BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for increase in rates by Gulf Power Company.	DOCKET NO. 110138-EI ORDER NO. PSC-11-0564-PHO-EI ISSUED: December 8, 2011

Pursuant to Notice and in accordance with Rule 28-106.209, Florida Administrative Code (F.A.C.), a Prehearing Conference was held on November 21, 2011, in Tallahassee, Florida, before Commissioner Lisa Polak Edgar, as Prehearing Officer.

APPEARANCES:

JEFFREY A. STONE, RUSSELL A. BADDERS, and STEVEN R. GRIFFIN, ESQUIRES, Beggs & Lane, Post Office Box 12950, Pensacola, Florida 32576; CHARLES A. GUYTON, ESQUIRE, Gunster, Yoakley & Stewart, P.A., 215 South Monroe Street, Suite 601, Tallahassee, Florida 32301, and RICHARD D. MELSON, ESQUIRE, 705 Piedmont Drive, Tallahassee, Florida 32312
On behalf of Gulf Power Company (GULF).

JOSEPH A. MCGLOTHLIN, Associate Public Counsel, and ERIK L. SAYLER, Associate Public Counsel, ESQUIRES, Office of Public Counsel, c/o The Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400
On behalf of the Citizens of the State of Florida (OPC).

VICKI GORDON KAUFMAN and JON MOYLE, JR., ESQUIRES, Keefe, Anchors, Gordon & Moyle, P.A., 118 North Gadsden Street, Tallahassee, Florida 32301
On behalf of Florida Industrial Power Users Group (FIPUG).

ROBERT SCHEFFEL WRIGHT and JOHN T. LAVIA, III, ESQUIRES, Gardner, Bist, Wiener, Wadsworth, Bowden, Bush, Dee, LaVia & Wright, P.A., 1300 Thomaswood Drive, Tallahassee, Florida 32308
On behalf of Florida Retail Federation (FRF).

KAREN WHITE and MAJOR CHRISTOPHER C. THOMPSON, ESQUIRES, USAF Utility Law Field Support Center, 139 Barnes Drive, Suite 1, Tyndall AFB, Florida 32403-5319
On behalf of Federal Executive Agencies (FEA).

CAROLINE M. KLANCKE, MARTHA F. BARRERA, and KEINO YOUNG, ESQUIRES, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
On behalf of the Florida Public Service Commission (STAFF).

Mary Anne Helton, Esquire, Deputy General Counsel, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
Advisor to the Florida Public Service Commission.

PREHEARING ORDER

I. CASE BACKGROUND

On July 8, 2011, Gulf Power Company (Gulf) filed a petition for approval of a permanent increase in its rates and charges, along with supporting testimony and Minimum Filing Requirements (MFRs) based on a 2012 projected test year. On July 21, 2011, Order No. PSC-11-0307-PCO-EI (Order Establishing Procedure) was issued, scheduling matters for administrative hearing on December 12-16, 2011. On November 2, 2011, Order No. PSC-11-0513-PCO-EI was issued revising the Order Establishing Procedure to afford the parties and staff with an opportunity to submit supplemental pre-filed testimony and exhibits. All other dates set forth in the Order Establishing Procedure remain as previously scheduled. Office of Public Counsel (OPC), Federal Executive Agencies (FEA), Florida Retail Federation (FRF), and Florida Industrial Power Users Group (FIPUG) have each been granted intervention in this docket.

II. CONDUCT OF PROCEEDINGS

Pursuant to Rule 28-106.211, F.A.C., this Prehearing Order is issued to prevent delay and to promote the just, speedy, and inexpensive determination of all aspects of this case.

III. JURISDICTION

This Commission is vested with jurisdiction over the subject matter by the provisions of Chapter 366, F.S. This hearing will be governed by said Chapter and Chapters 25-6, 25-22, and 28-106, F.A.C., as well as any other applicable provisions of law.

IV. PROCEDURE FOR HANDLING CONFIDENTIAL INFORMATION

Information for which proprietary confidential business information status is requested pursuant to Section 366.093, F.S., and Rule 25-22.006, F.A.C., shall be treated by the Commission as confidential. The information shall be exempt from Section 119.07(1), F.S., pending a formal ruling on such request by the Commission or pending return of the information to the person providing the information. If no determination of confidentiality has been made and the information has not been made a part of the evidentiary record in this proceeding, it shall be returned to the person providing the information. If a determination of confidentiality has been made and the information was not entered into the record of this proceeding, it shall be returned to the person providing the information within the time period set forth in Section 366.093, F.S. The Commission may determine that continued possession of the information is necessary for the Commission to conduct its business.

It is the policy of this Commission that all Commission hearings be open to the public at all times. The Commission also recognizes its obligation pursuant to Section 366.093, F.S., to protect proprietary confidential business information from disclosure outside the proceeding. Therefore, any party wishing to use any proprietary confidential business information, as that term is defined in Section 366.093, F.S., at the hearing shall adhere to the following:

(1) When confidential information is used in the hearing, parties must have copies for the Commissioners, necessary staff, and the court reporter, in red envelopes clearly marked with the nature of the contents and with the confidential information highlighted. Any party wishing to examine the confidential material that is not subject to an order granting confidentiality shall be provided a copy in the same fashion as provided to the Commissioners, subject to execution of any appropriate protective agreement with the owner of the material.

(2) Counsel and witnesses are cautioned to avoid verbalizing confidential information in such a way that would compromise confidentiality. Therefore, confidential information should be presented by written exhibit when reasonably possible.

At the conclusion of that portion of the hearing that involves confidential information, all copies of confidential exhibits shall be returned to the proffering party. If a confidential exhibit has been admitted into evidence, the copy provided to the court reporter shall be retained in the Office of Commission Clerk's confidential files. If such material is admitted into the evidentiary record at hearing and is not otherwise subject to a request for confidential classification filed with the Commission, the source of the information must file a request for confidential classification of the information within 21 days of the conclusion of the hearing, as set forth in Rule 25-22.006(8)(b), F.A.C., if continued confidentiality of the information is to be maintained.

V. PREFILED TESTIMONY AND EXHIBITS; WITNESSES

Testimony of all witnesses to be sponsored by the parties (and Staff) has been prefiled and will be inserted into the record as though read after the witness has taken the stand and affirmed the correctness of the testimony and associated exhibits. All testimony remains subject to timely and appropriate objections. Upon insertion of a witness' testimony, exhibits appended thereto may be marked for identification. Each witness will have the opportunity to orally summarize his or her testimony at the time he or she takes the stand. Summaries of testimony shall be limited to five minutes.

Witnesses are reminded that, on cross-examination, responses to questions calling for a simple yes or no answer shall be so answered first, after which the witness may explain his or her answer. After all parties and Staff have had the opportunity to cross-examine the witness, the exhibit may be moved into the record. All other exhibits may be similarly identified and entered into the record at the appropriate time during the hearing.

The Commission frequently administers the testimonial oath to more than one witness at a time. Therefore, when a witness takes the stand to testify, the attorney calling the witness is directed to ask the witness to affirm whether he or she has been sworn.

The parties shall avoid duplicative or repetitious cross-examination. Cross-examination shall be limited to witnesses whose testimony is adverse to the party desiring to cross-examine. Any party conducting what appears to be a friendly cross-examination of a witness should be prepared to indicate why that witness's direct testimony is adverse to its interests.

VI. ORDER OF WITNESSES

Each witness whose name is preceded by an asterisk is excused from the hearing. The parties have agreed to the entering of the witnesses' testimony and evidence into the record, waiving cross examination.

Witness	Proffered By	Issues #
Direct		
M. A. Crosswhite	GULF	
*R. L. McGee	GULF	3, 4, 5, 42
*W. G. Buck	GULF	5, 83
R. S. Teel	GULF	2, 94
J. H. Vander Weide	GULF	37
P. B. Jacob	GULF	7
P. C. Caldwell	GULF	7, 13, 14, 70, 81, 85
R. S. Moore	GULF	7, 13, 15, 70, 79, 80, 86
M. D. Neyman	GULF	7, 41, 65, 70
M. L. Burroughs	GULF	7, 23, 24, 26
R. W. Grove	GULF	7, 11, 70, 82, 84
C. J. Erickson	GULF	19, 20, 27, 32, 33, 76, 77, 78, 87, 88, 89, 91, 92, 93, 95
*S. C. Twery and A. E. Crumlish (panel)	GULF	72, 75

Witness	Proffered By	Issues #
R. J. McMillan	GULF	2, 10, 12, 15, 17, 18, 21, 22, 23, 24, 25, 28, 29, 30, 31, 32, 33, 34, 35, 36, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 52, 70, 71, 72, 74, 90, 91, 92, 93, 95, 96, 97, 98, 99
R. J. McMillan (Supplemental Direct filed July 8, 2011)	GULF	117
R. J. McMillan (Supplemental Direct filed November 7, 2011)	GULF	8, 9, 18, 21, 31, 32, 46, 91, 92, 99
M. T. O'Sheasy	GULF	6, 106, 107
J. I. Thompson	GULF	100, 101, 102, 103, 104, 105, 108, 109, 110, 111, 112, 113, 114, 115, 116
J. I. Thompson (Supplemental Direct filed July 8, 2011)	GULF	100, 101, 102, 103, 104, 105, 108, 109, 110, 111, 112, 113, 114, 115, 116
Steve W. Chriss	FRF	22, 24, 25, 37, 90, 96, 99
*Jeffry Pollock	FIPUG	27, 76, 106-108
Donna Ramas	OPC	8, 9, 12-15, 18, 21, 22, 28, 30-33, 42, 66-75, 88-99
Donna Ramas (Supplemental Direct filed November 15, 2011)	OPC	8, 9, 18, 21, 31, 32, 46, 91, 92, 99
Helmuth W. Schultz, III,	OPC	24, 25, 27, 76-80, 84, 86
Kimberly H. Dismukes	OPC	10, 16, 17, 39-41, 47-49, 51-53, 55-65
J. Randall Woolridge	OPC	34-38, 94
Michael P. Gorman	FEA	22, 32, 34, 35, 36, 37, 38, 95, 97, 103

Witness	Proffered By	Issues #
Greg R. Meyer	FEA	1, 3, 20, 24, 25, 27, 28, 30, 31, 42, 70, 72, 73, 74, 75, 76, 78, 90, 92, 95, 96, 97, 99
*David L. Stowe	FEA	106, 107, 108
*Debra M. Dobiac	STAFF	FPSC staff audit of Gulf's historical test year.
*Rhonda L. Hicks	STAFF	To provide the number and type of complaints filed with the Commission.
Rebuttal		
J. H. Vander Weide	GULF	37
M. J. Vilbert	GULF	37
R. S. Teel	GULF	37, 39, 40
S. R. Kilcoyne	GULF	12, 66, 67, 69, 71, 72, 73, 74, 75
D. J. Wathen	GULF	12, 69, 71, 74
J. T. Deason	GULF	12, 22, 39, 40, 71, 72, 74, 75, 77, 94
J. T. Deason (Supplemental Rebuttal filed November 29, 2011)	GULF	9, 32
R. J. Alexander	GULF	24
R. W. Grove	GULF	70, 82, 84
P. C. Caldwell	GULF	13, 14, 70, 81, 85
R. S. Moore	GULF	13, 15, 70, 79, 86
M. D. Neyman	GULF	41, 70
P. B. Jacob	GULF	17, 52
C. J. Erickson	GULF	20, 27, 76, 77, 88

Witness	Proffered By	Issues #
R. J. McMillan	GULF	16, 24, 25, 28, 34, 35, 36, 38, 39, 40, 41, 42, 48, 49, 51, 53, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 68, 70, 96
R. J. McMillan Supplemental Rebuttal filed November 29, 2011)	GULF	9, 18, 21, 31, 32, 46, 91, 92, 99
J. I. Thompson	GULF	103

VII. BASIC POSITIONS

GULF: Gulf Power Company's current rates and charges will not provide Gulf a reasonable opportunity to earn a fair and reasonable rate of return for the period January 2012 through December 2012 and beyond. Gulf filed this case seeking an annual increase in its rates and charges of approximately $93.5 million. The most reasonable period on which to base new rates and charges for Gulf is January 2012 through December 2012.

The Company's adjusted 13-month average jurisdictional rate base for the period January 2012 through December 2012 (the "test year") is projected to be $1,676,004,000; and the jurisdictional net operating income is projected to be $60,955,000 using the rates currently in effect. These amounts do not include certain additional adjustments as detailed in the Company's positions on the issues listed below. The resulting adjusted jurisdictional rate of return on average rate base is projected to be 3.64%, while the return on common equity is projected to be 2.83% for the projected test year (excluding the impact of those additional adjustments described above). Such a return is so low that it would severely jeopardize the Company's ability to finance future operations. The continued compulsory application of Gulf's present rates and charges will result in the unlawful taking of the Company's property without just compensation, resulting in confiscation of the Company's property in violation of the guarantees of the state and federal constitutions.

The management and employees of Gulf have worked diligently to enable the Company to postpone this request as long as possible. Despite declining revenue during the Great Recession, Gulf had to continue to make investments to serve customers. For several years of declining revenues and increased capital costs, Gulf was able to forestall base rate relief by reducing O&M costs and allowing total workforce to decline. However, Gulf cannot sustain such diminished levels of spending and workforce over a longer period of time without putting its ability to serve customers efficiently and effectively at risk. Therefore, once the economic recovery from the Great Recession began, Gulf began restoring O&M and capital expenditures and its workforce to levels necessary to serve customers efficiently and effectively now and into the future. Gulf needs to be positioned to help Northwest Florida emerge from this economic downturn rather than be in the position of not being able to provide the service needed to restore and improve the Northwest Florida economy. The requested rate relief should restore the relationship between growing capital requirements and restored O&M spending and base rate revenues necessary for Gulf to achieve the fair rate of return that would allow Gulf to attract capital necessary to serve customers.

As a provider of retail electric service to the people of Northwest Florida, Gulf is obligated by statute to provide such service in a reasonable, "sufficient, adequate, and efficient" manner. Gulf has a similar obligation to provide its shareholders with a reasonable and adequate return on their investment. Without the revenue increase requested, Gulf cannot meet its obligations to either constituency in the long run. If Gulf is rendered unable to meet its obligations to the customers and shareholders due to inadequate rates, both stakeholder groups will suffer. The customers will suffer from less reliable service and eventually higher costs of electricity, while the shareholders will suffer from an inadequate and confiscatory return on investment and will seek other places to invest their money. For these and other reasons detailed in the testimony and exhibits of Gulf's witnesses filed with its petition in this case, Gulf is respectfully requesting an increase in rates and charges that will produce an increase in total annual revenues of at least $93,504,000 before adjustments as detailed in the Company's positions on the issues listed below.

OPC: Under Florida's regulatory framework, the Commission should develop base rates that will generate revenues sufficient to provide Gulf Power an opportunity to recover its reasonable operating expenses and earn a fair return on its investment in plant. The application of this standard to Gulf Power's petition and testimony establishes that Gulf Power overreaches in its request. For example, the 11.7% return on equity capital that Gulf seeks is plainly excessive. A return on equity of 9.25% is appropriate and fair under prevailing conditions in the capital markets.

Further, close scrutiny reveals that Gulf Power included levels of plant and expenses in its proposed test year that are unjustified. For example, Gulf asks the Commission to increase rate base by some $27 million now on the grounds a 4,000 acre parcel of property it is acquiring (the North Escambia site) will "preserve a nuclear option" for Gulf. In the course of making this request, Gulf also asserts that Section 366.93, Florida Statutes authorizes Gulf to apply a "deferred charge" to the land, which "deferred charge" would cease when Gulf is permitted to place the property in rate base. Because it has not sought, much less received, a "determination of need" for a nuclear unit, Gulf's attempt to invoke Section 366.93, F.S. (the statute that authorizes recovery of certain costs of nuclear units in advance of the in-service date) to support its proposal to calculate a "deferred charge" on the property itself as a site selection cost is entirely misplaced. Nor does Gulf's request to place the North Escambia site into rate base now meet the criteria for Plant Held For Future Use, as the notion of a Gulf-owned nuclear unit is at best a highly speculative future undertaking, and one that Gulf is unlikely to pursue in the absence of joint owners or other participants; Gulf already possesses (and customers are paying for) ample property for expansion of conventional generation; and Gulf has no plans to employ the North Escambia site for customers' benefit in the foreseeable future.

Gulf's request to have retail customers bear the cost of approximately $12.4 million of incentive compensation should be denied, because the incentives are based primarily on criteria that benefit shareholders, not customers. Gulf's request to increase the annual accrual for the storm damage reserve from $3.5 million to $6.8 million is also overstated. As OPC's witnesses will develop, certain other plant balances and expense levels in Gulf's projected test year are skewed in the direction of excessive costs.

An examination of Gulf's transactions with affiliated companies, as well as a review of Gulf's own non-regulated activities, indicates that some $2 million of additional revenues should be imputed to avoid having Gulf's retail customers subsidize activities that do not relate to the electric service they receive.

