitment to concrete
21 results in this area.

22
23 Gulf Power's dedication to our customers is not just evident in the words we
24 use, but also in the results that we achieve. We have a long standing
25 record of superior customer service even when compared to our peers.

1 The O&M expenses described in my testimony are carefully budgeted,
2 controlled and utilized in a manner to ensure value is provided to our
3 customers and satisfaction remains at very high levels. The \$27,730,000
4 budgeted in Customer Accounts, the \$16,983,000 budgeted in Customer
5 Service and Information, and the \$1,156,000 budgeted in Sales in the test
6 year are reasonable, prudent and necessary expenses and are
7 representative of the levels that will continue to be incurred in the future
8 when new rates resulting from this case are in effect.

9

10 The General Plant expenditures I described in my testimony are necessary
11 for continuing to provide service that fits the lives of our customers. These
12 expenditures are reasonable and prudently incurred.

13

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

15 A. Yes.

16

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GULF POWER COMPANY
Before the Florida Public Service Commission
Direct Testimony of
Wendell E. Smith
Docket No. 160186-EI
In Support of Rate Relief
Date of Filing: October 12, 2016

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

A. My name is Wendell Smith. My business address is One Energy Place, Pensacola, Florida 32520. I am Power Delivery Vice President of Gulf Power Company (the Company, Gulf Power, or Gulf).

Q. What are your responsibilities as Power Delivery Vice President?

A. I provide executive leadership over the Power Delivery function at Gulf, which includes Transmission, Distribution, Supply Chain Management, Safety and Health, and Customer Operations Support. I oversee the development and implementation of initiatives, goals, and performance indicators for each of the functional areas of Power Delivery. My responsibilities include promoting safety as a core value throughout Power Delivery, setting expectations and holding employees accountable for working safely every day. In addition to safety, special emphases are placed on the promotion of customer value and increased customer satisfaction, electric service reliability, workforce productivity and employee development, and effective management of budgets.

1 Q. Please state your prior work experience and responsibilities.

2 A. I joined the Southern Company at Georgia Power Company in March 1984.
3 I have held a variety of positions within Georgia Power Company including
4 Distribution Engineer; Construction and Maintenance General Manager;
5 Distribution and Operations General Manager; Transmission Construction
6 Manager; and numerous other positions. I was elected Gulf Power
7 Company Power Delivery Vice President in March 2014.

8

9 Q. What is your educational background?

10 A. I have a Bachelors of Science degree in Electrical Engineering from the
11 Georgia Institute of Technology.

12

13 Q. What is the purpose of your testimony?

14 A. My testimony provides a brief overview of the Company's Power Delivery
15 business functions directly involved in the delivery of electric service to our
16 customers. My testimony discusses Gulf's transmission and distribution
17 systems and the processes we use to manage the systems' assets. I
18 explain our current transmission and distribution investment and its
19 usefulness in maintaining reliable service to our customers. I discuss Gulf's
20 transmission and distribution capital expenditures for the years 2013
21 through 2017 and projected operation and maintenance (O&M) expenses
22 for the 2017 test year. My testimony then addresses Gulf's transmission
23 and distribution system performance and its impacts on customer
24 satisfaction.

25

1 Q. Are you sponsoring any exhibits?

2 A. Yes, I am sponsoring Exhibit WES-1, consisting of 10 schedules. Exhibit
3 WES-1 was prepared under my direction and control, and the information
4 contained therein is true and correct to the best of my knowledge and belief.

5

6 Q. Are you sponsoring any of the Minimum Filing Requirements (MFRs)
7 submitted by Gulf?

8 A. Yes, I am sponsoring the MFRs listed on Schedule 1 of Exhibit WES-1. The
9 information contained on the MFRs I sponsor is true and correct to the best
10 of my knowledge and belief.

11

12

13

I. GULF'S POWER DELIVERY

14

15 Q. Please discuss the role of Power Delivery at Gulf.

16 A. Our customers are at the center of everything we do. Gulf delivers electric
17 service to our customers around the clock. As a result, certain functions in
18 Power Delivery must be staffed 24 hours a day, 7 days a week in order to
19 operate the electric network effectively and respond to customer needs when
20 they arise.

21

22 Gulf's Power Delivery team is comprised of five distinct functions:

23 Transmission, Distribution, Supply Chain Management, Safety and Training,
24 and Customer Operations Support. Transmission's function is to deliver
25 power from generating sources to the distribution substations through lines

1 and substations at voltages of 46 kV, 115 kV, and 230 kV. Distribution
2 receives electric power from Transmission and steps down the voltage to 12
3 kV or 25 kV for providing service from the distribution substations to the
4 customer's metering point. Supply Chain Management provides
5 procurement, contracts, inventory management, and materials support for
6 Gulf. Safety and Training develops safety and training programs and
7 provides oversight of the Company's overall safety and training functions.
8 Customer Operations Support is responsible for the effective management
9 of budgets and business controls.

10

11 Q. Please describe Gulf's commitment to safety.

12 A. Gulf's first priority is the safety of employees and the customers we serve.
13 Gulf's corporate safety program, Target Zero, is based on the expectation
14 that employees experience zero unsafe acts both while on the job and off
15 duty. Employees participate in general and job specific safety training,
16 weekly safety meetings, website safety topics, and other safety related
17 resources and wellness programs for personal health and wellbeing.

18

19 Q. Please provide an overview of Gulf's service area.

20 A. Gulf Power serves customers in a significant portion of eight counties: Bay,
21 Escambia, Holmes, Jackson, Okaloosa, Santa Rosa, Walton, and
22 Washington. These counties cover approximately 7,550 square miles and
23 encompass 71 towns and communities in Northwest Florida. Gulf's service
24 area spans from the Alabama border, 153 miles to the east, and from the
25 Northwest Florida coast of the Gulf of Mexico, north to the Alabama/Florida

1 border. Gulf's customer base includes approximately 450,000 residential,
2 commercial, and industrial customers located in three districts: Pensacola,
3 Ft. Walton, and Panama City.

4

5 Q. Are there any distinctive aspects or characteristics of Gulf's service area
6 that affect Gulf's Power Delivery system?

7 A. Yes. There are geographic and climatic characteristics that affect Gulf's
8 service area and the Power Delivery system.

9

10 A significant part of Gulf's service area is adjacent to coastal waters and
11 numerous natural bays, intra-coastal waterways, rivers and wetlands. This
12 subjects Gulf's Power Delivery system to the effects of salt contamination
13 and tropical weather impacts. Tropical weather impacts consist of storm
14 surge up to 20 feet or more and high winds. A map showing the potential
15 wind field impacts is included on Exhibit WES-1, Schedule 2. The wind
16 loading lines on the drawing are based on the National Electric Safety Code
17 extreme wind loading standards. These impacts have resulted in Gulf
18 adopting more stringent standards and specifications for its material and
19 equipment. For example, Gulf has adopted the more stringent Grade B
20 construction standard for all new distribution facilities and the use of
21 stainless steel transformers in coastal regions to minimize the adverse
22 effects from salt contamination and corrosion.

23

24 Another distinctive characteristic of Northwest Florida that affects Gulf's
25 Power Delivery system is the frequency of lightning strikes. Vaisala's

1 National Lightning Detection Network (NLDN) indicates that the cloud to
2 ground lightning incident rate in Northwest Florida is among the highest in
3 the nation. See Exhibit WES-1, Schedule 3. To address this high incidence
4 of lightning strikes, Gulf's design standards and specifications require an
5 increased number of lightning arrestor installations and associated
6 grounding enhancements.

7
8
9 **II. TRANSMISSION SYSTEM AND MANAGEMENT**

10
11 Q. Please provide an overview of Gulf's transmission facilities.

12 A. Gulf's transmission facilities consist of approximately 1,670 miles of lines,
13 which are operated at 230 kV, 115 kV and 46 kV, an increase of 70 miles
14 since Gulf's 2012 test year rate case. The Company's 230 kV systems
15 include approximately 595 miles of line, an increase of 158 miles since
16 Gulf's 2012 test year rate case. Gulf's 115 kV systems are made up of
17 approximately 1,020 miles of line, a decrease of 40 miles since Gulf's 2012
18 test year rate case. Gulf also has a 46 kV system that consists of
19 approximately 56 miles of line, a decrease of 58 miles since Gulf's 2012 test
20 year rate case. The decreases in the 115 kV and 46 kV are the result of
21 upgrades to higher voltage lines. The system (all of the lines regardless of
22 voltage) is connected through approximately 130 substations that provide
23 power to our customers.

1 Q. Please describe Gulf's method for oversight and management of its
2 transmission system.

3 A. Gulf manages the transmission system through five major functions:
4 planning, design, construction, operations, and maintenance. Through each
5 of these functions, we provide the oversight needed to ensure that Gulf
6 maintains reliable service to our customers.

7

8 Q. Please describe the transmission planning process.

9 A. A primary objective of the transmission planning process is to identify
10 system constraints that could impact Gulf's ability to maintain reliable
11 service to its customers in sufficient time to develop the optimal solution and
12 complete the project. Gulf develops a 10-year plan based on load
13 forecasting and other operational considerations. The transmission system
14 is planned to meet the needs during peak system conditions while
15 considering various contingency scenarios so that lines or equipment do not
16 experience overloads or other system constraints. Planning must allow
17 enough time for design and construction activities to be completed, thus
18 ensuring the system can continuously meet our customers' needs.

19

20 The planning process identifies limiting elements (lines, transformers,
21 breakers or other equipment) where overloads may occur based on the
22 studied loading, generation and contingencies for the various scenarios. In
23 addition to identifying equipment or facility overloads, the planning studies
24 also identify other reliability and system stability issues related to area
25 voltage support and generation impacts. Gulf's planning process meets the

1 applicable requirements of the North American Electric Reliability
2 Corporation (NERC) standards and the Southeastern Electric Reliability
3 Corporation (SERC) standards.

4
5 Gulf's entire transmission system is studied annually, and the 10-year plan
6 is revised accordingly. This 10-year plan includes the potential solutions
7 and scope for transmission projects, along with the estimated budget
8 requirements for all transmission system improvement needs. This plan is
9 reviewed by me and approved annually by the Transmission General
10 Manager.

11
12 Q. Please describe the transmission design process.

13 A. With a solution and scope determined, the final design work can begin.
14 Because of the specialized expertise needed, Gulf utilizes the resources of
15 Southern Company Services (SCS) for engineering design work. This
16 allows Gulf to take advantage of the experience SCS has developed from
17 its engineering work on projects for other Southern Company operating
18 companies. This helps to ensure the designs have been tested and, where
19 needed, best practices are incorporated. The Southern Company
20 Transmission Design and Maintenance Support (SCTD&MS) group is Gulf's
21 primary resource for the design work on transmission projects. Gulf has the
22 ultimate responsibility and oversight for the design and works closely with
23 the designers to ensure customers receive a quality product and that the
24 designs meet our needs. Using SCTD&MS as the design resource for
25 transmission projects allows for a standardization of design, equipment and

1 materials on the Southern Company system. This standardization results in
2 cost savings to Gulf and its customers. Additionally, we are able to use the
3 expertise from SCTD&MS to incorporate the latest advancements in
4 designs and technology. Through the design process, estimates for the
5 project are revised, as appropriate, based on a more detailed engineering
6 analysis of the scope and construction needed. The use of SCS and
7 SCTD&MS to provide transmission modeling and design services are
8 examples of the benefits Gulf's customers receive through Gulf's affiliation
9 with the Southern Company.

10

11 Q. Please describe the transmission construction phase.

12 A. Gulf is responsible for all construction activities to ensure the transmission
13 projects are completed according to budget and schedule targets. The
14 Company utilizes external contract construction resources to complete
15 almost all of the transmission construction. The use of contract construction
16 resources allows Gulf to vary the number and type of crew and equipment
17 according to the amount of work being performed and the needs of the
18 specific projects.

19

20 Gulf also has a rigorous inspection program for all projects to ensure its
21 transmission facilities are constructed as designed and are built with the
22 quality needed to provide reliable service. The Company uses Gulf Power
23 Transmission employees to manage the contractors, the inspection
24 process, and quality. Beyond quality control, these Company employees
25 control project scope and costs, and ensure that project deadlines are met.

1 Q. Please describe the transmission operations function.

2 A. After construction, the new facilities are incorporated into the existing
3 system for operations. Gulf maintains an operations center, the
4 Transmission Control Center (TCC), in Pensacola to perform this function.
5 The TCC operates 24 hours a day, 7 days a week, and it is staffed with Gulf
6 employees who monitor and operate our transmission system. Through the
7 TCC, Gulf ensures reliable power and facilitates planned outages on
8 components for construction or maintenance activities. Gulf's operators are
9 NERC certified and are qualified to make critical decisions as contingencies
10 develop.

11

12 The TCC uses an Energy Management System (EMS) to monitor the
13 transmission system and to operate devices in the field to control power
14 flow as needed. The EMS is critical to ensure the operators are aware of
15 field conditions and can make adjustments to mitigate contingencies. The
16 EMS provides a digital display of Gulf's lines and substations, along with
17 data about voltages, current and power flows. This system also provides
18 alarms to indicate when and where there is trouble with system equipment
19 and other facilities.

20

21 Q. What is the process for maintaining Gulf's transmission facilities?

22 A. All facilities are incorporated into our transmission maintenance programs.
23 The goals of Gulf's transmission maintenance programs are to provide
24 reliable operations for our customers and to optimize the life of the
25 transmission assets. These programs generally consist of an inspection

1 process that drives a repair program. The repair program is based on
2 issues or abnormal conditions documented during the inspection or
3 otherwise discovered. A preventative maintenance program is optimized for
4 each type of equipment or facility, and maintenance is scheduled based on
5 both manufacturer’s recommendations and historical trends with similar
6 equipment or facilities.

7
8

9 **III. TRANSMISSION CAPITAL**
10 **ADDITIONS BUDGET PROCESS**

11

12 Q. Please describe the Transmission Capital Additions Budget process.

13 A. The Capital Additions Budget for Transmission is developed and updated
14 annually. All Capital Additions are budgeted through Project Expenditure
15 (PE) requests that document the need for and details of the budget items.
16 There are two types of PE requests: Blanket PEs and Specific PEs. Blanket
17 PEs reflect repetitive expenditures based on inspection data as well as
18 knowledge of the system and equipment. Blanket PEs includes items such
19 as poles, arms, conductors, breakers, regulators and transformer
20 replacements, as well as protection system replacement projects. Specific
21 PEs addresses larger projects and may cover multiple years to allow for
22 project development, design and construction.

23

24 There are two major components that comprise most of the Capital
25 Additions Budget for Transmission. These two major components are

1 (a) transmission infrastructure replacement projects, and (b) transmission
2 planning-generated projects.

3
4 Transmission infrastructure replacement projects consist of replacements of
5 poles, transformers, breakers, switches, conductors, protection system
6 relays, and other assets. In most cases, these projects or expenditures are
7 driven by the need to replace equipment and facilities that have reached the
8 end of their useful life. For smaller routine infrastructure replacement
9 expenditures, the Company budgets using Blanket PEs. For larger
10 infrastructure replacement projects, the Company budgets Specific PEs.
11 Specific PEs may cover multiple budget years to allow for project
12 development, design and construction.

13
14 Transmission planning-generated projects are a result of the transmission
15 planning process that I mentioned previously. All transmission planning-
16 generated projects are budgeted using Specific PEs.

17
18 In addition to these two major categories of transmission capital
19 expenditures, there is another minor category referred to as distribution
20 planning. Distribution planning projects consist of transmission projects that
21 interconnect with distribution facilities.

22
23 The proposed Capital Additions Budget is reviewed by the Transmission
24 management team. Once approved, the Transmission management team
25 submits a proposed Capital Additions Budget to me. Once I have reviewed

1 and approved the proposed budget, the Transmission Capital Additions
2 Budget is presented to Gulf's Corporate Planning department for inclusion
3 in the Company's Capital Additions Budget. Gulf Witness Mason addresses
4 Gulf's Capital Additions Budget process within the Corporate Planning
5 department.

6
7 Q. Describe the transmission capital expenditures monitoring process.

8 A. After the Capital Additions Budget has been approved, each transmission
9 PE is assigned an owner within the Transmission organization. Each
10 owner's responsibility is to monitor expenditures against the budget. Within
11 each PE, General Work Orders (GWO) are created, approved and
12 authorized for construction. GWOs are created by field engineers and
13 approved and authorized by the appropriate level of management based on
14 the estimated cost of the GWO. Each month, the Transmission
15 management team reviews each capital project in detail, reviewing
16 expenditures and any budget variance for projects. Each project owner is
17 responsible for explaining budget variances. Budget variances may result
18 in the reallocation of overall capital expenditures within the Transmission
19 organization. On a quarterly basis, Corporate Planning requires a detailed
20 explanation of all budget variances greater than 10 percent or \$250,000
21 (whichever is lower). Variances less than \$10,000 do not require a variance
22 explanation.

23
24
25

1 Q. How are new capital projects or changes to existing projects incorporated in
2 the current year budget?

3 A. In the event a new project or an increase in capital expenditures associated
4 with an existing project is necessary, Transmission management must
5 submit a justification letter to me. Once I have reviewed and approved the
6 request, the letter is forwarded to the Chief Financial Officer (CFO) for
7 review and approval. If the request is approved, the letter is sent to
8 Corporate Planning where the request is documented, and the current
9 budget is updated to reflect the change.

10

11 Q. Were Gulf's Transmission Capital Additions Budgets for 2013 through 2017
12 developed by this budget and cost control process?

13 A. Yes. The projects included in Gulf's Transmission Capital Additions Budget
14 were approved pursuant to this rigorous evaluation and approval process.
15 Gulf's effective capital budgeting and cost control process has helped to
16 ensure that our transmission assets perform as designed and continue to
17 provide reliable and efficient operation. The budgeted amounts included in
18 the Capital Additions Budget for Transmission are reasonable, prudent, and
19 necessary. Gulf will continue to evaluate the benefits of additional capital
20 projects in the future to ensure that we are able to provide our customers
21 with reliable, cost-effective and efficient electric service.

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IV. TRANSMISSION CAPITAL ADDITIONS INVESTMENT

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Q. Gulf Witness Ritenour shows a total of \$3.458 billion of plant in service investment in Gulf's 2017 rate base in this case. Are the transmission assets in rate base costs used and useful in the provision of electric service to the public?

A. Yes. The transmission assets, which comprise a total of \$698 million of the plant in service in Gulf's 2017 rate base in this case, are used and useful in Gulf's provision of electric service.

Q. How does the test year level of transmission plant in service compare with the level of transmission plant in service in Gulf's 2012 test year rate case?

A. The projected level of transmission plant in service in Gulf's 2012 test year rate case was \$381,385,000. The projected level of transmission plant in service in Gulf's 2017 test year is \$697,815,000.

The Transmission Capital Additions Budgets for the years 2013 through 2017 are shown on Exhibit WES-1, Schedule 4. These capital additions total approximately \$340 million, but the impact on rate base in the 2017 test year is smaller due to some of the capital expenditures in the annual budgets not closing to plant in service until after the 2017 test year.

As I noted earlier, the two major drivers in Transmission Capital Additions Budgets subsequent to the 2012 test year are Transmission Planning (\$202,394,000) and Infrastructure Replacement (\$131,280,000). The

1 remainder of the 2013 - 2017 Transmission Capital Additions Budgets
2 (\$6,445,000) is associated with Distribution Planning.

3

4 Q. Please address the Transmission Planning Capital Budgets for the years
5 2013 through 2017 in more detail.

6 A. Gulf's Transmission Planning Capital Budgets for the period 2013 through
7 2017 were necessary to meet regulatory requirements, absorb major
8 transmission disturbances, import generation from other sources, and to
9 improve the overall operation of the transmission system. Gulf continues to
10 follow its planning criteria and commit the necessary resources and capital
11 investments to continue to meet the demands of its customers. Gulf's
12 planning process ensures transmission projects are planned, designed and
13 built to support peak demands under any reasonable set of contingencies
14 and ensure the transmission capacity is available when needed.

15

16 Most of the Transmission Planning capital budget expenditures over the
17 period 2013 – 2017 were associated with the transmission projects
18 recognized as reasonable and prudent and approved in the Stipulation and
19 Settlement Agreement (2013 Settlement Agreement) and the Order
20 Approving Stipulation and Settlement Agreement (Order No. PSC-13-0670-
21 S-EI) issued by the Florida Public Service Commission (FPSC or
22 Commission) on December 19, 2013. As the Commission is aware, much
23 of this investment was driven by the Mercury and Air Toxic Standards
24 (MATS) that became effective in 2015. The MATS required additional
25 environmental standards for coal fueled plants. The planning process I

1 previously described indicated significant transmission investment was
2 required to ensure Plants Crist and Smith remained in compliance and to
3 prevent line and equipment overloads while the plants were operating under
4 MATS regulations. All projects with a required date within the Settlement
5 planning window were completed on time and under the total cost
6 allowance in the order approving the 2013 Settlement Agreement.

7
8 In addition to the transmission capital budget additions being dramatically
9 impacted by MATS compliance, Gulf had other Transmission Planning
10 projects that increased the transmission capital budget additions. These
11 included substation modifications and 115 kV line rebuilds to support
12 transmission load. An upgrade of the transmission line from Plant Crist to
13 Plant Barry will be added in 2016 and 2017. That project is forecast to cost
14 \$1,945,000. These projects were identified as necessary through Gulf's
15 transmission planning process, and the costs will be monitored in Gulf's
16 transmission monitoring process.

17
18 Q. Please provide more detail regarding the Infrastructure Replacement
19 Capital Additions Budgets for the period 2013 through 2017.

20 A. The Company's Transmission Infrastructure Replacement requires
21 continuing investment for ongoing maintenance and replacement, as some
22 of our assets have been in service for 40 years or longer. For example, 28
23 percent of Gulf's transmission poles and towers, 58 percent of Gulf's
24 transmission conductors, 34 percent of Gulf's transmission transformers,
25 and 6 percent of Gulf's transmission breakers are over 40 years old.

1 Additionally, most of Gulf's transmission facilities are in service in corrosive
2 environments, which leads to rust and, without timely replacement, failure.
3 Some of our line facilities are in wetlands and, therefore, challenging to
4 access, which increases the cost of repair and/or replacement. Because of
5 the age and location of these facilities, the Company continually prioritizes
6 its capital expenditure requirements for pro-active infrastructure
7 replacements in an effort to maintain reliable service for our customers.

8
9 The amounts for Specific PEs for Infrastructure Replacement in 2013, 2014,
10 2015, 2016 and 2017 are \$26,043,000, \$10,885,000, \$3,556,000,
11 \$11,778,000 and \$13,444,000, respectively. These budgeted costs reflect
12 design, material and construction costs for the infrastructure replacement
13 projects during these years. In-service dates vary for each project. These
14 projects were developed to address specific issues on our system.

15
16 The amounts for Blanket PEs for Infrastructure Replacement in 2013, 2014,
17 2015, 2016 and 2017 are \$13,480,000, \$13,239,000, \$10,280,000,
18 \$12,927,000 and \$15,648,000, respectively. As previously noted, Blanket
19 PEs for Infrastructure Replacement reflect repetitive expenditures based on
20 inspection data as well as knowledge of the system and equipment.
21 Blanket PEs includes items such as poles, arms, conductors, breakers,
22 regulators and transformer replacements, as well as protection system
23 replacement projects.

1 Q. Has Transmission had any new capital projects or adjustments which arose
2 after the completion of the budget on which the 2017 test year is based?

3 A. Yes. As Ms. Ritenour states in her testimony, Transmission has five capital
4 projects which arose after the completion of the budget. These five projects
5 are:

- 6 • Guyed Y Tower Anchor Replacements. Gulf currently has
7 approximately 900 guyed Y tower structures on its transmission
8 system. Gulf inspects approximately 150 of the 900 guyed Y towers
9 annually. During our inspection, Gulf discovered several guyed Y
10 tower anchors having corrosion or rust issues. The guys and
11 anchors are critical to the support of the tower structures. Gulf has
12 included an adjustment of \$1,000,000 in 2016 and \$2,500,000 in
13 2017 to replace guys and anchors on guyed Y tower transmission
14 structures.
- 15 • Guyed Y Tower Replacements. Gulf is planning to replace guyed Y
16 towers over the next several years. Gulf's most recent schedule is to
17 replace two guyed Y towers per year with H frame construction over
18 the next three years, 2017 through 2019, with the ultimate goal of
19 increasing the number of annual replacements of these towers.
20 Beginning in 2020, Gulf plans to replace approximately 120 of the
21 remaining 896 towers over the subsequent 10 years. The towers to
22 be replaced will be prioritized by risks such as interstate crossings,
23 wet lands, and other difficult terrain. Gulf has included an adjustment
24 to the budget of \$500,000 in 2017 to replace two guyed Y towers.

25

- 1 • Transmission Right of Way Acquisition and Initial Clearing. The
2 increased dependency on the transmission system and NERC
3 compliance requires Gulf to purchase additional rights of way (ROW)
4 and/or clear previously acquired, but yet to be cleared, ROW through
5 the capital expenditure program. In many areas, Gulf has corridors
6 with tree buffers on the ROW between the lines and adjacent
7 property owners or has insufficient ROW to prevent a tree-related
8 outage on its transmission system. Utilizing this program, Gulf would
9 purchase additional ROW to ensure proper and adequate vegetation
10 clearance. Most of these corridors and buffers are located in remote
11 areas. The terrain often presents challenges requiring intensive
12 contractor resources and associated specialized equipment to
13 ensure we meet our reliability and compliance obligations and
14 minimize impacts to communities and property owners. This
15 program required a budget adjustment of \$2,000,000 each year for
16 2016 and 2017.
- 17 • New Distribution Substation and Line. As Gulf Witness Burroughs
18 states in his testimony, Gulf's Plant Scholz was closed in April 2015.
19 As a result of the plant closure, a new distribution substation,
20 Appalachee Substation, and a new 115 kV line, Sinai-West Grand
21 Ridge, are necessary to provide service to distribution voltage
22 customers in the northern portion of the Panama City District. This
23 project required an adjustment to the budget of \$312,000 in 2016 and
24 \$2,010,000 in 2017 for a total of \$2,322,000 for this project.

