Gulf Power

Robert L. McGee, Jr.
Regulatory & Pricing Manager

One Energy Place
Pensacola, FL 32520-0780
850 444 6530 tel
850 444 6026 fax
rlmcgee@southernco.com

October 12, 2016

VIA ELECTRONIC FILING

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

Re: Petition for an increase in rates by Gulf Power Company, Docket No. 160186-EI

Re: Petition for approval of 2016 depreciation and dismantlement studies, approval of proposed depreciation rates and annual dismantlement accruals and Plant Smith Units 1 and 2 regulatory asset amortization by Gulf Power Company, Docket No. 160170-EI

Dear Ms. Stauffer:

Attached is the Direct Testimony and Exhibit of Gulf Power Company Witness Janet J. Hodnett.

(Document 10 of 29)

Sincerely,

Robert L. McGee, Jr.
Regulatory & Pricing Manager

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 160186-EI

Gulf Power

TESTIMONY AND EXHIBIT

OF

JANET J. HODNETT

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony of
Janet J. Hodnett
Docket No. 160186-EI
In Support of Rate Relief
Date of Filing: October 12, 2016

Q. Please state your name and business address.
A. My name is Jan Hodnett. My business address is One Energy Place, Pensacola, Florida, 32520.

Q. By whom are you employed?
A. I am employed by Gulf Power Company (Gulf or the Company). I serve as Gulf's Comptroller.

Q. What are your responsibilities as Gulf's Comptroller?
A. I am responsible for the financial and regulatory accounting functions of the Company. My duties include maintaining Gulf's corporate accounting records in accordance with U.S. generally accepted accounting principles (GAAP) and in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission (FERC) and adopted by the Florida Public Service Commission (FPSC or Commission). I have responsibility for the preparation of Gulf's financial statements and various financial reports required by the U.S. Securities and Exchange Commission, the FERC and the FPSC.

Q. Please state your prior work experience and responsibilities.

A. I began my career at Southern Company in 1980 at Gulf Power as an accountant. Since then, I have taken on roles of increasing responsibility, including Manager of Financial Accounting and Reporting for Georgia Power and Accounting Director and Assistant Comptroller for Southern Company Services, where I was responsible for Accounting Policy and Research and later SEC Reporting. I was named to my current role, Comptroller of Gulf, in June 2014.

Q. What is your educational background and professional certification?

A. I graduated from the University of West Florida in 1980 with a Bachelor of Accountancy degree and in 1987 with a Master of Business Administration. I am a licensed Certified Public Accountant and a member of the American Institute of Certified Public Accountants and the Florida Institute of Certified Public Accountants.

Q. What is the purpose of your testimony?

A. My testimony (a) sets forth and supports Gulf's 2017 Operations & Maintenance (O&M) expense budget within the Administrative & General (A&G) function, (b) justifies Gulf's 2017 A&G benchmark variance for O&M expenses, (c) supports the need to increase Gulf's annual property damage accrual for the property damage reserve, (d) addresses the appropriate level of rate case expense and Directors and Officers (D&O) liability insurance expense that should be allowed, (e) supports the changes in depreciation and dismantlement expense and the disposition of the Other

Cost of Removal regulatory asset in the test year, (f) explains the costs from Southern Company Services and other affiliate transactions, and (g) discusses income tax expense included in the test year.

Q. Are you relying on any independent studies performed in the regular course of business?

A. Yes. Third party studies performed by recognized experts are commonly used and relied upon by accounting experts to make accounting judgments. I am relying on the results of a Depreciation Study prepared by Gulf Witness Watson, who is employed by Alliance Consulting; a Dismantlement Study prepared by Southern Company Services; and the Transmission and Distribution Hurricane Loss and Reserve Performance Analyses (Storm Study) prepared by Gulf Witness Harris, who is employed by CoreLogic.

These studies were commissioned by Gulf in order to fulfill its obligations under mandates of the Commission. Commission Order No. PSC-13-0670-S-EI, Docket No. 130140-EI approving Gulf's Stipulation and Settlement Agreement (2013 Settlement Agreement or Settlement) stated that the Company shall file depreciation and dismantlement studies on or before December 31, 2018 or within a period not more than one year nor less than 60 days before Gulf's next general rate proceeding, whichever is sooner. Commission Rule 25-6.0143 requires Gulf to file a Storm Damage Self-Insurance Reserve Study at least once every five years.

