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Regulatory & Pricing Manager

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December 19, 2016

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

Re: Docket No. 160186-EI

Dear Ms. Stauffer:

Attached is Gulf Power Company's Notice of Withdrawal of Portion of Testimony of Michael L. Burroughs in the above-referenced docket, submitted by electronic mail.

Sincerely,

A handwritten signature in blue ink that reads "Robert L. McGee, Jr.".

Robert L. McGee, Jr.  
Regulatory and Pricing Manager

md

Attachments

cc: Beggs & Lane  
Jeffrey A. Stone, Esq.  
Gunster Law Firm  
Charles A. Guyton, Esq.  
Richard A. Melson, Esq.

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Petition for rate increase by Gulf Power Company      Docket No.            160186-EI  
Date filed: December 19, 2016

In 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.

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**GULF POWER COMPANY'S  
NOTICE OF WITHDRAWAL OF PORTION  
OF TESTIMONY OF MICHAEL L. BURROUGHS**

Gulf Power Company ("Gulf") hereby withdraws certain portions of the pre-filed direct testimony of Michael L. Burroughs filed October 12, 2016 in Docket No. 160186-EI. Gulf is withdrawing a portion of witness Burroughs prefiled direct testimony located on page 2, line 16; page 8, lines 11, 12 and 16 through 21; page 9, lines 6 thorough 25; page 10 and page 50 lines 1 through 3. Attachment A to this notice is a redline version of the pages with the withdrawn testimony. Attachment B is a clean version of the testimony replacing the October 12, 2016 version.

Respectfully submitted this 19th day of December, 2016.



**JEFFREY A. STONE**

Florida Bar No. 325953

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# Attachment A

1 following seven years, I held positions of Maintenance Manager as well as  
2 Compliance and Engineering Manager. In May 2006, I was selected to be  
3 the Assistant to the Executive Vice President and Chief Production Officer  
4 of Southern Company Generation and Alabama Power Company. In  
5 September 2007, I was named Plant Manager of Yates Generating Plant in  
6 Newnan, Georgia with Georgia Power Company. I assumed my current  
7 position as Vice President of Power Generation and Senior Production  
8 Officer of Gulf in August 2010.

9  
10 Q. What is your educational background?

11 A. I graduated with a Bachelor of Science degree in Mechanical Engineering  
12 from the University of Alabama at Birmingham in 1990.

13  
14 Q. What is the purpose of your testimony?

15 A. My testimony discusses the continued diversification of Gulf generating  
16 resources, ~~Gulf's resource planning process,~~ and closure-related activities  
17 for the coal-fired assets at Plant Scholz and Plant Smith Units 1 and 2  
18 (Smith 1 and 2). I will also establish that our safety performance has been  
19 excellent and the reliability of our generating resources continues to be  
20 among the best in the electric utility industry. I justify Production  
21 investment, Production operation and maintenance (O&M) expenses, and  
22 fuel inventory levels necessary for Gulf's continued provision of reliable  
23 generation. Lastly, I will address Gulf's Plant Held for Future Use (PHFU).

1 The MATS rule and other new environmental requirements and their  
2 associated costs of compliance made the premature closure of Smith 1 and  
3 2 the least costly alternative for Gulf's customers. The retirement of Smith 1  
4 and 2 prior to the units being fully depreciated left Gulf with approximately  
5 \$60 million in remaining net book value. These units have been used and  
6 useful in serving the needs of Gulf customers for almost 40 years and were  
7 operated and managed in an exceptional manner. Ms. Ritenour will address  
8 the proper ratemaking treatment of the remaining net book value related to  
9 Smith 1 and 2.

10  
11 Q. Please discuss ~~the rededication of~~ Scherer Unit 3 ~~to serve native load~~  
12 ~~customers~~ and its performance.

13 A. Scherer Unit 3 is a coal-fired unit with an 818 MW nameplate rating (857 MW  
14 capacity rating) that is jointly owned by Georgia Power Company and Gulf  
15 Power Company. Gulf has owned 25 percent of Scherer Unit 3 since 1987.  
16 ~~when it was purchased to serve retail customers. Until December 31, 2015,~~  
17 ~~Gulf's share of this unit was committed to temporary off-system sales to~~  
18 ~~wholesale customers. As these wholesale contracts have begun to expire,~~  
19 ~~the related portions of Scherer Unit 3 have been rededicated to serve native~~  
20 ~~load customers. The rededication of Scherer Unit 3 is more fully discussed in~~  
21 ~~the testimonies of Gulf Witnesses Deason, Burleson, and Liu.~~

22  
23 Scherer Unit 3 is a fully controlled, coal-fired unit with Selective Catalytic  
24 Reduction, Flue Gas Desulfurization, and Baghouse equipment installed for  
25 optimum and long-term emissions compliance. Scherer Unit 3 is the most

1 economical coal-fired unit in Gulf's generation fleet, and it uses Powder  
2 River Basin (PRB) coal as its fuel source. Lastly, the performance of  
3 Scherer Unit 3 has been outstanding, with excellent heat rate and reliability.  
4

## 5 ~~II. GULF'S RESOURCE PLANNING PROCESS~~

6  
7  
8 ~~Q. Please provide an overview of Gulf's resource planning process.~~

9 ~~A. The resource planning process utilized by Gulf to determine its future needs~~  
10 ~~is coordinated within the SES Integrated Resource Planning (IRP) process.~~  
11 ~~Gulf participates in the IRP process along with the other SES retail~~  
12 ~~operating companies (Alabama Power, Georgia Power, and Mississippi~~  
13 ~~Power). Gulf receives a number of benefits from being part of a~~  
14 ~~collaborative system planning process. Planning its capacity additions in~~  
15 ~~conjunction with the SES retail operating companies allows Gulf to meet its~~  
16 ~~demand and reserve requirements by utilizing the temporary surpluses of~~  
17 ~~capacity available on the SES or by sharing our temporary capacity~~  
18 ~~surpluses with the other retail operating companies.~~

19  
20 ~~This ability to coordinate capacity additions and rely temporarily on any~~  
21 ~~surplus system reserves provides Gulf the opportunity to defer capacity~~  
22 ~~addition decisions in order to consider (a) larger blocks of need that might~~  
23 ~~represent less costly addition alternatives, (b) emerging technologies that~~  
24 ~~might not have been available earlier, and (c) emerging environmental~~  
25 ~~requirements that might affect unit addition choices. Another benefit to Gulf~~

1 that is gained from planning a large system such as the SES is the ability to  
2 receive support of system planning personnel as the need arises without  
3 incurring the costs of a large planning staff of its own.

4  
5 Gulf's long-range goal is to have economical, reliable generating capacity  
6 available to meet our customers' needs. In order to meet the anticipated  
7 demand that often develops irregularly and in increments much smaller than  
8 the capacity of a large, efficient generating unit, and to realize the  
9 economies of scale inherent in large units, most electric utilities will  
10 construct "blocks" of generating capacity which are temporarily in excess of  
11 the requirements anticipated at the time the unit is initially brought on line. If  
12 the utility were to satisfy only the annual increase in demand, these small  
13 blocks would be much higher in cost on a per unit basis and much lower in  
14 efficiency.

15  
16 In planning generating capacity additions, Gulf has certain advantages that  
17 greatly benefit its customers. Gulf Power, Alabama Power, Georgia Power,  
18 and Mississippi Power operate as an integrated generation and  
19 transmission network over a four-state area. Coordinated planning with our  
20 Southern system affiliates allows for the staggered construction of larger,  
21 more efficient generating units spread throughout the SES.

22  
23 Q. — Is this the same planning process used in Gulf's last rate case and the  
24 same process described in Gulf's Ten Year Site Plan?

25 A. — Yes.

1 ~~Gulf has continued to diversify its generating resources through resource~~  
2 ~~planning for the future needs of its customers and closure-related activities~~  
3 ~~for the coal-fired assets at Plants Scholz and Smith.~~ Our safety

4 performance has been excellent, and the reliability of our generating  
5 resources continues to be among the best in the electric utility industry.

6  
7 Gulf's Production investment and O&M expenses are absolutely necessary  
8 in order to maintain reliable plant performance in the future. Our past  
9 performance indicates that Gulf continues to be a good steward of its  
10 generating resources and can be trusted to maintain reliable performance in  
11 the future to the benefit of its customers.

12  
13 Gulf's fuel inventory policy, adjusted for generating plant additions,  
14 retirements, and current market fuel prices, is essentially the same as  
15 testified to in the last rate case. Gulf's fuel inventory policy is an integral  
16 part of our strategy to ensure that we have an adequate supply of fuel  
17 available at all times for the reliable operation of Gulf's generating assets.  
18 Without an appropriate level of fuel inventory, having exceptional plant  
19 performance and also reliable transmission and distribution systems would  
20 be of no value to our customers.

21  
22 Scherer Unit 3 is a fully controlled and reliable coal-fired unit that has been  
23 rededicated for the primary use of our retail customers. The rededication of  
24 Scherer Unit 3, plus the recent addition of solar and wind generation,

25



# Attachment B

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission  
3 Prepared Direct Testimony of  
4 Michael L. Burroughs  
5 Docket No. 160186-EI  
6 In Support of Rate Relief  
7 Date of Filing: October 12, 2016

8 Q. Please state your name and business address.

9 A. My name is Michael Burroughs. My business address is One Energy Place,  
10 Pensacola, Florida 32520.

11 Q. What is your position?

12 A. I am Vice President of Power Generation and the Senior Production Officer  
13 of Gulf Power Company (Gulf or the Company).

