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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 Susan D. Ritenour.

(Document 16 of 29)

Sincerely,

Robert L. McGee, Jr.

Robert L. McGee, Jr.
Regulatory & Pricing Manager

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 160186-EI

TESTIMONY AND EXHIBIT

OF

SUSAN D. RITENOUR

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony of
Susan D. Ritenour
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 Susan Ritenour. 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) as Corporate Secretary, Treasurer and Corporate Planning Manager.

Q. What are your responsibilities as Gulf's Corporate Secretary, Treasurer and Corporate Planning Manager?

A. I am responsible for Gulf's overall planning and budgeting process and the resulting financial forecast. This includes the ongoing development and maintenance of the Operations and Maintenance (O&M) and Capital Additions Budgeting Systems and other financial forecasting models and projections. The Corporate Planning Department also provides decision support and financial analyses for Gulf's management and business units. In addition, I am responsible for various treasury and corporate secretary activities.

Q. Please describe your educational and professional background.

A. I graduated from Wake Forest University in Winston-Salem, North Carolina in 1981 with a Bachelor of Science Degree in Business and from the University of West Florida in 1982 with a Bachelor of Arts Degree in Accounting. I am also a Certified Public Accountant licensed in the State of Florida. I joined Gulf in 1983 as a Financial Analyst and have held various positions of increasing responsibility, including Computer Modeling Analyst, Senior Financial Analyst, Supervisor of Rate Services, and Assistant Secretary and Assistant Treasurer. Prior to assuming my current responsibilities in September 2012, I held the position of Secretary and Treasurer and Regulatory Manager since September 2003.

Q. What is the purpose of your testimony?

A. Using the financial forecast discussed by Gulf Witness Mason and the jurisdictional factors from the cost-of-service study discussed by Gulf Witness O'Sheasy, I develop the test year jurisdictional adjusted rate base, net operating income and capital structure, and calculate the resulting retail base rate revenue deficiency, which the Company has identified in this filing. My testimony supports the calculation of certain adjustments to the rate base and net operating income, including a hiring lag adjustment, adjustments to reflect the amortization of the remaining investment in Plants Smith and Scholz, and adjustments necessary to reflect the amortization of the deferred return on certain transmission capital projects. I also present and support Gulf's O&M Expense Benchmark calculations and the General Plant capital additions budget and investment. Finally, I support the calculations of the amounts associated with off-system sales made from Gulf's ownership portion of Plant Scherer Unit 3 (Scherer 3).

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exhibit SDR-1, Schedules 1 through 24. Exhibit SDR-1 was prepared under my supervision and direction, and the information contained in the exhibit is true and correct to the best of my knowledge and belief.

Q. Are you also sponsoring any of the Minimum Filing Requirements (MFRs) filed by Gulf?

A. Yes. The MFRs that I sponsor in their entirety and that I jointly sponsor are listed on Schedule 1 of Exhibit SDR-1. To the best of my knowledge and belief, all of the information presented in the MFRs that I sponsor or co-sponsor is true and correct.

I. RATE BASE

Q. Have you prepared a schedule which shows the derivation of rate base?

A. Yes. Exhibit SDR-1, Schedule 2, entitled "13-Month Average Rate Base for the Period Ended December 31, 2017," reflects Gulf's test year rate base. Column 1 is calculated based on the budget data presented on Schedules 7 and 9 of Mr. Mason's Exhibit JJM-1. The second column includes the regulatory adjustments required in order to restate the system, or per books, amounts to the proper basis for computing base rate revenue requirements. The third column reflects amounts associated with the portion of Scherer 3 investment that is committed to off-system sales. I will discuss the calculation of these amounts later in my testimony. The resulting net amounts in column 4 have been jurisdictionalized in the cost-of-service study filed in this case by Mr. O'Sheasy in Exhibit MTO-2.

Q. Have you made the proper adjustments to remove the investment related to the cost recovery clauses from rate base?

A. Yes. These and other rate base adjustments are listed on page 2 of Schedule 2 of Exhibit SDR-1. Adjustments 1, 2, 8, 9 and 19 are to remove the plant-in-service, accumulated depreciation, and non-interest bearing construction work in progress (CWIP-NIB) being recovered through the Environmental Cost Recovery Clause (ECRC) and the Energy Conservation Cost Recovery (ECCR) Clause. I have also removed the working capital recovered through the ECRC and ECCR Clauses in adjustment 23 as shown on Exhibit SDR-1, Schedule 3. The investments that are being recovered through the adjustment clauses must be excluded in developing the rate base used to establish Gulf's base rates.

Q. Please explain adjustments 3 and 10 related to Asset Retirement Obligations (AROs).

A. Adjustments 3 and 10 are to remove the plant-in-service and accumulated depreciation amounts related to Accounting Standards Codification (ASC) 410, Asset Retirement and Environmental Obligations (AROs). This accounting standard requires the Company to record an asset and the related liabilities and expenses associated with the legal obligations related to the retirement of long-lived assets. I have also removed the regulatory assets and liabilities related to ASC 410 in the working capital adjustments as shown on Schedule 3. The adjustments to remove these amounts are necessary to eliminate the impact of these accounting entries in accordance with Florida Public Service Commission (FPSC or Commission) Rule 25-14.014, which requires that the application of this accounting standard be revenue neutral.

Q. Please describe adjustments 4 and 11 related to the Community Solar Project.

A. Adjustments 4 and 11 remove the plant-in-service and accumulated depreciation related to the Community Solar Project. The costs of this project will be recovered through fees paid by the participants in the project.

Q. Please explain the adjustments to plant-in-service, accumulated depreciation, and construction work in progress related to generation, power delivery and customer service projects.

A. Adjustments 5 through 7, 12 through 14, and 20 through 22 are made to reflect changes to projected capital projects that arose following the completion of the Company's budget on which the 2017 test year is based. Gulf Witnesses Burroughs, Smith and Terry will discuss the generation, power delivery and customer service projects, respectively, in more detail in their testimonies, including the total costs of the projects. I have calculated the depreciation expense and related accumulated depreciation associated with the projects based on the proposed depreciation rates requested by Gulf in this docket as supported in the testimony of Gulf Witness Hodnett.

Q. Please describe adjustment 15 related to the retirement of Plant Smith Units 1 and 2.

A. As discussed by Mr. Burroughs in his testimony, Gulf retired its coal-fired units at Plant Smith in March of 2016. On February 24, 2016, Gulf filed a petition with the Commission seeking authority to create a regulatory asset related to the remaining inventory and net book value of Smith Units 1 and 2 at retirement and defer recovery until a future proceeding. The Commission approved the Company's petition on August 29, 2016 in Order No. PSC-16-0361-PAA-EI as amended by Order No. PSC-16-0361A-PAA-EI in Docket No. 160039-EI. Gulf has made the appropriate entries on its books and records to establish the regulatory asset. Gulf is requesting that this regulatory asset be amortized over 15 years, the time period from the 2017 test year to the normal retirement date of Smith Unit 2 (2032), which is the later of the retirement dates of the two units. The portion of the regulatory asset that is associated with the plant investment that was recovered through the ECRC while the units were in service will be recovered through the ECRC. Adjustment 15 on Schedule 2 is made to remove the base rate portion of the projected net book value of Smith 1 and 2 from accumulated depreciation. On Schedule 3 of my exhibit, I have made adjustments to working capital to remove the projected inventory balance from current assets and to add the base rate portion of the regulatory asset based on the actual net book value and inventory amounts as of the retirement date. The adjustment to include the regulatory asset on Schedule 3 reflects the 13-month average unamortized balance of the base rate portion of the regulatory asset assuming a 15-year amortization period. The calculation of the amounts included in the regulatory asset is shown on Schedule 9. The working capital adjustments associated with Smith 1 and 2 are included in adjustment 23 on page 2 of Schedule 2.

Q. Please describe adjustment 16 to accumulated depreciation associated with the Cost of Removal provisions approved pursuant to the Settlement in Gulf's last rate case in Docket No. 130140-EI.

A. The Stipulation and Settlement Agreement (2013 Settlement Agreement) approved by the Commission in Gulf's last rate case in Order No. PSC-13-0670-S-EI provided Gulf with the discretion to record credits to depreciation expense up to $62.5 million over the life of the 2013 Settlement Agreement, with an offsetting entry to a regulatory asset referred to as Other Cost of Removal. In any given month, the credit to depreciation expense could not exceed the amount necessary for the retail return on equity (ROE) to reach the midpoint of the authorized ROE range. Over the course of the 2013 Settlement Agreement period, Gulf will have recorded $62.5 million to this regulatory asset. As provided for in the 2013 Settlement Agreement, Gulf has proposed offsetting this regulatory asset against the accumulated reserve for fossil generating plant dismantlement as discussed in the testimony of Ms. Hodnett. Rate base adjustment 16 is required to include the regulatory asset in accumulated depreciation. I have also made an adjustment to working capital on Schedule 3 to reflect the removal of the 13-month average regulatory asset balance. This is included in adjustment 23 on Schedule 2, page 2.

Q. Please describe adjustment 17 related to the 2016 Depreciation Study and 2016 Dismantlement Study.

A. Adjustment 17 reflects the impact on accumulated depreciation of new depreciation rates and dismantlement expense. Ms. Hodnett discusses the 2016 Depreciation Study and 2016 Dismantlement Study in her testimony and has provided the updated information required to determine the impact of these studies on Gulf's depreciation and dismantlement expense in the 2017 test year.

Q. Please explain adjustment 18 related to interest bearing construction work in progress.

A. Adjustment 18 is for the removal of the interest bearing construction work in progress (CWIP), since interest bearing projects in CWIP are eligible for Allowance for Funds Used During Construction (AFUDC). None of the construction projects included in the 2017 test year are eligible for AFUDC based on FPSC Rule 25-6.0141, Allowance for Funds Used During Construction. Therefore, the amount of this adjustment is $0.

Q. Please explain the working capital adjustments included in adjustment 23.

A. The working capital adjustments which comprise adjustment 23 are detailed on Schedule 3 of Exhibit SDR-1, entitled "13-Month Average Working

Capital for the Period Ended December 31, 2017." Gulf has computed the test year working capital requirement utilizing the balance sheet approach in accordance with this Commission's policy and prior practices. All items on the balance sheet which are not included in Net Utility Plant or the Capital Structure were considered in developing working capital. These items are summarized at the top of the schedule and result in $87,230,000 in total company working capital. Each of these items was examined to determine if a regulatory adjustment should be made to remove it from working capital. As a result of this review, I have excluded the amounts related to the ECRC and ECCR, all accounts which earn or incur interest charges, and the ARO regulatory assets and liabilities I discussed previously. I have also reduced working capital to reflect the impact of the increase in the property damage reserve accrual discussed by Ms. Hodnett in her testimony. As I discuss in more detail below, I have also adjusted working capital for deferred earnings associated with certain transmission investments, inventory at Plant Scholz, and additional pension funding.