OPC is sponsoring the testimony of four expert witnesses who support these and other adjustments to Gulf's submission. The precise individual adjustments are identified in response to specific issues within this Prehearing Statement. Accepting all of OPC's adjustments would have the effect of reducing Gulf's $101,608,000 request (this amount includes the stipulation to move certain Plant Crist turbine upgrades from the environmental cost recovery clause to base rates) by $85,387,000 to $16,221,000.

FIPUG: In this case, Gulf Power is seeking an increase of $93.5 million, close to a 21% base rate increase. In these difficult economic times, such an increase is excessive. The Commission should closely review each increase sought by Gulf, including but not limited to O & M expense, salary and benefit compensation, and inclusion of questionable parcels in land in rate base, It should further view with great skepticism Gulf's request for a 11.7% ROE – such a request is far out of line with current economic conditions. In particular, Gulf's industrial rates are not competitive as they rank among the highest of major investor-owned utilities in the southeast.

As to Gulf's request for an increase in the storm accrual fund, such an increase is unnecessary. It is based on the inclusion of inappropriate storms and fails to recognize that Gulf may come to this Commission, who will act swiftly, in the event of a storm event.

FIPUG supports Gulf's cost of service methodology as one that appropriately allocates costs among rate classes. Additionally, FIPUG supports use of the Minimum Distribution System (MDS) because it appropriately classifies distribution network investment.

FRF: The core question to be addressed by the Commission in this proceeding is whether Gulf Power Company ("Gulf") needs any additional revenues in order to provide safe, adequate, reliable service, to recover its legitimate costs of providing such service, and to have an opportunity to earn a fair and reasonable return on its legitimate investment in assets used and useful in providing such service. The evidence shows that the answer to this question is that Gulf needs, at most, a rate increase of $16.2 million per year in order to fulfill its duty to provide safe, adequate, reliable service at the lowest possible cost, and that with an increase of this amount, Gulf will in fact recover all of its legitimate costs of providing service and the opportunity to earn a fair and reasonable return on its legitimate investment in assets used and useful in providing such service.

Gulf's requested after-tax return on equity of 11.7 percent equates to a before-tax return greater than 19 percent. This is excessive and unjustified relative to current capital market conditions and relative to the minimal risks that Gulf faces as the monopoly provider of a necessity – electric service – pursuant to regulation by the Florida Public Service Commission under applicable Florida Statutes. In particular, the fact that Gulf recovers approximately 66 percent of its total revenues through "cost recovery clauses" greatly reduces the risks that Gulf faces, thus rendering its requested 11.7 percent ROE unreasonable and overreaching.

Gulf has overstated its expenses in many areas, including labor costs, incentive compensation, and an unwarranted increase in its storm reserve accrual. Gulf has also sought to inappropriately include the costs of a potential future nuclear power plant site in its rate base, even though that site is not used and useful in providing service, and even though, according to its own ten-year site plan, Gulf would not use the site for any purpose for more than a decade, if ever. Gulf has also sought to inappropriately include $60.9 million of Construction Work in Progress ("CWIP") in its rate base, even though this amount is not for any asset that will be used and useful in providing service during the 2012 test year.

In summary, the combined evidence submitted by witnesses for the consumer parties in this case shows that Gulf can provide safe, adequate, and reliable service with a base rate increase of no more than $16,221,000 per year. The Commission should award Gulf increases totaling no more than this amount and require Gulf to refund the corresponding amount from the interim rate increase that Gulf was awarded earlier in these proceedings.

FEA: On July 8, 2011, Gulf Power Company ("Gulf") filed a petition with the commission to increase its electric rates by $93.5 million. Based on the FEA's review, this requested increase is excessive.

The FEA encourages the Commission to carefully review each aspect of Gulf's operations. The FEA has proposed adjustments to Gulf's ROE, employee levels, deferred tax balance, rate case expense recovery, storm accrual, revenues, meter replacements, pension expense, and property held for future use.

The FEA recommends that Gulf's requested increase be reduced by at least $35.8 million. One of the largest increases in Gulf's request is the request for an 11.7% return on equity ("ROE"). An ROE of this magnitude would be one of the highest ROEs authorized by an electric utility in the United States. Over the last year, an 11.7% ROE significantly exceeded Gulf Power's cost of equity and should be rejected.

The FEA supports Gulf's cost of service study methodology and proposed rate spread.

STAFF: Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions stated herein.

VIII. ISSUES AND POSITIONS

Legal

ISSUE 1: Does Section 366.93, Florida Statutes, support Gulf's proposal to calculate a deferred carrying charge for the 4,000 acre Escambia Site and the costs of associated evaluations as nuclear site selection costs?

POSITION

GULF: Yes. Under the rule promulgated by the Commission pursuant to Section 366.93, Gulf is authorized to accrue a carrying charge on the cost of acquiring the Escambia site and the cost of the associated evaluations prior to any need determination.

OPC: No. Section 366.93 explicitly provides for special treatment, including an extraordinary advance cost recovery mechanism, for utilities that have applied for and received a determination of need for a nuclear unit. Section 366.93 does not authorize a utility that has not received a determination of need to apply a deferred change to land that it regards as a potential future nuclear site. Gulf Power has neither applied for nor received such a determination of need.

FIPUG: Agree with OPC.

FRF: No. Agree with OPC.

FEA: Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

Test Period and Forecasting

ISSUE 2: **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 3: **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 4: **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 5: **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 6: **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations

Quality of Service

ISSUE 7: **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations

Rate Base

ISSUE 8: Should the capitalized items currently approved for recovery through the Environmental Cost Recovery Clause be included in rate base for Gulf?

POSITION

GULF: Except for the Crist Turbine Upgrades discussed in Issue 9, no other costs should be moved from the ECRC into rate base. (McMillan)

OPC: Yes. OPC generally favors placing capitalized items in rate base as opposed to allowing the utility to continue to recover associated costs through a cost recovery clause. (Ramas)

FIPUG: Yes. All capitalized items currently approved for recovery through the Environmental Cost Recovery Clause should be moved to rate base. Gulf should be required to clearly itemize such items so that they may be moved to rate base.

FRF: Yes. Agree with OPC.

FEA: Yes. Agree with FIPUG.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 9: Should the Plant Crist Units 6 and 7 Turbine Upgrade Project be included in rate base and recovered through base rates, rather than through the Environmental Cost Recovery Clause? If so, what is the appropriate amount, if any, be included in rate base and recovered through base rates?

POSITION

GULF: Yes. Pursuant to the stipulation approved by the Commission on November 1, 2011, it is appropriate to include the Plant Crist Units 6 and 7 Turbine Upgrades in rate base. As discussed in Witness McMillan's Supplemental Testimony filed on November 8, 2011, $58,747,000 (plant in service less accumulated depreciation of $3,006,000) [$60,802,000 system] should be included in rate base and recovered in base rates. This transition in recovery from the Environmental Cost Recovery Clause to base rates involves significant investment going into service at two different dates during the test year. In order to provide for a smooth transition and full cost recovery for the turbine upgrades on a going forward basis without the need for additional rate determination proceedings, this should be accompanied by a one-time credit made to the Environmental Cost Recovery Clause in 2012 effective the same day as the new base rates become effective. (McMillan)

OPC: Yes, the investment and costs associated with the turbine upgrade project should be considered in this base rate proceeding. To quantify the revenue requirements associated with the turbine upgrades, the investment and expenses should be reflected in the construction of the representative test year in the standard and conventional manner. Once Gulf Power's overall revenue requirements have been determined, base rates should be developed that prospectively provide Gulf Power the opportunity to earn a fair return on its rate base. Pursuant to the stipulation approved by the Commission on November 1, 2011, OPC witness Donna Ramas will sponsor testimony quantifying the impact of moving the turbine upgrade to base rates on overall revenue requirements. (Ramas)

FIPUG: The Crist Units 6 and 7 Turbine Upgrade Project should be included in rate base and recovered through base rates rather than in the Environmental Cost Recovery Clause. Such recovery should be based on traditional ratemaking principles, including application of a 1/13th average.

FRF: Yes. The reasonable and prudent costs of the Crist Turbine Upgrade Project should be included in rate base and recovered through base rates rather than through the Environmental Cost Recovery Clause. No position at this time as to the reasonable and prudent amounts of these costs to be recovered through base rates.

FEA: Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 10: Has Gulf made the appropriate adjustments to remove all non-utility activities from plant in service, accumulated depreciation and working capital?

POSITION

GULF: Yes. The Company has removed from rate base the investment, accumulated depreciation, and working capital amounts related to the Company's non-utility activities. (McMillan)

OPC: No. See OPC's positions on Issues 16 and 17 (Dismukes)

FIPUG: No. See Issues 16 and 17.

FRF: No.

FEA: Agree with FIPUG.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 11: Should the capital cost of the Perdido renewable landfill gas facility 1 and 2 be permitted in Gulf's rate base?

POSITION

GULF: Yes. The Florida Legislature has repeatedly recognized that it is in the public interest to promote the development of renewable energy resources in Florida in order to reduce dependence on natural gas, minimize volatility of fuel costs, encourage investment in the state and improve environmental conditions. The Perdido landfill gas facility accomplished all these goals and in 2008, when the decision was made to move forward with the project, the Perdido landfill gas facility was below the 2008 Renewable Standard Offer contract avoided cost calculation. (Grove)

OPC: No position.

FIPUG: No position.

FRF: No position.

FEA: No position.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 12: How much, if any, of Gulf's Incentive Compensation expenses should be included as a capitalized item in rate base?

POSITION

GULF: Gulf's requested amount of $3,245,884 is appropriate and is based on the portion of Gulf's total compensation described as incentive or variable compensation associated with capital projects. The Commission approved Gulf's compensation approach, including variable compensation, in Gulf's last rate case and Gulf's compensation approach remains the same. Gulf's total compensation program, with its variable compensation components, is appropriately targeted at the median of the market and has allowed Gulf to retain valuable employees and attract new employees necessary to provide service to Gulf's customers. The proposal to disallow variable compensation is not based on any market analysis, but instead is based on an erroneous premise that variable compensation benefits shareholders and not customers. The proposal to disallow variable compensation completely fails to account for the adverse effects of such disallowance on customers. The approach of using base and variable or "at-risk" compensation ensures all employees are focused on the customer and have a strong stake in making sure customer service and reliability are paramount while managing costs effectively. (McMillan, Deason, Kilcoyne, Wathen)

OPC: The projected test year incentive compensation should not be capitalized to rate base and should instead be funded by shareholders. The structure of Gulf's incentive compensation plans focuses on shareholder benefits and should be funded by the shareholders, who are the beneficiaries when the plan goals are achieved. The costs should not be funded by the ratepayers, especially in light of today's economic climate. Plant in service should be reduced by $1,217,206. (Ramas)

FIPUG: Agree with OPC.

FRF: Agree with OPC.

FEA: Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 13: **DROPPED.**

ISSUE 14: What amount of Transmission Infrastructure Replacement Projects should be included in Transmission Plant in Service?

POSITION

GULF: For the period 2006 through projected year-end 2012, $69,056,000 ($71,335,000 system) will have been placed in Transmission Plant in service for Transmission Capital Infrastructure Replacement projects. These costs cover the reactive replacement of failed equipment and structures and the proactive replacement of equipment and structures which have reached the end of their useful life. This amount represents Gulf's actual cost of replacing this equipment and structures for the 2006 through 2010 period along with the projected cost for 2011 and 2012. During the 2012 test year, $5,145,230 ($5,315,000 system) of Infrastructure Replacement Projects will be placed in service. These proactive transmission infrastructure replacements are developed and prioritized based on sound methodology and engineering analysis. (Caldwell)

OPC: The amount of transmission capital additions incorporated in its filing, excluding SGIG projects, are substantially higher than historic expenditure levels. Gulf budgeted for 2011 that the infrastructure replacement projects in the transmission area will be $15,948,000, which is more than double the average historic level from 2003 through 2010 of $7.3 million. This average is higher than normal operating conditions, given the fact that several hurricanes impacted Gulf's service territory, resulting in a higher level of transmission replacement projects during that period. The budgeted 2011 and 2012 transmission infrastructure replacement projects should be replaced with the average historical actual amount. This results in an $8,695,699 reduction to budgeted 2011 transmission capital additions and a $2.4 million increase in the 2012 level, for a net decrease to plant of $7,502,049. (Ramas)

FIPUG: Agree with OPC.

FRF: Agree with OPC.

FEA: No position.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 15: **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 16: Should the wireless systems that are the subject of Southern Company Services (SCS) work orders be included in rate base?

POSITION

GULF: Yes. These wireless infrastructure costs are an integral part of our communications system which is necessary and appropriate for inclusion in rate base. (McMillan)

OPC: No. Work Order 46C805 for Wireless Systems related to capital equipment purchases that were incurred after the conversion to Enterprise Solutions. Subsequent to the conversion, it became necessary for billing from the Georgia Power ("GPC") to flow through the SCS Work Order system and then get billed to the individual operating companies. This Work Order amounted to $2.2 million charged to Gulf, and was for capital equipment which should be offset with a reduction of direct bill materials from GPC. The Company has provided no documentation or other evidence that the savings that will offset these capital dollars have been reflected in the test year. In the absence of such a showing, $401,146 ($387,596 jurisdictional) should be removed from the test year. (Dismukes)

FIPUG: No. Agree with OPC.

FRF: No. Agree with OPC.

FEA: No. Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 17: Should the SouthernLINC charges that are the subjects of SCS work orders be included in rate base?

POSITION

GULF: Yes. The portion of the SouthernLINC charges that are booked to capital accounts are appropriately included in rate base. SouthernLINC provides unique communication services to Gulf in support of service crew work management, interoperability between transmission and distribution automation systems, and voice/data communication. SouthernLINC's service characteristics are vital to Gulf's operations and its ability to provide reliable and efficient service to its customers (McMillan, Jacob)

OPC: No. Southern charges all affiliates for the total SouthernLINC charges that are not able to be recovered through commercial revenues and in 2012, the charges to Gulf Power are projected to increase because of the "larger than anticipated drop in commercial customer revenue." SouthernLINC is an unregulated affiliate, and its losses should not be subsidized by Gulf Power's ratepayers. The Commission should remove $79,141 from the test year capital additions related to the expense reduction recommended in Issue 52. (Dismukes)

FIPUG: No. Agree with OPC.

FRF: No. Agree with OPC.

FEA: No. Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 18: Is Gulf's requested level of Plant in Service in the amount of $2,612,073,000 ($2,668,525,000 system) for the 2012 projected test year appropriate? (Fallout Issue)

POSITION

GULF: No. The appropriate level of Plant in Service is $2,672,964,000 ($2,731,576,000 system). Gulf's requested amount should be increased by $61,753,000 ($63,913,000 system) to include the Crist Unit 6 and 7 Turbine Upgrades, as identified in Issues 8 and 9. Additionally, the amount requested should be reduced for an ECCR adjustment error totaling $862,000 ($862,000 system) and an error in Distribution Plant in Service of $806,000 identified in Issue 15. (McMillan)

OPC: No. Gulf Power's supplemental testimony to include the Crist turbine upgrades in base rates effectively increases is requested plant in service to $2,673,816,000. Plant in service should be reduced by $41,033,000 to reflect a jurisdictional balance of $2,632,783,000. (Ramas)

FIPUG: No. Agree with OPC.

FRF: No. Agree with OPC that the appropriate level of Plant in Service is $2,632,783,000, including the Crist turbine upgrades.

FEA: Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 19: **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 20: **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 21: Is Gulf's requested level of Accumulated Depreciation in the amount of $1,179,823,000 ($1,207,513,000 system) for the 2012 projected test year appropriate? (Fallout Issue)

POSITION

GULF: No. The appropriate level of Accumulated Depreciation for the 2012 projected test year is $1,183,287,000 ($1,211,802,000 system). The Company's requested level should be increased by $3,006,000 ($3,111,000 system) to include the Crist Unit 6 and 7 Turbine Upgrade Projects identified in Issues 8 and 9. Additionally, it should be increased for an ECCR adjustment error totaling $458,000 ($458,000 system). (McMillan)

OPC: No. Gulf's supplemental filing to include the Crist turbine upgrades in this case increases jurisdictional accumulated depreciation from $1,179,823,000 to $1,182,934,000. Adjustments are appropriate to reduce the updated accumulated depreciation amount by $1,964,000 to reflect a jurisdictional balance of $1,180,970,000. On a total company basis, Accumulated depreciation should be reduced by $193,220 for transmission and $42,967 for incentive compensation plant related adjustments. The $3,111,000 increase to accumulated depreciation in Gulf's supplemental filing should be reduced by $1,687,000 to $1,424,000. (Ramas)

FIPUG: No. Agree with OPC.

FRF: No. Agree with OPC that the appropriate jurisdictional amount of Accumulated Depreciation is $1,180,970,000.

FEA: No. Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 22: Is Gulf's requested Construction Work in Progress in the amount of $60,912,000 ($62,617,000 system) for the 2012 projected test year appropriate?