14 Q. What are your responsibilities as Vice President of Power Generation and  
15 Senior Production Officer?

16 A. I am responsible for Power Generation, Fuel, Supply Side Renewable  
17 Energy Development and Generation Planning. This includes  
18 responsibilities for all of Gulf's wholly owned and jointly owned plants and all  
19 power purchase agreements.

20 Q. Please state your prior work experience and responsibilities.

21 A. I was hired by Alabama Power Company in 1991 as a Junior Engineer at  
22 Plant Barry in Mobile, Alabama. I progressed through various positions until  
23 I transferred to Gulf, assuming the role of Planning and Engineering  
24 Manager at Plant Smith in Panama City, Florida in 1999. During the  
25

1 following seven years, I held positions of Maintenance Manager as well as  
2 Compliance and Engineering Manager. In May 2006, I was selected to be  
3 the Assistant to the Executive Vice President and Chief Production Officer  
4 of Southern Company Generation and Alabama Power Company. In  
5 September 2007, I was named Plant Manager of Yates Generating Plant in  
6 Newnan, Georgia with Georgia Power Company. I assumed my current  
7 position as Vice President of Power Generation and Senior Production  
8 Officer of Gulf in August 2010.

9  
10 Q. What is your educational background?

11 A. I graduated with a Bachelor of Science degree in Mechanical Engineering  
12 from the University of Alabama at Birmingham in 1990.

13  
14 Q. What is the purpose of your testimony?

15 A. My testimony discusses the continued diversification of Gulf generating  
16 resources and closure-related activities for the coal-fired assets at Plant  
17 Scholz and Plant Smith Units 1 and 2 (Smith 1 and 2). I will also establish  
18 that our safety performance has been excellent and the reliability of our  
19 generating resources continues to be among the best in the electric utility  
20 industry. I justify Production investment, Production operation and  
21 maintenance (O&M) expenses, and fuel inventory levels necessary for  
22 Gulf's continued provision of reliable generation. Lastly, I will address Gulf's  
23 Plant Held for Future Use (PHFU).

1 Q. Are you sponsoring any exhibits?

2 A. Yes. I am sponsoring Exhibit MLB-1, Schedules 1 through 11. Exhibit  
3 MLB-1 was prepared under my direction and control, and the information  
4 contained therein is true and correct to the best of my knowledge and belief.

5

6 Q. Are you sponsoring any of the Minimum Filing Requirements (MFRs)  
7 submitted by Gulf?

8 A. Yes. A list of MFRs I sponsor or co-sponsor is included on Exhibit MLB-1,  
9 Schedule 1. The information contained in the MFRs I sponsor or co-  
10 sponsor is true and correct to the best of my knowledge and belief.

11

12

13

### **I. GULF'S GENERATION RESOURCES**

14

15 Q. Please describe Gulf's generating resources.

16 A. Gulf generates or purchases electricity from a diverse group of resources,  
17 including: (a) units owned solely by Gulf; (b) units owned jointly with other  
18 operating companies within the Southern electric system (SES); (c) units in  
19 the SES available to Gulf through the SES Intercompany Interchange  
20 Contract (IIC); and (d) units available to Gulf under power purchase  
21 agreements (PPAs). The fuels used for the generation resources available  
22 to Gulf include coal, oil, natural gas, landfill gas, municipal solid waste, wind  
23 and solar.

24

25

1 Q. Please describe the generation forecasted to be owned, operated, and used  
2 by Gulf to serve its native load customers in 2017.

3 A. Exhibit MLB-1, Schedule 2 provides a list of the units owned and operated  
4 or co-owned by Gulf that will be used to serve native load customers in  
5 2017.

6

7 Q. What PPAs will Gulf have in place and use to provide electric service in  
8 2017?

9 A. Exhibit MLB-1, Schedule 3 provides a list of the power purchase resources  
10 available to Gulf during 2017 and information regarding the fuels and  
11 technologies used by these generating resources. Other than the  
12 Kingfisher agreement executed in June 2016, which is currently pending  
13 before the Florida Public Service Commission (FPSC or the Commission),  
14 all of these agreements have been approved by the FPSC.

15

16 Q. Other than the environmental capital projects addressed through Gulf's  
17 Environmental Cost Recovery Clause (ECRC), what major changes have  
18 been made to Gulf's generating resources since Gulf's 2012 test year base  
19 rate proceeding?

20 A. There have been a number of changes in Gulf's generating resources since  
21 Gulf's 2012 test year rate proceeding. These changes include plant  
22 closures, expiration of PPAs, further diversification of our generating  
23 resources by the addition of solar and wind energy purchase agreements,  
24 and the rededication of Scherer Unit 3 to serve native load customers.

25

1 Since Gulf's 2012 test year base rate proceeding, Gulf has closed Smith 1  
2 and 2 and Plant Scholz. These closures were precipitated by new  
3 environmental requirements. It was less costly for Gulf's customers to retire  
4 these units than to install new environmental controls to comply with these  
5 additional requirements. Gulf announced the closure of Plant Scholz on  
6 March 22, 2013, and it ultimately ceased operations on April 15, 2015. The  
7 retirement of Smith 1 and 2 was announced on February 6, 2015, and those  
8 units ultimately ceased operations on March 31, 2016.

9  
10 As discussed in Gulf's last rate case, Gulf's PPAs with Coral Baconton (195  
11 MW) and Dahlberg (299 MW) expired in May 2014. Neither contract was  
12 renewed.

13  
14 Gulf has continued to look for opportunities to diversify its generating  
15 resources in a cost-effective manner. In April 2015, the FPSC approved  
16 three energy purchase agreements for the addition of 120 MW of utility-  
17 scale solar. This allowed Gulf to add solar to its generating resources for  
18 the first time. In May 2015, the FPSC approved Gulf's wind energy  
19 purchase agreement which was the first in the state of Florida. This 178  
20 MW wind energy purchase agreement is for 20 years and provides further  
21 diversification of our generating resources. In June 2016, Gulf signed a  
22 second wind energy purchase agreement for an additional 94 MW of wind  
23 resources. This agreement has been submitted to the Commission for  
24 approval. Gulf continues to be a leader in diversifying its reliable and cost-

25

1 effective generating resources, including renewable resources such as wind  
2 and solar.

3  
4 Q. Please discuss the closing of Plant Scholz.

5 A. On February 16, 2012, the Environmental Protection Agency published final  
6 air toxics standards for coal- and oil-fired Electric Generating Units; these  
7 standards are commonly known as the Mercury and Air Toxics Standards or  
8 "MATS." Plant Scholz was the first coal-fired plant in the state of Florida,  
9 and these units contributed greatly to the growth and economic expansion  
10 of Northwest Florida. The units were used and useful in supplying the  
11 energy needs of our customers since 1953. However, based on this rule  
12 and the \$26 million (NPV 2013) cost to comply with its stringent  
13 requirements, Gulf Power made the difficult decision to close Plant Scholz.

14  
15 As shown in Gulf Witness Ritenour's testimony Schedule 3, Plant Scholz  
16 has \$609,000 of equipment inventory remaining. This inventory was used  
17 to ensure reliable operation of these units until their retirement. All of the  
18 Gulf Plants maintain an equipment inventory of specific, critical parts in  
19 order to address equipment issues quickly and to ensure reliability while a  
20 plant is in service. Gulf focused on optimizing equipment inventory levels  
21 for many years and took appropriate measures to minimize the inventory  
22 remaining when the plant ceased generating electric power. Gulf prudently  
23 managed the equipment inventory at Plant Scholz; therefore, as addressed  
24 by Ms. Ritenour, Gulf is requesting recovery of the balance of its prudently  
25 incurred equipment inventory for Plant Scholz.

1 Q. Please discuss the closing of Smith 1 and 2.

2 A. The MATS rule also adversely affected the prospective operation of Smith 1  
3 and 2. Gulf's analysis indicated that expenditures of \$73 million (NPV 2015)  
4 would be required to install environmental controls on Smith 1 and 2 to meet  
5 the MATS requirements. Additionally, there were other potential  
6 environmental regulations that challenged the long-term viability of Smith 1  
7 and 2. The extensive evaluation of various environmental compliance  
8 strategies resulted in the determination that it was in the best interest of  
9 Gulf's customers to retire Smith 1 and 2.

10

11 The retirement of Smith 1 and 2 means that Gulf must address remaining  
12 inventory and account for the remaining net book value associated with  
13 Smith 1 and 2. On their retirement date, Smith 1 and 2 had \$2,810,000 of  
14 equipment inventory remaining. This inventory was necessary to ensure  
15 the reliable operation of these units until their retirement. As with Plant  
16 Scholz, Gulf maintained an equipment inventory of specific critical parts  
17 necessary to ensure reliability. Just as with Plant Scholz, when the  
18 possibility of closing Smith 1 and 2 became more likely, Gulf implemented  
19 the same measures to minimize stranded inventory levels. Although the  
20 success of these enhanced measures to minimize remaining equipment  
21 inventory was limited by numerous other units of similar vintage closing in  
22 the surrounding states, Gulf prudently managed the equipment inventory for  
23 Smith 1 and 2. Ms. Ritenour will address the proper ratemaking treatment  
24 of this activity.