The other adjustments noted in Schedule 3 remove the assets and liabilities related to Gulf's fuel hedging under ASC 815, Derivatives and Hedging, which are ultimately recovered through the Fuel Cost Recovery (FCR) Clause, and remove the minimum pension funding requirements under ASC 715, Compensation – Retirement Benefits, which requires the recording of certain minimum pension funding requirements. In addition, I have removed the assets and liabilities related to the levelization of capacity expenses related to power purchase agreements (PPAs), which are required by general accounting guidance. The adjustments to total assets and liabilities for the ASC 815, ASC 715, and PPA entries net to zero, and they have been removed from the working capital amounts provided to Mr. O'Sheasy to be jurisdictionalized in the cost-of-service study.

Q. Please explain the adjustment to working capital related to the deferred earnings associated with certain transmission investments.

A. Pursuant to the 2013 Settlement Agreement approved by the Commission in Gulf's last rate case in Docket No. 130140-EI, Gulf has accrued deferred earnings equivalent to the AFUDC rate on certain transmission projects identified in the Agreement. These deferred earnings are included in the Company's working capital as a deferred debit. The 2013 Settlement Agreement provides that the specified transmission investment, AFUDC, and the deferred earnings be added to rate base for surveillance and ratemaking purposes at the conclusion of the period during which the accrual of deferred earnings applies, which is January 1, 2017. In this proceeding, Gulf is requesting that the deferred debit representing the accumulated deferred earnings be amortized over four years, consistent with the period customarily used by the Commission for amortization of rate case expense. Schedule 10 of my exhibit shows the calculation of the amortization based on the projected balance of the deferred debit as of December 31, 2016.

Q. Please explain the working capital adjustment related to Plant Scholz materials and supplies.

A. As Mr. Burroughs discusses in his testimony, Gulf's two generating units at Plant Scholz ceased operations on April 15, 2015, and while Gulf has taken appropriate measures to minimize equipment inventory, $609,000 of inventory remains. This investment was prudently incurred in providing electric service to our customers from Plant Scholz. Therefore, Gulf is requesting that this remaining inventory be transferred to a regulatory asset and amortized over four years, the period normally used by the Commission for amortization of rate case expense. The working capital adjustments shown on Schedule 3, and included in adjustment 23 on Schedule 2, are made to remove the inventory from current assets and include the 13-month average unamortized balance in deferred debits.

Q. Please explain the adjustments to Other Property and Investments and Current Liabilities related to additional pension funding.

A. As discussed in the testimony of Gulf Witness Garvie, Gulf projects to provide additional funding to the pension plan. The adjustments to Other Property and Investments and Current Liabilities reflect the total additional funding of $81 million.

Q. What is the total of the regulatory adjustments to working capital?

A. The net of all regulatory adjustments to total working capital is $176,677,000, which is shown in column 2 on page 1 of Schedule 2 as adjustment 23. The total system adjusted working capital of $262,068,000 (column 4, page 1 of Schedule 2) resulted in jurisdictional adjusted working capital of $256,171,000 (column 6, page 1 of Schedule 2) as derived by Mr. O'Sheasy in the cost-of-service study.

Q. What is the total jurisdictional rate base for the 2017 test year after all the appropriate adjustments have been made?

A. As shown on page 1 of Schedule 2 of Exhibit SDR-1, the total jurisdictional adjusted rate base is $2,418,917,000. This represents the used and useful base rate investment which is required to provide service for Gulf's retail customers, and all these costs were reasonably and prudently incurred.

II. NET OPERATING INCOME

Q. Please explain Exhibit SDR-1, Schedule 4 entitled "Net Operating Income for the Twelve Months Ended December 31, 2017."

A. This schedule is formatted in the same manner as the rate base schedule. Page 1 provides the calculation of the test year net operating income. The first column on page 1 of Schedule 4 is calculated based on the 2017 budget data from Schedule 8 of Mr. Mason's Exhibit JJM-1. The second column includes the regulatory adjustments, which are detailed on pages 2 and 3 of Schedule 4, with more detailed calculations presented on separate schedules as noted under the heading of Schedule Reference on pages 2 and 3. The third column reflects amounts associated with the portion of Scherer 3 that is committed to off-system sales. I will discuss the calculation of these amounts later in my testimony. The jurisdictional adjusted amounts in column 6 were obtained from Mr. O'Sheasy's Exhibit MTO-2.

Q. Have you made the proper adjustments to remove all revenues and expenses related to the cost recovery clauses from NOI?

A. Yes. The appropriate adjustments to remove the revenues (adjustments 1 through 4) and expenses (adjustments 9 through 15, 30, 31, 40, and 41) related to the retail cost recovery clauses are included on pages 2 and 3 of Schedule 4. Additional details supporting each cost recovery clause adjustment are provided on Schedules 5 through 8 of Exhibit SDR-1. These revenues and expenses are considered in the retail cost recovery clauses; therefore, they must be removed from the test year amounts used for determining base rates. As reflected on Schedules 5 through 8, the system amounts have been removed from NOI in Schedule 4, and I have also reflected the jurisdictional amounts for each cost recovery clause.

Q. Please explain the franchise fee and gross receipts adjustments 5, 6, 43 and 44 on Schedule 4.

A. These adjustments are necessary to eliminate county and municipal franchise fee revenues and expenses and gross receipts taxes from consideration in setting base rates. As required by Commission Order No. 6650 in Docket No. 74437-EU, franchise fees are added directly to the county or municipal customer's bill. Florida gross receipts taxes were removed from base rates in Gulf's rate case in Docket No. 010949-EI and are separately calculated and shown on the customer's bill.

Q. Please explain revenue adjustments 7 and 8.

A. As Ms. Terry discusses in her testimony, Gulf plans to support customers who are interested in electric vehicles (EV) and electric vehicle charging by purchasing, installing and supporting EV chargers at customers' locations. The investment and expenses are included in the 2017 test year amounts; adjustment 7 is required to include the revenues from electric vehicle chargers that we project to receive in the 2017 test year. As discussed in Ms. Hodnett's testimony, adjustment 8 is required to correct an error in the amount of miscellaneous service revenues projected to be received in the 2017 test year.

Q. Please explain adjustment 16 related to marketing support activities and adjustment 17 related to wholesale sales activities.

A. Expenses related to marketing support activities (adjustment 16) have been removed from NOI in accordance with the Commission's policy to disallow expenses that are promotional in nature as stated in Commission Order No. 6465 in Docket No. 9046-EU. Expenses related to wholesale sales activities (adjustment 17) were also removed from NOI in the calculation of retail revenue requirements, since these expenses relate directly to activities supporting Gulf's wholesale customers.

Q. Please explain adjustments 18 and 19 related to institutional advertising and economic development expenses.

A. Consistent with prior Commission decisions, adjustment 18 removes the test year amount of institutional or image building advertising. All other advertising is either recovered in the ECCR clause or meets the criteria for recovery in base rates and is included in the O&M expenses supported by Ms. Terry in this proceeding.

Adjustment 19 removes 5 percent of the 2017 test year expenses related to economic development expenses. This treatment is consistent with the Commission's decision in Gulf's 2012 test year rate case, and Ms. Terry will support the reasonableness of the test year amount.

Q. Please explain adjustments 20, 22, and 42.

A. These adjustments remove the expenses related to management financial planning services (adjustment 20) and the Tallahassee liaison expenses (adjustments 22 and 42), consistent with the Commission's decision in Gulf's 2012 test year rate case.

Q. Please explain adjustment 21 related to the property damage reserve accrual.

A. Gulf is requesting an increase to the annual property damage reserve accrual from the current approved amount of $3.5 million to $8.9 million based on the current hurricane storm damage study performed by Gulf Witness Harris and the non-hurricane property damage assessment performed by Ms. Hodnett. The need for this increase and the amount of the accrual are supported by Ms. Hodnett in her testimony.

Q. Please explain adjustment 23 related to the recovery of Gulf's rate case expenses.

A. As reflected in MFR C-10, Gulf estimates the incremental expenses related to this rate case filing will be $6.7 million, as discussed by Ms. Hodnett. Gulf is requesting to amortize these expenses over a four-year period, which is consistent with the Commission's recent decisions regarding the appropriate period over which to amortize rate case expenses.

Q. Please describe the hiring lag adjustment to O&M (adjustment 24).

A. The hiring lag adjustment of $863,000 quantifies the impact on salaries and benefits of potential employee turnover. A more detailed description and calculation of this adjustment is included later in my testimony.

Q. Please explain adjustments 25 through 29 related to production, power delivery, Long Term Evolution (LTE) system, customer service and pension O&M expense.

A. These adjustments are necessary to reflect changes to projected O&M expenses that arose following the completion of the Company's budget on which the 2017 test year is based. Mr. Burroughs, Mr. Smith, Ms. Terry, and Mr. Garvie support and explain the changes to these expenses in their testimonies.

Q. Please explain adjustment 32 related to depreciation and dismantlement expense.

A. Adjustment 32 reflects the impact of the 2016 Depreciation Study and the 2016 Dismantlement Study on Gulf's depreciation and dismantlement expense in the 2017 test year.

Q. Please explain adjustments 33 through 36 to depreciation expense.

A. Adjustment 33 removes the depreciation expense associated with Gulf's Community Solar Project. As I discussed earlier in my testimony, the costs of this project will be recovered through fees paid by the participants in the project. Adjustments 34 through 36 are made to reflect the depreciation expense associated with the changes to generation, power delivery and customer service projects that I discussed earlier in my testimony.

Q. Please explain adjustments 37, 38 and 39.

A. As I discussed earlier in my testimony, Gulf is requesting amortization of three items: the remaining investment in Plant Smith Units 1 and 2, the deferred earnings on certain transmission investment, and the investment in inventory remaining at Plant Scholz. Adjustments 37, 38 and 39 are the amortization amounts associated with these three items. Schedules 9 and 10 show the calculation of the amortization associated with the Smith and transmission investments, respectively. As I discussed earlier in my testimony, Gulf is requesting that the remaining inventory at Plant Scholz of $609,000 be amortized over four years.

Q. Please explain adjustment 45 to taxes other than income taxes.

A. Adjustment 45 is required to remove the FPSC regulatory assessment fees that are associated with the retail revenues and franchise fee revenues removed in adjustments 1 through 5, 7 and 8. Schedule 11 of Exhibit SDR-1 shows the calculation of this adjustment.

Q. Please explain adjustment 46 to income taxes on page 3 of Schedule 4.

A. This adjustment is required to reflect the federal and state income tax effects of adjustments 1 through 45. Schedule 12 of Exhibit SDR-1 shows the calculation of this adjustment.

Q. Have you calculated the appropriate adjustment to income taxes to reflect the synchronized interest expense related to the jurisdictional adjusted rate base?

A. Yes. Adjustment 47 on Schedule 4 reflects the tax effect of synchronizing interest expense to rate base, and Exhibit SDR-1, Schedule 13 shows the calculation of this adjustment. Consistent with prior Commission practice, the synchronized interest expense is computed by multiplying the jurisdictional adjusted rate base by the weighted cost of debt included in the cost of capital. This adjustment ensures that the calculated revenue requirements reflect the appropriate tax deduction for the interest component of the revenue requirement calculation. The jurisdictional capitalization amounts and cost rates were taken directly from Exhibit SDR-1, Schedule 14, and total company interest expense was taken from the projected income statement shown on Schedule 8 of Mr. Mason's Exhibit JJM-1.

