

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for increase in rates by Gulf Power Company. DOCKET NO. 110138-EI

\_\_\_\_\_ /

DEPOSITION OF: RAYMOND J. GROVE

TAKEN AT THE INSTANCE OF: Florida Public Service Commission

DATE: Tuesday, November 15, 2011

TIME: Commencing at 1:15 p.m.  
Concluding at 5:05 p.m.

PLACE: Room 362, Gunter Building  
2540 Shumard Oak Boulevard  
Tallahassee, Florida

REPORTED BY: LAURA MOUNTAIN, RPR  
Court Reporter  
Notary Public in and for  
the State of Florida at  
Large

WILKINSON & ASSOCIATES  
Post Office Box 13461  
Tallahassee, Florida 32317  
(850) 224-0127

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ORIGINAL

1     Appearances:

2             REPRESENTING THE FLORIDA PUBLIC SERVICE COMMISSION:

3                     CAROLINE KLANCKE, SENIOR ATTORNEY

4                             Economic Regulation Section  
5                             Office of the General Counsel  
6                             Gerald L. Gunter Building  
7                             2540 Shumard Oak Boulevard  
8                             Tallahassee, Florida 32399-0850

9                     REPRESENTING THE OFFICE OF PUBLIC COUNSEL:

10                             ERIK SAYLER, ESQUIRE

11                             The Florida Legislature  
12                             111 W. Madison Street, Room 812  
13                             Tallahassee, Florida 32393-1400

14                     REPRESENTING THE FEDERAL EXECUTIVE AGENCIES:  
15                             (Telephonically)

16                             MAJOR CHRISTOPHER THOMPSON  
17                             139 Barnes Drive, Suite 1  
18                             Tyndall AFB, Florida 32403

19                     REPRESENTING GULF POWER COMPANY:

20                             CHARLES A. GUYTON, ESQUIRE

21                             Gunster, Yoakley & Stewart, PA  
22                             215 South Monroe Street, Suite 618  
23                             Tallahassee, Florida 32301

24                             - and -

25                             RUSSELL A. BADDERS, ESQUIRE

                           Beggs & Lane Law Firm  
                           Post Office Box 12950  
                           Pensacola, Florida 32591-2950

1 APPEARANCES (CONTINUED):

2

Also Present for Gulf Power:

3

Susan Ritenour

4

Homer Bell

5

Richard Dodd (Telephonically)

6

Also Present for Florida Public Service Commission:

7

Natalia Salnova

8

Betty Gardner

9

Victor Ma

Melissa L'Amoreaux

10

11

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I N D E X

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WITNESS

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RAYMOND J. GROVE

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Direct Examination by Ms. Klancke

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Cross Examination by Mr. Sayler

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EXHIBITS

20

Late Filed Exhibit No. 1 for identification

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Late Filed Exhibit No. 2 for identification

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CERTIFICATE OF OATH

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CERTIFICATE OF REPORTER

133

1           The deposition of RAYMOND J. GROVE was taken on oral  
2 examination, pursuant to notice, for purposes of discovery,  
3 for use in evidence, and for such other uses and purposes as  
4 may be permitted by the Florida Rules of Civil Procedure and  
5 other applicable law. The reading and signing of the  
6 deposition by the witness is not waived.

7                                   \*   \*   \*

8           Thereupon,

9                                   RAYMOND J. GROVE

10          was called as a witness, having been first duly sworn, was  
11 examined and testified as follows:

12                                   DIRECT EXAMINATION

13          BY MS. KLANCKE:

14           Q       Mr. Grove, I appreciate your time today.  
15 Obviously we're going to be spending the next couple of hours  
16 together. If at any point during the deposition you need a  
17 break or you need clarification with respect to a question or  
18 I use an acronym which I haven't previously introduced or  
19 that you're not familiar with, just stop me.

20           A       Okay.

21           Q       Just jump in -- if you'd be more comfortable  
22 having your counsel, you know, jump in, please do so. We're  
23 having a conversation here, so, please, if you require any  
24 clarification with respect to any of the terms I use or  
25 anything like that, please let me know. Also, you know,

1 obviously -- have you been deposed before?

2 A I have not.

3 Q Okay. Well, welcome to depositions.

4 A I'm so excited.

5 Q And we're excited to have you here. If I use  
6 legal terms like ROG instead of interrogatory or POD instead  
7 of request for production of documents or -- you know, I have  
8 a terrible habit of legalizing things, so please, if you're  
9 not familiar with those terms, just stop me, say, hey, can  
10 you let me know what that means.

11 Please try to make sure all of your responses are  
12 audible. We really sincerely appreciate you being present  
13 here with us, but, you know, I know that there is a  
14 propensity to kind of nod or whatnot, but for the benefit of  
15 the court reporter and for the benefit of the record, please  
16 just go ahead and verbalize any responses.

17 A I will.

18 Q Will the deponent please state your name for the  
19 record.

20 A Yes, my name is Raymond W. Grove.

21 MR. GUYTON: Caroline, I just want to make sure  
22 that we have the same understanding about the use of  
23 objections. I'm prepared to object to form,  
24 confidentiality, or privilege; others I reserve the  
25 right to raise should the deposition transcript be

1 introduced at trial.

2 MS. KLANCKE: Absolutely.

3 BY MS. KLANCKE:

4 Q Mr. Grove, you are employed by whom and in what  
5 capacity?

6 A I'm the Manager of Generation Services for Gulf  
7 Power Company.

8 Q And could you briefly describe your duties and  
9 responsibilities as the Manager of power generation for Gulf  
10 Power.

11 A Certainly. I'm responsible for generation  
12 planning, resource planning, I'm responsible for all the  
13 aspects of the GPIF filing, plant performance, I'm  
14 responsible for all the accounting and budgeting for power  
15 generation and in addition I'm responsible for all the  
16 renewable development at Gulf Power Company.

17 Q You have prefiled direct and rebuttal testimony  
18 and exhibits in Docket Number 110138-EI; is that correct?

19 A Yes, ma'am, that's correct.

20 Q At this time do you have any additions, deletions,  
21 or corrections to your prefiled direct or rebuttal testimony,  
22 including your exhibits?

23 A I do.

24 Q Please describe them.

25 MR. GUYTON: We're handing out an errata sheet that

1           should have all of them on there.

2           BY MS. KLANCKE:

3           Q       Okay, we appreciate you consolidating this  
4           for clarity in a -- in one sheet.  Could you please, for the  
5           benefit of the people on the phone and for the court  
6           reporter, go through each one and just give a brief  
7           description of the change that's needed.

8           A       Certainly.  On page 27, line six, change  
9           "\$113,223,000" to "\$112,015,000."  Next, on page 61, add the  
10          term "allocation of" before "personnel."  And on page 61,  
11          line 16, strike the word "new."  On page 65, line five,  
12          change the word "six" to "seven."  Is that the right pace?

13          Q       Yes.  Excellent.  You're doing a great job.

14          A       On Schedule 7, page one, several values that are  
15          shown on the schedule for the 2015 budget change because of a  
16          change in the amount shown for baseline other and that change  
17          is not only reflected on that line but also on other lines on  
18          that page.

19                   So on the line entitled baseline other change the  
20          value from "\$55,973" to "\$49,933."  For total baseline,  
21          change that number from "\$99,670" to "\$93,630."  The total  
22          actual-slash-budget line, change from "\$120,607" to  
23          "\$114,567."  And lastly, on that page the average should  
24          change from "\$113,223" to "\$112,015."

25                   Schedule 11, page one of two, the column entitled

1 "2011" move \$39,000 from the "Scholz Common" to the "Scholz  
2 Plant Unit 2." In the column entitled "2012" move the  
3 \$39,000 from "Scholz Common" to "Scholz Unit 1." And  
4 finally, in the column entitled "2013" move the \$40,000 from  
5 "Scholz Common" to "Scholz Unit 2." And that's all my  
6 changes.