25

- 1 • Transmission Line ROW. During 2016, Gulf negotiated a lease for
2 transmission line ROW with Eglin Air Force Base. The lease
3 requires a payment of \$155,000 in 2017. Gulf has included an
4 adjustment to the budget for this amount in 2017.

5
6 Q. Were the transmission assets added to rate base between the 2012 and
7 2017 test periods reasonable and prudently incurred?

8 A. Yes. These assets were identified and justified in the Transmission Capital
9 Additions Budget process described earlier in Section III of my testimony.
10 These projects were planned, designed and constructed as explained in my
11 process description in Section II of my testimony.

12
13

14 **V. TRANSMISSION OPERATIONS AND**
15 **MAINTENANCE BUDGET PROCESS**

16

17 Q. Describe how the Transmission O&M Budget is developed.

18 A. Gulf’s Corporate Planning department provides a Budget Message with
19 budget guidelines for preparing the five-year budget cycle request.
20 Following receipt of the Budget Message, Gulf’s Transmission O&M Budget
21 is developed through a multi-step process implemented by employees who
22 are well-experienced and very knowledgeable of the transmission systems
23 they operate and maintain. Each year Gulf’s Transmission organization
24 develops a five-year O&M budget based on historical experience and
25 projected maintenance in order to continue the safe operation and integrity

1 of the transmission system. Gulf uses data collected through various
2 inspection programs to assist in planning its Transmission O&M Budget. I
3 discuss these inspection programs later in my testimony. We review the
4 repair work to be completed and estimate the costs of the maintenance
5 programs to develop our budget requests. These repairs comprise the
6 majority of the year-to-year O&M cost variation.

7
8 The O&M budget is scrutinized in a multilayer process that compares
9 historical spending for transmission accounts and cost types. New
10 programs or additional requests must be validated and approved annually.
11 This approval process closely follows our Capital Additions Budget review
12 and approval process. Each responsibility center within Transmission
13 develops an O&M budget annually. The total transmission budget is
14 reviewed and approved by the Transmission General Manager, forwarded
15 to me for review and continues through the process to approval as outlined
16 in Mr. Mason's testimony.

17
18 In addition to the rigorous multilayer O&M budgeting approval process, Gulf
19 also uses a detailed process for monitoring, evaluating and justifying current
20 year O&M expenses. Budget-to-actual costs are reviewed monthly, and
21 variances are documented. Each month, projections are made for the
22 month ahead and for year end. These monthly actual costs, variances,
23 monthly projections and year-end projections are reviewed by the
24 Transmission General Manager and me.

25

1 Q. Describe the transmission O&M monitoring process.

2 A. Each transmission O&M program is assigned an owner within the
3 Transmission organization. Each owner's responsibility is to monitor
4 expenses against budget. Within each program, all variances are reported
5 to Transmission management for their review on at least a monthly basis.
6 At the end of each quarter, budget-to-actual reports are provided to
7 Corporate Planning along with justifications for variances from budget.

8

9

10 **VI. TRANSMISSION OPERATIONS AND**
11 **MAINTENANCE BUDGET**

12

13 Q. What is Gulf's Transmission O&M Budget for 2017?

14 A. Gulf's Transmission O&M Budget for 2017 is \$16,568,000, as shown in
15 Exhibit WES-1, Schedule 5.

16

17 Q. Are Gulf's projected transmission O&M expenses for 2017 reasonable and
18 prudent?

19 A. Yes. Gulf's projected 2017 transmission O&M expenses are reasonable,
20 prudent and necessary for Gulf to continue to provide adequate and reliable
21 transmission service to meet our customers' needs. The amounts were
22 developed through Gulf's transmission budget process and include
23 expenses for Protection and Control, Transmission Line Inspection
24 Program, Transmission Line Maintenance Program, Substation

25

1 Maintenance Program, Transmission Control Center, Transmission
2 Engineering and Supervision, and Transmission Vegetation Management.

3

4 Q. Are there any Net Operating Income (NOI) adjustments in your areas of
5 responsibility?

6 A. Yes. Adjustment 26 shown on Schedule 4 of Exhibit SDR-1 and discussed
7 in the testimony of Ms. Ritenour was made to adjust Gulf's expenses to
8 reflect an increase in transmission expenses because of an annual
9 transmission payment to Georgia Power Company. The impact is an
10 increase to the transmission budget of \$1,123,000. I will discuss this in
11 more detail as a benchmark variance later in my testimony.

12

13 Q. Please describe the Protection and Control component of the 2017 O&M
14 budget.

15 A. Gulf's Protection and Control accounts for \$743,000 of the 2017 Transmission
16 O&M Budget. Transmission is responsible for the protection and control
17 systems and equipment which monitor and automatically respond to
18 abnormal conditions on the transmission grid. These controls and equipment
19 are on a routine maintenance cycle as required by NERC. In addition, NERC
20 requires certain Critical Infrastructure Protection (CIP) substations to be
21 compliant with CIP rules regarding Bulk Electric System (BES) protective
22 systems. These rules require prescriptive maintenance intervals and
23 frequencies for critical transmission systems such as protective relays,
24 substation battery banks, and other critical equipment. The CIP program is
25 comprised of rules requiring substations considered high or medium impact to

1 BES be identified and compliant with current standards. Specifically, CIP
2 version five requires the establishment of a physical security perimeter, an
3 electronic security perimeter, and the development of business practices
4 which address each CIP standard for each impacted substation. The
5 remainder of Gulf's protection and control system consists of maintenance
6 programs such as relay calibration, circuit verification and functional testing of
7 the protection schemes at Gulf's substations.

8
9 Q. Please describe Gulf's Transmission Line Inspection Program budget line
10 item.

11 A. Gulf's Transmission Line Inspection Program consists of several inspection
12 techniques to ensure the integrity of the system. The Line Inspection
13 Program accounts for \$1,379,000 in the 2017 Transmission O&M Budget.
14 A comprehensive, systematic transmission line inspection program is
15 essential to the effective and orderly maintenance and safe and reliable
16 operation of the transmission system. The objectives of this program are:
17 • To maximize plant facility life,
18 • To gather information to assist in prioritizing repairs, and
19 • To minimize unscheduled or emergency maintenance.

20
21 The program requires that every structure be inspected at least every six
22 years by a ground inspection, a climbing inspection, or a comprehensive
23 aerial inspection by helicopter. This inspection program is a part of Gulf's
24 Storm Hardening Plan filed with the Commission on May 1, 2016.
25

1 The data from our inspection program allows Gulf to identify trends and
2 develop other maintenance programs to optimize the life of the transmission
3 facilities. For example, data obtained from Gulf's inspection program
4 identified a need for a structure painting program for all steel structures and
5 any necessary foundation repairs.

6

7 Q. Please describe Gulf's Transmission Line Maintenance Program budget line
8 item.

9 A. Gulf's Transmission Line Maintenance Program accounts for \$313,000 of
10 the 2017 Transmission O&M Budget. The Transmission Line Maintenance
11 Program consists of periodic repairs to transmission line facilities, including
12 guys, anchors, foundations, poles, structures, and wire. The majority of
13 these repairs are initiated based on the results of the Transmission Line
14 Inspection Program. The costs of these repairs can be significant and are
15 related to weather, age of infrastructure and other environmental factors.
16 Some examples of these types of expenses are repairing woodpecker
17 holes, replacing rusted or broken guy wires and repairing deteriorated
18 foundations or structure components.

19

20 Q. Please describe Gulf's Substation Maintenance Program budget line item.

21 A. Gulf's Substation Maintenance Program accounts for \$1,732,000 of the
22 2017 Transmission O&M Budget. Gulf's Substation Maintenance Program
23 is responsible for all of the substation inspection and maintenance activities.

24

25

1 Gulf implements a performance and interval-based Substation Inspection
2 and Maintenance Program. This program uses periodic diagnostic tests on
3 substation equipment to assist in determining the type and level of
4 maintenance needed. These inspections review the performance and
5 condition of the substation equipment and the components thereof. Based
6 on conditions observed during the inspection, additional maintenance or
7 repairs may be performed. The expenses to perform the inspections and
8 make the identified repairs are essential to the reliable operation of the
9 system and to the avoidance of unexpected outages.

10

11 Q. Please describe what is included in the Transmission Control Center O&M
12 budget line item.

13 A. The 2017 Transmission O&M Budget includes \$3,857,000 related to the
14 Transmission Control Center (TCC) operation. This expenditure is
15 necessary for the safe and secure operation of Gulf's transmission system.
16 As I mentioned previously, our TCC operates 24 hours a day, 7 days a
17 week. The NERC-certified TCC operators are responsible for the reliable
18 operation of the system and taking action to mitigate emergent issues.
19 These operators also assist with removing components from service for
20 maintenance or construction activities and use the Energy Management
21 System to monitor and control the transmission system and its components.
22 This system gathers data from field devices, which is then processed by
23 local servers and displayed in the TCC for the operators' use. This expense
24 item also includes the bulk power operations functions performed by the
25 Southern Company Power Coordination Center.

1 Q. Please describe Gulf's Transmission Engineering and Supervision budget
2 line item.

3 A. Gulf's Transmission Engineering and Supervision accounts for \$5,521,000
4 of the 2017 Transmission O&M Budget. These expenses are for
5 engineering, supervision and administrative resources necessary to support
6 the projects and programs in the Transmission department. These
7 expenses also include several new programs since Gulf's 2012 test year
8 rate case. As I previously mentioned, Gulf must remain in compliance with
9 NERC's reliability assurance programs and associated standards.
10 Compliance with these standards has required Gulf to develop and
11 implement a formal program for documenting, monitoring, and testing of
12 internal control activities associated with high-risk NERC requirements. The
13 Company is also in the engineering and construction phase of its
14 cybersecurity program. This program will be used to detect and monitor
15 cyber threats. Gulf's engineering and supervision budget line item
16 encompasses other critical programs such as compliance support, grid
17 operations, and substation support; all of these programs require
18 employees with specialized technical experience.

19
20 Q. Please describe Gulf's Transmission Vegetation Management budget line
21 item.

22 A. Gulf's Transmission Vegetation Management accounts for \$3,023,000 in the
23 2017 O&M budget projection. Gulf provides ongoing vegetation
24 management on Company transmission ROW in a cost-effective manner to
25 ensure high reliability of service to our customers, compliance with all

1 environmental laws and regulations, and compliance with NERC reliability
2 standards. As a result of NERC's revised reliability standards, Gulf is
3 required to annually inspect all transmission lines subject to the standards
4 and to complete 100 percent of its annual vegetation management work
5 plan. This requirement applies to all transmission lines with voltages above
6 200 kV.

7
8 Q. Is Gulf's projected level of transmission O&M expenses of \$16,568,000 in
9 2017 representative of a going forward level of transmission O&M expenses
10 beyond 2017?

11 A. Actually, Gulf's projected level of transmission O&M expenses of \$16,568,000
12 in 2017 is lower than Gulf's projected transmission O&M expenses for the
13 years 2018, 2019 and 2020. Those projected levels of transmission O&M
14 expenses are \$17,097,000, \$17,414,000 and \$18,183,000, respectively.

15
16 Q. How do Gulf's transmission O&M expenses forecasted for 2017 compare to
17 the O&M benchmark calculation historically employed by the Commission?

18 A. Gulf is projecting to spend \$16,568,000 for transmission O&M expenses in
19 2017. The O&M benchmark level for Gulf transmission O&M expenses is
20 \$12,964,000. Therefore, Gulf's 2017 level of transmission O&M expenses is
21 \$3,604,000 above the 2017 O&M benchmark.

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1 Q. Please provide a summary justification of why Gulf’s 2017 transmission
2 O&M expenses have increased at a rate higher than the growth in the
3 Consumer Price Index (CPI) and growth in customers between 2012 and
4 2017.

5 A. The primary reasons Gulf is above the transmission O&M benchmark in the
6 2017 test year are (1) program expansions and compliance with NERC and
7 Federal Energy Regulatory Commission (FERC) regulatory requirements
8 and (2) contractual delivery obligations associated with transmitting Scherer
9 Unit 3 power from Georgia to retail customers in Florida. These contractual
10 and new regulatory requirements have led to O&M expenses above the rate
11 of growth in CPI and customers in the following areas:

12	• NERC Critical Infrastructure Program compliance	\$ 269,000
13	• Line inspections	\$ 572,000
14	• NERC high-risk programs and cybersecurity costs	\$ 842,000
15	• NERC 230 kV corridor requirements	\$ 798,000
16	• Scherer 3 delivery obligation	\$1,123,000
17	Total Justifications	\$3,604,000

18
19 Q. Please address the O&M benchmark variance attributable to NERC CIP
20 compliance.

21 A. Gulf’s protection and control program is over the benchmark by \$269,000
22 because of increased CIP compliance requirements imposed by NERC. On
23 November 22, 2013, FERC approved version 5 of the CIP Cyber Security
24 Standards, which are intended to minimize the risk against compromises of
25 Gulf’s systems that could lead to instability in the BES.

1 In CIP version 5, which became effective July 1, 2016, Critical Cyber Assets
2 have now been defined as BES Cyber Systems to include the identification
3 and security of Gulf's critical facilities. Gulf has four locations that were
4 subject to the previous versions of the CIP standards, and appropriate
5 protections were required under the former version of CIP to be
6 implemented for the cyber assets that supported those Critical Cyber
7 Assets. However, the CIP version 5 standards establish more rigorous
8 criteria that dictate which assets are critical and must be afforded increased
9 cyber security protections. Under the new version of the CIP standard, Gulf
10 has four locations that contain High Impact BES Cyber Systems, three that
11 contain Medium Impact BES Cyber Systems, and approximately 60 that
12 contain Low Impact BES Cyber Systems.

13
14 Gulf is committed to the physical and cyber protection of all critical
15 transmission substation facilities. This requirement will be an ongoing
16 expense to establish, inspect, monitor, document, and report Gulf's
17 compliance with CIP standards. Gulf takes an approach that incorporates
18 resiliency, redundancy, and the ability to recover should an event occur.

19
20 Q. Please address how NERC reliability standards have resulted in line
21 inspection costs exceeding the growth of CPI and customers between 2012
22 and 2017.

23 A. Line inspections are \$572,000 over the benchmark because of increased
24 inspection activity and associated costs to ensure a reliable transmission
25 system. Transmission pole line inspections are accomplished through

1 aerial, ground, and climbing patrols. Many of Gulf's pole lines are in
2 corrosive environments and are in remote locations which are difficult to
3 access. Additionally, Gulf's line miles of 230 kV has grown by 36 percent
4 since Gulf's 2012 test year rate case. The increase in line miles of 230 kV
5 facilities, together with the necessity to perform comprehensive inspections
6 of all 230 kV lines, results in an ongoing obligation of increased line
7 inspection costs.

8
9 Gulf's inspection program is designed to proactively prevent failures of its
10 transmission line system. Line inspections are a critical component of
11 providing a comprehensive, systematic program to ensure the effective and
12 orderly maintenance and safe and reliable operation of the transmission
13 system.

- 14
15 Q. Please address the O&M benchmark variance attributable to FERC and
16 NERC reliability standards relating to transmission O&M expenses for high-
17 risk programs and cybersecurity.
- 18 A. New FERC and NERC reliability standards have resulted in additional costs
19 related to the identification, establishment, documentation, and monitoring
20 of internal control processes of high-risk NERC programs and cybersecurity
21 costs. The new reliability standards have caused an increase in compliance
22 activity, which requires the utilization of specialized engineering and
23 supervision resources to ensure Gulf's compliance with these standards.
24 The increased ongoing costs for engineering and supervision are \$842,000.

25

1 Q. Please address how NERC's new 230 kV corridor requirements have
2 caused Gulf's vegetation management transmission O&M expenses to
3 increase at a rate higher than CPI and customer growth since 2012.

4 A. Vegetation management costs are \$798,000 over the benchmark as a result
5 of additional NERC inspection requirements and subsequent clearing along
6 our NERC-regulated 230 kV corridors. The revised reliability standard
7 establishes a minimum vegetation clearance distance for transmission
8 corridors. Additionally, the new standard requires Gulf to develop and
9 implement an annual vegetation management work plan and to complete
10 100 percent of its annual vegetation work plan for the transmission lines
11 subject to the new standard. As Gulf's 230 kV line miles have increased,
12 the associated corridors will need to be maintained in accordance with
13 NERC's reliability standards. Gulf's lines which were converted from 115
14 kV to 230 kV necessitated the acquisition of additional ROW which will also
15 require ongoing vegetation management. Gulf also cleared ROW to include
16 the entire legal ROW to prevent the potential of a tree-related outage on its
17 230 kV system. The increased acreage of 230 kV corridors, together with
18 new NERC standards, requires an additional ongoing commitment to
19 manage vegetation along Gulf's 230 kV corridors. Failure to ensure
20 compliance would result in substantial fines for a vegetation related outage.

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1 Q Please address how Scherer 3 delivery costs have caused transmission
2 O&M expenses to increase from 2012 through 2017.

3 A. Because Scherer 3 was previously committed to wholesale sales, Gulf did
4 not incur delivery costs chargeable to retail customers for the delivery of
5 power from Georgia to Gulf's service area. As a result of Gulf's
6 rededication of Scherer 3 to serve native load, an annual transmission
7 payment to Georgia Power Company is required. The transmission
8 payment of \$1,123,000 for 2017 will continue as an expense to transport
9 transmission level voltage to Gulf's retail customers.

10

11 Q Are Gulf's 2017 transmission O&M expenses above the O&M benchmark
12 fully justified?

13 A. Yes. As discussed above, Gulf's entire transmission O&M benchmark
14 variance is due to (a) program expansions and regulatory requirements that
15 are new since the 2012 test year, and (b) contractual obligations that were
16 not properly chargeable to retail customers in the 2012 test year.

17

18

19 **VII. DISTRIBUTION SYSTEM AND MANAGEMENT**

20

21 Q. Please provide a description of Gulf's distribution system.

22 A. Gulf's distribution facilities consist of approximately 5,846 miles of overhead
23 primary lines and 1,881 miles of underground primary lines. Gulf's
24 distribution system consists of 95 distribution substations and 299

25

1 distribution feeders to provide service to our customers at distribution
2 voltage.

3

4 Q. Please describe Gulf's method for oversight and management of its
5 distribution system.

6 A. Gulf manages the distribution system through five major functions: planning,
7 design, construction, operations and maintenance. Through each of these
8 functions, we provide the oversight needed to ensure that Gulf maintains
9 reliable service to our customers at the distribution voltage level. Except for
10 the planning process, the distribution functions follow essentially the same
11 processes as transmission. Because the distribution planning process
12 differs from the transmission planning process, I will describe the
13 distribution planning phase in more detail.

14

15 Q. Please describe Gulf's distribution planning process.

16 A. Gulf's distribution planning process is used to determine the most reliable,
17 practical, and economical expansion of the distribution system. Gulf
18 performs "Long Range Area Distribution Studies" (Studies) to identify issues
19 that could adversely impact the delivery of power across the distribution
20 system. The Studies are continually performed such that each operating
21 area is studied on a three- to five-year cycle, depending on customer growth
22 and distribution changes. For these Studies, Gulf uses analysis software by
23 CYME® International, which is recognized as one of the industry leaders in
24 this field.

25

1 The Studies are initiated by modeling the relevant distribution system and
2 the distribution system loading in their current states. Long-range forecast
3 information, based on historical data trends, marketing data and actual field
4 information, is compiled to determine system growth in each geographic
5 district of Gulf's service area. This information is then applied to each
6 feeder to establish a forecast demand. The Study projects a seven-year
7 horizon window, and each year is then analyzed to determine the operating
8 conditions and their potential impacts to the distribution system.

9
10 The Studies identify the operating conditions that require adjustment, along
11 with the most practical and economical solutions. The final
12 recommendations from the Studies are reviewed and approved by
13 Distribution management, who possess knowledge of the district, the
14 distribution system, and any unique characteristics of the area served.
15 When a significant change occurs in an area that is not currently under
16 study, the distribution planning group performs a "Special Distribution
17 Study." An example of a significant change would be a large new business
18 customer or a business adding significant electrical load. The latest Long
19 Range Study of that area is adjusted for the change to determine any
20 potential impact to the distribution system. If an operating condition
21 requiring adjustment occurs, then a solution is determined, and a
22 recommendation is generated. The final recommendations from the Special
23 Distribution Study are reviewed and approved by Distribution management.

24
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1 Distribution management performs an annual review of all current planning
2 Studies. The proposed justification for each project is compared to the
3 latest actual load to ensure the recommended timing for construction is
4 appropriate. If the recommendations have changed, the project justification
5 and construction schedule are adjusted accordingly. Careful consideration
6 is given to those projects that require longer construction lead times such as
7 new distribution substations, which have a two year or more construction
8 timeframe. This timeframe is impacted by equipment availability, permitting
9 and land acquisition, all of which are major considerations for construction
10 projects.

11

12

13 **VIII. DISTRIBUTION CAPITAL BUDGET PROCESS**

14

15 Q. Please describe the distribution capital budgeting process.

16 A. The distribution budgeting process follows the same processes as I
17 described in the transmission budgeting process in my testimony for both
18 capital additions and O&M budgets. The Distribution management team
19 reviews and approves the proposed capital additions and O&M budgets
20 before the budgets are reviewed by me. The input into the corporate
21 budget follows the guidelines described by Mr. Mason. The subsequent
22 review of budget to actual costs and the process for budget changes are
23 exactly as described in the transmission portion of my testimony.

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IX. DISTRIBUTION CAPITAL ADDITIONS INVESTMENT

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Q. Ms. Ritenour shows a total of \$3.458 billion of plant in service investment in Gulf's 2017 rate base in this case. Are the distribution assets in rate base costs used and useful in the provision of electric service to the public?

A. Yes. The distribution assets, which comprise a total of \$1.260 billion of plant in service in Gulf's 2017 rate base, are used and useful in Gulf's provision of electric service.

Q. Are these distribution investments reasonable and prudent?

A. Yes. They are the product of Gulf's distribution planning process, as well as the rigorous budgeting and monitoring process I have previously described in my testimony.

Q. How does the test year level of distribution plant in service compare with the level of distribution plant in service in Gulf's 2012 test year rate case?

A. The projected level of distribution plant in service in Gulf's average rate base in 2017 is \$1.260 billion. This compares to the 13-month average projected level of distribution plant in service in Gulf's 2012 test year rate case of \$1.030 billion, resulting in an increase of \$230 million, or 22 percent.

Q. Please describe Gulf's Distribution Capital Additions Budgets for the years 2013 through 2017.

A. Gulf continues to invest in its distribution system capital programs to ensure reliable service to its customers. I will briefly describe some of the more

1 significant customer focused programs. Gulf continued to invest in
2 infrastructure improvements and has adopted Grade B construction
3 standards to ensure its distribution grid is resilient to storms. Gulf has also
4 made investments in grid modernization and smart grid initiatives to ensure
5 a more modern, automated and self-healing grid. Gulf has experienced
6 moderate customer growth which has resulted in increases in new business
7 expenditures along with more undergrounding of distribution cable.
8

9 Q. What are Gulf's Distribution Capital Additions Budgets for 2013 through
10 2017?

11 A. Gulf's Distribution Capital Additions Budgets for the years 2013 through
12 2017 are shown on Exhibit WES-1, Schedule 6. For each of these years,
13 the Distribution Capital Additions Budget includes the following types of
14 expenditures: Distribution Infrastructure Improvements, Storm Hardening,
15 Asset Management, New Business, Highway Improvements/Joint Use,
16 Distribution Transformers, and General Plant.
17

18 Q. Describe Gulf's Distribution Infrastructure Improvements Capital Additions
19 Budgets for 2013 through 2017.

20 A. Gulf's Distribution Infrastructure Improvement expenditures for the years
21 2013 through 2017 are shown on Exhibit WES-1, Schedule 6. Distribution
22 Infrastructure Improvement expenditures are for the replacement of
23 equipment that is currently operating at maximum capacity or will potentially
24 be exposed to circumstances in which the equipment will have insufficient
25 capacity. These expenditures also include modifications and additions to

1 the overhead distribution system that are necessary to protect the reliability
2 of distribution feeders and laterals and to maintain voltage levels on the
3 distribution system. These modifications are identified, evaluated, and
4 constructed based on recommendations from Gulf's distribution planning
5 process.

6
7 Q. Describe Gulf's Storm Hardening Capital Additions Budgets from 2013
8 through 2017.

9 A. The Storm Hardening Capital Additions Budgets for 2013 through 2015
10 were pursuant to a storm hardening plan approved by the Commission.
11 The 2016 through 2018 Storm Hardening Capital Additions Budgets are
12 consistent with Gulf's 2016 – 2018 Storm Hardening Plan, which was filed
13 with the Commission on May 1, 2016. This Plan incorporates the 10-Part
14 Storm Preparedness Plan Initiatives that were originally approved in Order
15 No. PSC-06-0781-PAA-EI, Docket No. 060198-EI, in September 2006.
16 These capital expenditures include the upgrade of strategic critical
17 infrastructure to Grade B construction standards, along with the continued
18 installation and construction of a portion of Gulf's distribution automation
19 equipment.

20
21 Q. Describe the impacts of Gulf's storm hardening programs.