Q. Please summarize Gulf's adjusted O&M request included in the 2017 test year.

A. The Company's total test year adjusted O&M request is $319,813,000. As discussed in the testimony of the Company's functional witnesses, the O&M request is reasonable, prudent and necessary to provide reliable electric service to our customers.

Q. What is the total jurisdictional NOI for the 2017 test year after all the appropriate adjustments have been made?

A. Gulf's jurisdictional NOI for 2017 is $80,723,000.

III. JURISDICTIONAL CAPITAL STRUCTURE

Q. Have you developed the jurisdictional adjusted capital structure and cost of capital for the test year?

A. Yes. Schedule 14, page 1, of Exhibit SDR-1 shows the jurisdictional 13-month average amounts of each class of capital for the test year ended December 31, 2017. It also shows the average cost rates and weighted cost components for each class of capital. Page 2 of this schedule shows how the jurisdictional adjusted capital structure was derived starting with the system amounts in column 1. Page 3 shows the calculation of the weighted cost rate for long-term debt, and page 4 shows the calculation of the weighted cost rate for preference stock.

Q. How were the cost rates for long-term debt, preference stock, short-term debt, customer deposits, and investment tax credits determined?

A. The cost rates for long-term debt and preference stock reflect their embedded 13-month average costs as calculated on pages 3 and 4 of Schedule 14. The projected interest rate assumptions used in the financial forecast are shown in MFR F-8. The assumptions used in the forecast were provided by Southern Company Services Financial Planning and were based on a market forecast by Moody's Analytics. The weighted customer deposit cost rate of 2.30 percent was based on the interest rates required pursuant to FPSC Rule 25-6.097, Customer Deposits. The cost for investment tax credits of 8.05 percent was calculated in accordance with current IRS regulations and prior Commission practice, using the weighted average of the three main investor sources of capital.

Q. Please explain how the jurisdictional capital structure was developed.

A. As shown on page 2 of Schedule 14, I started with the 13-month average total company capital structure by class of capital for the test year ended December 31, 2017. These total company amounts were calculated based on the projected balances for each item in the capital structure from the balance sheet shown on Schedule 7 of Mr. Mason's Exhibit JJM-1. In columns 2 through 5 and 8, I have identified six adjustments which were removed from specific classes of capital. Column 6 provides the adjustments to long-term debt and common equity necessary to reflect the issuance of $150 million of common stock as discussed in the testimony of Gulf Witness Liu. Column 9 contains the adjustments required to comply with the normalization requirements of the Internal Revenue Code. The remaining adjustments required to reconcile the rate base and capital structure were made on a pro rata basis as shown in column 12.

Q. Please explain the six items for which you have made adjustments to specific classes of capital in columns 2 through 5 and 8 on Schedule 14.

A. As shown in columns 2 and 3 on page 2, common dividends declared and unamortized debt premiums, discounts, issuing expenses and losses on reacquired debt are account specific and have been directly assigned to the common stock and long-term debt classes of capital, respectively. In addition, column 2 also includes an adjustment related to the common equity portion of the AFUDC-like return on certain transmission investments pursuant to the 2013 Settlement Agreement. The fourth item, shown in column 4, is the removal of non-utility amounts from the common stock class of capital consistent with past Commission policy. The fifth item shown in column 5 reclassifies the unamortized loss related to interest rate hedges from common equity and deferred taxes to long-term debt. The last item, shown in column 8, is the removal of the capital structure amounts related to the portion of Scherer 3 investment that is currently committed to off-system sales. I specifically identified the deferred taxes and investment tax credits related to this portion of Scherer 3 and then allocated the remaining investment over the other external sources of funds.

Q. Please explain the deferred tax adjustment shown in column 9, as calculated on Schedule 15.

A. This adjustment is necessary to comply with the normalization requirements of the Internal Revenue Code (IRC), which are set forth in Treasury Regulation Section 1.167(1) – 1(h)(6). When a projected test year is used in determining a utility's revenue requirement, the IRC requires that deferred taxes related to accelerated depreciation be calculated using a proration formula. This formula applies to the portion of the test year that coincides with the period that new rates will be in effect. For this portion of the test year, the addition to deferred taxes is prorated as shown on Schedule 15 of Exhibit SDR-1 beginning in July of 2017, which is when new base rates are expected to become effective. The current month activity shown in column 2 is multiplied by the future days in the test period for that month as shown in column 5 and then divided by the total days to prorate shown in column 4 to derive the prorated monthly activity. The decrease to deferred taxes of $747,000 shown in column 9 on page 2 of Schedule 14 is derived by taking the difference between the 13-month average deferred taxes on the books of the company and the 13-month average deferred taxes calculated using the proration formula prescribed by the IRC. The other sources of capital are increased in column 9 on a pro rata basis to offset this adjustment to deferred taxes.

Q. Why is it appropriate to make the remaining rate base adjustments (shown in column 12) on a pro rata basis?

A. When reconciling capital structure to rate base, it is appropriate and necessary to include all sources of funds to avoid potential inconsistencies in the treatment of like expenditures for regulatory purposes. The pro rata treatment is consistent with prior Commission practice and tax normalization problems could result if the treatment is not consistent for all regulatory purposes. Current Commission practice provides an overall return in the cost recovery clauses and AFUDC rate computations; therefore, the base rate treatment should be consistent with these other regulatory requirements to avoid normalization problems and inconsistent regulatory treatment.

Q. Does this conclude your discussion of how you developed the jurisdictional adjusted cost of capital?

A. Yes. These calculations, which are detailed in Schedule 14 of Exhibit SDR-1, result in a cost of capital of 6.04 percent based on a requested return on equity of 11.00 percent, which is supported in the testimony of Gulf Witness Vander Weide.

IV. O&M BENCHMARK ANALYSIS

Q. Has the Company prepared an O&M Benchmark variance by function?

A. Yes. The Benchmark variance by function is included in MFR C-41, and Schedule 19 of Exhibit SDR-1 shows the functional summary for the test year. As shown on Schedule 19, the Company's total adjusted O&M of $319,813,000 for the test year is $10,282,000 over the Benchmark. The justifications for each functional variance are included in MFR C-41 and are addressed by the appropriate Company witnesses.

Q. Please explain how the Benchmark variances were calculated.

A. The first step in the calculation of the Benchmark variances is to determine the base year O&M amounts. The appropriate base year for the Benchmark is the 2012 test year approved by the Commission in Docket No. 110138-EI. This is appropriate because Gulf's last rate case proceeding was resolved through a settlement that did not include specific O&M amounts. The derivation of the 2012 allowed amounts by function is included in MFR C-39 and Schedule 20 of Exhibit SDR-1. The adjustments in columns 2 through 6 of Schedule 20 include the system amount of the Company and Commission adjustments, and column 7 reflects the system allowed O&M by function. This amount is included in column 1 of Schedule 19 of my exhibit.

The second step is to escalate these base year amounts by the compound multipliers noted in column 2 of Schedule 19 in order to derive the Test Year Benchmark amounts included in column 3.

The third step is to calculate the adjusted 2017 test year O&M expense request by function included in column 4 of Schedule 19. The derivation of these figures is shown on MFR C-38 and Schedule 21 of my exhibit.

The final step is to compare the 2017 test year requested O&M in column 4 of Schedule 19 to the Test Year Benchmark in column 3 in order to calculate the variance shown in column 5.

Q. How is the Benchmark used to evaluate the reasonableness of O&M expenses?

A. The Benchmark methodology escalates the base year approved expenses for each function by customer growth (except for Production) and inflation, as measured by the Consumer Price Index (CPI). If the projected test year expenses for any function exceed the Benchmark, this triggers a requirement that the Company explain the reasons for the variance. The Benchmark is thus a tool used to identify specific expense amounts that warrant further explanation and justification of the reasonableness of the test year request during the course of a rate case.

V. HIRING LAG

Q. How many employees are included in Gulf's test year request?

A. Gulf's test year request includes a full complement of 1,450 employees for 2017. This is a net reduction of 39 positions compared to the complement of 1,489 employees requested in Gulf's 2012 test year rate case in Docket No. 110138-EI.

Q. Even if Gulf makes every effort to fill all employee positions, won't some positions be temporarily unfilled for part of the year due to voluntary and involuntary separations, retirements, deaths, transfers within the Southern Company system, and transfers within Gulf?

A. Yes. This type of hiring lag is found in any business.

Q. Should the Commission make a labor expense adjustment in this case to account for that lag?

A. In the normal course of business, any unspent payroll dollars resulting from hiring lag will most likely be spent on contract labor, overtime, or other operational priorities. Although the Company does not believe a labor adjustment is necessary or appropriate, Gulf has included an adjustment to labor in the current proceeding to be consistent with prior Commission practice of making such adjustments.

Q. How did you calculate this adjustment?

A. The hiring lag adjustment takes into account Gulf's estimated employee turnover, the average time it takes to fill a position, and the average salary for the unfilled positions. The calculation of the adjustment is shown on Schedule 22 of Exhibit SDR-1. The average employee turnover (including voluntary and involuntary terminations, retirements and system transfers) and the average time it has taken to fill positions were derived based on the Company's historical records for 2012 through 2015. The hiring lag base salary amount was derived by multiplying the average turnover by the number of days to fill positions times the salary level by employee classification as shown on Schedule 22. This calculation resulted in a total base salary hiring lag of $834,975. Of this amount, $618,800 represents the O&M portion, which I then increased to include the estimated fringe benefits and variable compensation, resulting in a total hiring lag adjustment of $862,731.

VI. GENERAL PLANT INVESTMENT

Q. Schedule 2 of Exhibit SDR-1 shows a total of $3.458 billion of plant-in-service investment in Gulf's 2017 rate base in this case. Are the General Plant assets associated with these costs used and useful in the provision of electric service to the public?

A. Yes. The General Plant assets of $201,302,000 included in plant-in-service are used and useful in the provision of electric service.

Q. Were these General Plant costs reasonable and prudently incurred?

A. Yes. All General Plant projects are subject to the review and approval process and cost control monitoring which govern our capital budgeting process as described in Mr. Mason's testimony.

Q. What is Gulf's projected General Plant capital additions budget for 2016 and 2017?

A. As shown on Schedule 23 of Exhibit SDR-1, Gulf's General Plant capital additions budget for 2016 is $14,738,000 and for 2017 is $22,148,000. The major items included in the 2017 test year are:

- Automobiles, Trucks and Equipment $ 3,360,000
- Gulf Smart Energy Center $ 3,000,000
- Office Facility Capital Items $ 1,048,000
- Information Technology (IT) Projects $ 1,645,000
- Long-Term Evolution (LTE) System $11,400,000
- Customer Service Projects $ 698,000
- Other Projects $ 997,000

Q. Please address what is included in the General Plant capital budget and how it is developed.

A. The General Plant capital budget items include the investment in facilities and equipment not specifically provided for in the other functional accounts. The major types of investment include office buildings and related office furniture and equipment, transportation equipment, communication equipment, and other miscellaneous equipment. The budget requests for these types of investment are coordinated and submitted at a Company level by the responsible functional area. Mr. Smith discusses the capital additions for automobiles, trucks and equipment along with other General Plant capital additions that primarily support the power delivery business units. Ms. Terry discusses the capital additions related to customer service projects. The General Plant requests are included in the executive capital budget review and approval process.