7 Q Okay, I would like to begin with a discussion on  
8 the production work force. In particular, if you would turn  
9 to your direct prefiled testimony, to page 63. Okay, just  
10 for reference -- I'll get a little bit more real estate here.  
11 Okay, would you agree that at the end of 2010 Gulf had 342  
12 full time equivalent or FTE employees in the production  
13 function, correct?

14 A Yes, I would.

15 Q Would you agree that Gulf has initially budgeted  
16 labor costs equivalent to 394 FTE employees for the projected  
17 test year, correct?

18 A Yes.

19 Q Would you please explain Gulf's decision process  
20 used to determine the need for the increase in employee  
21 positions with respect to production function.

22 A Yes, ma'am.

23 MR. GUYTON: Between 2010 and 2012?

24 MS. KLANCKE: Yes.

25 THE WITNESS: The -- the positions that are shown



1 in 2010 --

2 BY MS. KLANCKE:

3 Q You can answer me. We're having a conversation.

4 A Sorry.

5 Q That's okay.

6 A I thought maybe she read my lips. The positions  
7 in 2010 that we're referring to are the actual FTEs that were  
8 in place, not the budgeted FTEs, and the positions that you  
9 have in 2012 are the budgeted FTEs for 2012.

10 Q Okay. On your rebuttal testimony, on page 19, in  
11 accordance with that statement, you said that for 2012 Gulf  
12 is currently projecting a net increase of 42 positions or a,  
13 quote, reduction of ten positions from the 2011 budget cycle  
14 estimates; is that correct?

15 A That is correct.

16 Q Would you agree that the most recent budget  
17 information should be used for ratemaking purposes in this  
18 proceeding?

19 A The most recent budget information, yes, I would.

20 Q Would you agree then that an adjustment should be  
21 made to reflect the reduction of the ten FTE positions for  
22 the 2011 budget cycle estimate that we just discussed?

23 A No, I wouldn't.

24 Q Why?

25 A When we prepared the 2012 -- and understand, when

1 we develop our budgets, five-year cycles, for 2011 we  
2 budgeted '11, '12, '13, '14, '15. The current cycle will be  
3 from '12, '13, '14, '15, '16.

4 As we evaluated the positions we were talking  
5 about at Plant Scholz and some other positions we said, you  
6 know, chances are we might hold off hiring those positions,  
7 so how are we going to cover that work that would otherwise  
8 be done by those ten folks.

9 So we reallocated those dollars from the labor  
10 budget into the contract labor budget. So net-net there's no  
11 decrease in the dollars we're requesting in '12 versus what  
12 we budgeted in the '11 budget cycle.

13 Q Despite the ten FTE reduction contained in your  
14 rebuttal testimony we just discussed, it nets out?

15 A It nets out. We have gone back and when we looked  
16 at the dollars that were initially budgeted for those ten  
17 positions, we moved it from labor to contract labor.

18 Q Where can that netting that you just discussed --  
19 where can we find that in your filing? Where are -- where is  
20 that diminution located with respect to that analysis?

21 A At this point I don't have a copy of the 2012  
22 budget. I know it was done because I was the one that  
23 instructed them to do it. But I do not know what accounts,  
24 and I don't think that we've budgeted anything -- I don't  
25 think I can tell you what account numbers they've been

1 budgeted to at this point in time.

2 Q Would you please turn to page 20 of your rebuttal  
3 testimony.

4 A Okay.

5 Q With respect to the statement contained on lines  
6 three through five, you specified that, quote, the main  
7 driver for this decision with respect to those ten FTEs  
8 relates to the pending environmental regulations and the  
9 effect that they may have on the operations of these plants.

10 Is there any other aspect of those environmental  
11 regulations that impacts the FTEs that you're discussing?

12 MR. GUYTON: I'm sorry, could you read that back  
13 again, please.

14 (Whereupon, the portion of the transcript requested was  
15 read by the reporter.)

16 THE WITNESS: So your question is of those  
17 environmental regulations that impact those ten  
18 positions?

19 BY MS. KLANCKE:.

20 Q Here's where we're going. We have this seeming  
21 discord between the prefiled description of those ten FTEs,  
22 we have a -- you know, we go from 52 to 42. We have as the  
23 only explanation one sentence on page 20. We need more  
24 explanation. Please provide that explanation.

25 A Well, what I can say is as we were reviewing all

1 these positions and determining when are we going to fill,  
2 when are we not going to fill, as we started looking at Plant  
3 Scholz, in particular, you know, when are we going to fill,  
4 when are we not going to fill, we made the decision we  
5 probably shouldn't fill those right now, we should probably  
6 hold off and fill in with either contract labor or overtime  
7 or some other process.

8 Q And we're going to analyze that a little bit more  
9 in-depth a little later on, those decisions. Let's just get  
10 back to those ten FTEs and focus on those. With respect to  
11 page 64 and onto 66, in light of the information that's  
12 contained on page 20, would you agree that Gulf has initially  
13 budgeted those positions, as you state on page 20, due to the  
14 uncertainty in environmental regulations but did not expect  
15 to fill those positions and rather just use contract labor,  
16 as you said before?

17 A I'm not sure that I understand what you're saying,  
18 but let me try to -- let me try to explain to you.

19 Q Sure.

20 A When we initially developed the budget for the  
21 2011 budget cycle through '15, it was our intent to fill all  
22 52 positions. Subsequent to this file -- or subsequent to  
23 the budget we started having discussions with the plant  
24 managers talking about specific positions and saying are you  
25 really going to fill this before the end of the year? Is it

1 really going to happen? Because, you know, if we are, we  
2 need to know that.

3 And we came to the conclusion that, you know what,  
4 we're in a better position not to fill those ten positions  
5 and to fill in with either contract labor or with overtime.  
6 And part of the driver behind that is the uncertainty around,  
7 long-term, a plant like Plant Scholz. Certain things happen;  
8 what's the long-term impact going to be.

9 Q Given the determination not to fill those ten  
10 positions, to instead use contract labor, don't you think  
11 that we should use the most current figures to reflect the  
12 absence of those ten positions in the current budget?

13 A If you're referring to the budgeted dollars, I  
14 agree with you, but if you're referring to just people, I  
15 would say not.

16 Q What has changed, if anything, with respect to the  
17 uncertainty that you referred to on page 20 regarding those  
18 environmental regulations that led to Gulf's decision not to  
19 fill those ten positions?

20 A I would say a lot of discussion. When we  
21 developed the budget back in 2000 -- it was really the fall  
22 of 2010 for '11, '12, '13, '14, '15, our plant managers  
23 probably went through and looked at the positions we had  
24 budgeted in the past and said, okay, I'm hoping to fill all  
25 those, so I'm going to budget them just like I have in the

1 past. And subsequent to a lot of questioning by me, are you  
2 really going to hire all those positions, and we came to the  
3 realization, no, we're probably not going to fill ten of  
4 them.

5 And the next question is, okay, then, how are you  
6 going to get the work done? What are you going to do? Well,  
7 we're going to fill in. And that was that discussion.

8 Q Okay. Back to -- let's flip at page 66 of your  
9 direct prefiled testimony where you refer to Plant Scholz in  
10 particular. Beginning on line 11 on page 66 -- let me know  
11 when you're there.

12 A I'm there.

13 Q It states that, quote, due to current uncertainty  
14 associated with environmental regulations Gulf has not begun  
15 to fill those eight vacant positions at Plant Scholz. As of  
16 today, with respect to those eight positions, how many were  
17 eliminated from the current budget?

18 A I'll have to take a minute and see if I can find  
19 it.

20 Q Go ahead.

21 MR. THOMPSON: Hello?

22 MS. KLANCKE: Hello, this is Caroline Klancke from  
23 Commission Legal Staff.

24 MR. THOMPSON: This is Major Thompson.

25 MS. KLANCKE: Hi. We began the deposition and it

1 is ongoing, so we will ask if you have any questions or  
2 anything at the culmination of staff's questions.