22 A. Gulf's storm hardening measures have improved the reliability for our
23 customers during the seasonal weather systems typical for Northwest
24 Florida. The implementations of Distribution Supervisory Control And Data
25 Acquisition (DSCADA) and distribution automation have greatly decreased

1 the number of customers affected by minor storm events and reduced the
2 restoration time following an event. Fortunately, Gulf has not experienced a
3 major weather event since the inception of our storm hardening plan. Gulf
4 provided Witness Harris an opinion of the expected impacts from the
5 Company's storm hardening programs. In Gulf's opinion, storm hardening
6 programs could have a positive impact on storm damages and associated
7 recovery costs for those areas which have been storm hardened. However,
8 because only a small portion of Gulf's distribution system has been
9 hardened to date, Gulf's estimate provided to Mr. Harris of storm restoration
10 savings was limited to one percent of total storm restoration costs.

11
12 Q. Describe Gulf's Asset Management Improvement Program Capital Additions
13 Budgets from 2013 through 2017.

14 A. Gulf's Asset Management Capital Additions Budgets for the years 2013
15 through 2017 are expenditures for the purchase and installation of
16 equipment necessary to continue the reliable operation of the distribution
17 system. Lightning protection devices on feeders and laterals are also
18 included in this activity. As I mentioned previously, Gulf's distribution system
19 is exposed to a higher than average frequency of lightning strikes, which is a
20 distinctive characteristic of Northwest Florida. Vaisala's National Lightning
21 Detection Network indicates that the cloud to ground lightning incident rate in
22 Northwest Florida is among the highest in the nation. See Exhibit WES-1,
23 Schedule 3. To address this, Gulf's design standards and specifications
24 require an increased number of lightning arrestor installations and
25 associated grounding enhancements on distribution feeders and laterals.

1 Q. Describe Gulf's New Business Capital Additions Budgets for the years 2013
2 through 2017.

3 A. Gulf's New Business Capital Additions Budgets for the years 2013 through
4 2017 are shown on Exhibit WES-1, Schedule 6. New Business includes
5 expenditures for distribution facilities necessary to construct additions,
6 extensions, and improvements related to the connection of new residential,
7 commercial, or industrial customers. These expenditures include
8 installation of poles, conduit, wires, and lighting which are necessary to
9 serve additional customers and their associated loads. New Business
10 includes distribution facilities installed to serve new residential subdivisions
11 or new commercial developments. Also included are expenditures for the
12 purchase and installation of municipal street lighting and other outdoor
13 lighting facilities.

14
15 Q. Describe Gulf's Highway Improvements/Joint Use Capital Additions Budgets
16 for 2013 through 2017.

17 A. Gulf's Highway Improvements/Joint Use Capital Additions Budgets for 2013
18 through 2017 are shown on Exhibit WES-1, Schedule 6. These
19 expenditures are used to relocate lines as required by state and county
20 agencies for street and highway construction. In addition, this includes the
21 cost associated with the replacement of poles where additional height is
22 needed to meet joint use clearance requirements and work on Gulf's
23 equipment that is attached to a joint use pole owned by a communication
24 company.

25

1 Q. Describe Gulf's Distribution Transformers Capital Additions Budgets for
2 2013 through 2017.

3 A. Gulf's Distribution Transformers Capital Additions Budgets for 2013 through
4 2017 are shown on Exhibit WES-1, Schedule 6. Distribution Transformers
5 include expenditures associated with the purchase and installation of
6 overhead and underground distribution system transformers as a result of
7 new customers or service improvements.

8

9 Q. Are you responsible for any General Plant capital expenditures?

10 A. Yes. While Ms. Ritenour discusses General Plant capital expenditures in
11 her testimony, I am responsible for certain corporate General Plant capital
12 expenditures related to the purchase of Gulf's fleet of transportation
13 equipment (Fleet), replacement of the Southern Linc radio system at Gulf,
14 and warehouse equipment. I am also responsible for General Plant capital
15 expenditures related specifically to Power Delivery. The 2013 through 2017
16 General Plant capital expenditures for which I have responsibility are shown
17 on Exhibit WES-1, Schedule 7.

18

19 Gulf's Fleet currently consists of 230 light vehicles (pickups and vans), 8
20 medium/heavy non-mechanized units, 126 mechanized units (bucket and
21 pole trucks), 179 trailers, and 49 off-road units (forklifts, dozers, and boats).
22 Gulf's General Plant expenditures associated with Fleet for 2016 are
23 \$3,309,000 and for 2017 is \$3,360,000. These capital expenditures are
24 incurred as a result of a standard replacement plan based on a 10-year
25 cycle for light vehicles and a 12-year cycle for mechanized equipment.

1 These expenditures are necessary to maintain an adequate and reliable
2 Fleet in service for Gulf's operations.

3
4 As part of a Southern Company initiative, the existing radio system,
5 Southern Linc, was designed and installed across the Southern Company
6 footprint in 1993. That radio system used the latest in 800 MHz technology
7 at the time and has served Gulf Power and Southern Company well for over
8 24 years. The age of the system, discontinued manufacturer support,
9 unavailability of replacement parts and equipment, and technological
10 limitations of the system caused Southern Company to begin looking for a
11 replacement system in 2013. Southern has begun the process of replacing
12 the existing system with an updated 4G Long-Term Evolution (LTE) system
13 to support operations. Gulf will invest \$16.5 million for the construction of
14 the LTE system over the period 2016 through 2020, which includes \$1.5
15 million in 2016 and \$11.4 million in 2017. The budgeted amounts through
16 2017 are listed in Exhibit WES-1, Schedule 7. The LTE system will support
17 voice and data communication with field employees, Transmission and
18 Distribution operations, Generation, DSCADA, SmartGrid assets, Advanced
19 Metering Infrastructure (AMI), and other applications and employees across
20 the Company.

21
22 I also have responsibility for the purchase and/or replacement of
23 transmission and distribution warehouse equipment. This program is to
24 either purchase or replace forklifts, pallet jacks, and other mechanized
25 equipment used in the transmission and distribution warehouse facilities to

1 move and transport material and supplies. The budgeted amounts for the
2 years 2013 through 2017 are shown on Exhibit WES-1, Schedule 7.

3
4 Lastly, I have responsibility for General Plant expenditures associated with
5 Power Delivery-specific expenditures. These capital expenditures total
6 \$4,838,000 for 2017 and are listed on Exhibit WES-1, Schedule 6. These
7 expenditures are made up of tools and test equipment - \$396,000,
8 technology improvements - \$473,000, training yard additions and
9 improvements - \$202,000, cybersecurity - \$350,000, electric vehicle
10 charging stations - \$417,000, and the Pine Forest facility roadway
11 construction project - \$3,000,000.

12
13 Q. Has Distribution had any new capital projects or adjustments which arose
14 after the completion of the budget on which the 2017 test year is based?

15 A. Yes. As Ms. Ritenour states in her testimony, Distribution has a capital
16 project which arose after the completion of the budget.

17
18 Because of additional capital expenditures associated with Florida
19 Department of Transportation Highway Projects, an adjustment was
20 required in the amount of \$402,000 in 2016 and \$260,000 in 2017, for a
21 total of \$662,000. These capital expenditures are necessary to meet the
22 statutory requirements for relocation of utility facilities associated with
23 county and state highway projects.

**X. DISTRIBUTION OPERATIONS AND
MAINTENANCE BUDGET**

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Q. What is Gulf's Distribution O&M Budget for 2017?

A. Gulf's Distribution O&M Budget for 2017 is \$45,874,000.

Q. Is Gulf's projected level of distribution O&M expenses of \$45,874,000 in 2017 reasonable and prudent?

A. Yes. The 2017 distribution O&M expenses were approved as a result of Gulf's robust budgeting process described earlier in my testimony. The 2017 distribution O&M expenses are reasonable, prudent and necessary for Gulf to provide adequate and reliable electric service to our customers. As shown on WES-1, Schedule 8 of my exhibit, the 2017 budget for distribution-related O&M expenses include the following major activities: Asset Management - \$21,796,000, Minor Storms - \$745,000, Load Dispatch - \$1,679,000, Meters - \$3,787,000, Storm Hardening - \$225,000, Vegetation Management - \$5,949,000, and Engineering and Supervision - \$11,693,000.

Q. Are there any NOI adjustments in the distribution area of your responsibility?

A. Yes. Adjustment 27 shown on Schedule 4 of Exhibit SDR-1 and discussed in the testimony of Ms. Ritenour was made to adjust Gulf's expenses to reflect a decrease in distribution expenses related to LTE system expenses. As a result of reviewing budgets, we identified that both SCS and Gulf

1 budgeted the same O&M component of the LTE project. Gulf reduced its
2 O&M budget by \$2,100,000 by deleting the Gulf O&M component of LTE,
3 instead allowing the SCS O&M allocation to Gulf.
4

5 Q. Please describe Gulf's Asset Management activity.

6 A. The Asset Management activity accounts for \$21,796,000 in the 2017
7 distribution budget. This includes expenses related to equipment
8 inspection, maintenance, and repair programs to ensure safe and effective
9 operation of Gulf's distribution equipment. This activity includes Gulf's
10 inspection, maintenance, and repair of major distribution equipment such as
11 poles, overhead and underground transformers, regulators, transclosers,
12 and vaults on the distribution system. Gulf's pole inspection program is
13 based on an eight-year cycle, as approved by the FPSC in Order No. PSC-
14 07-0078-PAA-EU, Docket No. 060531-EU, with a goal to inspect one-eighth
15 of Gulf's in-service pole inventory annually. Other expenses include Gulf's
16 annual inspection of mainline feeders using both visual observations and
17 infrared technology is included in this activity. Also included in this activity
18 are the expenses associated with outage-related distribution switching (load
19 transfer or isolation); repair of damaged underground cables, overhead
20 feeders, laterals, services, and transformers; and outage restoration efforts.
21 This activity also includes maintenance expenses for Gulf's distribution
22 automation program, which includes repair and maintenance of line devices
23 and their associated communication equipment.
24
25

1 Q. Please describe Gulf's Minor Storm activity.

2 A. The Minor Storm activity accounts for \$745,000 in the 2017 Distribution
3 O&M Budget and includes expenses involved in restoring electric service to
4 Gulf's customers after weather events such as thunderstorms or winter
5 storms. This activity includes repairing downed feeders or laterals and
6 other equipment damaged by weather events not covered by the Property
7 Damage Reserve.

8

9 Q. Please describe Gulf's Load Dispatch activity.

10 A. Gulf's Load Dispatch activity accounts for \$1,679,000 in the 2017
11 Distribution O&M Budget and includes expenses related to non-outage
12 distribution switching. An example of non-outage distribution switching is
13 the safe transfer of load between feeders or laterals to facilitate construction
14 or maintenance.

15

16 Q. Please describe Gulf's Meters activity.

17 A. Gulf's Meters activity accounts for \$3,787,000 in the 2017 Distribution O&M
18 Budget and includes expenses related to Gulf's meter inspection and testing
19 programs. These programs are part of the ongoing support of the "Gulf
20 Power Company Test Plan for Revenue Metering Devices" that is filed with
21 the FPSC, outlining meter test schedules.

22

23 Q. Please describe Gulf's Storm Hardening activity.

24 A. Gulf's Storm Hardening activity accounts for \$225,000 in the 2017
25 Distribution O&M Budget and includes part of the O&M expenses

1 associated with Gulf's Storm Hardening Plan filed with the Commission on
2 May 1, 2016. This budget item covers the O&M component of pole
3 replacement and equipment repair associated with Gulf's pole and feeder
4 inspection programs outlined in Gulf's Storm Hardening Plan.

5

6 Q. Please describe Gulf's distribution Vegetation Management activity.

7 A. Gulf's distribution Vegetation Management activity accounts for \$5,949,000

8 in the 2017 Distribution O&M Budget and includes expenses to clear, trim
9 and maintain the distribution ROW. The test year request is for costs

10 associated with maintaining the tree trim cycles established in Gulf's Storm

11 Hardening Plan, which was approved by the Commission in Order No. PSC-
12 10-0688-PAA-EI, Docket No. 100265-EI.

13

14 Q. Please describe Gulf's Engineering and Supervision expense.

15 A. Gulf's Engineering and Supervision expense accounts for \$11,693,000 in

16 the 2017 Distribution O&M Budget and includes the salaries and expenses
17 associated with supervisors, engineers, and other employees engaged in
18 the operation and maintenance of the distribution system.

19

20 Q. Is Gulf's projected level of Distribution O&M expenses of \$45,874,000 in
21 2017 representative of a going forward level of Distribution O&M expenses
22 beyond 2017?

23 A. Actually, Gulf's 2017 Distribution O&M expenses of \$45,874,000 are lower
24 than the Distribution O&M expenses for the years 2018, 2019 and 2020,
25 which are \$48,532,000, \$49,008,000 and \$49,835,000, respectively.

1 Q. How do Gulf's Distribution O&M expenses forecasted for 2017 compare to
2 the O&M benchmark level of Distribution expenses?

3 A. Gulf's 2017 level of Distribution O&M expenses is \$206,000 above the O&M
4 benchmark. The O&M benchmark level for Distribution provided to me by
5 Ms. Ritenour is \$45,668,000. Gulf is projecting to spend Distribution O&M
6 in 2017 of \$45,874,000.

7

8 Q. Please justify why total Distribution O&M expenses exceed the O&M
9 benchmark by \$206,000 in the 2017 test year.

10 A. As I previously mentioned in my testimony, the safety of our employees is a
11 core value at Gulf Power Company. Gulf's Distribution 2017 O&M budget is
12 over the test year benchmark because of increased costs in the Overhead
13 and Underground Line Operation and Maintenance activity, specifically
14 expenses related to the safety of the Company's employees.

15

16 Gulf provides Personal Protective Equipment (PPE) for employees working
17 in hazardous conditions. A part of this PPE program is an annual allotment
18 to employees to purchase Company-approved flame retardant clothing.
19 Subsequent to Gulf's 2012 test year rate case, Gulf reviewed its policy for
20 the flame retardant clothing program and increased the annual allotment for
21 certain classifications of employees. This resulted in an annual increase of
22 \$181,000 since Gulf's 2012 test year rate case. In 2015, the Company began
23 a new safety footwear program, similar to the flame retardant clothing
24 program, whereby field employees are eligible to purchase safety footwear
25 utilizing an annual allotment. This resulted in an annual increase of \$25,000.

XI. POWER DELIVERY PERFORMANCE

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Q. How does Gulf assess the value and quality of its Power Delivery system's service to its customers?

A. Gulf evaluates its Power Delivery system performance from the perspective of our customers. As Gulf Witness Terry describes in her testimony, one of Gulf's goals is to score in the upper quartile in customer value when measured against a peer group of utilities. Gulf utilizes the Customer Value Benchmark to compare itself to 16 peer utilities in the Southeast and nationally. Gulf was recognized as the number one ranking utility overall. Within the survey, Gulf's reliability scored second among peer utilities across all three customer classes: residential, general business, and large business. I am proud of the accomplishments from Gulf's Power Delivery team in producing these outstanding results.

Q. Does Gulf use any other measures to value Power Delivery system performance?

A. Yes. Consistent with Rule No. 25-6.0455, Gulf also uses the following Distribution reliability measures: System Average Interruption Frequency Index (SAIFI), System Average Interruption Duration Index (SAIDI), Momentary Average Interruption Event Frequency Indicator (MAIFIE), Customer Average Interruption Duration Index (CAIDI), and Customers Experiencing More Than Five Interruptions (CEMI5). Gulf's Distribution system performance on these reliability measures between 2012 and 2015 has been relatively consistent.

1 Exhibit WES-1, Schedule 9 shows Gulf’s Distribution SAIDI & SAIFI for the
2 2012 through 2015 periods. Exhibit WES-1, Schedule 10 shows
3 Transmission reliability measures SAIFI and SAIDI for the 2012 through
4 2015 periods.

5
6 Another measure of Gulf’s Power Delivery system performance is the
7 number of reliability-related complaints the Commission receives from our
8 customers. According to the data available from the Commission from 2002
9 through 2015, Gulf has two infractions or rule violations, but neither was
10 related to Power Delivery reliability.

11
12
13 **XII. CONCLUSION**

14
15 Q. Please summarize your testimony.

16 A. Gulf’s transmission and distribution systems planning processes are
17 comprehensive, rigorous, and meet all applicable regulatory requirements.
18 The Company has a strong commitment to invest in its transmission and
19 distribution systems to prevent and resolve potential reliability problems.
20 Gulf’s capital investments and operations and maintenance expenses are
21 necessary for the continued reliability of our transmission and distribution
22 systems. Gulf has sound maintenance practices for our transmission and
23 distribution systems and we continue to inspect and prioritize major repairs
24 across the system. The transmission and distribution O&M expenses will
25 be used to ensure our system continues to operate in a reliable manner and

1 to help ensure we continue to maximize the life cycle of our current
2 investments. With the customer at the center of everything we do, Gulf is
3 committed to the safe and reliable operation of its system and meeting the
4 needs of our customers.

5

6 Q. Does this conclude your testimony?

7 A. Yes.

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1 GULF POWER COMPANY

2 Before the Florida Public Service Commission

3 Prepared Direct Testimony of

4 Michael L. Burroughs

5 Docket No. 160186-EI

6 In Support of Rate Relief

7 Date of Filing: October 12, 2016

8

9 Q. Please state your name and business address.

10 A. My name is Michael Burroughs. My business address is One Energy Place,
11 Pensacola, Florida 32520.

12

13 Q. What is your position?

14 A. I am Vice President of Power Generation and the Senior Production Officer
15 of Gulf Power Company (Gulf or the Company).

16

17 Q. What are your responsibilities as Vice President of Power Generation and
18 Senior Production Officer?19 A. I am responsible for Power Generation, Fuel, Supply Side Renewable
20 Energy Development and Generation Planning. This includes
21 responsibilities for all of Gulf's wholly owned and jointly owned plants and all
22 power purchase agreements.

23

24 Q. Please state your prior work experience and responsibilities.

25 A. I was hired by Alabama Power Company in 1991 as a Junior Engineer at
Plant Barry in Mobile, Alabama. I progressed through various positions until
I transferred to Gulf, assuming the role of Planning and Engineering
Manager at Plant Smith in Panama City, Florida in 1999. During the

1 following seven years, I held positions of Maintenance Manager as well as
2 Compliance and Engineering Manager. In May 2006, I was selected to be
3 the Assistant to the Executive Vice President and Chief Production Officer
4 of Southern Company Generation and Alabama Power Company. In
5 September 2007, I was named Plant Manager of Yates Generating Plant in
6 Newnan, Georgia with Georgia Power Company. I assumed my current
7 position as Vice President of Power Generation and Senior Production
8 Officer of Gulf in August 2010.

9

10 Q. What is your educational background?

11 A. I graduated with a Bachelor of Science degree in Mechanical Engineering
12 from the University of Alabama at Birmingham in 1990.

13

14 Q. What is the purpose of your testimony?

15 A. My testimony discusses the continued diversification of Gulf generating
16 resources and closure-related activities for the coal-fired assets at Plant
17 Scholz and Plant Smith Units 1 and 2 (Smith 1 and 2). I will also establish
18 that our safety performance has been excellent and the reliability of our
19 generating resources continues to be among the best in the electric utility
20 industry. I justify Production investment, Production operation and
21 maintenance (O&M) expenses, and fuel inventory levels necessary for
22 Gulf's continued provision of reliable generation. Lastly, I will address Gulf's
23 Plant Held for Future Use (PHFU).

24

25

1 Q. Are you sponsoring any exhibits?

2 A. Yes. I am sponsoring Exhibit MLB-1, Schedules 1 through 11. Exhibit
3 MLB-1 was prepared under my direction and control, and the information
4 contained therein is true and correct to the best of my knowledge and belief.

5

6 Q. Are you sponsoring any of the Minimum Filing Requirements (MFRs)
7 submitted by Gulf?

8 A. Yes. A list of MFRs I sponsor or co-sponsor is included on Exhibit MLB-1,
9 Schedule 1. The information contained in the MFRs I sponsor or co-
10 sponsor is true and correct to the best of my knowledge and belief.

11

12

13

I. GULF'S GENERATION RESOURCES

14

15 Q. Please describe Gulf's generating resources.

16 A. Gulf generates or purchases electricity from a diverse group of resources,
17 including: (a) units owned solely by Gulf; (b) units owned jointly with other
18 operating companies within the Southern electric system (SES); (c) units in
19 the SES available to Gulf through the SES Intercompany Interchange
20 Contract (IIC); and (d) units available to Gulf under power purchase
21 agreements (PPAs). The fuels used for the generation resources available
22 to Gulf include coal, oil, natural gas, landfill gas, municipal solid waste, wind
23 and solar.

24

25

1 Q. Please describe the generation forecasted to be owned, operated, and used
2 by Gulf to serve its native load customers in 2017.

3 A. Exhibit MLB-1, Schedule 2 provides a list of the units owned and operated
4 or co-owned by Gulf that will be used to serve native load customers in
5 2017.

6

7 Q. What PPAs will Gulf have in place and use to provide electric service in
8 2017?

9 A. Exhibit MLB-1, Schedule 3 provides a list of the power purchase resources
10 available to Gulf during 2017 and information regarding the fuels and
11 technologies used by these generating resources. Other than the
12 Kingfisher agreement executed in June 2016, which is currently pending
13 before the Florida Public Service Commission (FPSC or the Commission),
14 all of these agreements have been approved by the FPSC.

15

16 Q. Other than the environmental capital projects addressed through Gulf's
17 Environmental Cost Recovery Clause (ECRC), what major changes have
18 been made to Gulf's generating resources since Gulf's 2012 test year base
19 rate proceeding?

20 A. There have been a number of changes in Gulf's generating resources since
21 Gulf's 2012 test year rate proceeding. These changes include plant
22 closures, expiration of PPAs, further diversification of our generating
23 resources by the addition of solar and wind energy purchase agreements,
24 and the rededication of Scherer Unit 3 to serve native load customers.

25

1 Since Gulf's 2012 test year base rate proceeding, Gulf has closed Smith 1
2 and 2 and Plant Scholz. These closures were precipitated by new
3 environmental requirements. It was less costly for Gulf's customers to retire
4 these units than to install new environmental controls to comply with these
5 additional requirements. Gulf announced the closure of Plant Scholz on
6 March 22, 2013, and it ultimately ceased operations on April 15, 2015. The
7 retirement of Smith 1 and 2 was announced on February 6, 2015, and those
8 units ultimately ceased operations on March 31, 2016.

9
10 As discussed in Gulf's last rate case, Gulf's PPAs with Coral Baconton (195
11 MW) and Dahlberg (299 MW) expired in May 2014. Neither contract was
12 renewed.

13
14 Gulf has continued to look for opportunities to diversify its generating
15 resources in a cost-effective manner. In April 2015, the FPSC approved
16 three energy purchase agreements for the addition of 120 MW of utility-
17 scale solar. This allowed Gulf to add solar to its generating resources for
18 the first time. In May 2015, the FPSC approved Gulf's wind energy
19 purchase agreement which was the first in the state of Florida. This 178
20 MW wind energy purchase agreement is for 20 years and provides further
21 diversification of our generating resources. In June 2016, Gulf signed a
22 second wind energy purchase agreement for an additional 94 MW of wind
23 resources. This agreement has been submitted to the Commission for
24 approval. Gulf continues to be a leader in diversifying its reliable and cost-
25

1 effective generating resources, including renewable resources such as wind
2 and solar.

3

4 Q. Please discuss the closing of Plant Scholz.

5 A. On February 16, 2012, the Environmental Protection Agency published final
6 air toxics standards for coal- and oil-fired Electric Generating Units; these
7 standards are commonly known as the Mercury and Air Toxics Standards or
8 "MATS." Plant Scholz was the first coal-fired plant in the state of Florida,
9 and these units contributed greatly to the growth and economic expansion
10 of Northwest Florida. The units were used and useful in supplying the
11 energy needs of our customers since 1953. However, based on this rule
12 and the \$26 million (NPV 2013) cost to comply with its stringent
13 requirements, Gulf Power made the difficult decision to close Plant Scholz.

14

15 As shown in Gulf Witness Ritenour's testimony Schedule 3, Plant Scholz
16 has \$609,000 of equipment inventory remaining. This inventory was used
17 to ensure reliable operation of these units until their retirement. All of the
18 Gulf Plants maintain an equipment inventory of specific, critical parts in
19 order to address equipment issues quickly and to ensure reliability while a
20 plant is in service. Gulf focused on optimizing equipment inventory levels
21 for many years and took appropriate measures to minimize the inventory
22 remaining when the plant ceased generating electric power. Gulf prudently
23 managed the equipment inventory at Plant Scholz; therefore, as addressed
24 by Ms. Ritenour, Gulf is requesting recovery of the balance of its prudently
25 incurred equipment inventory for Plant Scholz.

1 Q. Please discuss the closing of Smith 1 and 2.

2 A. The MATS rule also adversely affected the prospective operation of Smith 1
3 and 2. Gulf's analysis indicated that expenditures of \$73 million (NPV 2015)
4 would be required to install environmental controls on Smith 1 and 2 to meet
5 the MATS requirements. Additionally, there were other potential
6 environmental regulations that challenged the long-term viability of Smith 1
7 and 2. The extensive evaluation of various environmental compliance
8 strategies resulted in the determination that it was in the best interest of
9 Gulf's customers to retire Smith 1 and 2.

10

11 The retirement of Smith 1 and 2 means that Gulf must address remaining
12 inventory and account for the remaining net book value associated with
13 Smith 1 and 2. On their retirement date, Smith 1 and 2 had \$2,810,000 of
14 equipment inventory remaining. This inventory was necessary to ensure
15 the reliable operation of these units until their retirement. As with Plant
16 Scholz, Gulf maintained an equipment inventory of specific critical parts
17 necessary to ensure reliability. Just as with Plant Scholz, when the
18 possibility of closing Smith 1 and 2 became more likely, Gulf implemented
19 the same measures to minimize stranded inventory levels. Although the
20 success of these enhanced measures to minimize remaining equipment
21 inventory was limited by numerous other units of similar vintage closing in
22 the surrounding states, Gulf prudently managed the equipment inventory for
23 Smith 1 and 2. Ms. Ritenour will address the proper ratemaking treatment
24 of this activity.

