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DEAN CANNON
Speaker of the House of Representatives

November 15, 2011

Ms. Ann Cole, Commission Clerk
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket No. 110138-EI, Petition for increase in rates by Gulf Power Company.

Dear Ms. Cole:

Pursuant to the October 26, 2011 memorandum of understanding enclosed for filing is Office of Public Counsel's Supplemental Direct Testimony and Exhibits of Donna Ramas, C.P.A.

If you have any questions or concerns, please do not hesitate to contact me. Please indicate the time and date of receipt on the enclosed duplicate of this letter and return it to our office. Thank you for your assistance.

Sincerely,

Joseph A. McGlothlin

Joseph A. McGlothlin
Associate Public Counsel

JAM:bsr
Enclosure
cc: Parties of Record

COM 5
APA 1
ECR 5
GCL 1
RAD 1
SRC 1
ADM
OPC
CLK Ct. Rep.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the Supplemental Direct Testimony of Donna Ramas, C.P.A.was furnished by e-mail and/or U.S. Mail this 15th day of November, 2011 to:

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Joseph A. McGlothlin
Associate Public Counsel

SUPPLEMENTAL DIRECT TESTIMONY

OF

DONNA RAMAS

On Behalf of the Office of Public Counsel

Before the

Florida Public Service Commission

Docket No. 110138-EI

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is Donna Ramas. I am a Certified Public Accountant licensed in the State of Michigan and a senior regulatory consultant at the firm Larkin & Associates, PLLC, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

Q. DID YOU FILE DIRECT TESTIMONY IN THIS DOCKET?

A. Yes, I previously filed direct testimony on behalf of the Office of Public Counsel ("OPC") in this docket.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT TESTIMONY?

A. The purpose of my supplemental direct testimony is to address the appropriate amount to be included in rate base and expenses associated with the Crist Unit 6 and 7 turbine upgrade projects. I provide the amount that OPC recommends for inclusion in the revenue requirements and base rates in this proceeding for those projects. I also address the supplemental direct testimony of Gulf Power Company ("Gulf" or "Company") witness Richard J. McMillan on the same issue.

Q. WOULD YOU PLEASE BRIEFLY DESCRIBE THE TURBINE UPGRADE PROJECTS THAT ARE AT ISSUE IN THIS CASE?

A. Yes. The turbine upgrades consist of three separate projects. These include:

- Crist Unit 7 High Pressure/Intermediate Pressure upgrades that were completed and placed into service in January 2010 at a cost of $15.3 million;
- Crist Unit 6 High Pressure/Intermediate Pressure upgrades that are currently scheduled to be completed in May 2012 at an estimated cost of $22.2 million;
- Crist Unit 7 lower pressure upgrades that are scheduled to be complete in December 2012 at an estimated cost of $26.8 million.

Each of the turbine upgrade projects at issue in this case were or are being done to upgrade the capacity of the Crist unit 6 and 7 turbines. The projects will result in additional energy output from the units. The response to Staff's Sixteenth Set of Interrogatories, Question 213(a) indicates that the projects improve the heat rate on the units and add 30MW of capacity. These turbine upgrades are not part of the actual scrubber projects, but rather serve to increase the heat rating and capacity of the units.

Exhibit No. __(RJM-3), Schedule 1, attached to the supplemental testimony of Gulf witness McMillan identifies the total projected cost of the three projects as $63,913,000 and the annual depreciation expenses associated with the three turbine upgrade projects as $2,237,000.

Q. WOULD YOU PLEASE BRIEFLY SUMMARIZE GULF'S SUPPLEMENTAL POSITION WITH REGARDS TO THE CRIST UNIT 6 AND 7 TURBINE UPGRADE PROJECTS?

A. In its supplemental filing, Gulf is requesting that the Crist Unit 6 and Unit 7 upgrade projects be included in base rates on an annualized basis and treated as though each of the three separate projects were in service for the entire test year. Gulf has projected a total annualized revenue requirement associated with the turbine upgrades, based on its requested rate of return, of $8,104,000. If the traditional 13-month average test year methodology approach were followed, the revenue requirement impact, at Gulf's requested rate of return, would be $3,768,000[1]. In acknowledgement of the fact that two of the three projects will not be in service for portions of the 2012 test year, Gulf has proposed that $3,512,000 be credited to customers during 2012 by adjusting the Environmental Cost Recovery Clause ("ECRC") factor downward effective on the date new base rates from this case goes into effect. The $3,512,000 is the projected amount that would be collected from customers from March 12, 2012 to December 31, 2012 for the difference between what would be in base rates if the revenue requirement was based on the traditional 13-month average test year amounts. The credit would discontinue on January 1, 2013, at which point the costs would be recovered from customers based on an annualized cost level.

As an alternative, Gulf proposes two separate base rate increases. The initial base rate increase would include the turbine upgrades based on their projected 13-month average balances for the 2012 test year. The first step adds $3,768,000 to Gulf's previously proposed increase in rates. The second base rate increase would take effect January 1, 2013 and reflect a full annualized cost for each of the turbine upgrade projects. The second base rate increase would be $4,336,000 bringing the total amount included in base rates for the turbine upgrade projects to $8,104,000.

