

Collin Roehner

From: Office of Commissioner Brown
Sent: Thursday, February 02, 2017 3:53 PM
To: Commissioner Correspondence
Subject: FW: Docket 160186-EI Gulf Power
Attachments: img20170202_12384049.pdf

Please place the attached in Docket Correspondence, Consumers and their Representatives, in Docket No. 160186-EI.

Thank you,
Joann

From: Angela Anderson [<mailto:angela@compasssolar.com>]
Sent: Thursday, February 02, 2017 2:39 PM
To: Office of Commissioner Brown
Cc: dan@compasssolar.com
Subject: Docket 160186-EI Gulf Power

Chairman Brown,

Please find attached a letter from our Vice President Dan Gardner regarding Docket No. 160186-EI for Gulf Power Company.

Regards,

Angela Anderson
Administrative Assistant



E-mail: angela@compasssolar.com
Office: (850) 439-0035, ext. 302
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Web: www.compassolar.com



January 31, 2017

Florida Public Service Commission
Attn: Julie Imanuel Brown
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850
Commissioner.Brown@psc.state.fl.us

Chairman Brown,

It would appear Gulf Power, faced with competition (primarily Natural Gas with solar on the horizon) has a desire to request the very thing the PSC is charged with preventing. That being the setting of rate/price structures that would otherwise not exist in an open competitive market.

Already they are an outlier having a base rate twice that of other Florida utilities. In an open competitive market would they realistically propose an additional base rate modification more than 4 times that of other utilities? As a business owner in charge of setting pricing targets I can tell you emphatically no. If for example they competed toe to toe with FP&L, under such a proposal, FP&L would capitalize with an aggressive marketing campaign emphasizing their lower base rate. Gulf Power would lose significant market share. This argument alone suffices in providing the PSC with justification for denial under a competitive scenario. Below is the argument based on financials.

In the attached Gulf Power notification its "*citing the need to continue investing in the long term reliability of Northwest Florida's energy infrastructure*" At the same time in an interview with Chanel 7-Panama City, Stan Connelly clearly stated "*since 2010, Gulf Power has **improved its reliability by 40%***". They achieved this 40% with their 2012 and 2013 financials showing a 9.16% after tax profit.

2014 profits rose to 9.37%, 2015 profits rose even higher to 10.58% and 2016 shows it will be on target for 10-11%. If they can achieve a 40% improvement with 9.16% profits can they not continue the trend with the 10-11% profits? Numbers are not supporting their argument. As a side note: Competitive industry is doing good to achieve an 8% after tax profit.

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Lastly, Mr. Connelly states *“Although Gulf has been successful in controlling O&M expenses, our base rate revenues have not been sufficient”* The increase in profitability under a declining revenue does not support this statement. I think he should be commended for his ability to increase profits under competitive pressures and declining revenue and encouraged to continue what he is doing with the profits he is achieving. No rate hike or base rate increase is necessary. This request appears to be nothing more than a desire to shield itself long term from additional competition. I encourage you to look at the facts and allow citizens to continue to benefit from more energy efficiency approaches furthering the development of new technologies in energy conservation.

Thank you for listening,

A handwritten signature in black ink, appearing to read 'Dan Gardner', with a long horizontal flourish extending to the right.

Dan Gardner
VP-Business Development

NOTICE TO CUSTOMERS

Citing the need to continue investing in the long-term reliability of Northwest Florida's energy infrastructure, on October 12, Gulf Power asked the Florida Public Service Commission to conduct a public review process of our rates and our request for an increase in prices that would take effect in the summer of 2017.

Securing your energy future requires a balanced energy mix that includes renewable energy and 24/7 sources like natural gas and low-cost coal that's cleaner than ever. Energy security also includes reliability — continuous improvement in this area is critical.

Gulf Power's current total residential price (base rate plus clause rates) is lower than it was in 2015, and it will be even lower in January 2017, mainly because of decreased fuel prices. Taking this into account, if the new base rate request is approved by the Florida Public Service Commission, the average residential customer's total monthly bill will increase by \$10.22 per month or 6.9 percent — from \$148.64 to \$158.86. Gulf is also proposing to reduce the variable energy charge and increase the daily base charge for existing residential rates and is seeking approval of two new residential rate options.

Current base rates will remain in effect until new rates become effective under Florida law. Copies of the rate review filing, including proposed rate schedules, are available for review at your local Gulf Power office (see list of locations below) and via the Company's website at GulfPower.com. Company personnel are available at all Gulf Power offices to answer questions concerning this request. They may be contacted at the address or telephone number shown on your electricity bill or GulfPower.com.