Q. Are you sponsoring any exhibits?
A. Yes. I am sponsoring Exhibit JJH-1, Schedules 1 through 6. Exhibit JJH-1 was prepared under my direction and control, and the information contained therein is true and correct to the best of my knowledge and belief.

Q. Are you sponsoring any of the Minimum Filing Requirements (MFRs) filed by Gulf?
A. Yes. The MFRs that I sponsor or co-sponsor are listed on Schedule 1 of Exhibit JJH-1. The information contained in the MFRs I sponsor or co-sponsor is true and correct to the best of my knowledge and belief.

Q. How are the Company's accounting records maintained?
A. Gulf maintains its books and records in accordance with GAAP and the rules and regulations prescribed for public utilities in the Uniform System of Accounts published by the FERC and adopted by the FPSC.

I. ADMINISTRATIVE AND GENERAL EXPENSES

Q. What is Gulf's A&G O&M expense budget for the 2017 test year?
A. Gulf projects an O&M expense level for the A&G function of $89,348,000 in the test year.

Q. Is Gulf's projected level of A&G expenses of $89,348,000 in 2017 reasonable and prudent?

A. Yes. The projected level of A&G expenses is both reasonable and prudent. Gulf's 2017 A&G expenses are based on the extensive budget preparation and review process that each planning unit follows as discussed by Gulf Witness Mason. This process ensures that every item included in the budget is based upon the most accurate and up-to-date assumptions and reflects the reasonable needs of each unit to fulfill its business function.

The A&G expense budget consists of a wide range of corporate expenses that are not associated with any particular operating function. There are a number of planning units within the A&G function. Some of these include Accounting, Finance, Treasury, Human Resources, Information Technology, External Affairs, Supply Chain, and Corporate Services. Each planning unit within the A&G function is responsible for developing budgets for employees as well as office supplies and expenses within its unit. The remaining A&G expenses (insurance, employee benefits, and other miscellaneous expenses) are budgeted at a corporate level using the latest assumptions for the projected period.

Q. Is Gulf's projected level of A&G expenses of $89,348,000 in 2017 representative of a going forward level of A&G expense beyond 2017?

A. As noted above and discussed by Mr. Mason, the Company's budget process is very thorough, and O&M projections are prepared at a detailed level for a five year period. Schedule 2 of Exhibit JJH-1 compares total

A&G expenses, including the net operating income (NOI) adjustments, for the 2017 test year with the projections for the three years 2018 through 2020. A&G expenses identified in the budget process for 2017 are lower than projected A&G expenses for the years 2018 through 2020.

Q. How does Gulf's 2017 A&G expense forecast compare to the A&G expense benchmark calculation historically employed by the Commission?

A. The A&G benchmark is $84,154,000. This calculation is described in Gulf Witness Ritenour's testimony. Gulf's projected 2017 A&G expenses are $89,348,000. These A&G expenses exceed the A&G benchmark by $5,194,000. These values are shown on Exhibit JJH-1, Schedule 3.

Q. What is the driver of this $5,194,000 benchmark variance?

A. There are two primary drivers. The first driver is the requested increase in the annual accrual to the property damage reserve. In Section II of my testimony, I provide justification for the annual property damage reserve accrual increase to $8,900,000.

The second driver is the rededication of a portion of Plant Scherer Unit 3 to serve native load customers. No A&G expenses associated with Scherer Unit 3 were reflected in the 2012 allowed O&M expenses in Gulf’s 2012 test year rate case as Scherer Unit 3 was devoted to wholesale sales. However, in the 2017 test year, a portion of Scherer Unit 3 has been rededicated to native load customers, so the A&G expenses associated with the portion of Scherer Unit 3 not currently committed to off-system sales are included in the test year. A&G expenses associated with the rededicated portion of Scherer Unit 3 in 2017 are $1,875,000.

II. PROPERTY DAMAGE ACCRUAL & RESERVE

Q. What is the property damage reserve designed to cover?

A. Per Commission Rule 25-6.0143, this account is established to provide for losses caused by accident, fire, flood, storms and similar type hazards to the utility's own property or property leased from others, which are not covered by insurance. This account would also include provisions for the deductible amounts contained in property loss insurance policies held by the utility.