POSITION

GULF: Yes. Construction Work in Progress (CWIP) in the amount of $60,912,000 is needed to maintain reliability and meet customer demands. This amount is not eligible to accrue an Allowance for Funds Used During Construction (AFUDC) and should be allowed in rate base consistent with Commission policy. (Deason, McMillan)

OPC: No. Gulf has made no showing that the CWIP is needed to maintain its financial integrity. The requested balance of CWIP should be removed completely from rate base. (Ramas)

FIPUG: No. Agree with OPC.

FRF: No. This amount does not represent investment in any asset that is, or will be, used and useful in providing electric service to Gulf's customers during the 2012 test year, and Gulf has not shown that it needs any part of this amount to maintain its financial integrity. Accordingly, the full amount should be removed from Gulf's rate base in setting rates for the 2012 test year.

FEA: No. Gulf has made no showing that the CWIP is needed to maintain its financial integrity. Including CWIP would unnecessarily increase rates to an unjust and unreasonable level. The requested balance of CWIP should be removed from rate base.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 23: Should an adjustment be made to Plant Held for Future Use for the Caryville plant site?

POSITION

GULF: No. The Caryville site has been included in Gulf's base rates as Plant Held for Future Use through prior Commission decisions in previous Gulf rate cases and should continue to be included in rate base. The site's acquired cost is small relative to the cost of acquiring a new plant site. The site is already certified under the Power Plant Siting Act for coal capacity, but the site cannot be used for a nuclear plant. Inclusion of the Caryville site in rate base as Plant Held for Future Use is still a prudent decision. (Burroughs, McMillan)

OPC: No position.

FIPUG: Yes.

FRF: Yes.

FEA: No position

STAFF: No position pending evidence adduced at the hearing.

ISSUE 24: Should the North Escambia Nuclear County plant site and associated costs identified by Gulf be included in Plant Held for Future Use? If not, should Gulf be permitted to continue to accrue AFUDC on the site?

POSITION

GULF: Yes. The North Escambia site and its associated costs of $27,687,000 should be included in rate base. Beginning in 2007, Gulf was prudent in investigating nuclear generation as a result of several factors, including state and federal regulations being proposed to significantly reduce greenhouse gas emissions, specifically CO_2, which would have forced extensive retirements of Gulf's coal generation; forecasted capacity needs on Gulf's system; high forecasted gas prices; and state legislation designed to encourage nuclear unit development. With a capacity need ten years out in excess of 1,000 MW, without potential coal unit retirements, Gulf performed extensive analyses and found that nuclear was the only cost-effective, carbon free option potentially available to Gulf and its customers. Therefore, Gulf was prudent in performing site investigations and beginning preparation for permitting and licensing of a nuclear site. Gulf, through its extensive site investigation efforts, learned that the North Escambia site was the only potential nuclear site in Northwest Florida, and thus, Gulf was prudent to purchase this site to preserve the nuclear option for its customers. Subsequently, when circumstances changed, Gulf was prudent to defer its determination of need, licensing, and permitting efforts. Gulf's costs for the acquisition of the North Escambia site and other costs related to evaluating the nuclear option are reasonable and prudent and should be included in rate base. By placing these costs in rate base, the Company can cease accruing carrying charges on the deferred nuclear site costs, which will minimize the cost of any plant that is ultimately constructed on the site. If Gulf is not permitted to include these costs in Plant Held for Future Use, Gulf should be permitted to continue to accrue AFUDC on this project. (Alexander, Burroughs, McMillan)

OPC: No, Gulf's request is not supported by any studies or other information which would justify the cost-effectiveness for the inclusion of such a significant increase in PHFU in rate base and recovered from ratepayers. Additionally, Gulf has not shown that the purchase of the site is reasonable and prudent investment that will be used for utility purposes in the reasonably near future and should not be allowed to accrue any AFUDC carrying costs on the Escambia site. (Schultz)

FIPUG: No. Agree with OPC.

FRF: No. Gulf should not be allowed to include the site in rate base, nor should Gulf be allowed to accrue AFUDC on the site, as there is no construction being done on the site, because the site is not used and useful, and because the site is unlikely to become used and useful for well over a decade, if ever.

FEA: No. Gulf has not demonstrated a need for additional generation until 2022.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 25: Is Gulf's requested level of Property Held for Future Use in the amount of $32,233,000 ($33,352,000 system) for the 2012 projected test year appropriate? (Fallout Issue)

POSITION

GULF: Yes. The requested level of Property Held for Future Use in the amount of $32,233,000 ($33,352,000 system) for the 2012 projected test year is appropriate for purposes of computing base rate revenue requirements. (McMillan)

OPC: No. PHFU should be reduced by $26,751,000 to reflect a jurisdictional balance of $5,482,000. (Schultz)

FIPUG: No. Agree with OPC.

FRF: No. Agree with OPC that the appropriate jurisdictional amount of Property Held for Future Use to be included in rate base for the 2012 test year is $5,482,000.

FEA: No. PHFU should be reduced by $27,687,000 (system).

STAFF: No position pending evidence adduced at the hearing.

ISSUE 26: **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 27: Should any adjustment be made to Gulf's requested storm damage reserve, annual accrual of $6,539,091 ($6,800,000 system), and target level range of $52,000,000 to $98,000,000?

POSITION

GULF: No. Gulf's request for working capital related to the reserve and an increased accrual related to property damage is prudent and in the best interest of Gulf's customers. If the property damage accrual is changed from the amount proposed by Gulf, the working capital related to the reserve must also be adjusted. The appropriate amount for the property damage reserve accrual $6,657,000 jurisdictional ($6,800,000 system). Gulf's property damage accrual request is based on a storm study which uses a statistical model to consider a range of potential hurricane characteristics and corresponding losses and then computes Gulf's expected annual damage. Since Gulf's current approved accrual level is below the amount expected to be charged to the reserve each year based on the storm study, Gulf requested the accrual be increased. This is in line with the Commission's framework of (1) an accrual adjusted over time as circumstances change; (2) a storm reserve adequate to accommodate most, but not all storm years; (3) and a provision that goes beyond the reserve. This accrual level is also addressed in Issue 76. In evaluating the reserve target, Gulf's accrual request is not intended to increase the reserve. The reserve could increase or decrease due to the uncertain timing of storms. Since Gulf's target reserve level has not been adjusted since 1996, the reserve target should be increased to the range of $52 million to $98 million to reflect Gulf's actual experience. (Erickson)

OPC: Yes. Gulf's requested increase in the annual accrual is excessive and not justified based on the historical charges to the reserve and the storm standards established for Florida electric utilities, and the storm hardening measures implemented after 2005. The storm study reflects the storm accrual the Company wanted to collect in rates and also included extraordinary storm repair costs which historically have been recovered by surcharge mechanisms and were not intended to be covered by the storm reserve. The annual storm accrual should be reduced to $600,000, which reflects a decrease to O&M expense of $6.2 million ($5,962,113 jurisdictional), which will allow an eight-year historical average annual storm costs, excluding the extraordinary storm costs recovered through a surcharge. That level of a reserve is sufficient to cover storm costs that are likely to occur based on recent history, and is a level that was previously determined by the Commission to be within a specific target range. (Schultz)

FIPUG: Yes. The Commission should not approve any increase in Gulf's annual storm accrual because Gulf's proposal is not based on historical charges to the storm reserve and fails to account for storm hardening measures.

FRF: Yes. Gulf should not be allowed to include an accrual for its storm damage reserve in base rates of any more than $600,000 per year. Moreover, Gulfs existing reserve, together with its ability to obtain prompt storm cost relief from the Commission, with or without securitization, are adequate to address any reasonably foreseeable storm damages.

FEA: Yes. The annual accrual for storm damage should be established at no more than $5 million (system).

STAFF: No position pending evidence adduced at the hearing.

ISSUE 28: Should unamortized rate case expense be included in Working Capital?

POSITION

GULF: Yes. Rate case expenses are prudently incurred business expenses. The Company should be allowed to fully recover these costs, including a return on the unamortized investment. This unamortized balance should be included in working capital, consistent with the Commission's treatment of these expenses in Gulf's previous rate case. (McMillan)

OPC: No. The Commission has consistently disallowed the inclusion of unamortized rate case expense in working capital. This long standing Commission policy was recently reaffirmed in Commission Order No. PSC-10-0131-FOF-EI, involving Progress Energy Florida. Working capital should be reduced by $2,450,000. (Ramas)

FIPUG: No. Agree with OPC.

FRF: No. Agree with OPC that Working Capital should be reduced by $2,450,000.

FEA: No. The recovery of rate case expense should be based on a normalized level of expense.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 29: Should the net over-recovery/under-recovery of fuel, capacity, conservation, and environmental cost recovery clause expenses be included in the calculation of the working capital allowance?

POSITION

GULF: No. Gulf has appropriately not included any projected over-recovery/under-recovery of fuel, capacity, conservation or environmental cost recovery clauses in the calculation of working capital allowance for the test year. (McMillan)

OPC: Consistent with Commission practice, clause over-recoveries are included (as a reduction) and under-recoveries are excluded from working capital. Over-recoveries represent funds the Company owes customers that if excluded from working capital, customers would be providing interest the Company returned in the clause. In the clause, under-recoveries are collected from customers at the commercial paper rate. If clause under-recoveries are included in base rates, the company would receive a double return on the under-recovery.

FIPUG: Agree with OPC.

FRF: Agree with OPC.

FEA: Agree with OPC..

STAFF: No position pending evidence adduced at the hearing.

ISSUE 30: Is Gulf's requested level of Working Capital in the amount of $150,609,000 ($155,044,000 system) for the 2012 projected test year appropriate? (Fallout Issue)

POSITION

GULF: Yes. The requested level of working capital for the 2012 projected test year in the amount of $150,609,000 ($155,044,000 system), after adjustments for stipulated issues, is appropriate for purposes of computing base rate revenue requirements. (McMillan)

OPC: No. Working capital should be reduced by $2,450,000 to reflect a balance of $148,159,000. (Ramas)

FIPUG: No. Agree with OPC.

FRF: No. Agree with OPC as to the appropriate amount of Working Capital to be allowed for setting base rates for the 2012 test year.

FEA: No. Working capital should be reduced consistent with FEA's position in Issue 28.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 31: Is Gulf's requested rate base in the amount of $1,676,004,000 ($1,712,025,000 system) for the 2012 projected test year appropriate? (Fallout Issue)

POSITION

GULF: No. The appropriate level of rate base for the 2012 projected test year is $1,733,431,000 ($1,771,507,000 system). The Company's requested level should be increased by $58,747,000 ($60,802,000 system) for the Crist Unit 6 and 7 Turbine Upgrade Projects identified in Issues 8 and 9. Additionally, the requested amount should be reduced by $1,320,000 ($1,320,000 system) for an ECCR adjustment error. (McMillan)

OPC: No. Gulf's supplemental filing to include the Crist turbine upgrades increases rate base by $58,757,000 to $1,734,761,000. The appropriate rate base should be $1,605,454,000. (Ramas)

FIPUG: No. Agree with OPC.

FRF: No. Agree with OPC that the appropriate level of jurisdictional rate base for the 2012 test year is $1,605,454,000.

FEA: No. The appropriate rate base should reflect FEA's adjustment to Issue 28 and other Commission decisions.

STAFF: No position pending evidence adduced at the hearing.

Cost of Capital

ISSUE 32: What is the appropriate amount of accumulated deferred taxes to include in the capital structure?

POSITION

GULF: The Company's requested level, $257,098,000 ($262,694,000 system) needs to be adjusted for the pro-rata portion of the rate base adjustments identified in Issue 31. (McMillan, Erickson)

OPC: The appropriate amount of accumulated deferred income taxes should be $240,433,000, which reflects a pro rata reduction to Gulf's requested balance of $257,098,000. Additionally, if a Federal act is signed into law increasing the bonus depreciation provisions for 2012 from 50% to 100% prior to the completion of hearings in this case, the impacts should be reflected in this case. Also, if the Commission grants Gulf's request to annualize the impacts of the Crist Units 6 and 7 turbine upgrades in rate base, which the OPC recommends against, then the resulting impact of those projects on deferred income taxes should also be annualized. (Ramas)

FIPUG: Agree with OPC.

FRF: Agree with OPC.

FEA: Gulf's regulatory capital structure should be adjusted to include a deferred tax balance of $277,966,000. Gulf did not consider the entire amount of accumulated deferred income taxes recorded on its books and records in the test year in deriving its proposed capital structure. As a result, Gulf's proposed accumulated deferred income tax of $262,694,000 should be increased to $277,966,000.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 33: What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure?

POSITION

GULF: The Company's requested level, $2,929,000 ($2,993,000 system) needs to be adjusted for the pro-rata portion of the rate base adjustments identified in Issue 31. The appropriate cost rate is 8.34% for purposes of calculating the weighted average cost of capital. The investment tax credit cost rate has been revised from 8.45% as originally filed to reflect the changes in rates of the long-term debt and preference stock sources of capital. (McMillan, Erickson)

OPC: Gulf's requested balance of ITCs should be reduced by $190,000 related to OPC's recommended adjustments to rate base to reflect a reconciled balance of $2,739,000. The appropriate cost rate is 5.45%. (Ramas)

FIPUG: Agree with OPC.

FRF: Agree with OPC.

FEA: Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 34: **CATEGORY 1 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 35: **CATEGORY 1 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 36: **CATEGORY 1 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 37: What is the appropriate return on equity (ROE) to use in establishing Gulf's revenue requirement?

POSITION

GULF: Evaluating both the operational and financial risks facing Gulf Power indicates that the market would expect a company with Gulf Power's profile to earn a return of 11.7% commensurate with the risk to investors' equity capital. (Vander Weide, Vilbert)

OPC: Based on OPC expert witness Dr. Woolridge's analyses, in which he employed the Discounted Cash Flow Model ("DCF") and the Capital Asset Pricing Model ("CAPM"), the appropriate ROE for Gulf Power is 9.25%. Gulf Power's request of 11.7% is overstated for reasons developed in Dr. Woolridge's testimony. (Woolridge)

FIPUG: No higher than 9.25%.

FRF: No greater than 9.25%.

FEA: The appropriate ROE is 9.75%.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 38: What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure?

POSITION

GULF: Based on an 11.7% cost of equity, the appropriate weighted average cost of capital for Gulf is 6.94% for the projected 2012 test year. The weighted average cost of capital has been revised from 7.05% as originally filed to reflect actual rates of all permanent financing impacting the projected test year, including senior notes and preferred securities, revised rates for short-term debt and variable rate pollution control bonds. (McMillan)

OPC: Using Gulf's proposed capital structure ratios, and after adjustments for the rates for short-term and long-term debt, preferred stock and the appropriate ROE, the appropriate weighted average cost of capital is 5.89%. (Woolridge)

FIPUG: 5.89%.

FRF: 5.89% (Regulatory Capital Structure basis).

FEA: The appropriate weighted average cost of capital is 6.22%.

STAFF: No position pending evidence adduced at the hearing.

Net Operating Income

ISSUE 39: Is Gulf compensated adequately by the non-regulated affiliates for the benefits, if any, they derive from their association with Gulf Power? If not, what measures should the Commission implement?

POSITION

GULF: Yes. Gulf charges appropriate expenses incurred by the regulated operations to the non-regulated operations. (McMillan, Deason)

OPC: No. The non-regulated companies receive significant intangible benefits that the regulated operating companies developed over the years and have provided to the non-regulated companies at no cost simply by their close affiliation and association. An adjustment should be made to compensate the regulated operating companies as discussed in Issue 40. (Dismukes)

FIPUG: No. Agree with OPC.

FRF: No. Agree with OPC.

FEA: No.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 40: Should an adjustment be made to increase operating revenues by $1,500,000 for a 2 percent compensation payment from non-regulated companies?

POSITION

GULF: No. There is no such payment from non-regulated companies. The imputation of these imaginary revenues serves no legitimate regulatory purpose and is inconsistent with Commission policy. The imputation would unjustly penalize Gulf for being part of the Southern Company and deny Gulf the opportunity to earn its authorized return. (McMillan, Deason)

OPC: Yes. The Commission should assess a 2% compensation payment on the revenue earned by the non-regulated companies, which should be allocated to the regulated companies on the basis of the amount of revenues earned by the non-regulated companies. A 2% compensation payment assessed against the non-regulated revenue of several affiliates would result in an increase to Gulf's test year revenue of $1.5 million. (Dismukes)

FIPUG: Yes. Agree with OPC.

FRF: Yes. Agree with OPC.

FEA: Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 41: Should an adjustment be made to increase test year revenue for Gulf's non-utility activities?

POSITION

GULF: No. Rule 25-6.1351(2)(g), Florida Administrative Code, defines nonregulated as products or services that are not subject to price regulation by the Commission or are not included for ratemaking purposes and are not reported in surveillance. Consistent with this rule, Gulf's unregulated activities are properly recorded below-the-line and were not included in the revenue requirement request. Gulf offers non-regulated products and services to its customers to better serve them and improve the value they receive and improve their satisfaction. (McMillan, Neyman)

OPC: Yes. Gulf is able to earn an excessive rate of return from non-regulated products and services (Premium Surge, Commercial Surge, and AllConnect) all of which stem from the regulated electric operations, without an extraordinary effort from Gulf's non-regulated operations. These non-utility operations could not be offered without the close association with and good will of Gulf's regulated electric utility. Revenues of $572,000 should be moved above-the-line because Gulf has failed to demonstrate that Gulf has been compensated for the use of its reputation, goodwill, logo, and trained personnel. Alternatively, the Commission could require that the non-regulated operations provide Gulf a compensation payment of at least 2% of annual revenue. OPC also recommends that Gulf should be ordered to conduct a thorough examination of these operations and develop appropriate cost allocation procedures for non-regulated operations, which can then be examined/audited by the Commission in Gulf's next rate proceeding. (Dismukes)

FIPUG: Yes. Agree with OPC.