This rate review filing can be found on the Florida Public Service Commission website under Docket number 160186-EI (www.psc.state.fl.us). Comments regarding service may be made to the Florida Public Service Commission's Office of Consumer Assistance & Outreach at 1-800-342-3552. Comments regarding the proposed changes in rates and charges should be addressed to the Office of Commission Clerk, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, FL 32399-0850 and should include the docket number.

The PSC will accept faxes and emails.
Fax number: 1-800-511-0809
Email address: contact@psc.state.fl.us

The Office of Public Counsel (OPC) has intervened in this docket. The duty of the OPC is to provide legal representation for the people of the State of Florida in proceedings before the Commission. OPC representatives may be contacted prior to the hearing at 111 West Madison Street, Room 812, Tallahassee, FL 32399-1400, or by phone at 1-800-342-0222.

List of local Gulf Power Offices

| | |
|------------------|-----------------------------------------------------------|
| Panama City | 1230 E. 15th Street, Panama City, FL 32402 |
| Chipley | 1195 Jackson Avenue, Chipley, FL 32428 |
| DeFuniak Springs | 1226 Circle Drive, DeFuniak Springs, FL 32435 |
| Crestview | 1655 S. Ferdon Boulevard, Crestview, FL 32536 |
| Niceville | 1057 E. John Sims Parkway, Niceville, FL 32578 |
| Ft. Walton Beach | 140 Hollywood Boulevard S.W., Fort Walton Beach, FL 32548 |
| Milton | 5120 Dogwood Drive, Milton, FL 32570 |
| Pensacola | 418 W. Garden Street, Pensacola, FL 32501 |
| Corporate Office | 500 Bayfront Parkway, Pensacola, FL 32502 |

Gulf Power seeking rate increase in 2017

Posted: Tue 2:37 PM, Aug 16, 2016 |
Updated: Tue 5:31 PM, Aug 16, 2016



PANAMA CITY, Fla. (WJHG-WECP)-- Power rates for Gulf Power customers will be going up soon if the utility gets it way.

In a filing with the Florida Public Service Commission dated August 12, 2016, Gulf Power Chairman, President and CEO Stan W. Connally, Jr., writes "we are planning to file a request for rate relief only after serious deliberations. **An increase in our base rate revenues is now necessary to maintain a reliable electric system and to preserve our financial integrity**, which is in the long-term best interest of our customers."

Connally indicates in his letter to the PSC noted the company is experiencing slow sales growth. "In addition to the increase in the cost of providing electric service...Gulf's base rate revenues have not grown as expected. **Due to a combination of slower than forecasted customer growth and a decline in usage per customer**, Gulf's weather-normalized GWh sales have not reached the level originally projected for 2012, and sales are not currently protected to reach that level in 2017. Although **Gulf has been successful in controlling the growth of O&M (Operation and Maintenance) expenses, the growth in our base rate revenues has not been sufficient both to cover increased expenses and to provide a return on our increased investment.**"

Gulf Power says since 2012, its net investment in non-plant assets serving our retail customers will have increased by \$750 million from the level included in the Commission-approved rate base.

In a news release, Gulf Power noted it last requested an increase in 2013. In 2012, Gulf Power customers saw the largest price decrease in Gulf Power's history, a decrease of nearly \$10 per month for the typical customer. Again in January 2016, customers received a decrease that lowered the bill \$3.71 per month.

Gulf Power says it need to increase annual revenues between \$115 and \$125 million to "produce sufficient revenues to allow us to continue to provide the electric service our customers require." How much that will mean to customers on their electric bill wasn't specified in the letter.

"Securing our customers' energy future requires a balanced energy mix that includes renewables and 24/7 energy sources like natural gas and low-cost coal that's cleaner than ever," said Connally. "Energy security also includes reliability — **since 2010, Gulf Power has improved its reliability by 40 percent and we must continue that trend of improvement.**"

"As we continue to secure future energy needs for our customers, we have to make sure our systems are resilient so that we can continue to deliver safe, clean and reliable energy and continue to meet the energy needs of our customers today, tomorrow and into the future," said Connally.

Gulf Power will go before the PSC in Tallahassee in October. If approved, the rate hike would go in to effect during the summer of 2017 according to the utility.

