

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: March 29, 2017

TO: Carlotta S. Stauffer, Commission Clerk, Office of Commission Clerk

FROM: Kelley F. Corbari, Senior Attorney, Office of the General Counsel *KFC*

RE: **Docket No. 160186-EI** In re: Petition for rate increase by Gulf Power Company.
Docket No. 160170-EI 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.

Attached please find Gulf Power Company's responses to Staff's questions regarding the Stipulation and Settlement Agreement, filed in the above-referenced matter on March 24, 2017.

Thank you for your assistance in this matter. Should you have any questions, please do not hesitate to contact me.

KFC

Kelley Corbari

From: Darnes, Melissa Ann <MADARNES@SOUTHERNCO.COM>
Sent: Wednesday, March 29, 2017 12:19 PM
To: Tom Ballinger
Cc: Andrew Maurey; Greg Shafer; Kelley Corbari
Subject: Staff's Inquiries to Gulf Power Company; Docket No. 160186-EI
Attachments: 3.29.17 Gulf Power Company's response to Commission Staff Inquiries.pdf

Mr. Ballinger,

Attached please find Gulf Power Company's response to questions from Commission Staff requested during the informal meeting held on March 21, 2017.

Thank you,

Melissa Darnes
Gulf Power Company • Admin Assistant Sr/Regulatory & Pricing
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Stay connected with Gulf Power





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March 29, 2017

Mr. Tom Ballinger, Director
Division of Engineering
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

RE: Staff's Inquiries to Gulf; Docket 160186-EI

Dear Mr. Ballinger:

Attached please find Gulf's response to questions from Commission Staff, requested during the informal meeting held on March 21, 2017.

Sincerely,

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

Robert L. McGee, Jr.
Regulatory and Pricing Manager

md

Attachments

cc w/att: Beggs & Lane
Jeffrey A. Stone, Esq.
Florida Public Service Commission
Mr. Andrew Maurey, Director, Division of Accounting and Finance
Mr. Gregory Shafer, Director, Division of Economics
Ms. Kelley Corbari, Senior Attorney, Office of General Counsel

Mr. Tom Ballinger, Director
March 29, 2017
Page 2

Office of Public Counsel

Stephanie A. Morse
JR Kelly

Federal Executive Agencies

Thomas Jernigan
Maj. Andrew Unsicker
Capt. Lanny Zieman
Capt. Natalie Cepak
Ebony Payton

Southern Alliance for Clean Energy

Bradley Marshall
Alisa Coe

Florida Industrial Power Users Group

Jon C. Moyle, Jr.
Karen Putnal

Gardner Law Firm / Florida Retail Federation

Robert Scheffel Wright
John LaVia, III

Sierra Club

Diana Csank
Lane Johnson

Gunster Law Firm

Charles A. Guyton
Richard Melson

1. Request for an itemization of differences between Stipulation and Settlement Agreement and the Category 1 and Category 2 stipulations approved by the Commission on March 20, 2017.

Gulf Response: The following issues that were the subject of the Category 1 and Category 2 stipulations approved by the Commission on March 20, 2017 have been modified by the terms of the Stipulation and Settlement Agreement between Gulf, OPC and FIPUG that is pending before the Commission (the modifications for each affected issue are detailed below the following list):

- Issue 14 – effective date for beginning the amortization of the Smith Unit 1 & Unit 2 Regulatory Asset
- Issue 18 – effective date for revised depreciation rates, etc.
- Issue 98 – transformer ownership discounts
- Issue 99 – lighting charges
- Issues 102-104 – deferred issues rendered moot and therefore dropped rather than deferred

ISSUE 14: What is the appropriate recovery period for the regulatory asset related to the retirement of Plant Smith Units 1 and 2 approved in Docket No. 160039-EI?

Approved Category 1 or 2 Stipulation: The regulatory asset related to the retirement of Plant Smith Units 1 and 2 approved in Docket No. 160039-EI should be amortized over 15 years commencing with the date new rates become effective.

ISSUE 18: What should be the implementation date for revised depreciation rates, capital recovery schedules, dismantlement accruals, and amortization schedules?

Approved Category 1 or 2 Stipulation: The implementation date should coincide with the effective date of the base rates set in this docket.

Stipulation and Settlement Agreement:

Paragraph 10 - New depreciation rates will be implemented January 1, 2018, and the depreciation rates in effect as of January 1, 2017, shall remain in effect through December 31, 2017.

Paragraph 11 - The amortization of the regulatory asset for the deferred return on the transmission projects as provided for in the 2013 Settlement Agreement and the

amortization of the regulatory asset related to the retirement of Plant Smith Units 1 and 2 will begin on January 1, 2018.