FRF: Yes. Agree with OPC.

FEA: Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 42: Is Gulf's projected level of Total Operating Revenues in the amount of $481,909,000 ($499,311,000 system) for the 2012 projected test year appropriate? (Fallout Issue)

POSITION

GULF: Yes. Gulf's projected level of Total Operating Revenues in the amount of $481,909,000 ($499,311,000 system) for the 2012 projected test year is appropriate. (McGee, McMillan)

OPC: No. The appropriate amount of operating revenues is $484,019,000 (jurisdictional). This reflects an increase to test year revenues of $2,110,000 for the 2% compensation payment on the revenue earned by the non-regulated companies and the imputed revenue for non-regulated services and products. (Dismukes)

FIPUG: No. Agree with OPC.

FRF: No. Agree with OPC that the appropriate jurisdictional amount of operating revenues is $484,019,000.

FEA: No. The appropriate amount of operating revenues should reflect FEA's position on Sales for Resale (Issue 3).

STAFF: No position pending evidence adduced at the hearing.

ISSUE 43: **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 44: **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 45: **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 46: **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 47: Has Gulf made the appropriate adjustments to remove all non-utility activities from net operating income?

POSITION

GULF: Yes. The Company has removed from net operating income all non-utility activities. (McMillan)

OPC: No. See OPC's positions on Issue 39-41 and 48-68. (Dismukes)

FIPUG: No. See Issues 39-41 and 48-68.

FRF: No. Agree with OPC.

FEA: Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 48: Should adjustments be made to the expenses allocated or charged to Gulf as a result of transactions with affiliates?

POSITION

GULF: No adjustments should be made to the expenses allocated or charged to Gulf except for the two adjustments described in Gulf's position on Issues 53 and 58. (McMillan)

OPC: Yes. See OPC's positions on Issues 49-68. (Dismukes)

FIPUG: Yes. Agree with OPC.

FRF: Yes. Agree with OPC as to the appropriate adjustments.

FEA: Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 49: Should adjustments be made to expenses to allocate SCS costs to Southern Renewable Energy?

POSITION

GULF: No. (McMillan)

OPC: Yes. Because Southern Renewable Energy was formed in 2010 and the allocations provided by Gulf date from 2009, neither Southern Company Services overhead nor costs allocated on the basis of megawatts have been allocated to Southern Renewable Energy. The omission means costs allocated to Gulf Power are overstated and it should be assessed a 2 percent compensation payment analogous to that described in Issue 41. (Dismukes)

FIPUG: Yes. Agree with OPC.

FRF: Yes. Agree with OPC.

FEA: Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 50: **DROPPED**

ISSUE 51: Should adjustments be made to the allocation factors used to allocate SCS costs to Gulf ?

POSITION

GULF: No adjustments should be made to any of the allocation factor calculations. The overall allocation methodology has been in use for over 25 years, was approved by the SEC, has not been changed by the FERC, and has been accepted as a basis for allocation by this Commission in prior Gulf rate cases. The 2010 statistics were not available when Gulf prepared the budget information for this filing. If the Commission finds that it is appropriate to update the fixed allocation factors, then it should update them all using the actual 2010 factors that will apply to 2012 costs. These factors have recently been finalized. Substituting the 2010 fixed allocation factors for the 2009 factors used in Gulf's filing would increase Gulf's share of SCS billings by approximately $1,262,500. As shown on Witness McMillan's Rebuttal Testimony, Exhibit RJM-2, Schedule 1, approximately $1,159,000 of this amount represents increased O&M expenses. (McMillan)

OPC: Yes. Allocation factors should be based upon cost-causative relationships to the extent possible and also recognize the benefits received from the service provided. Gulf used a "financial" factor to allocate many affiliate administrative and general expenses, which overstates allocations to regulated companies and understates allocations to non-regulated companies. One example of bias compares the revenues per kWh for Gulf compared to those of Southern Power, which sells its power at the lower wholesale level and may not be indicative of the benefits or the level of service provided by SCS to Southern Power. Additionally, including a revenue allocation factor tends to under allocate costs to new non-regulated companies. New start-up companies produce little revenue relative to the level of effort and management activities focused on these new ventures, while revenue allocators tend to over allocate costs to capital-intensive companies because they need to generate more revenue to produce the same return on investment than less capital-intensive companies. On the expense side, the factor apparently includes fuel and purchased power expenses, which over allocates costs to the regulated operating companies. OPC recommends that the financial factor be adjusted to remove the revenue component in the factor and the fuel and purchased power from the expense component of the factor. The impact is to reduce expenses by $832,284. (Dismukes)

FIPUG: Yes. Agree with OPC.

FRF: Yes. Agree with OPC that the allocation factors should be based on cost-causative relationships to the extent possible and should also recognize the benefits received from the services provided.

FEA: Yes. Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 52: Should the Commission remove costs from the 2012 test year for costs associated with SouthernLINC?

POSITION

GULF: No. SouthernLINC provides unique communication services to Gulf in support of service crew work management, interoperability between transmission and distribution automation systems, and voice/data communication. SouthernLINC's service characteristics are vital to Gulf's operations and its ability to provide reliable and efficient service to its customers. (McMillan, Jacob)

OPC: Yes. Southern charges all affiliates for the total SouthernLINC charges that are not able to be recovered through commercial revenues. In 2012, the charges to Gulf Power are projected to increase because of the "larger than anticipated drop in commercial customer revenue." SouthernLINC is an unregulated affiliate. Its losses should not be subsidized by Gulf Power's ratepayers. The Commission should remove $294,765 from the test year expenses. See also OPC's position on the capital component in Issue 17. (Dismukes)

FIPUG: Yes. Agree with OPC.

FRF: Yes. Agree with OPC that test year expenses should be reduced by $294,765.

FEA: Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 53: **CATEGORY 1 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 54: **DROPPED**

ISSUE 55: Did Gulf adequately document and justify the costs associated with Work Orders 46EZBL, 46IDMU, 46LRBL, 47VSES, 47VSTB, 47VSTH, 47VSZ1, and 47VSZ5? If not, should the costs related to these work orders be removed from operating expenses?

POSITION

GULF: Yes. In Gulf's response to OPC's Request to Produce Documents No. 108, the Company stated that the original approved work orders could not be located, but provided descriptions and justifications for the activities covered by the work orders. The total budgeted amount allocated to Gulf was provided in response to OPC's Request to Produce Documents No. 34, Attachment E. The allocation methods used for each work order were provided in response to OPC's Request to Produce Documents No. 34, Attachment B. This same information is summarized in Witness McMillan's Rebuttal Testimony, Exhibit RJM-2, Schedule 2. (McMillan)

OPC: No. Because Gulf Power did not justify including the costs of these work orders, the Commission should reduce test year costs by $186,780. Gulf was unable to provide several of the requested Work Orders, which show the purpose of the work order, the method used to allocate costs, and the client company. (Dismukes)

FIPUG: No. Agree with OPC.

FRF: No. Agree with OPC.

FEA: Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 56: Should the costs related to Work Order 471701, associated with a Securities and Exchange Commission inquiry, be removed from operating expenses?

POSITION

GULF: No. The work order form submitted for this item was an outdated form. This work order is no longer used for an SEC inquiry, but has been reused by the SCS Comptroller organization. The test year amount includes various special projects, including Enterprise Solutions transition and implementation, and the costs incurred were necessary, prudent and in the interest of Gulf's customers. (McMillan)

OPC: Yes. Looking at this accounting-comptroller work order, it is not clear what service is being provided to Gulf and its customers or if the description remains valid today. In the absence of supporting documentation showing that the costs booked benefit Gulf and its customers, test year expenses should be reduced by $116,841. (Dismukes)

FIPUG: Yes. Agree with OPC.

FRF: Yes. Agree with OPC.

FEA: Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 57: Should the Commission adjust operating expenses for the costs related to Work Order 473401, related to a benefit's review that does not appear to occur annually?

POSITION

GULF: No. A number of benefits reviews are conducted on a recurring basis or an as-needed basis at various times throughout the years. Although the specific benefits reviews covered by this work order take place every other year, there are other normal benefits review activities that do not fall during the test year. The amount included in the test year is representative of an on-going level of benefits review activity. (McMillan)

OPC: Yes. This 2011 work order relates to consulting funds for an outside benefits review which apparently was increased because it did not occur annually. Because the review will not reoccur annually, the cost should be amortized over two years. The corresponding adjustment is a reduction of $18,067 to test year expenses. (Dismukes)

FIPUG: Yes. Agree with OPC.

FRF: Yes. Agree with OPC.

FEA: Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 58: **CATEGORY 1 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 59: Should the costs related to Work Order 4Q51RC and a formerly CWIP classified Work Order 4QPA01, be removed from operating expenses?

POSITION

GULF: No. This work order covers the on-going annual software costs, including maintenance and enhancements, associated with a new application that is necessary to effectively and efficiently manage the railcar maintenance program. (McMillan)

OPC: Yes. There is no evidence that these items should be expensed rather than capitalized, and also no evidence they are recurring in nature. Test year expenses should be reduced by $20,102 and $102,411, respectively. (Dismukes)

FIPUG: Yes. Agree with OPC.

FRF: Yes. Agree with OPC.

FEA: Yes. Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 60: Should operating expenses be adjusted to remove public relations expenses charged by SCS?

POSITION

GULF: No. This work order covers internal company publications that educate employees about industry, local and company issues, making them better equipped to serve customers. It also includes external public relations messages that are used to communicate billing, safety, and energy efficiency information to Gulf's customers. This helps customers by providing information on alternative ways to receive and pay bills, ways to prevent accidental injuries, and ways to use energy more efficiently, resulting in value and savings to the customer. (McMillan)

OPC: Yes. The Commission typically disallows expenses that are public relations oriented and image-enhancing, finding that they benefit stockholders, not customers. Gulf Power failed to demonstrate that such expenses benefit customers. Based on past Commission precedent, test year expenses should be reduced by $17,482. (Dismukes)

FIPUG: Yes. Agree with OPC.

FRF: Yes. Agree with OPC.

FEA: Yes. Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 61: Should operating expenses be adjusted to remove legal expenses in Work Orders 473ECO and 473ECS charged by SCS?

POSITION

GULF: No. The Chief Operating Officer and External Affairs functions provide services to Gulf, and any related legal advice is budgeted in these work orders. Each of these functions requires legal advice to ensure compliance with rules, regulations, contracts, and agreements. These activities benefit ratepayers. (McMillan)

OPC: Yes. These work orders relate to Chief Operating Officer legal expenses and External Affairs legal matters. Gulf has not demonstrated that the costs charged to these two accounts benefit ratepayers. Test year expenses should be reduced by $33,690. (Dismukes)

FIPUG: Yes. Agree with OPC.

FRF: Yes. Agree with OPC.

FEA: Yes. Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 62: Should operating expenses be adjusted to remove aircraft expenses in Work 486030 charged by SCS?

POSITION

GULF: No. There is no basis to remove the aircraft expenses contained in Work Order 486030. (McMillan)

OPC: Yes. The increase in expenses for Work Order 486030 from the test year relate to an unexplained increase in aircraft expenses and amount to a 97 percent increase over the 2011 amount. The $101,859 increase over the budgeted 2011 amount should be removed from test year expenses. (Dismukes)

FIPUG: Yes. Agree with OPC.

FRF: Yes. Agree with OPC.

FEA: Yes. Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 63: Should any adjustments be made to expenses related to use of corporate leased aircraft?

POSITION

GULF: No. Gulf only includes prudent and reasonable business related aircraft expenditures in the Company's cost of service and rates. Reasonable and necessary travel expenses, regardless of the mode of transportation, are prudent and required to carry out the business of the Company. There is no basis to adjust expenses related to Gulf's use of corporate leased aircraft. Southern Company Services operates a fleet of leased aircraft as a pool for the benefit of all of the operating companies, including Gulf, in a manner that maximizes the availability and use of the aircraft for necessary business travel at the lowest practical cost. Southern Company corporate policy requires that flights on corporate aircraft are for business purposes only. No officer or employee of any company in the Southern Company system may initiate a flight on corporate aircraft unless there is a valid business purpose for the flight. The use of corporate aircraft is necessary for Gulf Power given the limited access to commercial air travel, the geographic location and characteristics of the area in which Gulf provides retail electric service and the operating structure of Gulf Power within the Southern electric system. There are no commercial flights between cities where the principle offices and generating plants of Gulf are located. As a highly regulated business enterprise, Gulf's officers and employees are often called upon to interact with various state and federal regulatory agencies and the investment community both within Gulf's operating territory and beyond. Gulf officers and employees also serve on various operating committees of the Southern electric system calling for interaction between personnel on business in locations across the four states in which the Southern electric system operates. Meetings related to all these functions are absolutely necessary for Gulf to adequately serve its customers and represent their interests in a manner that is expected and required by this Commission. Business schedules and obligations often require Gulf officers and employees to be in a number of different places in a short period of time. The use of corporate aircraft is the best and most efficient way to ensure that Gulf personnel can fulfill their job requirements by not limiting their accessibility to essential appointments. (McMillan)

OPC: No position.

FIPUG: Yes. All costs for leased aircraft should be removed.

FRF: Agree with FIPUG.

FEA: Agree with FIPUG.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 64: Should operating expenses be adjusted to remove investor relations expenses related to Work Order 471501 charged by SCS?

POSITION

GULF: No. Investor Relations works with investors to preserve the value of Gulf's securities and to ensure continuous access to capital at favorable rates for the benefit of Gulf and our customers. This work order provides an on-going investor relations program to facilitate informed relationships with existing and potential investors in system equity and debt securities. This ensures that the Company's securities are fully valued by the investment community through regular communications that provide updates on the financial condition and plans of the Company. This type of Investor Relations activity is an essential function for any company with publicly traded securities. (McMillan)

OPC: Yes. Consistent with prior Commission practice, test year operating expenses should be reduced by $96,851 to remove the costs of shareholder services, which benefits stockholder, not ratepayers. (Dismukes)

FIPUG: Yes. Agree with OPC.

FRF: Yes. Agree with OPC.

FEA: Yes. Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 65: **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 66: Should interest on deferred compensation be included in operating expenses?

POSITION

GULF: Yes. The deferred compensation plan provides a market interest rate to compensate participants for the opportunity cost of deferring income into the future. (Kilcoyne)

OPC: No. Gulf has projected interest expense with an estimated 2012 prime rate of 6.78% on deferred compensation presumably for executives or senior level employees. Gulf has not documented or justified why interest is being paid, how the deferred compensation amounts resulted, or why such a high rate of interest should be passed on to Gulf's ratepayers. Test year expenses should be reduced by $362,309 ($355,059 jurisdictional). (Ramas)

FIPUG: No. Agree with OPC.

FRF: No. Agree with OPC.

FEA: No. Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 67: Should SCS Early Retirement Costs be included in operating expenses?

POSITION

GULF: Yes. This expense is not different from the expense for other SCS benefit programs, and so should properly be included in operating expenses. (Kilcoyne)

OPC: No. Gulf neither explained nor supported what the "SCS Early Retirement" accrual was for or why it should be passed on to Gulf's ratepayers. Test year expenses should be reduced by $50,340. (Ramas)

FIPUG: No. Agree with OPC.

FRF: No. Agree with OPC.

FEA: No. Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 68: **CATEGORY 1 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 69: Are Gulf's proposed increases to average salaries for Gulf appropriate?

POSITION

GULF: Yes. Gulf's salary programs fall well within market norms and are not excessive in design or level of pay. These programs are necessary to attract, retain, and motivate employees. (Kilcoyne, Wathen)

OPC: No. See OPC's position on Issue 70. (Ramas)

FIPUG: No. Agree with OPC.

FRF: No. Agree with OPC as to the appropriate adjustments.

FEA: Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 70: Are Gulf's proposed increases in employee positions for Gulf appropriate?