Q. How does this reserve benefit Gulf's customers?

A. Building an adequate reserve over time helps reduce the risk that our customers may be required to pay a surcharge, or minimizes the amount of any surcharges to customers, at a time when our customers may be dealing with personal losses to their own property. Also, since the property damage reserve is partially funded, it helps ensure that Gulf has the financial resources when needed to quickly restore our customers' power after a severe weather event or accident, since existing financial resources are also used to support normal operations.

Q. Is the current reserve amount of $39,500,000 as of August 31, 2016, adequate?

A. No. Even with five years of virtually no hurricane related losses hitting the reserve, the reserve is approximately $8,000,000 below the bottom of the current target reserve range of $48 to $55 million set by the Commission in Gulf's 2012 test year rate case. If Gulf is to achieve the reserve balance the Commission previously determined five years ago was necessary to protect Gulf's customers, then the annual accrual has to be increased.

Q. Why has the Company been unable to achieve the current target reserve range set by the Commission?

A. Since 2011, the Company has recorded approximately $5.8 million in non-hurricane losses to the reserve. As shown in Exhibit JJH-1, Schedule 4, these events have included losses due to flooding, tropical storms, tornadoes and thunderstorms. In addition, the annual accrual to the reserve has not been increased since 1996.

As stated by the Commission in Order No. PSC-12-0179-FOF-EI, issued on April 3, 2012 in Docket No. 110138-EI, the target reserves need to be sufficient to cover most but not all storms, and also an additional amount for other property damage occurrences such as fires or other natural occurrences. At the current accrual rate, the Company would have to go three years with no charges to the property damage reserve to even reach the bottom of the current target reserve range set by the Commission.

Q. If the annual accrual established in 1996 was adjusted for CPI and customer growth, what would that accrual become in 2017?

A. The current annual accrual of $3,500,000 was set in 1996, 20 years ago, and has not been adjusted for the increase in property replacement values. If the accrual amount set in 1996 was adjusted for CPI and customer growth, it would now be approximately $7,711,000, more than double the current annual accrual.

Q. In Gulf's 2012 test year rate case, the Commission stated that no pressing need had been identified to warrant an increase in the accrual at that time, but the Commission also stated that if circumstances changed, it would be appropriate to revisit the decision in a future proceeding. What circumstances have changed that warrant the Commission revisiting the annual property damage accrual?

A. Several things have occurred that justify increasing the annual accrual:

- The replacement value of uninsured overhead distribution and transmission (T&D) assets included in storm studies has grown from $1.6 billion in Gulf's 2011 Storm Study to $2.3 billion in the 2016 Storm Study, a 43 percent increase in uninsured property replacement value.
- The replacement value of T&D assets in the 2016 Storm Study is based on plant-in-service balances as of year-end 2014. The study does not include net T&D investment of $247 million that has been placed in service in 2015 and 2016.
- The Company has charged approximately $5.8 million to the property damage reserve since 2011 for non-hurricane property losses.

Q. Are there other factors that should be considered?

A. Yes. The Company's deductible levels for damage to insured property are $25 million for wind, wind driven rain and storm surge caused by "Named Windstorm", and $10 million for other insured property damage occurrences. These large deductibles are charged against the reserve for Company owned property that is insured from property loss.

Q. By what amount is Gulf requesting an increase in the annual property damage accrual in this case?

A. To help ensure the Company builds an adequate reserve, Gulf has included a property damage accrual of $8,900,000 in the 2017 test year. This results in an NOI adjustment of $5,400,000 for the test year as discussed in Ms. Ritenour's testimony.

Q. Please explain the increase over the current approved annual accrual amount.

A. The annual accrual of $8,900,000 is based on the expected average annual hurricane loss (EAD) charged to the reserve of $7,900,000 and an additional annual amount of $1,000,000 for non-hurricane property losses. The $7,900,000 is based on Gulf's 2016 Storm Study filed with the Commission. As shown on Exhibit JJH-1, Schedule 4, the $1,000,000 is based on an annual average of non-hurricane property damage losses since Gulf's 2012 test year rate case, which is when the Commission acknowledged that charges are made against the reserve for items other than storms.

Q. Please explain why customers today should pay to build an adequate reserve that would be used in the future?

A. In addition to the customer benefits I discussed previously, commercial insurance is not cost beneficial to cover T&D assets, and therefore the Company is self-insured for T&D property losses.