3 MR. THOMPSON: Okay.

4 MS. KLANCKE: Thank you.

5 THE WITNESS: I need my book. Here it is.  
6 Sometimes it's easier if I just look in the right place  
7 the first time. I'm sorry, one more time. You're  
8 asking me about the people at Plant Scholz, the eight  
9 that we originally were going to hire, and now we're  
10 going to hire some number less than that; is that  
11 correct?

12 BY MS. KLANCKE:

13 Q It specifies that due to current uncertainty with  
14 the environmental regulations that we discussed previously,  
15 Gulf has not begun to fill these eight positions, and then  
16 you go on to discuss the temporary reassignment.

17 With respect to the date of this -- as of the date  
18 of this deposition, how many of those eight positions that  
19 were uncertain have been eliminated, if any?

20 A Three.

21 Q Could you elucidate which ones have been  
22 eliminated?

23 A Sure I can. A Welder Mechanic, a Maintenance  
24 Specialist and a Team Leader of Compliance.

25 Q And could you turn to Schedule 5 of your Exhibit

1 RWG-2, page one of one?

2 A Yes.

3 Q Are you there?

4 A I am.

5 Q Oh, that was the one you should have looked at  
6 first.

7 A There you have it.

8 Q Could you identify if this welder mechanic that  
9 you're talking about right here, could you walk us through  
10 where to find this on your schedule?

11 A Certainly. It is set up power generation, Plant  
12 Crist, Plant Smith, Plant Scholz. At the bottom, the last  
13 section, Plant Scholz, you'll see, in the far right-hand  
14 column, the title of which is 31, December, 2011, status, it  
15 shows there are three positions that will remain unfilled and  
16 they are the last three items: The welder mechanic, and  
17 maintenance specialist, and the team leader of compliance.

18 Q Okay. And on -- let's turn to page 65 of your  
19 direct testimony. On lines 18, and continuing to line 20,  
20 you specify an instrument and control INC specialist position  
21 is currently on hold pending resolution of the uncertainty  
22 regarding the environmental regulations. Was that position  
23 eliminated in the most current budget?

24 A No, ma'am.

25 Q Have any determinations been made with respect to



1 that position? Has it been filled?

2 A According to my Schedule 5 on my rebuttal it has  
3 been filled as of June 30th, 2011.

4 Q Maybe you could clarify. Using your Schedule 5,  
5 walk me through where it's been filled, because I'm seeing a  
6 zero as of June 30th, 2011.

7 A That's correct, the zero indicating there are no  
8 positions to be filled.

9 MS. KLANCKE: Indeed. Fair enough. I'd like to  
10 take a brief break just to make sure that -- I know that  
11 our staff -- I want to make sure that they -- because  
12 after they leave this deposition, they're gone forever,  
13 so I want to make sure that they have all of the  
14 information from you that they need. So we'll go off  
15 the record for two minutes just to make sure.

16 (Brief recess)

17 BY MS. KLANCKE:

18 Q I'd like you to turn, with respect to your direct  
19 testimony, to page 30. Okay, on lines one through six on  
20 this page, beginning at line one, and continuing -- your  
21 answer begins on line three. You state that the useful life  
22 of Gulf's generating fleet has been substantially extended by  
23 Gulf's, quote, effective ongoing maintenance practices. Do  
24 you see that?

25 A I do.

1           Q       With respect to the effective ongoing maintenance  
2 practices, what exactly are you referring to?

3           A       First let me say that we have a lot of very  
4 experienced folks in the plants that have been doing this for  
5 years and years and years. We have things such as condition  
6 based maintenance folks. We have a group of folks that their  
7 job is condition based maintenance.

8                   So they monitor the condition of equipment and try  
9 to do the maintenance prior to there being an issue. So  
10 they're out there literally putting their hands on a piece of  
11 equipment, feeling if it's getting warm.

12                   And then we have a group of folks that do what we  
13 would call preventative maintenance, taking some of the  
14 information they're getting and making decisions on how do we  
15 time the work such that we don't let something fail, that we  
16 don't cause a forced outage. And then I would say, in  
17 general, the expertise of the folks we have working at the  
18 power plants.

19           Q       So is your characterization of Gulf's maintenance  
20 practices which are ongoing as effective based upon the  
21 experience of the work force and the specialization of those  
22 individuals that you just discussed, question mark?

23           A       Are they as effective -- I don't think I  
24 understand the question.

25           Q       Is your characterization -- throughout your

1 testimony you describe the maintenance practices and whatnot  
2 as highly effective. Here you specify that as a result of  
3 the effectiveness of these ongoing maintenance practices  
4 utilized by Gulf, it has, you know, pushed out -- extended  
5 the life of units, pushed out, you know, the life of units up  
6 to 20 years, as you specify here.

7 We want to understand this characterization that  
8 you make both here and throughout your testimony. The  
9 effectiveness is based, in your opinion, upon the experience  
10 of Gulf's -- of their force, work force; is that correct?

11 MR. GUYTON: I'm going to object because I think he  
12 mentioned two or three others things, in addition to  
13 experience, and I just don't want it to be incompletely  
14 characterized.

15 BY MS. KLANCKE:

16 Q Absolutely. How about experience and expertise,  
17 and, you know --

18 A I think it's more than just the people. As I  
19 said, we've instituted programs like condition based  
20 maintenance, like preventive maintenance, that allow us to  
21 recognize when things need to be done before they cause a  
22 problem.

23 Certainly our folks' expertise, when we go to them  
24 and talk to them about, okay, we've done all this work, what  
25 is your current assessment of the plant, what is your current

1 assessment of, if we continue this practice what can we  
2 expect this unit to continue to operate at with the current  
3 practices. And they're the ones that are rendering the  
4 opinion that I think the unit will last an additional ten  
5 years.

6 Q Has Gulf, to your knowledge, ever made comparisons  
7 of its maintenance practices with other companies'  
8 maintenance practices?

9 A Certainly.

10 Q What other companies has Gulf compared their  
11 maintenance practices to?

12 A I would say that we compare it to the rest of our  
13 sister companies, Southern and General. I want to say at  
14 this point I think we can point towards our performance as  
15 being a very good indicator of our maintenance practices.

16 You know, to have -- when I first came to work in  
17 power generation, I saw forced outage rates much higher back  
18 in 2000, 2001. I hate to admit I've been there that long.  
19 But today when you look at it you're seeing forced outage  
20 rates of, you know, two percent, and people get upset at two  
21 percent. And that's really remarkable.

22 So I would say that not only have we changed it,  
23 but proof is kind of in the pudding. You know, we've changed  
24 the practices, and we're getting the results.

25 Q Has Gulf ever compared its maintenance practices

1 to any companies other than its sister companies?

2 A I'm sure we have, but I would not be privy to that  
3 information.

4 Q I'd like you to turn now to your Exhibit RWG, and  
5 in particular Schedule 9.

6 MR. SAYLER: Rebuttal or --

7 MS. KLANCKE: Direct.

8 BY MS. KLANCKE:

9 Q Are you there?

10 A I am.

11 Q Okay. At the bottom of this page it contains a  
12 note. The note specifies, quote, Gulf has not included a  
13 retirement date for Plant Scholz in Gulf's ten-year site  
14 plan, Gulf has not made a firm decision or commitment to  
15 retire any of these units on the projected retirement dates  
16 shown. Do you see that?

17 A I do.

18 Q And in the rows with respect to the Scholz Units 1  
19 and 2, under -- it specifies December, 2011 under the 2002  
20 retirement date, which was contained in Gulf's last ten-year  
21 site plan which was filed with this Commission in 2002. Do  
22 you see that?

23 A I see that, but that's not the last time we filed  
24 a ten-year site plan.

25 Q Its last ten-year site plan, let's culminate it

1 there. It's reflected as 2002 here, but with respect to the  
2 retirement date, it says December, 2011; is that correct?

3 A Yes, but just to be clear, the 2002 ten-year site  
4 plan was developed and submitted in March of 2002.

5 Q Uh-huh.

6 A Okay.

7 Q And with regard to the 2012 retirement date it  
8 specifies the note and it sends you to the note that I just  
9 read; is that correct?