25

1 The MATS rule and other new environmental requirements and their
2 associated costs of compliance made the premature closure of Smith 1 and
3 2 the least costly alternative for Gulf's customers. The retirement of Smith 1
4 and 2 prior to the units being fully depreciated left Gulf with approximately
5 \$60 million in remaining net book value. These units have been used and
6 useful in serving the needs of Gulf customers for almost 40 years and were
7 operated and managed in an exceptional manner. Ms. Ritenour will address
8 the proper ratemaking treatment of the remaining net book value related to
9 Smith 1 and 2.

10

11 Q. Please discuss Scherer Unit 3 and its performance.

12 A. Scherer Unit 3 is a coal-fired unit with an 818 MW nameplate rating (857
13 MW capacity rating) that is jointly owned by Georgia Power Company and
14 Gulf Power Company. Gulf has owned 25 percent of Scherer Unit 3 since
15 1987. Scherer Unit 3 is a fully controlled, coal-fired unit with Selective
16 Catalytic Reduction, Flue Gas Desulfurization, and Baghouse equipment
17 installed for optimum and long-term emissions compliance. Scherer Unit 3
18 is the most economical coal-fired unit in Gulf's generation fleet, and it uses
19 Powder River Basin (PRB) coal as its fuel source. Lastly, the performance
20 of Scherer Unit 3 has been outstanding, with excellent heat rate and
21 reliability.

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1 **III. GULF'S SAFETY AND OPERATIONAL**
2 **PLANT PERFORMANCE**

3
4 Q. Please address the performance of Gulf's power plants.

5 A. Gulf uses a number of indicators to measure the performance of its
6 units/plants. They include Equivalent Availability Factor (EAF), heat rate,
7 Equivalent Forced Outage Rate (EFOR) (both annual and peak season),
8 and OSHA recordable incidents. Both EAF and heat rate are tracked in the
9 Commission's Generation Performance Incentive Factor (GPIF) program.
10 Gulf considers heat rate and EFOR to be the primary indicators of efficiency
11 and reliability, respectively, and uses them to evaluate the effectiveness of
12 our planned outage and maintenance programs.

13

14 Q. What does EFOR measure?

15 A. EFOR measures a generating unit's inability to provide electricity when
16 dispatched and is the primary tool used by Gulf to track unit reliability.
17 EFOR is reported in terms of the hours when a generating unit could not
18 deliver electricity as a percentage of all the hours during which that unit was
19 called upon to deliver electricity.

20

21 Q. What is economic dispatch?

22 A. Economic dispatch is the process of dispatching units based on cost. Gulf
23 has units committed and on line to serve existing load in addition to spinning
24 reserves. The spinning reserves are units that are on line (running at less
25 than full load) to support the loss of another unit in the event a unit is forced

1 off line. Spinning reserves are a critical part of ensuring the reliability of the
2 system. As customer demands increase, Gulf commits additional resources
3 to serve those demands using the most economical units first. As customer
4 demands decrease, Gulf takes the highest cost units off line first. Economic
5 dispatch is designed to ensure the customers receive the benefits of the
6 most economic units, that is, the units with the lowest incremental operating
7 costs.

8
9 Q. Why is it important to ensure units are available for economic dispatch?

10 A. By dispatching the least-cost units first, Gulf ensures our customers receive
11 the lowest cost resources. This is why it is critical to maintain a low EFOR,
12 particularly in the peak months. Whenever a more economical unit is forced
13 off line, the replacement energy will likely be more expensive, and this may
14 impact our customers through higher fuel costs.

15
16 Q. What EFOR measures does Gulf track, and why?

17 A. Gulf tracks both Annual EFOR and Peak Season EFOR. Plant performance
18 goals are set around Peak Season EFOR. Gulf historically tracked Peak
19 Season as the period from May 1 through September 30 each year when
20 typically the demand for electricity had been the highest. Currently, Gulf's
21 Peak Season EFOR includes the months of January, February, June, July
22 and August.

1 Q. What is a heat rate?

2 A. Heat rate is a measure of a unit's efficiency in converting fuel to electricity.
3 It is a measure of the amount of fuel required to generate a kilowatt hour
4 (kWh). The lower a unit's heat rate, the more efficiently it converts fuel to
5 electricity.

6

7 Q. Please address why EFOR and heat rate performance are important to
8 customers.

9 A. EFOR is a measure of a unit's reliability. A low EFOR ensures that the
10 lowest cost units are available to produce electricity when called upon to
11 meet the demands of customers. Also, maintaining a low EFOR ensures
12 that units are available to make wholesale power sales when opportunities
13 arise. This results in a reduced fuel cost to our native load customers since
14 most of the gain from these sales is applied as a credit to fuel expense. As
15 discussed earlier in my testimony, heat rate is an efficiency measure. The
16 lower the heat rate, the less fuel consumed to generate electricity. The
17 customer benefits by paying less in fuel costs and having lesser amounts of
18 fuel required in inventory.

19

20 Q. What are the Annual and Peak Season EFOR for Gulf's generating units?

21 A. Exhibit MLB-1, Schedule 4, shows Gulf's Annual and Peak Season EFOR.

22

23 Q. How does Gulf's EFOR compare to others in the industry?

24 A. As shown on Exhibit MLB-1, Schedule 4, Gulf's Annual and Peak EFOR
25 performances compare extremely favorably with peer utilities. Schedule 4,

1 pages 1 and 2 show graphically how Gulf's actual Annual and Peak Season
2 EFOR compare to the peer group averages from 2012 through 2014.

3 Schedule 4, pages 3 and 4 show where Gulf's actual average performance
4 for the same period compares to each of the peer utilities. While 2015 data
5 for the peer industry group is not yet available, Gulf achieved, and
6 customers benefited from, excellent EFOR rates in 2015, as shown on
7 Schedule 4 pages 1 and 2. Gulf's excellent performance is indicative of
8 Gulf's management and employees' commitment in serving our customers.

9

10 Q. What is the source of the data Gulf has used to compare its EFOR
11 performance to that of other utilities?

12 A. Gulf obtained Annual and Peak Season EFOR data from the North
13 American Electric Reliability Corporation (NERC).

14

15 Q. Please address Production safety at Gulf Power.

16 A. Safety is the first priority for every employee at Gulf Power. Safety is a core
17 value, and it is our desire that we work every day and every job safely. The
18 overall objective of our safety program is zero accidents.

19

20 Since 2006, Gulf's OSHA Recordable Incident Rate (RIR) has been 0.699.
21 Gulf's Production safety performance compares favorably with the industry
22 average RIR of 1.053. Stated differently, Gulf's RIR has been 33.65
23 percent better than the industry for the period 2006 through 2015. In fact,
24 Plant Scholz experienced no recordable incidents for 14 years at the time of
25 its retirement. For 2015, Gulf Generation's RIR of 0.00 percent was

1 recognized as first in the Southeastern Electric Exchange with an award for
2 Top Safety Performance in Fossil Hydro Generation.

3
4 The success we have experienced is driven by our philosophy that
5 management at Gulf will provide an environment where we send every
6 employee home every day as healthy as when they reported to work. This
7 provides benefits to our employees and our customers through greater
8 productivity.

9

10

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IV. GULF’S PRODUCTION INVESTMENT

12

13 Q. Please address how Gulf’s Production Capital Additions Budget is
14 formulated.

15 A. The Production Capital Additions Budget process is a multi-step process
16 that begins at the plant level and is ultimately approved by Gulf’s Executive
17 Management Team, which is made up of the President and CEO and the
18 vice presidents of Gulf. All capital projects are evaluated to ascertain the
19 necessity of performing the work.

20

21 Plant personnel begin the Production budgeting process by evaluating
22 existing plant equipment performance and maintenance costs. Where
23 performance has degraded or is forecasted to degrade to an unacceptable
24 level and maintenance costs are increasing, replacement of the equipment
25 becomes necessary. As part of this evaluation process, plant personnel

1 review the information provided by Gulf to the NERC Generation Availability
2 Data System (GADS) to evaluate events that have triggered unplanned
3 outages or unit de-rates. Gulf develops plans to address GADS events that
4 continue to be problematic and makes decisions to repair or replace existing
5 equipment. Once plant personnel have identified specific projects, the
6 Group Managers at each plant review the proposed project list to determine
7 which projects will be submitted to the Plant Management Team (the Plant
8 Manager and his direct reports). The Plant Management Team meets to
9 discuss each proposed project to determine which projects will be submitted
10 for the next level of review to be included for consideration in the final
11 budget.

12
13 Each plant presents its proposed list of capital projects to the Power
14 Generation Leadership Team (the Vice President of Power Generation and
15 his direct reports). The plant managers then meet with the Power
16 Generation Leadership Team to prioritize all projects at the Power
17 Generation Level to ensure the most critical projects are included in the
18 budget submitted for final review by Gulf's executives.

19
20 Lastly, the Production Capital Additions Budget request is presented to
21 Gulf's executives. The final Capital Additions Budget is ultimately approved
22 or revised by executive management.

23
24
25

1 Q. How does Gulf control capital costs after the Capital Additions Budget is
2 developed?

3 A. Once the Capital Additions Budget is approved, each project is assigned a
4 project manager who is responsible for all aspects of the project. The project
5 manager develops documentation outlining the scope of the project and
6 works with Supply Chain Management to develop a bid package. From start
7 to finish, the project manager is responsible for all on-site management,
8 including contractor performance and invoice review. The Plant Manager
9 receives a report from the Power Generation Financial Manager each month
10 detailing capital project expenditures and any budget variance for all projects.
11 The Plant Manager is responsible for explaining budget variances. At the
12 Company level, the Corporate Planning group requires a detailed explanation
13 quarterly of all budget variances greater than 10 percent or \$250,000
14 (whichever is lower). Variances less than \$10,000 do not require a variance
15 explanation.

16

17 Q. How are new capital projects or changes to existing projects incorporated in
18 the current year budget?

19 A. In the event a new project or an increase in expenditures associated with an
20 existing project is necessary, the planning unit must submit a justification
21 letter to me as the Vice President with functional responsibility. If I approve
22 the change, the letter is also reviewed and approved by the Chief Financial
23 Officer. Finally, the letter is sent to Corporate Planning where the change is
24 documented and added to the financial plan.

25

1 Q. Was Gulf's Production non-ECRC Capital Additions Budget for 2016 and
2 2017 developed by this budget and cost control process?

3 A. Yes. The projects included in Gulf's Production Capital Additions Budget
4 were approved pursuant to this rigorous evaluation and approval process.
5 Gulf's effective capital budgeting and cost control process has helped to
6 ensure that our generating fleet continues to provide reliable and efficient
7 generation. The dollars included in the test year non-ECRC Capital
8 Additions Budget for Production are reasonable, prudent, and necessary.
9 Gulf will continue to evaluate the benefits of additional capital projects in the
10 future to ensure that we are able to provide our customers with reliable,
11 cost-effective and efficient generating capacity.

12
13 Q. Mr. Burroughs, Gulf shows a total of \$3.458 billion of plant-in-service
14 investment in Gulf's 2017 rate base in this case. Are the Production assets
15 associated with these costs used and useful in the provision of electric
16 service to the public?

17 A. Yes. The Production assets, which comprise a total of \$1.299 billion of
18 plant-in-service in Gulf's 2017 rate base in this case, are used and useful in
19 Gulf's provision of electric service.

20
21 Q. What amount is included in Gulf's 2017 rate base for Gulf's ownership in
22 Plant Scherer Unit 3?

23 A. The non-ECRC Production plant-in-service amount included in Gulf's 2017
24 rate base for Gulf's ownership in Scherer Unit 3 that is currently not
25 committed to off-system sales is \$154,859,000. Mr. Deason, Mr. Burleson

1 and Ms. Liu's testimonies address the rededication of Scherer Unit 3 to
2 serve native load customers.

3

4 Q. What were the total major non-ECRC capital additions in 2013 through
5 2015?

6 A. The major Production non-ECRC capital additions for 2013 through 2015
7 were \$64,900,000. Please see Exhibit MLB-1, Schedule 5 for a list of the
8 major projects included in Production non-ECRC capital additions since
9 2013.

10

11 Q. Were these Production capital additions reasonable and prudently incurred?

12 A. Yes. They were incurred pursuant to the previously discussed capital
13 budget process. They also were subject to cost controls used to govern
14 budgeted expenditures.

15

16 Q. What is Gulf's projected Production Capital Additions Budget for 2016 and
17 2017 excluding items recovered through the ECRC?

18 A. Gulf's Production non-ECRC Capital Additions Budget for 2016 is
19 \$82,673,000. As shown on Exhibit MLB-1, Schedule 6, there are 98
20 projects planned for 2016. Gulf's Production non-ECRC Capital Additions
21 Budget for 2017 is \$38,404,000. As shown in Exhibit MLB-1, Schedule 7,
22 there are 101 capital projects in 2017.

23

24 All of these budgeted projects for both 2016 and 2017 are needed to
25 address safety, to maintain efficiency (heat rate), or to sustain reliability.

1 Q. Are you supporting the generation rate base adjustment shown on Ms.
2 Ritneour's Schedule 2 in the amount of \$12,603,000 that was made to
3 plant-in-service?

4 A. Yes. This adjustment reflects the 13-month average cost of changes to
5 three projected capital projects that arose following the completion of the
6 Company's budget on which the 2017 test year is based. These three
7 projects and their projected cost are included in the Capital Additions
8 Budget in Exhibit MLB -1, Schedules 6 and 7:

- 9 1. The investment in the Plant Crist canal integrity project is necessary
10 to maintain the integrity of the canal near the coal unloading dock.
11 This investment is included in Schedule 6 with a projected cost of
12 \$9,500,000 in 2016. The 13-month average cost is \$9,500,000.
- 13 2. The investment in the Plant Daniel trestle project is necessary to
14 replace the coal unloading trestle. This investment will be incurred
15 over two years and is shown in Schedule 6 at a projected cost of
16 \$193,000 for 2016 and in Schedule 7 at a projected cost of
17 \$4,250,000 in 2017. The 13-month average cost is \$2,734,000.
- 18 3. The investment in the Header Wall at Plant Crist is necessary to
19 replace the front and rear wall headers on Unit 6. This investment
20 will be incurred over two years and is included in Schedule 6 at a
21 projected cost of \$100,000 in 2016 and in Schedule 7 at a projected
22 cost of \$500,000 in 2017. The 13-month average cost is \$369,000.

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V. GULF’S 2017 PRODUCTION O&M BUDGET

Q. Please address how Gulf’s Production O&M Budget is formulated.
A. Each year, Gulf’s Power Generation Organization develops a five-year O&M budget based on historical results, projected maintenance and outage planning. As we develop the budget request, we focus on planned outages and baseline expenses.

Over the years, Gulf’s plant personnel have gained valuable knowledge relating to the maintenance of our equipment. Our experience indicates that each unit should have a regularly scheduled planned outage to inspect and repair fuel handling equipment, boilers and auxiliary equipment every 18 to 24 months unless conditions warrant an adjustment to the schedule. In addition, a major planned outage is scheduled on each unit every 8 to 10 years, which includes work on the turbine and generator equipment in addition to the equipment listed above.

Baseline expenses are costs required to conduct the day-to-day operation and maintenance of the generating equipment and auxiliary equipment and facilities. Baseline expenses include all labor, material and other expenses, such as contracts for maintaining grounds, janitorial services, and other services.

The five-year O&M budgets are developed at the plant level with the goal of maintaining high reliability and efficiency. As discussed in my testimony on

1 Plant Performance, Gulf has done an exceptional job of maintaining high
2 unit reliability and efficiency. At the same time Gulf has fostered an
3 environment where employee safety is our number one priority.
4

5 As each plant develops a five-year O&M budget, the Plant Management
6 Team seeks input from system owners and unit owners to ensure the most
7 critical issues receive attention. Each plant assigns a system owner
8 (expert) over major systems such as boiler, turbine or generator. In
9 addition, each unit has an individual assigned as the unit owner with the
10 expectation that the individual will be the coordinator of any work related to
11 the assigned unit. As the O&M budget is developed, the Plant Management
12 Team meets to discuss all aspects of the equipment maintenance
13 requirements.
14

15 Once the Plant Management Team is satisfied that their O&M budgets meet
16 the plant's needs, the Power Generation Leadership Team meets to discuss
17 the overall Power Generation O&M budget. In the event that there are
18 resource (labor, physical, or financial) constraints, the Power Generation
19 Leadership Team discusses risks associated with projects and prioritizes
20 projects to help ensure the most critical activities are included in the budget.
21 Lastly, the Power Generation budget is submitted to Gulf's Corporate
22 Planning group. Gulf Witness Mason discusses the budget process that
23 takes place after Corporate Planning receives the Power Generation O&M
24 budget request.
25

1 Q. What are Gulf's Production O&M budgets for 2016 and 2017 excluding
2 costs recovered through the ECRC?

3 A. Gulf's Production O&M budget for 2016 is \$112,501,000 including
4 Production Steam, Production Other, and Production Other Power Supply
5 expenses.

6
7 Gulf's Production O&M budget for 2017 is \$122,154,000, including
8 Production Steam, Production Other, and Production Other Power Supply
9 expenses. Gulf's Production O&M budget for 2017 is set forth on Exhibit
10 MLB-1, Schedule 8 and Schedule 9.

11

12 Q. Is Gulf's projected level of Production O&M expenses of \$122,154,000 in
13 2017 representative of a going forward level of Production O&M expenses
14 beyond 2017?

15 A. Yes. As shown on Exhibit MLB -1 Schedule 9, the average Production
16 O&M budget for the four-year period (2017 through 2020) is \$122,123,000.
17 Gulf's Production O&M expense for the 2017 test period is representative of
18 the ongoing level of expense necessary to maintain generation performance
19 and reliability.

20

21 Q Mr. Burroughs, does Gulf's projected level of Production O&M expenses of
22 \$122,154,000 in 2017 include O&M savings for closing Plant Scholz?

23 A. Yes. In the years leading to the closure of Plant Scholz, Gulf had been
24 anticipating its closure and had been performing minimal maintenance to
25 keep the units available through their retirement date of April 2015. In the

1 test year and prior year, Gulf has budgeted \$205,424 and \$205,449,
2 respectively, for care of the grounds and structures at Plant Scholz. Gulf is
3 required to close the ash pond at Plant Scholz. Until the ash pond closure
4 and ultimate dismantlement of the building, Gulf will continue to incur O&M
5 costs to monitor and care for the grounds and to provide security for the
6 land and ash pond.

7
8 Q. Does Gulf's projected level of Production O&M expenses of \$122,154,000
9 in 2017 include O&M savings for closing Smith 1 and 2?

10 A. Yes. During the 2015 budget process, which was completed in 2014 prior
11 to the decision to retire Smith 1 and 2, Gulf had forecasted to spend
12 \$2,875,000 and \$3,361,000 in 2016 and 2017 respectively for planned
13 outages. The decision to retire Smith 1 and 2 was announced in February
14 2015. After that announcement, Gulf performed minimal maintenance to
15 keep the units available through their retirement date of March 31, 2016.
16 During the 2016 budget process, Gulf did not budget any future amounts for
17 planned outages.

18
19 Gulf will continue to incur O&M costs to monitor and maintain the ash pond
20 for Smith 1 and 2 until the ash pond is closed.

21
22 Q. Are Gulf's projected levels of Production O&M expenses of \$112,501,000 in
23 2016 and \$122,154,000 in 2017 reasonable and prudent?

24 A. Yes. My conclusion is based primarily on the fact that Gulf's 2016 and 2017
25 Production O&M budgets are the product of a rigorous budget process

1 previously discussed in my testimony and implemented by experienced
2 employees who know their jobs and their facilities.

3
4 The \$122,154,000 included in the 2017 Production O&M budget was
5 developed using teams from the plants whose expertise and understanding
6 of plant equipment and plant operations has been clearly demonstrated by
7 the continued high performance indicators of the units. The budgets are
8 then reviewed and modified by the Plant Management Team, the Power
9 Generation Leadership Team, and ultimately Gulf's Executive Management
10 Team. The 2017 Production O&M budget is the product of this robust
11 budgeting process and has been appropriately adjusted for specific items
12 addressed in this base rate case.

13
14 Q. On your Schedule 9, you show a series of adjustments in the year 2017.
15 Please explain the purpose of each of those adjustments.

16 A. There are five adjustments to the Production O&M request on Schedule 9:

- 17 1. Scherer Unit 3 Non-ECRC Production Steam Adjustment. This
18 adjustment of \$2,129,000 reflects the O&M expense associated with
19 Gulf's ownership portion of Scherer Unit 3 that is currently committed to
20 off-system sales as discussed in Ms. Ritenour's testimony.
- 21 2. Plant Daniel Production Steam Adjustment. This adjustment of
22 \$1,300,000 is a result of the addition of turbine valves and mill journals,
23 which were identified subsequent to Gulf's final budget, to the 2017
24 planned outage. The maintenance on this equipment occurs at periodic
25 intervals, and the next maintenance activity is scheduled in 2017.

- 1 3. Plant Crist Production Steam Adjustment. This adjustment of
2 \$1,100,000 increases the scope of the planned outage in 2017 to
3 include the replacement of Unit 6 boiler tubes. During a boiler inspection
4 after the 2016 through 2020 forecasts were developed, it was
5 determined that these boiler tubes must be replaced. Boiler tube
6 replacement is a normal maintenance activity performed to ensure the
7 reliability of the unit.
- 8 4. Plant Smith Production Steam Adjustment. This adjustment removes
9 \$1,733,000 of labor and benefits from Production Steam. When Gulf
10 originally developed the budget in the fall of 2015 for the budget cycle
11 2016 through 2020, Gulf budgeted in Production O&M all employees
12 anticipated to remain at Plant Smith each year. Subsequent to that time,
13 Gulf has determined that 18 FTE's budgeted at \$1,733,000 will be
14 working on ECRC and dismantlement projects associated with the
15 dismantlement of Plant Scholz and Smith 1 and 2 along with ash pond
16 closures at both Plants. An additional adjustment of \$319,000, as
17 shown on Ms. Ritenour's Schedule 21, removes the benefits charged to
18 A&G associated with this labor reduction.
- 19 5. Other Adjustments. The Production portion of four adjustments shown
20 on Ms. Ritenour's Schedule 21 reduces Production O&M \$850,000.
21 These four adjustments are supported by other witnesses.

22

- 23 Q. Mr. Burroughs, the Commission has historically examined the
24 reasonableness of O&M expenses using the O&M benchmark. How does
25 Gulf's 2017 Production O&M budget compare to the O&M benchmark?

1 A. While the O&M benchmark calculation is shown on MFR C-37, for ease of
2 reference I have included a summary of the O&M Benchmark calculation for
3 all the Production function on Exhibit MLB-1, Schedule 8. It shows the
4 entire Production O&M budget allowed by the Commission in Gulf's 2012
5 test year rate case was \$106,935,000. Multiplying that 2012 allowed value
6 by the inflation compound multiplier, the O&M benchmark level of
7 Production O&M expenses for 2017 is \$115,968,000. Gulf's total 2017 test
8 year Production O&M expenses are \$122,154,000. So, there is a total O&M
9 Production benchmark variance of \$6,186,000.

10

11 It should be noted that Gulf's Other Power Supply portion of the Production
12 O&M benchmark calculation is actually below the O&M benchmark
13 calculation. So, the two Production functions that have 2017 forecasted
14 levels of O&M expenses above the O&M Benchmark are Production Steam
15 and Production Other.

16

17 Q What is Gulf's justification for exceeding the Production Steam O&M
18 benchmark by \$1,091,000 in the 2017 test year?

19 A. The rededication of Scherer Unit 3 to serve native load customers explains
20 the O&M benchmark variance. No O&M costs associated with Scherer Unit
21 3 were reflected in the 2012 allowed O&M expenses in Gulf's 2012 test year
22 rate case. Gulf did not ask for any such expenses because Scherer Unit 3
23 was devoted to wholesale sales and not native load customers during the
24 2012 test year. However, in the 2017 test year, a portion of Scherer Unit 3
25 has been rededicated to native load customers, so the O&M expenses

1 associated with the portion of Scherer Unit 3 not currently committed to off-
2 system sales are included in the test year, and this inclusion results in Gulf
3 exceeding the O&M benchmark for Production Steam.

4
5 Production Steam O&M expenses associated with the rededicated portion of
6 Scherer Unit 3 in 2017 are \$6,740,000. Therefore, excluding these O&M
7 expenses associated with Scherer Unit 3, Production Steam would be under
8 the 2017 benchmark by \$5,649,000.

9
10 Q. What is Gulf's justification for exceeding the Production Other O&M
11 benchmark by \$5,350,000 in the 2017 test year?

12 A. There are three primary reasons that Gulf's 2017 test year Production Other
13 O&M expenses exceed the O&M benchmark by \$5,350,000:

- 14 • Transfer of common costs from Steam to Production Other \$2,560,000
- 15 • Increase in Smith 3 HRSG maintenance expenses \$1,404,000
- 16 • Increase in maintenance for other Smith 3 components \$1,436,000

17
18 Q. Please address the transfer of common costs from Production Steam to
19 Production Other for the Smith Plant.

20 A. In the 2012 test year allowed level of Production O&M expenses, there were
21 common expenses for Plant Smith related to Production Steam and
22 Production Other because the Plant Smith site had two operational coal
23 units that were charged to Production Steam and an operational combined
24 cycle unit that was charged to Production Other. In the 2017 test year,
25 Plant Smith common dollars were charged to Production Other because the

1 only remaining operational unit, Smith Unit 3 (Smith 3), is charged to
2 Production Other. Approximately \$2,560,000 of the benchmark variance in
3 Production Other is related to these common expenses that moved from
4 Production Steam to Production Other O&M. These Common expenses
5 include: plant site maintenance for roads, grounds and buildings; security;
6 service water; wells; cooling towers; fire protection; water treatment; and
7 computer equipment. These prudently incurred and necessary expenses
8 were associated with the site and were used in common by all three units
9 and are now properly charged to Production Other.