[11] Exhibit No.__(RJM-3), Schedule 1.

Q. DO YOU AGREE WITH GULF'S PROPOSED APPROACH?

A. No, I do not. While it is appropriate to include the Crist unit 7 high pressure/intermediate pressure upgrades in plant in service in each month of the test year given their January 2010 in-service date, the remaining two turbine upgrade projects should not be recovered from customers on an annualized basis. The Crist unit 6 high pressure/intermediate pressure turbine upgrades are not projected to be complete or serving customers until May 2012, which is five months into the 2012 test year, and the Crist unit 7 low pressure turbine upgrades will not be used and useful in providing service to customers until the final month of the 2012 test year. Essentially, Gulf proposes to deliberately overstate rate base for the projected test year, and compensate for having done so by using the cost recovery clause as a conduit through which to flow back the corresponding overcollection of base rate revenues. Through these means, Gulf would effectively accomplish the result (i.e., rates that increase with annually increasing investment) that it would have realized had the turbine investments remained in the environmental cost recovery clause. However, there are no compelling reasons to distort ratemaking procedures in this manner so as to allow for special treatment for the turbine upgrade projects. Recovery of these projects should follow the traditional ratemaking methodology that is long established in Florida. The turbine upgrade projects should be included in rates based on the average period in which they will be in service during the 2012 test year in this case. To allow otherwise would be the equivalent of single issue ratemaking and would violate the matching principle.

Q. HAS GULF PRESENTED ANY COMPELLING REASONS THAT SHOULD CAUSE THE COMMISSION TO DEVIATE FROM THE LONG STANDING REGULATORY PRACTICES FOR THE TURBINE UPGRADE PROJECTS?

A. No, it has not. Beginning at page 6 of his supplemental testimony, Mr. McMillan contends that the projects will provide fuel and capacity cost savings to customers and that customers will be receiving the savings from the projects through the fuel clause and capacity clause. This does not justify treating the projects any differently than the other plant additions incorporated in the company's case. Upgrading components of generation plants are normal plant additions that should not be given special treatment for ratemaking purposes. If Gulf had not attempted to include these projects in the ECRC, they would have been treated like any other plant additions in the rate case filing using the traditional 13-month average approach.

Q. WOULD YOU PLEASE DISCUSS THE MATCHING PRINCIPLE AND HOW GULF'S PROPOSED TREATMENT OF THE TURBINE UPGRADE PROJECTS BEING PLACED INTO SERVICE IN 2012 VIOLATES THAT PRINCIPLE.

A. Yes. It is not appropriate to annualize single items of the revenue requirement equation, such as the two turbine upgrades that Gulf plans to place into service in May and December of the 2012 test year, and have rates result that will be reflective of conditions in a rate effective period. Over time, many changes in a Company's cost structure occur. In addition to rate base increasing as new plant is added, existing plant will continue to be depreciated and some plant will be retired. Revenue will increase as customers are added to the system and expenses will fluctuate. Changes to individual components of the overall cost structure do not occur in a vacuum or in isolation. It is very important to be consistent with a test period approach to ensure that there is a consistent matching between investment, revenues and costs.

In fact, one can view Gulf's supplemental filing as resulting in two completely different test periods with a separate test period for the plant and depreciation impacts of the turbine upgrade projects. For most components of the Company's filing, Gulf utilized a test period consisting of the twelve months ending December 31, 2012. For the two turbine upgrade projects that are being placed into service in May and December, 2012, the Company has utilized a test period consisting of a single point in time as of December 31, 2012. In determining the overall rate of return to apply to the investments or rate base, the Company is using a capital structure and cost of debt and preferred stock based on the average test year amount. The accumulated deferred income taxes included in the capital structure are also based on the average 2012 test year. The Company has essentially used a mix of two separate test periods in determining revenue requirement in its supplemental testimony proposal.

Q. CAN YOU GIVE SPECIFIC EXAMPLES OF HOW GULF'S PROPOSAL MAY RESULT IN A MISMATCH OF THE REVENUE REQUIREMENT COMPONENTS?

A. As previously mentioned, Gulf has indicated that the turbine upgrade projects will increase capacity from the units by 30 MW. While this may offset purchased power costs, it also can be used to serve additional customers on Gulf's system. The revenue projections included in the filing are based on the projected customer levels and the projected sales for the 2012 test year.

Additionally, the turbine upgrades being placed into service in 2012 may also qualify for 50% bonus depreciation. The impacts of bonus depreciation on the accumulated deferred income taxes, which are included in rate base at zero cost, are based on projected average test year balances and not an annualized year-end level. If the two turbine upgrades occurring in 2012 qualify for bonus depreciation treatment, significant tax benefits would result. Gulf has not annualized the tax benefits in its supplemental filing.