10 A That is correct.

11 Q As of the date of this deposition has Gulf made  
12 any additional determinations or decisions with respect to  
13 the retirement date of Plant Scholz Units 1 and 2?

14 A No, we have not.

15 Q Why has Gulf not made any additional  
16 determinations or decisions with respect to this retirement  
17 date, to your knowledge?

18 A At this point if we were to put a retirement date  
19 out there and just say we're going to retire it in December  
20 of 2012 or December of 2013, it's a hard and fast you're  
21 going to retire it. We haven't made that kind of commitment  
22 at this point.

23 The Plant Scholz -- the money we're spending on  
24 Plant Scholz, both in terms of capital and in O&M, is very  
25 low, and as long as that unit's viable, we want to keep it

1 available to our customers. And in the heat of the summer,  
2 this unit is very valuable to our customers.

3 We have recently -- this is probably getting  
4 beyond my testimony.

5 Q That's fine.

6 A We've recently negotiated some new contracts for  
7 coal and this unit now has moved significantly up the  
8 dispatch list, and so it's going to run a lot more. It's a  
9 value to our customers. So in my mind the longer we can keep  
10 this available to the customer, the better off the customers  
11 are.

12 Q Is the necessity of that unit, in your opinion,  
13 then, the reason why that no determination with respect to  
14 the retirement has been made?

15 A Necessity being --

16 Q The importance, as you just described.

17 A I would characterize it -- the value it provides  
18 relative to the costs that we're incurring provide a benefit  
19 to the customer, and as a result it's the best decision for  
20 our customers.

21 Q Do you know, with respect to these ongoing  
22 decisions and evaluations, can you give us a time frame when  
23 we can anticipate a decision with regard to that retirement  
24 date to be provided to the Commission?

25 A I really can't. I could say that, you know, we're

1 looking at several options associated with Scholz. For  
2 example, if you were to get certain RPS requirements, Plant  
3 Scholz is a real candidate for biomass.

4 We've done some analysis to determine might we  
5 convert that plant. It's located in a good place. We  
6 already own all the property. A lot of the plant that's in  
7 service today would remain in place, it would simply be a  
8 matter of restructuring the boiler and some of the other  
9 auxiliary equipment to make it ready to go with biomass.

10 So from a cost standpoint, it would be one of the  
11 best solutions we could come up with to meet a renewable  
12 energy -- or renewable portfolio standard.

13 Q So are there any other options that Gulf is  
14 considering with respect to Plant Scholz, to your knowledge?

15 A I would say that -- in terms of the existing  
16 plant?

17 Q Existing.

18 A I don't see the existing plant change, but, now,  
19 we do have that site, and in the event we were to add  
20 combustion turbine generation, it would be a site we would  
21 evaluate for whether or not we would add additional  
22 generation at that site.

23 Q With respect to this rate proceeding are there any  
24 costs or expenses included in the projected test year? For  
25 example, plant in service or O&M expenses, things of that



1 nature, associated with the possible retirement of plant unit  
2 -- of Plant Scholz Units 1 and 2?

3 A I don't know if I understand what you're asking  
4 me.

5 Q With regard to the 2012 projected test year, are  
6 there any expenses that Gulf has included in this proceeding  
7 with regard to the potential retirement that, as you've  
8 included in this note, is still being considered?

9 A I have to think for a second. Certainly the O&M  
10 associated with the continuing to run is in this proceeding.  
11 There's no O&M in here relative to the retirement.

12 Q With the retirement. We just want to confirm that  
13 fact, because we have, you know -- we have a 2011 --  
14 December, 2011 date for retirement provided in Docket 090319.  
15 We have a note --

16 MR. GUYTON: I'm sorry, what docket?

17 MS. KLANCKE: 090319 in Order PSC-10-0405A-PA-EI.

18 MR. GUYTON: I'm just looking for context. Is that  
19 the depreciation docket?

20 BY MS. KLANCKE:

21 Q This was the last depreciation study filed with  
22 the Commission in which Gulf projected December of 2011 as  
23 the retirement date of these units. We just need to confirm  
24 and make sure that there aren't any retirement-associated  
25 costs projected for 2012 in this rate proceeding.

1           A       You would have to ask witness Erickson, who does  
2 the depreciation work. I really have no information  
3 associated with the depreciation study.

4           Q       Okay. Would you please refer back to page 30 of  
5 your testimony, direct prefiled. On lines 12 through 14 of  
6 your direct testimony you state that, quote, extending the  
7 lives of units allows Gulf to postpone the procurement or  
8 construction of additional resources. That also reduces or  
9 defers Gulf's need for rate relief, end quote. Do you see  
10 that?

11          A       I do.

12          Q       What do you mean by defers Gulf's need for rate  
13 relief, in the context of this statement in your prefiled  
14 testimony?

15          A       If the retirement of Scholz 1 and 2 drove us to  
16 replace that generation with some other type of self build  
17 capacity, there would be a cost associated with that that  
18 would be in a rate request. And the further we can push that  
19 out, in my mind, the better off the customers would be.

20          Q       With respect to the extension of the lives of the  
21 company's generating fleet, which you discuss here, with  
22 respect to 2012, the projected test year, have any financial  
23 impacts or benefits occurred with respect to the need for  
24 rate relief?

25          A       I'm not sure I understand the question.

1 Q Okay, I'll give you an example. Here you're  
2 talking about Gulf's decision in 2009 and its activities to  
3 prolong the life of your fleet and to postpone the need for  
4 the construction of additional resources. Have those  
5 initiatives in 2009 resulted in financial impacts to Gulf's  
6 2010 test year which is the basis of this rate case?

7 MR. GUYTON: I'm sorry, I don't get the reference  
8 to 2009 from the testimony. I'm having a hard time  
9 following the question.

10 BY MS. KLANCKE:

11 Q He specifics here and throughout his testimony  
12 that in the year 2009, in particular, but with respect to  
13 generally, that there is a large initiative that has been  
14 undertaken by Gulf to extend the life of its fleet to do two  
15 things: One, postpone the need for rate relief, and, two,  
16 add to the lives of those units.

17 With regard to those initiatives which you  
18 characterize as being massive in 2009 throughout your  
19 testimony, but just generally with regard to those  
20 initiatives, has this resulted in any financial impacts to  
21 Gulf's 2010 test year?

22 A First, I don't know that I ever used the word  
23 massive initiatives. I do talk about initiatives we  
24 undertook in 2009. The simple economics would say if you can  
25 extend the life of a unit ten years, the customer benefits

1 immediately at the time of your next depreciation study in  
2 that you're going to spread those dollars over a longer  
3 period of time, which will reduce the need for additional  
4 dollars associated with depreciation.

5 The second piece would be over that ten years if  
6 you can avoid building a unit, and, in this case, a, you  
7 know, very small amount of O&M and an even smaller amount of  
8 capital -- because we spend almost no capital on this unit --  
9 it makes great sense.

10 I mean, economically, you know, if you could spend  
11 a couple two or three million dollars a year to continue to  
12 run this plant with no capital versus to build an 80 megawatt  
13 CT, 160 million, you know, it's a big difference to the  
14 customer.

15 Q Okay. Let's turn to page 35 of your testimony.  
16 On lines 18 through 20 you specify that, quote, Gulf's  
17 projected 2012 projection O&M budget is the result of a  
18 sophisticated and robust budgeting process, and it is this  
19 process that assures that those projected expenses are  
20 reasonable and prudent.

21 What do you mean by the robust budgeting process  
22 that you talk about here on line 19?

23 A What I'm talking about is for us the budgeting  
24 process goes on all year long in terms of the people that are  
25 out in the plant working in operations, working in

1 maintenance, the people out there putting their hands on the  
2 equipment to see if it's getting warm or not, are monitoring  
3 all that equipment, and as they see issues they're developing  
4 work orders that go into the system that are accumulated.

5           And when it comes time to develop the budget,  
6 those same folks, system owners, that own a system such as a  
7 turbine, unit owners, people that are responsible for a unit  
8 like Plant Crist Unit 7, sit down with their team leaders and  
9 they discuss all of that.