what has caused a decline in usage

1

| In Millions of USD (except for per share items) | 9 months ending 2016-9- | | 12 months ending 2015-12-31 | | 12 months ending 2014- 12-31 | | 12 months ending 2013- 12-31 | | 12 months ending 2012- 12-31 | |
|-------------------------------------------------|-------------------------------|---------------|-----------------------------------|---------------|------------------------------------|---------------|------------------------------------|---------------|------------------------------------|----------------|
| Revenue | 1086 | | 1,414.00 | | 1,525.80 | | 1,378.96 | | 1,374.99 | 1448.00 |
| Other Revenue, Total | 50 | | 69 | | 64.68 | | 61.34 | | 64.77 | 66.67 |
| Total Revenue | 1136 | | 1,483.00 | | 1,590.48 | | 1,440.30 | | 1,439.76 | 1514.67 |
| Cost of Revenue, Total | 104 | | 135 | | 107.24 | | 85.28 | | 74.09 | 138.67 |
| Gross Profit | | | - | | - | | - | | - | |
| Selling/General/Admin. Expenses, Total | | | - | | - | | - | | - | |
| Research & Development | | | - | | - | | - | | - | |
| Depreciation/Amortization | 129 | | 141 | | 145.03 | | 149.01 | | 141.04 | 172.00 |
| Interest Expense(Income) - Net Operating | | | - | | - | | - | | - | |
| Unusual Expense (Income) | | | - | | - | | - | | - | |
| Other Operating Expenses, Total | 92 | | 118 | | 111.15 | | 98.36 | | 97.31 | 122.67 |
| Total Operating Expense | 907 | 79.84% | 1,193.00 | 80.45% | 1,309.27 | 82.32% | 1,175.30 | 81.60% | 1,171.57 | 1209.33 |
| Operating Income | 229 | | 290 | | 281.21 | | 265 | | 268.19 | 305.33 |
| Interest Income(Expense), Net Non-Operating | | | - | | - | | - | | - | |
| Gain (Loss) on Sale of Assets | | | - | | - | | - | | - | |
| Other, Net | -4 | | -5 | | -2.85 | | -3.99 | | -3.23 | -5.33 |
| Income Before Tax | 189 | | 249 | | 237.24 | | 211.8 | | 211.35 | 252.00 |
| Income After Tax | 115 | 10.59% | 157 | 11.10% | 149.18 | 9.78% | 132.13 | 9.58% | 132.13 | 153.33 |
| Minority Interest | | | - | | - | | - | | - | |
| Equity In Affiliates | | | - | | - | | - | | - | |
| Net Income Before Extra. Items | 115 | | 157 | | 149.18 | | 132.13 | | 132.13 | 153.33 |
| Accounting Change | | | - | | - | | - | | - | |
| Discontinued Operations | | | - | | - | | - | | - | |
| Extraordinary Item | | | - | | - | | - | | - | |
| Net Income | 115 | | 157 | | 149.18 | | 132.13 | | 132.13 | 153.33 |
| Preferred Dividends | | | - | | - | | - | | - | |
| Income Available to Common Excl. Extra Items | 108 | | 148 | | 140.18 | | 124.43 | | 125.93 | 144.00 |
| Income Available to Common Incl. Extra Items | 108 | | 148 | | 140.18 | | 124.43 | | 125.93 | 144.00 |
| Basic Weighted Average Shares | | | - | | - | | - | | - | |

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
Gulf Power Company 2015 Annual Report

Other operating revenues increased \$5 million, or 7.8%, in 2015 as compared to the prior year primarily due to a \$2 million increase in franchise fees and a \$2 million increase in revenues from other energy services. In 2014, other operating revenues increased \$3 million, or 5.5%, as compared to the prior year primarily due to a \$5 million increase in franchise fees due to increased retail revenues, partially offset by a \$2 million decrease in revenues from other energy services. Franchise fees have no impact on net income. Revenues from other energy services did not have a material effect on net income since they were generally offset by associated expenses.

Energy Sales

Changes in revenues are influenced heavily by the change in the volume of energy sold from year to year. KWH sales for 2015 and the percent change from the prior year were as follows:

| | Total KWHs | Total KWH Percent Change | | Weather-Adjusted Percent Change | |
|--------------------|----------------------|-----------------------------|------|------------------------------------|------|
| | 2015 | 2015 | 2014 | 2015 | 2014 |
| | <i>(in millions)</i> | | | | |
| Residential | 5,365 | — % | 5.4% | (1.0)% | 1.3% |
| Commercial | 3,898 | 1.6 | 0.7 | 0.3 | 0.1 |
| Industrial | 1,798 | (2.8) | 8.8 | (2.8) | 8.8 |
| Other | 25 | (0.1) | 20.5 | (0.1) | 20.5 |
| Total retail | 11,086 | 0.1 | 4.3 | (0.8)% | 2.1% |
| Wholesale | | | | | |
| Non-affiliates | 1,040 | (37.7) | 43.7 | | |
| Affiliates | 1,906 | (42.0) | 5.0 | | |
| Total wholesale | 2,946 | (40.5) | 15.5 | | |
| Total energy sales | 14,032 | (12.5)% | 7.5% | | |

Changes in retail energy sales are generally the result of changes in electricity usage by customers, changes in weather, and changes in the number of customers.