10

11 Q Please address the increase in Smith 3 Heat Recovery Steam Generator
12 (HRSG) maintenance expenses at a rate faster than the growth in CPI since
13 Gulf's 2012 test year rate case.

14 A. The expense necessary to maintain the HRSG equipment in 2017 is
15 \$2,500,000. This has grown faster than the HRSG expense allowed for
16 Smith 3 in the 2012 test year for a number of reasons: (a) the HRSG is
17 aging and needs more maintenance than it required earlier in its life; (b)
18 Smith 3 is being dispatched more than it was in earlier periods because of
19 the low price of natural gas, and this increased dispatch has resulted in
20 more maintenance of the HRSG; and (c) the amount allowed for HRSG
21 maintenance by the Commission in the 2012 test year rate case was not
22 representative of the going forward level of HRSG maintenance required for
23 Smith 3.

24

25

1 Smith 3 was brought into service in 2002. The maintenance expenses for
2 the HRSG were relatively modest for the early years of the unit's operation.
3 The unit was relatively new, and because the price of coal powered
4 generation was lower than the price of natural gas generation early in the
5 life of Smith 3, the unit was not dispatched as much as it is currently. This
6 lower level of HRSG maintenance lasted through 2009.

7
8 By 2010, the maintenance costs for the Smith HRSG had risen to much
9 higher levels. This was due to the aging of the unit and the increasingly
10 higher dispatch of the unit. It is not unusual for maintenance expenses to
11 increase with age and use, and that has certainly been the case with the
12 expenses associated with the Smith 3 HRSG.

13
14 In Gulf's 2012 test year rate case, Gulf acknowledged these increasing
15 costs and budgeted \$1,454,000 for Smith 3 HRSG maintenance expenses.
16 However, the Commission disallowed \$443,000 of the budgeted HRSG
17 maintenance expenses based upon a review of historical levels of HRSG
18 maintenance costs. So, it was this lower level of HRSG maintenance costs,
19 \$1,011,000, escalated by CPI that is included in the O&M benchmark.

20
21 As history has shown, the amount allowed for HRSG maintenance in Gulf's
22 2012 test year has not been representative of the ongoing level of HRSG
23 expense necessary to maintain the unit. Despite the Commission's 2012
24 test year disallowance, Gulf spent \$2,755,000 on HRSG maintenance in
25

1 2012 because it was necessary to maintain the unit's reliability. So, even
2 Gulf's 2012 test year projection was too low.

3
4 The inadequacy of the HRSG maintenance expenses in the O&M
5 benchmark calculation is shown by comparing them to actual HRSG
6 maintenance expenses over the period 2011 through 2015. This is shown
7 on Exhibit MLB-1, Schedule 10. Over that five-year period, the Smith 3
8 HRSG expenses have averaged \$2,821,000 and with escalation to 2017
9 dollars expenses have averaged \$3,034,000. In contrast, the level of HRSG
10 expenses in the O&M benchmark for 2017 is only \$1,096,000. Simply
11 stated, the O&M benchmark level of expenses for HRSG maintenance is not
12 representative of historic levels of HRSG maintenance over the last five
13 years.

14
15 More importantly, the level of HRSG maintenance expenses assumed in the
16 O&M benchmark, \$1,096,000, is not representative of the level of HRSG
17 maintenance necessary to maintain the HRSG in the years 2016 and
18 beyond. The cost projections for HRSG operation and maintenance, which
19 were prepared by the personnel most familiar with the HRSG, average
20 \$3,137,000 going forward over the next five years. Gulf's 2017 projection of
21 HRSG maintenance expenses of \$2,500,000 is reasonable and perhaps
22 even conservative given the level of HRSG related maintenance expenses
23 going forward.

24
25

1 Q. Please address the increase in the O&M expenses for other components of
2 Smith 3 at a rate higher than the O&M benchmark.

3 A. The turbine system, combustion turbine, service water system, condensate
4 system, and service facilities are also experiencing higher costs for
5 increased maintenance and increased chemical consumption due to high
6 utilization and aging of the combined cycle. As with the HRSG expenses,
7 the 2017 test year expenses (\$2,708,000) necessary to maintain other
8 components of Smith 3 have increased due both to the age of the unit and
9 its increased utilization. With lower natural gas prices, Smith 3 is projected
10 to be dispatched at a much higher level in 2017 and beyond than it was in
11 its earlier years of operation. This has resulted in higher operational costs,
12 such as increased chemical consumption, as well as increased
13 maintenance expenses.

14
15 The historic growth in these operation and maintenance costs for the other
16 components of Smith 3 is seen by contrasting the amount budgeted and
17 allowed for Smith 3 non-HRSG costs in the 2012 test year, \$1,173,000, and
18 actual Smith 3 non-HRSG costs from 2011 through 2015, as shown on
19 Exhibit MLB-1, Schedule 10.

20
21 Of course, what is of even more importance in this case is not what the
22 Smith 3 non-HRSG O&M expenses have historically been, but what they
23 are projected to be in 2016 and beyond. As shown on Exhibit MLB-1,
24 Schedule 10, the average of the Smith 3 non-HRSG O&M costs for the
25 period 2016 through 2020 is \$3,688,000. These expenses were developed

1 by the personnel who actually operate and maintain the plant and were
2 reviewed by management charged to maintain unit performance and
3 reliability. These are the same individuals who have helped Gulf achieve its
4 outstanding unit performance, and it is their trained and experienced
5 judgment that justifies this budgeted level. The 2017 level of Smith 3 non-
6 HRSG O&M expenses, \$2,708,000, is reasonable and perhaps even
7 conservative given the going forward level of O&M expense necessary to
8 maintain unit performance and reliability.

9

10

11

VI. GULF'S 2017 FUEL INVENTORY

12

13 Q. What recovery amount is Gulf requesting for total fuel inventory, including
14 fuel stock and in-transit fuel?

15 A. Gulf is requesting a total fuel inventory of \$67,428,000 to be included in its
16 2017 rate base. The request is lower than the amount allowed in the 2012
17 test year rate case by \$19,376,000. This requested fuel inventory for 2017
18 includes \$46,494,000 for fuel stock and \$20,934,000 for in-transit coal.

19

20 Q. Please explain the reason for the requested decrease in fuel inventory
21 working capital.

22 A. The decrease in the amount requested in this case is primarily due to a
23 lower projected market price for fuel being delivered to Gulf generating
24 plants.

25

1 Q. Please describe Gulf's coal inventory policy.

2 A. Gulf's policy is to maintain coal inventory levels sufficient to safeguard
3 against disruptions in supply, inconsistencies in delivery of coal due to
4 weather conditions, and other factors affecting the coal transportation
5 sector. Coal inventory levels for each generating plant are evaluated and
6 targets are established based on a number of factors such as: plant specific
7 coal handling and storage limitations; market intelligence on coal supply
8 availability; coal transportation/logistics information; and the historical
9 perspective obtained through considerable experience developed in coal
10 stockpile management by the Southern Company fuel organization. The
11 operating companies of the Southern Company are one of the largest coal
12 consumers in the nation and have a long history of successfully operating
13 coal-fired generating plants.

14
15 Once target coal inventory levels are established, they are formally
16 approved by the SCS Vice President of Fuel Services for use as an input in
17 the fuel budgeting model, FUELPRO, to develop a fuel cost of generation
18 budget for all plants in the SES. The fuel burn derived from the hourly load
19 dispatch of each generating unit in the SES fleet and the current fuel price
20 forecast for each fuel type, including transportation rates, are also inputs to
21 the FUELPRO model. The output of FUELPRO is a fuel budget for each
22 plant, which includes monthly fuel purchases, burn and ending inventory
23 expressed in units of measure (quantity), total dollars, and dollars per unit.
24 For the test year, the coal inventory policy evaluation resulted in average
25 inventory targets for Plant Crist, Gulf's barge-served coal-fired plant, of

1 approximately 27 normal full load (NFL) burn days and for Gulf's rail-served
2 plants (Scherer Unit 3 and Daniel 1 and 2), 50 and 40 NFL days,
3 respectively.

4

5 Q. What is a normal full load (NFL) burn day?

6 A. A NFL burn day is a method of expressing units of inventory relative to the
7 normal maximum consumption of fuel at a specific generating facility over a
8 24 hour period. Normal maximum consumption does not include output
9 maximums that can be achieved for short periods by using supplemental
10 firing to operate at "full pressure" on traditional steam and combined cycle
11 units. The use of NFL burn days allows for the expression of inventory units
12 in common terms so that fuel inventories of generating plants with various
13 capacity sizes (MW) and capacity factors can be compared on an "apples to
14 apples" basis.

15

16 A NFL burn day is calculated by multiplying the total daily energy output
17 (kilowatt hours or kWh) of a generating plant by the weighted average heat
18 rate (British thermal units per kWh or Btu/kWh) of the units at that generating
19 plant. Both the total daily energy output and the unit heat rates are
20 determined by actual plant performance measurements over a period of time.
21 The resulting calculated Btus per day are then converted to standard units for
22 each fuel type such as tons for coal and gallons or barrels for oil. This
23 method explicitly recognizes Gulf's heat rate performance in establishing its
24 requested fuel inventory levels. As an example, the NFL day burn for a

25

1 generic 500 MW coal-fired unit fueled by bituminous coal would be calculated
2 as follows:

3 A = Normal Hourly Full Load Rating = 500,000 kWh

4 B = Average Unit Heat Rate = 10,800 Btu/kWh

5 C = Fuel Heating Value = 11,600 Btu/lb

6 $(A \times B) / (C \times 2,000 \text{ lbs/ton}) = 232.76 \text{ tons/hour}$

7 NFL day burn = 232.76 tons/hour x 24 hours/day = 5586 tons/day

8

9 Q. What is Gulf's forecasted coal inventory level for the test year?

10 A. For all Gulf plants, the 13-month average of the monthly ending coal
11 inventory levels, not including in-transit coal, for the test year, is a stockpile
12 of 631,863 tons with a cost of \$40,125,000. This compares to a total of
13 693,196 tons with a cost of \$67,958,000 allowed in the 2012 test year rate
14 case. The decrease in coal inventory value (dollars) is due to a decrease in
15 the projected delivered market price of coal combined with a slight decrease
16 in the quantity of coal inventory since the 2012 test year rate case.

17

18 Q. How does the average unit cost of coal inventory compare to the amount
19 used in the 2012 test year rate case?

20 A. In Gulf's 2012 test year rate case the weighted average unit cost of coal in
21 inventory was \$98.04 per ton. The current weighted average unit cost of
22 coal used to project the total cost of Gulf coal inventory in the test year is
23 \$63.50 per ton. The decrease is due to a reduction in the projected market
24 price of coal and coal transportation relative to the 2012 test year rate case

25

1 and the addition of lower cost-per-unit Powder River Basin coal utilized for
2 Scherer Unit 3.

3

4 Q. How has actual coal inventory compared to the amount allowed in the 2012
5 test year rate case?

6 A. The actual ending coal inventory as of December 31, 2015, including
7 Scherer Unit 3 inventory and in-transit coal, was \$95,717,388. This
8 exceeded the total amount allowed in the 2012 test year rate case of
9 \$78,676,000 by \$17,041,388. This is due to two factors: (1) the 2015 year-
10 end coal inventory quantity was above target levels because the coal burn
11 quantity was significantly below projected amounts, and (2) the addition of
12 Scherer Unit 3 coal inventory that was not included in the 2012 test year
13 rate case. The lower than expected coal consumption is due to lower
14 customer loads and low natural gas prices shifting the generation mix to
15 lower cost, natural gas fired generation. Gulf expects to return coal
16 inventory levels to the target quantity later in 2017 by reducing the amount
17 of projected coal purchases to match the lower expected coal burn for the
18 period.

19

20 Q. If Gulf is projecting lower coal consumption in this case at Plants Crist and
21 Daniel than in its 2012 test year rate case, why hasn't the volume of coal
22 held in inventory at these plants declined?

23 A. The simple answer is that Gulf's coal stockpiles are tied to NFL days rather
24 than projected burn days. Coal stockpile levels based upon NFL are an
25 assurance of reliability to Gulf's customers. If Gulf's coal units have to run

1 at full load for an extended period of time to assure customer reliability, Gulf
2 needs to be able to assure two factors: (1) unit availability and (2) sufficient
3 fuel supply. As I discussed previously, Gulf is an industry leader in unit
4 availability. Gulf also follows a coal inventory policy that assures when its
5 coal units are needed by its customers there is enough fuel on site to
6 assure performance.

7
8 Extended coal unit performance can be needed for customers for a variety
9 of reasons. Of course, swings in the relative prices of coal and gas can
10 result in greater coal dispatch. However, beyond economics, there are a
11 host of reasons that Gulf's coal units may be needed for reliability purposes:
12 outages at gas fired units, transmission outages on lines from gas units, or
13 natural gas supply interruptions. In addition, disruptions in the supply or
14 transportation of coal, which can be caused by barge or train interruptions,
15 also dictate a need to assure adequate coal stockpiles.

16
17 Having an adequate supply of coal on hand for events that trigger reliability
18 challenges is not unlike having a reserve margin in place for generation.
19 We have more capacity available than is needed to just meet needs
20 because sometimes units are not available. Limitations on fuel create the
21 same reliability threats. It does no good to customers for Gulf to have
22 generation in reserve to meet reliability issues if those units do not have
23 sufficient fuel to operate as needed. So inventory levels are determined not
24 by projected burn, but by amounts necessary to assure reliability.

25

1 Q. Why does Gulf include an amount in working capital for in-transit coal
2 inventory?

3 A. Gulf pays its coal suppliers upon loading of the coal into Gulf's
4 transportation equipment at the coal supplier's originating facility.
5 Therefore, capital is invested in coal that has not yet been received at the
6 destination generating plants. A major portion of Gulf's coal supply is
7 delivered by ship, rail, and barge to an intermediate coal blending/transfer
8 facility (Alabama State Docks McDuffie Coal Terminal) located in Mobile,
9 Alabama and then by barge to the Crist generating plants. A considerable
10 amount of time is involved in the process of transporting coal from the origin
11 mine to the intermediate blending and barge loading location and then
12 transporting the coal to the final destination plant stockpile. This investment
13 in coal that is in-transit should be included in the working capital component
14 of Gulf's rate base.

15

16 Q. How does the amount for in-transit coal that you included in your request for
17 working capital compare to the amount included in the 2012 test year rate
18 case?

19 A. The amount of in-transit coal included in the test year fuel inventory request is
20 \$20,934,000. This compares to \$10,718,000 included in the 2012 test year
21 rate case. The increase is due primarily to an increase in the quantity of in-
22 transit coal being held at the McDuffie Coal Terminal offset somewhat by a
23 lower projected market price of coal in 2017. It should be noted that even with
24 this increase of in-transit coal inventory, Gulf's overall coal inventory for the

25

1 2017 test year is lower in volume and total cost than that allowed in Gulf's
2 2012 test year rate case.

3

4 Q. What is Gulf's natural gas inventory policy?

5 A. Gulf's Natural Gas Policy requires that base load combined cycle units have
6 firm gas storage capacity and gas transportation for system reliability
7 purposes. The gas storage capacity requirement must be met before a gas
8 fired combined cycle unit will be accepted as electric generating capacity for
9 purposes of meeting an operating company's reserve capacity margin
10 obligation. The purpose of the policy is to maintain a certain portion of a
11 generating plant's natural gas supply requirement in storage to provide
12 natural gas supply during gas supply interruptions caused by pipeline and
13 compressor station failures, hurricanes, well freezes, etc. In addition,
14 having available gas storage capacity for pipeline balancing is necessary to
15 avoid penalties imposed by pipelines for large swings in daily and hourly
16 demands when the generating unit is economically dispatched or when
17 other sudden changes, like plant outages, cause a swing in demand.

18

19 Q. What is Gulf's forecasted natural gas inventory level for the test year?

20 A. Gulf projects a 13-month average natural gas inventory of 1,330,316 MCF
21 for the test year and has included \$4,317,000 in working capital for this gas
22 storage amount. This quantity of gas inventory is equal to 7 NFL burn days
23 for Gulf's Plant Smith Unit 3 and for Gulf's PPA with the Central Alabama
24 combined cycle facility.

25

1 Q. How does the 13-month average natural gas inventory for the test year
2 compare to the approved inventory from the 2012 test year rate case?

3 A. Gulf was allowed an inventory of 835,702 MCF and \$4,300,000 in working
4 capital for gas inventory in the 2012 test year rate case. Gulf is requesting
5 a natural gas fuel inventory of 1,330,316 MCF and \$4,317,000 in this case.
6 The amount of natural gas inventory in the test year is 494,614 MCF and
7 \$17,000 higher than the amount approved in the 2012 test year rate case.

8

9 Q. Please explain the increase in the volume of natural gas inventory in this
10 case compared to Gulf's 2012 test year rate case.

11 A. As shown on Exhibit MLB-1, Schedule 11, the higher volume of natural gas
12 inventory in this rate case is due to the Central Alabama facility having been
13 added as a firm generating resource and being routinely used to minimize
14 customer fuel costs. In June 2014, the Central Alabama facility was added as
15 a firm generating resource for Gulf. Under that PPA, Gulf has the
16 responsibility for providing natural gas supply for unit operation, and as a
17 result, natural gas inventory has been included in the test year for this
18 generating unit. The costs associated with this higher volume of inventory are
19 largely offset by a lower average unit cost of gas than in Gulf's 2012 test year
20 rate case.

21

22 Q. How does the 13-month average unit cost of natural gas inventory for the test
23 year compare to the amount used in the 2012 test year rate case?

24 A. In the 2012 test year rate case the average unit cost of natural gas in
25 inventory was \$5.15 per MCF. Since the 2012 test year rate case the market

1 price of natural gas has decreased due to a higher supply of natural gas in
2 the market. The current average unit cost of natural gas used to calculate the
3 total cost of Gulf natural gas inventory in the test year is \$3.245 per MCF.
4

5 Q. What is Gulf's forecast distillate oil inventory level for the test year?

6 A. Gulf's projected distillate oil inventory level, including both lighter oil and
7 combustion turbine generating fuel, for the test year is 23,654 barrels. An
8 amount of \$2,052,000 has been included in working capital for distillate oil
9 inventory.
10

11 Q. How does this oil inventory request compare to the oil inventory amount
12 approved in Gulf's 2012 test year rate case?

13 A. The amount of distillate oil inventory included in the 2012 test year rate case
14 was 49,850 barrels or \$3,370,000, which was primarily for lighter oil
15 inventory at coal-fired units. The test year amount requested is a reduction
16 of 26,196 barrels and \$1,318,000 from the amount approved in the 2012
17 test year rate case. In 2015, the Plant Scholz coal units retired and in
18 March 2016, the Smith 1 and 2 coal units retired, which ended the need to
19 carry lighter oil inventory at these plants. The lighter oil inventory for these
20 facilities was removed at the respective expiration/retirement dates for these
21 generating units.
22
23
24
25

1 Q. How does the average unit cost of distillate oil inventory compare to the
2 amount used in the 2012 test year rate case?

3 A. In Gulf's 2012 test year rate case the average unit cost of distillate oil in
4 inventory was \$67.60 per barrel. Since the 2012 test year rate case, the
5 market price of distillate oil has increased due to higher worldwide demand
6 for all oil products. The current average unit cost of distillate oil used to
7 project the total cost of Gulf's oil inventory in the test year is \$86.75 per
8 barrel.

9

10 Q. Is Gulf's requested level of fuel inventory appropriate?

11 A. Yes. The fuel inventory requested by Gulf is reasonable, prudent and
12 necessary to provide fuel inventory levels that will ensure Gulf's units are
13 prepared to meet the needs of our customers with the lowest cost generation
14 available.

15

16

17 **VII. GULF'S PLANT HELD FOR FUTURE USE**

18

19 Q. Please explain Gulf's approach to plant held for future use.

20 A. As part of the normal, ongoing planning processes, Gulf Power evaluates
21 not only its projected resource needs, but also a variety of generation
22 resources to meet future needs. Gulf's most recent Ten Year Site Plan
23 reflects Gulf's next need for resources to be in 2023, when the current
24 Central Alabama PPA for 885 MW of firm capacity expires. Gulf's projected
25 resource need in 2023 is 613 MW. As noted in Gulf's Ten Year Site Plan,

1 the most economic self-build options to meet the needs of Gulf's customers
2 would be gas-fired combined cycle (CC) or simple cycle combustion turbine
3 (CT) units. Of course, the costs associated with those technology options
4 vary depending upon the sites considered. So, in its planning to identify its
5 most cost-effective self-build options, Gulf considers various technologies at
6 various sites to discern the most economic technology and site or sites.
7

8 Q. Previously you stated that the most economical self-build technology
9 options for Gulf's customers were gas-fired CC and CT units. What site or
10 sites proved to be the most economical for these alternatives?

11 A. If Gulf were to build a gas-fired CC unit to meet its forecasted 2023 need,
12 the lowest cost option would be sited at the North Escambia site. The same
13 CC unit was analyzed at multiple sites available to Gulf, and the cost
14 advantages of the North Escambia site were significant. The net present
15 value savings associated with the North Escambia site relative to alternative
16 sites for a CC unit ranged from \$42 to \$239 million.
17

18 If Gulf were to build CTs to meet its need in 2023, the most economical
19 alternative would be to split the CTs between two sites: North Escambia and
20 Gulf's Plant Smith. The net present value savings associated with the North
21 Escambia site relative to alternative sites for CT units ranged from \$13 to
22 \$44 million.
23
24
25

1 Q. Please describe the North Escambia site and its advantages for siting gas-
2 fired generation.

3 A. The property is approximately 2,728 acres and is strategically located near
4 a gas pipeline, transmission and water. Natural gas supply would be
5 transported to the North Escambia site by tying into an existing main
6 pipeline located north of the site. This gas transportation option is the least
7 cost option for all Gulf generation site alternatives. The North Escambia site
8 is also located in close proximity to existing transmission facilities. The site
9 allows for two water sources: the Escambia River and wells located
10 throughout portions of the 2,728 acres. Aside from the site being the most
11 economical for Gulf's next anticipated generation resource to serve Gulf's
12 customers, it also provides benefits in that it allows for multiple types of
13 generation resources. The site supports the potential development of
14 multiple CC or CT resources and even some solar.

15

16 Q. Is Gulf's North Escambia site currently in rate base?

17 A. No. Unlike the Caryville and Shoal River properties that are included in rate
18 base as Plant Held for Future Use (PHFU), the North Escambia site is not
19 included in rate base. Gulf requested that a larger (4000 acres) and more
20 costly North Escambia site be included in rate base in its 2012 test year rate
21 case, but the Commission declined stating:

22 We agree with OPC, FIPUG, FRF, and FEA that: (1) the
23 Caryville site is available for any needed future generating
24 plant(s); (2) Gulf may share the ownership of the Escambia
25 Site with its sister companies; and (3) there was not an order

1 granting a determination of need that would allow the
2 Company to petition for and the Commission the opportunity
3 to review the “nuclear option” and all the various
4 corresponding costs. In light of our approval of Gulf’s
5 retention of the Caryville site and the other available sites
6 already included in rate base, we believe that Gulf has
7 sufficient options for its future generation needs. Moreover,
8 we find that Gulf has failed to support the inclusion of the
9 North Escambia County Nuclear plant site and associated
10 cost in PHFU. Therefore, PHFU shall be reduced by
11 \$26,751,000 (\$27,687,000 system). In addition, Gulf shall
12 not be permitted to accrue AFUDC for this site. As
13 discussed above, Gulf has neither obtained the requisite
14 order granting a determination of need nor has it received
15 the necessary authorization to accrue AFUDC on the site
16 costs. Therefore, Gulf shall be required to adjust its books to
17 remove the \$2,977,838 in accrued carrying charges. (Order
18 No. PSC-12-0179-FOF-EI at page 26)

19
20 While Gulf is not seeking to accrue AFUDC previously disallowed, Gulf is
21 seeking Commission approval to include the North Escambia site in rate
22 base in the amount of \$16,618,908, which includes \$13,042,898 of PHFU
23 and \$3,576,010 in preliminary survey and investigation charges.
24
25

1 Q. Given the Commission's prior decision not to include the North Escambia
2 site in rate base, why is Gulf requesting that the property now be included
3 as PHFU in rate base?

4 A. The simple answer is that the inclusion of the North Escambia property in
5 rate base is in the best interests of Gulf's customers.

6

7 Q Why is the inclusion of the North Escambia site in rate base in the best
8 interest of Gulf's customers?

9 A. First, the North Escambia site can accommodate both of the leading
10 candidate technologies for Gulf's next resource need. Second, it can
11 accommodate multiple additions of Gulf's leading candidate technologies.
12 Third, and most important, the North Escambia site is the lowest-cost site
13 available to Gulf for siting either of its leading candidate technologies. For
14 CC technology or CT technology, it benefits Gulf's customers by tens of
15 millions of dollars because of its site attributes.

16

17 The economic analysis demonstrates that the North Escambia property is
18 the most economic option for either the addition of CCs or CTs. Gulf
19 consistently looks not only at short-term solutions but also what is best in
20 the long term for its customers. This site offers the most flexibility for future
21 generation technologies, which ensures that Gulf will be able to provide
22 reliable generation for its next need as well as far into the future. Gulf's
23 customers are fortunate that the site is still available for their benefit.

