Gulf Power

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

Re: Docket No. 170074-EI - Petition for approval of 2017 revisions to Underground Residential Differential Tariffs by Gulf Power Company

Dear Ms. Stauffer:

Attached for electronic filing is Gulf Power Company's response to Staff's First Data Request in the Underground Residential Differential docket.

Sincerely,

Robert L. McGee, Jr.
Regulatory and Pricing Manager

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Attachments

cc: Beggs & Lane
Jeffrey A. Stone, Esq.
Florida Public Service Commission
Sue Ollila, Division of Economics

1. Please refer to Revised Tariff Sheet No. 4.25, legislative format, Section 6.3.2(a)(3). Please explain the reasons for the increase for both the low and high density subdivisions.

RESPONSE:

The primary reason for the cost increase in both the low and high density subdivisions is that the cost of underground construction (labor and material) has increased at a faster rate than the cost of overhead service.

2. Please refer to Revised Tariff Sheets Nos. 4.25 – 4.26.2, legislative format, beginning with Section 6.3.2(b) for the following questions.
   a. Please explain the basis for the increases and decreases.
   b. Please confirm that there is no charge per foot for certain two phases and all three phases because the "necessary facilities for certain lift station installations are already available due to the typical subdivision design requirements, thus incurring no added conductor costs," (Gulf's response to staff's first data request No. 13(b) in Docket No. 150112-EI.)

RESPONSE:

a. The cost increases and decreases across Revised Tariff Sheets Nos. 4.25-4.26.2, legislative format are mainly due to the fluctuations in material costs since the 2015 filing.

b. Yes, that is correct.

3. Referring to Revised Tariff Sheet No. 4.28, legislative format, Section 6.5.3, please explain why the binding cost estimates increased from 2015 to 2017 for each listed category.

RESPONSE:

The increase in the binding cost estimates for each category is due solely to the engineering labor rate. The 2015 filing was based on 2014 actual cost. The current increase reflects the engineering labor rate effective January 2017.

4. Please identify and explain any design changes to the low and high density subdivisions since 2015 and describe their impact on the differential charges.

RESPONSE:

There have not been any design changes to either subdivision since 2015.

5. The following questions concern labor rates.
   a. In Gulf's response to staff's first data request No. 4 in Docket No. 150112-EI, Gulf explained that the labor contract is effective September 15, 2014 through April 14, 2019. Please confirm that Gulf's 2017 labor rates are contract rates. Have there been any increases to the labor rates (e.g., cost of living) since 2015?
   b. To the extent not answered in Gulf's response above, are the 2017 charges for labor based on calendar year 2016 values? If not, what is the basis?

RESPONSE:

a. Yes. Gulf's 2017 labor rates are contained within the labor contract between the International Brotherhood of Electrical Workers (IBEW) and Gulf Power Company, which includes an annual labor cost escalator. Gulf Power also contracts with electrical contractors to perform certain construction work. These contracted costs increase annually per the agreed upon rates as outlined in the contract.

b. Gulf's employee labor rates are based on the current company man-hour calculation which is calculated using 2016 actual costs. Gulf Power's contractor labor rates are based on the 2017 labor rates specified in their respective contracts.

6. The following questions concern contractor labor.
   a. Does Gulf continue to use contractor labor to perform trenching activities and install duct work for underground facilities as it did in 2015? If not, please explain.
   b. Does Gulf use contractor labor for any other activities? Please explain.

RESPONSE:

a. Yes. Gulf continues to use contractor labor to perform trenching activities and install duct work for underground facilities.

b. Yes. Gulf uses contractor labor to perform various construction activities including, but not limited to: installing driven grounds, setting box pads for transformers and cabinets, and pulling conductor into duct.

7. Do Gulf employees continue to perform all overhead activities as in 2015? If not, please explain.

RESPONSE:

Gulf employees continue to perform most overhead construction activities. However, contract labor is utilized for various overhead activities such as tree trim, installing driven grounds, pole installations and removals, pole inspections, and other line construction work as needed. The current utilization of contract labor for overhead construction remains the same as that in 2015 and previous years.

8. Are the 2017 charges for material based on calendar year 2016 values? If not, what is the basis?

RESPONSE:

Yes, this is correct.

9. The following questions concern the Stores Handling loading factor (pages 5, 6, 11, and 12).
   a. Please explain how the Stores Handling loading factor is calculated.
   b. Please explain why the Stores Handling loading factor excludes meters and transformers.
   c. Please explain why the Stores Handling loading factor increased from 4 percent in 2015 to 17 percent in the current docket (pages 5, 6, 11, and 12) and describe the impact have on costs.
   d. Using Material on page 5 as an example, if transformers ($342) are subtracted from the Material subtotal of $572 (572-342=230), and the result, $230, is multiplied by 17 percent, the resulting Stores Handling factor would be about $39, $10 less than the $49 listed. This apparent discrepancy also occurs on pages 6, 11, and 12. Please clarify/explain how the Stores Handling factor is applied.