Q. How does Gulf control General Plant capital costs after the capital budget is approved?

A. As Mr. Mason discusses in his testimony, detailed explanations are required quarterly for project variances of greater than 10 percent or $250,000 (whichever is lower). Variances less than $10,000 do not require variance explanations.

VII. SCHERER UNIT 3 OFF-SYSTEM SALES

Q. You have previously mentioned that you are supporting the adjustments related to Scherer 3 off-system sales that have been used in developing the rate base, NOI and capital structure in this filing. Please explain how these amounts were calculated.

A. The amount of investment and expenses associated with Scherer 3 has been computed consistent with the methodology used in Gulf's last four rate cases when 100 percent of Scherer 3 was sold off-system. In the 2017 test year, 24 percent of Scherer 3 is committed to off-system sales. The remaining 76 percent of Scherer 3 is dedicated to serving the native load customers for whom it was originally planned, acquired, and ultimately built. To determine the amount of investment and expenses related to the portion of Scherer 3 committed to off-system sales, I multiplied the components of Scherer 3 investments and expenses by 24 percent. In addition, certain working capital investment was allocated to Scherer 3 off-system sales in the cost of service study consistent with past Commission treatment. The calculation of the Scherer 3 off-system sales rate base and net operating income is shown on Schedule 24 of my exhibit. The Scherer 3 off-system sales capital structure was determined by directly assigning 24 percent of the deferred taxes and unamortized ITC associated with Scherer 3. The remaining rate base was allocated to external sources of capital pro rata to derive the total capital structure associated with Scherer 3 off-system sales.

VIII. REVENUE DEFICIENCY

Q. Based on the 2017 jurisdictional adjusted amounts for rate base of $2,418,917,000, NOI of $80,723,000, and the test year cost of capital of 6.04 percent, have you calculated Gulf’s achieved rate of return and return on common equity for the test year if no rate relief is granted?

A. Yes. Without rate relief, Gulf’s achieved rate of return will be 3.34 percent and the achieved return on common equity will be 4.27 percent for the test year, as shown on Schedule 16 of Exhibit SDR-1.

Q. Have you calculated the jurisdictional revenue deficiency for the test period brought about by the difference in Gulf's achieved jurisdictional rate of return of 3.34 percent and the test year cost of capital of 6.04 percent?

A. Yes. The revenue deficiency is $106,782,000, as calculated on Exhibit SDR-1, Schedule 17, which references the schedule where each figure was derived. Schedule 18 of my exhibit shows the calculation of the NOI multiplier, which provides for the income taxes, FPSC Assessment Fees and uncollectible expenses needed in addition to the required after tax NOI in order for the Company to achieve the requested rate of return of 6.04 percent.

IX. SUMMARY

Q. Please summarize your testimony.

A. Gulf's 2017 test year jurisdictional adjusted rate base is $2,418,917,000. This amount represents the retail base rate investments that are used and useful in providing service to Gulf's retail customers during the test year. As described by other witnesses, these investments are reasonable and prudent.

Gulf's total achieved jurisdictional adjusted NOI for the 2017 test year is $80,723,000, absent the rate relief requested in this proceeding. The O&M expenses included in the calculation of NOI are supported by witnesses from each functional area. The projected level of expense is reasonable and prudent to continue to provide reliable electric service to our customers, and it is representative of the level of expenses that will be incurred in the future.

Gulf's weighted average cost of capital for the test year is 6.04 percent. This cost is based on Gulf's actual or projected cost of each source of capital and a required return on equity of 11.00 percent as recommended by Dr. Vander Weide. The combination of jurisdictional adjusted rate base, NOI and weighted average cost of capital shows that Gulf requires a retail base revenue increase of $106,782,000 in order to have the opportunity to earn a fair rate of return on its investment in property used and useful in the provision of electric service. This increase is crucial to enable Gulf to make the investments and incur the costs required to continue to provide safe, efficient and reliable service to its customers.

Q. Ms. Ritenour, 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 Susan D. Ritenour, who being first duly sworn, deposes, and says that she is the Corporate Secretary, Treasurer and Corporate Planning Manager 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/ Susan D. Ritenour

Susan D. Ritenour
Corporate Secretary, Treasurer and
Corporate Planning Manager

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
A-1	Full Revenue Requirements Increase Requested
A-4	Interim Revenue Requirements Increase Requested
B-1	Adjusted Rate Base
B-2	Rate Base Adjustments
B-3	13-Month Average Balance Sheet - System Basis
B-5	Detail Of Changes In Rate Base
B-7	Plant Balances By Account And Sub-Account
B-8	Monthly Plant Balances Test Year - 13 Months
B-9	Depreciation Reserve Balances By Account And Sub-Account
B-10	Monthly Reserve Balances Test Year - 13 Months
B-11	Capital Additions And Retirements
B-12	Production Plant Additions
B-13	Construction Work In Progress
B-14	Earnings Test
B-15	Property Held For Future Use – 13 Month Average
B-17	Working Capital - 13 Month Average
B-18	Fuel Inventory By Plant
B-19	Miscellaneous Deferred Debits
B-20	Other Deferred Credits
B-25	Accounting Policy Changes Affecting Rate Base

Responsibility for Minimum Filing Requirements

Schedule	Title
C-1	Adjusted Jurisdictional Net Operating Income
C-2	Net Operating Income Adjustments
C-3	Jurisdictional Net Operating Income Adjustments
C-5	Operating Revenues Detail
C-7	Operation and Maintenance Expenses - Test Year
C-19	Amortization/Recovery Schedule - 12 Months
C-23	Interest In Tax Expense Calculation
C-29	Gains And Losses On Disposition Of Plant Or Property
C-32	Non-Utility Operations Utilizing Utility Assets
C-33	Performance Indices
C-35	Payroll and Fringe Benefit Increases Compared to CPI
C-36	Non-Fuel Operation and Maintenance Expense Compared to CPI
C-37	O&M Benchmark Comparison by Function
C-38	O&M Adjustments by Function
C-39	Benchmark Year Recoverable O&M Expenses by Function
C-40	O&M Compound Multiplier Calculation
C-41	O&M Benchmark Variance by Function
C-44	Revenue Expansion Factor

Responsibility for Minimum Filing Requirements

Schedule	Title
D-1a	Cost Of Capital - 13 Month Average
D-1b	Cost Of Capital - Adjustments
D-2	Cost Of Capital - 5 Year History
D-3	Short-Term Debt
D-4a	Long-Term Debt Outstanding
D-4b	Reacquired Bonds
D-5	Preferred Stock Outstanding
D-6	Customer Deposits
D-7	Common Stock Data
D-8	Financial Plans - Stocks And Bond Issues
D-9	Financial Indicators - Summary
F-8	Assumptions

Gulf Power Company
13-Month Average Rate Base
for the Period Ended December 31, 2017
(Thousands of Dollars)

Description	(1) Total	(2) Regulatory Adjustments *	Adj #	(3) Scherer 3 Off-System Sales	(4) Total System Adjusted	(5) Jurisdictional Factor **	(6) Jurisdictional Adjusted Rate Base
Plant-in-Service	5,265,235	(1,647,011)	1-7	(96,640)	3,521,584	0.9818709	3,457,741
Accumulated Depreciation and Amortization	1,695,765	(285,612)	8-17	(35,493)	1,374,660	0.9823098	1,350,342
Net Plant-in-Service	3,569,470	(1,361,399)		(61,147)	2,146,924	0.9815899	2,107,399
Plant Held for Future Use	14,757				14,757	0.9720810	14,345
Construction Work-in-Progress	70,587	(28,156)	18-22	(1,425)	41,006	0.9794420	40,163
Plant Acquisition Adjustment	1,137			(273)	864	0.9710648	839
Net Utility Plant	3,655,951	(1,389,555)		(62,845)	2,203,551	0.9814822	2,162,746
Working Capital Allowance (Per Schedule 3)	87,230	176,677	23	(1,839)	262,068	0.9774982	256,171
Total Rate Base	3,743,181	(1,212,878)		(64,684)	2,465,619	0.9810587	2,418,917

* See Page 2
** See O'Sheasy Exhibit MTO-2

Gulf Power Company
Schedule of Adjustments to Test Year
13-Month Average Rate Base
for the Period Ended December 31, 2017
(Thousands of Dollars)

Adjustment Number	Description of Adjustments	(1) Total System Adjustment	(2) Jurisdictional Allocation Factor	(3) Total Jurisdictional Adjustment	(4) Jurisdictional Revenue Effect
1	Plant-in-Service - Environmental Cost Recovery Clause	(1,552,754)	0.9720630	(1,509,375)	(135,680)
2	Plant-in-Service - Conservation Cost Recovery Clause	(16,762)	1.0000000	(16,762)	(1,507)
3	Plant-in-Service - Asset Retirement Obligations	(86,640)	0.9720796	(84,221)	(7,571)
4	Plant-in-Service - Community Solar	(3,000)	0.9720390	(2,916)	(262)
5	Plant-in-Service - Generation	12,603	0.9720390	12,251	1,101
6	Plant-in-Service - Power Delivery	4,994	0.9741913	4,865	437
7	Plant-in-Service - Customer Service	(5,452)	0.9841068	(5,365)	(482)
8	Accumulated Depreciation - Environmental Cost Recovery Clause	281,436	0.9720663	273,574	24,592
9	Accumulated Depreciation - Conservation Cost Recovery Clause	(6,743)	1.0000000	(6,743)	(606)
10	Accumulated Depreciation - Asset Retirement Obligations	(9,708)	0.9718019	(9,434)	(848)
11	Accumulated Depreciation - Community Solar	183	0.9720387	178	16
12	Accumulated Depreciation - Generation	(313)	0.9720387	(304)	(27)
13	Accumulated Depreciation - Power Delivery	(112)	0.9741886	(109)	(10)
14	Accumulated Depreciation - Customer Service	3	0.9841036	3	-
15	Accumulated Depreciation - Smith (Schedule 9)	(37,992)	0.9720387	(36,930)	(3,320)
16	Accumulated Depreciation - Cost of Removal	62,500	0.9720387	60,752	5,461
17	Accumulated Depreciation - 2016 Depr & Dismantlement Studies	(3,642)	0.9641177	(3,511)	(316)
18	CWIP - Interest Bearing	-	NA	-	-
19	CWIP - Non Interest Bearing - Environmental Cost Recovery Clause	(30,049)	0.9720257	(29,208)	(2,626)
20	CWIP - Non Interest Bearing - Generation	615	0.9720257	598	54
21	CWIP - Non Interest Bearing - Power Delivery	2,901	0.9740558	2,826	254
22	CWIP - Non Interest Bearing - Customer Service	(1,623)	0.9794420	(1,590)	(143)
23	Working Capital Adjustments (See Schedule 3)	176,677	0.9774982	172,701	15,524
	Total Adjustments	(1,212,878)		(1,178,720)	(105,959)

Florida Public Service Commission
Docket No. 160186-EI
GULF POWER COMPANY
Witness: Susan D. Ritenour
Exhibit No. ____ (SDR-1)
Schedule 3
Page 1 of 1

Gulf Power Company
13-Month Average Working Capital
For the Period Ended December 31, 2017
(Thousands of Dollars)