No customer or group of customers receiving service at the time of the loss should be burdened with all the costs of a hurricane or other property loss event. Previous customers should have paid their share of the loss, because the risk was there every year. Protecting against losses that we know will occur but which we cannot predict with precision as to exact time is simply a cost of providing electric service that all customers should pay regardless of whether they have the misfortune of experiencing a hurricane, tornado, flood or other property loss event.

Q. How would Gulf's requested $5,400,000 increase in the annual accrual to the property damage reserve affect a residential customer?

A. It would increase a residential bill by $0.49 for customers using 1,000 kWh per month. More importantly, it protects our customers in the event of a property damage event by a) assuring funds are immediately available for restoration of service and b) helping to reduce any negative impact a property damage event may have on the financial integrity of the Company if the Company is required to access the debt and capital markets for restoration of service to our customers.

III. RATE CASE EXPENSE

Q. Please explain how the estimated rate case expense for the 2017 test year rate case was calculated.

A. Gulf's recent rate case experience shows that the cost of a rate case continues to increase due to more discovery and new topics as part of a rate case. To address these additional demands, Gulf anticipates incurring more expense for discovery, incremental labor resources, additional outside consulting and legal fees.

The Company estimates rate case expense for its 2017 test year rate case to be $6,700,000. This amount was calculated by taking the actual rate case expense incurred in Gulf's 2014 test year rate case, $4,100,000, and adding an additional amount for attorney resources and hearings, which were not held in Gulf’s 2014 test year rate case.

The increased rate case expense results in a NOI adjustment of $1,673,000 in the 2017 test year. This NOI adjustment is discussed in Ms. Ritenour's testimony.

IV. DIRECTORS AND OFFICERS LIABILITY INSURANCE

Q. Should the Commission allow the Company's test year expense for Directors and Officers (D&O) liability insurance?

A. Yes. The $119,000 premium paid by Gulf for D&O liability insurance directly benefits customers and is a necessary and reasonable expense for the Company to do business.

Q. How do customers benefit from D&O liability insurance?

A. Gulf must have competent and skilled directors and officers to lead it. Our customers benefit from the proper oversight and management provided by our directors and officers. These individuals would be difficult to attract and retain if the Company did not maintain D&O liability insurance. Additionally, D&O liability insurance helps protect the assets of the Company, which are used to serve Gulf's customers. D&O liability insurance is a legitimate and necessary cost of providing service to our customers.

Q. Please provide a brief summary of the Commission's approach in Gulf's 2012 test year rate case related to D&O liability insurance.

A. In Gulf's 2012 test year rate case, the Commission agreed with Gulf that D&O liability insurance is prudent and necessary for a publicly held company to have, and that it ensures the Company will be able to attract and retain skilled leadership. However, the Commission felt that both shareholders and customers receive benefits from D&O liability insurance and the associated cost should be shared equally between the shareholders and the customers.

Q. Does Gulf's request for $119,000 of D&O liability premiums include premiums related to protection of Southern Company shareholders?

A. No. D&O liability premiums are negotiated at a Southern Company level, which helps ensure the best possible premium cost for D&O liability coverage. The premiums are then allocated to Southern Company and the subsidiary companies. Southern allocates approximately 48 percent of the premiums to Southern Company as a cost to the shareholders. The remaining 52 percent of the premiums are allocated to the subsidiary companies, which includes Gulf. The $119,000 in Gulf's test year represents the premiums allocated to Gulf D&O liability coverage only for Gulf's Directors and Officers, which benefit Gulf's customers.

Q. Do Gulf customers benefit from allowing Southern Company to negotiate D&O liability premiums at a Southern Company level versus Gulf obtaining a stand-alone D&O liability insurance policy?

A. Yes. If Gulf had to procure its own D&O liability insurance policy, a stand-alone policy is estimated to cost approximately $600,000 annually based on the asset size of Gulf and the level of coverage normally requested for companies the size of Gulf. Therefore, the entire requested amount of $119,000 should be allowed as a 2017 test year expense.