ISSUE 98: What are the appropriate transformer ownership discounts?

Approved Category 1 or 2 Stipulation: The appropriate transformer ownership credits are shown below, and were developed using the Commission’s approved methodology.

Rate Schedule	Voltage Discount (\$/mo/kw)
GSD, GSdT	(\$ 0.36) Primary Voltage Level
LP, LPT	(\$ 0.48) Primary Voltage Level (\$ 0.72) Transmission Voltage Level
PX, PXT	(\$ 0.18) Transmission Voltage Level
SBS Contract Level	
100 – 499 kW	(\$ 0.06) Primary Voltage Level
500 – 7,499 kW	(\$ 0.06) Primary Voltage Level (\$ 0.07) Transmission Voltage Level
above 7,499 kW	(\$ 0.08) Transmission Voltage Level

Stipulation and Settlement Agreement:

Paragraphs 5 & 8a – Given the base rate revenue increase set forth in the Agreement, the transformer ownership credits will change as part of the Company’s rate design, and the resulting rate schedules will be submitted to the Commission.

ISSUE 99: What are the appropriate lighting charges?

Approved Category 1 or 2 Stipulation: The appropriate charges for the outdoor service (OS) are those shown in the Rate Schedule OS found in Schedule 3 of Exhibit LPE-1, attached to the testimony of Gulf Witness Evans.

Stipulation and Settlement Agreement:

Paragraphs 5 & 8(a) – Given the base rate revenue increase set forth in the Agreement, Rate Schedule OS will change as part of the Company's rate design and the resulting rate schedule will be submitted to the Commission.

ISSUE 102: Should the Commission approve Gulf's proposed modifications to the existing residential HVAC Improvement program in its Demand-Side Management Plan? (Moot if Issue 88 is not approved)

ISSUE 103: Should the Commission approve Gulf's proposed modifications to the existing Residential Building Efficiency program in its Demand-Side Management Plan? (Moot if Issue 88 is not approved)

ISSUE 104: Should the Commission approve Gulf's proposed new residential Insulation Improvement program to be added to its Demand-Side Management Plan? (Moot if Issue 88 is not approved)

Approved Category 1 or 2 Stipulations: The consideration of Issues 102-104 will be deferred to a future proceeding. The testimony filed in this docket related to Issues 102-104 will not be entered into the record, or relied upon, without being subject to cross-examination in any future proceeding addressing these issues.

Stipulation and Settlement Agreement:

Paragraph 5 – Given that the residential rate design shall continue to be as provided in the 2013 Settlement, Issues 102 through 104 have been dropped rather than deferred to a future proceeding.

2. Request for an example of an adjustment that would be made at the end of the year if the common equity ratio is above 52.5% as provided for in Paragraph 3(b) of the Stipulation and Settlement Agreement.

Gulf Response: In the event that the December earnings surveillance report results in a common equity ratio above the 52.5% that is provided for in paragraph 3(b) of the Stipulation and Settlement Agreement, Gulf will make a pro forma adjustment in the surveillance report to reduce common equity in the calculation of the jurisdictional capital structure in an amount necessary to reach a 52.5% equity ratio. Pro forma adjustments to increase long-term debt, short-term debt and preference stock will be made on a pro rata basis in a total amount equal to the adjustment to common equity. The pro rata calculation will be based on the relationship between jurisdictional adjusted long-term debt, short-term debt and preference stock prior to the pro forma adjustments.

The example on the next page illustrates the pro forma adjustments and is based on the capital structure filed in Docket 160186-EI, which reflects a common equity ratio of 53.1% as shown in the first two columns at the bottom of the page. A reduction of \$17 million to common equity would be required to achieve a 52.5% common equity ratio in this example. The offsetting adjustments would be made to the other investor sources of capital (long term debt, short-term debt and preference stock) using the same ratios that jurisdictional adjusted long-term debt, short-term debt and preference stock bear to one another prior to the adjustment. The red text in the spreadsheet in Column 6 shows the pro forma adjustments necessary to achieve the target common equity ratio. Additionally, the calculation of the equity ratio of 52.5% is shown in red below the capital structure.