25



1 The MATS rule and other new environmental requirements and their  
2 associated costs of compliance made the premature closure of Smith 1 and  
3 2 the least costly alternative for Gulf's customers. The retirement of Smith 1  
4 and 2 prior to the units being fully depreciated left Gulf with approximately  
5 \$60 million in remaining net book value. These units have been used and  
6 useful in serving the needs of Gulf customers for almost 40 years and were  
7 operated and managed in an exceptional manner. Ms. Ritenour will address  
8 the proper ratemaking treatment of the remaining net book value related to  
9 Smith 1 and 2.  
10

11 Q. Please discuss Scherer Unit 3 and its performance.

12 A. Scherer Unit 3 is a coal-fired unit with an 818 MW nameplate rating (857  
13 MW capacity rating) that is jointly owned by Georgia Power Company and  
14 Gulf Power Company. Gulf has owned 25 percent of Scherer Unit 3 since  
15 1987. Scherer Unit 3 is a fully controlled, coal-fired unit with Selective  
16 Catalytic Reduction, Flue Gas Desulfurization, and Baghouse equipment  
17 installed for optimum and long-term emissions compliance. Scherer Unit 3  
18 is the most economical coal-fired unit in Gulf's generation fleet, and it uses  
19 Powder River Basin (PRB) coal as its fuel source. Lastly, the performance  
20 of Scherer Unit 3 has been outstanding, with excellent heat rate and  
21 reliability.  
22  
23  
24  
25

1 **III. GULF'S SAFETY AND OPERATIONAL**  
2 **PLANT PERFORMANCE**  
3

4 Q. Please address the performance of Gulf's power plants.

5 A. Gulf uses a number of indicators to measure the performance of its  
6 units/plants. They include Equivalent Availability Factor (EAF), heat rate,  
7 Equivalent Forced Outage Rate (EFOR) (both annual and peak season),  
8 and OSHA recordable incidents. Both EAF and heat rate are tracked in the  
9 Commission's Generation Performance Incentive Factor (GPIF) program.  
10 Gulf considers heat rate and EFOR to be the primary indicators of efficiency  
11 and reliability, respectively, and uses them to evaluate the effectiveness of  
12 our planned outage and maintenance programs.

13  
14 Q. What does EFOR measure?

15 A. EFOR measures a generating unit's inability to provide electricity when  
16 dispatched and is the primary tool used by Gulf to track unit reliability.  
17 EFOR is reported in terms of the hours when a generating unit could not  
18 deliver electricity as a percentage of all the hours during which that unit was  
19 called upon to deliver electricity.

20  
21 Q. What is economic dispatch?

22 A. Economic dispatch is the process of dispatching units based on cost. Gulf  
23 has units committed and on line to serve existing load in addition to spinning  
24 reserves. The spinning reserves are units that are on line (running at less  
25 than full load) to support the loss of another unit in the event a unit is forced

1 off line. Spinning reserves are a critical part of ensuring the reliability of the  
2 system. As customer demands increase, Gulf commits additional resources  
3 to serve those demands using the most economical units first. As customer  
4 demands decrease, Gulf takes the highest cost units off line first. Economic  
5 dispatch is designed to ensure the customers receive the benefits of the  
6 most economic units, that is, the units with the lowest incremental operating  
7 costs.

8  
9 Q. Why is it important to ensure units are available for economic dispatch?

10 A. By dispatching the least-cost units first, Gulf ensures our customers receive  
11 the lowest cost resources. This is why it is critical to maintain a low EFOR,  
12 particularly in the peak months. Whenever a more economical unit is forced  
13 off line, the replacement energy will likely be more expensive, and this may  
14 impact our customers through higher fuel costs.

15  
16 Q. What EFOR measures does Gulf track, and why?

17 A. Gulf tracks both Annual EFOR and Peak Season EFOR. Plant performance  
18 goals are set around Peak Season EFOR. Gulf historically tracked Peak  
19 Season as the period from May 1 through September 30 each year when  
20 typically the demand for electricity had been the highest. Currently, Gulf's  
21 Peak Season EFOR includes the months of January, February, June, July  
22 and August.

1 Q. What is a heat rate?

2 A. Heat rate is a measure of a unit's efficiency in converting fuel to electricity.  
3 It is a measure of the amount of fuel required to generate a kilowatt hour  
4 (kWh). The lower a unit's heat rate, the more efficiently it converts fuel to  
5 electricity.

6

7 Q. Please address why EFOR and heat rate performance are important to  
8 customers.

9 A. EFOR is a measure of a unit's reliability. A low EFOR ensures that the  
10 lowest cost units are available to produce electricity when called upon to  
11 meet the demands of customers. Also, maintaining a low EFOR ensures  
12 that units are available to make wholesale power sales when opportunities  
13 arise. This results in a reduced fuel cost to our native load customers since  
14 most of the gain from these sales is applied as a credit to fuel expense. As  
15 discussed earlier in my testimony, heat rate is an efficiency measure. The  
16 lower the heat rate, the less fuel consumed to generate electricity. The  
17 customer benefits by paying less in fuel costs and having lesser amounts of  
18 fuel required in inventory.

19

20 Q. What are the Annual and Peak Season EFOR for Gulf's generating units?

21 A. Exhibit MLB-1, Schedule 4, shows Gulf's Annual and Peak Season EFOR.

22

23 Q. How does Gulf's EFOR compare to others in the industry?

24 A. As shown on Exhibit MLB-1, Schedule 4, Gulf's Annual and Peak EFOR  
25 performances compare extremely favorably with peer utilities. Schedule 4,

1 pages 1 and 2 show graphically how Gulf's actual Annual and Peak Season  
2 EFOR compare to the peer group averages from 2012 through 2014.  
3 Schedule 4, pages 3 and 4 show where Gulf's actual average performance  
4 for the same period compares to each of the peer utilities. While 2015 data  
5 for the peer industry group is not yet available, Gulf achieved, and  
6 customers benefited from, excellent EFOR rates in 2015, as shown on  
7 Schedule 4 pages 1 and 2. Gulf's excellent performance is indicative of  
8 Gulf's management and employees' commitment in serving our customers.  
9

10 Q. What is the source of the data Gulf has used to compare its EFOR  
11 performance to that of other utilities?

12 A. Gulf obtained Annual and Peak Season EFOR data from the North  
13 American Electric Reliability Corporation (NERC).  
14

15 Q. Please address Production safety at Gulf Power.

16 A. Safety is the first priority for every employee at Gulf Power. Safety is a core  
17 value, and it is our desire that we work every day and every job safely. The  
18 overall objective of our safety program is zero accidents.  
19

20 Since 2006, Gulf's OSHA Recordable Incident Rate (RIR) has been 0.699.  
21 Gulf's Production safety performance compares favorably with the industry  
22 average RIR of 1.053. Stated differently, Gulf's RIR has been 33.65  
23 percent better than the industry for the period 2006 through 2015. In fact,  
24 Plant Scholz experienced no recordable incidents for 14 years at the time of  
25 its retirement. For 2015, Gulf Generation's RIR of 0.00 percent was

1 recognized as first in the Southeastern Electric Exchange with an award for  
2 Top Safety Performance in Fossil Hydro Generation.

3  
4 The success we have experienced is driven by our philosophy that  
5 management at Gulf will provide an environment where we send every  
6 employee home every day as healthy as when they reported to work. This  
7 provides benefits to our employees and our customers through greater  
8 productivity.

9  
10  
11 **IV. GULF'S PRODUCTION INVESTMENT**

12  
13 Q. Please address how Gulf's Production Capital Additions Budget is  
14 formulated.

15 A. The Production Capital Additions Budget process is a multi-step process  
16 that begins at the plant level and is ultimately approved by Gulf's Executive  
17 Management Team, which is made up of the President and CEO and the  
18 vice presidents of Gulf. All capital projects are evaluated to ascertain the  
19 necessity of performing the work.

20  
21 Plant personnel begin the Production budgeting process by evaluating  
22 existing plant equipment performance and maintenance costs. Where  
23 performance has degraded or is forecasted to degrade to an unacceptable  
24 level and maintenance costs are increasing, replacement of the equipment  
25 becomes necessary. As part of this evaluation process, plant personnel

1 review the information provided by Gulf to the NERC Generation Availability  
2 Data System (GADS) to evaluate events that have triggered unplanned  
3 outages or unit de-rates. Gulf develops plans to address GADS events that  
4 continue to be problematic and makes decisions to repair or replace existing  
5 equipment. Once plant personnel have identified specific projects, the  
6 Group Managers at each plant review the proposed project list to determine  
7 which projects will be submitted to the Plant Management Team (the Plant  
8 Manager and his direct reports). The Plant Management Team meets to  
9 discuss each proposed project to determine which projects will be submitted  
10 for the next level of review to be included for consideration in the final  
11 budget.

12  
13 Each plant presents its proposed list of capital projects to the Power  
14 Generation Leadership Team (the Vice President of Power Generation and  
15 his direct reports). The plant managers then meet with the Power  
16 Generation Leadership Team to prioritize all projects at the Power  
17 Generation Level to ensure the most critical projects are included in the  
18 budget submitted for final review by Gulf's executives.

19  
20 Lastly, the Production Capital Additions Budget request is presented to  
21 Gulf's executives. The final Capital Additions Budget is ultimately approved  
22 or revised by executive management.

1 Q. How does Gulf control capital costs after the Capital Additions Budget is  
2 developed?

3 A. Once the Capital Additions Budget is approved, each project is assigned a  
4 project manager who is responsible for all aspects of the project. The project  
5 manager develops documentation outlining the scope of the project and  
6 works with Supply Chain Management to develop a bid package. From start  
7 to finish, the project manager is responsible for all on-site management,  
8 including contractor performance and invoice review. The Plant Manager  
9 receives a report from the Power Generation Financial Manager each month  
10 detailing capital project expenditures and any budget variance for all projects.  
11 The Plant Manager is responsible for explaining budget variances. At the  
12 Company level, the Corporate Planning group requires a detailed explanation  
13 quarterly of all budget variances greater than 10 percent or \$250,000  
14 (whichever is lower). Variances less than \$10,000 do not require a variance  
15 explanation.

16  
17 Q. How are new capital projects or changes to existing projects incorporated in  
18 the current year budget?