RESPONSE:

a. The Stores Handling factor includes supervision, labor and expenses incurred for stores related activities such as operation of general storerooms including purchasing, storage, handling, distribution, and inventory management of materials and supplies; accounts payables expenses and stores accounting expenses. These storeroom expenses are allocated first to materials directly purchased to jobs, then to materials issued from storerooms. The annual expenses are allocated appropriately across all categories of Transmission and Distribution material to achieve a minimal unallocated stores distributed expense at year end.

b. Meters and transformers are capitalized upon purchase and incur stores handling cost at purchase.

c. The stores handling rate increased from 4% to 17% because of a higher volume of material direct purchases resulting from the Transmission expansion projects during the period 2013 through 2015 as described in above section (a). The Stores Handling loading factor for storeroom issued stock material is now back in line with pre-2013 rates.

d. On Page 5, the Transformers line item includes more than just transformers. Per note 3, the line item also encompasses Ground Rods, Arresters, and Cutouts, which do receive stores handling charges. The $49 Stores Handling loading charge is the total per lot cost for all material, excluding meters and transformers.

10. The following questions concern the Engineering loading factor (pages 5, 6, 11, and 12).
    a. Please explain what functions are contained in the Engineering loading factor and how the factor is calculated.
    b. Referring to footnote 6 on pages 5, 6, 11, and 12, please explain why the Engineering loading factor is applied to all material as well as labor.
    c. Please explain why the Engineering loading factor increased from 48 percent in 2015 to 52 percent in 2017 (pages 5, 6, 11, and 12).
    d. Using page 5 as an example, please explain why there is no dollar amount for the Engineering factor under the Material heading (also see pages 6, 11, and 12).
    e. Under the Labor heading on page 5, the Engineering amount is $472; however, that amount is not 52 percent of Labor, Material, or a combination of both. See also pages 6, 11, and 12. Please clarify/explain the derivation of the Engineering dollar amount.

RESPONSE:

a. This is the engineering and supervision costs incurred during capital projects along with other administrative and general costs. The rate is calculated by dividing the engineering and supervision costs by total capital work orders.

b. The Engineering loading factor is applied to all material as well as labor because the engineering and supervision costs support all activities related to material and labor. This is consistent with previous filings.

c. The increase in the loading factor is because of increases in the engineering labor rate. Please see response to question number 3.

d. While the engineering overheads are allocated based on both direct material and labor costs, the expenditures that comprise the amount allocated as part of the Engineering loading factor is comprised of labor-related actuals, which is why it is grouped under the Labor column in the above pages. This is consistent with previous filings.

e. When excluding the transformer and meter per lot material cost, the Engineering Overhead rate calculates to be 52% of Labor and Material.

11. The following questions refer to the 210 low density lot summary sheets (page 4) of the current filing and the 2015 filing.
    a. Please explain why there is a minimal increase in labor for underground ($9) and a slight decrease in labor for overhead (-$2) from 2015 to the current filing.
    b. Underground material increased approximately 17.4 percent ($144), while overhead material increased approximately 4.5 percent ($27) from 2015 to the current filing. Please explain why the cost of underground material is increasing at a faster rate than that of overhead material.
    c. Please explain why the operating cost for overhead is increasing ($12) while the operating cost for underground is decreasing ($20) from 2015 to the current filing.

RESPONSE:

a. Since the last filing, the labor rates for both overhead and underground construction have increased. Please see the answer to question 5 above. The decrease of the overhead construction labor rate in the current filing is attributed to a change in the allocation of overheads.

b. Since 2015, underground material costs have increased at a faster rate than that of overhead material. Mainly, the cost associated with new padmount transformers has increased at a rate higher than that of overhead transformers.

c. The operating costs are dependent on several variables ranging from general maintenance, weather events, aging infrastructure, system property damage, etc. Since the last filing, the 5-year average for maintaining Gulf's overhead system has been higher than that of the underground system. The underground system also represents a much lower percentage of Gulf's total distribution system.