POSITION

GULF: Yes. The 159 additional positions are justified in the testimony of various Gulf witnesses, most of those positions have been filled, and most of the remaining positions are expected to be filled by the end of 2011. (Caldwell, Grove, McMillan, Moore, Neyman)

OPC: No. Gulf projected 159 additional employees (a 12% increase) between year ended December 31, 2010 and the January 1, 2012 beginning of the test year. This results in a projected 2012 base payroll costs increase of $4,387,786. Overall O&M expenses, after removal of clauses, were increased by $6,120,261 related to the new employees once the related bonuses and employee benefits are also considered. Gulf assumed a zero employee vacancy rate for the entire 2012 test year. Since its last rate case, in the past nine years Gulf's vacancy rate has consistently been below budget and ranged from 5.08% to 6.10%. For the 6-month period ended June 30, 2011, Gulf's average employee complement was 9.81% below budget. As of June 30, 2011, Gulf had increased its number of employees by 33 but was still 124 employees below budget. It is unrealistic and unreasonable to assume that Gulf will fill 100% of its budgeted employee positions by January 2012 or that Gulf will maintain a 0% vacancy factor throughout the entire test year. Gulf's employee increase should be reduced by 91 positions, allowing 68 additional positions, or 42.8% of its request which results in 1,398 employees in the test year. Gulf's expenses should be reduced by $3,195,627, which removes the base payroll, medical and other group insurance costs, and employee savings plan costs. (Ramas)

FIPUG: No. Agree with OPC.

FRF: No. Gulf has overstated the number of employees for the 2012 test year and accordingly has overstated labor expenses. Agree with OPC that Gulf's expenses should be reduced by $3,195,627 for the test year.

FEA: No. Gulf's payroll expense should be based on actual employees, provided that level is determined to be a reasonable level.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 71: How much, if any, of Gulf's proposed Incentive Compensation expenses should be included in operating expenses?

POSITION

GULF: All of Gulf's requested level of total compensation for its employees should be included in operating expenses, including all of that portion described as incentive or variable compensation. The Commission approved Gulf's compensation approach, including variable compensation, in Gulf's last rate case and Gulf's compensation approach remains the same. Gulf's total compensation program,, with its variable compensation components, is appropriately targeted at the median of the market and has allowed Gulf to retain valuable employees and attract new employees necessary to provide service to Gulf's customers. The proposal to disallow variable compensation is not based on any market analysis, but instead is based on an erroneous premise that variable compensation benefits shareholders and not customers. The proposal to disallow variable compensation completely fails to account for the adverse effects of such disallowance on customers. The approach of using base and variable or "at-risk" compensation ensures all employees are focused on the customer and have a strong stake in making sure customer service and reliability are paramount while managing costs effectively. (McMillan, Deason, Kilcoyne, Wathen)

OPC: Gulf incentive compensation programs result in a requested expense of $12,623,632 (included in the adjusted test year O&M expenses) plus $3,245,884 in capital costs. The Stock Option Expense, Performance Share Program, and Performance Dividend Program focus on shareholder return goals and are provided to upper level employees only. The Performance Pay Program (PPP) is available to most employees and is weighted 2/3 on Southern and Gulf earnings and 1/3 on operational goals, which are far outweighed by Southern Company's financial goals. The target awards range from 5% to 12.5% of base pay bargaining unit employees and lower level employees. Upper level employees receive 25% to 60% awards, depending on the pay grade, but no PPP awards are given unless Southern's earnings exceed the prior year's dividends. The large emphasis on earnings shifts the focus of the plan to areas that benefit shareholders and could be detrimental to the customer service provided. Consistent with prior Commission practice, the test year incentive compensation expense should be disallowed and should instead be funded by shareholders. Gulf's adjusted test year expenses should be reduced by $12,623,632. Further, if any of the charges from SCS or other affiliates that are incorporated in Gulf's test year expenses include costs associated with the PPP, the various stock option plans or other incentive compensation plans, those costs should also be removed and not passed on to Gulf's ratepayers. (Ramas)

FIPUG: All incentive compensation in the test year should be disallowed.

FRF: Agree with OPC that incentive compensation expense should be disallowed from rates for the 2012 test year, and if Gulf wishes to make such incentive compensation payments, they should be funded by shareholders because the compensation is so heavily dependent on Gulf's and Southern Company's earnings. Gulf's test year expenses should be reduced by $12,623,632.

FEA: Agree with FIPUG.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 72: What is the appropriate amount of allowance for employee benefit expense be adjusted?

POSITION:

GULF: The appropriate amount of employee benefit expense included is $26,281,520 ($26,816,341 system). This amount has been adjusted to remove the additional $48,000 ($48,000 system) of Executive Financial Planning expenses Gulf has agreed should have been excluded from NOI (see Issue 68). (McMillan, Kilcoyne, Twery/Crumlish, Deason)

OPC: OPC's recommended adjustments to employee benefits have been incorporated into our positions on Issues 66, 67, 68, 70 and 71. (Ramas)

FIPUG: Agree with OPC.

FRF: Agree with OPC.

FEA: Yes, consistent with FEA's position on payroll.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 73: **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 74: What is the appropriate amount of Gulf's requested level of Salaries and Employee Benefits for the 2012 projected test year? (Fallout Issue)

POSITION

GULF: The appropriate amount of Salaries and Employee Benefits included in operating expenses for the 2012 projected test year is $110,151,832 ($112,390,277 system). This amount has been adjusted to remove the additional $48,000 ($48,000 system) of Executive Financial Planning expenses Gulf has agreed should have been excluded from NOI (see Issue 68). (McMillan, Deason, Kilcoyne, Wathen)

OPC: See OPC's positions on issues 68 through 72. (Ramas)

FIPUG: Agree with OPC.

FRF: Agree with OPC.

FEA: Yes, consistent with FEA's position on payroll.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 75: **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 76: What is the appropriate amount of accrual for storm damage for the 2012 projected test year?

POSITION

GULF: The appropriate amount for the property damage reserve accrual is $6,657,000 jurisdictional ($6,800,000 system). Gulf's property damage accrual request is based on a storm study which uses a statistical model to consider a range of potential hurricane characteristics and corresponding losses and then computes Gulf's expected annual damage. Since Gulf's current approved accrual level is below the amount expected to be charged to the reserve each year based on the storm study, Gulf requested the accrual be increased. This is in line with the Commission's framework of (1) an accrual adjusted over time as circumstances change; (2) a storm reserve adequate to accommodate most, but not all storm years; (3) and a provision that goes beyond the reserve. This accrual level is also addressed in Issue 27. (Erickson)

OPC: Gulf's requested increase in the annual accrual is excessive and not justified based on the historical charges to the reserve and the storm standards established for Florida electric utilities, and the storm hardening measures implemented after 2005. The storm study reflects the storm accrual the Company wanted to collect in rates and also included extraordinary storm repair costs which historically have been recovered by surcharge mechanisms and were not intended to be covered by the storm reserve. The annual storm accrual should be reduced to $600,000, which reflects a decrease to O&M expense of $6.2 million ($5,962,113 jurisdictional), which will allow an eight-year historical average annual storm costs, excluding the extraordinary storm costs recovered through a surcharge. See OPC's position on Issue 27. (Schultz)

FIPUG: The accrual should not be increased.

FRF: No more than $600,000 per year. Given Gulf's existing reserve and the ready availability of rate relief to address unusually high storm restoration costs, and recognizing current economic conditions, the Commission should consider reducing the accrual to zero.

FEA: Yes. See FEA's position on Issue 27.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 77: Should an adjustment be made to remove Gulf's requested Director's & Officer's Liability Insurance expense?

POSITION

GULF: No. Director's & Officer's (D&O) Liability insurance helps to retain and recruit qualified and competent directors and officers who provide needed expertise in running a utility, both financially and operationally. Having a well-run utility benefits ratepayers and having adequate liability coverage helps protect the assets of the Company from lawsuits that could divert capital to cover any losses. The appropriate amount for D&O Liability Insurance expense of $116,493 jurisdictional ($119,000 system) is included in the 2012 projected test year. (Erickson, Deason)

OPC: Consistent with recent Commission decisions, D&O liability insurance should be reduced by $59,384 or 50% of the identified 2012 projected test year expense ($58,196 jurisdictional). This expense protects shareholders from the decisions they made when they hired the Company's Board of Directors and the Board of Directors in turn hired the officers of the Company. The question is whether this cost that the Company has elected to incur as a business expense is for the benefit of shareholders and/or ratepayers. The benefit of this insurance clearly inures primarily to shareholders. (Schultz)

FIPUG: Yes. Agree with OPC.

FRF: Agree with OPC.

FEA: Yes. Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 78: **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 79: What is the appropriate amount of Gulf's tree trimming expense for the 2012 projected test year?

POSITION

GULF: $4,918,154. This level of funding is necessary to allow Gulf Power to meet its three-year main line and four-year lateral maintenance trim cycles as filed in its approved storm hardening plan. (Moore)

OPC: Gulf's projected $4.918 million for distribution tree trimming in 2012 should be reduced by $386,834 (jurisdictional) to reflect a level of $4,531,320. Subsequent to Docket No. 060198-EI (the storm hardening docket), Gulf has averaged $4.3 million of tree trimming expense. Limiting maintenance in previous years, for whatever reason, is no justification for passing the catch up costs on to ratepayers on a continuing basis. Gulf's increase in projected spending increase for the rate case should not be approved. An adjustment is required to reflect the level of spending the Company is actually performing in its attempt to comply with the Storm Hardening Requirements approved by the Commission in Docket No. 060198-EI. (Schultz)

FIPUG: Agree with OPC.

FRF: Agree with OPC.

FEA: Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 80: What is the appropriate amount of Gulf's pole inspection expense for the 2012 projected test year?

POSITION

GULF: $1,100,000. (Moore)

OPC: Gulf's request for $1,100,000 should be reduced by $371,701 (jurisdictional) to reflect a level of $728,299. The Commission allowed $734,000 for distribution pole line inspection program in Gulf's last rate case, yet the Company has failed to expend the allowed level in rates in six of the last seven years. Even though Gulf's 7-year historical average for pole inspections was $530,147, OPC recommends that the 2010 level of $690,037 be escalated to 2012 dollars, resulting in an expense of $728,299. (Schultz)

FIPUG: Agree with OPC.

FRF: Agree with OPC.

FEA: Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 81: **DROPPED**

ISSUE 82: **DROPPED**

ISSUE 83: **DROPPED**

ISSUE 84: What is the appropriate amount of production plant O&M expense?

POSITION

GULF: The Company's request of $110,880,000 for the test year is the appropriate amount to effectively maintain and operate Gulf's generating fleet. Through 2010, Gulf was able to maintain and operate the generating fleet through prudent management of limited resources available. Gulf's generating fleet reliability and efficiency attest to the success of our strategy. The dollars requested are reasonable and necessary for Gulf to provide our customers what they deserve, a reliable and efficient generating fleet that minimizes cost. The amount requested for the 2012 test year is representative of costs that will continue to be incurred in future years. (Grove)

OPC: The appropriate amount of production plant O&M expense is $99,212,245, which is $11,675,270 less than the Company's requested $110,887,515. The appropriate jurisdictional adjustment is a reduction of $11,291,492. Gulf's projected 2012 expense is 19.38% higher than the 2010 expense and significantly higher than the historical 5-year average. Further, Gulf stated that it has not deferred any maintenance and the explanations to support the increase are inadequate. (Schultz)

FIPUG: Agree with OPC.

FRF: Agree with OPC.

FEA: Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 85: **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 86: What is the appropriate amount of Gulf's distribution O&M expense?

POSITION

GULF: The total requested distribution O&M expenses for the 2012 projected test year of $41,595,585 are reasonable and necessary. The distribution expenses for the test year are necessary to continue to provide reliable electric service to Gulf's customers and are lower than the level approved in Gulf's last rate case when adjusted for customer growth and inflation since that case. These test year expenses are also representative of levels that will continue to be incurred going forward. (Moore)

OPC: See OPC's positions on Issue 79 and 80. (Schultz)

FIPUG: Agree with OPC.

FRF: Agree with OPC.

FEA: Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 87: **DROPPED.**

ISSUE 88: What is the appropriate amount of Rate Case Expense for the 2012 projected test year?

POSITION

GULF: Gulf's requested amount of rate case expense of $2,800,000 is reasonable and appropriate. The appropriate amortization period for rate case expense is four years, which is consistent with the amortization period approved by the Commission in Gulf's last rate case. (Erickson)

OPC: Gulf Power's proposed level is unreasonably high, due to excessively high estimates of numbers of people and days of travel for meals and hotel expenses, which should be reduced by $102,273. Other adjustments are necessary to remove expenses from SCS of $99,000 for Information Technology, Human Resources and Accounting functions that are already performed in-house at Gulf, and $222,000 for Cost of Service Study assistance in addition to outside consultant charges. Gulf has not shown that the SCS costs are incremental to costs already projected to be allocated or charged to Gulf from SCS during the test year. Finally, $59,000 of projected overtime labor should be removed as labor costs should already be provided for in Gulf's 2012 budget incorporated in the filing. In total, Gulf's projected rate case costs should be decreased by $482,273 to $2,317,727. The 4-year annual amortization is $579,432, which is a $120,568 reduction to test year expenses. (Ramas)

FIPUG: Agree with OPC.

FRF: Agree with OPC.

FEA: Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 89: What is the appropriate amount of uncollectible expense for the 2012 projected test year?

POSITION

GULF: The amount of uncollectible expense of $4,143,000 jurisdictional ($4,143,000 system) included in the 2012 projected test year is appropriate for purposes of determining base rate revenue requirements. (Erickson)

OPC: The appropriate amount of uncollectible expense is $3,997,000. Gulf's projected 2012 projected bad debt factor of 0.3321% is not consistent with its historical bad debt rate, which averaged 0.3056% for 2007-2010. This 4-year average is higher than the 2010 rate realized by Gulf of 0.2937%, the year of the Gulf oil spill. Gulf has provided no information in its filing or testimony regarding how the factor was determined or the assumptions used. This unsupported projection should be replaced with a historical 4-year average of bad debt expense, resulting in a reduction of $346,000. The bad debt factor should also be adjusted to calculate the NOI multiplier. (Ramas)

FIPUG: Agree with OPC.

FRF: Agree with OPC that the appropriate amount of uncollectible expense for the 2012 test year is $3,997,000.

FEA: Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 90: Is Gulf's requested level of O&M Expense in the amount of $282,731,000 ($288,474,000 system) for the 2012 projected test year appropriate? (Fallout Issue)

POSITION

GULF: No. Gulf's requested level of O&M Expense in the amount of $282,731,000 ($288,474,000 system) needs to be adjusted for the items discussed in Issues 53, 58 and 68. (McMillan)

OPC: No. After OPC's recommended adjustments, the appropriate amount is $246,132,000. (Ramas)

FIPUG: No. Agree with OPC.

FRF: No. The appropriate allowable level of O&M Expense for the 2012 test year is no more than $246,132,000.

FEA: No. The appropriate amount should encompass FEA's adjustments.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 91: What is the appropriate amount of depreciation and fossil dismantlement expense for the 2012 projected test year?

POSITION

GULF: Gulf's requested amount of depreciation and fossil dismantlement expense for the 2012 projected test year, $95,180,000 ($97,141,000 system), should be adjusted for the ECCR adjustments discussed in Issue 44 and for the Crist Turbine Upgrades discussed in Issues 8 and 9. The appropriate amount of depreciation and fossil dismantlement expense for the 2012 projected test year is $97,318,000 ($99,355,000 system). (McMillan, Erickson)

OPC: In its supplemental filing to include the Crist turbine upgrade projects, Gulf increased its depreciation expense request by $2,161,000 ($2,237,000 system). On a jurisdictional basis, depreciation expense should be reduced by $187,000 for transmission and $42,967 for incentive compensation plant- related adjustments. The requested increase in depreciation expense for the Christ turbine upgrades should be reduced by $1,227,000 from $2,161,000 to $934,000. See Issue 92. (Ramas)

FIPUG: Agree with OPC.

FRF: Agree with OPC.

FEA: Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 92: Is Gulf's requested level of Depreciation and Amortization Expense in the amount of $87,804,000 ($89,613,000 system) for the 2012 projected test year appropriate? (Fallout Issue)

POSITION

GULF: No. Gulf's requested amount of depreciation and fossil dismantlement expense for the 2012 projected test year, $95,180,000 ($97,141,000 system), should be adjusted for the ECCR adjustments discussed in Issue 44 and for the Crist Turbine Upgrades discussed in Issues 8 and 9. The appropriate amount of depreciation and fossil dismantlement expense for the 2012 projected test year is $97,318,000 ($99,355,000 system). (McMillan, Erickson)

OPC: No. In its supplemental filing to include the Crist turbine upgrade projects, Gulf increased its depreciation expense request by $2,161,000 ($2,237,000 system). The appropriate amount is $95,885,000, which reflects a reduction to Gulf's updated requested balance of $1,456,000. On a jurisdictional basis, depreciation expense should be reduced by $187,000 for transmission and $42,967 for incentive compensation plant-related adjustments. The requested increase in depreciation expense for the Christ turbine upgrades should be reduced by $1,227,000 from $2,161,000 to $934,000. (Ramas)

FIPUG: No. Agree with OPC.

FRF: Agree with OPC.

FEA: No. The appropriate amount should reflect FEA's position on replacement of meters by AMI meters.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 93: What is the appropriate amount of Taxes Other Than Income Taxes for the 2012 projected test year? (Fallout Issue)

POSITION

GULF: Gulf's requested amount, $28,763,000 ($29,465,000 system), should be adjusted for the ECCR adjustments discussed in Issue 44. The appropriate amount of Taxes Other Than Income Taxes for the 2012 projected test year is $28,753,000 ($29,455,000 system). (Erickson, McMillan).