24

25

1 Q Please address why Gulf's customers are fortunate that the North Escambia
2 site is still available for them.

3 A. As I previously noted, the Commission not only declined to include the
4 \$26,751,000 investment in the North Escambia site in rate base in 2012, but
5 also instructed Gulf to remove almost three million dollars of accrued
6 AFUDC on the project. So, Gulf's shareholders have funded tens of millions
7 of dollars of investment for as much as eight years without earning any
8 return on their investment. Gulf's management held on to this property
9 because they were convinced that it was in its customers' interest to hold
10 this property rather than sell it and lose the prospect of it not being available
11 to meet future needs. That is why I say Gulf's customers are fortunate that
12 this property is still available for their benefit.

13

14 Q Have circumstances changed since the 2012 disallowance?

15 A. Yes. Unlike the 2012 test year rate case where intervenor witnesses
16 argued Gulf had no need within a 10-year planning horizon, Gulf now has a
17 documented need within its 10-year planning horizon. The North Escambia
18 site is the most economical site for both of the leading technologies to meet
19 that need. It is more cost effective to Gulf's customers than the "other sites
20 already included in rate base."

21

22 Q. If the Commission were to disallow the North Escambia site in rate base
23 what would be the outcome to Gulf's customers?

24 A. Gulf's customers would likely lose the benefit of this asset. The Company
25 would have to seriously consider selling this site. Gulf has held this

1 property for the benefit of its customers since 2008, but it has not earned
2 the first dollar of return on this valuable investment. Gulf cannot continue to
3 hold this property without earning a return; that would be unfair to investors
4 who invest with an expectation of an opportunity to earn a fair return on their
5 investment, as is more fully developed by Gulf Witnesses Vander Weide
6 and Liu. If the Commission does not allow the North Escambia site in rate
7 base, Gulf will seriously consider selling this valuable site, and it is unlikely
8 that it will ever be available for purchase again, as this area continues to
9 grow. The most immediate impact would be increased costs to Gulf's
10 customers for Gulf's next planned generation need in 2023. The other sites
11 under consideration each have higher overall costs than generation located
12 at the North Escambia site. Customers would also lose the value of this site
13 for other more distant resource needs.

14 15 16 **VIII. CONCLUSION**

17
18 Q. Please summarize your testimony.

19 A. Gulf maintains and operates generation resources designed to serve our
20 customers economically and reliably. Gulf's Generation operation has
21 continued to provide economical, reliable electricity to our customers. The
22 reliability of Gulf's generating units and low EFOR are clear indications that
23 Gulf has executed an effective maintenance program that continues to
24 provide our customers with reliable service.

25

1 Our safety performance has been excellent, and the reliability of our
2 generating resources continues to be among the best in the electric utility
3 industry.

4
5 Gulf's Production investment and O&M expenses are absolutely necessary
6 in order to maintain reliable plant performance in the future. Our past
7 performance indicates that Gulf continues to be a good steward of its
8 generating resources and can be trusted to maintain reliable performance in
9 the future to the benefit of its customers.

10
11 Gulf's fuel inventory policy, adjusted for generating plant additions,
12 retirements, and current market fuel prices, is essentially the same as
13 testified to in the last rate case. Gulf's fuel inventory policy is an integral
14 part of our strategy to ensure that we have an adequate supply of fuel
15 available at all times for the reliable operation of Gulf's generating assets.
16 Without an appropriate level of fuel inventory, having exceptional plant
17 performance and also reliable transmission and distribution systems would
18 be of no value to our customers.

19
20 Scherer Unit 3 is a fully controlled and reliable coal-fired unit that has been
21 rededicated for the primary use of our retail customers. The rededication of
22 Scherer Unit 3, plus the recent addition of solar and wind generation,
23 demonstrates Gulf's commitment to diversification of its generating
24 resources.

25

1 Gulf’s Ten Year Site Plan indicates that we will have a resource need in
2 2023. The North Escambia site is the most economical and versatile land
3 site that could support CCs or CTs—the alternatives that are the lowest cost
4 options available to Gulf under current planning assumptions.

5
6 In conclusion, our customers expect and deserve a reliable, diverse, cost-
7 effective, and efficient generating fleet. We continue to provide exactly this
8 for our customers. Gulf’s performance indicators are a testament to that
9 fact.

10
11 Q. Does this conclude your testimony?

12 A. Yes.

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GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony of
Jeffrey A. Burleson
Docket No. 160186-EI
Date of Filing: October 12, 2016

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

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

Q. Please summarize your background and professional experience.

A. I have more than 35 years of experience in the electric utility industry. I began my career with Alabama Power Company in 1980 as a cooperative education student. I graduated from the University of Alabama at Birmingham in 1984 with a Bachelor of Science degree in Electrical Engineering, with a specialization in power systems analysis. From 1984 to 1991, I held various staff and managerial positions in the Technical Services and Power Quality departments at Alabama Power Company. During this period, I attended Auburn University and earned a Master of Science degree in Electrical Engineering in 1987, again, with a specialization in power systems analysis.

In 1991, I transferred to SCS in the position of Manager of End Use Technology Research, where my responsibilities included technology assessment, various types of load and economic modeling in support of

1 integrated resource planning, and development of certain models used in
2 integrated resource planning. In 1996, I was named Assistant to the Vice
3 President of Marketing and New Business Development at SCS. In 1997, I
4 was named General Manager of Marketing Services, where my
5 responsibilities included oversight of the SCS analytical services associated
6 with peak demand and long term energy forecasts, load research, cost of
7 service studies, and competitive intelligence.

8
9 In 1999, I transferred to Georgia Power as Manager of Market Planning,
10 where my responsibilities included the load, energy and revenue forecasts,
11 economic evaluation of demand-side management programs and
12 assessment of demand response from certain rate designs. In 2005, I was
13 appointed Director of Resource Policy and Planning for Georgia Power
14 where my responsibilities included integrated resource planning, resource
15 procurement, generation development and administration and oversight of
16 power purchase agreements (PPAs).

17
18 In 2011, I was appointed Vice President of System Planning for SCS. In
19 this role my responsibilities included oversight of the analytical and planning
20 services provided to the retail operating companies for integrated resource
21 planning, reliability planning, resource procurement, generation strategy,
22 generation development, and various economic viability analyses.

23
24 In 2016, in addition to my System Planning responsibilities I assumed
25 responsibility for Financial and Contract Services, Southern Wholesale

1 Energy, and Budgeting and Reporting for SCS Operations. As a result, my
2 title changed to Vice President of Commercial Services and Planning for
3 SCS.

4
5 Q. What is the purpose of your testimony?

6 A. The purpose of my testimony is to provide an overview of Gulf Power
7 Company's (Gulf) resource planning and procurement activities over the
8 past few decades, including the decision to purchase a 25 percent
9 ownership interest in Plant Scherer Unit 3 (Scherer 3), the decisions to
10 invest in the necessary environmental controls for Scherer 3, and how those
11 investments benefit Gulf's customers.

12
13 Q. Are you sponsoring any exhibits?

14 A. Yes. Exhibit JAB-1 is a joint exhibit sponsored by myself and Gulf Witness
15 Deason. Exhibit JAB-1 is a chronology of key planning and regulatory
16 events regarding Gulf's purchase and ownership interest in Scherer 3.
17 Exhibit JAB-2 is a composite of three documents relating to the 1976
18 certification of Gulf's Caryville site under the Florida Electrical Power Plant
19 Siting Act (PPSA).

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I. GULF’S RESOURCE PLANNING

Q. What is the purpose of Gulf’s resource planning activities?

A. The objective of Gulf’s resource planning activities is to assure the Company’s long-term ability to provide reliable and cost-effective electric service to its customers, while accounting for the inherent uncertainty of the future.

Q. Please provide an overview of Gulf’s participation in the Southern Company electric system pooling of generation, the associated coordinated planning process, and its relationship to planning for Scherer 3.

A. The operating companies of the Southern Company electric system have entered into an agreement known as the Intercompany Interchange Contract (IIC), thereby agreeing to operate as a single integrated electric system or power pool (the Pool). Under terms of the IIC, the generating resources of all member companies are economically dispatched at actual variable cost to serve the total system load requirements. The IIC and its pooled operation of generating resources on the Southern Company electric system provides for the operating companies to participate in coordinated planning of future generation capacity. The coordination of planning across the retail operating companies assures that the overall electric system remains optimized in terms of reliability and cost and thus assures that each operating company’s customers receive benefits as a result of the more reliable and cost effective electric system.

1 Q. What are the benefits to Gulf’s customers from the pooling arrangement and
2 its associated coordinated planning process?

3 A. The benefits received by Gulf’s customers include, but are not limited to, the
4 following:

- 5 1. Economies of scale through coordination of electric operations.
- 6 2. Each operating company retains its lowest variable cost
7 resources to serve its own customers. Each operating company’s
8 excess energy is then made available at actual variable cost to
9 the other operating companies to serve their customers if the cost
10 of the Pool energy is less than the cost of energy from their own
11 resources.
- 12 3. Reduced requirements for operating reserves.
- 13 4. Marketing of Pool energy and capacity in the shorter-term
14 wholesale markets, with resulting gross margins shared with all
15 the operating companies.
- 16 5. Peak-hour load diversity, resulting in a lower target planning
17 reserve margin requirement for Gulf.
- 18 6. Temporary sharing of surplus/deficit reserve capacity as a result
19 of coordinated planning.
- 20 7. Ability to cost-effectively install large, efficient generation units.

21
22 These multiple benefits that accrue to Gulf and the other system operating
23 companies result from the coordinated planning and operation of the power
24 pool.

25

1 In addition to the above listed benefits, the ability of the operating
2 companies to rely on SCS for the administration of the pooled economic
3 dispatch of the system and for certain technical aspects of each operating
4 company's decision support and planning responsibilities avoids duplication
5 of personnel in the various operating companies. Access to the shared
6 resources provided by SCS is valuable since each operating company
7 would otherwise have to employ additional professional and technical
8 personnel with specialized expertise who might not be fully utilized on a
9 continuous basis.

10

11 Q. Please provide an overview of the coordinated planning process in which
12 Gulf participates.

13 A. At the most basic level, the Company's planning process yields a load
14 forecast that drives a schedule of supply-side and demand-side resource
15 additions that are integrated to accomplish the objectives of providing
16 reliable and cost-effective electric service to its customers, consistent with
17 the Company's duties and obligations to the public as a regulated public
18 utility. The coordinated planning process is consistently utilized by each of
19 the Southern Company retail operating companies, with the assistance of
20 their agent SCS. As a part of the coordinated planning process, each retail
21 operating company develops its own load forecast and demand side plan.
22 The load forecasts and demand side plans of the operating companies are
23 aggregated and an optimal mix of new capacity additions is identified to
24 meet the aggregate load of the retail operating companies. The capacity
25 need for each future year is allocated to each operating company that is

1 projected to have a capacity need in a given year. The allocation of the
2 capacity need is proportional to the amount of capacity needed to move
3 each of the operating companies that have a capacity need in a given year
4 to the target planning reserve margin based on each operating company's
5 own load and existing resources. Each operating company then makes its
6 own decisions about how to best meet the capacity need and the type of
7 resource to meet that need.

8
9 A major benefit to the operating companies of the coordinated planning
10 process and the IIC's reserve sharing mechanism has been the ability to
11 select the most economical generating unit size when new generation
12 needs exist on the Southern Company electric system. As an example,
13 Gulf has been able to completely own or purchase shares of 500 MW and
14 800 MW state-of-the-art generating units. This capacity has been
15 purchased or developed at lower cost per kW and is more efficient
16 generation than would otherwise have been available to a relatively small
17 company such as Gulf.

18
19 The operating companies also benefit from the diversity of power needs as
20 a result of the system providing service to such a large geographical region.
21 The territories of the system companies have weather, time zone, and
22 customer mix differences. These differences result in variations in load
23 patterns because the operating companies loads do not all reach their peak
24 at the same time. This load diversity has several benefits. It improves
25 overall system load factor, thereby lowering cost per unit. It also lowers the

1 necessary target planning reserve margin requirement for the system and
2 for each operating company, thus creating cost savings for customers.

3

4 Q. Is the coordinated planning process you described only applicable to retail
5 customers?

6 A. No. The objective of the coordinated planning process is to provide a
7 reliable and cost-effective electric supply for all native load customers.

8

9 Q. Please explain what is meant by the term "native load customers."

10 A. Gulf is a public utility operating in Florida under Chapter 366 of the Florida
11 Statutes. As such, Gulf's primary focus is on serving the needs of its retail
12 customers in Northwest Florida. However, just as it does today, during the
13 time frame when Gulf's existing generation, including Scherer 3, was being
14 planned and constructed, Gulf also provided requirements wholesale
15 service to other retail electric providers in Northwest Florida. When
16 providing requirements wholesale service to other retail electric providers,
17 Gulf has a contractual obligation to plan for, and to meet, the capacity and
18 energy growth needs of the requirements wholesale customers for the term
19 of the wholesale sales contract. The term native load customers is used to
20 describe the combination of Gulf's retail customers with the requirements
21 wholesale customers within Northwest Florida.

22

23

24

25

1 Q. How long has Gulf and its customers been benefiting from the decision
2 support and coordinated planning process you describe?

3 A. The coordinated planning process has been in place and has provided
4 benefits for Gulf's customers for many decades.

5

6 Q. Are the planning objectives for native load customers any different today
7 than in previous decades?

8 A. No. The overall objectives of coordinated planning remain unchanged.

9

10 Q. Are the planning processes for native load customers any different today
11 than in previous decades?

12 A. No. The overall planning process that has served customers well over the
13 past decades remains unchanged, except for minor refinements to the
14 processes and improvements to the modeling tools used in the planning
15 process.

16

17 Q. Please provide an overview of the planning landscape during the 1970's
18 and 1980's.

19 A. During the late 1960's and early 1970's, electricity demand in Gulf's service
20 area was growing rapidly, in part due to economic growth but also due to
21 rapid increases in the penetration of room and central electric air
22 conditioning systems in homes.

23

24 The federal government enacted the Clean Air Act of 1970 and in that same
25 year established the U.S. Environmental Protection Agency (EPA). In 1974,

1 EPA issued new rules governing the “prevention of significant deterioration
2 of air quality” (PSD). A few years later, the federal government enacted the
3 Clean Air Act amendments of 1977. By the fall of 1977, it became apparent
4 that all new coal generation whose construction had not already begun
5 would have to be equipped with emissions controls such as flue gas
6 desulfurization (FGD).

7
8 In 1973, an oil embargo was instituted against the U.S. at a time of declining
9 domestic crude oil production, rising demand, increasing imports, and
10 decreased OPEC production. The embargo created short-term shortages
11 and within about six months caused world oil prices to triple to \$12 per
12 barrel. A second oil crisis began in 1979 and resulted in oil prices rising
13 from \$14 per barrel at the start of 1979 to \$35 per barrel by January 1981.
14 In addition to the oil embargo that began in 1973, a stock market crash
15 occurred in that same year wherein the Dow Jones Industrial Average lost
16 more than 45 percent of its value between January 1973 and December
17 1974.

18
19 During the period November 1973 to November 1982 three U.S. recessions
20 occurred resulting in rising unemployment, rising inflation, rising interest
21 rates and stagnating economic growth. These macro-economic events
22 coupled with a saturating market for electric air conditioning led to sharp
23 declines in load forecast growth rates across most all of the electric utility
24 industry.

25

1 Q. Please provide an overview of Gulf's resource planning decisions during the
2 1970's.

3 A. Gulf completed the construction of Plant Crist Units 6 & 7 in 1970 and 1973,
4 respectively. In 1973, Gulf projected a need for two additional coal units,
5 Smith Units 3 & 4, with in service dates of 1979 and 1981, respectively. In
6 February 1974, the site for the two planned coal units was moved from the
7 Plant Smith site to the Caryville site, with the planned units then being
8 referred to as Caryville Units 1 & 2 (Caryville 1 & 2). Caryville 1 & 2 were
9 being planned as 518 MWs each with the same 1979 and 1981 in service
10 dates as were originally targeted for Smith Units 3 & 4. By October 1974,
11 the targeted in service dates for Caryville 1 & 2 were deferred to 1980 and
12 1981, respectively, as a result of the oil embargo and the slowing of both
13 economic growth and growth rates of load forecasts. In October 1975, Gulf
14 planned to purchase an ownership interest in Plant Daniel Units 1 & 2,
15 which went in service in 1977 and 1981, respectively. At the same time,
16 Caryville 1 & 2 were deferred to 1982 and 1984, respectively, as a result of
17 the planned Plant Daniel ownership interest.

18

19 In May 1976, the Caryville site was certified by the Florida Governor and
20 Cabinet when they approved the January 1976 Department of
21 Administrative Hearings (DOAH) recommended order to certify the site for
22 up to six 500 MW units and approved commencement of the development
23 of the first two units at the site. The DOAH order acknowledged Florida
24 Public Service Commission (FPSC) participation and all parties agreed on
25 the need for, and authorization of, Caryville Units 1 & 2. Exhibit JAB-2

1 contains the Governor and Cabinet's order, the DOAH recommended order,
2 and a copy of the FPSC's report (which was submitted pursuant to the
3 requirements of the PPSA) concluding that Gulf had a need for additional
4 generating capacity. Exhibit JAB-2 also includes the FPSC's "Proposed
5 Findings of Fact, Conclusions of Law, and Recommended Order" submitted
6 to the DOAH hearing officer in which the Commission stated:

7 As a matter of law, the uncontradicted evidence presented
8 by the Applicant [Gulf] and the Commission's report requires
9 the conclusion that the area to be served by the plant is the
10 entire service area of the Applicant and that there is a need
11 for electrical generating capacity in that service area which
12 can be met by the proposed plant. [Proposed Conclusion of
13 Law No. 4]

14
15 In 1977, Gulf purchased an ownership interest in Plant Daniel Unit 1 with
16 the intent of also purchasing an interest in Plant Daniel Unit 2 once it was
17 completed. The planned, combined interest in Plant Daniel Units 1 & 2 was
18 in lieu of Plant Caryville Unit 2. This decision to purchase an interest in
19 Plant Daniel Units 1 & 2 provided cost savings to Gulf's customers since the
20 Plant Daniel units had started construction prior to the effective date of the
21 1977 Clean Air Act amendments.

22
23 In August 1978, Gulf notified the FPSC of the potential opportunity for an
24 ownership interest in 430 MWs of Plant Scherer, which had also begun
25 construction prior to the effective date of the 1977 Clean Air Act

1 amendments. As part of the notification, Gulf informed the FPSC that
2 purchasing an ownership interest in Plant Scherer would enable Caryville
3 Unit 1 to be cancelled. In late 1978, Caryville Unit 1 was cancelled as a
4 result of Gulf's planned ownership interest in Plant Scherer, and the FPSC
5 accounting director issued a letter to Gulf affirming Gulf's request for
6 accounting treatment of the Caryville cancellation charges but informing
7 Gulf that action on recovery through rates would have to be addressed in a
8 later proceeding.

9
10 Q. Please provide an overview of Gulf's resource planning decisions during the
11 1980's.

12 A. In 1980, the FPSC issued Order No. 9628 in Docket No. 800001-EU
13 agreeing that a Gulf ownership interest in Plant Scherer would be more
14 economic than Caryville Unit 1 and authorized Gulf to amortize the Caryville
15 cancellation charges and include the unamortized balance in rate base as a
16 result of the planned purchase of an ownership interest in Plant Scherer.
17 On February 16, 1981, Gulf participated in an informal workshop held by the
18 Commission concerning the merits of purchasing a 25 percent ownership
19 interest in Plant Scherer Units 3 & 4. This workshop also addressed Gulf's
20 plan to enter into long-term off-system sales for the early years of the units
21 to temporarily relieve native load customers of revenue requirement
22 responsibility for the units. On February 19, 1981, the initial agreement
23 between Gulf and Georgia Power Company was entered into for Gulf to
24 purchase a 25 percent ownership interest in Plant Scherer Units 3 & 4. In
25 1981, Gulf purchased an ownership interest in the then completed Plant

1 Daniel Unit 2. In December 1983, Gulf confirmed with Georgia Power
2 Company that Gulf's potential interest in a 25 percent ownership share of
3 Plant Scherer Unit 3 remained but that Gulf's potential interest in ownership
4 of Plant Scherer Unit 4 no longer existed. In March 1984, the initial
5 agreement between Gulf and Georgia Power Company was amended to
6 reflect that Gulf was committed to a 25 percent ownership interest in only
7 Scherer 3. In October 1984, the U.S. Securities and Exchange Commission
8 issued an order authorizing the sale and acquisition of a 25 percent interest
9 in Scherer 3 between Georgia Power Company and Gulf.

10
11 In 1982, unit power sales (UPS) agreements were finalized to sell capacity
12 and energy from Scherer 3 (inclusive of Gulf's ownership) to Florida Power
13 and Light, Jacksonville Electric Authority and Gulf States Utilities. The UPS
14 sales were intended to relieve retail customers from the revenue
15 requirements in the early life of the unit. In 1986, Gulf States Utilities filed a
16 lawsuit seeking release from its unit power sales obligations. Starting with
17 the January 1, 1987 commercial operation date of Scherer 3, a portion of its
18 capacity began serving retail customers and was included in Gulf's
19 surveillance filings to the FPSC. In 1988, UPS agreements were finalized
20 with Florida Power and Light and Jacksonville Electric Authority to sell
21 capacity from Scherer 3 through May 2010, further relieving retail customers
22 from the revenue requirements. In that same year, a UPS agreement was
23 finalized with Florida Power Corporation to sell the remaining Scherer 3
24 capacity through May 2010.

25

1 Q. Please provide an overview of Gulf's key resource planning decisions
2 during the 1990's.

3 A. In the late 1990's, Gulf secured short-term purchased power for the years
4 2000 and 2001 to provide needed capacity and issued a request for
5 proposal (RFP) in 1998 to meet 2002 capacity needs. In 1999, Gulf
6 requested and received authorization from the FPSC to begin construction
7 on the Plant Smith Unit 3 combined cycle natural gas generation facility with
8 a planned commercial operation date of 2002.

9

10 Q. Please provide an overview of Gulf's resource planning decisions during the
11 2000's and 2010's.

12 A. Plant Smith Unit 3 began commercial operation in 2002. In 2004, new
13 PPAs were executed with Florida Power and Light, Progress Energy
14 Florida, and Flint Energies for capacity and energy from Scherer 3
15 beginning delivery in 2010 with the end of term ranging from December
16 2015 through December 2019, depending on the contract. While the FPSC
17 did not need to approve Gulf's role in the PPAs since that is under the
18 jurisdiction of the Federal Energy Regulatory Commission, it did approve
19 the capacity purchase commitments made by both Florida Power and Light
20 and Progress Energy Florida.

21

22 In the mid-2000's, several environmental rules were passed that led to the
23 installation of new environmental controls on Scherer 3. The EPA published
24 the final Clean Air Interstate Rule (CAIR) and the Clear Air Mercury Rule
25 (CAMR) in 2005, and the state of Georgia issued the Georgia Multi-

1 Pollutant Rule (GaMPR) in 2007. The GaMPR required Scherer 3's owners
2 (Gulf Power and Georgia Power) to install a baghouse on Scherer 3 for
3 mercury reduction by June 1, 2009, and a selective catalytic reduction
4 system (SCR) for nitrogen oxide (NO_x) reduction and a flue gas
5 desulfurization system (FGD or scrubber) for sulfur dioxide (SO₂) reduction
6 on Scherer 3 by July 1, 2011. A 2006 economic analysis showed that
7 making these environmental investments so that the unit could continue to
8 operate was in the best interest of customers. Scherer 3's baghouse was
9 installed in 2009, the SCR in 2010, and the scrubber in 2011.

10
11 In February 2006, Gulf issued an RFP to fill its capacity need starting in
12 2009. The RFP resulted in the October 2006 execution of PPAs for almost
13 500 MWs of capacity and energy from the Dahlberg and Coral Baconton
14 generation facilities to serve Gulf's native load capacity needs from June 1,
15 2009 through May 31, 2014. In 2008 Gulf was preparing to issue an RFP
16 for supply starting in 2014 for resources that would compete against a
17 potential combined cycle natural gas unit to be constructed at the Plant Crist
18 site. However, Gulf was approached by Shell Energy North America about
19 possible interest in an attractively priced PPA for capacity and energy from
20 the Central Alabama combined cycle natural gas facility. Gulf entered into
21 the PPA for Central Alabama in March 2009, and the FPSC subsequently
22 approved the Central Alabama PPA for service to Gulf's retail customers
23 from November 1, 2009 through May 24, 2023.

24
25

1 In addition to the Central Alabama PPA, Gulf has executed energy
2 purchase agreements with providers of renewable energy generated by
3 municipal solid waste, solar, and wind facilities.
4

5 Q. What is the basis for the summary of Gulf's historical generation decision
6 making that you describe above?

7 A. Mr. Deason and I reviewed a number of historical documents and worked
8 together on the development of Exhibit JAB-1, which is a chronological
9 summary of the key planning and regulatory events and decisions
10 associated with Gulf's 25 percent ownership interest in Scherer 3.
11 Additionally, I relied on other Company information and knowledge of
12 general Company, U.S. and world events that transpired over this historical
13 period.
14
15

16 II. GULF'S CURRENT GENERATION OUTLOOK

17

18 Q. Please provide an overview of the resource planning landscape facing Gulf
19 today.

20 A. As can be observed from the historical events I describe above, long-term
21 planning has always involved uncertainty. Gulf's current resource planning
22 landscape is no different. There is uncertainty regarding the long term rate
23 of U.S. economic growth, the long term rate of Gulf's load growth, future
24 natural gas price volatility, the timing and amount of natural gas price
25 increases, and future potential environmental regulations that could impact

1 both natural gas and coal production as well as utilization. Compounding
2 the planning challenges associated with these uncertainties is the fact that
3 commitments to dispatchable generation additions are typically required to
4 be made many years in advance and typically get added as “lumpy”
5 capacity additions. The long, multi-year lead times are necessary to allow
6 for engineering, permitting and construction of the generation as well as
7 development of associated electric transmission infrastructure that is
8 typically needed. The “lumpiness” of generation additions is a result of the
9 fact that the major components of dispatchable generation come in discrete
10 sizes and that the most efficient and economic generation sizes typically do
11 not match well with any given year’s capacity need.