10           They discuss all the systems within a specific  
11 unit, they discuss all of the components of that unit, and  
12 make determinations, what is really the issue that we need to  
13 deal with in the upcoming year. Once we come to a  
14 conclusion, okay, this is the right stuff to do, they surface  
15 that to the next leader, which would be a group leader.

16           We have team leaders and we have group leaders, a  
17 group leader over all the maintenance for the plant. They've  
18 got to convince them that this is the right work to do. And  
19 once they're comfortable with that, they roll all of this up  
20 to the plant manager.

21           And once it gets to the plant manager, then we  
22 bring in plant managers from other plants and they all sit  
23 down and debate issues that are going on at their plants.  
24 And ultimately it comes up to the Senior Production Officer  
25 or Vice-President of Power Generation, and they come to an

1 agreement on what are the right things to do.

2 And keep in mind, as they're doing that, they're  
3 not doing this in isolation. They're getting knowledge from  
4 all the other plants at Southern Company of things that they  
5 have going on. If they recognize that on a certain piece of  
6 equipment -- for example, a Westinghouse turbine -- that we  
7 have a sister unit at Georgia Power that has a significant  
8 issue with a set of blades or whatever, that's communicated  
9 to us: Okay, when we go in next time we need to evaluate  
10 that we don't have the same problem so we don't lose the unit  
11 like they did.

12 So by robust what I mean is it starts here at the  
13 bottom and it builds through levels, everybody is seeing it,  
14 until it ultimately comes to the Senior Production Officer or  
15 Vice-President, and ultimately the final budget approval  
16 occurs at the executive level, and that's the President of  
17 the company and the four executives.

18 Q And on the basis of that budgeting process you  
19 believe that that ensures that those expenses are reasonable  
20 and prudent; is that correct?

21 A I do believe that.

22 Q How? What is your determination with respect to  
23 reasonable and prudent? What is your standard with respect  
24 to that?

25 A As stated, it would be the experience of all those

1 folks involved in the process. If I were to bring a project  
2 -- if I were in the plant, and I were to bring a project to  
3 my -- and it happens to be something that's a pet peeve or  
4 something, and I bring it to my manager, it's got to pass all  
5 these levels of review and it's got to be measured against  
6 not only itself but all the other stuff there demanding money  
7 from the plant.

8           And so there's not an infinite pot of dollars out  
9 there. We said, you know, we're not going to fund all of  
10 this. We need to know what are the most critical issues to  
11 ensure the reliability and the efficiency of the units. We  
12 have to make sure the units are available, because it has a  
13 direct impact on our customers, in terms of fuel.

14           If my cheapest unit goes down, I've got to replace  
15 it with something else more expensive. And efficiency, if I  
16 don't keep the efficiency, the heat rate proper, I'm going to  
17 burn more coal. Once again, that's going to flow back to my  
18 customers. So that's the kind of stuff we're looking at.

19           Q       Would you turn to page 66 of your testimony.  
20 Beginning at line six you specify that at year end 2010 there  
21 were 26 filled positions at Plant Scholz and in 2012 Gulf has  
22 budgeted a full complement or 34 positions at Plant Scholz.

23           The eight -- and then you specify, the eight  
24 vacancies at Plant Scholz are set forth by position and  
25 budget type on Exhibit RWG Schedule 12. Do you see that?

1 A I do.

2 Q How many contracted labor and temporary  
3 reassignments from Plant Smith are currently, as of today's  
4 date, at Plant Scholz?

5 A How many people from Plant Smith are at Plant  
6 Scholz?

7 Q Yes, reassigned, temporary reassignments.

8 A I can't answer that.

9 Q I'd like you to turn to -- staff is having -- just  
10 to let you know where we're having some consternation, here  
11 you say eight positions. In your rebuttal, on page 19 and  
12 going on to page 20, you say five positions. Can you explain  
13 the difference of three positions?

14 A Can you point me to the five?

15 Q Sure. It's on page 19, lines 24 through 25. Is  
16 it eight positions as you included on page 66 or is it five?

17 A I'm sorry, ma'am, I don't see where you're at.

18 Q Line 25 it says, quote, the reductions include one  
19 FTE at Plant Crist, four FTEs at Plant Smith, and five FTEs  
20 at Plant Scholz. Here you specify previously, in your direct  
21 prefiled, that it was eight. Is it five or is it eight?

22 Q I'm still totally lost.

23 MR. GUYTON: Can we go off the record just a  
24 moment?

25 MS. KLANCKE: Sure.



1 (Off the record)

2 THE WITNESS: My question is am I on the right  
3 page, even, is my issue.

4 MR. SAYLER: Page 19 of rebuttal.

5 THE WITNESS: Page 19 of rebuttal. I'm there.

6 BY MS. KLANCKE:

7 Q Line 25.

8 A It says the reduction -- the reductions include  
9 one FTE at Smith --

10 Q At Crist.

11 A As Crist, I'm sorry.

12 Q Four FTEs at Smith, and five FTEs at Plant Scholz.

13 A Okay, I'm with you now.

14 Q And here in your direct testimony you mention  
15 eight positions, eight vacant positions at Plant Scholz.  
16 Just like help us for the clarity of the record --

17 A I'm so sorry I could not find it, but okay, I can  
18 do this now. I'm so sorry.

19 Q Sure.

20 A The eight positions in the testimony, in the  
21 direct testimony, that are shown on Schedule 12, that we  
22 later go on to say here that we're not going to fill three of  
23 them. So it's no longer eight, it's three.

24 Q Okay, excellent.

25 A And I apologize. I couldn't see it.

1 Q Okay, please finish your response. So with  
2 respect to those three, go ahead. They have made a  
3 determination not to fill them?

4 A They're not going to fill those positions. That's  
5 correct.

6 Q Okay. Well, for our purposes, that clears it up.

7 A Yeah, I'm sorry.

8 Q That's okay.

9 A I couldn't see Scholz on that line, so I couldn't  
10 get there.

11 Q Now, let's turn to RWG -- your Exhibit RWG, and  
12 with respect to that response that you just gave, back to  
13 Schedule 5 that we had discussed previously --

14 MR. GUYTON: RWG-1 or 2?

15 A RWG-2, Schedule 5. With respect to the INC  
16 Specialist that we've just discussed with regard to -- with  
17 regard to the Plant Scholz eight versus five that we just  
18 discussed, walk me through if it appears on this schedule,  
19 and if so, where.

20 A The INC Tech?

21 Q Or just walk me through on your schedule the eight  
22 versus five FTEs that we just discussed, if it appears on  
23 this schedule, and if so, where. We just want to make sure  
24 that the schedule reflects the most accurate information.

25 A Sure. The budgeted 2012 number you can see it

1 lists out the eight positions starting with the Operations  
2 Specialist, the operators, the utility people, 2010. And  
3 what it says, that by June 30th of 2011 five of those  
4 positions -- the Operations Specialist, the operator, the  
5 utility person, the INC Tech, and one Welder Mechanic have  
6 been hired. And what remains to be filled is one Welder  
7 Mechanic, one Maintenance Specialist, and one Team Leader of  
8 Compliance.

9 Q Okay, so this schedule accurately reflects the  
10 Plant Scholz personnel, as we discussed, and with that  
11 clarification in mind?

12 A Yes, ma'am.

13 Q Okay. Let me turn your attention to Gulf's  
14 response to Staff's Thirteenth Set of Interrogatories. And  
15 I'd like you to also have your direct testimony at page 61  
16 out, as well.

17 MR. GUYTON: Do you have the interrogatory?

18 MS. KLANCKE: These were sponsored by the witness  
19 so he should have them with respect to Staff's  
20 Thirteenth Set of Interrogatories, the responses.

