

BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 110138-EI

TESTIMONY  
OF  
MARK A. CROSSWHITE



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1 GULF POWER COMPANY

2 Before the Florida Public Service Commission  
3 Prepared Direct Testimony of  
4 Mark A. Crosswhite  
5 Docket No. 110138-EI  
6 In Support of Rate Relief  
7 Date of Filing: July 8, 2011

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

9 A. My name is Mark Crosswhite. My business address is One Energy Place,  
10 Pensacola, Florida, 32520. I am President and Chief Executive Officer of  
11 Gulf Power Company (Gulf or the Company).

12 Q. Please summarize your educational and professional background.

13 A. I graduated with a Bachelor of Arts from the University of Alabama at  
14 Huntsville in 1984. In 1987, I graduated from the University of Alabama  
15 School of Law with a Juris Doctorate degree. That same year, I began  
16 working in Birmingham, Alabama with the law firm of Balch & Bingham. I  
17 remained at the law firm until 2004 when I was named Senior Vice  
18 President and General Counsel of Southern Company Generation, the  
19 business unit that oversees the generating fleet of Gulf Power and the  
20 other operating companies that make up the Southern electric system. In  
21 2006, I moved to Alabama Power Company as Senior Vice President and  
22 Counsel, where I oversaw compliance and legal matters. In 2008, I  
23 became the Executive Vice President for External Affairs at Alabama  
24 Power, with responsibility for economic development, public relations,  
25 environmental affairs and governmental affairs. In November 2010, I was

1 elected President and Chief Executive Officer of Gulf Power, effective  
2 January 1, 2011.

3

4 Q. What is the purpose of your testimony?

5 A. The primary purpose of my testimony is to emphasize Gulf's need to  
6 receive an adequate increase in the level of its base rates in a timely  
7 manner. I will provide an overview of Gulf's filing in this case, including  
8 the major factors causing the need for such rate relief and the impact  
9 these factors have on Gulf's ability to achieve a reasonable rate of return  
10 on the investment used to serve our customers. I will also review our  
11 efforts to control costs and discuss programs we have put into place that  
12 have resulted in efficient and reliable electric service to our customers as  
13 evidenced by high customer satisfaction ratings.

14

15 Q. Would you please provide a brief overview of the case that will be  
16 presented by Gulf's witnesses?

17 A. Our case will be presented by a number of witnesses testifying in detail on  
18 behalf of the Company. These witnesses include Company officers and  
19 employees, as well as consultants from outside the Company with  
20 expertise on certain specific subject matters. Collectively, these witnesses  
21 will demonstrate that Gulf's costs of providing retail service have far  
22 outpaced Gulf's revenues, that Gulf's actual and projected earned rate of  
23 return is well below any reasonable level necessary to attract capital and  
24 serve customers, and that the rates that Gulf has proposed to achieve  
25 necessary rates of return are just and reasonable. Simply stated, they

1 show that a base rate increase is necessary if Gulf is to maintain customer  
2 satisfaction and the quality of service Gulf's customers desire.

3

4 Mr. Teel, Gulf's Chief Financial Officer, will address the overall need for  
5 rate relief, actions taken to avoid a base rate increase over the previous  
6 ten years, Gulf's capital structure and related cost of capital, and other  
7 financial matters pertinent to our request for rate relief.

8

9 Mr. McGee will address Gulf's forecast methodologies and results for  
10 customers, energy sales, peak demands and base rate revenues. Mr.  
11 McGee will also address the load research performed by and used by Gulf  
12 in this proceeding.

13

14 Mr. Buck will provide an overview of Gulf's planning and budgeting  
15 process, which results in the production of Gulf's financial forecast.

16

17 Mr. Burroughs, Gulf's Senior Production Officer, will address the operation  
18 and performance of Gulf's generation fleet. Mr. Burroughs will also review  
19 generation capital additions and fuel inventory levels necessary for Gulf's  
20 continued provision of reliable generation.