12. The following questions refer to the 176 high density lot summary sheets (page 10) of the current filing and the 2015 filing.
    a. Please explain why underground labor increased by 2.2 percent ($26) while there was no change in overhead labor from 2015 to the current filing.
    b. Underground material increased approximately 8 percent ($55) while overhead material increased approximately 4.3 percent ($21) from 2015 to the current filing. Please explain why the cost of underground material is increasing at a faster rate than that of overhead material.
    c. Please explain why the operating cost for overhead increased ($6) while the operating cost for underground decreased (-$13).

RESPONSE:

a. Please see Gulf's response to question 11(a).

b. Please see Gulf's response to question 11(b).

c. Please see Gulf's response to question 11(c).

13. Please explain what effects, if any, Gulf's storm hardening has had and is expected to have on the costs of overhead vs. underground for both the 210 low density subdivision and the 176 high density subdivisions.

RESPONSE:

The storm hardening efforts have increased the cost of both the overhead and underground construction standards. Overhead construction has seen the majority of cost increases due to National Electrical Safety Code (NESC) Grade B construction standard required for all overhead construction and the cost to harden critical infrastructure across the system. There have been no changes in Gulf's Storm Hardening plan or philosophy since the 2015 filing. Gulf's current Storm Hardening plan was filed in May 2016.

14. In the 2015 filing, the differentials decreased for the 210 low density subdivision and increased for the 176 high density subdivision. In this filing, the differential increased for both low and high density subdivisions. To the extent not already answered in Gulf's responses to previous questions, please explain why the differential for the low density subdivision increased (especially compared to 2015 when the differential decreased) and why the differential for the high density subdivision increased.

RESPONSE:

Gulf's cost differentials in both low and high density subdivisions have increased since 2015 because the underground construction cost increased at a faster rate than the company's overhead construction cost. This increase in underground construction cost is primarily the result from an increase in contract labor and underground construction specific materials, such as padmount transformers.

15. Referring to page 15, "Average Historical Operating Expenses (2012-2016)," overhead expenses increased while underground expenses decreased from 2015 filing to the current filing. Please discuss the primary reasons overhead expenses increased while underground expenses decreased.

RESPONSE:

Please see Gulf's response to question 11(c).

16. What is the basis for the O&M Annual Escalation Percent of 2.82% used on pages 15a – 15c of the current filing?

RESPONSE:

The escalation rate assumption is based on a simple five year average growth rate of the first five projected years of the Consumer Price Index, which is provided by a third-party economic services provider. This escalator is used to calculate projected labor cost for both company and contract labor as well as anticipated increased material cost. The calculation for the O&M Annual Escalation rate remains the same as previous years' filings.

17. What is the basis for the Discount Rate of 6.69% used on pages 15a – 15c of the current filing?

RESPONSE:

The discount rate is based on an estimated after-tax cost of capital. The calculation is shown below:

Cost of Capital Calculation

	Capital Ratio (A)	Pre Tax Capital Cost (B)	Weighted Cost (C)	After Tax Capital Cost (@ 38.575%) (D)
Debt	50.00%	5.10%	2.55%	1.57%
Preferred Stock	0.00%	6.10%	0.00%	0.00%
Common Equity	50.00%	10.25%	5.13%	5.13%
Total	100.00%		7.68%	6.69%

Column C = Column (A) x Column (B)

Column D_{Debt} = Column (C) x (1-Tax Rate)

18. Please explain the derivation of the Cumulative PV on pages 15a, 15b, and 15c.

RESPONSE:

15a:

Formulas

O&M Dollar Nominal

Year 1 = Overhead Operating Expenses Equals $16,732,793
See Page 15

Year 2 = Year 1 $ Nominal O&M amount x 1.0282

PV Factor
1/(1.0669)^(Year # -0.5)

O&M Dollar PV
(Column A) x (Column B)

Year	Column A O&M $ Nominal	Column B PV Factor		Column C O&M $ PV
1	16,732,793	0.968140		16,199,685
2	17,204,658	0.907433		15,612,069
3	17,689,829	0.850532		15,045,768
4	18,188,682	0.797199		14,500,008
5	18,701,603	0.747211		13,974,044
6	19,228,988	0.700357		13,467,159
7	19,771,245	0.656441		12,978,660
8	20,328,794	0.615279		12,507,881
9	20,902,066	0.576698		12,054,179
10	21,491,504	0.540536		11,616,934
11	22,097,564	0.506642		11,195,549
12	22,720,715	0.474873		10,789,449
13	23,361,439	0.445096		10,398,080
14	24,020,232	0.417186		10,020,907
15	24,697,603	0.391026		9,657,416
16	25,394,075	0.366507		9,307,109
17	26,110,188	0.343525		8,969,510
18	26,846,495	0.321985		8,644,156
19	27,603,566	0.301794		8,330,603
20	28,381,987	0.282870		8,028,425
21	29,182,359	0.265133		7,737,207
22	30,005,302	0.248508		7,456,553
23	30,851,452	0.232925		7,186,080
24	31,721,463	0.218320		6,925,417
25	32,616,008	0.204630		6,674,209
26	33,535,779	0.191799		6,432,113
27	34,481,488	0.179772		6,198,799
28	35,453,866	0.168499		5,973,948
29	36,453,665	0.157933		5,757,253
30	37,481,658	0.148030		5,548,418
31	38,538,641	0.138748		5,347,159
32	39,625,431	0.130048		5,153,200
		Cumulative PV	$	309,687,947