21 MR. GUYTON: Okay. A particular interrogatory?

22 MS. KLANCKE: There are a series of interrogatories  
23 that I am going to be talking about with regard to  
24 Gulf's responses and all of which were denoted by Gulf  
25 as having been addressed by this witness, so --

1 MR. GUYTON: That's fine, I just wanted to make  
2 sure that we had a reference to go to.

3 MS. KLANCKE: Oh, yeah, I'll give you all the  
4 references you need.

5 BY MS. KLANCKE:

6 Q Okay, let's start at page 61 of your testimony.  
7 On lines 15 through 17 it specifies, quote, additional  
8 personnel are needed to support the overall planning process  
9 and the labor, overhead, and expenses of these employees are  
10 being included in Gulf's O&M expense; is that correct?

11 A Could you read that to me one more time?

12 Q Additional personnel are needed to support the  
13 overall planning processes and the labor, overhead, and  
14 expenses of these employees are being included in Gulf's O&M  
15 expense. To my knowledge the new was reflected in your  
16 errata sheet as being deleted.

17 A That's correct. That's correct. And there was  
18 more that was added. Can I have the errata sheet? What we  
19 wanted to have happen was add the word "allocation of" prior  
20 to the word "personnel."

21 So it should read additional allocation of  
22 personnel are needed to support the overall planning process  
23 and the labor, overhead, and expenses of these employees are  
24 being included in Gulf's O&M expense.

25 Q That actually addresses a lot of our questions.

1 Let me just confer with staff and we can truncate this a  
2 little bit.

3 (Off the record)

4 BY MS. KLANCKE:

5 Q Well, then, that actually addresses a hole that we  
6 -- or a question that we had. It actually -- it helps a lot,  
7 your errata. So let me -- and we appreciate that. Let me  
8 turn you to 154 of Staff's Thirteenth Set of Interrogatories,  
9 number 154.

10 A It's going to take me a second. Sorry.

11 Q Okay, take the time that you need and let me know  
12 when you're there.

13 A I have reached 154.

14 Q Excellent. As we've just discussed, your errata  
15 essentially clarifies the page that is referenced with  
16 respect to question 154. Do you see that?

17 A I do.

18 Q Please tell me how your errata sheet impacts staff  
19 inquiries with respect to the allocation of personnel as  
20 reflected on page 61 of your testimony. Perhaps you could  
21 explain in greater detail that statement contained on 15  
22 through 17 that was impacted by your errata and how it  
23 changes your original statement, which we're inquiring about  
24 with respect to this interrogatory.

25 A I changed the statement in the errata sheet as a

1 direct result of additional review of this particular  
2 interrogatory.

3 Q Explain.

4 A When I initially wrote the testimony and was  
5 looking at the charges that come to us, I guess I made a bad  
6 assumption that it was an additional person, because I saw  
7 this \$79,000. And so I called -- let me also say that the  
8 entire power generation organization at Gulf Power Company,  
9 the entire organization at Gulf Power Company in the  
10 corporate office is eight people, and two of them are sitting  
11 here today.

12 So we have a very small staff of generation  
13 employees at the corporate office, so I rely on Southern  
14 Services to help me with the resource planning piece, and  
15 this is what this is. It's the billing of Southern Services  
16 for the resource planning piece to Gulf.

17 And when I saw the increase I made an  
18 inappropriate assumption that we had added people. I got  
19 this question and I started thinking, well, I'm going to call  
20 the folks up north and find out exactly what their staff was  
21 in 2002 and what it is today. And when I did that, it was  
22 the same number of people.

23 What's occurring is, because we've had a lot of  
24 activity recently about, you know, resource planning and  
25 other things, we're getting a slightly larger piece or an

1 allocation of those expenses.

2 A Okay. With respect to that \$79,000 that you just  
3 discussed that you mentioned and which is addressed in  
4 interrogatory number 154 and analyzed in your testimony,  
5 please explain, given the correction that there were new --  
6 not a single new employee added with respect to that -- the  
7 need for the \$79,000, why it's necessary, even though Gulf  
8 hasn't added any new employees to address the work load.

9 A It's necessary because they're doing more work for  
10 Gulf. We call them, request work, and they bill us for it.

11 Q Give us an idea of what new work is being  
12 undertaken by the existing employees with regard to this  
13 reallocation.

14 A Well, just as an example, any time we were going  
15 to do any kind of an RFP, any kind of analysis, I don't have  
16 those folks in my shop to do that. I call them and get  
17 direct billed for that.

18 With all the things that are going on with carbon,  
19 the thought is there going to be a carbon tax, is there not  
20 going to be carbon tax, the uncertainty of fuel, we have run  
21 these folks crazy trying to run analyses to figure out, okay,  
22 what's going to happen in our fleet in the future. And if  
23 this happens, if we do have a \$30 carbon fee, and gas prices  
24 do go here, what does that mean to our existing fleet? What  
25 decisions would we make in the future?

1           We have to look at all the different scenarios.  
2       In fact, we look at sometimes 12 different scenarios at one  
3       time, and certainly it's a little more difficult and takes a  
4       little more time to do eight different scenarios or 12  
5       different scenarios of an integrated resource plan than it  
6       does just kind of a base case, business as usual.

7           In the past, you know, we didn't have all this  
8       uncertainty so you're looking at forecasted fuel prices and  
9       that's pretty much it. And then you're looking to the future  
10      load growth and you're making determinations when you add  
11      folks -- excuse me, when you add facilities.

12           Now, under certain circumstances, you're driving  
13      plants that are currently part of your fleet where they can't  
14      operate. And as a result, you might have to replace that.  
15      So we need to kind of have those bookends: Under normal  
16      conditions, this is what it would look like; under real  
17      severe conditions, what might it look like, and try to make  
18      planning decisions relative to both.

19           Q     Are the current employees just working more or do  
20      they have additional responsibilities with respect to that?  
21      Have their position descriptions been redefined to address  
22      this extra workload? We're trying to unwind that \$79,000  
23      variance. And as you clarified, and as we suspected, there  
24      were no new positions added.

25           You've said they're working more. Are they



1 working additional hours? Is this reflective of overtime  
2 with respect to the 2012 budget? Are their positions  
3 changing? How is this \$79,000 prudent, given the lack of  
4 additional manpower?

5 A Well, first I would say if we weren't requesting  
6 the additional work -- now, when I say additional work, I  
7 couldn't tell you if he's working overtime or if these two  
8 people are just working more on our project. My assumption  
9 would be the second. It would be that these two people now  
10 are spending a greater bit of their time on us.

11 Now, in terms of prudence, I would say it would be  
12 very imprudent on our part if we weren't looking at the  
13 various potential impacts to our system. I think the  
14 prudence is you have to understand what some of these  
15 different environmental regulations may do to your fleet.

16 Keep in mind, even to do the simplest addition of  
17 a generator it's going to take me three to five years to  
18 build something and get it in place to take the place of  
19 something else.

20 And if I just sat around and waited for that to  
21 happen, then what might happen is suddenly this unit has to  
22 close in two years, and I can't respond. And as a result, I  
23 either have to go out and -- well, I really don't have a  
24 choice. I would have to go out and procure something on the  
25 market at the same time that any other number of generating

1 companies were out trying to get the same resource.

2 Q Okay. So does Gulf anticipate with respect to the  
3 2012 test year \$79,000 will be reflected in additional time  
4 spent with respect to these new -- addressing these new  
5 expenses, addressing these new initiatives?

6 A I think that's a part of it. I think that's a  
7 part of it. I think a part of it is labor, part of it is the  
8 benefit that flows along with that labor, and a part of it  
9 would be any expenses they might have. For example, when we  
10 did a recent RFP, I bring all those folks down from  
11 Birmingham here to Tallahassee to run the public meeting.  
12 And so they're working for me at that point.

13 And really the beauty of this becomes I don't  
14 incur that cost unless I ask for it. I don't have to have a  
15 whole staff of people year round. What I can do is I can  
16 pull these folks in, use them when I need them, and send them  
17 home when I'm done with them. So I have a greater control of  
18 those kind of folks.