21

22 Mr. Grove will discuss Gulf's generation resources used in the production  
23 of electricity for our customers. He will also address Gulf's resource  
24 planning process, production investment, and our 2012 production O&M  
25 budget.

1 Mr. Jacob, Gulf's Vice President over Customer Operations, will provide  
2 an overview of that department and discuss Gulf's commitment to  
3 customer service and satisfaction. Customer Operations includes the  
4 following business functions: Transmission, Distribution, Customer  
5 Service, and Customer Operations Support.

6  
7 Mr. Caldwell will discuss Gulf's transmission system, including Gulf's  
8 transmission system performance. Mr. Caldwell will also discuss our  
9 current transmission investment and cover Gulf's projected transmission  
10 capital expenditures and O&M expenses for the 2012 test year.

11  
12 Mr. Moore will address Gulf's electric distribution system, including Gulf's  
13 distribution performance, and describe Gulf's service area. Mr. Moore will  
14 also address Gulf's current distribution system investment, as well as  
15 related capital and O&M budgets for the 2012 test year.

16  
17 Ms. Neyman will discuss Gulf's Customer Service & Information,  
18 Customer Accounts and Sales expenses contained in the 2012 test year.  
19 Ms. Neyman will also describe the Company's commitment to customer  
20 service, conservation and energy efficiency, and the associated benefits  
21 for our customers. Lastly, Ms. Neyman will discuss the Company's  
22 economic development activities and expenses.

23  
24 Ms. Erickson, Gulf's Comptroller, will explain Gulf's 2012 O&M budget  
25 associated with the Administrative and General (A&G) function. She will

1 outline the need to increase Gulf's property damage reserve and support  
2 the depreciation and tax expenses included in the test year. Ms. Erickson  
3 will also explain Gulf's projected test year expense for uncollectible  
4 accounts.

5

6 Mr. Twery and Ms. Crumlish, consultants to Gulf from Aon Hewitt, a global  
7 market leader in human resource consulting, will discuss the  
8 reasonableness of the Company's benefits program amid the rising costs  
9 of retirement and medical benefits.

10

11 Dr. Vander Weide, Research Professor of Finance and Economics at  
12 Duke University and President of Financial Strategy Associates, will  
13 discuss Gulf's cost of common equity.

14

15 Mr. O'Sheasy, a vice president of Christensen Associates, will address the  
16 cost of service study.

17

18 Mr. Thompson will address rate design and other tariff issues. He will set  
19 forth all proposed changes in rate design and discuss the development of  
20 the proposed rates in light of the results from the cost of service study.

21

22 Mr. McMillan will discuss the development of the test year jurisdictional  
23 adjusted rate base, net operating income, capital structure, and the  
24 resulting retail base rate revenue deficiency.

25

1 Q. How long has it been since Gulf last filed for an increase to base rates?

2 A. Gulf's last base rate case was Docket No. 010949-EI filed in September  
3 2001. That last case was based on a fully projected test period comprised  
4 of the twelve months ending May 31, 2003 and resulted in an increase to  
5 Gulf's base rates that was placed into effect with meter readings beginning  
6 June 7, 2002.

7

8 Q. Are you saying that Gulf has not had price increases since 2002?

9 A. No. This requested increase to our base rates is not the first time our  
10 prices will have increased since our last rate case. There have been  
11 annual adjustments to our prices through the cost recovery clauses each  
12 year to cover such items as fuel to run our generating plants, conservation  
13 programs to help our customers manage their energy use, and the costs  
14 of compliance with an ever increasing array of environmental regulations.

15

16 The price increases that our customers have experienced due to the  
17 operation of the cost recovery clauses are restricted to those specific  
18 items of cost which are the subject of the annual fuel, conservation and  
19 environmental proceedings and do not address increasing costs in the  
20 areas of our business that are covered through our base rates. While the  
21 focus of this case is solely on that portion of our business that is not  
22 addressed through the cost recovery clauses, I assure you that we work  
23 diligently to control costs in all areas of our business.