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

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Description	Total Company*	Less:		Less: Unamort. Loss or Gain on Hedge	Less: Adjustment to Reflect CE Ratio Adjustment	Subtotal	Less: Scherer 3 Off-System Sales	Less: IRS 1.167 Def. Tax Adjustment	Subtotal	Ratio	Other Rate Base Adjs.	Total Adjusted Capital Structure Net of UPS	Juris. Factor	Juris. Capital Structure
		Common Dividends Declared & Trans Equity Return	Unamort. Prem., Disc., Issuance Exp. & Loss On Reactquired Debt											
Long-Term Debt	1,163,186	29,296	(59)	(14,553)	1,148,502	20,713	(306)	1,128,095	0.30667286	371,958	756,137	0.9808683	741,671	
Short-Term Debt	44,139			(566)	44,705	806	(12)	43,911	0.01193735	14,479	29,432	0.9808683	28,869	
Preference Stock	146,504			(1,880)	148,384	2,676	(39)	145,747	0.03962142	48,056	97,691	0.9808683	95,822	
Common Equity	1,483,747	(29,617)	36	17,000	1,483,954	26,762	(394)	1,457,586	0.39624499	480,597	976,990	0.9808683	958,299	
Customer Deposits	36,595				36,595		(10)	36,605	0.00995108	12,069	24,536	1.0000000	24,536	
Deferred Taxes	932,197		23		932,174	14,253	747	917,174	0.24933390	302,412	614,762	0.9808683	603,001	
ACS 740 Def. Taxes	(52,507)				(52,507)	(803)	14	(51,718)	(0.01405955)	(17,053)	(34,665)	0.9808683	(34,002)	
Investment Credit - Weighted Costs	1,373				1,373	277	-	1,096	0.00029795	361	735	0.9808683	721	
Total	3,755,234	(29,617)	12,374	-	3,743,181	64,684	-	3,678,497	1.00000000	1,212,878	2,465,619	0.9808683	2,418,917	

Long-Term Debt	As filed (ref MFR D-1a)	<u>732,273</u>	40.1%
Short-Term Debt		28,869	1.6%
Preference		95,822	5.3%
Common		<u>958,299</u>	52.5%
		1,824,661	100.0%

* For purposes of the example, the additional equity included in the 2017 projected capital structure is included in the Total Company amounts shown in Column 1. In addition, for simplification of the example, no changes were made to the capital structure to reflect any other provisions of the settlement such as the treatment of Plant Scherer.

3. Request for approximate amount of Scherer-related investment to be included in rate base as a result of the settlement agreement (i.e., 100% of non-environmental investment with a \$32.5 million write-down).

Gulf Response:

**Gulf Power Company
Scherer Unit 3 - Net Utility Plant**
\$000s

	Total Scherer 3, net of AROs ⁽¹⁾	Less: Investment to be Reflected in ECRC ⁽¹⁾⁽²⁾	Less: One-Time Write Down ⁽³⁾	Net Included in Base Retail Rate Base
Plant-in-Service	386,458	(183,727)	(32,500)	170,231
Accumulated Depreciation and Amortization	(139,101)	22,894	-	(116,208)
Net Plant-in-Service	247,357	(160,833)	(32,500)	54,023
Construction Work-in-Progress	10,678	(1,754)	-	8,924
Plant Acquisition Adjustment	1,222	-	-	1,222
Net Utility Plant	259,257	(162,587)	(32,500)	64,170

(1) Current Month Ending Balances - February 2017

(2) Investment to be Reflected in ECRC:

Scherer 3 Environmental PIS - 76%	139,632
Scherer 3 Environmental PIS - Converted to 100%	183,727
Scherer 3 Environmental A/D - 76%	17,399
Scherer 3 Environmental A/D - Converted to 100%	22,894
Scherer 3 Environmental CWIP - 76%	1,333
Scherer 3 Environmental CWIP - Converted to 100%	1,754

(3) Paragraph 4 of Stipulation and Settlement Agreement

4. Request for the Scherer 3 journal entries that will be required for the \$32.5 million permanent reduction.

Gulf Response:

<u>Property Accounting Entries</u>	Debit	Credit
Expense/Loss	\$32.5 million	
Plant in Service		\$32.5 million

<u>Tax Accounting Entries</u>	Debit	Credit
Accumulated Deferred Income Taxes	\$13.0 million	
Accrued Income Taxes		\$ 0.4 million
Tax Expense (Benefit)		12.0 million
Regulatory Asset – ASC 740		0.6 million

5. Request for clarification of what the term “aggregate” means in Paragraph 7 of the Stipulation and Settlement Agreement

Gulf Response: In the Stipulation and Settlement Agreement, the term “aggregate” in Paragraph 7 will mean any other catastrophic event or combination of other catastrophic events (i.e. events other than those named as tropical systems by the National Hurricane Center), occurring after approval of the Stipulation and Settlement Agreement that equal or exceed 75% of the Property Damage Reserve balance at April 1, 2017.