19 Q I think that helps us to have a better  
20 understanding of what's going on here. I'd like to turn your  
21 attention to interrogatory response number 156. And in  
22 particular I'd like to turn your attention to 156-F. In  
23 156-F we ask you to explain when and why the 23 positions  
24 with respect to Plant Smith became vacant.

25 In response you provided us with a listing of all

1 the vacant positions at Plant Smith in the years 2008, 2009,  
2 2010 and 2011 when they became vacant. Do you see that? And  
3 the cause of the vacancy.

4 A I do.

5 Q In looking at the vacancies with regard to Plant  
6 Smith, it appears that the vast majority of the vacancies are  
7 a result of promotions that occurred in 2010. Do you see  
8 that?

9 A I see that there are a large number of people that  
10 were promoted in 2010.

11 Q In particular there are 12 out of the 23 vacant  
12 positions that are listed here that are due -- the cause is  
13 listed under cause of vacancy as promotion in 2010; is that  
14 correct?

15 A Twelve?

16 Q You can count them if you'd like.

17 A It's either 12 or 13.

18 Q Sure. We'll say subject to check. Is it normal  
19 for such a large amount of promotions to be given in one year  
20 here in 2010?

21 A I don't know if it's normal but what I would say  
22 it for seven of them it's expected. Those are utility  
23 people. Seven of them came in off the street and they worked  
24 for a period of time and probably they were hired at a  
25 similar time.

1           A utility person is somebody who comes in that  
2 knows nothing about the plant. They know something about the  
3 plant; they know it's blue. But they don't know a lot about  
4 the plant. And they go to a specific place, whether it's  
5 operations, whether it's maintenance, whether it's fuel  
6 handling, whether it's the electrical shop, and they work  
7 under a tutor and they work through our earned progression  
8 program, take tests, prove competency, take a written test,  
9 do a physical test, prove competency.

10           And after they've passed through those four levels  
11 -- I'm not sure exactly of the process, but they're promoted  
12 to the next level. And I think there are four levels in each  
13 position. And I'm really talking beyond my knowledge.

14           But you come in as a utility person and then you  
15 go to a level one, two, three, and four. And so these people  
16 -- yeah, I'd expect them, because part of the deal is, after  
17 a certain number of times taking that test, you're kicked to  
18 the street. We get somebody new to take that job.

19           Because we expect people -- these are the people  
20 we need to run the power plant, whether it's from a  
21 maintenance standpoint, or whether physically controlling the  
22 units. So seven of these positions I'd say I'd expect that.  
23 If we have that many utility people, I'd expect that.

24           Q       Staff's question query is with respect to all  
25 these promotions transpiring in 2010. We have 2008-2009

1 reflected here. Is it, would you say, part of the normal  
2 course of business that annually so many promotions would  
3 occur in one year?

4 A I don't know if it's -- I don't know if it's  
5 normal, but what I would say is one of the things you have to  
6 recognize is here we're talking about just those people that  
7 created these vacancies. I mean, they were probably --  
8 because of the timing of this, there could have been other  
9 people that were promoted, but their job was filled before  
10 they fell into this category of looking at December of 2010.

11 So they may have got -- a renewable energy manager  
12 may have come to work in September, got a new job in October,  
13 and then we hired somebody in their place in November, and  
14 they never even showed up on this list, but they got a  
15 promotion.

16 So I wouldn't say it's normal. I really couldn't  
17 say what normal is, because I really don't know the answer.

18 Q To your knowledge was there any unique -- with  
19 respect to Plant Smith, was there anything unique about 2010  
20 that resulted in so many promotion in this year?

21 A Not to my knowledge.

22 Q Okay, let's have your rebuttal testimony open, if  
23 you would, to page eight. And in particular I'd like you --  
24 I'd like to direct you to lines five through 11. In this  
25 section -- and I know it's a long one, but for the benefit of

1 the record, I will go ahead and make an attempt. Then in  
2 2009 and 2010, in an effort to forestall a request for a base  
3 rate increase during an economic recession, Gulf made a  
4 concerted effort to limit its production o&m budgets, and  
5 control its actual production O&M expenses to help postpone  
6 the need for rate relief.

7 Expenses declined significantly in 2009 to 84.2  
8 million, but rose again in 2010 to 92.9 million, which was  
9 still below the budgeted level of 94.7 million. Do you see  
10 that?

11 A I do.

12 Q As we discussed previously, you reiterated in this  
13 section the efforts that Gulf made in 2009 to forestall a  
14 rate increase and drive down costs. Could you describe or  
15 explain to us in greater detail and with as much specificity  
16 as you can what steps Gulf took in 2009 to limit its  
17 production O&M budgets, as you state here, and control its  
18 actual production O&M expenses to postpone the need for rate  
19 relief.

20 A Sure. First let me point out, in 2009 these are  
21 actual dollars, not budgeted dollars. The budgeted dollars  
22 were significantly more than this. It was -- well, I  
23 actually have the numbers, but I think they were somewhere in  
24 the neighborhood of \$92 million for the budget.

25 In 2009 we had a -- everybody was suffering and

1 Gulf made the decision nobody's getting a raise this year.  
2 So we didn't have a raise in 2009. We looked for  
3 opportunities to extend maintenance cycles on certain pieces  
4 of equipment. We looked at other options that we had for  
5 extending outages, anything we could do to not pile up money  
6 in 2009.

7 Q Okay. You mention that you have the numbers.  
8 Could you walk us through what limits or restraints, if any,  
9 were placed on the production O&M budgets in 2009?

10 A Yeah, the numbers I was referring to was the  
11 budget numbers.

12 Q Oh, okay. Could you give us -- do you have any  
13 restrictions or limitations that you could provide to us here  
14 today that were undertaken in 2009 to manifest this?

15 A I don't have specifics. I can give you some  
16 examples.

17 Q Fair enough. Please give us examples.

18 A We started doing things like during an outage you  
19 may have normally spent two or three million dollars on the  
20 boiler equipment. We made the decisions, on certain  
21 components of it, for example, rather than mapping the boiler  
22 that year -- which is simply you set up a scaffolding on the  
23 inside of this seven-story piece of equipment with all these  
24 tubes everywhere and you go out and you cut sections out of  
25 them all and you map it, understanding, okay, this is getting

1 thin, this is getting thin. And you try to make determines  
2 of where your next work is.

3 Rather than do that, what might have happened is  
4 they got in a bosun's chair, which is kind of like on a  
5 sailboat, and they rig it up, and they go up and look for  
6 specific problems and fix them then. And you can do that for  
7 a short period of time before you're going to start having  
8 problems.

9 You can do it once or twice, but you can't do that  
10 for a long term. You have to have a real idea of what's  
11 going on inside the boiler for long-term maintenance.

12 Other things that may have happened is motors that  
13 they might have sent out, they didn't send them out this  
14 time, or pumps that they may have had reconditioned, they  
15 didn't send them out this time.

16 So, you know, I can't really put my finger on one  
17 thing and say this is what it was. It was a lot of things.

18 Q Was there, to your knowledge, any production O&M  
19 expenses that you would have incurred in 2009 which were  
20 forestalled or pushed or pushed forward into 2010, the test  
21 year?

22 A Into 2010?

23 Q Yes, as a result of this effort to forestall the  
24 rate increase and limit costs.

25 A I think the -- to the extent if we had an outage



1 in '09, that we simply extended the thing and it went to '10,  
2 that would have been the case. And, in fact, I think there  
3 was a Daniel unit, for their reasons, that they decided to  
4 move the outage from '09 into '10.

5 You know, Mississippi Power, the state of  
6 Mississippi was experiencing the same kind of issues that  
7 we were across the country, and they were making similar  
8 decisions.

9 Q Certainly. Did Gulf undertake in 2009 any  
10 initiatives to limit its labor costs; and if so, what were  
11 they?

12 A We didn't hire some folks. I think -- if I can  
13 have one second. And I would like to be clear, when I'm  
14 talking about Gulf, I'm really speaking in terms of the  
15 production side of Gulf, I'm not talking about the whole  
16 company.