19 A. In the event a new project or an increase in expenditures associated with an  
20 existing project is necessary, the planning unit must submit a justification  
21 letter to me as the Vice President with functional responsibility. If I approve  
22 the change, the letter is also reviewed and approved by the Chief Financial  
23 Officer. Finally, the letter is sent to Corporate Planning where the change is  
24 documented and added to the financial plan.

25



1 Q. Was Gulf's Production non-ECRC Capital Additions Budget for 2016 and  
2 2017 developed by this budget and cost control process?

3 A. Yes. The projects included in Gulf's Production Capital Additions Budget  
4 were approved pursuant to this rigorous evaluation and approval process.  
5 Gulf's effective capital budgeting and cost control process has helped to  
6 ensure that our generating fleet continues to provide reliable and efficient  
7 generation. The dollars included in the test year non-ECRC Capital  
8 Additions Budget for Production are reasonable, prudent, and necessary.  
9 Gulf will continue to evaluate the benefits of additional capital projects in the  
10 future to ensure that we are able to provide our customers with reliable,  
11 cost-effective and efficient generating capacity.

12  
13 Q. Mr. Burroughs, Gulf shows a total of \$3.458 billion of plant-in-service  
14 investment in Gulf's 2017 rate base in this case. Are the Production assets  
15 associated with these costs used and useful in the provision of electric  
16 service to the public?

17 A. Yes. The Production assets, which comprise a total of \$1.299 billion of  
18 plant-in-service in Gulf's 2017 rate base in this case, are used and useful in  
19 Gulf's provision of electric service.

20  
21 Q. What amount is included in Gulf's 2017 rate base for Gulf's ownership in  
22 Plant Scherer Unit 3?

23 A. The non-ECRC Production plant-in-service amount included in Gulf's 2017  
24 rate base for Gulf's ownership in Scherer Unit 3 that is currently not  
25 committed to off-system sales is \$154,859,000. Mr. Deason, Mr. Burleson

1 and Ms. Liu's testimonies address the rededication of Scherer Unit 3 to  
2 serve native load customers.

3

4 Q. What were the total major non-ECRC capital additions in 2013 through  
5 2015?

6 A. The major Production non-ECRC capital additions for 2013 through 2015  
7 were \$64,900,000. Please see Exhibit MLB-1, Schedule 5 for a list of the  
8 major projects included in Production non-ECRC capital additions since  
9 2013.

10

11 Q. Were these Production capital additions reasonable and prudently incurred?

12 A. Yes. They were incurred pursuant to the previously discussed capital  
13 budget process. They also were subject to cost controls used to govern  
14 budgeted expenditures.

15

16 Q. What is Gulf's projected Production Capital Additions Budget for 2016 and  
17 2017 excluding items recovered through the ECRC?

18 A. Gulf's Production non-ECRC Capital Additions Budget for 2016 is  
19 \$82,673,000. As shown on Exhibit MLB-1, Schedule 6, there are 98  
20 projects planned for 2016. Gulf's Production non-ECRC Capital Additions  
21 Budget for 2017 is \$38,404,000. As shown in Exhibit MLB-1, Schedule 7,  
22 there are 101 capital projects in 2017.

23

24 All of these budgeted projects for both 2016 and 2017 are needed to  
25 address safety, to maintain efficiency (heat rate), or to sustain reliability.

1 Q. Are you supporting the generation rate base adjustment shown on Ms.  
2 Ritneour's Schedule 2 in the amount of \$12,603,000 that was made to  
3 plant-in-service?

4 A. Yes. This adjustment reflects the 13-month average cost of changes to  
5 three projected capital projects that arose following the completion of the  
6 Company's budget on which the 2017 test year is based. These three  
7 projects and their projected cost are included in the Capital Additions  
8 Budget in Exhibit MLB -1, Schedules 6 and 7:

9 1. The investment in the Plant Crist canal integrity project is necessary  
10 to maintain the integrity of the canal near the coal unloading dock.

11 This investment is included in Schedule 6 with a projected cost of  
12 \$9,500,000 in 2016. The 13-month average cost is \$9,500,000.

13 2. The investment in the Plant Daniel trestle project is necessary to  
14 replace the coal unloading trestle. This investment will be incurred  
15 over two years and is shown in Schedule 6 at a projected cost of  
16 \$193,000 for 2016 and in Schedule 7 at a projected cost of  
17 \$4,250,000 in 2017. The 13-month average cost is \$2,734,000.

18 3. The investment in the Header Wall at Plant Crist is necessary to  
19 replace the front and rear wall headers on Unit 6. This investment  
20 will be incurred over two years and is included in Schedule 6 at a  
21 projected cost of \$100,000 in 2016 and in Schedule 7 at a projected  
22 cost of \$500,000 in 2017. The 13-month average cost is \$369,000.

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1 **V. GULF'S 2017 PRODUCTION O&M BUDGET**

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- Q. Please address how Gulf's Production O&M Budget is formulated.
- A. Each year, Gulf's Power Generation Organization develops a five-year O&M budget based on historical results, projected maintenance and outage planning. As we develop the budget request, we focus on planned outages and baseline expenses.

Over the years, Gulf's plant personnel have gained valuable knowledge relating to the maintenance of our equipment. Our experience indicates that each unit should have a regularly scheduled planned outage to inspect and repair fuel handling equipment, boilers and auxiliary equipment every 18 to 24 months unless conditions warrant an adjustment to the schedule. In addition, a major planned outage is scheduled on each unit every 8 to 10 years, which includes work on the turbine and generator equipment in addition to the equipment listed above.

Baseline expenses are costs required to conduct the day-to-day operation and maintenance of the generating equipment and auxiliary equipment and facilities. Baseline expenses include all labor, material and other expenses, such as contracts for maintaining grounds, janitorial services, and other services.

The five-year O&M budgets are developed at the plant level with the goal of maintaining high reliability and efficiency. As discussed in my testimony on

1 Plant Performance, Gulf has done an exceptional job of maintaining high  
2 unit reliability and efficiency. At the same time Gulf has fostered an  
3 environment where employee safety is our number one priority.

4  
5 As each plant develops a five-year O&M budget, the Plant Management  
6 Team seeks input from system owners and unit owners to ensure the most  
7 critical issues receive attention. Each plant assigns a system owner  
8 (expert) over major systems such as boiler, turbine or generator. In  
9 addition, each unit has an individual assigned as the unit owner with the  
10 expectation that the individual will be the coordinator of any work related to  
11 the assigned unit. As the O&M budget is developed, the Plant Management  
12 Team meets to discuss all aspects of the equipment maintenance  
13 requirements.

14  
15 Once the Plant Management Team is satisfied that their O&M budgets meet  
16 the plant's needs, the Power Generation Leadership Team meets to discuss  
17 the overall Power Generation O&M budget. In the event that there are  
18 resource (labor, physical, or financial) constraints, the Power Generation  
19 Leadership Team discusses risks associated with projects and prioritizes  
20 projects to help ensure the most critical activities are included in the budget.  
21 Lastly, the Power Generation budget is submitted to Gulf's Corporate  
22 Planning group. Gulf Witness Mason discusses the budget process that  
23 takes place after Corporate Planning receives the Power Generation O&M  
24 budget request.

25

1 Q. What are Gulf's Production O&M budgets for 2016 and 2017 excluding  
2 costs recovered through the ECRC?

3 A. Gulf's Production O&M budget for 2016 is \$112,501,000 including  
4 Production Steam, Production Other, and Production Other Power Supply  
5 expenses.

6  
7 Gulf's Production O&M budget for 2017 is \$122,154,000, including  
8 Production Steam, Production Other, and Production Other Power Supply  
9 expenses. Gulf's Production O&M budget for 2017 is set forth on Exhibit  
10 MLB-1, Schedule 8 and Schedule 9.

11  
12 Q. Is Gulf's projected level of Production O&M expenses of \$122,154,000 in  
13 2017 representative of a going forward level of Production O&M expenses  
14 beyond 2017?

15 A. Yes. As shown on Exhibit MLB -1 Schedule 9, the average Production  
16 O&M budget for the four-year period (2017 through 2020) is \$122,123,000.  
17 Gulf's Production O&M expense for the 2017 test period is representative of  
18 the ongoing level of expense necessary to maintain generation performance  
19 and reliability.

20  
21 Q Mr. Burroughs, does Gulf's projected level of Production O&M expenses of  
22 \$122,154,000 in 2017 include O&M savings for closing Plant Scholz?

23 A. Yes. In the years leading to the closure of Plant Scholz, Gulf had been  
24 anticipating its closure and had been performing minimal maintenance to  
25 keep the units available through their retirement date of April 2015. In the

1 test year and prior year, Gulf has budgeted \$205,424 and \$205,449,  
2 respectively, for care of the grounds and structures at Plant Scholz. Gulf is  
3 required to close the ash pond at Plant Scholz. Until the ash pond closure  
4 and ultimate dismantlement of the building, Gulf will continue to incur O&M  
5 costs to monitor and care for the grounds and to provide security for the  
6 land and ash pond.

7  
8 Q. Does Gulf's projected level of Production O&M expenses of \$122,154,000  
9 in 2017 include O&M savings for closing Smith 1 and 2?

10 A. Yes. During the 2015 budget process, which was completed in 2014 prior  
11 to the decision to retire Smith 1 and 2, Gulf had forecasted to spend  
12 \$2,875,000 and \$3,361,000 in 2016 and 2017 respectively for planned  
13 outages. The decision to retire Smith 1 and 2 was announced in February  
14 2015. After that announcement, Gulf performed minimal maintenance to  
15 keep the units available through their retirement date of March 31, 2016.  
16 During the 2016 budget process, Gulf did not budget any future amounts for  
17 planned outages.