15b:

Formulas

O&M Dollar Nominal
Year 1 = Underground Operating Expenses
Equals $3,039,624

See Page 15

Year 2 = Year 1 $ Nominal O&M amount x 1.0282

PV Factor
1/(1.0669)^(Year # -0.5)

O&M Dollar PV
(Column A) x (Column B)

Year	Column A O&M $ Nominal	Column B PV Factor	Column C O&M $ PV
1	3,039,624	0.968140	2,942,781
2	3,125,341	0.907433	2,836,037
3	3,213,476	0.850532	2,733,165
4	3,304,096	0.797199	2,634,024
5	3,397,272	0.747211	2,538,479
6	3,493,075	0.700357	2,446,400
7	3,591,580	0.656441	2,357,661
8	3,692,863	0.615279	2,272,141
9	3,797,002	0.576698	2,189,723
10	3,904,077	0.540536	2,110,295
11	4,014,172	0.506642	2,033,747
12	4,127,372	0.474873	1,959,977
13	4,243,764	0.445096	1,888,882
14	4,363,438	0.417186	1,820,366
15	4,486,487	0.391026	1,754,335
16	4,613,006	0.366507	1,690,700
17	4,743,093	0.343525	1,629,372
18	4,876,848	0.321985	1,570,270
19	5,014,375	0.301794	1,513,311
20	5,155,780	0.282870	1,458,418
21	5,301,173	0.265133	1,405,516
22	5,450,666	0.248508	1,354,533
23	5,604,375	0.232925	1,305,400
24	5,762,418	0.218320	1,258,049
25	5,924,918	0.204630	1,212,415
26	6,092,001	0.191799	1,168,437
27	6,263,795	0.179772	1,126,054
28	6,440,434	0.168499	1,085,208
29	6,622,054	0.157933	1,045,844
30	6,808,796	0.148030	1,007,908
31	7,000,804	0.138748	971,347
32	7,198,227	0.130048	936,114
		Cumulative PV	$ 56,256,909

15c:

Formulas

O&M Dollar Nominal
Year 1 = Indirect Operating Expenses
Equals $12,455,424

See Page 15

Year 2 = Year 1 $ Nominal O&M amount x 1.0282

PV Factor

1/(1.0669)^(Year # -0.5)

O&M Dollar PV

(Column A) x (Column B)

	Column A	Column B	Column C
	O&M	PV	O&M
Year	$ Nominal	Factor	$ PV
1	12,455,424	0.968140	12,058,594
2	12,806,667	0.907433	11,621,188
3	13,167,815	0.850532	11,199,649
4	13,539,147	0.797199	10,793,401
5	13,920,951	0.747211	10,401,888
6	14,313,522	0.700357	10,024,577
7	14,717,163	0.656441	9,660,953
8	15,132,187	0.615279	9,310,518
9	15,558,915	0.576698	8,972,795
10	15,997,676	0.540536	8,647,321
11	16,448,810	0.506642	8,333,654
12	16,912,666	0.474873	8,031,365
13	17,389,603	0.445096	7,740,040
14	17,879,990	0.417186	7,459,284
15	18,384,206	0.391026	7,188,711
16	18,902,641	0.366507	6,927,953
17	19,435,695	0.343525	6,676,653
18	19,983,782	0.321985	6,434,468
19	20,547,325	0.301794	6,201,069
20	21,126,760	0.282870	5,976,136
21	21,722,535	0.265133	5,759,362
22	22,335,110	0.248508	5,550,450
23	22,964,960	0.232925	5,349,117
24	23,612,572	0.218320	5,155,087
25	24,278,447	0.204630	4,968,095
26	24,963,099	0.191799	4,787,886
27	25,667,058	0.179772	4,614,213
28	26,390,869	0.168499	4,446,840
29	27,135,092	0.157933	4,285,539
30	27,900,302	0.148030	4,130,088
31	28,687,091	0.138748	3,980,276
32	29,496,067	0.130048	3,835,898
		Cumulative PV	$ 230,523,068