Description	(1) Other Prop & Investments	(2) Current Assets	(3) Deferred Debits	(4) Operating Reserves	(5) Current Liabilities	(6) Deferred Credits	(7) Total
Total Company Working Capital Less Non - Utility	127,408	303,859	551,888	(385,587)	(286,766)	(223,572)	87,230
Less Regulatory Adjustments for:							
Items Earning or Paying a Return							
Funded Property Insurance Reserve	25,758			(25,758)			-
Funded Portion of Def Comp Assets	2,593					(2,593)	-
Loans To Employees & Retirees		62					62
Interest & Dividends Receivable		50					50
Plant Scholz CCR			30,000			(30,000)	-
Recovery Clause Items							
Energy Select Inventory (ECCR)		2,347					2,347
Environmental Allowances (ECRC)		6,275					6,275
Environmental Allowance & Deferred Gain (ECRC)						(1)	(1)
Other Regulatory Items							
Additional Pension Funding	(71,500)				(9,500)		(81,000)
Minimum Pension Funding (ASC 715)	4,628		159,318	(159,318)		(4,628)	-
PPA Deferred Assets and Liabilities			130,095			(130,095)	-
Hedge Assets and Liabilities (ASC 815)			99,700		(99,700)		-
Increase in Property Damage Reserve Accrual				2,700			2,700
Asset Retirement Obligation (ASC 410)			6,088	(96,567)		(12,538)	(103,017)
Deferred Nuclear Charges			973				973
Deferred Debit - Cost of Removal			28,500				28,500
Unamort. Balance Associated with Smith 1 & 2 (Sch. 9)		3,416	(40,320)				(36,904)
Deferred Return on Transmission Investments (Sch. 10)			3,262				3,262
Unamort. Balance Associated with Scholz Matls & Supplies		609	(533)				76
Total Regulatory Adjustments	(38,521)	12,759	417,083	(278,943)	(109,200)	(179,855)	(176,677)
TOTAL ADJUSTED WORKING CAPITAL	165,929	291,100	134,805	(106,644)	(177,566)	(43,717)	263,907
Less: Scherer Off System Sales	0	3,434	397	(566)	(1,143)	(283)	1,839
TOTAL SYSTEM ADJUSTED ON SCHEDULE 2	165,929	287,666	134,408	(106,078)	(176,423)	(43,434)	262,068

Gulf Power Company
Net Operating Income
For the Twelve Months Ended December 31, 2017
(Thousands of Dollars)

Description	(1) Total System	(2) Regulatory Adjustments *	Adjust No.	(3) Scherer 3 Off-System Sales	(4) System Adjusted	(5) Jurisdictional Factor **	(6) Jurisdictional Adjusted NOI
Operating Revenues:							
Sales of Electricity	1,435,921	(834,474)	(1-4, 6)	(12,919)	588,528	0.9753521	574,022
Other Operating Revenues	67,213	(40,344)	(5, 7, 8)		26,869	0.8427556	22,644
Total Operating Revenues	1,503,134	(874,818)		(12,919)	615,397	0.9695627	596,666
Operating Expenses:							
Operation & Maintenance Expense							
Recoverable Fuel	508,191	(508,191)	(9-11)		-		
Recoverable Capacity	87,837	(87,837)	(12-13)		-		
Recoverable Conservation	10,354	(10,354)	(14)		-		
Recoverable Environmental	45,588	(45,588)	(15)		-		
Other Operation & Maintenance	320,295	2,801	(16-29)	(3,283)	319,813	0.9812609	313,820
Depreciation & Amortization	177,929	(37,057)	(30-39)	(2,002)	138,870	0.9813351	136,278
Amortization of Investment Tax Credit	(394)			61	(333)	0.9819820	(327)
Taxes Other Than Income Taxes	115,277	(80,029)	(40-45)	(185)	35,063	0.9800074	34,362
Income Taxes:							
Federal	49,087	(27,484)	(46-47)	(1,786)	19,817	0.9043098	17,921
State	3,669	(4,570)	(46-47)	(134)	(1,035)	0.9043098	(936)
Deferred Income Taxes - Net							
Federal	10,357			(377)	9,980	0.9043098	9,025
State	6,656			(242)	6,414	0.9043098	5,800
Total Operating Expenses	1,334,846	(798,309)		(7,948)	528,589	0.9760759	515,943
Net Operating Income	168,288	(76,509)		(4,971)	86,808	0.9299028	80,723

* See Pages 2 and 3
** See O'Sheasy Exhibit MTO-2

Gulf Power Company
Schedule of Adjustments to NOI
For the Twelve Months Ended December 31, 2017
Revenues
(Thousands of Dollars)

			(1)	(2)	(3)	(4)	(5)
Adjustment Number	Description of Adjustment	Schedule Reference	System Amount	Allocation Factor	Jurisdictional Amount	NOI Effect	Revenue Effect
1	Fuel Revenues	Schedule 5	(508,545)	Direct	(487,461)	(299,423)	489,035
2	Capacity Revenues	Schedule 6	(85,334)	Direct	(85,324)	(52,410)	85,599
3	ECCR Clause Revenues	Schedule 7	(13,466)	Direct	(13,466)	(8,271)	13,509
4	ECRC Clause Revenues	Schedule 8	(195,598)	Direct	(189,644)	(116,489)	190,257
5	Franchise Fee Revenues		(41,767)	1.0000000	(41,767)	(25,655)	41,901
6	Gross Receipts Tax Revenues		(31,531)	1.0000000	(31,531)	(19,368)	31,633
7	Electric Vehicle Charging Revenues		239	0.9720737	232	143	(234)
8	Miscellaneous Service Revenues		1,184	1.0000000	1,184	727	(1,187)
	Total Revenue Adjustments		(874,818)		(847,777)	(520,746)	850,513

Abbreviations:
PPCC - Purchased Power Capacity Cost
ECCR - Energy Conservation Cost Recovery
ECRC - Environmental Cost Recovery Clause

Gulf Power Company
Schedule of Adjustments to NOI
For the Twelve Months Ended December 31, 2017
Expenses
(Thousands of Dollars)

Adjustment Number	Description of Adjustment	Schedule Reference	(1) System Amount	(2) Allocation Factor	(3) Jurisdictional Amount	(4) NOI Effect	(5) Revenue Effect
	O&M Adjustments:						
9	Total Fuel Expense	Sch. 5	(481,800)	0.9579743	(461,552)	283,508	(463,042)
10	Interchange Energy-Fuel Portion	Sch. 5	(25,967)	0.9715793	(25,229)	15,497	(25,311)
11	Purchase Power Transm Recov Through Fuel	Sch. 5	(424)	0.9716981	(412)	253	(413)
12	PPCC Production Expenses Included in O&M	Sch. 6	(75,188)	0.9707134	(72,986)	44,832	(73,222)
13	PPCC Transmission Expenses Included in O&M	Sch. 6	(12,649)	0.9707487	(12,279)	7,542	(12,318)
14	ECCR Expense in O&M	Sch. 7	(10,354)	1.0000000	(10,354)	6,360	(10,388)
15	ECRC Expense in O&M	Sch. 8	(45,588)	0.9710889	(44,270)	27,193	(44,413)
16	Marketing Support Activities		(178)	1.0000000	(178)	109	(178)
17	Wholesale Sales Exp		(310)	1.0000000	(310)	190	(310)
18	Institutional Advertising		(200)	0.9840665	(197)	121	(198)
19	Economic Development Expenses		(63)	0.9994942	(63)	39	(64)
20	Management Financial Planning		(43)	0.9840665	(42)	26	(42)
21	Increase in Property Damage Reserve Accrual		5,400	0.9842920	5,315	(3,265)	5,333
22	Tallahassee Liaison Expenses in O&M		(549)	0.9840665	(540)	332	(542)
23	Amortization of Rate Case Expenses		1,673	1.0000000	1,673	(1,028)	1,679
24	Hiring Lag Adjustment to O&M		(863)	0.9847735	(850)	522	(853)
25	Production O&M Expense		348	0.9577982	333	(205)	335
26	Power Delivery O&M Expense		1,123	0.9724192	1,092	(671)	1,096
27	Long Term Evolution (LTE) system O&M		(2,100)	0.9901408	(2,079)	1,277	(2,086)
28	Customer Service O&M Expense		(772)	0.9907783	(765)	470	(768)
29	Pension Expense		(665)	0.9855595	(655)	402	(657)
	Depreciation & Amortization Adjustments:						
30	ECCR Expense in Depreciation	Sch. 7	(467)	1.0000000	(467)	287	(469)
31	ECRC Expense in Depreciation	Sch. 8	(53,755)	0.9707562	(52,183)	32,053	(52,351)
32	Change in Depreciation & Dismantlement: 2016 Studies		7,291	0.9639424	7,028	(4,317)	7,051
33	Depreciation Expense - Community Solar		(219)	0.9720336	(213)	131	(214)
34	Depreciation Expense - Generation		472	0.9720336	459	(282)	461
35	Depreciation Expense - Power Delivery		192	0.9741896	187	(115)	188
36	Depreciation Expense - Customer Service		(29)	0.9840739	(29)	18	(29)
37	Amortization of Smith 1 & 2 Net Investment	Sch. 9	2,781	0.9720871	2,703	(1,660)	2,711
38	Amortization of Deferred Return on Transmission Inv.	Sch. 10	6,525	0.9720871	6,343	(3,896)	6,363
39	Amortization of Scholz Materials and Supplies		152	0.9720871	148	(91)	149
	Other Taxes Adjustments:						
40	ECCR Expense in Other Taxes	Sch. 7	(644)	1.0000000	(644)	396	(647)
41	ECRC Expense in Property Taxes	Sch. 8	(5,590)	0.9708408	(5,427)	3,334	(5,445)
42	Tallahassee Liaison Expenses - Payroll Taxes		(36)	0.9837536	(35)	21	(34)
43	Franchise Fee Expense		(40,693)	1.0000000	(40,693)	24,996	(40,825)
44	Gross Receipts Tax		(32,552)	1.0000000	(32,552)	19,995	(32,657)
45	FPSC Assessment Fee	Sch. 11	(514)	1.0000000	(514)	316	(516)
	Subtotal		(766,255)		(740,237)	454,690	(742,626)
	Income Tax Adjustments:						
46	Tax Effect of Adjustments - Federal	Sch. 12	(35,907)	n/a	(35,569)	-	-
	- State		(5,971)	n/a	(5,915)	-	-
47	Tax Effect of Interest Synchronization - Federal	Sch. 13	8,423	0.9867031	8,311	(8,311)	13,574
	- State		1,401	0.9864383	1,382	(1,382)	2,257
	Total Expense Adjustments		(798,309)		(772,028)	444,997	(726,795)

Abbreviations:
PPCC - Purchased Power Capacity Cost
ECCR - Energy Conservation Cost Recovery
ECRC - Environmental Cost Recovery Clause

Gulf Power Company
Fuel Revenues and Expenses
For the Twelve Months Ended December 31, 2017
(Thousands of Dollars)