18  
19 Gulf will continue to incur O&M costs to monitor and maintain the ash pond  
20 for Smith 1 and 2 until the ash pond is closed.

21  
22 Q. Are Gulf's projected levels of Production O&M expenses of \$112,501,000 in  
23 2016 and \$122,154,000 in 2017 reasonable and prudent?

24 A. Yes. My conclusion is based primarily on the fact that Gulf's 2016 and 2017  
25 Production O&M budgets are the product of a rigorous budget process

1 previously discussed in my testimony and implemented by experienced  
2 employees who know their jobs and their facilities.

3  
4 The \$122,154,000 included in the 2017 Production O&M budget was  
5 developed using teams from the plants whose expertise and understanding  
6 of plant equipment and plant operations has been clearly demonstrated by  
7 the continued high performance indicators of the units. The budgets are  
8 then reviewed and modified by the Plant Management Team, the Power  
9 Generation Leadership Team, and ultimately Gulf's Executive Management  
10 Team. The 2017 Production O&M budget is the product of this robust  
11 budgeting process and has been appropriately adjusted for specific items  
12 addressed in this base rate case.

13  
14 Q. On your Schedule 9, you show a series of adjustments in the year 2017.  
15 Please explain the purpose of each of those adjustments.

16 A. There are five adjustments to the Production O&M request on Schedule 9:

- 17 1. Scherer Unit 3 Non-ECRC Production Steam Adjustment. This  
18 adjustment of \$2,129,000 reflects the O&M expense associated with  
19 Gulf's ownership portion of Scherer Unit 3 that is currently committed to  
20 off-system sales as discussed in Ms. Ritenour's testimony.
- 21 2. Plant Daniel Production Steam Adjustment. This adjustment of  
22 \$1,300,000 is a result of the addition of turbine valves and mill journals,  
23 which were identified subsequent to Gulf's final budget, to the 2017  
24 planned outage. The maintenance on this equipment occurs at periodic  
25 intervals, and the next maintenance activity is scheduled in 2017.



1           3. Plant Crist Production Steam Adjustment. This adjustment of  
2           \$1,100,000 increases the scope of the planned outage in 2017 to  
3           include the replacement of Unit 6 boiler tubes. During a boiler inspection  
4           after the 2016 through 2020 forecasts were developed, it was  
5           determined that these boiler tubes must be replaced. Boiler tube  
6           replacement is a normal maintenance activity performed to ensure the  
7           reliability of the unit.

8           4. Plant Smith Production Steam Adjustment. This adjustment removes  
9           \$1,733,000 of labor and benefits from Production Steam. When Gulf  
10          originally developed the budget in the fall of 2015 for the budget cycle  
11          2016 through 2020, Gulf budgeted in Production O&M all employees  
12          anticipated to remain at Plant Smith each year. Subsequent to that time,  
13          Gulf has determined that 18 FTE's budgeted at \$1,733,000 will be  
14          working on ECRC and dismantlement projects associated with the  
15          dismantlement of Plant Scholz and Smith 1 and 2 along with ash pond  
16          closures at both Plants. An additional adjustment of \$319,000, as  
17          shown on Ms. Ritenour's Schedule 21, removes the benefits charged to  
18          A&G associated with this labor reduction.

19          5. Other Adjustments. The Production portion of four adjustments shown  
20          on Ms. Ritenour's Schedule 21 reduces Production O&M \$850,000.  
21          These four adjustments are supported by other witnesses.

22  
23        Q.     Mr. Burroughs, the Commission has historically examined the  
24                reasonableness of O&M expenses using the O&M benchmark. How does  
25                Gulf's 2017 Production O&M budget compare to the O&M benchmark?

1 A. While the O&M benchmark calculation is shown on MFR C-37, for ease of  
2 reference I have included a summary of the O&M Benchmark calculation for  
3 all the Production function on Exhibit MLB-1, Schedule 8. It shows the  
4 entire Production O&M budget allowed by the Commission in Gulf's 2012  
5 test year rate case was \$106,935,000. Multiplying that 2012 allowed value  
6 by the inflation compound multiplier, the O&M benchmark level of  
7 Production O&M expenses for 2017 is \$115,968,000. Gulf's total 2017 test  
8 year Production O&M expenses are \$122,154,000. So, there is a total O&M  
9 Production benchmark variance of \$6,186,000.

10

11 It should be noted that Gulf's Other Power Supply portion of the Production  
12 O&M benchmark calculation is actually below the O&M benchmark  
13 calculation. So, the two Production functions that have 2017 forecasted  
14 levels of O&M expenses above the O&M Benchmark are Production Steam  
15 and Production Other.

16

17 Q What is Gulf's justification for exceeding the Production Steam O&M  
18 benchmark by \$1,091,000 in the 2017 test year?

19 A. The rededication of Scherer Unit 3 to serve native load customers explains  
20 the O&M benchmark variance. No O&M costs associated with Scherer Unit  
21 3 were reflected in the 2012 allowed O&M expenses in Gulf's 2012 test year  
22 rate case. Gulf did not ask for any such expenses because Scherer Unit 3  
23 was devoted to wholesale sales and not native load customers during the  
24 2012 test year. However, in the 2017 test year, a portion of Scherer Unit 3  
25 has been rededicated to native load customers, so the O&M expenses

1 associated with the portion of Scherer Unit 3 not currently committed to off-  
2 system sales are included in the test year, and this inclusion results in Gulf  
3 exceeding the O&M benchmark for Production Steam.

4  
5 Production Steam O&M expenses associated with the rededicated portion of  
6 Scherer Unit 3 in 2017 are \$6,740,000. Therefore, excluding these O&M  
7 expenses associated with Scherer Unit 3, Production Steam would be under  
8 the 2017 benchmark by \$5,649,000.

9  
10 Q. What is Gulf's justification for exceeding the Production Other O&M  
11 benchmark by \$5,350,000 in the 2017 test year?

12 A. There are three primary reasons that Gulf's 2017 test year Production Other  
13 O&M expenses exceed the O&M benchmark by \$5,350,000:

- 14 • Transfer of common costs from Steam to Production Other \$2,560,000
- 15 • Increase in Smith 3 HRSG maintenance expenses \$1,404,000
- 16 • Increase in maintenance for other Smith 3 components \$1,436,000

17  
18 Q. Please address the transfer of common costs from Production Steam to  
19 Production Other for the Smith Plant.

20 A. In the 2012 test year allowed level of Production O&M expenses, there were  
21 common expenses for Plant Smith related to Production Steam and  
22 Production Other because the Plant Smith site had two operational coal  
23 units that were charged to Production Steam and an operational combined  
24 cycle unit that was charged to Production Other. In the 2017 test year,  
25 Plant Smith common dollars were charged to Production Other because the

1 only remaining operational unit, Smith Unit 3 (Smith 3), is charged to  
2 Production Other. Approximately \$2,560,000 of the benchmark variance in  
3 Production Other is related to these common expenses that moved from  
4 Production Steam to Production Other O&M. These Common expenses  
5 include: plant site maintenance for roads, grounds and buildings; security;  
6 service water; wells; cooling towers; fire protection; water treatment; and  
7 computer equipment. These prudently incurred and necessary expenses  
8 were associated with the site and were used in common by all three units  
9 and are now properly charged to Production Other.  
10

11 Q Please address the increase in Smith 3 Heat Recovery Steam Generator  
12 (HRSG) maintenance expenses at a rate faster than the growth in CPI since  
13 Gulf's 2012 test year rate case.

14 A. The expense necessary to maintain the HRSG equipment in 2017 is  
15 \$2,500,000. This has grown faster than the HRSG expense allowed for  
16 Smith 3 in the 2012 test year for a number of reasons: (a) the HRSG is  
17 aging and needs more maintenance than it required earlier in its life; (b)  
18 Smith 3 is being dispatched more than it was in earlier periods because of  
19 the low price of natural gas, and this increased dispatch has resulted in  
20 more maintenance of the HRSG; and (c) the amount allowed for HRSG  
21 maintenance by the Commission in the 2012 test year rate case was not  
22 representative of the going forward level of HRSG maintenance required for  
23 Smith 3.  
24  
25

1 Smith 3 was brought into service in 2002. The maintenance expenses for  
2 the HRSG were relatively modest for the early years of the unit's operation.  
3 The unit was relatively new, and because the price of coal powered  
4 generation was lower than the price of natural gas generation early in the  
5 life of Smith 3, the unit was not dispatched as much as it is currently. This  
6 lower level of HRSG maintenance lasted through 2009.

7  
8 By 2010, the maintenance costs for the Smith HRSG had risen to much  
9 higher levels. This was due to the aging of the unit and the increasingly  
10 higher dispatch of the unit. It is not unusual for maintenance expenses to  
11 increase with age and use, and that has certainly been the case with the  
12 expenses associated with the Smith 3 HRSG.

13  
14 In Gulf's 2012 test year rate case, Gulf acknowledged these increasing  
15 costs and budgeted \$1,454,000 for Smith 3 HRSG maintenance expenses.  
16 However, the Commission disallowed \$443,000 of the budgeted HRSG  
17 maintenance expenses based upon a review of historical levels of HRSG  
18 maintenance costs. So, it was this lower level of HRSG maintenance costs,  
19 \$1,011,000, escalated by CPI that is included in the O&M benchmark.

20  
21 As history has shown, the amount allowed for HRSG maintenance in Gulf's  
22 2012 test year has not been representative of the ongoing level of HRSG  
23 expense necessary to maintain the unit. Despite the Commission's 2012  
24 test year disallowance, Gulf spent \$2,755,000 on HRSG maintenance in  
25

1 2012 because it was necessary to maintain the unit's reliability. So, even  
2 Gulf's 2012 test year projection was too low.

