

Susan D. Ritenour
Secretary and Treasurer
and Regulatory Manager

One Energy Place
Pensacola, Florida 32520-0781

Tel 850.444.6231
Fax 850.444.6026
SDRITENO@southernco.com

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COMMISSION
CLERK



November 28, 2011

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

RE: Docket No. 110138-EI

Dear Ms. Cole:

Enclosed for official filing on behalf of Gulf Power Company (Gulf) in the above referenced docket are an original and fifteen (15) copies of the Supplemental Rebuttal Testimony of Richard J. McMillan and J. Terry Deason.

Sincerely,

Susan D. Ritenour

nm

Enclosures

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

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APA	1
ECR	5
GCL	1
RAD	1
SRC	1
ADM	1
OPC	1
CLK	<i>CFR</i>

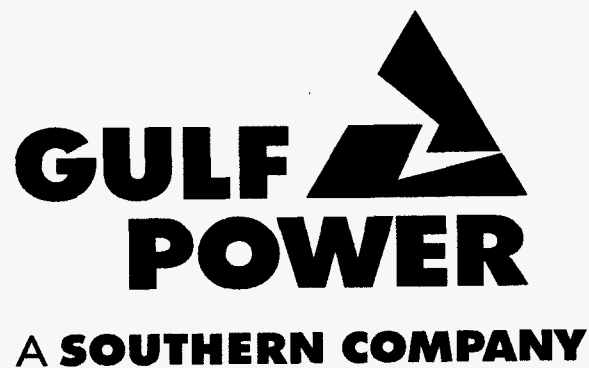
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DOCUMENT NUMBER-DATE
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FPSC-COMMISSION CLERK

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

DOCKET NO. 110138-EI

**SUPPLEMENTAL REBUTTAL
TESTIMONY OF
RICHARD J. MCMILLAN**



DOCUMENT NUMBER DATE

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FPSC-COMMISSION CLERK

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission
3 Supplemental Rebuttal Testimony of
4 Richard J. McMillan
5 Docket No. 110138-EI
6 In Support of Rate Relief
7 Date of Filing: November 29, 2011

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

9 A. My name is Richard J. McMillan. My business address is One Energy
10 Place, Pensacola, Florida 32520, and I am employed by Gulf Power
11 Company (Gulf or the Company) as Corporate Planning Manager.

12 Q. Did you file direct, rebuttal and supplemental direct testimony in this
13 docket?

14 A. Yes.

15
16 Q. What is the purpose of this supplemental rebuttal testimony?

17 A. The purpose of this rebuttal testimony is to address several of OPC
18 witness Donna Ramas' statements regarding the Crist turbine upgrade
19 projects. In particular, I show that the upgrades are an integral part of the
20 scrubber projects, that Gulf's proposed ratemaking treatment properly
21 recognizes and implements the matching principle, and that it is not
22 appropriate to adjust Gulf's accumulated deferred income taxes if Gulf's
23 proposal is approved. I also respond to her suggestion that a future
24 limited proceeding would be inappropriate in the event the Commission
25 were to deny Gulf's request.

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1 Q. Please briefly describe the turbine upgrade projects.

2 A. As stated in my supplemental direct testimony, the turbine upgrades for
3 Crist Units 6 and 7 are being installed as part of the Company's
4 implementation of the Plant Crist Scrubber Project. The turbine upgrades
5 are designed to offset the increased station service requirements
6 (internally consumed electricity) associated with the scrubber installation
7 and to increase the overall efficiency of the scrubbed units. The turbine
8 upgrades include:

- 9 • Crist 7 High Pressure/Intermediate Pressure (HP/IP) upgrades
10 completed in January 2010;
- 11 • Crist 6 HP/IP upgrades scheduled for completion in May 2012; and
- 12 • Crist 7 Lower Pressure (LP) upgrades scheduled for completion in
13 December 2012.

14
15 Q. Do you agree with Ms. Ramas' statement that the turbine upgrades are
16 not part of the scrubber projects?

17 A. No. The Crist 7 upgrades completed in 2010 were previously approved
18 for cost recovery through the Environmental Cost Recovery Clause
19 (ECRC) as part of the scrubber project for that unit. These upgrades
20 improve the cost effectiveness of the scrubber projects and result in lower
21 costs to Gulf's customers. If these turbine upgrades were performed
22 independently of the scrubber project, they would have been required by
23 environmental regulations to undergo a new source review analysis under
24 the federal Clean Air Act as amended. This would likely have imposed
25 additional costs on the turbine upgrades and could have precluded Gulf

1 from undertaking them as stand-alone projects. Because of their direct tie
2 to the scrubber projects, these turbine upgrades are different than normal
3 maintenance and upgrade projects.

4
5 Q. Do you agree with Ms. Ramas' position that approving Gulf's requested
6 treatment for the turbine upgrade projects would distort the ratemaking
7 process, and would violate the matching principle?

8 A. No. I have clearly explained and justified the reasonableness of Gulf's
9 request for recovering the full annual cost of these projects beginning in
10 2013. These projects will provide significant savings to our customers
11 through reduced costs in the recovery clauses as of their respective in-
12 service dates. Unless this known and measurable change is taken into
13 account in setting base rates for 2013 and beyond, Gulf's earnings will be
14 depressed beginning in 2013, even before the rates set in this proceeding
15 have been in effect for a full year.

16
17 The matching principle supports Gulf's position. Without full recovery of
18 these costs beginning in 2013, there will be a mismatch between the
19 benefit of the projects (the full cost savings provided to customers through
20 the cost recovery clauses) and the cost of the projects (recovery of only a
21 portion of the full investment made to provide those savings).

22 As discussed in my supplemental direct testimony, Gulf has provided the
23 Commission with two alternatives to address the appropriate rate base
24 and net operating income adjustments needed to reflect the full annual
25 costs of these projects in a way that is fair to both Gulf and its customers.

1 Each of those alternatives is designed to implement the matching principle
2 by ensuring that customers pay only the 13-month average cost of the
3 projects in 2012 when they are receiving partial benefit from the projects,
4 and begin paying the full cost of the projects in 2013 when they begin
5 receiving the full benefits.

6

7 Q. Do you agree with Ms. Ramas' proposal to make an additional adjustment
8 to annualize the impacts on accumulated deferred income taxes if the
9 Commission approves one of the Company's proposals?

10 A. No. I do not agree that it would be appropriate to adjust one component of
11 the weighted cost of capital. These projects were originally removed from
12 capital structure on a pro rata basis, and should be added back on a pro
13 rata basis. The approved cost of capital in the test year is the appropriate
14 cost to use for setting rates. To adjust one source without reflecting the
15 many other changes in capital structure and cost of capital is not
16 appropriate.

17

18 Q. Please respond to Ms. Ramas' apparent suggestion that if the
19 Commission denies Gulf's proposed ratemaking treatment it should also
20 reject any attempt by Gulf to recover the turbine upgrade costs in a future
21 single-issue limited proceeding.

22 A. First, I disagree that a limited proceeding would in any way be
23 inappropriate. Limited proceedings are provided for by Florida Statute
24 Section 366.076(1) and by their very nature are limited to a single issue or
25 to a narrow group of issues. Second, any Commission decision on a

1 future limited proceeding would be premature. Gulf has not asked the
2 Commission to approve any such filing; it has only raised the possibility
3 that such a filing might be necessary. Any objection to the scope of a
4 limited proceeding should be dealt with if and when such a filing is made.

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6 Q. Mr. McMillan, does this conclude your testimony?

7 A. Yes.

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