V. DEPRECIATION

Q. What is the basis for Gulf's depreciation expense in 2017?

A. Gulf's depreciation expense reflects the depreciation rates approved by the Commission in Order No. PSC-10-0458-PAA-EI, issued on July 19, 2010 in Docket No. 090319-EI; the depreciation rate for the Perdido Landfill Facility approved by the Commission in Order No. PSC-10-0674- PAA-El, issued on November 9, 2010 in Docket No. 100368-EI; and the depreciation rate for the Advanced Metering Infrastructure meters approved by the Commission in Order No. PSC-12-0179-FOF-EI, issued on April 3, 2012 in Docket No. 110138-EI. In accordance with Gulf’s 2013 Settlement Agreement in Docket No. 130140-EI, Gulf filed a new depreciation study with the Commission on July 14, 2016 and a corrected study (the Depreciation Study) on September 20, 2016. The Depreciation Study is sponsored by Gulf Witness Watson as Exhibit DAW-1, and the Company has made a NOI adjustment of $12,479,000 to the 2017 test year to reflect an increase in depreciation expense based on the results of the Depreciation Study. The proposed increase is primarily due to additional investment, interim retirements and interim net salvage estimates. A reconciliation of total depreciation expense in Gulf's 2017 test year to the calculated expense based on the proposed rates in Gulf's Depreciation Study can be found on Exhibit JJH-1, Schedule 5.

Q. What is the basis for the plant balances used in Gulf's Depreciation Study?
A. The Depreciation Study's analysis is based on projected plant and reserve balances as of December 31, 2016. The results of these analyses are then applied to estimated balances through the end of 2017. The composite depreciation rates, which are based on the Depreciation Study, are used to calculate the Company adjustment to the 2017 test year. Further assumptions and details of the Depreciation Study are discussed in Mr. Watson's testimony.

Q. Has the Commission approved Gulf's 2016 Depreciation Study?
A. Not at this time. The Company asks that the final outcome of the FPSC's review and approval of the Depreciation Study be reflected in the 2017 test year expenses used as the basis for setting rates in this docket.

Q. What should be the effective date of the proposed rates in Gulf’s 2016 Depreciation Study?
A. The Company asks that the effective date of the proposed rates in the Depreciation Study coincide with the effective date of base rates set in this docket.

Q. Is Gulf requesting authority for any depreciation rates that are not included in Gulf’s 2016 Depreciation Study?
A. Yes. As addressed by Gulf Witness Terry, to meet needs expressed by customers who have an interest in electric vehicles, Gulf is seeking a depreciation rate for electric vehicle chargers to allow us to purchase, install

and support these devices at customers' locations, behind their electric service meter. Gulf is requesting authority to use a 15 year life for electric vehicle charging infrastructure and a net salvage of 0 percent for electric vehicle charging infrastructure charged to FERC account 371.

Q. What is the basis for requesting a 15 year service life for electric vehicle charging infrastructure?

A. Electric vehicle charging infrastructure is a relatively new equipment type. Depreciable life recommendations from manufactures vary. Gulf assumes a 15 year life based upon a reasonable range derived from manufacturers' recommendations and industry studies. Because this equipment is relatively new, Gulf is not aware of any industry consensus on the useful life of these assets.

Q. Why was this requested rate not included in the 2016 Depreciation Study?

A. The 2016 Depreciation Study is based on projected plant and reserve balances as of December 31, 2016. There was no investment in electric vehicle charging infrastructure at the end of 2016.

Q. When does the Company expect to have investment in electric vehicle charging infrastructure?

A. The Company expects to spend approximately $417,000 for electric vehicle charging infrastructure in 2017.

VI. DISMANTLEMENT

Q. What is the basis for Gulf's dismantlement expense in 2017?

A. Gulf's dismantlement expense reflects the dismantlement amounts approved by the Commission in Order No. PSC-10-0458-PAA-EI, issued on July 19, 2010 in Docket No. 090319-EI. In accordance with Gulf's 2013 Settlement Agreement in Docket No. 130140-EI, Gulf filed a new dismantlement study with the Commission on July 14, 2016. The Dismantlement Study is Exhibit JJH-1, Schedule 6, and the Company has made a NOI adjustment of $5,188,000 to the 2017 test year (which reduces the annual dismantlement accrual in base rates to zero) to reflect a decrease in dismantlement expense based on the results of the Dismantlement Study. A reconciliation of total dismantlement expense in Gulf's 2017 test year to the calculated expense based on the proposed rates in Gulf's 2017 Dismantlement Study can be found on Exhibit JJH-1, Schedule 5.

Q. Please describe any adjustments to Gulf's accumulated dismantlement reserves as a result of Gulf's 2016 Dismantlement Study.