3  
4 The inadequacy of the HRSG maintenance expenses in the O&M  
5 benchmark calculation is shown by comparing them to actual HRSG  
6 maintenance expenses over the period 2011 through 2015. This is shown  
7 on Exhibit MLB-1, Schedule 10. Over that five-year period, the Smith 3  
8 HRSG expenses have averaged \$2,821,000 and with escalation to 2017  
9 dollars expenses have averaged \$3,034,000. In contrast, the level of HRSG  
10 expenses in the O&M benchmark for 2017 is only \$1,096,000. Simply  
11 stated, the O&M benchmark level of expenses for HRSG maintenance is not  
12 representative of historic levels of HRSG maintenance over the last five  
13 years.

14  
15 More importantly, the level of HRSG maintenance expenses assumed in the  
16 O&M benchmark, \$1,096,000, is not representative of the level of HRSG  
17 maintenance necessary to maintain the HRSG in the years 2016 and  
18 beyond. The cost projections for HRSG operation and maintenance, which  
19 were prepared by the personnel most familiar with the HRSG, average  
20 \$3,137,000 going forward over the next five years. Gulf's 2017 projection of  
21 HRSG maintenance expenses of \$2,500,000 is reasonable and perhaps  
22 even conservative given the level of HRSG related maintenance expenses  
23 going forward.

1 Q. Please address the increase in the O&M expenses for other components of  
2 Smith 3 at a rate higher than the O&M benchmark.

3 A. The turbine system, combustion turbine, service water system, condensate  
4 system, and service facilities are also experiencing higher costs for  
5 increased maintenance and increased chemical consumption due to high  
6 utilization and aging of the combined cycle. As with the HRSG expenses,  
7 the 2017 test year expenses (\$2,708,000) necessary to maintain other  
8 components of Smith 3 have increased due both to the age of the unit and  
9 its increased utilization. With lower natural gas prices, Smith 3 is projected  
10 to be dispatched at a much higher level in 2017 and beyond than it was in  
11 its earlier years of operation. This has resulted in higher operational costs,  
12 such as increased chemical consumption, as well as increased  
13 maintenance expenses.

14

15 The historic growth in these operation and maintenance costs for the other  
16 components of Smith 3 is seen by contrasting the amount budgeted and  
17 allowed for Smith 3 non-HRSG costs in the 2012 test year, \$1,173,000, and  
18 actual Smith 3 non-HRSG costs from 2011 through 2015, as shown on  
19 Exhibit MLB-1, Schedule 10.

20

21 Of course, what is of even more importance in this case is not what the  
22 Smith 3 non-HRSG O&M expenses have historically been, but what they  
23 are projected to be in 2016 and beyond. As shown on Exhibit MLB-1,  
24 Schedule 10, the average of the Smith 3 non-HRSG O&M costs for the  
25 period 2016 through 2020 is \$3,688,000. These expenses were developed

1 by the personnel who actually operate and maintain the plant and were  
2 reviewed by management charged to maintain unit performance and  
3 reliability. These are the same individuals who have helped Gulf achieve its  
4 outstanding unit performance, and it is their trained and experienced  
5 judgment that justifies this budgeted level. The 2017 level of Smith 3 non-  
6 HRSG O&M expenses, \$2,708,000, is reasonable and perhaps even  
7 conservative given the going forward level of O&M expense necessary to  
8 maintain unit performance and reliability.

9  
10  
11 **VI. GULF'S 2017 FUEL INVENTORY**

12  
13 Q. What recovery amount is Gulf requesting for total fuel inventory, including  
14 fuel stock and in-transit fuel?

15 A. Gulf is requesting a total fuel inventory of \$67,428,000 to be included in its  
16 2017 rate base. The request is lower than the amount allowed in the 2012  
17 test year rate case by \$19,376,000. This requested fuel inventory for 2017  
18 includes \$46,494,000 for fuel stock and \$20,934,000 for in-transit coal.

19  
20 Q. Please explain the reason for the requested decrease in fuel inventory  
21 working capital.

22 A. The decrease in the amount requested in this case is primarily due to a  
23 lower projected market price for fuel being delivered to Gulf generating  
24 plants.

25



1 Q. Please describe Gulf's coal inventory policy.

2 A. Gulf's policy is to maintain coal inventory levels sufficient to safeguard  
3 against disruptions in supply, inconsistencies in delivery of coal due to  
4 weather conditions, and other factors affecting the coal transportation  
5 sector. Coal inventory levels for each generating plant are evaluated and  
6 targets are established based on a number of factors such as: plant specific  
7 coal handling and storage limitations; market intelligence on coal supply  
8 availability; coal transportation/logistics information; and the historical  
9 perspective obtained through considerable experience developed in coal  
10 stockpile management by the Southern Company fuel organization. The  
11 operating companies of the Southern Company are one of the largest coal  
12 consumers in the nation and have a long history of successfully operating  
13 coal-fired generating plants.

14  
15 Once target coal inventory levels are established, they are formally  
16 approved by the SCS Vice President of Fuel Services for use as an input in  
17 the fuel budgeting model, FUELPRO, to develop a fuel cost of generation  
18 budget for all plants in the SES. The fuel burn derived from the hourly load  
19 dispatch of each generating unit in the SES fleet and the current fuel price  
20 forecast for each fuel type, including transportation rates, are also inputs to  
21 the FUELPRO model. The output of FUELPRO is a fuel budget for each  
22 plant, which includes monthly fuel purchases, burn and ending inventory  
23 expressed in units of measure (quantity), total dollars, and dollars per unit.  
24 For the test year, the coal inventory policy evaluation resulted in average  
25 inventory targets for Plant Crist, Gulf's barge-served coal-fired plant, of

1 approximately 27 normal full load (NFL) burn days and for Gulf's rail-served  
2 plants (Scherer Unit 3 and Daniel 1 and 2), 50 and 40 NFL days,  
3 respectively.

4  
5 Q. What is a normal full load (NFL) burn day?

6 A. A NFL burn day is a method of expressing units of inventory relative to the  
7 normal maximum consumption of fuel at a specific generating facility over a  
8 24 hour period. Normal maximum consumption does not include output  
9 maximums that can be achieved for short periods by using supplemental  
10 firing to operate at "full pressure" on traditional steam and combined cycle  
11 units. The use of NFL burn days allows for the expression of inventory units  
12 in common terms so that fuel inventories of generating plants with various  
13 capacity sizes (MW) and capacity factors can be compared on an "apples to  
14 apples" basis.

15  
16 A NFL burn day is calculated by multiplying the total daily energy output  
17 (kilowatt hours or kWh) of a generating plant by the weighted average heat  
18 rate (British thermal units per kWh or Btu/kWh) of the units at that generating  
19 plant. Both the total daily energy output and the unit heat rates are  
20 determined by actual plant performance measurements over a period of time.  
21 The resulting calculated Btus per day are then converted to standard units for  
22 each fuel type such as tons for coal and gallons or barrels for oil. This  
23 method explicitly recognizes Gulf's heat rate performance in establishing its  
24 requested fuel inventory levels. As an example, the NFL day burn for a  
25

1 generic 500 MW coal-fired unit fueled by bituminous coal would be calculated  
2 as follows:

3 A = Normal Hourly Full Load Rating = 500,000 kWh

4 B = Average Unit Heat Rate = 10,800 Btu/kWh

5 C = Fuel Heating Value = 11,600 Btu/lb

6  $(A \times B) / (C \times 2,000 \text{ lbs/ton}) = 232.76 \text{ tons/hour}$

7 NFL day burn = 232.76 tons/hour x 24 hours/day = 5586 tons/day

8

9 Q. What is Gulf's forecasted coal inventory level for the test year?

10 A. For all Gulf plants, the 13-month average of the monthly ending coal  
11 inventory levels, not including in-transit coal, for the test year, is a stockpile  
12 of 631,863 tons with a cost of \$40,125,000. This compares to a total of  
13 693,196 tons with a cost of \$67,958,000 allowed in the 2012 test year rate  
14 case. The decrease in coal inventory value (dollars) is due to a decrease in  
15 the projected delivered market price of coal combined with a slight decrease  
16 in the quantity of coal inventory since the 2012 test year rate case.

17

18 Q. How does the average unit cost of coal inventory compare to the amount  
19 used in the 2012 test year rate case?

20 A. In Gulf's 2012 test year rate case the weighted average unit cost of coal in  
21 inventory was \$98.04 per ton. The current weighted average unit cost of  
22 coal used to project the total cost of Gulf coal inventory in the test year is  
23 \$63.50 per ton. The decrease is due to a reduction in the projected market  
24 price of coal and coal transportation relative to the 2012 test year rate case

25

1 and the addition of lower cost-per-unit Powder River Basin coal utilized for  
2 Scherer Unit 3.

3

4 Q. How has actual coal inventory compared to the amount allowed in the 2012  
5 test year rate case?

6 A. The actual ending coal inventory as of December 31, 2015, including  
7 Scherer Unit 3 inventory and in-transit coal, was \$95,717,388. This  
8 exceeded the total amount allowed in the 2012 test year rate case of  
9 \$78,676,000 by \$17,041,388. This is due to two factors: (1) the 2015 year-  
10 end coal inventory quantity was above target levels because the coal burn  
11 quantity was significantly below projected amounts, and (2) the addition of  
12 Scherer Unit 3 coal inventory that was not included in the 2012 test year  
13 rate case. The lower than expected coal consumption is due to lower  
14 customer loads and low natural gas prices shifting the generation mix to  
15 lower cost, natural gas fired generation. Gulf expects to return coal  
16 inventory levels to the target quantity later in 2017 by reducing the amount  
17 of projected coal purchases to match the lower expected coal burn for the  
18 period.