Q. WOULD ACCEPTANCE OF YOUR APPROACH PREVENT GULF FROM RECOVERING THE COSTS OF THE TURBINE UPGRADES?

A. No. The answer to this question gets to the essential difference between base rate proceedings and cost recovery clauses, which are examples of the "single issue ratemaking" to which I referred near the beginning of my testimony. Cost recovery clauses are "item specific." In a cost recovery clause, as implemented by this Commission, the cost associated with a particular item that is deemed eligible for the clause is quantified on an annual basis, is embedded in a "recovery factor" that changes yearly, and is "trued up" if necessary to ensure the item (and, in the case of capital items, associated return) is recovered precisely. In a base rate proceeding, by contrast, the Commission takes into account the total operations of a utility. It uses a representative test year, typically a future test year, to quantify overall revenue requirements, establishes a range of rate of return that it deems reasonable, and sets rates designed to generate revenues that will give the utility the opportunity to earn a fair rate of return. I note that the Commission already has allowed Gulf (as it allows other utilities) to use a future (or projected) test period. This in itself is advantageous to the utility. By asking the Commission to annualize the revenue requirements of a plant item added in the projected test period, Gulf simply pushes too far in the direction of utility-favoring mechanisms. Just as the Commission does not annualize the impact of an amortization that will cease during the test year or a retirement that will occur during the test year, the Commission should not distort the test year rate base to annualize the additions to the turbine upgrade projects.

Q. IF THE COMMISSION ACCEPTS GULF'S PROPOSED TREATMENT OF THE TURBINE UPGRADE PROJECTS, ARE ANY ADDITIONAL ADJUSTMENTS NEEDED?

A. Yes. It is my recommendation that the proposed annualized treatment of the two turbine upgrades projected to be placed into service in 2012 be denied and that recovery be based on the traditional average test year approach. However, if the Commission instead agrees with one of Gulf's proposed recovery methods that allows for recovery of the annualized investment level, then an additional adjustment to annualize the impacts on accumulated deferred income taxes should also be made. This can be done through two different methods. The first method would annualize the amount included in the deferred tax component of the capital structure associated with the tax timing differences for the two turbine upgrade projects being placed into service in 2012. This would reduce the overall rate of return. The resulting revised capital structure would then be used in this case.

Under the second approach, the difference between the annualized amount of accumulated deferred income taxes caused by the two turbine upgrade projects that are being placed in service in 2012 and the average balance already incorporated in the filing could be reflected as a reduction to the turbine upgrade rate base balance. This would be the simpler approach.

Q. HAVE YOU CALCULATED THE INCREASE IN OPC'S RECOMMENDED REVENUE REQUIREMENT CAUSED BY INCLUDING THE TURBINE UPGRADES IN GULF'S BASE RATE REVENUE REQUIREMENTS?

A. Yes. Revenue requirements should be increased by $3,273,000 on a jurisdictional basis to include the turbine upgrades in base rates resulting from this case. This would allow for recovery of the costs in rates based on the traditional average test year methodology. A side by side comparison of the recovery using the average test year approach presented by Gulf in Exhibit No.__(RJM-3), Schedule 1, of $3,768,000 and my recommended allowance of $3,273,000 is presented below:

(amounts in thousands)	Per Gulf Amount	Per OPC Amount
13MA Jurisdictional Rate Base, per Gulf	$ 28,020	$ 28,020
Required Rate of Return	7.05%	5.89%
Jurisdictional Carrying Cost	$ 1,975	$ 1,649
Plus: Jurisdictional Net Operating Income	330	354
Total	$ 2,305	$ 2,003
Times: Net Operating Income Multiplier	1.634607	1.634173
Revenue Requirement Impact	$ 3,768	$ 3,273

The difference between the OPC recommended increase in revenue requirement caused by the turbine upgrade projects under the traditional test year methodology of $3,273,000 and that reflected by Gulf of $3,768,000 is due to OPC recommending a different rate of return and net operating income multiplier than that proposed by Gulf. The interest synchronization impacts, which are included in the line titled "Plus: Jurisdictional Net Operating Income" above, also differ due to the revised weighted cost of debt rates recommended by the OPC. These differences were discussed in the OPC's direct testimony in this case.

Q. ARE THERE ANY ADDITIONAL ISSUES PRESENTED IN MR. MCMILLAN'S SUPPLEMENTAL TESTIMONY THAT NEED TO BE ADDRESSED?

A. Yes. At page 7, lines 12 – 21 of his supplemental testimony, Mr. McMillan indicates that if the turbine upgrade projects are included in rates based on the 2012 test year 13-month average balances: "In order to recover its cost of providing service, Gulf would be forced to consider filing a separate limited proceeding during 2012 to request that these costs be included in rates beginning in January 2013." This would be the equivalent of single-issue ratemaking that should be rejected outright. As previously indicated in this testimony, there are no compelling reasons to treat the turbine upgrade projects differently than any other capital additions that would typically occur during a test year. Upgrades to plant that improve efficiency or performance are not unique isolated events that should trigger special ratemaking treatment. If Gulf evaluates its financial position in future periods and determines that a modification in base rates is necessary, it has the opportunity to file another base rate case that would consider all of the components that are considered in setting base rates.

Q. DOES THIS COMPLETE YOUR PREFILED SUPPLEMENTAL DIRECT TESTIMONY?

A. Yes, it does.