



Gulf Power®

June 20, 2019

Mr. Adam Teitzman, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 20190078-EI - Petition for approval of 2019 revisions to Underground Residential Differential Tariffs by Gulf Power Company

Dear Mr. Teitzman:

Attached for electronic filing is Gulf Power Company's response to Staff's First Data Request in the Underground Residential Differential docket.

Sincerely,

C. Shane Boyett
Regulatory, Forecasting and Pricing Manager

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Attachments

cc: Gulf Power Company
Russell Badders, Esq., VP & Associate General Counsel
Florida Public Service Commission
Kurt Schrader, Office of the General Counsel

1. Please refer to Revised Tariff Sheet No. 4.25, legislative format, Section 6.3.2(a). Please explain the reasons for the increase for both the low and high density subdivisions for options 1, 2, and 3.

RESPONSE:

Gulf Power's previous filing was based on end-of-year 2016 costs. The increase over the last two years is based on increases in material cost, labor cost, and engineering overheads.

2. Please refer to Revised Tariff Sheets 4.25-4.26.2, legislative format, beginning with Section 6.32(b).
 - a. Please explain the basis for the increases.
 - b. Please explain why there is no charge per foot for certain two phases and all three phases.

RESPONSE:

- a.) Gulf Power's last filing was based on end-of-year 2016 costs. The increase over the last two years is based on increases in material cost, labor cost, and engineering overheads.
- b.) There is no charge per foot for certain two phase and all three phase installations because the necessary facilities for certain lift stations are already available due to the typical subdivision design requirements, thus incurring no added conductor costs.

3. Please confirm whether the model low density and high density URD subdivision designs used in this docket are the same designs that were used in Docket No. 170074-EI. If applicable, please provide a detailed description of any differences (including design drawings) and included supporting documentation illustrating the impact to the "per lot" differentials caused by the design changes.

RESPONSE:

Gulf Power has not made any design changes to either the model low or high density subdivision design since the previous filing.

4. Are the 2019 charges for labor based on calendar year 2018 values? If not, what is the basis?

RESPONSE:

Yes. Gulf Power labor charges presented in the filing are based on calendar year 2018 labor and overhead rates.

5. Does Gulf's labor rate continue to be based on actual labor costs negotiated in bargaining unit contracts? If yes, what is the effective beginning and end date of the current contract? If not, please explain the basis.

RESPONSE:

Yes. Gulf Power's 2018 labor rates are contained within the labor contract between the International Brotherhood of Electrical Workers (IBEW) and Gulf Power Company, which includes an annual labor cost escalator. The current labor contract was initiated in September 2014 and is set to expire in July 2019. Labor negotiations are ongoing. Gulf Power also contracts with electrical contractors to perform certain construction work. Costs for these services escalate annually pursuant to contract.

6. Referring to the 210 low density lot summary sheets in the current filing (Appendix B, page 4) and the 2017 filing, please explain the approximate 20% increase in the cost of underground and overhead labor.

RESPONSE:

The approximate 20 percent increase in cost of underground and overhead labor resulted from an increase in direct labor dollars, underground material (except for transformers), and the engineering and supervision overheads associated with direct labor and material.

7. Referring to the 176 high density lot summary sheets of the current filing (Appendix B, page 10) and the 2017 filing, please explain the approximate 19% increase in the cost of underground and overhead labor.

RESPONSE:

The approximate 19 percent increase in cost of underground and overhead labor resulted from an increase in direct labor dollars, underground material (except for transformers), and the engineering and supervision overheads associated with direct labor and material.

8. The following questions concern contractor labor.
 - a. Does Gulf continue to use contractor labor to perform trenching activities and install duct work for underground facilities as it did in 2017? If not, please explain.
 - b. Does Gulf use contractor labor for any other activities? Please explain.

RESPONSE:

- a.) Yes. Gulf Power continues to use contractor labor to perform trenching activities and install duct work for underground facilities.
- b.) Yes. Gulf Power uses contractor labor to perform overhead distribution construction activities.

9. Do Gulf employees continue to perform all overhead activities as in 2017?
If not, please explain.

RESPONSE:

Gulf Power employees continue to perform distribution construction activities. However, contract labor is utilized to perform distribution overhead construction as well. The current utilization of contract labor for overhead construction remains the same as in previous years.

10. Are the 2019 charges for material based on calendar year 2018 values? If not, what is the basis?

RESPONSE:

Yes. The 2019 charges for materials are based on the calendar year 2018 average unit cost and stores overhead rate at year end.

11. Please refer to Appendix B pages 5, 6, 11, and 12 from the petition.
 - a. Please explain the reason that the Engineering & Staff cost increased from 52% in 2017 to 69% in 2019.
 - b. Please provide the inputs used to calculate the "Store Handling" and "Engineering" costs in each of the company's Overhead and Underground "Cost per Lot" summary breakdowns for both models.

RESPONSE:

- a.) Based on the annual time review of calendar year 2018, the increase in Engineering & Supervision cost is due to increased direct labor charges for engineering and supervision, increased cost of construction, and an overall shift in labor allocation from Operating and Maintenance (O&M) to Capital.
- b.) The Stores Handling factor includes labor, supervision, and expenses incurred in the operations of material handling. Related activities include purchasing, storage, handling, distribution, inventory management of materials and supplies, general storeroom operations, accounts payable expenses, and stores accounting expenses. These storeroom expenses are allocated first to materials directly purchased to jobs, then to materials issued from storerooms.

The engineering factor includes the engineering and supervision costs incurred during capital projects, along with other administrative and general costs. The engineering factor is calculated by allocating the total engineering expenditures across the eligible capital work orders. The engineering loading factor is applied to all material and labor construction costs to support engineering and supervision involvement in all activities related to both material and labor.

Each of the above calculations are consistent with the 2017 filing.

12. What is the basis for the Discount Rate of 7.35% used on pages 15a – 15c of the current filing?

RESPONSE:

Cost of Capital Calculation

	Capital Ratio (A)	Pre Tax Capital Cost (B)	Weighted Cost (C)	After Tax Capital Cost (@ 25.345%) (D)
Debt	45.00%	5.10%	2.30%	1.71%
Common Equity	55.00%	10.25%	5.64%	5.64%
Total	100.00%		7.93%	7.35%

Column C = Column (A) x Column (B)

Column D_{Debt} = Column (C) x (1-Tax Rate)

13. Are Hurricane Michael storm costs included in the calculations of overhead storm expense in this filing? If not, what are the anticipated impacts on overhead/underground costs?

RESPONSE:

No. Hurricane Michael storm costs are not included in the calculations of overhead storm expenses in this filing. Once storm expenses have been reconciled, Gulf Power anticipates a reduction in the underground differential based on the current filing's engineering design.