A. As discussed in Gulf's 2016 Dismantlement Study filing, the Company's Dismantlement Study showed a base rate surplus in accumulated dismantlement reserves.

As part of the Company's 2013 Settlement Agreement, the Commission gave Gulf the authority to record retail jurisdictional credits to depreciation expense of up to $62.5 million over the life of the Agreement with an offsetting entry to a regulatory asset referred to as Other Cost of Removal. Over the course of the Settlement period, Gulf will have recorded $62.5 million to this regulatory asset account. It was the intent of the parties involved in the Settlement that the Other Cost of Removal regulatory asset be considered and accounted for in conjunction with the accumulated aggregate balances in the reserve for cost of removal and the reserve for fossil generating plant dismantlement when the Commission next established depreciation rates and dismantlement accruals on a going-forward basis.

In accordance with the Settlement, Gulf offset the $62,500,000 Other Cost of Removal regulatory asset against the reserve accumulated for fossil generating plant dismantlement, thereby eliminating the Other Cost of Removal regulatory asset and reducing the accumulated reserve for fossil-fired generating plant dismantlement of base rate assets by the same amount.

Q. Has the FPSC approved Gulf's 2016 Dismantlement Study?

A. Not at this time. The study results are based on Gulf's projected plant in service and incorporate the latest disposal, removal and salvage pricing. The Company asks that the final outcome of the FPSC's review and approval of the Dismantlement Study be reflected in the 2017 test year expenses used as the basis for setting rates in this docket.

Q. What should be the effective date of the proposed annual accruals in Gulf's 2016 Dismantlement Study?

A. The Company asks that the effective date of the proposed rates in the Dismantlement Study coincide with the effective date of base rates set in this docket.

Q. What is the net effect of the depreciation and dismantlement studies?

A. Gulf's combined annual expense for depreciation and dismantlement would increase by $7,291,000 based on the proposed change in depreciation rates and the annual dismantlement accrual amounts. This net adjustment is shown on Schedule 4, page 3 of Ms. Ritenour's testimony.

VII. SOUTHERN COMPANY SERVICES

Q. Please provide an overview of SCS and its relationship to Gulf.

A. SCS is a subsidiary of Southern Company that provides various services to Gulf and the other subsidiaries of Southern Company. Gulf receives many professional and technical services from SCS, such as general and design engineering for transmission and generation; system operations for the generating fleet and transmission grid; and various corporate services and support in areas such as accounting, supply chain management, finance, treasury, human resources, information technology, and wireless communications.

All services provided to Gulf by SCS are provided at cost with no profit mark-up. Costs to Gulf from SCS are determined and billed in two ways. When direct assignment of a cost is possible, SCS bills Gulf for the cost of the particular service rendered. Where direct assignment is not possible, costs are allocated among the subsidiaries receiving services based on a pre-approved cost allocator appropriate for the type of services performed. Typical allocators include employees, customers, loads, generating plant capacity, and financial factors. The methodology for developing the allocators is the same methodology used by Gulf and accepted by the Commission in Gulf's 2012 test year rate case. The allocators are approved by SCS and by management of the applicable operating companies and are updated annually based on objective historical information.

Q. How often are the service company allocation factors updated?

A. The allocation factors are typically recalculated once a year based upon the prior year's actual data, and the updated factors are used to develop the budget amounts and subsequently to bill the actual costs for the following year. For example, the 2016 budget allocators used in this case were updated in 2015 based upon the 2014 actual data.

Q. What benefits does Gulf enjoy by obtaining services from SCS?

A. Gulf and its customers receive several benefits. The existence of SCS facilitates the economic dispatch and sharing of generation resources, avoids duplication of personnel in the various operating companies due to the provision of numerous services to the operating companies, provides economies of scale in purchasing (such as bulk purchasing leverage) and other activities, and enables Gulf to draw on shared experience from a centralized pool of professional talent. As one of the smaller operating companies, access to these shared resources is particularly valuable to Gulf, which otherwise would have to employ additional professional and technical personnel who might not be fully utilized on a continuous basis. The benefits received by Gulf include, but are not limited to, the following: SCS administers the Intercompany Interchange Contract and coordinates the economic dispatch of the Southern System generating resources to minimize the energy costs to our customers; SCS negotiates system-wide purchase agreements with vendors to maximize volume procurement savings for our customers; Gulf utilizes SCS engineering for the planning, design, and project management related to large generation and transmission projects; SCS prepares Gulf's dismantlement study and SCS manages the centralized filing of income tax returns and provides review, instructions and guidance to the subsidiaries to ensure compliance with IRS regulations and requirements.