Description	Adjustment Number	(1) System Amount	(2) Jurisdictional Amount
Fuel Revenues:			
Retail Fuel Clause Revenues		384,614	384,614
Territorial Wholesale Fuel Revenues		11,330	
Non-Territorial Fuel Revenues			
Associated Companies Sales		102,090	99,177
Unit Power Sales		6,734	
Opportunity Sales		3,777	3,670
Total Fuel Revenues	Adj. 1	508,545	487,461
Fuel Expenses:			
Fuel Expense per the Income Statement	Adj. 9	481,800	461,552
Interchange Energy-Fuel Portion	Adj. 10	25,967	25,229
Purchase Power Transm Recov Through Fuel	Adj. 11	424	412
Total Fuel Expenses		508,191	487,193
Revenue Taxes @ 0.072% (All Retail)	Adj. 45	277	277
Total Fuel-Related Costs		508,468	487,470
Net Over (Under) Recovery of Fuel Expenses		77	(9)

Gulf Power Company
Purchase Power Capacity Cost (PPCC) Recovery Clause Revenues and Expenses
For the Twelve Months Ended December 31, 2017
(Thousands of Dollars)

Description	Adjustment Number	(1) System Amount	(2) Jurisdictional Amount
PPCC Revenues:			
Retail PPCC Revenues		84,987	84,987
Transmission Revenues Credited to Retail Customers in PPCC		347	337
Total PPCC Recovery Clause Revenues	Adj. 2	85,334	85,324
PPCC Recovery Clause Expenses:			
PPCC Production Expense Included in O&M	Adj. 12	75,188	72,986
PPCC Transmission Expense Included in O&M	Adj. 13	12,649	12,279
Revenue Taxes @ 0.072% (All Retail)	Adj. 45	61	61
Total PPCC Recovery Clause Expenses		87,898	85,326
Net Over (Under) Recovery of PPCC Recovery Clause Expenses		(2,564)	(2)

Gulf Power Company
Energy Conservation Cost Recovery (ECCR) Clause Revenues and Expenses
For the Twelve Months Ended December 31, 2017
(Thousands of Dollars)

Description	Adjustment Number	(1) System Amount	(2) Jurisdictional Amount
ECCR Clause Revenues	Adj. 3	13,466	13,466
ECCR Clause Expenses:			
ECCR O&M Expense			
Customer Service & Info.		9,627	9,627
Administrative & General		727	727
Total ECCR O&M Expense	Adj. 14	10,354	10,354
ECCR Clause Depreciation Expense	Adj. 30	467	467
ECCR Clause Expenses in Other Taxes			
Property Taxes		371	371
Payroll Taxes		273	273
Total ECCR Clause Expenses in Other Taxes	Adj. 40	644	644
Revenue Taxes @ 0.072%	Adj. 45	10	10
Carrying Costs of ECCR Clause Investment		1,992	1,992
Total ECCR Clause Expenses		13,467	13,467
Net Over (Under) Recovery of ECCR Clause Expenses		(1)	(1)

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Gulf Power Company
Environmental Cost Recovery Clause (ECRC) Revenues and Expenses
For the Twelve Months Ended December 31, 2017
(Thousands of Dollars)

Description	Adjustment Number	(1) System Amount	(2) Jurisdictional Amount
ECRC Revenues			
Retail Environmental Clause Revenues		189,644	189,644
Wholesale Environmental Clause Revenues		5,954	
Total Environmental Clause Revenues	Adj. 4	195,598	189,644
ECRC Expenses			
ECRC Expense in O&M			
Production O&M		40,730	39,554
Transmission O&M			
Distribution O&M		4,013	3,895
Admin. & General O&M		845	821
Total ECRC Expense in O&M	Adj. 15	45,588	44,270
Depreciation	Adj. 31	53,755	52,183
Taxes Other Than Income Taxes			
Revenue Taxes (All Retail)	Adj. 45	137	137
Property and Payroll Taxes	Adj. 41	5,590	5,427
Carrying Costs on ECRC Investment		104,650	101,590
Total ECRC Expenses		209,720	203,607
Net Over (Under) Recovery of ECRC Expenses		(14,122)	(13,963)

Gulf Power Company
Amortization of Investment Associated With Smith Units 1 and 2
For the Twelve Months Ended December 31, 2017
(Thousands of Dollars)

Description	Amount	
Actual Net Book Value Associated with Smith 1 & 2 as of 3/31/16	60,244	
Less: Net Book Value to be recovered through the ECRC	21,344	
Net Book Value of Smith 1 and 2 net of ECRC amounts	38,900	
Materials and Supplies Associated with Smith 1 and 2	2,810	
Total Investment to be Amortized	41,710	
Amortization Period (1)	15	years
Annual Amortization	2,781	

ECRC: Environmental Cost Recovery Clause

(1) The normal retirement dates associated with Smith Units 1 & 2 are in 2030 and 2032, respectively. Gulf proposes a 15-year amortization period based on the time between the test year (2017) and the final retirement of Smith Unit 2 (2032).

Gulf Power Company
Amortization of Deferred Return on Transmission Investment
For the Twelve Months Ended December 31, 2017
(Thousands of Dollars)

Description	Amount	
Return on Transmission Investment Deferred Through December 31, 2016 Pursuant to the 2013 Settlement Agreement in Docket No. 130140-EI	26,099	
Amortization Period	4	years
Annual Amortization	6,525	

Gulf Power Company
FPSC Assessment Fees
For the Twelve Months Ended December 31, 2017
(Thousands of Dollars)

Description		(1) Retail Revenue Amount	(2) FPSC Assessment Fee at .072%
Revenue Adjustments:			
Retail Fuel Clause Revenues (Sch. 5)	Adj. 1	384,614	277
PPCC Recovery Clause Revenues (Sch. 6)	Adj. 2	84,987	61
ECCR Clause Revenues (Sch. 7)	Adj. 3	13,466	10
ECRC Revenues (Sch. 8)	Adj. 4	189,644	137
Franchise Fee Revenues (Sch. 4, p. 2 of 3)	Adj. 5	41,767	30
Electric Vehicle Charging Revenues (Sch. 4, p. 2 of 3)	Adj. 7	(239)	-
Miscellaneous Service Revenues (Sch. 4, p. 2 of 3)	Adj. 8	(1,184)	(1)
Total FPSC Assessment Fee	Adj. 45		514

Gulf Power Company
Income Taxes Adjustments
For the Twelve Months Ended December 31, 2017
(Thousands of Dollars)

Description		Amount
Adjustment Due to Revenue and Expense Adjustments		
Revenue Adjustments (Schedule 4, p. 2 of 3)	Adjs. 1 - 8	(874,818)
Expense Adjustments (Schedule 4, p. 3 of 3)	Adjs. 9 - 45	(766,255)
Net Decrease to Taxable Income		(108,563)
Federal Income Tax @ 33.075%	Adj. 46	(35,907)
State Income Tax @ 5.5%	Adj. 46	(5,971)
Total	Adj. 46	(41,878)

Gulf Power Company
Interest Synchronization Adjustment
For the Twelve Months Ended December 31, 2017
(Thousands of Dollars)

	(1)	(2)	(3)
	Amount	**Cost Rate**	**Expense**
Total Company			
Long Term Debt	770,070	4.40%	33,883
Short-Term Debt	29,975	3.02%	905
Customer Deposits	24,852	2.30%	572
ITC-Debt Component	563	4.40%	25
Total Synchronized Interest			35,385
Total Company Interest Expense			60,851
Difference			(25,466)
Federal Income Tax @ 33.075%		Adj. 47	8,423
State Income Tax @ 5.5%		Adj. 47	1,401
Total			9,824
Jurisdictional			
Long Term Debt	732,273	4.40%	32,220
Short-Term Debt	28,504	3.02%	861
Customer Deposits	24,536	2.30%	564
ITC-Debt Component	294	4.40%	13
Total Synchronized Interest			33,658
Total Company Interest Expense		60,851	
Less: Unit Power Sales Interest		929	
		59,922	
Jurisdictional Factor		0.9810587	58,787
Difference			(25,129)
Federal Income Tax @ 33.075%		Adj. 47	8,311
State Income Tax @ 5.5%		Adj. 47	1,382
Total			9,693

Gulf Power Company
13-Month Average Jurisdictional Cost of Capital
For the Period Ended December 31, 2017
(Thousands of Dollars)

	(A)	(B)	(C)	(D)
Item Description	Jurisdictional Capital Structure (000's)	Ratio %	Cost Rate %	Weighted Cost Rate %
Long-Term Debt	732,273	30.27	4.40	1.33
Short-Term Debt	28,504	1.18	3.02	0.04
Preference Stock	94,609	3.91	6.15	0.24
Common Equity	969,275	40.07	11.00	4.41
Customer Deposits	24,536	1.01	2.30	0.02
Deferred Taxes	603,001	24.93		0.00
ACS 740 Deferred Taxes	(34,002)	(1.40)		0.00
Investment Credit - Weighted Cost	721	0.03	8.05	0.00
Total	2,418,917	100.00		6.04

GULF POWER COMPANY
13-Month Average Capital Structure
December 31, 2017
(Thousands of Dollars)

Description	(1) Total Company	(2) Less: Common Dividends Declared & Trans Equity Return	(3) Less: Unamort. Prem., Disc., Issuance Exp. & Loss On Reacquired Debt	(4) Less: Non-Utility Adjs.	(5) Less: Unamort. Loss or Gain on Hedge	(6) Less: Adjustment to Reflect Additional Equity Issuance	(7) Subtotal	(8) Less: Scherer 3 Off-System Sales	(9) Less: IRS 1.167 Def. Tax Adjustment	(10) Subtotal	(11) Ratio	(12) Other Rate Base Adjs.	(13) Total Adjusted Capital Structure Net of UPS	(14) Juris. Factor	(15) Juris. Capital Structure
Long-Term Debt	1,313,186		29,296		(59)	150,000	1,133,949	20,450	(301)	1,113,800	0.30278671	367,244	746,556	0.9808683	732,273
Short-Term Debt	44,139						44,139	796	(12)	43,355	0.01178606	14,295	29,060	0.9808683	28,504
Preference Stock	146,504						146,504	2,642	(39)	143,901	0.03911951	47,447	96,454	0.9808683	94,609
Common Equity	1,333,747	(29,617)		12,374	36	(150,000)	1,500,954	27,069	(399)	1,474,284	0.40078434	486,103	988,181	0.9808683	969,275
Customer Deposits	36,595						36,595		(10)	36,605	0.00995108	12,069	24,536	1.0000000	24,536
Deferred Taxes	932,197				23		932,174	14,253	747	917,174	0.24933390	302,412	614,762	0.9808683	603,001
ACS 740 Def. Taxes	(52,507)						(52,507)	(803)	14	(51,718)	(0.01405955)	(17,053)	(34,665)	0.9808683	(34,002)
Investment Credit - Weighted Costs	1,373						1,373	277	-	1,096	0.00029795	361	735	0.9808683	721
Total	3,755,234	(29,617)	29,296	12,374	-	-	3,743,181	64,684	-	3,678,497	1.00000000	1,212,878	2,465,619		2,418,917

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GULF POWER COMPANY
13-Month Average Cost of Long-Term Debt
at December 31, 2017
(Thousands of Dollars)

