



Robert L. McGee, Jr.
Regulatory & Pricing Manager

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

February 8, 2017

VIA ELECTRONIC FILING

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

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

Dear Ms. Stauffer:

Attached is the Rebuttal Testimony and Exhibit of Gulf Power Company Witness
Steven P. Harris.

(Document 6 of 16)

Sincerely,

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

Robert L. McGee, Jr.
Regulatory & Pricing Manager

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

DOCKET NO. 160186-EI



Gulf Power

**REBUTTAL TESTIMONY AND EXHIBIT
OF
STEVEN P. HARRIS**

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission
3 Rebuttal Testimony of
4 Steven P. Harris
5 Docket No. 160186-EI
6 In Support of Rate Relief
7 Date of Filing: February 8, 2017

8 Q. Please state your name, business address and occupation.

9 A. My name is Steven Harris. My business address is 555 12th Street Suite
10 1100, Oakland, California 94607. I am a Senior Manager with CoreLogic,
11 Inc. Insurance & Spatial Services, Consulting Services Group.

12 Q. Have you previously filed testimony in this proceeding?

13 A. Yes.

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

15 A. The purpose of my rebuttal testimony is to rebut statements made by Office
16 of Public Counsel (OPC) Witness Ramas regarding the adequacy of Gulf's
17 annual accrual to its Property Damage Reserve.

18 Q. Are you sponsoring any rebuttal exhibits?

19 A. Yes, Exhibit SPH-3, "Comparison of protection afforded by \$3.5 million
20 versus \$8.9 million annual accrual against potential average damage from
21 SSI 2 Landfalls." This exhibit was prepared under my supervision and
22 control and is true and correct to the best of my knowledge and belief.
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24
25

1 Q. Do you agree with Witness Ramas that the current accrual provides
2 protection from most but not all storms?

3 A. No. Witness Ramas states that the Gulf reserve has increased by \$9.7
4 million over the past four years and ten months and has reached
5 \$40,173,002 as of October 2016. Witness Ramas implies that this level is
6 adequate to fund most but not all storms without an increase in the annual
7 accrual. A comparison of the current reserve accrual of \$3.5 million and the
8 requested \$8.9 million accrual is set forth in my exhibit. This comparison
9 demonstrates that the current \$3.5 million level of accrual provides
10 substantially less protection than the proposed \$8.9 million accrual.

11
12 Exhibit SPH-3 shows the results of a reserve solvency performance
13 analysis for an \$8.9 million annual accrual. This analysis shows the
14 protection afforded by expected reserve balances against mean damage
15 from Category 2 (also referred to as Saffir-Simpson Scale (SSI) Category 2)
16 storms making landfall at various mile markers along the Gulf Coast near
17 Gulf's service area.

18
19 The result from the \$8.9 million accrual is a positive expected reserve
20 balance at the end of five years of \$43.2 million, only slightly greater than
21 the current balance of \$40 million, and well below the Commission's
22 established target of \$48 to \$55 million. Exhibit SPH-3 illustrates that, at the
23 end of five years, the \$8.9 million accrual and its resulting \$43.2 million
24 reserve balance would be expected to provide adequate funds for simulated
25 average Category 2 storms.

1 On the other hand, the \$3.5 million accrual suggested by Witness Ramas
2 would only be expected to protect for average Category 2 hurricanes that
3 make landfall east of Panama City. The majority of Gulf's transmission and
4 distribution (T&D) assets are west of these landfall locations; thus Witness
5 Ramas's suggested reserve would be inadequate to fund average Category
6 2 damage for more direct landfalls in the Pensacola or Panama City area.

7
8 Category 2 storms that are greater than average would cause damage of
9 more than \$43.2 million for many of the landfall locations. Category 2
10 storms making landfall from Mobile Bay to Fort Walton Beach could cause
11 damage as large as \$110 million. Thus, assuming a greater-than-average
12 Category 2 storm which makes landfall in an area with a large concentration
13 of Gulf's T&D assets, the suggested \$3.5 million accrual would provide
14 dramatically less protection for storm damage.

15
16 Q. Do you agree with Witness Ramas that the current reserve accrual should
17 remain at \$3.5 million per year?

18 A. No. Witness Ramas states that the reserve balance has grown over the
19 period from 2010 to 2016 and concludes that the annual accrual level from
20 1996 is therefore adequate. The reason that Gulf's annual accrual appears
21 to have been sufficient between 2010 and 2016 was Gulf's very favorable
22 storm history over this period. There were no hurricanes with strong
23 Category 1 or greater winds that made direct landfalls in Gulf's service area
24 during this time. Some small losses and only one moderate storm loss of
25 about \$2 million was experienced over this period. The absence of large

1 hurricane losses between 2010 and 2016 is not a significant factor in an
2 actuarially sound analysis. Gulf has been very fortunate in the last decade
3 compared to the 115-year historical average. Over 115 years, there have
4 been many more hurricane landfalls and damaging events compared with
5 the last seven years used by Witness Ramas. The full historical hurricane
6 hazard in Florida is represented in my storm study.

7
8 Witness Ramas proposes maintaining the reserve accrual of \$3.5 million, an
9 amount well below the expected annual damage from my storm study of
10 \$9.6 million. This annual accrual was set and has been maintained at the
11 current level since 1996. Over this period, the cost of T&D infrastructure
12 has increased by a factor of more than two. A funding policy that
13 significantly under-accrues could be characterized as de-facto “pay-as-you-
14 go” funding and could result in a more volatile funding process for future
15 storm restoration.

16
17 Determining an annual reserve accrual amount based on data that
18 selectively excludes any possible damage events, whether large and
19 infrequent or small and frequent, is neither meaningful nor appropriate. Any
20 reliable estimate of the expected annual windstorm damage to which Gulf is
21 exposed (expected annual damage) must include the most complete and
22 full damage distribution that can be determined from both actual experience
23 and statistically rigorous simulations of future possible damage. Witness
24 Ramas’s approach disregards decades of Gulf’s storm experience as well
25 as the century of data that forms the basis of my storm simulation study.

1 Witness Ramas inappropriately assumes that the most recent seven years
2 of favorable storm history provide an adequate basis for Gulf and FPSC
3 funding decisions for the reserve.

4

5 Q. Does this conclude your rebuttal testimony?

6 A. Yes.

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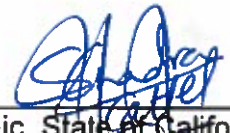
STATE OF CALIFORNIA)
)
COUNTY OF ALAMEDA)

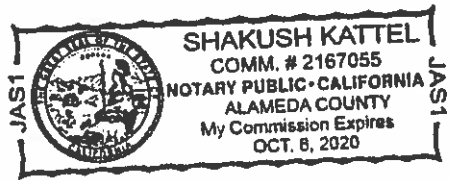
Docket No. 160186-EI

Before me the undersigned authority, personally appeared Steven P. Harris, who being first duly sworn, deposes, and says that he is a Senior Manager with CoreLogic, Inc., a Delaware corporation, and that the foregoing is true and correct to the best of his knowledge, information, and belief. He is personally known to me.

s/ 
Steven P. Harris
Senior Manager

Sworn to and subscribed before me this 02 day of Feb, 2017.


Notary Public, State of California
Commission on No. ~~10/08/2020~~ ^{SK} 2167055
My Commission on Expires 10/08/2020



Exhibit

Comparison of protection afforded by \$3.5 million versus \$8.9 million annual accrual against potential average damage from SSI 2 Landfalls