12
13 Despite the uncertainties, the long lead times and the “lumpiness”
14 associated with generation additions, what is certain is Gulf’s obligation to
15 serve its customers with reliable and economic electric service. From a
16 planning perspective, this obligation combined with the previously discussed
17 planning challenges results in commitments to generation additions that
18 virtually never exactly match the timing or amount of capacity need. This
19 mismatch between the amount and timing of the need for capacity and the
20 Scherer 3 rededication to retail service is the case facing Gulf today, just as
21 it was the case in virtually every dispatchable generation addition that has
22 been previously made by Gulf and approved by this Commission. Because
23 of the long lead times associated with dispatchable generation additions
24 and the uncertainties associated with planning, these mismatches between
25 the amount and timing of needed capacity versus future generation

1 additions will continue to exist in the future. So, these types of mismatches
2 existed in the past, they exist today and they will continue to exist in future
3 generation additions.

4

5 Q. Despite the mismatch you previously described, how does the rededication
6 of Scherer 3 to retail service relate to Gulf's future resource plans?

7 A. The rededication of Scherer 3 to native load service complements Gulf's
8 resource plans by offsetting a portion of the lost fuel diversity associated
9 with recently retired coal-fired units, serving as a hedge to the volatility of
10 natural gas prices and avoiding the need for 210 MWs of future capacity
11 additions that would otherwise be needed.

12

13 Q. Please describe the change in fuel diversity associated with Gulf's
14 generation resource changes.

15 A. Since April 2015, Gulf has retired four coal fired generating units at Plant
16 Scholz and Plant Smith representing almost 450 MWs of generation
17 capacity. The rededication to retail service now of Scherer 3's 160 MWs of
18 Powder River Basin (PRB) coal-fired capacity (with rededication of the
19 remaining 50 MWs by 2020) restores a portion of the lost fuel diversity in
20 Gulf's energy mix.

21

22 Diversification is a recommended approach in the financial community to
23 address uncertainty and volatility of markets. Likewise, diversification of
24 energy resources is a valuable approach to address uncertainty in natural
25 gas prices and future environmental requirements. By rededicating energy

1 from the environmentally well-controlled, low variable cost Scherer 3 unit to
2 Gulf's resource mix, Gulf's customers will continue to be served by a
3 diverse fuel mix.

4
5 It is also important to maintain diversification to ensure a high level of
6 reliability. By diversifying the type of fuel used for electricity generation, the
7 supply basins from which that fuel is procured and the transportation
8 providers and infrastructure that move the fuel from the fuel basin to the
9 generator, the risks of disruption of fuel delivery to the generation fleet are
10 reduced. If a given fuel supply basin is temporarily unusable due to natural,
11 regulatory or other reasons, having a diverse source of fuel supply basins
12 helps minimize fuel supply disruption to the generation fleet. Likewise, if a
13 given fuel transportation provider or a portion of fuel transportation
14 infrastructure is temporarily unavailable due to natural, regulatory or other
15 manmade reasons, having a wide variety of fuel transportation sources is
16 helpful to ensure fuel is available to provide reliable electric service to
17 customers.

18
19 Q. Please describe how Scherer 3's rededication complements Gulf's fuel
20 hedging activities.

21 A. The reintegration of Scherer 3, with its low price volatility PRB coal fuel,
22 complements the recent change to Gulf's natural gas fuel hedging program,
23 which reduced Gulf's target natural gas hedge volume. Scherer 3's
24 rededication to retail service enables the use of its low variable cost PRB
25 coal, and allows its dispatchability to serve as an inherent fuel hedge.

1 Maintaining a diverse array of dispatchable resources is a highly-effective
2 hedge against volatile natural gas prices. A diverse array of dispatchable
3 resources is more effective as a hedge than either financial natural gas
4 hedges or 100 percent fixed price renewables, because the utilization of the
5 dispatchable resource can be varied in direct response to the price of
6 natural gas. This variation in dispatchable resource utilization can displace
7 the use of natural gas in periods of high natural gas prices and can be
8 displaced by the use of natural gas in periods of low gas prices.

9

10 Q. Please summarize your testimony.

11 A. For many years, Gulf Power has made resource planning decisions in
12 conjunction with a coordinated planning process to the benefit of its
13 customers. That process led to the acquisition of a 25 percent ownership
14 share in Scherer 3 in the early 80's in lieu of the more costly alternative of
15 building a new unit at Caryville. That process also led to the decision to
16 invest in environmental controls in 2009-2011 to comply with the
17 environmental rules in place, which was determined to be the right decision
18 for Gulf's customers. Additionally, Scherer 3's rededication to retail service
19 is consistent with its originally planned purpose and is complementary to
20 Gulf's future resource plans.

21

22 Q. Does this conclude your testimony?

23 A. Yes.

24

25

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission

3 Prepared Direct Testimony of:

4 J. Terry Deason

5 Docket No. 160186-EI

6 In Support of Rate Relief

7 Date of Filing: October 12, 2016

8 Q. Please state your name and business address.

9 A. My name is Terry Deason. My business address is 301 S. Bronough Street,
10 Suite 200, Tallahassee, FL 32301.

11 Q. By whom are you employed and what position do you hold?

12 A. I am a Special Consultant for the Radey Law Firm, specializing in the fields
13 of energy, telecommunications, water and wastewater, and public utilities
14 generally.

15 Q. Please describe your educational background and professional experience.

16 A. I have 39 years of experience in the field of public utility regulation spanning
17 a wide range of responsibilities and roles. I served as a consumer advocate
18 in the Florida Office of Public Counsel ("OPC") on two separate occasions,
19 for a total of seven years. In that role, I testified as an expert witness in
20 numerous rate proceedings before the Florida Public Service Commission
21 ("Commission" or "PSC"). My tenure of service at OPC was interrupted by
22 six years as Chief Advisor to Florida Public Service Commissioner Gerald L.
23 Gunter. I left OPC as its Chief Regulatory Analyst when I was first
24 appointed to the Commission in 1991. I served as Commissioner on the
25 Commission for 16 years, serving as its chairman on two separate

1 occasions. Since retiring from the Commission at the end of 2006, I have
2 been providing consulting services and expert testimony on behalf of various
3 clients, including public service commission advocacy staff, county and
4 municipal governments, and regulated utility companies. I have also testified
5 before various legislative committees on regulatory policy matters. I hold a
6 Bachelor of Science Degree in Accounting, summa cum laude, and a Master
7 of Accounting, both from Florida State University.

8

9 Q. For whom are you appearing as a witness?

10 A. I am appearing as a witness for Gulf Power Company (Gulf or the Company).

11

12 Q. What is the purpose of your testimony?

13 A. The purpose of my testimony is to present the history of Gulf's ownership
14 interest in Plant Scherer Unit 3 (Scherer 3) and provide perspective for its
15 appropriate regulatory treatment in base rates.

16

17 Q. Are you sponsoring any exhibits?

18 A. Yes. I am sponsoring two exhibits and co-sponsoring one other exhibit.
19 Exhibit JTD-1 is my curriculum vitae. Exhibit JTD-2 is a reference
20 compendium containing 15 documents related to Gulf's acquisition of
21 Scherer 3, including relevant letters, transcripts, and Commission orders.
22 My testimony will cite to specific pages of this document as RC-xx. I am co-
23 sponsoring with Gulf Witness Burleson a chronology of events concerning
24 Gulf's ownership interest in Scherer 3. This exhibit is attached to Mr.
25 Burleson's testimony.

1 Q. How is your testimony organized?

2 A. My testimony is organized into five parts. First, I describe the Commission's
3 approach to long-term system planning. Second, I provide the history of
4 Gulf's ownership interest in Plant Scherer for the benefit of its retail
5 customers and identify key decisions made by the Commission in the
6 course of that history. Third, I discuss regulatory principles that are
7 applicable to Gulf's ownership interest in Scherer 3. Fourth, I explain how
8 Gulf's ownership interest in Scherer 3 should be treated for regulatory
9 purposes in retail rates. Fifth, I provide my conclusion for Plant Scherer.

10

11

12 I. SYSTEM PLANNING

13

14 Q. What factors does the Commission take into account in evaluating a utility's
15 long-term resource planning and generation commitments?

16 A. The Commission's approach has three fundamental components that work
17 together. First, the Commission expects utilities to determine customers'
18 needs based on long-term forecasts, which take into account all reasonably
19 determined factors that affect the timing, duration, and magnitude of
20 demands for power. Second, the Commission expects utilities to propose
21 and pursue the correct mix of generation resources and conservation
22 programs that reliably and cost-effectively meet customers' needs with an
23 adequate reserve margin to insure the continuation of service during most
24 (but not all) contingencies. And third, the Commission expects utilities to
25 utilize a long-term planning horizon that not only considers the front-end

1 capital costs and the ongoing operating costs of various generation
2 alternatives, but also considers reliability, diversity of supply, and
3 environmental sustainability. The ultimate goal of Florida's system planning
4 process is to achieve the best balance of resources that maximizes
5 customer benefits over the long term.

6

7 Q. Why is it important that system planning take a long-term view?

8 A. A long-term view is necessary to best meet customer needs in the most
9 cost-effective and reliable manner. This is especially true when many of the
10 most cost-effective resource alternatives have useful lives typically in
11 excess of 40 years.

12

13 Q. Are there risks inherent in planning for such long-term horizons?

14 A. Yes. Forecasts of demands, capital costs, and operating costs often
15 change with the passage of time. However, it is still true that customer
16 benefits can best be maximized and costs minimized when planning takes
17 the longer-term view. To facilitate utilities taking the longer-term view,
18 regulation should provide a high degree of certainty that costs will be
19 recovered over the life of an investment, despite the fact that demands and
20 operating costs will change over that life. This has been the practice in
21 Florida. In addition, to help minimize costs and best balance resources with
22 changing customer needs, the Commission has encouraged both short-term
23 and long-term off-system sales.

24

25

1 Q. Does the Commission have a policy regarding Florida electric utilities
2 making long-term off-system sales?

3 A. Yes, the Commission has a policy of encouraging long-term off-system
4 sales when certain conditions are met. The first condition is that, at the time
5 the contract is executed, the capacity sold is not required to meet expected
6 retail capacity needs. Second, the costs have to be fairly allocated such
7 that retail customers are not asked to subsidize wholesale customers. And
8 third, the generation remains ultimately available to meet retail customer
9 needs after the contract ends. In essence, the Commission views long-term
10 off-system sales as a bridging tool to balance capacity with need and to
11 cost-effectively plan for retail needs while minimizing the cost burden on
12 retail customers.

13

14

15 **II. HISTORY OF GULF'S OWNERSHIP INTEREST IN PLANT SCHERER**

16

17 Q. When was the Commission first informed of Gulf's intention to acquire an
18 ownership interest in Plant Scherer?

19 A. As described by Mr. Burleson, the Commission concluded in 1975 that Gulf
20 needed additional generation capacity. This determination was a basis for
21 the Governor and Cabinet to certify Caryville in 1976 as the site for this new
22 generation. In 1978, Gulf notified the Commission that it wished to cancel
23 its remaining proposed Caryville unit and instead purchase a portion of
24 Plant Scherer. Gulf stated that cancelling the remaining Caryville unit and

25

1 pursuing the Scherer acquisition would be a much cheaper alternative, with
2 tremendous savings to flow to customers as a result.

3

4 Q. Did the Commission agree with Gulf's position?

5 A. Yes. As part of Gulf's rate case in Docket No. 800001-EU, the Commission
6 gave tentative approval to Gulf's proposal to cancel the proposed Caryville
7 plant and to amortize the associated cancellation charges. The
8 Commission decided to place the unamortized portion of Caryville
9 cancellation charges in rate base and to amortize it over five years, but
10 required Gulf to hold the revenues collected subject to refund.

11

12 Q. Why were the associated revenues collected subject to refund?

13 A. The Commission wanted to insure that the Scherer acquisition actually took
14 place. The Commission determined that the purchase of an interest in
15 Scherer "would be beneficial to Gulf's ratepayers" but correctly noted that
16 the Scherer acquisition had not yet been consummated. Therefore, the
17 Commission placed the associated revenues subject to refund "in the event
18 the transaction relied upon is not consummated..." In other words, the
19 Commission clearly agreed that customers were better served by the
20 Scherer acquisition than proceeding with Caryville and, therefore, used the
21 subject to refund condition as a strong incentive for Gulf to complete the
22 Scherer purchase.

23

24 Q. Have you seen any other evidence of the Commission's desire that Gulf
25 purchase an interest in Scherer?

1 A. Yes. On February 16, 1981, at an informal workshop before all five of the
2 then sitting Commissioners, Gulf made a presentation concerning the merits
3 of purchasing an interest in Scherer. This workshop also had the Office of
4 Public Counsel and Commission Staff in attendance.

5
6 Mr. E. L. Addison, the then President and CEO of Gulf, led Gulf's
7 presentation to the Commission. Mr. Addison gave a brief history of the
8 cancellation of the Caryville units and how this was the best decision for
9 Gulf's customers. He also referenced the Commission's recent decision to
10 allow the amortization of the Caryville cancellation costs in retail rates
11 subject to refund pending consummation of the Scherer acquisition. Mr.
12 Addison then bluntly notified the Commission that Gulf's load projections
13 had continued to decrease to the point that the Caryville capacity (if
14 constructed) would not be needed until 1993. This led to a dilemma for Gulf
15 which Mr. Addison described:

16 "So the situation we now face is that Scherer is
17 scheduled to be available to us six and four years ahead of
18 what our need really is for our retail customers. However,
19 we have the opportunity to sell at least a portion of that
20 capacity to other utilities to displace oil-fired generation until
21 that capacity is needed by our customers. At that time, they
22 will greatly benefit as demonstrated by the cost
23 comparisons.

24 "Now our dilemma is this. If we wanted to be short-
25 sighted and bury our head in the sand, we could live a lot

1 easier life for the next five or six years, and our stockholders
2 would fair better if we did not participate in the Scherer Units.
3 However, we're not in a short-term business. We are
4 definitely in a long-term business, and our customers
5 ultimately will greatly benefit from our participation in
6 Scherer.

7 "In addition to the benefits to them, there is the benefit
8 to this state of reducing oil consumption by selling that
9 capacity into the State of Florida, or at least a portion of it.
10 Now we are ready within a matter of a few days to sign the
11 contract with Georgia Power Company for the purchase of
12 that capacity. There is no doubt that if we move down the
13 road and it's been demonstrated by our decision on
14 Caryville, it's very easy after you pass a point in time to be
15 second guessed about your business decision. Now we
16 simply cannot take the business risk of having that kind of
17 second guessing as we move down the road with the
18 Scherer Units. We cannot embark on this program without
19 assurance from this Commission that they are supportive of
20 our actions. In spite of the fact that some of this capacity will
21 not initially be used by our retail customers, they are the
22 ultimate beneficiary."

23 This passage is taken from pages 9 and 10 of the transcript of the
24 workshop, which appear as pages RC-193 and RC-194 of Exhibit JTD-2.

25

1 Q. Did Gulf's presentation also address the limited time frame to acquire an
2 interest in Plant Scherer and the use of off-system sales to market the
3 capacity acquired from Plant Scherer?

4 A. Yes. Mr. Arlan Scarbrough, Gulf's Vice President over financial matters,
5 addressed this:

6 "Now the other thing that Mr. Addison referred to is
7 this period of time right here. We do not need this capacity
8 until 1993. Scherer is only available, if you buy it, it's either
9 available for '87-89 or it's not available at all. You either buy
10 into it because it's going to be constructed by Georgia Power
11 Company for '87 and '89 in-service, Unit 3 in '87 and Unit 4
12 in '89, no alternative. So during this period of time, we have
13 commitments, pretty definite commitments for a significant
14 portion of the output of Scherer already. We are confident,
15 we are confident, although we do not have definite
16 commitments, we are confident that we can market all of that
17 output during that period of time.

18 * * * * *

19 "Now in order – and this sort of repeats what Mr.
20 Addison said, but I reckon it's worth repeating because it's
21 our whole purpose for being here. As he said, we're right on
22 the verge of getting ready to sign this contract. These
23 people have, in effect, told us, you know, 'Make up your
24 mind, either do it or forget it, one or the other.' And, so we're
25 right at that point where we're either going to make a

1 decision to do it or not to do it. But before we can embark on
2 this type of financial endeavor, we must have the assurance
3 of this Commission and the support of this Commission in
4 our so doing.”

5 These passages are taken from pages 17 and 21 of the workshop
6 transcript, which appear at pages RC-201 and RC-205 of Exhibit JTD-2.

7

8 Q. What was the Commission’s reaction?

9 A. The Commission’s reaction was one of support for Gulf’s efforts. The
10 Commission acknowledged that the cancellation of Caryville and the pursuit
11 of Scherer was in the best interest of Gulf’s customers and that placing the
12 Caryville cancellation charges subject to refund was an encouragement for
13 Gulf to follow through on the Scherer acquisition. The Commission also
14 acknowledged that load projections had declined but also stressed the need
15 for long-range planning. In response to Mr. Addison and Mr. Scarbrough,
16 Commissioner Cresse stated:

17 “Of course, since that time the cost of fuel has gone
18 up tremendously and all those kinds of things have
19 happened. And, so, we were using some hindsight. But I
20 think we did get their attention, and I don’t think that the
21 Commission is, I hope has never accused -- I hope we’re
22 never guilty of discriminating against a company that uses a
23 little long-range planning and long-range thought processes
24 in providing the most economical service to their customers.

25

1 “On the other hand, I’d rather think that we would be
2 unhappier with a company that was not willing to do
3 something innovative and different than the customary ‘wait-
4 until-the-last-minute’ to build, construct, do those things that
5 we’re only obligated to do without taking a longer view.

6 “I think you’re taking a longer view, and I don’t believe
7 that the Commission will discriminate against your company
8 because you’re taking a longer view.”

9 This passage is taken from page 47 of the workshop transcript found on
10 page RC-231 of Exhibit JTD-2.

11

12 Q. Was there discussion of the Commission’s actions to encourage the
13 Scherer acquisition?

14 A. Yes. Both Commissioner Gunter and Commissioner Cresse acknowledged
15 that the Commission’s earlier decision to place the Caryville cancellation
16 charges subject to refund was an encouragement to consummate the
17 Scherer acquisition. Commissioner Gunter stated: “If you want to look at
18 the other side of that order where we ordered that money held until you did
19 it, that maybe is a backwards way of looking at encouragement.” Mr.
20 Addison added: “We looked at it as encouragement.” Then Commissioner
21 Cresse concluded by stating:

22 “I think it was. I don’t think anybody needs to kid
23 themselves; that the Commission at that time felt that it was
24 to the ratepayers in Florida’s advantage for you to get that
25 cheaper generating capacity out of Georgia than it was to

1 build in Florida under the terms and conditions that you have
2 to build in Florida. It's just that simple." [Transcript, page 48;
3 RC-232]
4

5 Q. What was Gulf's next action following the February 16, 1981 informal
6 workshop?

7 A. Based on the assurances received from the Commission, Gulf immediately
8 proceeded to acquire an interest in Plant Scherer. Mr. Addison, in a memo
9 dated February 18, 1981, directed Gulf to move with dispatch to complete
10 the negotiations with Georgia relative to the purchase of the Scherer
11 capacity. The contract to purchase between Gulf and Georgia Power was
12 signed on February 19, 1981, and led to a March 3, 1981, filing to obtain the
13 necessary Securities and Exchange Commission (SEC) authorization to
14 close the sale. On February 19, 1981 and February 27, 1981, the first two
15 Unit Power Sales (UPS) agreements were signed, committing portions of
16 the Scherer units to interim long-term off-system sales through 1993.
17

18 Q. Was this issue addressed in Gulf's next rate case?

19 A. Yes. In Gulf's next rate case, Docket No. 810136-EU, the Commission
20 reaffirmed its earlier decisions concerning the Caryville cancellation and the
21 Scherer acquisition. In its Order No. 10557, the Commission referenced its
22 earlier decision stating:

23 "In the Company's last rate case, Order No. 9628, we
24 determined that Gulf's decision to cancel its Caryville facility
25 was prudently based upon an economic advantage to Gulf's

1 customers associated with purchasing the Scherer capacity
2 in lieu of constructing the Caryville facility.” [Order, p. 13;
3 RC-247]

4 The Commission went on to say:

5 “In our opinion, this matter was fully aired and
6 resolved during the last case, and nothing of an evidentiary
7 nature has been offered to persuade us to depart from our
8 earlier findings.” [Order, p. 14; RC-248]

9

10 Q. Did the Commission reference the estimated cost savings associated with
11 the Scherer acquisition?

12 A. Yes. In this same Order, the Commission stated:

13 “Based on Gulf’s current budget, the cost of this Scherer
14 capacity is estimated to be \$827/kw. The comparable cost
15 of capacity installed at Caryville in 1987 is estimated to be
16 \$2052/kw. Hence, Gulf’s 404 MW net ownership share in
17 Plant Scherer is expected to result in an estimated \$495
18 million savings to Gulf’s ratepayers.” [Order, p. 38; RC-272]

19

20 Q. Did the Commission address the Caryville cancellation and the Scherer
21 acquisition in Gulf’s next rate case?

22 A. Yes, in Docket No. 820150-EU, Order No. 11498, the Commission
23 reconfirmed its decisions in Gulf’s two previous rate cases. The
24 Commission also addressed a major policy issue on the question of Unit
25 Power Sales.

1 Q. What is meant by Unit Power Sales?

2 A. Unit Power Sales or UPS is a form of power purchase agreement between
3 two (or more) utilities providing a sale of firm generating capacity from the
4 generating plant's owner to the purchasing utility. UPS contracts are for a
5 stated period of time (usually for multiple years, but less than the anticipated
6 life of the generating unit). The purchasing utility has first call on the unit's
7 output and can rely on the unit's capacity to meet its capacity needs. When
8 not called upon by the purchasing utility, the unit's energy output is available
9 to the selling utility to be dispatched to meet retail energy needs or make
10 economy sales. Because the UPS contract is a wholesale transaction, it is
11 regulated by the Federal Energy Regulatory Commission ("FERC"), and the
12 costs of the generating unit are allocated to the wholesale jurisdiction by
13 specific adjustments and/or jurisdictional separation factors.

14
15 Q. What did the Commission say about UPS contracts in its Order No. 11498?

16 A. The Commission's discussion on a UPS contract in Order No. 11498 was
17 for Plant Daniel, not Plant Scherer. Nevertheless, the principles also apply
18 to Plant Scherer. In rejecting a position taken by the OPC, the Commission
19 stated:

20 "However, we have examined the UPS contract and
21 the associated cost and allocation from all angles and we
22 come to the opposite conclusion. If the proper amounts of
23 investment, operating expenses and revenues are allocated
24 to UPS customers, retail ratepayers will not only not
25 subsidize UPS customers, but on the contrary, they will

1 benefit handsomely from the sales, in the sense that they will
2 not have to support the capacity sold in a UPS transaction
3 for the life of the contract but the capacity will be available to
4 serve them when they need it in the future, at a relatively
5 reduced price when compared with the cost of future
6 construction.” [Order, p. 20; RC-313 (emphasis added)]
7

8 Q. Did Gulf’s acquisition of Scherer 3 require regulatory approval?

9 A. Yes. At the time of Gulf’s acquisition of a portion of Plant Scherer, the SEC
10 had jurisdiction to approve such transactions pursuant to the Public Utilities
11 Holding Company Act of 1935.
12

13 Q. Did Gulf seek and receive approval from the SEC?

14 A. Yes. The application-declaration was filed on March 3, 1981, and originally
15 sought approval to acquire 25 percent of Scherer Units 3 and 4. Due to a
16 continuing decline in load growth, the application was later amended to
17 include only the 25 percent of Scherer 3. On March 1, 1984, Gulf executed
18 the Purchase and Ownership Participation Agreement and the Operating
19 Agreement between Georgia Power Company and Gulf for a 25 percent
20 interest in Scherer 3. The closing on Scherer 3 occurred on October 18,
21 1984 following SEC approval on October 10, 1984.
22

23 Q. Was there intervention at the SEC in opposition to the transaction?

24 A. Yes. Ratewatch, an unincorporated organization of Georgia citizens
25 organized to promote just and reasonable utility rates, contended that the

1 price being paid by Gulf was too low. Ratewatch also sought to have the
2 proposed transaction rejected in an effort to have Gulf participate in the
3 higher-cost Scherer Unit 4 or alternatively take an ownership interest in
4 Georgia Power's two nuclear Vogtle units. The Georgia Consumers' Utility
5 Counsel (CUC) also appeared in opposition. The CUC sought to have Gulf
6 pay above book value for Scherer 3 so that Georgia Power would earn a
7 profit that could be passed through to Georgia customers.

8

9 Q. What did the SEC decide?

10 A. The SEC approved the transaction without an adjustment in Gulf's proposed
11 price. In its Memorandum Opinion and Order, the SEC stated:

12 "Ratewatch considers a sale to Gulf of a 25% interest in Unit
13 4 of greater advantage to ratepayers of Georgia. It is fair to
14 assume for like reasons that Florida consumers served by
15 Gulf would prefer Gulf's choice of Unit 3. We have no such
16 regional preference, and, above all, the Act does not give us
17 a dispensation to favor Georgia over Gulf, as Ratewatch
18 would have us do." [RC-362-363]

19

20 Q. How did Gulf report its investment in Scherer 3 for surveillance purposes?

21 A. Consistent with Commission policy, Gulf allocated the portion of Scherer 3
22 covered by UPS contracts to the wholesale jurisdiction. The uncovered
23 portions were included in retail and included in its surveillance reports to the
24 Commission.