	(1) Issue	(2) Issue Date	(3) Maturity Date	(4) Principal	(5) Unamortized Prem.,Disc., Issuing Exp. & Loss on Reacquired Debt	(6) Unamortized Loss/(Gain) on Hedge	(7) Net (4) - (5) - (6)	(8) Amortization Prem.,Disc., Issuing Exp. & Loss on Reacquired Debt	(9) Amort Loss/(Gain) on Hedge	(10) Interest (1) x (4)	(11) Annual Total Cost (8) + (9) + (10)
Senior Notes and Other Long-Term Debt											
5.90%	Senior Note Series 2007A	6/12/2007	6/15/2017	39,231	9	(32)	39,254	25	(133)	2,315	2,207
4.75%	Senior Note Series 2010A	4/13/2010	4/15/2020	175,000	370	(424)	175,054	133	(153)	8,313	8,293
5.10%	Senior Note Series 2010B	9/17/2010	10/1/2040	125,000	989	0	124,011	43	0	6,375	6,418
5.75%	Senior Note Series 2011A	5/18/2011	6/1/2051	125,000	3,508	0	121,492	103	0	7,188	7,291
3.10%	Senior Note Series 2012A	5/18/2012	5/15/2022	100,000	459	0	99,541	93	0	3,100	3,193
5.00%	Senior Note Series 2013A	6/18/2013	6/15/2043	90,000	962	0	89,038	37	0	4,500	4,537
4.55%	Senior Note Series 2014A	9/23/2014	10/1/2044	200,000	2,131	0	197,869	78	0	9,100	9,178
5.14%	Senior Note Series 2016	12/1/2016	10/1/2046	150,000	1,180	0	148,820	40	0	7,710	7,750
Pollution Control Bonds											
2.10%	Escambia County Series 1997	7/1/1997	7/1/2022	37,000	520	0	36,480	104	0	777	881
Variable	Jackson County Series 1997	7/1/1997	7/1/2022	3,930	11	0	3,919	2	0	81	83
2.00%	Monroe County Series 2002	9/26/2002	9/1/2037	42,000	1,512	0	40,488	75	0	840	915
2.00%	Escambia County Series 2003	4/15/2003	6/1/2023	32,550	445	0	32,105	75	0	651	726
Variable	Escambia County 1st Series 2009	3/31/2009	4/1/2039	65,400	1,276	0	64,124	59	0	1,350	1,409
1.60%	Escambia County 2nd Series 2009	3/31/2009	4/1/2039	65,000	456	0	64,544	21	0	1,040	1,061
2.53%	Monroe County Series 2010	6/3/2010	6/1/2049	21,000	534	0	20,466	21	0	531	552
Variable	Jackson County MBFC Series 2012	11/20/2012	11/1/2042	13,000	576	0	12,424	23	0	275	298
4.45%	Jackson County MBFC Series 2014	4/15/2014	4/1/2044	29,075	810	0	28,265	30	0	1,294	1,324
Reacquired Debt				-	13,548	397	(13,945)	1,111	522	-	1,633
Total Long-Term Debt				1,313,186	29,296	(59)	1,283,949	2,073	236	55,440	57,749
Less: Adjustment to Long-Term Debt 5.14% Senior Note Series 2016		12/1/2016	10/1/2046	150,000	1,180	-	148,820	40	-	7,710	7,750
Adjusted Total Long-Term Debt				1,163,186	28,116	(59)	1,135,129	2,033	236	47,730	49,999
Embedded Cost of Long-Term Debt											**4.40%**
Less: Adjustment for Scherer Off-System Sales				20,450	-	-	20,450	-	-	901	901
Long-Term Debt net of Scherer Off-System Sales				1,142,736	28,116	(59)	1,114,679	2,033	236	46,829	49,098
Embedded Cost of Long-Term Debt net of Scherer Off-System Sales											**4.40%**

GULF POWER COMPANY
13-Month Average Cost of Preference Stock
at December 31, 2017
(Thousands of Dollars)

(1) Issue	(2) After-Tax Cost Rates	(3) Issue Date	(4) Call Provisions or Special Restrictions	(5) Principal Amount Sold	(6) Issue Expense	(7) Net Proceeds (5) - (6)	(8) Dividends Declared and Paid (2) x (5)	(9) Cost of Money (8) / (7)
Preference Stock								
6.00%	6.00%	11-15-05	Note 1	55,000	1,114	53,886	3,300	6.12%
6.45%	6.45%	10-19-07	Note 2	45,000	888	44,112	2,903	6.58%
5.60%	5.60%	06-18-13	Note 3	50,000	1,494	48,506	2,800	5.77%
Total Preference Stock				150,000	3,496	146,504	9,003	**6.15%**
Less: Adjustment for Scherer Off-System Sales				2,642		2,642	162	
Preference Stock net of Scherer Off-System sales				147,358		143,862	8,841	**6.15%**

Note 1: The Company shall have the right to redeem Preference Stock, without premium, from time to time, on or after November 15, 2010, upon notice, at a redemption price equal to $100.00 per share plus accrued and unpaid dividends.

Note 2: The Company shall have the right to redeem the Preference Stock, from time to time, per the calculation outlined in the Prospectus Supplement dated October 16, 2007.

Note 3: The Company shall have the right to redeem the Preference Stock, from time to time, per the calculation outlined in the Prospectus Supplement dated June 12, 2013.

Gulf Power Company
Proration of Accumulated Deferred Income Taxes
Activity Associated with Book/Tax Depreciation
13-Month Average for the Period Ended December 31, 2017
(Thousands of Dollars)

(1) Month	(2) Activity	(3) Accumulated Balance	(4) Days to Prorate	(5) Future Days in Test Period	(6) Prorated Monthly Activity	(7) Prorated Accumulated Balance
Beginning Balance		747,293				747,293
January	1,050	748,343	N/A			748,343
February	1,051	749,394	N/A			749,394
March	1,050	750,444	N/A			750,444
April	1,051	751,495	N/A			751,495
May	1,050	752,545	N/A			752,545
June	1,051	753,596	N/A			753,596
July	1,050	754,646	31	154	879	754,475
August	1,051	755,697	31	123	703	755,178
September	1,050	756,747	30	93	531	755,709
October	1,051	757,798	31	62	354	756,063
November	1,050	758,848	30	32	183	756,246
December	1,050	759,898	31	1	6	756,252
Total	12,605		184		2,656	
13-Month Average		753,596	13-Month Average Prorated Balance			752,849
Adjustment to Accumulated Deferred Income Taxes						**(747)**

Gulf Power Company
FPSC Adjusted Achieved Rate of Return
and Return on Common Equity
For the Test Year Ended 12/31/2017
(Thousands of Dollars)

	Schedule Reference	Amount
Jurisdictional Adjusted NOI Achieved	4	80,723
Divide by Jurisdictional Adjusted Rate Base	2	2,418,917
Achieved Rate of Return		3.34
Less: Retail Weighted Cost Rates (6.04% - 4.41%)	14	1.63
Return Available for Common Equity		1.71
Divide by Jurisdictional Adjusted Common Equity Ratio	14	40.07
Achieved Jurisdictional Return on Common Equity		4.27%

Gulf Power Company
Calculation of Revenue Deficiency
For the Test Year Ended 12/31/2017
(Thousands of Dollars)

	Schedule Reference	Amount
Jurisdictional Adjusted Rate Base	2	2,418,917
Requested Jurisdictional Rate of Return	14	6.04%
Jurisdictional NOI Required		146,103
Less: Achieved Jurisdictional Adjusted NOI	4	80,723
Return Requirement (After Taxes)		65,380
Net Operating Income Multiplier	18	1.633258
Revenue Deficiency		106,782

Gulf Power Company
Revenue Expansion Factor & NOI Multiplier
For the Test Year Ended
12/31/2017

Line No.	Description	Percent	Percent
1	Revenue Requirement		100.0000
2	Regulatory Assessment Rate		0.0720
3	Bad Debt Rate		0.2499
4	Net Before Income Taxes (1) - (2) - (3)		99.6781
5	State Income Tax Rate	5.5	5.5000
6	State Income Tax (4) x (5)		5.4823
7	Net Before Federal Income Tax (4) - (6)		94.1958
8	Federal Income Tax Rate	35.0	35.0000
9	Federal Income Tax (7) x (8)		32.9685
10	Revenue Expansion Factor (7) - (9)		61.2273
11	Net Operating Income Multiplier (100% / Line 10)		1.633258

Gulf Power Company
Operation and Maintenance Expenses
Benchmark Variance by Function
2012 Allowed Compared to 2017 Test Year Request Expenses
(Thousands of Dollars)

	Description	(1) 2012 Allowed	(2) Compound Multiplier	(3) Test Year Benchmark (1) x (2)	(4) 2017 Test Year Request	(5) Variance
1	Steam Production	95,311	1.08447	103,362	104,453	1,091
2	Other Production	7,312	1.08447	7,930	13,280	5,350
3	Other Power Supply	4,312	1.08447	4,676	4,421	(255)
4	Total Production	106,935	1.08447	115,968	122,154	6,186
5	Transmission	11,320	1.14523	12,964	16,568	3,604
6	Distribution	39,877	1.14523	45,668	45,874	206
7	Customer Accounts	24,532	1.14523	28,095	27,730	(365)
8	Customer Service & Information	18,861	1.14523	21,600	16,983	(4,617)
9	Sales	945	1.14523	1,082	1,156	74
10	Administrative & General	73,482	1.14523	84,154	89,348	5,194
11	Total	275,952		309,531	319,813	10,282

Gulf Power Company
Operation and Maintenance Expenses
Benchmark Variance by Function
2012 Allowed Compared to 2017 Test Year Request Expenses
(Thousands of Dollars)

	Description	(1) 2012 Allowed	(2) Compound Multiplier	(3) Test Year Benchmark (1) x (2)	(4) 2017 Test Year Request	(5) Variance
1	Steam Production	95,311	1.08447	103,362	104,453	1,091
2	Other Production	7,312	1.08447	7,930	13,280	5,350
3	Other Power Supply	4,312	1.08447	4,676	4,421	(255)
4	Total Production	106,935	1.08447	115,968	122,154	6,186
5	Transmission	11,320	1.14523	12,964	16,568	3,604
6	Distribution	39,877	1.14523	45,668	45,874	206
7	Customer Accounts	24,532	1.14523	28,095	27,730	(365)
8	Customer Service & Information	18,861	1.14523	21,600	16,983	(4,617)
9	Sales	945	1.14523	1,082	1,156	74
10	Administrative & General	73,482	1.14523	84,154	89,348	5,194
11	Total	275,952		309,531	319,813	10,282

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Gulf Power Company
Operation and Maintenance Expenses
2012 Benchmark Year Recoverable O&M Expenses by Function
(Thousands of Dollars)

		(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Description	2012 System Per Books	Eliminate Recoverable Fuel and Purchased Power	Eliminate Recoverable ECRC	Eliminate Recoverable ECCR	Other Regulatory O&M Adjustments	Functional Adjustments	2012 System Adjusted Amount
1	Production	882,030	(730,362)	(30,440)	0	(14,293)	0	106,935
2	Transmission	14,269	(2,657)	0	0	(292)	0	11,320
3	Distribution	43,781	0	(2,185)	0	(1,032)	(687)	39,877
4	Customer Accounts	24,723	0	0	0	(1,054)	863	24,532
5	Customer Service & Information	38,757	0	0	(18,070)	(465)	(1,361)	18,861
6	Sales	1,097	0	0	0	(152)	0	945
7	Administrative & General	82,178	(300)	(706)	(1,241)	(7,634)	1,185	73,482
8	Total	1,086,835	(733,319)	(33,331)	(19,311)	(24,922)	0	275,952