OPC: The appropriate amount of taxes other than income should be $27,977,000. This reflects a reduction to Gulf's requested balance of $786,000 for OPC's recommended incentive compensation adjustment. (Ramas)

FIPUG: Agree with OPC.

FRF: Agree with OPC that the appropriate amount of Taxes Other Than Income Taxes is $27,977,000.

FEA: Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 94: Is it appropriate to make a parent debt adjustment per Rule 25-14.004, Florida Administrative Code?

POSITION

GULF: No. Gulf's parent company's debt has not been invested in Gulf. (Teel, Deason)

OPC: Yes. Gulf has not overcome the rebuttable presumption required by the rule, and thus has failed to show that the parent's investment in Gulf is not made in the same ratios as exists in the Southern's capital structure. The fact that no adjustment was made in the last rate case provides no support to Gulf, because the issue was not addressed. The argument that for years Gulf sent more dividends to Southern Company than the amount of equity that Southern invested in Gulf also does not provide an exception, because it is impossible to "trace dollars." As shown on MFR Schedule D-2, the capital structure of Southern Company, after the elimination of subsidiary debt, has debt outstanding on an ongoing basis. Therefore, in the absence of an all equity capital structure at the parent level, a PDA is appropriate for Gulf Power. Gulf's calculation of the adjustment is consistent with the rule and should be made as a $2,126,000 reduction to income tax expense ($1,766,000 on a jurisdictional basis). (Woolridge, Ramas)

FIPUG: Yes. Agree with OPC.

FRF: Yes. Agree with OPC.

FEA: Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 95: What is the appropriate amount of Income Tax expense for the 2012 projected test year? (Fallout Issue)

POSITION

GULF: $15,234,000 ($18,343,00 system) (MFR C-4). This amount is subject to change based on any known adjustments that Gulf has identified in other issues. (Erickson, McMillan)

OPC: Based on OPC's recommended adjustments, the appropriate amount of test year income tax expense before any revenue increase should be $30,408,000. (Ramas)

FIPUG: Agree with OPC.

FRF: Agree with OPC.

FEA: The appropriate amount should reflect FEA's proposed adjustments.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 96: Is Gulf's requested level of Total Operating Expenses in the amount of $420,954,000 ($432,449,000 system) for the 2012 projected test year appropriate? (Fallout Issue)

POSITION

GULF: No. This amount will change based on any known adjustments that Gulf has identified in other issues. (McMillan)

OPC: No. Gulf's supplemental filing increases its requested operating expenses by $816,000 to $421,770,000, after OPC's recommended adjustments, the appropriate total operating expenses should be $399,448,000 (jurisdictional). (Ramas)

FIPUG: Agree with OPC.

FRF: No. Agree with OPC as to the maximum appropriate level of allowable jurisdictional Total Operating Expense for the 2012 test year, $399,448,000.

FEA: No. The appropriate amount should reflect FEA's proposed adjustments.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 97: Is Gulf's projected Net Operating Income in the amount of $60,955,000 ($66,862,000 system) for the 2012 projected test year appropriate? (Fallout Issue)

POSITION:

GULF: No. This amount will change based on any known adjustments that Gulf has identified in other issues. (McMillan)

OPC: No. Gulf's supplemental filing increases its projected Net Operating Income by $816,000 to $61,771,000. After OPC's recommended adjustments, the appropriate net operating income is $84,571,000. (Ramas)

FIPUG: No. Agree with OPC.

FRF: No. Agree with OPC as to the appropriate level of NOI for the 2012 test year.

FEA: No. The appropriate net operating income should reflect FEA's proposed adjustments.

STAFF: No position pending evidence adduced at the hearing.

Revenue Requirements

ISSUE 98: What is the appropriate revenue expansion factor and the appropriate net operating income multiplier, including the appropriate elements and rates for Gulf?

POSITION

GULF: The appropriate revenue expansion factor is 61.1768 and the appropriate net operating income multiplier is 1.634607 as identified on MFR C-44. (McMillan)

OPC: The appropriate net operating income multiplier should be 1.634173. This reflects the OPC's recommended adjustment to replace the Company's proposed bad debt rate of 0.3321% with a more appropriate rate of 0.3056%. (Ramas)

FIPUG: Agree with OPC.

FRF: Agree with OPC that the appropriate NOI multiplies is 1.634173.

FEA: Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 99: Is Gulf's requested annual operating revenue increase of $93,504,000 for the 2012 projected test year appropriate? (Fallout Issue)

POSITION

GULF: No. This amount will change based on any known adjustments that Gulf has identified in other issues. It would also include any revenue requirements associated with the Crist 6 and 7 Turbine Upgrades moved from ECRC into base rates. (McMillan)

OPC: No. Gulf's Supplemental filing increases the amount of annual operating revenue increase from $93,504,000 to $101,618,000. OPC's recommended adjustments, including OPC's recommended impacts associated with the Crist turbine upgrades, results in the appropriate revenue increase of $16,221,000. (Ramas)

FIPUG: No. Agree with OPC.

FRF: No. Agree with OPC that Gulf should not be allowed to increase its base rates for the 2012 test year by more than $16.221 million per year.

FEA: No. The appropriate revenue increase should reflect FEA's proposed adjustments.

STAFF: No position pending evidence adduced at the hearing.

Cost of Service and Rate Design

ISSUE 100: **CATEGORY 1 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 101: **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 102: **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 103: **CATEGORY 1 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 104: **CATEGORY 1 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 105: **CATEGORY 1 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 106: What is the appropriate cost of service methodology to be used in designing Gulf's rates?

POSITION

GULF: The appropriate methodology to be used in designing rates is that filed by Gulf in this proceeding as Attachment A to MFR Schedule E-1 and in the Exhibit MTO-2. This cost of service methodology was the approved method of the Commission in Gulf's previous rate case with one exception. The Minimum Distribution System (MDS) was used in the cost of service study to determine customer and demand related cost. The MDS was used in order to adhere more closely to sound cost causative principles. (O'Sheasy)

OPC: No position.

FIPUG: The Company's study should be adopted.

FRF: No position.

FEA: The Company's study should be adopted.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 107: What is the appropriate treatment of distribution costs within the cost of service study?

POSITION:

GULF: Distribution costs are either assigned, where possible, or allocated to Rate Class. Demand-related distribution costs at Level 3 are allocated on a Coincident Peak Demand (CP) Level 3 allocator. Demand-related distribution costs at Levels 4 and 5 are allocated on, their respective level, Non-Coincident Peak Demand (NCP) allocator. An example of a Level 3 Distribution Common Demand-related Investment is Account 362 – Station Equipment, which is allocated to Rate Class on a Level 3 CP demand allocator. An example of a Level 4 and Level 5 Common Distribution Demand-related Investment is Account 365 – Overhead Conductors. This Account has both Level 4 and Level 5 Common Investment. The Level 4 Common Investment is allocated to Rate Class on a Level 4 NCP demand allocator, and the Level 5 Common is allocated to Rate Class on a Level 5 NCP demand allocator. Customer-related Distribution costs are at both Level 4 and Level 5. These customer-related costs are allocated on their respective Level average number of customers' allocator. An example of Level 5 Distribution Customer-related Investment is Account 365 – Overhead Conductors. This customer-related investment at Level 5 is allocated to Rate Class on the average number of customers at Level 5. Note: Where cost must be divided into demand and customer component, the Minimum Distribution System (MDS) is appropriate in order to adhere more closely with sound cost causative principles. (O'Sheasy)

OPC: No position.

FIPUG: Distribution costs should be treated according to the Minimum Distribution System approach (MDS) proposed by Gulf and used by many other states. This approach more appropriately allocates costs to the cost causers.

FRF: No position.

FEA: The Company's proposed treatment of distribution costs within the class cost of service study should be adopted in this proceeding.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 108: If a revenue increase is granted, how should it be allocated among the customer classes?

POSITION:

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

OPC: No position.

FIPUG: The Company's proposal to spread any revenue deficiency among the classes should be adopted.

FRF: Any revenue increase or decrease should be allocated to customer classes on the basis of an equal percentage increase or decrease to all base rates.

FEA: The Company's proposed spread of revenue deficiency between the classes should be adopted in this proceeding.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 109: What are the appropriate customer charges and should Gulf's proposal to rename the customer charge "Base Charge" be approved?

POSITION:

GULF: The appropriate customer charges based on Gulf's original filing are shown below. These proposed charges reasonably reflect customer-related costs. The increases in the Base Charges have been limited to not more than 50% above their current levels. There are important reasons for ensuring that, to the extent practical, the costs of providing service to customers that do not vary with the amount of consumption are recovered from fixed Base Charges rather than from energy or demand charges.

Yes, the customer charge should be renamed "Base Charge." This change in terminology better reflects the purpose of this monthly, fixed charge. This charge exists to reflect the fact that a certain base level of costs is incurred by Gulf to provide electricity independent of the amount of service consumed. (Thompson)

Rate Schedule	Monthly Customer Charge (Base Charge)
RS, RSVP	$15.00
GS	$18.00
GSD, GSDT, GSTOU	$45.00
LP, LPT	$225.00
PX, PXT	$683.68

OPC: No position.

FIPUG: No position.

FRF: (a) The appropriate customer charges are those that would result from allocating any revenue increase or decrease to customer classes on the basis of an equal percentage increase or decrease in all base rates. (b) No position on Gulf's proposal to rename the customer charge the "Base Charge."

FEA: No position.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 110: What are the appropriate demand charges?

POSITION:

GULF: The appropriate demand charges based on Gulf's original filing are listed below. These charges are subject to revision to reflect the impact, if any, of additional adjustments identified by Gulf in other issues. (Thompson)

Rate Schedule	Monthly Demand Charge

GSD LP PX	\$ 6.17 \$10.60 \$ 9.90
GSDT	\$ 3.29 (On-Peak) \$ 2.92 (Maximum) \$ 1.65 (Critical Peak Option On-Peak) \$ 2.92 (Critical Peak Option Maximum) \$ 4.94 (Critical Peak Option Critical Peak)
LPT	\$ 8.53 (On-Peak) \$ 2.12 (Maximum) \$ 4.27 (Critical Peak Option On-Peak) \$ 2.12 (Critical Peak Option Maximum) \$12.80 (Critical Peak Option Critical Peak)
PXT	\$ 9.19 (On-Peak) \$ 0.82 (Maximum)

OPC: No position.

FIPUG: No position.

FRF: The appropriate demand charges are those that would result from allocating any revenue increase or decrease to customer classes on the basis of an equal percentage increase or decrease in all base rates.

FEA: No position.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 111: What are the appropriate energy charges?

POSITION:

GULF: The appropriate energy charges based on Gulf's original filing are listed below. These charges are subject to revision to reflect the impact, if any, of additional adjustments identified by Gulf in other issues. (Thompson)

Rate Schedule	**Energy Charge**

RS	4.615 ¢/kWh
GS	5.121 ¢/kWh
GSD	1.579 ¢/kWh
LP	0.790 ¢/kWh
PX	0.366 ¢/kWh
RSVP	4.615 ¢/kWh – P_1 4.615 ¢/kWh – P_2 4.615 ¢/kWh – P_3 4.615 ¢/kWh – P_4
GSTOU	16.571 ¢/kWh (Summer On-Peak) 6.268 ¢/kWh (Summer Intermediate) 2.684 ¢/kWh (Summer Off-Peak) 3.704 ¢/kWh (Winter All-Hours)
GSDT	1.579 ¢/kWh
LPT	0.790 ¢/kWh
PXT	0.362 ¢/kWh

OPC: No position.

FIPUG: No position.

FRF: The appropriate energy charges are those that would result from allocating any revenue increase or decrease to customer classes on the basis of an equal percentage increase or decrease in all base rates.

FEA: No position.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 112: What are the appropriate charges for the outdoor service (OS) lighting rate schedules?

POSITION:

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

OPC: No position.

FIPUG: No position.

FRF: The appropriate charges for Gulf's outdoor service (OS) lighting rate schedules are those that would result from allocating any revenue increase or decrease to customer classes on the basis of an equal percentage increase or decrease in all base rates.

FEA: No position.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 113: Should Gulf's proposal to adjust annually existing lighting fixtures prices be approved?

POSITION:

GULF: Yes. Lighting technology changes, vendor changes, and material costs frequently render prices of existing fixtures stale. The ability to re-price existing fixtures, up or down, as costs change would benefit lighting customers. This proposal would allow Gulf Power to adjust the prices of fixtures as emerging technologies or other forces drive costs down in the market, thus benefitting Gulf's lighting customers. Similarly, if costs increase, the associated price increases are implemented gradually on an annual basis. (Thompson)

OPC: No position.

FIPUG: No position.

FRF: No position.

FEA: No position.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 114: What are the appropriate charges under the Standby and Supplementary Service (SBS) rate schedule?

POSITION:

GULF: The appropriate charges under Rate Schedule SBS are listed below. These charges are subject to revision to reflect the impact, if any, of additional adjustments identified by Gulf in other issues. (Thompson)

Contract Demand	100 to 499 kw	500 to 7,499 kw	7,500 kw and above

Demand Charge			
Local Facilities Charge	$2.73	$2.51	$0.95
On-Peak	$3.29	$8.53	$9.19
Reservation Charge	$1.00	$1.00	$1.00
Daily Demand Charge	$0.47	$0.47	$0.47
Energy Charge (per kWh)	2.249¢	1.370¢	1.359¢

OPC: No position.

FIPUG: The Commission should follow prior policy in setting standby rates.

FRF: The appropriate charges under Gulf's Standby and Supplementary Service (SBS) rate schedule are those that would result from allocating any revenue increase or decrease to customer classes on the basis of an equal percentage increase or decrease in all base rates.

FEA: Agree with FIPUG.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 115: What are the appropriate transformer ownership discounts?

POSITION:

GULF: The appropriate discounts are shown below. When new rates become effective in this case, it will have been approximately 10 years since the voltage discounts were adjusted in Gulf's last rate case. Customers who own, operate, and maintain voltage transformation facilities need to be able to rely on consistency in the relationship between the charges in the rate(s) and the discounts available as they make decisions as to whether or not to provide their own voltage transformation. (Thompson)

Rate Schedule	Voltage Discount

GSD/GSDT	($ 0.49) Primary Voltage Level
LP/LPT	($ 0.64) Primary Voltage Level ($ 0.81) Transmission Voltage Level
PX/PXT	($ 0.22) Transmission Voltage Level
SBS Contract Level 100 – 499 KW	 ($ 0.44) Primary Voltage Level
500 – 7,499 KW	($ 0.84) Primary Voltage Level ($ 0.98) Transmission Voltage Level
Above 7,499 KW	($ 0.13) Transmission Voltage Level

OPC: No position.

FIPUG: No position.

FRF: No position.

FEA: No position.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 116: **CATEGORY 2 STIPULATION** – See Section X, Proposed Stipulations

Other Issues

ISSUE 117: Should any of the $38,549,000 interim rate increase granted by Order No. PSC-11-0382-PCO-EI be refunded to the ratepayers?

POSITION:

GULF: No. None of the $38,549,000 interim rate increase granted by Order No. PSC-11-0382-PCO-EI should be refunded. (McMillan)

OPC: Yes. Gulf should be required to refund, with interest, the difference between the Commission approved $38.5 million interim increase and the $16.2 OPC recommended final increase.

FIPUG: Yes. Agree with OPC.

FRF: Yes. The amount to be refunded is the difference between the amount collected by Gulf by virtue of the interim rate increase granted and the amount that Gulf would have collected if it had implemented new rates to recover an annual increase in operating revenues of $16.221 million

FEA: Agree with OPC.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 118: **CATEGORY 1 STIPULATION** – See Section X, Proposed Stipulations

ISSUE 119: Should this docket be closed?

POSITION:

GULF: Yes.

OPC: No position.

FIPUG: Yes, after Gulf has filed and received approval for any new rates approved by the Commission in this docket, and after all appeals have been completed or the time for filing an appeal has expired.

FRF: Yes, after Gulf has filed and received approval for any new rates approved by the Commission in this docket, and after all appeals have been completed or the time for filing an appeal has expired, this docket should be closed.

FEA: Agree with FIPUG.

STAFF: No position pending evidence adduced at the hearing.