19

20 Q. If Gulf is projecting lower coal consumption in this case at Plants Crist and  
21 Daniel than in its 2012 test year rate case, why hasn't the volume of coal  
22 held in inventory at these plants declined?

23 A. The simple answer is that Gulf's coal stockpiles are tied to NFL days rather  
24 than projected burn days. Coal stockpile levels based upon NFL are an  
25 assurance of reliability to Gulf's customers. If Gulf's coal units have to run

1 at full load for an extended period of time to assure customer reliability, Gulf  
2 needs to be able to assure two factors: (1) unit availability and (2) sufficient  
3 fuel supply. As I discussed previously, Gulf is an industry leader in unit  
4 availability. Gulf also follows a coal inventory policy that assures when its  
5 coal units are needed by its customers there is enough fuel on site to  
6 assure performance.

7  
8 Extended coal unit performance can be needed for customers for a variety  
9 of reasons. Of course, swings in the relative prices of coal and gas can  
10 result in greater coal dispatch. However, beyond economics, there are a  
11 host of reasons that Gulf's coal units may be needed for reliability purposes:  
12 outages at gas fired units, transmission outages on lines from gas units, or  
13 natural gas supply interruptions. In addition, disruptions in the supply or  
14 transportation of coal, which can be caused by barge or train interruptions,  
15 also dictate a need to assure adequate coal stockpiles.

16  
17 Having an adequate supply of coal on hand for events that trigger reliability  
18 challenges is not unlike having a reserve margin in place for generation.  
19 We have more capacity available than is needed to just meet needs  
20 because sometimes units are not available. Limitations on fuel create the  
21 same reliability threats. It does no good to customers for Gulf to have  
22 generation in reserve to meet reliability issues if those units do not have  
23 sufficient fuel to operate as needed. So inventory levels are determined not  
24 by projected burn, but by amounts necessary to assure reliability.

25

1 Q. Why does Gulf include an amount in working capital for in-transit coal  
2 inventory?

3 A. Gulf pays its coal suppliers upon loading of the coal into Gulf's  
4 transportation equipment at the coal supplier's originating facility.  
5 Therefore, capital is invested in coal that has not yet been received at the  
6 destination generating plants. A major portion of Gulf's coal supply is  
7 delivered by ship, rail, and barge to an intermediate coal blending/transfer  
8 facility (Alabama State Docks McDuffie Coal Terminal) located in Mobile,  
9 Alabama and then by barge to the Crist generating plants. A considerable  
10 amount of time is involved in the process of transporting coal from the origin  
11 mine to the intermediate blending and barge loading location and then  
12 transporting the coal to the final destination plant stockpile. This investment  
13 in coal that is in-transit should be included in the working capital component  
14 of Gulf's rate base.

15

16 Q. How does the amount for in-transit coal that you included in your request for  
17 working capital compare to the amount included in the 2012 test year rate  
18 case?

19 A. The amount of in-transit coal included in the test year fuel inventory request is  
20 \$20,934,000. This compares to \$10,718,000 included in the 2012 test year  
21 rate case. The increase is due primarily to an increase in the quantity of in-  
22 transit coal being held at the McDuffie Coal Terminal offset somewhat by a  
23 lower projected market price of coal in 2017. It should be noted that even with  
24 this increase of in-transit coal inventory, Gulf's overall coal inventory for the

25

1 2017 test year is lower in volume and total cost than that allowed in Gulf's  
2 2012 test year rate case.

3

4 Q. What is Gulf's natural gas inventory policy?

5 A. Gulf's Natural Gas Policy requires that base load combined cycle units have  
6 firm gas storage capacity and gas transportation for system reliability  
7 purposes. The gas storage capacity requirement must be met before a gas  
8 fired combined cycle unit will be accepted as electric generating capacity for  
9 purposes of meeting an operating company's reserve capacity margin  
10 obligation. The purpose of the policy is to maintain a certain portion of a  
11 generating plant's natural gas supply requirement in storage to provide  
12 natural gas supply during gas supply interruptions caused by pipeline and  
13 compressor station failures, hurricanes, well freezes, etc. In addition,  
14 having available gas storage capacity for pipeline balancing is necessary to  
15 avoid penalties imposed by pipelines for large swings in daily and hourly  
16 demands when the generating unit is economically dispatched or when  
17 other sudden changes, like plant outages, cause a swing in demand.

18

19 Q. What is Gulf's forecasted natural gas inventory level for the test year?

20 A. Gulf projects a 13-month average natural gas inventory of 1,330,316 MCF  
21 for the test year and has included \$4,317,000 in working capital for this gas  
22 storage amount. This quantity of gas inventory is equal to 7 NFL burn days  
23 for Gulf's Plant Smith Unit 3 and for Gulf's PPA with the Central Alabama  
24 combined cycle facility.

25

1 Q. How does the 13-month average natural gas inventory for the test year  
2 compare to the approved inventory from the 2012 test year rate case?

3 A. Gulf was allowed an inventory of 835,702 MCF and \$4,300,000 in working  
4 capital for gas inventory in the 2012 test year rate case. Gulf is requesting  
5 a natural gas fuel inventory of 1,330,316 MCF and \$4,317,000 in this case.  
6 The amount of natural gas inventory in the test year is 494,614 MCF and  
7 \$17,000 higher than the amount approved in the 2012 test year rate case.  
8

9 Q. Please explain the increase in the volume of natural gas inventory in this  
10 case compared to Gulf's 2012 test year rate case.

11 A. As shown on Exhibit MLB-1, Schedule 11, the higher volume of natural gas  
12 inventory in this rate case is due to the Central Alabama facility having been  
13 added as a firm generating resource and being routinely used to minimize  
14 customer fuel costs. In June 2014, the Central Alabama facility was added as  
15 a firm generating resource for Gulf. Under that PPA, Gulf has the  
16 responsibility for providing natural gas supply for unit operation, and as a  
17 result, natural gas inventory has been included in the test year for this  
18 generating unit. The costs associated with this higher volume of inventory are  
19 largely offset by a lower average unit cost of gas than in Gulf's 2012 test year  
20 rate case.  
21

22 Q. How does the 13-month average unit cost of natural gas inventory for the test  
23 year compare to the amount used in the 2012 test year rate case?

24 A. In the 2012 test year rate case the average unit cost of natural gas in  
25 inventory was \$5.15 per MCF. Since the 2012 test year rate case the market



1 price of natural gas has decreased due to a higher supply of natural gas in  
2 the market. The current average unit cost of natural gas used to calculate the  
3 total cost of Gulf natural gas inventory in the test year is \$3.245 per MCF.  
4

5 Q. What is Gulf's forecast distillate oil inventory level for the test year?

6 A. Gulf's projected distillate oil inventory level, including both lighter oil and  
7 combustion turbine generating fuel, for the test year is 23,654 barrels. An  
8 amount of \$2,052,000 has been included in working capital for distillate oil  
9 inventory.  
10

11 Q. How does this oil inventory request compare to the oil inventory amount  
12 approved in Gulf's 2012 test year rate case?

13 A. The amount of distillate oil inventory included in the 2012 test year rate case  
14 was 49,850 barrels or \$3,370,000, which was primarily for lighter oil  
15 inventory at coal-fired units. The test year amount requested is a reduction  
16 of 26,196 barrels and \$1,318,000 from the amount approved in the 2012  
17 test year rate case. In 2015, the Plant Scholz coal units retired and in  
18 March 2016, the Smith 1 and 2 coal units retired, which ended the need to  
19 carry lighter oil inventory at these plants. The lighter oil inventory for these  
20 facilities was removed at the respective expiration/retirement dates for these  
21 generating units.  
22  
23  
24  
25

1 Q. How does the average unit cost of distillate oil inventory compare to the  
2 amount used in the 2012 test year rate case?

3 A. In Gulf's 2012 test year rate case the average unit cost of distillate oil in  
4 inventory was \$67.60 per barrel. Since the 2012 test year rate case, the  
5 market price of distillate oil has increased due to higher worldwide demand  
6 for all oil products. The current average unit cost of distillate oil used to  
7 project the total cost of Gulf's oil inventory in the test year is \$86.75 per  
8 barrel.

9

10 Q. Is Gulf's requested level of fuel inventory appropriate?

11 A. Yes. The fuel inventory requested by Gulf is reasonable, prudent and  
12 necessary to provide fuel inventory levels that will ensure Gulf's units are  
13 prepared to meet the needs of our customers with the lowest cost generation  
14 available.

15

16

17 **VII. GULF'S PLANT HELD FOR FUTURE USE**

18

19 Q. Please explain Gulf's approach to plant held for future use.

20 A. As part of the normal, ongoing planning processes, Gulf Power evaluates  
21 not only its projected resource needs, but also a variety of generation  
22 resources to meet future needs. Gulf's most recent Ten Year Site Plan  
23 reflects Gulf's next need for resources to be in 2023, when the current  
24 Central Alabama PPA for 885 MW of firm capacity expires. Gulf's projected  
25 resource need in 2023 is 613 MW. As noted in Gulf's Ten Year Site Plan,

1 the most economic self-build options to meet the needs of Gulf's customers  
2 would be gas-fired combined cycle (CC) or simple cycle combustion turbine  
3 (CT) units. Of course, the costs associated with those technology options  
4 vary depending upon the sites considered. So, in its planning to identify its  
5 most cost-effective self-build options, Gulf considers various technologies at  
6 various sites to discern the most economic technology and site or sites.  
7

8 Q. Previously you stated that the most economical self-build technology  
9 options for Gulf's customers were gas-fired CC and CT units. What site or  
10 sites proved to be the most economical for these alternatives?