Residential KWH sales increased minimally in 2015 compared to 2014 due to customer growth and warmer weather in the second and third quarters of 2015, mostly offset by a decline in use per customer. Residential KWH sales increased in 2014 compared to 2013 primarily due to colder weather in the first quarter of 2014 and customer growth.

Commercial KWH sales increased in 2015 compared to 2014 due to customer growth and warmer weather in the second and third quarters of 2015, partially offset by a decline in use per customer. Commercial KWH sales increased in 2014 compared to 2013 primarily due to colder weather in the first quarter of 2014 and customer growth, partially offset by a decline in weather-adjusted use per customer.

Industrial KWH sales decreased in 2015 compared to 2014 primarily due to increased customer co-generation as a result of lower natural gas prices, partially offset by increases due to changes in customers' operations. Industrial KWH sales increased in 2014 compared to 2013 primarily due to decreased customer co-generation and changes in customers' operations.

See "Operating Revenues" above for a discussion of significant changes in wholesale sales to non-affiliates and affiliated companies.

Fuel and Purchased Power Expenses

Fuel costs constitute the single largest expense for the Company. The mix of fuel sources for generation of electricity is determined primarily by demand, the unit cost of fuel, and the availability of generating units. Additionally, the Company purchases a portion of its electricity needs from the wholesale market.

| In Millions of USD (except for per share items) | 12 months ending 2015-12-31 | 12 months ending 2014- 12-31 | 12 months ending 2013- 12-31 | 12 months ending 2012- 12-31 |
|--------------------------------------------------|-----------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Revenue | 1,414.00 | 1,525.80 | 1,378.96 | 1,374.99 |
| Other Revenue, Total | 69 | 64.68 | 61.34 | 64.77 |
| Total Revenue | 1,483.00 | 1,590.48 | 1,440.30 | 1,439.76 |
| Cost of Revenue, Total | 135 | 107.24 | 85.28 | 74.09 |
| Gross Profit | - | - | - | - |
| Selling/General/Admin. Expenses, Total | - | - | - | - |
| Research & Development | - | - | - | - |
| Depreciation/Amortization | 141 | 145.03 | 149.01 | 141.04 |
| Interest Expense(Income) - Net Operating | - | - | - | - |
| Unusual Expense (Income) | - | - | - | - |
| Other Operating Expenses, Total | 118 | 111.15 | 98.36 | 97.31 |
| Total Operating Expense | 1,193.00 | 1,309.27 | 1,175.30 | 1,171.57 |
| Operating Income | 290 | 281.21 | 265 | 268.19 |
| Interest Income(Expense), Net Non-Operating | - | - | - | - |
| Gain (Loss) on Sale of Assets | - | - | - | - |
| Other, Net | -5 | -2.85 | -3.99 | -3.23 |
| Income Before Tax | 249 | 237.24 | 211.8 | 211.35 |
| Income After Tax | 157 | 149.18 | 132.13 | 132.13 |
| Minority Interest | - | - | - | - |
| Equity In Affiliates | - | - | - | - |
| Net Income Before Extra. Items | 157 | 149.18 | 132.13 | 132.13 |
| Accounting Change | - | - | - | - |
| Discontinued Operations | - | - | - | - |
| Extraordinary Item | - | - | - | - |
| Net Income | 157 | 149.18 | 132.13 | 132.13 |
| Preferred Dividends | - | 10.58% 9.37 | 9.16 | 9.16 |
| Income Available to Common Excl. Extra Items | 148 | 140.18 | 124.43 | 125.93 |
| Income Available to Common Incl. Extra Items | 148 | 140.18 | 124.43 | 125.93 |
| Basic Weighted Average Shares | - | - | - | - |
| Basic EPS Excluding Extraordinary Items | - | - | - | - |
| Basic EPS Including Extraordinary Items | - | - | - | - |
| Dilution Adjustment | - | - | - | - |
| Diluted Weighted Average Shares | - | - | - | - |
| Diluted EPS Excluding Extraordinary Items | - | - | - | - |
| Diluted EPS Including Extraordinary Items | - | - | - | - |
| Dividends per Share - Common Stock Primary Issue | 6 | 6 | 6 | - |
| Gross Dividends - Common Stock | - | - | - | - |
| Net Income after Stock Based Comp. Expense | - | - | - | - |
| Basic EPS after Stock Based Comp. Expense | - | - | - | - |
| Diluted EPS after Stock Based Comp. Expense | - | - | - | - |
| Depreciation, Supplemental | - | - | - | - |
| Total Special Items | - | - | - | - |
| Normalized Income Before Taxes | - | - | - | - |
| Effect of Special Items on Income Taxes | - | - | - | - |