All these services are provided to Gulf at cost. If Gulf used third party providers to provide these services, such providers would charge more than their cost to derive a profit on the provision of their services. Using SCS for these services avoids that additional payment. Similarly, if Gulf had to add in-house employees to provide these services, its overall employee count would escalate, and Gulf would have to incur additional compensation and benefits that are currently shared by multiple Operating Companies. This cost sharing arrangement reduces the overall cost of providing service to Gulf's customers.

Q. Are there other affiliate transactions included in your test year amounts?

A. Yes. As noted in MFR C-30, Gulf has included other utility related transactions with Southern Company affiliates. All affiliate transactions are for utility services such as production plant joint ownership billings, transmission facility services, material transfers, and storm restoration assistance. These transactions benefit our customers by enabling Gulf to receive needed materials and services at cost from the other affiliates and they are accounted for in accordance with Rule 25-6.1351, Florida Administrative Code.

VIII. OTHER NOI ADJUSTMENTS

Q. Are there any NOI adjustments in your area of responsibility besides the ones you have previously discussed in your testimony?

A. Yes. To correct an error in the calculation of the amount of miscellaneous service revenues included in the test year, an NOI adjustment was made to increase the amount of miscellaneous service revenues in the test year by $1,184,000.

IX. INCOME TAX EXPENSE

Q. What amount of income tax expense is included for the 2017 test year?
A. The total federal and state income tax provision for the test year is $69,375,000 as shown on MFR C-22.

Q. How was this amount calculated?
A. The income tax expense was calculated in accordance with GAAP and is consistent with the way income tax expense was calculated and approved by the Commission in the 2012 test year rate case.

X. SUMMARY

Q. Please summarize your testimony.
A. The level of A&G costs requested in this case is reasonable, prudent and necessary to enable Gulf to continue to provide high quality, reliable electric service to our customers. Although the costs exceed the O&M benchmark, the variance is fully justified by a necessary increase in the property damage reserve accrual designed to protect customers when they are most vulnerable and the rededication of a portion of Scherer Unit 3 to serve native load customers.

Gulf's requested property damage accrual is an appropriate amount that serves the interests of our customers in accordance with established

Commission policy. The property damage reserve accrual needs to be increased to protect customers by achieving the existing target reserve range, mitigating potential storm surcharges and providing funds for immediate restoration activities.

Also, I have justified why the requested amounts of rate case expense and D&O liability insurance expense should be allowed.
The requested levels of depreciation, amortization and dismantlement expense are reasonable, prudent and necessary. The other cost of removal regulatory asset has been applied to reduce the surplus in the existing dismantlement reserve.

I have explained the costs from Southern Company Services and other affiliate transactions and the test year income tax expense has been calculated appropriately.

Q. Does this conclude your testimony?
A. Yes.

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 160186-EI

Before me the undersigned authority, personally appeared Janet J. Hodnett, who being first duly sworn, deposes, and says that she is the Comptroller of Gulf Power Company, a Florida corporation, and that the foregoing is true and correct to the best of her knowledge, information, and belief. She is personally known to me.

s/ Janet J Hodnett
Janet J. Hodnett
Comptroller

Sworn to and subscribed before me this 5th day of October, 2016.

Melissa Darnes
Notary Public, State of Florida at Large

Commission No. FF912698

My Commission Expires December 17, 2019

NOTARY PUBLIC STATE OF FLORIDA
MELISSA DARNES
MY COMMISSION # FF 912698
EXPIRES: December 17, 2019
Bonded Thru Budget Notary Services

Exhibit

Responsibility for Minimum Filing Requirements

Schedule	Title
B-4	Two Year Historical Balance Sheet
B-21	Accumulated Provision Accounts - 228.1, 228.2 and 228.4
B-22	Total Accumulated Deferred Income Taxes
B-23	Investment Tax Credits-Annual Analysis
B-24	Leasing Arrangements
B-25	Accounting Policy Changes Affecting Rate Base
C-6	Budgeted Versus Actual Operating Revenues and Expenses
C-8	Detail of Changes in Expenses
C-9	Five Year Analysis - Change in Cost
C-10	Detail of Rate Case Expenses for Outside Consultants
C-12	Administrative Expenses
C-13	Miscellaneous General Expenses
C-15	Industry Association Dues
C-16	Outside Professional Services
C-17	Pension Cost
C-18	Lobbying Expenses, Other Political Expenses and Civic/Charitable Contributions
C-19	Amortization/Recovery Schedule – 12 Months