11 A. If Gulf were to build a gas-fired CC unit to meet its forecasted 2023 need,  
12 the lowest cost option would be sited at the North Escambia site. The same  
13 CC unit was analyzed at multiple sites available to Gulf, and the cost  
14 advantages of the North Escambia site were significant. The net present  
15 value savings associated with the North Escambia site relative to alternative  
16 sites for a CC unit ranged from \$42 to \$239 million.  
17

18 If Gulf were to build CTs to meet its need in 2023, the most economical  
19 alternative would be to split the CTs between two sites: North Escambia and  
20 Gulf's Plant Smith. The net present value savings associated with the North  
21 Escambia site relative to alternative sites for CT units ranged from \$13 to  
22 \$44 million.  
23  
24  
25

1 Q. Please describe the North Escambia site and its advantages for siting gas-  
2 fired generation.

3 A. The property is approximately 2,728 acres and is strategically located near  
4 a gas pipeline, transmission and water. Natural gas supply would be  
5 transported to the North Escambia site by tying into an existing main  
6 pipeline located north of the site. This gas transportation option is the least  
7 cost option for all Gulf generation site alternatives. The North Escambia site  
8 is also located in close proximity to existing transmission facilities. The site  
9 allows for two water sources: the Escambia River and wells located  
10 throughout portions of the 2,728 acres. Aside from the site being the most  
11 economical for Gulf's next anticipated generation resource to serve Gulf's  
12 customers, it also provides benefits in that it allows for multiple types of  
13 generation resources. The site supports the potential development of  
14 multiple CC or CT resources and even some solar.

15

16 Q. Is Gulf's North Escambia site currently in rate base?

17 A. No. Unlike the Caryville and Shoal River properties that are included in rate  
18 base as Plant Held for Future Use (PHFU), the North Escambia site is not  
19 included in rate base. Gulf requested that a larger (4000 acres) and more  
20 costly North Escambia site be included in rate base in its 2012 test year rate  
21 case, but the Commission declined stating:

22 We agree with OPC, FIPUG, FRF, and FEA that: (1) the  
23 Caryville site is available for any needed future generating  
24 plant(s); (2) Gulf may share the ownership of the Escambia  
25 Site with its sister companies; and (3) there was not an order

1 granting a determination of need that would allow the  
2 Company to petition for and the Commission the opportunity  
3 to review the “nuclear option” and all the various  
4 corresponding costs. In light of our approval of Gulf’s  
5 retention of the Caryville site and the other available sites  
6 already included in rate base, we believe that Gulf has  
7 sufficient options for its future generation needs. Moreover,  
8 we find that Gulf has failed to support the inclusion of the  
9 North Escambia County Nuclear plant site and associated  
10 cost in PHFU. Therefore, PHFU shall be reduced by  
11 \$26,751,000 (\$27,687,000 system). In addition, Gulf shall  
12 not be permitted to accrue AFUDC for this site. As  
13 discussed above, Gulf has neither obtained the requisite  
14 order granting a determination of need nor has it received  
15 the necessary authorization to accrue AFUDC on the site  
16 costs. Therefore, Gulf shall be required to adjust its books to  
17 remove the \$2,977,838 in accrued carrying charges. (Order  
18 No. PSC-12-0179-FOF-EI at page 26)

19  
20 While Gulf is not seeking to accrue AFUDC previously disallowed, Gulf is  
21 seeking Commission approval to include the North Escambia site in rate  
22 base in the amount of \$16,618,908, which includes \$13,042,898 of PHFU  
23 and \$3,576,010 in preliminary survey and investigation charges.  
24  
25

1 Q. Given the Commission's prior decision not to include the North Escambia  
2 site in rate base, why is Gulf requesting that the property now be included  
3 as PHFU in rate base?

4 A. The simple answer is that the inclusion of the North Escambia property in  
5 rate base is in the best interests of Gulf's customers.

6

7 Q Why is the inclusion of the North Escambia site in rate base in the best  
8 interest of Gulf's customers?

9 A. First, the North Escambia site can accommodate both of the leading  
10 candidate technologies for Gulf's next resource need. Second, it can  
11 accommodate multiple additions of Gulf's leading candidate technologies.  
12 Third, and most important, the North Escambia site is the lowest-cost site  
13 available to Gulf for siting either of its leading candidate technologies. For  
14 CC technology or CT technology, it benefits Gulf's customers by tens of  
15 millions of dollars because of its site attributes.

16

17 The economic analysis demonstrates that the North Escambia property is  
18 the most economic option for either the addition of CCs or CTs. Gulf  
19 consistently looks not only at short-term solutions but also what is best in  
20 the long term for its customers. This site offers the most flexibility for future  
21 generation technologies, which ensures that Gulf will be able to provide  
22 reliable generation for its next need as well as far into the future. Gulf's  
23 customers are fortunate that the site is still available for their benefit.

24

25

1 Q Please address why Gulf's customers are fortunate that the North Escambia  
2 site is still available for them.

3 A. As I previously noted, the Commission not only declined to include the  
4 \$26,751,000 investment in the North Escambia site in rate base in 2012, but  
5 also instructed Gulf to remove almost three million dollars of accrued  
6 AFUDC on the project. So, Gulf's shareholders have funded tens of millions  
7 of dollars of investment for as much as eight years without earning any  
8 return on their investment. Gulf's management held on to this property  
9 because they were convinced that it was in its customers' interest to hold  
10 this property rather than sell it and lose the prospect of it not being available  
11 to meet future needs. That is why I say Gulf's customers are fortunate that  
12 this property is still available for their benefit.

13

14 Q Have circumstances changed since the 2012 disallowance?

15 A. Yes. Unlike the 2012 test year rate case where intervenor witnesses  
16 argued Gulf had no need within a 10-year planning horizon, Gulf now has a  
17 documented need within its 10-year planning horizon. The North Escambia  
18 site is the most economical site for both of the leading technologies to meet  
19 that need. It is more cost effective to Gulf's customers than the "other sites  
20 already included in rate base."

21

22 Q. If the Commission were to disallow the North Escambia site in rate base  
23 what would be the outcome to Gulf's customers?

24 A. Gulf's customers would likely lose the benefit of this asset. The Company  
25 would have to seriously consider selling this site. Gulf has held this

1 property for the benefit of its customers since 2008, but it has not earned  
2 the first dollar of return on this valuable investment. Gulf cannot continue to  
3 hold this property without earning a return; that would be unfair to investors  
4 who invest with an expectation of an opportunity to earn a fair return on their  
5 investment, as is more fully developed by Gulf Witnesses Vander Weide  
6 and Liu. If the Commission does not allow the North Escambia site in rate  
7 base, Gulf will seriously consider selling this valuable site, and it is unlikely  
8 that it will ever be available for purchase again, as this area continues to  
9 grow. The most immediate impact would be increased costs to Gulf's  
10 customers for Gulf's next planned generation need in 2023. The other sites  
11 under consideration each have higher overall costs than generation located  
12 at the North Escambia site. Customers would also lose the value of this site  
13 for other more distant resource needs.

## 14 15 16 **VIII. CONCLUSION**

17  
18 Q. Please summarize your testimony.

19 A. Gulf maintains and operates generation resources designed to serve our  
20 customers economically and reliably. Gulf's Generation operation has  
21 continued to provide economical, reliable electricity to our customers. The  
22 reliability of Gulf's generating units and low EFOR are clear indications that  
23 Gulf has executed an effective maintenance program that continues to  
24 provide our customers with reliable service.

25



1 Our safety performance has been excellent, and the reliability of our  
2 generating resources continues to be among the best in the electric utility  
3 industry.

4  
5 Gulf's Production investment and O&M expenses are absolutely necessary  
6 in order to maintain reliable plant performance in the future. Our past  
7 performance indicates that Gulf continues to be a good steward of its  
8 generating resources and can be trusted to maintain reliable performance in  
9 the future to the benefit of its customers.

10

11 Gulf's fuel inventory policy, adjusted for generating plant additions,  
12 retirements, and current market fuel prices, is essentially the same as  
13 testified to in the last rate case. Gulf's fuel inventory policy is an integral  
14 part of our strategy to ensure that we have an adequate supply of fuel  
15 available at all times for the reliable operation of Gulf's generating assets.  
16 Without an appropriate level of fuel inventory, having exceptional plant  
17 performance and also reliable transmission and distribution systems would  
18 be of no value to our customers.

19

20 Scherer Unit 3 is a fully controlled and reliable coal-fired unit that has been  
21 rededicated for the primary use of our retail customers. The rededication of  
22 Scherer Unit 3, plus the recent addition of solar and wind generation,  
23 demonstrates Gulf's commitment to diversification of its generating  
24 resources.

25

1 Gulf's Ten Year Site Plan indicates that we will have a resource need in  
2 2023. The North Escambia site is the most economical and versatile land  
3 site that could support CCs or CTs—the alternatives that are the lowest cost  
4 options available to Gulf under current planning assumptions.

5

6 In conclusion, our customers expect and deserve a reliable, diverse, cost-  
7 effective, and efficient generating fleet. We continue to provide exactly this  
8 for our customers. Gulf's performance indicators are a testament to that  
9 fact.

10

11 Q. Does this conclude your testimony?

12 A. Yes.

13

14

15

16

17

18

19

20

21

22

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Petition for Increase in Rates )  
By Gulf Power Company )  
)

Docket No.: 160186-EI

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing has been furnished by electronic mail this 19th day of December, 2016 to the following:

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