IX. EXHIBIT LIST

Witness	Proffered By	Description
Direct		
Various	GULF	Minimum Filing Requirement (MFR) Schedules - Sections A, B, C, D, E, F and G

Witness	Proffered By		Description
R. L. McGee	GULF	RLM-1	MFR responsibility; Residential Regression Model-Predicted vs. Actual; Small Commercial Regression Model-Predicted vs. Actual; Large Commercial Regression Model-Predicted vs. Actual
W. G. Buck	GULF	WGB-1	MFR responsibility; Financial Planning Process Chart; Budget Process; 2012 Test Year Capital Additions Budget By Function; 2012 Test Year Operations and Maintenance Expense By Function; Financial Model; Gulf Power Balance Sheet December 2011 through December 2012; Gulf Power Income Statement for twelve months ending December 31, 2012; Gulf Power Utility Plant balances for the periods ended December 2011 through December 2012

Witness	Proffered By		Description
R. S. Teel	GULF	RST-1	MFR responsibility; Rate Case Drivers; Base Retail Return on Equity; Gulf Power Credit Ratings-July 2011; Rating Agency Conventions and Scales-Senior Unsecured Notes; Capital Expenditures 2002-2013; Moody's August 13, 2010 Credit opinion for Gulf Power; Fitch October 5, 2010 credit opinion for Gulf Power; Standard & Poor's October 14, 2010 credit opinion for Gulf Power; Rule 25-14.004, Florida Administrative Code; Gulf Power Dividends Compared To Southern Company Capital Contributions-January 2003 to March 2011

Witness	Proffered By		Description
Vander Weide	GULF	JVW-1	Summary of Discounted Cash Flow Analysis for Electric Energy Companies; Comparison of the DCF Expected Return on an Investment in Electric Energy Companies to the Interest Rate on Moody's A-Rated Utility Bonds; Comparative Returns on S&P 500 Stock Index and Moody's A-Rated Bonds 1937-2010; Comparative Returns on S&P Utility Stock Index and Moody's A-Rated Bonds 1937-2010; Using the Arithmetic Mean to Estimate the Cost of Equity Capital; Calculation of Capital Asset Pricing Model Cost of Equity Using the SBBI 6.7 Percent Risk Premium; Comparison of Risk Premia on S&P 500 and S&P Utilities Index 1937-2010; Calculation of Capital Asset Pricing Model Cost of Equity Using DCF Estimate of the Expected Rate of Return on the Market Portfolio; Capital Structure of Proxy Company Group; Illustration of Calculation of Cost of Equity Required for the Company to have the same Weighted Average Cost of Capital As Proxy Company Group

Witness	Proffered By		Description
Vander Weide	GULF	JVW-2	Qualifications of James H. Vander Weide; Derivation of the Quarterly DCF Model; Adjusting for Flotation Costs in Determining a Public Utility's Allowed Rate of Return on Equity; Ex Ante Risk Premium Method; Ex Post Risk Premium Approach
P. B. Jacob	GULF	PBJ-1	Press and Customer comments regarding Gulf's Hurricane Ivan Restoration
P. C. Caldwell	GULF	PCC-1	MFR responsibility; Description of Typical Electric System; Transmission System Components; Map of Gulf's Transmission System; Transmission Capital Budget 2011-2013; Gulf Transmission O & M Budget 2011-2015; Transmission Reliability History

Witness	Proffered By		Description
R. S. Moore	GULF	RSM-1	MFR responsibility; Distribution System Components; Description of Typical Electric System; Gulf Power District Service Areas; Gulf Power Service Area and Customer Density Areas; Land Area in Florida Panhandle Forested; Vaisala's National Lightning Detection Network Cloud-to-Ground Lightning 1997-2007; Distribution O & M Budget 2011-2015; Inventory Comparison 2002 to 2010; 2011-2012 Distribution/Fleet Capital Additions Budget; 2011-2012 Power Delivery Vacancy Analysis; Distribution Performance with CVB Survey; Hurricane Ivan Storm Surge Map; Hurricane Ivan Wind Swaths
M. D. Neyman	GULF	MDN-1	MFR responsibility; Gulf's FPSC Complaint Activity 2002-2010; 2010 Customer Value Benchmark Results; Customer Service Center Staffing and Service Levels; O & M Benchmark Variance

Witness	Proffered By		Description
M. L. Burroughs	GULF	MLB-1	MFR responsibility; Owned and Operated or Jointly Owned Generating Capacity 2002 TYSP compared to 2012 TYSP; Power Purchase Agreements; Recordable Incidents 1980-2010; Annual EFOR; Peak Season EFOR; Gulf EFOR compared to peer group; 2012 Production O & M Budget; Production O & M Expenses 2011 to 2015; Fuel Inventory
R. W. Grove	GULF	RWG-1	MFR responsibility; Gulf Generating Capacity; Owned and Operated or Jointly Owned Generating Capacity; Power Purchase Agreements; 2011 Production Capital Additions Budget; 2012 Production Capital Additions Budget; 2012 Production O & M Budget; Production O & M Expenses; Owned and Operated or Jointly Owned Generating Capacity- Age of fleet 2002 compared to 2012; Owned and Operated or Jointly Owned Generating Capacity 2002 TYSP compared to 2012 TYSP; Benchmark Comparison; Planned Outages 2011-2015; 2012 Production Workforce

Witness	Proffered By		Description
C. J. Erickson	GULF	CJE-1	MFR responsibility; A & G Budgeted Expenses; A & G Benchmark Variance; Uncollectible Accounts; Gulf Power Company Transmission and Distribution Hurricane Loss and Reserve Performance Analyses
S. C. Twery and A. E. Crumlish (panel)	GULF	SCT-1	Gulf's Benefits versus Utilities' and Fortune 500 Companies' Benefits
		AEC-1	National Employer Health Plan Average Annual Cost Increases, 2001-2012; Medical Plan Cost Mitigation Efforts For Active and Retired Employees 2003-2012

Witness	Proffered By		Description
R. J. McMillan	GULF	RJM-1	MFR responsibility; 13-Month Average Rate Base; 13-Month Average Working Capital; Net Operating Income; Fuel Clause Revenues and Expenses; Energy Conservation Cost Recovery Clause Revenues and Expenses; Purchase Power Capacity Cost Recovery Clause Revenues and Expenses; Environmental Cost Recovery Clause Revenues and Expenses; FPSC Assessment Fees; Income Tax Adjustments; Interest Synchronization Adjustment; 13-Month Average Jurisdictional Cost of Capital; FPSC Adjusted Achieved Rate of Return and Return on Common Equity; Calculation of Revenue Deficiency; Revenue Expansion Factor & NOI Multiplier; Benchmark Variance by Function; Benchmark Year Recoverable O & M Expenses by Function; O & M Adjustments by Function; General Plant Capital Additions for the Prior Year Ended 12/31/2011 and Test Year Ended 12/31/2012; Complement Analysis
R. J. McMillan	GULF	RJM-2	MFR responsibility (Interim)

Witness	Proffered By		Description
R. J. McMillan	GULF	RJM-3	Crist Turbine Upgrades-Full Year Revenue Requirements with ECRC credit; Jurisdictional Rate Base; Jurisdictional NOI; Jurisdictional Interest Synchronization; Crist Turbine Estimated Savings
M. T. O'Sheasy	GULF	MTO-1	MFR responsibility; Illustration of Simple Distribution Network; MDS Customer/Demand Percentages by FERC Account
J. I. Thompson	GULF	JIT-1	MFR responsibility; Allocation of Revenue Increase; Proposed Tariff Sheets
J. I. Thompson	GULF	JIT-2	MFR responsibility (Interim); Proposed Interim Tariff Sheets
Steve W. Chriss	FRF	SWC-1	Witness Qualifications Statement
Steve W. Chriss	FRF	SWC-2	"Addressing the Level of Florida's Electricity Prices" by Theodore Kury.
Steve W. Chriss	FRF	SWC-3	Calculation of Gulf Power Commercial Rates, 2006-2010
Steve W. Chriss	FRF	SWC-4	Calculation of Jurisdictional Revenues Collected through Base Rates.
Jeffry Pollock	FIPUG	JP-1	Increase in Electricity Costs Since Gulf's Last Rate Case

Witness	Proffered By		Description
Jeffry Pollock	FIPUG	JP-2	BAI Surveys of Electricity Costs
Jeffry Pollock	FIPUG	JP-3	Unemployment Rate In Gulf's Service Area
Jeffry Pollock	FIPUG	JP-4	Excerpts From the NARUC Electric Cost Allocation Manual
Jeffry Pollock	FIPUG	JP-5	Utilities that Classify a Portion of their Distribution Network Investment as Customer-Related
Jeffry Pollock	FIPUG	JP-6	Charges to the Storm Reserve: 2006 through June 2011
D. Ramas	OPC	DR-1	Donna Ramas Schedules
D. Ramas	OPC	DR-1	Revenue Requirement - Schedule A
D. Ramas	OPC	DR-1	Net Operating Income Multiplier – Schedule A-1
D. Ramas	OPC	DR-1	Adjusted Rate Base – Schedule B-1
D. Ramas	OPC	DR-1	Transmission Capital Expenditures – Schedule B-2
D. Ramas	OPC	DR-1	Distribution Capital Expenditures - SGIG Projects – Schedule B-3
D. Ramas	OPC	DR-1	Adjusted Net Operating Income – Schedule C-1
D. Ramas	OPC	DR-1	Uncollectible Expense – Schedule C-2
D. Ramas	OPC	DR-1	Payroll Expense – Schedule C-3
D. Ramas	OPC	DR-1	Incentive Compensation Expense – Schedule C-4

Witness	Proffered By		Description
D. Ramas	OPC	DR-1	Payroll Tax Expense – Schedule C-5
D. Ramas	OPC	DR-1	Rate Case Expense – Schedule C-6
D. Ramas	OPC	DR-1	Income Tax Expense – Schedule C-7
D. Ramas	OPC	DR-1	Interest Synchronization Adjustment – Schedule C-8
D. Ramas	OPC	DR-1	Cost of Capital – Schedule D
D. Ramas	OPC	DR-2	Qualifications of Donna Ramas
Helmuth W. Schultz, III	OPC	HWS-1	H.W. Schultz, III Schedules
Helmuth W. Schultz, III	OPC	HWS-1	Storm Reserve Analysis – Schedule C-1
Helmuth W. Schultz, III	OPC	HWS-1	Distribution Vegetative management - Tree Trimming – Schedule C-2
Helmuth W. Schultz, III	OPC	HWS-1	Pole Line Inspection Expense – Schedule C-3
Helmuth W. Schultz, III	OPC	HWS-1	Fossil Plant Maintenance – Schedule C-4
Helmuth W. Schultz, III	OPC	HWS-2	Qualifications of Helmuth W. Schultz, III
Kimberly H. Dismukes	OPC	KHD-1	Kimberly H. Dismukes Qualifications Appendix – Schedule 1
Kimberly H. Dismukes	OPC	KHD-2	Southern Company Organizational Chart – Schedule 2
Kimberly H. Dismukes	OPC	KHD-3	Test Year Transactions with Affiliated Companies – Schedule 3

Witness	Proffered By		Description
Kimberly H. Dismukes	OPC	KHD-4	Charges from SCS to Affiliates 2005 – 2010 – Schedule 4
Kimberly H. Dismukes	OPC	KHD-5	Company Fixed Percentage Allocation Factors – Schedule 5
Kimberly H. Dismukes	OPC	KHD-6	Company Statistics for Developing Fixed Percentage Allocations – Schedule 6
Kimberly H. Dismukes	OPC	KHD-7	Recommended Financial Allocation Factor – Schedule 7
Kimberly H. Dismukes	OPC	KHD-8	Recommended Fixed Percentage Allocation Factors – Schedule 8
Kimberly H. Dismukes	OPC	KHD-9	Adjustment for Recommended Allocation Factors – Schedule 9
Kimberly H. Dismukes	OPC	KHD-10	AllConnect Script – Schedule 10
Kimberly H. Dismukes	OPC	KHD-11	Gulf Power Nonregulated Services – Schedule 11
Kimberly H. Dismukes	OPC	KHD-12	Recommended Revenue Adjustment for Nonregulated Services Provided by Gulf Power – Schedule 12
Kimberly H. Dismukes	OPC	KHD-13	Recommended Disallowances for SCS Work Orders – Schedule 13
J. Randall Woolridge	OPC	JRW-1	Resume of J. Randall Woolridge
J. Randall Woolridge	OPC	JRW-2	Weighted Average Cost of Capital
J. Randall Woolridge	OPC	JRW-3	Interest Rates and Spreads

Witness	Proffered By		Description
J. Randall Woolridge	OPC	JRW-4	Summary Financial Statistics for Proxy Group
J. Randall Woolridge	OPC	JRW-5	Capital Structure Ratios and Debt Cost Rate
J. Randall Woolridge	OPC	JRW-6	Roe V. Market-To-Book Ratio
J. Randall Woolridge	OPC	JRW-7	Utility Bonds and Proxy Group Averages
J. Randall Woolridge	OPC	JRW-8	Industry Average Betas
J. Randall Woolridge	OPC	JRW-9	Three-Stage DCF Model
J. Randall Woolridge	OPC	JRW-11	CAPM Study
J. Randall Woolridge	OPC	JRW-12	Summary of Gulf Power's Proposed Cost of Capital
J. Randall Woolridge	OPC	JRW-13	Summary of Dr. Vander Weide's Results
J. Randall Woolridge	OPC	JRW-14	DCF Growth Rate Analysis
J. Randall Woolridge	OPC	JRW-15	GDP and S&P 500 Growth Rates
Michael P. Gorman	FEA	MPG-1	Rate of Return
Michael P. Gorman	FEA	MPG-2	Proxy Group
Michael P. Gorman	FEA	MPG-3	Consensus Analysts' Growth Rates
Michael P. Gorman	FEA	MPG-4	Consensus Analysts' Growth Rates Constant Growth DCF
Michael P. Gorman	FEA	MPG-5	Electricity Sales Are Linked to U.S. Economic Growth
Michael P. Gorman	FEA	MPG-6	Payout Ratios
Michael P. Gorman	FEA	MPG-7	Sustainable Growth Rates
Michael P. Gorman	FEA	MPG-8	Sustainable Growth Rates Constant Growth DCF Model

Witness	Proffered By		Description
Michael P. Gorman	FEA	MPG-9	Multi-Stage Growth DCF Model
Michael P. Gorman	FEA	MPG-10	Common Stock Market/Book Ratio
Michael P. Gorman	FEA	MPG-11	Equity Risk Premium-Treasury Bond
Michael P. Gorman	FEA	MPG-12	Equity Risk Premium-Utility Bond
Michael P. Gorman	FEA	MPG-13	Bond Yield Spreads
Michael P. Gorman	FEA	MPG-14	Treasury and Utility Bond Yields
Michael P. Gorman	FEA	MPG-15	Value Line Beta
Michael P. Gorman	FEA	MPG-16	CAPM Return
Michael P. Gorman	FEA	MPG-17	Standard & Poor's Credit Metrics
Michael P. Gorman	FEA	MPG-18	Dr. Vander Weide Revised DCF
Debra M. Dobiac	STAFF	DMD-1	Audit Report Year Ended 12/31/10
Rhonda L. Hick	STAFF	RHL-1	Complaint Summary
Rebuttal			
Vander Weide	GULF	JVW-3	Summary of Discounted Cash Flow Analysis for Woolridge Proxy Electric Energy Companies; Updated Summary of Discounted Cash Flow Analysis for Electric Energy Companies; Research Literature that Studies the Efficacy of Analysts' Earnings Forecasts

Witness	Proffered By		Description
R. S. Teel	GULF	RST-2	Standard & Poor's report entitled "Assessing U S Utility Regulatory Environments" dated March 11, 2010; Standard & Poor report entitled "Key Credit Factors: Business And Financial Risks In The Investor-Owned Utilities Industry", issued on November 26, 2008; Moody's credit opinion dated August 12, 2011
S. R. Kilcoyne	GULF	SRK-1	External Market Analysis-September 2011; Analysis of Employee Impact with no Variable Compensation; Gulf Power Turnover Rates-2001 to 2011; 2011 Gulf Power PPP Goals
D. J. Wathen	GULF	DJW-1	Historical Market Base Salary Merit Increases for Gulf Power Employees Compared to Utility and General Industry Practices; Competitive Market Assessment by Gulf Power Job Level; Competitive Market Assessment by Gulf Power Job Level with At-Risk Compensation Component Excluded
J. T. Deason	GULF	TD-1	Biographical Information for Terry Deason

Witness	Proffered By		Description
R. J. Alexander	GULF	RJA-1	Gulf's response to Staffs Fifth Set of Interrogatories No. 47; Governor Crist's Executive Order 07-127; Initial Analysis of Impacts resulting from Executive Order 07-127; 2007 TYSP Executive Summary; 2008 TYSP Executive Summary; Potential Sites Reviewed; Site Comparison; Cost Impacts of Carbon legislation 17 year NPV; Generation Mix Implications; Nuclear vs. Natural Gas with 2 Unit Site dated 10/27/2008; Nuclear vs. Natural Gas with 2 Unit Site dated 2/10/2009; EPA New Regulatory Actions Timeline
R. W. Grove	GULF	RWG-2	Exhibit HWS-1, Schedule C-4; Plant Smith Unit 3 Expenses excluding ECRC; Corrected Exhibit HWS-1, Schedule C-4; 2012 Production Workforce; Production by Baseline, Special Projects and Outage
P. C. Caldwell	GULF	PCC-2	Transmission Workforce
R. S. Moore	GULF	RSM-2	Distribution Workforce
C. J. Erickson	GULF	CJE-2	Ten year average of charges against Property Damage Reserve

Witness	Proffered By		Description
R. J. McMillan	GULF	RJM-2	Change in SCS Billings to Gulf Using Updated Fixed Allocation Factors (based on 2010 Statistics); Justification of Selected Work Orders; Surge Product Impact on Return on Rate Base; Impact on Revenue Request of Moving Surge Products/ AllConnect; O&M Expense 2002-2010; Hiring Lag

Parties and Staff reserve the right to identify additional exhibits for the purpose of cross-examination.