25

1 Q. When was the first time Gulf requested that a portion of Scherer 3 be
2 included for purposes of setting retail rates?

3 A. As part of its rate case in Docket No. 891345-EI, Gulf requested that 63 MW
4 of the 212 MW be included in rates. This included 19 MW that had never
5 been sold off system up to that point and an additional 44 MW that became
6 uncovered as the result of a default by Gulf States Utilities on a UPS
7 contract with Gulf.

8

9 Q. What did the Commission decide?

10 A. The Commission decided that the 63 MW was not needed to serve retail
11 customers and adjusted the 63 MW out of Gulf's request. In making this
12 determination, the Commission relied on the fact that the bulk of the 63 MW
13 (44 MW) was being made available to retail only because of the Gulf States
14 Utilities default. In its Order No. 23573, the Commission noted that UPS
15 sales would increase such that by 1995, none of Scherer 3 would be
16 available to serve territorial customers until 2010. The Order also
17 addressed the appropriate allocation of the risks and benefits of entering
18 into UPS contracts:

19 "It is clear that Gulf would not have requested 63 MW of
20 Scherer to be in rate base had Gulf States Utilities not
21 defaulted on their contracts. When Gulf made the decision
22 to purchase 25 percent of Scherer 3 it was aware of the
23 potential that their contract with Gulf States Utilities might not
24 be honored. Since the profits from the unit power sales go
25 to Gulf's stockholder, they should bear the risk of default,

1 and not Gulf's ratepayers. Therefore, we remove all of Plant
2 Scherer from rate base. All profits and losses derived from
3 unit power sales of Scherer, and any costs or benefits
4 accruing from any settlement with Gulf States Utilities are to
5 go to the stockholders of Gulf Power Company. Gulf's
6 ratepayers, who will not see the profits from Gulf's unit
7 power sales contracts, should not be required to pay when
8 such a contract falls through." [Order, p. 13; RC-13]

9

10 Q. Was this always the Commission's decision?

11 A. No. As part of its review of Gulf's tax savings refund in Docket No. 890324-
12 EI, the Commission had made a distinction between the 44 MW that was
13 made available due to a UPS contract default and the 19 MW that had never
14 been subject to a contract. Since the 19 MW had never been subject to a
15 contract and had been available to serve native load customers the entire
16 time, the Commission allowed the investment associated with the uncovered
17 19 MW to be included in Gulf's rate base. [Order No. 23536, p. 3]

18

19 Q. Was Gulf's portion of Scherer 3 at issue in any of Gulf's rate cases
20 subsequent to its rate case in Docket No. 891345-EI?

21 A. No. Subsequent to the decision in Docket No. 891345-EI, Gulf has sought
22 changes in its retail base rates in only three dockets: Docket Nos. 010949-
23 EI, 110138-EI, and 130140-EI. In the test year for each of these three
24 dockets, Gulf's investment in Scherer 3 was fully dedicated to long-term off-
25 system sales under UPS agreements. In fact, other than the small portion

1 of the Scherer 3 capacity from 1987 through 1995, 100 percent of Gulf's
2 investment in Plant Scherer has been committed to long-term off-system
3 sales under UPS agreements until the end of 2015. Thus, for the first time
4 since 1995, a portion of Gulf's investment is now serving the native load
5 customers for whom it was planned, acquired and built by Gulf.

6

7 Q. What was the latest vintage of UPS contracts for Gulf's portion of Scherer 3?

8 A.

9 In 2004, Gulf entered into three UPS contracts effective beginning in 2010
10 for its portion of Scherer 3. The largest of these contracts (110 MW) was
11 with Florida Power & Light Company (FPL) and expired at the end of 2015.
12 A second contract with Progress Energy Florida (PEF now Duke) for 50 MW
13 expired on May 31, 2016. The third contract for 50 MW is with Flint Energy,
14 a Georgia Electric Membership Cooperative, and will expire on December
15 31, 2019.

15

16 Q. Did the Commission approve any of these UPS contracts?

17 A.

18 Yes, from the buyers' perspective. The Commission reviewed the FPL and
19 PEF contracts for their prudence and whether their associated costs should
20 be recovered in each company's retail rates. The Flint contract is not
21 subject to the Commission's jurisdiction.

21

22 Q. What did the Commission decide on the prudence of the FPL contract and
23 the recovery of associated costs in FPL's retail rates?

24 A.

25 These issues were addressed in the Commission's 2005 fuel and
purchased power cost recovery proceedings in Docket No. 050001-EI. The

1 Commission determined that the contract was prudent and that the
2 associated cost should be recovered. In reaching this determination, the
3 Commission specifically referenced Florida's increasing reliance on natural
4 gas-fired units and the fact that no new coal-fired generating units had been
5 constructed either in Florida or on the Southern Company system for quite
6 some time. Even though the overall contracts also included some gas-fired
7 capacity from Southern Company's Harris and Franklin Units, the
8 Commission decided that maintaining coal-fired capacity was needed and
9 strategically beneficial. In its Order No. PSC-05-0084-FOF-EI, the
10 Commission stated:

11 "According to FPL, the purpose of the new UPS
12 agreements is to retain as many of the benefits of the
13 existing contracts as possible. While FPL may not have
14 been able to retain all of the benefits of the existing UPS
15 agreements, the new UPS agreements do provide some fuel
16 diversity, enhanced reliability, and opportunities for economy
17 energy purchases. Specifically, the new UPS agreements
18 provide for: (1) the purchase of 165 MW of coal-fired and
19 790 MW of gas-fired capacity and energy, with the right of
20 first refusal to purchase additional coal-fired energy if made
21 available; (2) a short-term commitment which allows FPL to
22 further explore ownership of new solid fuel generation; (3)
23 enhanced reliability through geographic and fuel supply
24 differences; and, (4) the retention of firm transmission rights
25 within the Southern system." [Order, p. 3]

1 Q. What did the Commission decide on the prudence of the PEF contract and
2 the recovery of associated costs in PEF's retail rates?

3 A. PEF filed a separate petition that was considered in Docket No. 041393-EI.
4 Similar to the FPL contracts, the PEF contracts also included some gas-
5 fired capacity. The Commission weighed the overall benefits and approved
6 the contracts for cost recovery. The Commission identified and addressed
7 four non-price benefits of maintaining some coal-fired capacity in the mix:
8 Transmission Access and Economy Energy; Fuel Diversity; Planning
9 Flexibility; and Reliability. In its Order No. PSC-05-0699-FOF-EI, the
10 Commission stated:

11 "In conclusion, we find that the non-price benefits
12 discussed above are reasonable and provide important
13 potential benefits for PEF and its ratepayers. The fuel
14 diversity and planning flexibility afforded by the agreements
15 are of particular importance due to the volatility and
16 forecasting uncertainty of natural gas prices. The coal-fired
17 capacity from Southern's Scherer unit will reduce PEF's
18 ratepayers' exposure to fuel price volatility, while the timing
19 of the contracts will give Progress the flexibility to defer
20 natural gas-fired capacity and potentially move up the in-
21 service date of a coal-fired unit." [Order, p. 8]

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25

1 Q. Has Gulf's 25 percent interest in Scherer 3 been part of Gulf's annual
2 planning process?

3 A. Yes. In recognition that Gulf's interest in Scherer 3 is a generation resource
4 that would return for the benefit of retail customers, it has consistently been
5 included in Gulf's Ten Year Site Plans. And in Gulf's 2007 Ten Year Site
6 Plan there is discussion of Gulf's plans to comply with new environmental
7 requirements to enable Plant Scherer to continue to be an operational
8 resource for Gulf's customers. Gulf was required to add a scrubber system,
9 a baghouse for additional mercury control, and a Selective Catalytic
10 Reduction system to Scherer 3 in the 2009 to 2011 time frame in order to
11 continue to operate the unit.

12

13 Q. Have these environmental compliance measures been installed at Plant
14 Scherer?

15 A. Yes, these measures were installed on all four units at Plant Scherer.

16

17 Q. Did the Commission have an opportunity to review these environmental
18 compliance measures?

19 A. Yes. The Commission's review was in the context of a request by FPL to
20 include the environmental compliance costs for Scherer Unit 4 (a sister unit
21 to Scherer 3) for recovery through the Environmental Cost Recovery Clause
22 (ECRC). In Docket No. 070007-EI, the Commission recognized that the
23 measures to bring Scherer into compliance were needed and the most cost-
24 effective alternative. The Commission approved the cost recovery of these
25 environmental costs and required subsequent updates from FPL.

1 Q. How has Gulf accounted for its ownership interest in Plant Scherer?

2 A. Since its commercial operation date, Gulf's ownership interest in Plant
3 Scherer has been recorded in Utility Plant in Service and other appropriate
4 accounts in accordance with the FERC Uniform System of Accounts. Gulf's
5 investment in Plant Scherer has been included in all of Gulf's depreciation
6 studies submitted to the Commission since its initial acquisition.
7 Accordingly, the depreciation rates applicable to Gulf's interest in Plant
8 Scherer have been consistently reviewed and approved by the Commission.

9

10 Q. What is the remaining life of Plant Scherer as reflected in Commission-
11 approved depreciation studies?

12 A. Plant Scherer's remaining life is approximately 35 years or until 2052.

13

14

15 III. REGULATORY POLICY CONSIDERATIONS

16

17 Q. What are the regulatory policy considerations relevant to the Commission's
18 consideration of Gulf's interest in Plant Scherer?

19 A. They are the same considerations as those that are applied to any
20 investment made by a regulated utility to provide service to its customers.

21 Among these are:

- 22 • A regulated utility has the obligation to provide reliable and cost-
23 effective service to its customers and to deploy capital to meet this
24 obligation. Inherent in this obligation is a responsibility to manage
25 costs and mitigate risks where reasonably possible.

- 1 • All investments are subject to a determination of prudence, based on
2 the reasonably anticipated costs, risks, and benefits of said
3 investment that are known or reasonably known at the time that the
4 investment is made. Concomitant with this principle is that future
5 changed circumstances that can be known and applied only in
6 hindsight are not a valid basis to reverse a previous determination of
7 prudence.
- 8 • All prudently incurred investments that are used and useful in
9 providing service are to be afforded rate recovery treatment, both in
10 the form of a reasonable return on the investment and a reasonable
11 return of the investment, generally over the useful life of said
12 investment.
- 13 • The reasonable rate of return is a necessary cost to provide service
14 and should be set at a level to adequately compensate investors for
15 the risk of their investment and to be fair to customers on whose
16 behalf the capital is deployed. Inherent in this principle is the
17 expectation that customer and investor interests are balanced in a
18 fair and symmetrical manner.
- 19 • While the reasonable return on investment is not guaranteed, there is
20 an expectation that rates will be set to afford a utility a reasonable
21 opportunity to actually earn its authorized rate of return. Without that
22 reasonable opportunity, the allowed return would have to be
23 substantially higher, and over time this would result in higher electric
24 rates for customers.

25

1 • The reasonable rate of return is set and monitored to fall within an
2 established band, so that the return is neither excessive nor deficient.
3 These considerations are part of the regulatory compact that has been the
4 foundation of fair and effective utility regulation in this country for decades.

5

6 Q. What is the regulatory compact?

7 A. The regulatory compact is an implied contract that exists between a
8 regulated public utility, its regulators, and its customers. It lays the
9 foundation for regulation and balances the interests (and risks) of all
10 stakeholders. It has been employed to characterize the set of mutual rights,
11 obligations, and benefits that exist between the utility and its customers.

12

13 Q. Does the regulatory compact apply to Gulf's investment in Plant Scherer?

14 A. Yes. Consistent with the regulatory compact and its obligations under it,
15 Gulf presented the Scherer acquisition as a more cost-effective alternative
16 to constructing coal-fired generating units at Caryville. The Commission
17 agreed that Scherer was a better alternative than Caryville and allowed the
18 cancellation costs of Caryville to be amortized and reflected in rates.
19 Absent extraordinary circumstances, once the Scherer plant was fully
20 constructed and Gulf's acquisition of a portion of Scherer 3 was
21 consummated, it would have become part of Gulf's rate base and all
22 generation from its Scherer interest would have been for the exclusive
23 benefit of its retail customers. In effect, this was the bargain that had been
24 struck under the regulatory compact. However, there were extraordinary

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1 circumstances that affected the timing of when the bargain would be
2 recognized in Gulf's retail rate base.

3

4 Q. What were these extraordinary circumstances?

5 A. At the time Gulf was required to commit to the purchase of an interest in
6 Scherer, it had become clear that the capacity would not be immediately
7 needed to serve Gulf's retail customers when the unit was scheduled to
8 become operational. This was the subject of the February 1981 workshop
9 at which the Commission encouraged Gulf to proceed with the purchase
10 and to enter into wholesale contracts as a temporary bridge to cover the
11 unit's revenue requirements. This is an example of the significant and
12 often-times unavoidable risk of planning for generation to meet customer
13 demands 10 to 20 years into the future.

14

15 Q. Who should bear this risk?

16 A. A strict interpretation of the regulatory compact would place this risk
17 exclusively on the party for whose benefit the risk was taken, i.e., the
18 customers. However, under the regulatory compact there also is a
19 requirement to mitigate risks where reasonably possible (as long as the
20 utility is not foreclosed the opportunity to earn a fair return on its
21 investment). In recognition of this, the Commission decided to encourage
22 Gulf to market its Scherer capacity on the wholesale market. And mindful of
23 its obligations under the regulatory compact, Gulf did so. This resulted in
24 the Scherer capacity not immediately becoming part of Gulf's retail rate

25

1 base and Gulf taking the risk that it could market the capacity to enable it to
2 earn a fair return.

3

4 Q. Was this the Commission's intent?

5 A. Based on my own recollection and my review of the record, I believe this
6 was the Commission's intent. The Commission had the discretion to
7 include the Scherer capacity in retail rate base and then recognize revenues
8 from off-system sales to help cover Scherer's revenue requirements.
9 However, in an effort to balance risks and still give a reasonable opportunity
10 to Gulf to earn a fair return, the Commission chose to have the Scherer
11 capacity temporarily become part of FERC jurisdiction via UPS contracts. It
12 is clear that the Commission chose to have the Scherer-related costs and
13 revenues separately accounted for so that they would not affect retail base
14 rates. In other words, any amounts earned from the UPS contracts that
15 could be considered to be deficient or excessive would not result in
16 increased retail rates to cover the perceived wholesale deficiency or
17 decreased retail rates to take advantage of any perceived excessive
18 wholesale earnings. This is evidenced by the Commission's decision in
19 Gulf's 1989 rate case to have retail rates remain unaffected even in the
20 event of a default in one of the UPS contracts. This resulted in even greater
21 risks being undertaken by Gulf and further pressure being placed on its
22 ability to earn a fair return. Nevertheless, the Commission decided that it
23 remained a fair allocation of risks.

24

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1 **IV. APPROPRIATE REGULATORY TREATMENT FOR**
2 **GULF'S INTEREST IN PLANT SCHERER**
3

4 Q. What is the appropriate regulatory treatment for Gulf's interest in Plant
5 Scherer?

6 A. The history of Gulf's investment in Plant Scherer clearly shows that the
7 investment was made as the most cost-effective alternative to meet the
8 needs of its retail customers and that the Commission agreed with this
9 determination. Given this history, it is clear that Gulf's investment in Plant
10 Scherer should ultimately be recovered from retail customers for whose
11 benefit the investment was initially made. What is at question is by what
12 means and during what time frame should cost recovery take place.
13

14 Q. Is it now appropriate for Gulf to seek retail cost recovery for Scherer 3?

15 A. Yes. Under Gulf's proposal for cost recovery, Gulf's investment in Plant
16 Scherer would be recognized for the benefit of retail customers at its current
17 net book value. The amount of the investment attributable to retrofits
18 necessary to comply with requirements of applicable environmental
19 regulations should be recovered through the ECRC. All remaining
20 investment (and any environmental related investment that is not recovered
21 through the ECRC) would become part of Gulf's retail rate base and should
22 be reflected in earning surveillance reports. The timing would coincide with
23 the expiration of the latest vintage of UPS contracts in an attempt to
24 minimize, to the extent possible, the duration of Gulf's investment in Scherer
25 being uncovered. This would be consistent with the regulatory compact in

1 that costs and benefits would be matched and Gulf would be given a
2 reasonable opportunity to earn a fair return on its investment.

3

4 Q. What if the Commission decides that Gulf's investment in Plant Scherer
5 should not be included as a retail asset at this time?

6 A. Given the significant long-term strategic benefits of maintaining highly
7 efficient and environmentally compliant coal-fired generation, I believe this
8 would be an unlikely outcome. However, such a determination would not
9 relieve the obligation that any unrecovered costs should ultimately be
10 recovered from retail customers for whose benefit the investment was
11 initially made.

12

13 Q. What would be the practical consequence of such a situation?

14 A. A situation, in which the Commission decides that a long-lived asset is no
15 longer needed for retail customers and does not otherwise provide for cost
16 recovery, would rightfully be viewed as authorization to take steps to
17 minimize cost exposure and economic losses by getting the asset off Gulf's
18 books. The best way to do this would be to sell the asset in question.

19

20 Q. What would be the regulatory consequences of Gulf selling its interest in
21 Plant Scherer?

22 A. If a sale were consummated, the regulatory treatment would be similar
23 regardless of whether the sale resulted in a net gain or a net loss.

24 Consistent with Commission policy, a sale of a utility asset at a gain would
25 usually require that the gain be amortized above-the-line for the benefit of

1 customers over a designated number of years, usually five years. However,
2 the length of the amortization is at the discretion of the Commission and
3 could hinge on how significantly the yearly amortizations affect earnings.
4 Likewise, a sale of a utility asset at a loss (or the cancellation of a utility
5 asset during construction) would require that the loss be amortized as an
6 above-the-line cost over an appropriate number of years. The unamortized
7 balances in the accounts (gain or loss) would also have impacts on the
8 calculation of the utility's working capital allowance, which is a component of
9 overall rate base.

10

11 Q. Are amortizations above-the-line the only means to recognize the
12 consequences of a sale of utility assets?

13 A. No. There are other means such as adjusting accumulated depreciation
14 reserve accounts or creating or reducing certain regulatory assets.
15 However, amortizations have routinely been used as a matter of policy. In a
16 recent water utility rate case, Docket No. 110200-WU, Order No. PSC-12-
17 0435-PAA-WU, the Commission succinctly stated its policy:

18 "Over the past five years, WMSI has sold assets that
19 have resulted in gains and losses. It is our long-standing
20 practice to amortize capital gains from the sale of specific
21 assets over a period of five years to the benefit of the
22 ratepayers.

23 Based on this practice, the net capital gains (net of
24 capital losses) on the sale of specific assets shall be
25 recognized and amortized over five years." [Order, p. 28]

1 A good discussion of this is also contained in Order No. PSC-02-1727-PAA-
2 GU in Docket No. 021014-GU. The particular situation described there was
3 a gain on sale, but the regulatory principles also apply to a loss on sale or
4 the cancellation of a utility asset under construction. The important point is
5 that the sale or cancellation of a utility asset has consequences that should
6 be recognized for regulatory purposes. Doing so would be consistent with
7 the regulatory compact and balance the interests of customers and
8 shareholders.

9
10 Q. Can you give an example of costs being amortized above-the line to
11 effectuate cost recovery?

12 A. Yes. The very situation that led to the acquisition of Gulf's interest in Plant
13 Scherer and the cancellation of the proposed Caryville Units is a perfect
14 example. As I described earlier, the cancellation of the Caryville Units and
15 the acquisition of a part of Plant Scherer was determined to be the best
16 alternative for retail customers. Even though the unit was never
17 constructed, the preliminary construction costs were recognized to be
18 legitimate costs incurred for the benefit of retail customers. Thus, the
19 Caryville preliminary construction costs were included in retail rate base and
20 were rightfully allowed to be recovered through above-the-line amortizations
21 over five years.

22
23 Q. Can you give a more recent example?

24 A. Yes. A more recent example is the Commission's decision in 2009 to allow
25 FPL to recover the cost of its cancelled Glades Power Park (GPP) Units 1

1 and 2. At the time of the Need Determination for these plants, the
2 Commission determined that FPL had failed to demonstrate that the
3 proposed plants were the most cost-effective alternative available and
4 declined to grant a determination of need for them. Consequently, FPL
5 petitioned the Commission to allow recovery of the costs that had already
6 been invested in the proposed GPP plants. Specifically, FPL requested the
7 use of deferral accounting and the creation of a regulatory asset for its
8 incurred preconstruction costs associated with the GPP plants. FPL further
9 requested that the regulatory asset be deferred and amortized over a five-
10 year period beginning when new base rates would be implemented.

11
12 Q. What was the basis for the Commission's decision?

13 A. The Commission allowed the costs of the GPP units to be placed in a
14 regulatory asset and amortized above-the-line over a five-year period
15 commencing at the time of FPL's next rate case. In doing so, the
16 Commission reconfirmed the use of deferred accounting and the creation of
17 regulatory assets to effectuate recovery of reasonable and prudent costs
18 that otherwise would have to be immediately expensed. In its Order No.
19 PSC-09-0013-PAA-EI, the Commission went on to define a regulatory asset
20 and its appropriate use:

21 "A regulatory asset involves a cost incurred by a
22 regulated utility that would normally be expensed currently
23 but for an action by the regulator or legislature to defer the
24 cost as an asset to the balance sheet. This allows the utility
25 to amortize the regulatory asset over a period greater than

1 one year instead of treating it as an expense in a single
2 year.” [Order, p. 2]

3

4 Q. How is the Commission’s decision for the GPP costs relevant to the
5 Commission’s consideration of Gulf’s investment in Plant Scherer?

6 A. It is directly on point. In both situations, the issue is whether previously
7 incurred costs of electrical generating plants should be included in retail
8 rates on a going-forward basis. For GPP, the Commission decided that the
9 project should not be continued and that previously incurred costs should
10 not become part of FPL’s rate base on a going-forward basis (except for
11 working capital effects). As such, the Commission allowed recovery of the
12 previously incurred costs by means of deferred accounting and amortization
13 of the associated regulatory asset. The issue is relevant for Gulf’s
14 investment in Plant Scherer only if the Commission decides that Plant
15 Scherer should not be included in Gulf’s retail rates as an operating asset.
16 In that event, the remaining unrecovered costs of Gulf’s investment in Plant
17 Scherer should be afforded deferred accounting and recovery by
18 amortization of the associated regulatory asset in Gulf’s next rate case.
19 This would be consistent with the regulatory compact and previous
20 decisions of the Commission.

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V. CONCLUSION

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Q. What is your conclusion?

A. Based on my own recollections and my review of the record, it is clear that Gulf’s investment in Plant Scherer was made as the most cost-effective alternative to meet the needs of its native load customers and that the Commission agreed with this determination. Given this history, it is clear that Gulf’s investment in Plant Scherer should ultimately be recovered from native load customers for whose benefit the investment was initially made. Thus, cost recovery of Scherer 3 should now be allowed in rates. This should be done by including the eligible environmental costs of Scherer 3 in the ECRC and the non-environmental costs of Scherer 3 in base rates. Doing so would be consistent with the regulatory compact and the expectations that existed at the time Gulf initially made its investment in Plant Scherer and when the subsequent environmental investments were made.

I also conclude that Gulf’s investment in Plant Scherer has reached a critical crossroads. In its efforts to best plan for its retail customers and due to unforeseen changes in demands, Gulf’s investment in Plant Scherer has remained out of retail rates far longer than anticipated. It is clear to me that Gulf needs affirmation that Plant Scherer is appropriately included as a retail asset under the regulatory compact and Florida regulatory policies.

1 This affirmation should be provided by including Gulf's investment in Plant
2 Scherer in Gulf's retail rates, including both the applicable portion in the
3 ECRC and base rates. Doing so would be consistent with the regulatory
4 compact. It would also be consistent with the policy of providing a high
5 degree of certainty for cost recovery for long-lived assets to facilitate long-
6 term planning for the benefit of customers. Concluding otherwise could
7 send a chilling message concerning long-term planning and the willingness
8 of utilities to find ways to lessen cost impacts on customers.

9
10 A decision to not allow recovery of Scherer 3 in retail rates as an operating
11 asset would not relieve the regulatory obligation to provide cost recovery by
12 some means, such as the use of deferred accounting and the amortization
13 of the associated regulatory asset. Ultimate cost recovery is needed and
14 hopefully can be effectuated by means short of a sale of Gulf's interest in
15 Plant Scherer that would foreclose the strategic benefits of maintaining cost-
16 effective and environmentally compliant coal-fired generation in Gulf's
17 generation mix.

18
19 Q. Does this conclude your testimony?

20 A. Yes, it does.

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(Transcript continues in sequence with
Volume 2.)

1 STATE OF FLORIDA)
 :
2 COUNTY OF LEON) CERTIFICATE OF REPORTER

3
4 I, LINDA BOLES, CRR, RPR, Official Commission
5 Reporter, do hereby certify that the foregoing
6 proceeding was heard at the time and place herein
7 stated.

8 IT IS FURTHER CERTIFIED that I
9 stenographically reported the said proceedings; that the
10 same has been transcribed under my direct supervision;
11 and that this transcript constitutes a true
12 transcription of my notes of said proceedings.

13 I FURTHER CERTIFY that I am not a relative,
14 employee, attorney, or counsel of any of the parties,
15 nor am I a relative or employee of any of the parties'
16 attorney or counsel connected with the action, nor am I
17 financially interested in the action.

18 DATED THIS 22nd day of March, 2017.

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24
25


LINDA BOLES, CRR, RPR
Official FPSC Hearings Reporter
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(850) 413-6734