24

25

1 Q. What are the major factors that cause the current need for rate relief?

2 A. Since our last request for base rate relief, the costs of continuing to  
3 provide reliable electric service to our customers have increased at a rate  
4 that outpaces the growth in our revenues. Gulf is requesting rate relief in  
5 order to continue to fulfill the public service requirements set forth in the  
6 statutes and to fulfill the needs and expectations of our customers in a  
7 reliable, safe and efficient manner.

8

9 During the years between 2002 and 2011, numerous factors have  
10 increased the cost of providing electric service. Among these are the  
11 addition of more than 850 miles of new distribution and transmission lines;  
12 replacing and repairing the Company's existing electrical infrastructure;  
13 increased spending to harden the electrical infrastructure to mitigate  
14 potential storm damage and facilitate restoration following storms; and the  
15 cumulative effect of inflation on the materials, goods and services we must  
16 purchase in order to provide service to our customers. Gulf's base rate  
17 revenues have not kept pace with these increases in our operating and  
18 capital costs. As shown on Mr. Teel's Exhibit RST-1, Schedule 2, this  
19 mismatch between the growth of capital and O&M relative to revenues has  
20 become particularly pronounced since 2007.

21

22 Q. What actions has Gulf taken since its last base rate case to control costs  
23 and avoid requesting rate relief?

24 A. As detailed by Gulf's other witnesses, the Company has taken a number  
25 of steps since its last base rate case to control the costs that are

1 addressed through base rates. One such example involves our  
2 generation resource decisions. Rather than build and operate new  
3 generating plants in the near term for which we would be entitled to earn a  
4 return, we have made arrangements to purchase power from existing  
5 generating assets owned by other companies. In each instance the cost  
6 of the contract was less than what Gulf's customers would have paid if  
7 Gulf had built a unit. The most recently signed contract was determined  
8 by the Commission to save Gulf customers more than half a billion dollars  
9 on a net present value basis through 2023. This decision saved money  
10 for Gulf's customers, improved Gulf's fuel diversity and helped defer a  
11 base rate proceeding.

12

13 Q. Please describe some of the major programs that Gulf has implemented  
14 since its last base rate case to improve its operations and customer  
15 service.

16 A. Gulf is focused on making it easy for customers to do business with us by  
17 identifying meaningful and relevant options that fit our customers'  
18 lifestyles. Through our website, GulfPower.com, we offer innovative  
19 solutions to help serve our customers more effectively. Customers can  
20 conduct an energy audit of their own home, pay bills or complete other  
21 account services such as connects and disconnects through our website.  
22 In 2005, the Company enhanced the voice response unit used by  
23 customers when calling Gulf's Customer Service Center. This  
24 improvement gives customers the option of using their voice to make

25

1 selections from the menus, thereby simplifying the experience for  
2 customers.

3

4 As part of our effort to bring efficiencies to Gulf's transmission and  
5 distribution system, we have partnered with the Department of Energy  
6 through the Smart Grid Investment Grant program. Participation in this  
7 program enabled Gulf to enhance our grid through the installation of  
8 intelligent electronic devices on our transmission and distribution  
9 infrastructure. The transmission devices will improve the monitoring,  
10 protection and control of the transmission system through remote  
11 monitoring devices and electronic relays for our transmission substations.  
12 Our distribution enhancements will include automated line devices which  
13 will provide automatic fault isolation and service restoration. These smart  
14 grid features increase reliability, assist with power restoration and fault  
15 location, and provide new avenues to interact with our customers through  
16 detailed usage and pricing information.

17

18 The implementation of Advanced Metering Infrastructure (AMI) is another  
19 way we are creating efficiencies for our customers. AMI meters will allow  
20 Gulf to read and remotely check meters without visiting customer  
21 premises, help identify power quality issues, and eliminate the need for  
22 estimated meter readings.