Responsibility for Minimum Filing Requirements

Schedule	Title
C-20	Taxes Other than Income Taxes
C-21	Revenue Taxes
C-22	State and Federal Income Tax Calculation
C-25	Deferred Tax Adjustment
C-26	Income Tax Returns
C-27	Consolidated Tax Information
C-28	Miscellaneous Tax Information
C-29	Gains and Losses on Disposition of Plant or Property
C-30	Transactions with Affiliated Companies
C-31	Affiliated Company Relationships
C-41	O&M Benchmark Variance by Function
C-43	Security Costs
F-1	Annual and Quarterly Reports to Shareholders
F-2	SEC Reports
F-8	Assumptions

Florida Public Service Commission
Docket No. 160186-EI
GULF POWER COMPANY
Witness: Janet J. Hodnett
Exhibit No. ____ (JJH-1)
Schedule 2
Page 1 of 1

A&G Budgeted Expenses
($000s)

FERC Account	Description	2016	2017	2018	2019	2020
920	Administrative and General Salaries	19,059	19,918	20,445	20,835	21,524
921	Office Supplies and Expenses	4,016	4,006	4,178	4,273	4,165
922	Administrative Expenses Transferred - Credit	(380)	(396)	(405)	(421)	(433)
923	Outside Services Employed	18,801	19,586	19,687	20,246	20,644
924	Property Insurance	7,621	13,605	13,696	13,737	13,743
925	Injuries and Damages	3,156	3,241	3,269	3,326	3,339
926	Employee Pension and Benefits	19,238	16,999	17,092	17,698	18,142
928	Regulatory Commission Expenses	3,848	3,099	3,152	3,208	3,266
929	Duplicate Charges - Credit	(859)	(933)	(958)	(995)	(1,024)
930	General Advertising/Miscellaneous General Expenses	12,054	9,246	9,189	9,389	9,403
931	Rents	229	237	241	250	256
935	Maintenance of General Plant	729	740	755	772	786
	Total	**87,512**	**89,348**	**90,341**	**92,318**	**93,811**

Years 2016 - 2020 include NOI adjustments discussed in Ms. Ritenour's testimony.

A&G – Benchmark Variance

	($000)
Test Year Adjusted Benchmark	84,154
Test Year Adjusted Request	89,348
System Benchmark Variance	5,194

Description	Variance
Property Damage Accrual	4,892
Plant Scherer Expenses	1,875
	6,767

Non-Hurricane Charges to the Property Damage Reserve
2011 – August 2016 (in nominal dollars)

Events	Charges ($000)
Flood	$ 2,741
Tornadoes	889
Winter Storm	1,116
Tropical Storms & Thunderstorms	1,087
	5,833
Number of Years	5.67
Annual Average from 2011 – August 2016	$ 1,029

Depreciation and Dismantlement
($000s)

Function	**Base Rate Expense Net of UPS**	**Proposed Base Rates Expense Net of UPS**	**2017 NOI Adjustment**
Depreciation			
Steam[A]	$ 29,719	$ 34,643	$ 4,924
Other Production	10,542	15,557	5,015
Transmission[A]	19,289	23,146	3,857
Distribution	45,512	44,496	(1,016)
General	7,663	7,362	(301)
Intangible	2,528	2,528	-
Total Depreciation	$ 115,253	$ 127,732	$ 12,479
Dismantlement			
Steam[A]	4,887	-	(4,887)
Other Production	301	-	(301)
Total Dismantlement	$ 5,188	$ -	$ (5,188)
Total Depreciation and Dismantlement	**$ 120,441**	**$ 127,732** [B]	**$ 7,291**

[A] Assumes 76% of the non-clause portion of Gulf's ownership in Plant Scherer Unit 3 is in base rates.
[B] The amount does not equal depreciation and amortization on MFR C-1, as it does not include amortization related to regulatory assets.

Gulf Power's 2016 Dismantlement Study was filed on July 14, 2016 in Docket No. 160170-EI and is incorporated by reference.