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Gulf Power Company
Operation and Maintenance Expenses
2017 Test Year O&M Adjustments by Function
(Thousands of Dollars)

	Description	(1) 2017 Test Year System Per Books	(2) Fuel and Purchased Power Expense	(3) Energy Conservation Cost Recovery	(4) Environmental Cost Recovery	(5) O&M Expense Assoc. with Scherer Sold Off-System	(6) Marketing Support Activities	(7) Wholesale Sales Expense	(8) Institutional Advertising	(9) Economic Development	(10) Management Financial Planning	(11) Increase in Property Damage Reserve Accrual
1	Production	748,697	(582,955)	0	(40,730)	(2,675)	0	(310)	0	0	0	0
2	Transmission	28,629	(13,073)	0	0	0	0	0	0	0	0	0
3	Distribution	51,147	0	0	(4,013)	0	0	0	0	0	0	0
4	Customer Accounts	28,670	0	0	0	0	0	0	0	0	0	0
5	Customer Service & Information	26,675	0	(9,627)	0	0	0	0	0	0	0	0
6	Sales	1,398	0	0	0	0	(178)	0	0	(61)	0	0
7	Administrative & General	87,049	0	(727)	(845)	(608)	0	0	(200)	(2)	(43)	5,400
8	Total	972,265	(596,028)	(10,354)	(45,588)	(3,283)	(178)	(310)	(200)	(63)	(43)	5,400

	Description	(12) Tallahassee Liaison Expenses	(13) Rate Case Expense Amortization	(14) Hiring Lag	(15) Production O&M Adjustments	(16) Transmission O&M Adjustments	(17) LTE O&M Adjustment	(18) Customer Service O&M Adjustments	(19) Pension Adjustment	(20) Subtotal Adjustments	(21) Total Adjusted O&M
1	Production	0	0	(247)	667	0	(410)	0	117	(626,543)	122,154
2	Transmission	0	0	(34)	0	1,123	(99)	0	22	(12,061)	16,568
3	Distribution	0	0	(160)	0	0	(1,123)	0	23	(5,273)	45,874
4	Customer Accounts	0	0	(92)	0	0	(224)	(650)	26	(940)	27,730
5	Customer Service & Information	0	0	(57)	0	0	(19)	0	11	(9,692)	16,983
6	Sales	0	0	(3)	0	0	0	0	0	(242)	1,156
7	Administrative & General	(549)	1,673	(270)	(319)	0	(225)	(122)	(864)	2,299	89,348
8	Total	(549)	1,673	(863)	348	1,123	(2,100)	(772)	(665)	(652,452)	319,813

Gulf Power Company
Operation and Maintenance Expenses
2012 Benchmark Year Recoverable O&M Expenses by Function
(Thousands of Dollars)

	Description	(1) 2012 System Per Books	(2) Eliminate Recoverable Fuel and Purchased Power	(3) Eliminate Recoverable ECRC	(4) Eliminate Recoverable ECCR	(5) Other Regulatory O&M Adjustments	(6) Functional Adjustments	(7) 2012 System Adjusted Amount
1	Production	882,030	(730,362)	(30,440)	0	(14,293)	0	106,935
2	Transmission	14,269	(2,657)	0	0	(292)	0	11,320
3	Distribution	43,781	0	(2,185)	0	(1,032)	(687)	39,877
4	Customer Accounts	24,723	0	0	0	(1,054)	863	24,532
5	Customer Service & Information	38,757	0	0	(18,070)	(465)	(1,361)	18,861
6	Sales	1,097	0	0	0	(152)	0	945
7	Administrative & General	82,178	(300)	(706)	(1,241)	(7,634)	1,185	73,482
8	Total	1,086,835	(733,319)	(33,331)	(19,311)	(24,922)	0	275,952

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Gulf Power Company

Operation and Maintenance Expenses
2017 Test Year O&M Adjustments by Function
(Thousands of Dollars)

	Description	(1) 2017 Test Year System Per Books	(2) Fuel and Purchased Power Expense	(3) Energy Conservation Cost Recovery	(4) Environmental Cost Recovery	(5) O&M Expense Assoc. with Scherer Sold Off-System	(6) Marketing Support Activities	(7) Wholesale Sales Expense	(8) Institutional Advertising	(9) Economic Development	(10) Management Financial Planning	(11) Increase in Property Damage Reserve Accrual
1	Production	748,697	(582,955)	0	(40,730)	(2,675)	0	(310)	0	0	0	0
2	Transmission	28,629	(13,073)	0	0	0	0	0	0	0	0	0
3	Distribution	51,147	0	0	(4,013)	0	0	0	0	0	0	0
4	Customer Accounts	28,670	0	0	0	0	0	0	0	0	0	0
5	Customer Service & Information	26,675	0	(9,627)	0	0	0	0	0	0	0	0
6	Sales	1,398	0	0	0	0	(178)	0	0	(61)	0	0
7	Administrative & General	87,049	0	(727)	(845)	(608)	0	0	(200)	(2)	(43)	5,400
8	Total	972,265	(596,028)	(10,354)	(45,588)	(3,283)	(178)	(310)	(200)	(63)	(43)	5,400

	Description	(12) Tallahassee Liaison Expenses	(13) Rate Case Expense Amortization	(14) Hiring Lag	(15) Production O&M Adjustments	(16) Transmission O&M Adjustments	(17) LTE O&M Adjustment	(18) Customer Service O&M Adjustments	(19) Pension Adjustment	(20) Subtotal Adjustments	(21) Total Adjusted O&M
1	Production	0	0	(247)	667	0	(410)	0	117	(626,543)	122,154
2	Transmission	0	0	(34)	0	1,123	(99)	0	22	(12,061)	16,568
3	Distribution	0	0	(160)	0	0	(1,123)	0	23	(5,273)	45,874
4	Customer Accounts	0	0	(92)	0	0	(224)	(650)	26	(940)	27,730
5	Customer Service & Information	0	0	(57)	0	0	(19)	0	11	(9,692)	16,983
6	Sales	0	0	(3)	0	0	0	0	0	(242)	1,156
7	Administrative & General	(549)	1,673	(270)	(319)	0	(225)	(122)	(864)	2,299	89,348
8	Total	(549)	1,673	(863)	348	1,123	(2,100)	(772)	(665)	(652,452)	319,813

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Gulf Power Company
Hiring Lag
For the Twelve Months Ended December 31, 2017

	(1) Average Turnover	(2) Average # of Days to Hire	(3) Average Salary ($)	(4) Average Hiring Lag ($)
Covered	21	35	37,803	75,251
Exempt	34	73	90,729	604,244
Non-Exempt	17	77	44,161	155,480
				834,975

Average Hiring Lag	$	834,975
O&M Percentage		74.11%
Average Hiring Lag - O&M	$	618,800
Benefits - 21.25%		131,495
Variable Compensation - 18.17%		112,436
Average Hiring Lag, incl. Benefits and Var. Comp.	$	862,731

Average Turnover and Average Days to Hire details are shown below
Average Salary - based on average salaries from 2015
Fringe Benefits and Variable Compensation rates calculated using MFR C-35.

Employee Turnover *				
Year	Covered	Exempt	Non-Exempt	Total
2012	24	18	18	60
2013	18	39	20	77
2014	25	39	11	75
2015	16	38	18	72
Avg	21	34	17	71

** Includes voluntary and involuntary terminations, retirements and transfers within*

Average # of Days to Hire **				
Year	Covered	Exempt	Non-Exempt	Total
2012	42	68	62	53
2013	29	71	97	66
2014	36	74	51	53
2015	33	77	97	63
Avg	35	73	77	59

*** Represents the average number of days between the requisition open date and start date*

Gulf Power Company

General Plant Capital Additions

For the Prior Year Ended 12/31/2016 and Test Year Ended 12/31/2017

(Thousands of Dollars)

Description	2016	2017
Office Furniture & Mechanical Equipment	325	287
Misc. Buildings, Land and Equipment	447	761
Security Equipment	185	169
Automobiles, Trucks and Equipment	3,309	3,360
Telecommunications Wireless System Additions/Improvements	192	188
Voice & Data Converged Network	576	564
Transport Network	768	752
Field Computing	144	141
CSS Data Integration Hub Architecture	127	0
Long-Term Evolution (LTE) System	1,500	11,400
IT Cyber Security Software	400	0
On Line Customer Care	400	100
Customer Kiosks	974	598
Maximo/Oracle/Powerplant Upgrades	120	260
Audio/Video Equipment/Printshop Equipment	75	148
Pine Forest Parking Lot Resurface	0	270
DeFuniak Springs Roof	327	0
Panama City Vehicle Maintenance Facility	3,500	0
Gulf Smart Energy Center	1,000	3,000
Panama City Admin Chiller	150	0
General Warehouse Converge Roof	72	0
T&D Warehouse Equipment Replacement	147	150
General Plant Capital Additions Total	**14,738**	**22,148**

Gulf Power Company
13-Month Average Investment Associated with
Scherer 3 Off-System Sales
for the Period Ended December 31, 2017
(Thousands of Dollars)

Description	(1) Total Scherer 3	(2) Less: Removal of Asset Retirement Obligation	(3) Net	(4) Scherer 3 Off-System Sales (24%)
Plant-in-Service	409,821	(7,153)	402,668	96,640
Accumulated Depreciation and Amortization	148,409	(520)	147,889	35,493
Net Plant-in-Service	261,412	(6,633)	254,779	61,147
Plant Held for Future Use	-		-	-
Construction Work-in-Progress	5,936		5,936	1,425
Plant Acquisition Adjustment	1,137		1,137	273
Net Utility Plant	268,485	(6,633)	261,852	62,845
Working Capital Allowance				
Fuel	7,433		7,433	1,784
Materials and Supplies	2,358		2,358	566
Prepayments	225		225	54
Other Working Capital *				(565)
Total	278,502	(6,633)	271,869	64,684

* Includes net current assets and liabilities, other deferred debits and credits, and reserves allocated to Scherer 3 Off-System Sales in the cost of service study

Gulf Power Company
Net Operating Income Associated with
Scherer 3 Off-System Sales
for the Twelve Months Ended December 31, 2017
(Thousands of Dollars)

	(1)	(2)
Description	**Total Scherer 3**	**Scherer 3 Off-System Sales (24%)**
Operating Revenues:		
Sales of Electricity (all from Off-System Sales)	12,919	12,919
Other Operating Revenues	-	-
Total Operating Revenues	12,919	12,919
Operating Expenses:		
Operation & Maintenance Expense	13,679	3,283
Depreciation & Amortization	8,340	2,002
Amortization of Investment Tax Credit	(253)	(61)
Taxes Other Than Income Taxes	770	185
Income Taxes		2,539
Total Operating Expenses		7,948
Net Operating Income		4,971