23

24 Our generation group has continued to look for ways to more effectively  
25 manage costs while continuing to maintain system reliability. As a direct

1 result of our effective maintenance practices we are also projecting longer  
2 lives for our fleet of generating units, which reduces depreciation rates and  
3 consequently the level of annual depreciation expense that must be  
4 supported by our base rates.

5

6 These are samples of the programs discussed by Gulf's other witnesses  
7 undertaken to improve operations and customer service.

8

9 Q. Please describe Gulf's focus on providing value to its customers.

10 A. Maintaining and improving the value of our service to our customers is  
11 among the highest priorities of every employee at Gulf, where we believe  
12 in putting the customer at the center of everything we do. We are in  
13 constant contact with our customers through our customer service, energy  
14 efficiency, engineering and other field representatives and through all our  
15 employees who are active members in our communities. Personal visits,  
16 letters, e-mails and telephone calls are all methods that customers use to  
17 let us know how we are doing. In addition, we have developed a survey  
18 process to give us critical feedback on how our customers rank us in  
19 comparison to the rankings of peer utilities by their customers.

20

21 Q. How does Gulf rank in customer value as compared to its peer utilities?

22 A. When measured against a peer group of utilities, Gulf was in the top  
23 quartile of overall performance for 2010 and has been every year since  
24 2000. Our goal is to be among the best utilities in regards to customer  
25 service, and we are proud of our performance when compared to the top

1 utilities across the country. This outstanding performance is a testament  
2 to the continued efforts of Gulf's employees to exceed our customers'  
3 expectations each and every day. Ms. Neyman will explain in detail how  
4 we develop this information for use in comparing Gulf to our utility peers.  
5

6 Q. How has this concern for your customers been reflected in this rate case?

7 A. First and foremost, our concern for our customers is reflected in the timing  
8 of this case. We worked hard to delay this case for as long as possible to  
9 keep from seeking a base rate increase during what we refer to as the  
10 Great Recession, the period between 2007 and 2010. This meant  
11 prioritizing our spending in order to do what was absolutely necessary to  
12 provide efficient and reliable service in the near term and still operate  
13 within the revenues produced by our existing rates. As part of this effort,  
14 we also slowed the hiring of new employees who are needed for the long  
15 term health and operation of our system.

16  
17 While such steps are possible for short periods of time on a well  
18 maintained and operated system, we cannot sustain such restrictions on  
19 capital investment or O&M expenses over long periods of time without a  
20 detrimental effect on the system and the reliability of our service to  
21 customers. As our local economy emerges from the Great Recession, we  
22 must be ready to provide the levels of service required by our customers  
23 to meet and sustain economic growth. In order to be ready, we have been  
24 making additional necessary capital investments and performing  
25 necessary O&M activities that have caused our achieved rate of return

1 during each of the months since June 2010 to fall below the minimum of  
2 our authorized rate of return as determined by the Commission. Such low  
3 achieved rates of return are simply not fair to Gulf's investors and are not  
4 in the best interests of Gulf's customers.

5  
6 Our concern for our customers is also reflected in the processes we use to  
7 set our capital and O&M budgets. We plan our systems to serve the long  
8 term needs of our customers as efficiently and reliably as possible. We  
9 work diligently to identify and implement in a timely manner new systems  
10 and programs that bring value to our customers. We work hard to ensure  
11 that we get the most benefit for our customers in our capital and O&M  
12 spending. We are mindful that reliable and efficient electric service is very  
13 important to our customers, and therefore we continue to work hard to  
14 spend our resources wisely.

15  
16 Q. How does Gulf's requested increase compare to Gulf's total revenues  
17 before consideration of the increase?