X. PROPOSED STIPULATIONS

As referenced in Section VIII, above, the parties have reached stipulations on several issues. These stipulations fall within one of two categories, as listed below. "Category 1" stipulations reflect the agreement of Gulf, Staff, and at least one of the intervenors in this docket. Intervenors who have not affirmatively agreed with a particular Category 1 stipulation but otherwise take no position on the issue are identified in the proposed stipulation. "Category 2" stipulations reflect the agreement of Gulf and Staff where no other party has taken a position on the issue.

CATEGORY 1 STIPULATIONS:

ISSUE 34: What is the appropriate cost rate for preferred stock for the 2012 projected test year?

Stipulation: The appropriate cost rate for preference stock for the 2012 projected test year is 6.39%.

ISSUE 35: What is the appropriate cost rate for short-term debt for the 2012 projected test year?

Stipulation: The appropriate cost rate for short-term debt for the 2012 projected test year is 0.13%.

ISSUE 36: What is the appropriate cost rate for long-term debt for the 2012 projected test year?

Stipulation: The appropriate cost rate for long-term debt for the 2012 projected test year is 5.26%.

ISSUE 53: Should the costs related to Work Order 466909, associated with a system-wide asset management system, be removed from operating expenses?

Stipulation: The costs associated with a system-wide asset management system related to work order 466909 should have been capitalized, rather than expensed, resulting in a reduction to test year jurisdictional O&M of $343,847 ($344,204 system).

ISSUE 58: Should the costs related to Work Order 49SWCS, related to a customer summit that is only held every other year, be removed from operating expenses?

Stipulation: The costs related to Work Order 49SWCS for a biannual customer summit should be amortized over two years. This results in a reduction to test year jurisdictional O&M of $19,450 ($20,130 system).

ISSUE 68: Should Executive Financial Planning Expenses be included in operating expenses?

Stipulation: Executive Financial Planning Expenses should not be included in operating expenses. In the course of responding to discovery, Gulf identified $48,000 ($48,000 system) of executive financial planning expenses that Gulf agrees need to be removed from operating expenses and consequently reflected in the adjustments to NOI.

ISSUE 100: Should Gulf's proposal to eliminate the Interruptible Standby Service (ISS) rate schedule be approved?

Stipulation: Gulf's proposal to eliminate the Interruptible Standby Service (ISS) rate schedule not be approved. Based on agreement reached with the intervenors, Gulf withdraws its proposal.

ISSUE 103: Should Gulf's new critical peak pricing option for customers taking service on the commercial time-of-use rates GSDT and LPT be approved?

Stipulation: Gulf's new critical peak pricing option for customers taking service on the commercial time-of-use rates GSDT and LPT should be approved with modifications to reflect the following:

Gulf Power agrees to add the following language to Rate Schedules GSDT and LPT in the "Determination of Critical Peak Period" provision in each of these rate schedules.
The total number of critical peak periods may not exceed one per day, and may not exceed four per week. Conditions which may result in the designation of a critical peak period by the Company include, but are not limited to:

i. A temperature forecast for the Company's service area that is above 95°F or below 32°F.
ii. Real-Time-Prices that exceed certain thresholds.
iii. Projections of system peak loads that exceed certain thresholds.

ISSUE 104: Should the minimum kW demand to qualify for the Real Time Pricing (RTP) rate schedule be reduced from 2,000 kW to 500 kW?

Stipulation: The minimum kW demand to qualify for the Real Time Pricing (RTP) rate schedule should be reduced from 2,000 kW to 500 kW. The 2,000 kW applicability threshold has been in place since the initial implementation of Real Time Pricing at Gulf in 1995. More than half the customers who meet the 2,000 kW threshold avail themselves of Real Time Pricing. Gulf's experience, metering and billing abilities, and the diversity of customers indicate it is time to open it up to more and smaller customers. Gulf presently has about 300 to 350 customers who would meet the 500 kW threshold. (OPC and FEA do not affirmatively stipulate this issue but take no position on the issue.)

ISSUE 105: Should the minimum kW demand for new load to qualify for the Commercial/Industrial Service Rider (CISR) be reduced form 1,000 kW to 500 kW?

Stipulation: The minimum kW demand for new load to qualify for the Commercial/Industrial Service Rider (CISR) should be reduced from 1,000 kW to 500 kW. This change is to simplify the minimum size requirement by making the Qualifying Load to be 500 kW in all cases. The current size requirement treats new load and retained load differently. The simplification will make the rate easier for customers to understand and for Gulf to administer. (OPC and FEA do not affirmatively stipulate this issue but take no position on the issue.)

ISSUE 118: Should Gulf be required to file, within 60 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case?

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

CATEGORY 2 STIPULATIONS:

ISSUE 2: Is Gulf's projected test period of the 12 months ending December 31, 2012 appropriate?

Stipulation: Gulf's projected test period of the 12 months ending December 31, 2012 is appropriate.

ISSUE 3: Are Gulf's forecasts of Customers, KWH, and KW by Rate Class and Revenue Class, for the 2012 projected test year appropriate?

Stipulation: Yes. Gulf's forecasts of Customer, KWH, and KW by Rate Class and Revenue Class, for the 2012 projected test year are appropriate. Gulf's econometric models and assumptions relied upon are reasonable and consistent with industry practice for developing its forecasts.

ISSUE 4: Are Gulf's estimated revenues from sales of electricity by rate class at present rates for the projected 2012 test year appropriate?

Stipulation: Gulf's estimated revenues from sales of electricity by rate class at present rates for the projected 2012 test year are appropriate.

ISSUE 5: What are the appropriate inflation, customer growth, and other trend factors for use in forecasting the test year budget?

Stipulation: The appropriate inflation, customer growth and other trend factors for use in forecasting the test year budget are as follows:

a. Inflation:
2011 – 2.1%
2012 – 2.8%

b. Forecasted Composite Wage and Salary Increase Guidelines:
a. Exempt – 2.5%
b. Non-exempt – 2.5%
c. Covered – 2.25%

ISSUE 6: Is Gulf's proposed separation of costs and revenues between the wholesale and retail jurisdictions appropriate?

Stipulation: Gulf's proposed separation of costs and revenues between the wholesale and retail jurisdictions is appropriate. Wholesale allocations are predominantly based upon the 12 MCP methodology with some revenues and expenses allocated upon the energy allocator. These methods are based upon cost causation and are consistent with the methodology used in Gulf's prior rate case and approved by this Commission.

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

Stipulation: The quality and reliability of electric service provided by Gulf is adequate.

ISSUE 15: What amount of Distribution Plant in Service should be included in rate base?

Stipulation: Gulf's requested level of Distribution Plant in Service, $1,029,829,000 ($1,034,325,000 system) should be reduced by $803,000 ($803,000 system) to reflect an error identified by the Company in the course of responding to discovery. The corrected amount of Distribution Plant in Service, $1,029,026,000 ($1,033,522,000 system) is appropriate to be included in rate base.

ISSUE 19: What are the appropriate depreciation parameters and resulting depreciation rate for AMI Meters (Account 370)?

Stipulation: The appropriate depreciation parameter for Gulf's AMI meter depreciation is a 15-year life with 0 percent net salvage. The resulting rate is 6.7%.

ISSUE 20: Should a capital recovery schedule be established for non-AMI meters (Account 370)? If yes, what is the appropriate capital recovery schedule?

Stipulation: An eight-year capital recovery schedule should be established for non-AMI meters (Account 370), modifying the four-year recovery period for the analog meters being retired establish when the Commission approved Gulf's most recent depreciation study in Order No. PSC-10-0458-PSS-EI. Changing the amortization period from 4 to 8 years would result in decreasing the depreciation expense adjustment to NOI by one-half or $886,000 jurisdictional ($886,000 system). The rate base adjustment related to accumulated depreciation would be decreased by $443,000 jurisdictional ($443,000 system). The unrecovered balance to be recovered is $7,088,000.

ISSUE 26: Should any adjustments be made to Gulf's fuel inventories?

Stipulation: Gulf's requested fuel inventory $83,871,000 ($86,804,000 system) should be reduced by $338,174 ($350,000 system) to reflect the necessary adjustment for Scherer In-transit fuel. In addition, consistent with Gulf's response to staff interrogatory 216, the fuel inventory should be reduced by $443,491 ($459,000 system) to reflect the test year gas storage inventory amount based on updated gas prices for 2012. The result of these two adjustments is a total test year fuel inventory amount of $83,089,332 ($85,995,000 system).

ISSUE 43: Has Gulf made the appropriate test year adjustments to remove fuel revenues and fuel expenses recoverable through the Fuel Adjustment Clause?

Stipulation: Gulf has made the appropriate test year adjustments to remove fuel revenues and fuel expenses recoverable through the Fuel Adjustment Clause.

ISSUE 44: Has Gulf made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Conservation Cost Recovery Clause?

Stipulation: As adjusted, Gulf has made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Conservation Cost Recovery Clause. As shown on Mr. McMillan's direct testimony Exhibit RJM-1, Schedule 6, Gulf's ECCR depreciation and property tax adjustments were $352,000 and $146,000, respectively. The ECCR depreciation expense adjustment should be increased to $375,000 and the ECCR property tax expense should be increased to $156,000.

ISSUE 45: Has Gulf made the appropriate test year adjustments to remove capacity revenues and capacity expenses recoverable through the Capacity Cost Recovery Clause?

Stipulation: Gulf has made the appropriate test year adjustments to remove capacity revenues and capacity expenses recoverable through the Capacity Cost Recovery Clause.

ISSUE 46: Has Gulf made the appropriate test year adjustments to remove environmental revenues and environmental expenses recoverable through the Environmental Cost Recovery Clause?

Stipulation: Gulf has made the appropriate test year adjustments to remove environmental revenues and environmental expenses recoverable through the Environmental Cost Recovery Clause. Consistent with the Stipulation entered into by all parties and approved by the Commission on November 1, 2011, the Crist Units 6 and 7 turbine upgrade investments and expenses were removed from the Environmental Cost Recovery Clause and are now being included for recovery in base rates in this proceeding.

ISSUE 65: What is the appropriate amount of advertising expenses for the 2012 projected test year?

Stipulation: The appropriate amount of advertising expenses for the 2012 projected test year is $1,132,000 ($1,132,000 system).

ISSUE 73: What is the appropriate amount of Other Post Employment Benefits Expense for the 2012 projected test year?

Stipulation: The appropriate amount of Other Post Employment Benefits Expense is $3,759,786 ($3,840,710 system).

ISSUE 75: What is the appropriate amount of Pension Expense for the 2012 projected test year?

Stipulation: The appropriate amount of Pension Expense for the 2012 projected test year is $2,676,982 ($2,731,358 system).

ISSUE 78: What is the appropriate amount of accrual for the Injuries & Damages reserve for the 2012 projected test year?

Stipulation: The appropriate amount for the injuries and damages reserve accrual of $1,566,288 jurisdictional ($1,600,000 system) is included in the 2012 projected test year.

ISSUE 85: What is the appropriate amount of Gulf's transmission O&M expense?

Stipulation: The appropriate amount of Gulf's transmission O&M expense is $11,226,000 ($11,609.00 system)

ISSUE 101: Should Gulf's proposal to modify the Residential Variable Pricing (ISS) rate schedule be approved?

Stipulation: Gulf's proposal to modify the Residential Service Variable Pricing (RSVP) rate schedule to use the Energy Conservation Cost Recovery clause to achieve the price differentials among the pricing tiers appropriately complements the program's objectives and should be approved.

ISSUE 102: Should the maximum kW usage level to qualify for the GS rate be increased from 20 kW to 25 kW?

Stipulation: The maximum kW usage level to qualify for the GS rate should be increased from 20 kW to 25 kW. Approximately 12% of the GSD customers have billing demands from 20 kW to 24 kW. These customers generally achieve a demand of 20 to 24 kW one or two times a year, frequently during the winter months, but do not consistently achieve billing demands above 20 kW throughout the year. Under the proposed change, these smaller customers would be eligible for, and have the opportunity to choose, Rate GS, which does not include a demand charge component. Affording these smaller customers the opportunity to choose a non-demand rate should improve customer satisfaction.

ISSUE 116: What is the appropriate minimum monthly bill demand charges under the PX and PXT rate schedules?

Stipulation: The appropriate minimum monthly bill demand charges under the PX and PXT rate schedules are $11.90/KW/month for PX and $11.99/KW/month for PXT. These minimum bill provisions have been developed using the FPSC approved method for determining them. These charges are subject to revision to reflect the impact, if any, of additional adjustments identified in other issues and the final rates established for the PX and PXT rate schedules.

XI. PENDING MOTIONS

There were two pending motions at the time of the Prehearing Conference which have been addressed by separate orders.

XII. PENDING CONFIDENTIALITY MATTERS

The following pending confidentiality matters for Gulf will be addressed by separate orders.[1]

1. Request for confidentiality filed August 30, 2011 relating to response No. 9 of Staff's Third Request for Production of Documents (Nos. 9-10) (DN 06243-11).

2. Request for confidentiality filed September 20, 2011, relating to responses to Staff's Sixth Request for Production of Documents (Nos. 20-23), Staff's Seventh Request for Production of Documents (Nos. 24-34) and Staff's Seventh Set of Interrogatories (Nos. 91-108) (DN 06775-11).

3. Request for confidentiality filed September 29, 2011 relating to response No. 133 of Staff's Tenth Set of Interrogatories (Nos. 120-133) (DN 07065-11).

4. Fourth Motion for Temporary Protective Order filed October 5, 2011 relating to Supplemental Responses to OPC's First Request to Produce Documents (No. 34(a)) (DN 07258-11).

5. Amended Request for confidentiality filed October 14, 2011 relating to Staff's Sixth Request for Production (Nos. 20-23), specifically Nos. 20 and 21; Staff's Seventh Request for Production (Nos. 24-34), specifically Nos. 29, 30 and 33; and Staff's Seventh Set of Interrogatories (Nos. 91-108), specifically No. 98 (DN 07572-11).

[1] On December 7, 2011, the Prehearing Officer issued Order Nos. PSC-11-0557-PCO-EI, PSC-11-0558-PCO-EI, PSC-11-0579-PCO-EI, PSC-11-0560-PCO-EI, and PSC-11-0561-PCO-EI granting the respective Motions for Temporary Protective Order filed by Gulf. In addition, on December 7, 2011, the Prehearing Officer issued Order No. PSC-11-0555-CFO-EI, granting Gulf Power Company's Request for Confidential Classification of Document No. 04723-11.

6. Request for confidentiality filed October 25, 2011 relating to Staff's Audit (ACN-200-1-1) (DN 07856-11).

7. Request for confidentiality filed October 25, 2011 relating to response to Staff's Thirteenth Set of Interrogatories (Nos. 142-162), specifically No. 156 (DN 07967-11).

8. Request for confidentiality filed October 31, 2011 relating to responses to Staff's Thirteenth Request for Production (Nos. 48-50), specifically No. 49 (DN 08018-11). Request for confidentiality filed November 1, 2011 relating to Testimony of OPC witness Kimberly Dismukes (DN 08066-11).

9. Amended First Motion for Temporary Protective order filed November 4, 2011 relating to OPC's First Interrogatories and First Request to Produce Documents (DN 08182-11)

10. Sixth Motion for Temporary Protective order filed November 30, 2011 relating to OPC's Seventh Request to Produce Documents (DN 08694-11).

11. Request for confidentiality filed December 6, 2011 relating to responses to Staff's Twenty-Sixth Interrogatories (Nos. 310-327), specifically No. 320 (DN 08798-11).

XIII. POST-HEARING PROCEDURES

If no bench decision is made, each party shall file a post-hearing statement of issues and positions. A summary of each position of no more than 120 words, set off with asterisks, shall be included in that statement. If a party's position has not changed since the issuance of this Prehearing Order, the post-hearing statement may simply restate the prehearing position; however, if the prehearing position is longer than 120 words, it must be reduced to no more than 120 words. If a party fails to file a post-hearing statement, that party shall have waived all issues and may be dismissed from the proceeding.

Pursuant to Rule 28-106.215, F.A.C., a party's proposed findings of fact and conclusions of law, if any, statement of issues and positions, and brief, shall together total no more than 150 pages and shall be filed at the same time.

XIV. RULINGS

Opening statements, if any, shall not exceed 15 minutes for Gulf Power and 30 minutes combined for the intervenors who shall be responsible for allocating their time amongst themselves.

It is therefore,

ORDERED by Commissioner Lisa Polak Edgar, as Prehearing Officer, that this Prehearing Order shall govern the conduct of these proceedings as set forth above unless modified by the Commission.

By ORDER of Commissioner Lisa Polak Edgar, as Prehearing Officer, this 8th day of December, 2011.

Lisa Polak Edgar

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CMK

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Office of Commission Clerk, in the form prescribed by Rule 25-22.0376, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.