6. Request for the Storm Reserve balance as of April 1, 2017.

Gulf Response: The Property Damage Reserve balance as of April 1, 2017, is estimated to be \$41,000,000. The actual amount will be provided to the Commission Staff via a letter on or before April 14, 2017.

7. Request for the impact to the Property Damage Reserve and storm cost recovery of various hypothetical scenarios given Paragraph 7 of the Stipulation and Settlement Agreement.

Gulf Response:

	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
Storm Reserve on 12/31/2016	41,000,000	41,000,000	41,000,000	41,000,000	41,000,000	41,000,000
Storm Reserve on 4/1/2017	42,000,000	42,000,000	42,000,000	42,000,000	42,000,000	42,000,000
Storm reserve prior to the Storm	43,000,000	43,000,000	22,000,000	43,000,000	24,000,000	24,000,000
Damage from Named Tropical Storms	20,000,000	0	24,000,000	20,000,000	0	0
Damage from Other Catastrophic Events	29,400,000	34,400,000	0	34,400,000	29,400,000	33,600,000
Resultant Storm Reserve	-6,400,000	8,600,000	-2,000,000	-11,400,000	-5,400,000	-9,600,000
Storm Cost Recovery Amount (\$)	18,000,000	32,400,000	43,000,000	52,400,000	0	50,600,000
Storm Cost Recovery Amount (\$/1,000 kWh Residential)	\$1.63	\$2.94	\$3.90	\$4.00*	\$0.00	\$4.00*

* indicates a scenario in which Gulf would seek permission to extend the surcharge for more than 12 months

8. Request for clarification of paragraph 10 of the Stipulation and Settlement Agreement which speaks to the filing of Gulf's next depreciation/dismantlement studies and the timeframe within which Gulf expects to file the studies with the FPSC for approval.

Gulf Response: Paragraph 10 - The next depreciation and dismantlement study will be filed by June 30, 2021, with new depreciation rates and dismantlement accruals proposed to be effective January 1, 2022. Gulf's data submitted with the study, to the extent it involves estimates, will either be stated as of the end of the period immediately prior to the proposed effective date of new depreciation rates or Gulf will seek a ruling that any such perceived requirement be waived.

9. Request for reporting details for Electric Vehicle Charging Pilot Program.

Gulf Response:

Gulf Power Electric Vehicle Charging Pilot Program Report Details

Gulf Power can report on the following elements on an annual basis in support of the Company's electric vehicle (EV) charging pilot program. These elements will be incorporated into a document that will be provided annually as an addendum to Gulf's Annual Depreciation Status Report (ADSR). The objective of providing documentation is to ensure Commission staff has regular information regarding the extent of Gulf's success with its EV charging pilot program, including the dollar amounts expended and generated.

Financial Report Elements

Annual and monthly revenue by customer class and in total

Annual and monthly expenses by customer class and in the following categories:

- Depreciation expense (consistent with the Annual Depreciation Status Report)
- Operation and Maintenance (O&M) expense to include expenses such as EV charger maintenance, supplies, supervision, etc.
- Sales Expense to include expenses such as marketing, demonstration, sales supervision, etc.
- Administrative and General (A&G) expense to include expenses such as administrative salaries/benefits, property/liability insurance, etc.
- Contract/Third Party expense to include expenses such as installation expenses, network charges, etc.
- Taxes (federal, state, property)
- Other
- Total Expense

Return

Net Income

Confirmation that Account 371 detail in ADSR is all EV charger related; if different, quantification of the EV charger amounts

EV Charger Report Elements

Number and type of chargers installed, by customer class and by month

Number of customers for whom chargers are installed by customer class and by month

Incremental MWH's sold (estimated) for networked chargers and other available EV
Charger data¹

¹ Gulf intends to consult with each customer and recommend chargers and network providers that best meet their needs. Ultimately, each customer will decide which charger to install. To that end, some customers may choose chargers without network providers, in which case Gulf will not have kWh information. Gulf will provide, to the extent that a customer chooses a networked charger and to the extent that the information is available from the selected network provider, incremental kWhs for the networked chargers installed as part of this pilot. Additionally, Gulf may provide other pertinent EV charger data as available. The availability and consistency of such data may vary depending on the charger type and network provider selected by the customer.

10. Request for timing of when a final amount of rate case expenses for Docket No. 160186-EI and Docket No. 160170-EI will be available.

Gulf Response: The Company will provide the final amount of expenses incurred for Docket No. 160186-EI and Docket No. 160170-EI to Commission Staff via letter on or before September 29, 2017.