18 A. Gulf is requesting a base rate increase of \$93.5 million, which is less than  
19 7.5 percent of the projected total retail revenues for 2012 using existing  
20 base rates. As a proportion of the revenue from base rates, the increase  
21 is slightly less than 21 percent. In comparison, through 2012 the  
22 Consumer Price Index (CPI) will have grown by more than 25 percent  
23 since our last change in base rates. Gulf's other witnesses in this case  
24 provide details regarding how and why many of our costs of doing  
25 business have increased at a rate that is larger than the rate of inflation as

1 measured by the overall change in the CPI. And yet, we have been able  
2 to control our overall base rate revenue requirements such that our rate  
3 request is lower than the cumulative overall change in the CPI. Gulf has  
4 managed to delay its request for a base rate increase for nearly ten years,  
5 and is only now seeking an overall increase for prospective application.  
6

7 Q. What is Gulf's projected rate of return for the test year without rate relief?

8 A. As shown on Mr. Teel's Exhibit RST-1, Schedule 3, the Company's rate of  
9 return has been below the minimum of our authorized rate of return since  
10 mid-2010. Without rate relief, Gulf's return on common equity associated  
11 with base rates for the 12 months ending December 31, 2012 is projected  
12 to be 2.83 percent. This is clearly not adequate when compared to the  
13 11.7 percent cost of common equity that Dr. Vander Weide has  
14 determined to be reasonable and appropriate for Gulf. Without timely rate  
15 relief, Gulf will continue to endure a weakening financial condition which  
16 will adversely affect our ability to provide reliable electric service to  
17 customers.  
18

19 Q. Please summarize your testimony.

20 A. Gulf's mission is to safely provide affordable, reliable and environmentally  
21 responsible electric service to our customers, while working to improve the  
22 communities we serve. We are very proud of our commitment to this  
23 mission. Our successes are a result of the dedicated employees who  
24 serve our customers across Northwest Florida. Through the efforts of  
25 these employees, we have been successful in avoiding, over the last ten

1 years, the necessity to request an adjustment to our base rates. We have  
2 done so while keeping operating budgets lean in the face of increasing  
3 costs to build, operate and maintain our system.

4  
5 We understand that price increases can place an economic burden on our  
6 customers. However, an inability of Gulf to meet customers' reasonable  
7 service requirements as we emerge from this recession would place an  
8 even greater burden on our customers and our local economy. We are  
9 not able to continue to defer our request for this increase in base  
10 revenues.

11  
12 This price adjustment will provide Gulf the reasonable opportunity to earn  
13 a fair return, enable us to maintain access to capital markets at a  
14 reasonable cost and, most importantly, help to ensure that we are able to  
15 continue providing safe, affordable and reliable service at the levels our  
16 customers have come to expect. Keeping Gulf financially healthy by  
17 granting us the requested increase in retail revenues is in the best  
18 interests of our customers.

19  
20 Q. Does this conclude your testimony?

21 A. Yes.

22

23

24

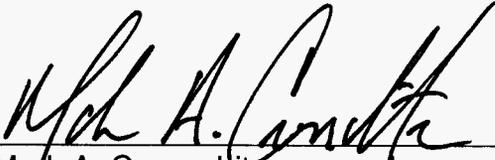
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AFFIDAVIT

STATE OF FLORIDA     )  
                                  )  
COUNTY OF ESCAMBIA )

Docket No. 110138-EI

Before me the undersigned authority, personally appeared Mark A. Crosswhite, who being first duly sworn, deposes, and says that he is the President and Chief Executive Officer of Gulf Power Company, a Florida corporation, and that the foregoing is true and correct to the best of his knowledge, information, and belief. He is personally known to me.

  
\_\_\_\_\_  
Mark A. Crosswhite  
President and Chief Executive Officer

Sworn to and subscribed before me this 6<sup>th</sup> day of July, 2011.

  
\_\_\_\_\_  
Notary Public, State of Florida at Large  
Commission No. EE79408  
My Commission Expires 5-18-2015