17 Q Sure.

18 A But in 2009, if you were to step back to 2009,  
19 Gulf had production organization, 353 actual employees,  
20 actual employees. And in 2010 it had dropped to 342.

21 So there are conscious decisions during the year  
22 where a plant manager may have a budget of -- and I'm just  
23 using numbers -- a million dollars, and we have some sort of  
24 a problem, a piece of equipment fails, and we have this  
25 million dollars.

1                   And they say, well, you know, we're trying to get  
2 things done with this million dollars; what other way do I  
3 have to get the money to make this repair? And it might be  
4 he says, well, I've got this INC Specialist scheduled to be  
5 hired in June. I'm going to put him off until January, and  
6 I'll use that money to redirect and do this work.

7           Q       Okay, could I turn your attention back to Staff's  
8 Thirteenth Set of Interrogatories, and I'd like you to turn  
9 to 156-I. In 156-I staff asked you -- asked Gulf to state  
10 whether the vacancies in Plants Crist, Smith, Scholz,  
11 directly contributed to the reduction in Gulf's O&M expenses  
12 in 2010. Do you see that?

13           A       I do.

14           Q       And in response Gulf provided a statement  
15 contained on page four of nine as well as several tables that  
16 begin on page five of nine. Do you see that?

17           A       I see that, but I think I -- the tables refer to  
18 some other part of the question.

19           Q       Could you explain?

20           A       Yes, ma'am. I think that the tables refer to  
21 either -- some part of either A through H. I is simply  
22 asking the question state whether the vacancies at Smith,  
23 Crist and Scholz contributed directly, as you asked me a  
24 minute ago, and I said, yes, they do. The vacancies at  
25 Crist, Smith and Scholz helped Gulf to keep O&M lower than

1 otherwise would have been.

2 Q Okay. That's helpful. Okay, would you turn to  
3 the tables beginning on page five of nine. With respect to  
4 these tables it lists date position created and date position  
5 filled. Do you see that?

6 A I do.

7 Q And with regard to each of these, Plant Crist,  
8 Plant Smith, Plant Scholz, on the consecutive pages it  
9 specifies quite often that the positions were filled in 2011.  
10 Do you see that?

11 A I do.

12 Q Were any of the vacancies which were reflected as  
13 unfilled until 2011 a result of Gulf's concerted efforts to  
14 limit its production O&M budget and expenses which we just  
15 discussed in 2009 and part of their initiative with regard to  
16 limiting costs and postponing the need for rate relief?

17 A For 2009?

18 Q Yes. Were any of the -- it shows that a lot of  
19 these were filled in 2011. You mentioned that some people  
20 weren't hired. Were those people not hired in 2009 and then  
21 hired in 2011 as a result of the initiatives which we just  
22 discussed to forestall a rate increase?

23 A Are we talking about the 52 positions that show up  
24 at the end of 2009?

25 Q We're talking just generally with respect to this

1 table.

2 A This table speaks only to the 52 positions.

3 Q Certainly.

4 A So I don't know that I've done this but I can't --  
5 unless there's another interrogatory -- and I don't recall --  
6 that shows when the vacancy occurred, and that's what I need  
7 to find. I can look through here and find out.

8 Q Please.

9 A I'm certain I have something here that says when  
10 the position became vacant, but I can't seem to find it, and  
11 that's what I need to see to make --

12 Q Fair enough. What we're trying to understand is  
13 we're trying to comport this discovery response and the  
14 filling of these vacancies, were they budgeted in 2009 and  
15 then they were just filled in 2011? Is that what was going  
16 on?

17 A I can't really answer that. I think those  
18 specific positions -- there's 52 positions. I think at the  
19 end of 2009 we had some less number than that.

20 Q Maybe we could revisit it. We're going to take a  
21 little break at the end of this series of questions and  
22 perhaps that will give you enough time to find what you're  
23 looking for and whatnot. This isn't -- we're not trying to  
24 surprise anybody, we just want a better understanding.

25 A Oh, I understand.

1 Q Okay, let's turn to Staff's Thirteenth Set of  
2 Interrogatories, number 143.

3 A Can you tell me, is it also a complement issue?

4 Q Pardon me?

5 A Is it also a complment issue? My book is set up  
6 by subjects.

7 Q Oh. It is within the same kind of concept. It  
8 deals with exhibit -- your exhibit to your testimony RWG, in  
9 particular, and then asks a series of questions about that.

10 MR. GUYTON: Is it about work force or is it about  
11 another issue?

12 MS. KLANCKE: It deals in part with that, and O&M  
13 expenses in general. In particular we're going to ask  
14 you about E, which deals with the special projects  
15 associated with Plant Daniel, if that's helpful.

16 THE WITNESS: It is not. I can't find 143. It's  
17 Staff's 143?

18 BY MS. KLANCKE:

19 Q I can give you mine. We just have one question on  
20 it.

21 A Staff 143. I've got it. I'm sorry. It figures  
22 it would be right on top.

23 Q Okay, with respect to this response, Gulf provided  
24 us with a list of the special projects. The first special  
25 project listed is titled FP5AGG, GEM-Special Project Code

1 Gemguard?

2 A Correct.

3 Q Explain to us, what is that special project and  
4 what does it entail?

5 A I need that book. Keep in mind from Mississippi  
6 Power the relationship is Gulf owns 50 percent of the coal  
7 generation at Plant Daniel at Mississippi, and we receive  
8 billings from them monthly. And so what I was looking for is  
9 what are the things that they have going on. And so one of  
10 the things we require for them, just like we do for our own  
11 plants, is for them to provide outage information, baseline  
12 labor information, baseline materials information and outage  
13 information. And in this case special project information.

14 So what this is is just as it is for Gulf, because  
15 this is one of our O&M justifications is Gemguard is -- it's  
16 a system that helps protect the reliability of the grid and  
17 so this is Mississippi's portion of that expense, just as  
18 Gulf has a portion of that expense that comes directly to us  
19 from Southern.

20 Q What do you mean by the system that helps protect?  
21 What exactly -- we're just trying to get a better  
22 understanding of what is encompassed within this line item.

23 A It's basically to protect against people being  
24 able to get into the system and access our units and do  
25 something to our units that may otherwise cause us serious

1 problems. And so, you know, with everything that went on  
2 with 9/11 and now with all the issues associated with cyber  
3 security, that's what this is really doing. It's protecting  
4 access to the generating fleet.

5 Q Is it software? Like describe it in a little bit  
6 more detail. We're unfamiliar with this characterization,  
7 and so we just want to have a better understanding of what it  
8 is.

9 A Part of it is software but part of it is the  
10 people that are maintaining the system and monitoring the  
11 system.

12 Q So this encompasses the cost of those individuals  
13 in monitoring?

14 A That's correct.

15 Q Let's turn to 143. Let's turn from 143 to 144,  
16 which unfortunately is several pages away. In this question  
17 we ask some specific -- for some specific information with  
18 regard to your testimony, if that subject matter helps, and  
19 in particular the heat recovery steam generator.

20 A Sure. Okay.

21 Q Okay. In 144-C we asked for some information and  
22 you responded -- just to truncate this process -- that the  
23 major item driving up the cost in the maintenance related to  
24 the heat recovery steam generator is maintenance related to  
25 the -- or hers --

1           A       HRSG.

2           Q       H-R-S-G . In 2006 and 2007 you specify that there  
3 were no costs or expenses related to HRSG, yet in 2008 and  
4 2009 Gulf spent approximately \$420,000 on HRSG, and in 2010  
5 over two million. As a result, in 2011 and 2012 Gulf has  
6 budgeted an average of approximately 1,800,000 for  
7 maintaining the HRSG going forward.

8                   What, in 2008 and 2009, caused the necessity of  
9 the precipitous increase between zero dollars in 2006 and  
10 2007 and \$420,000? Let's start there.

11          A       Okay, let me simply summarize this.

12          Q       Please.

13          A       Smith 3 went into service in June of 2003, the  
14 first full year -- excuse me, it's 2002, the first full year  
15 of operation. The HRSG is the boiler for this unit, just  
16 like we have boilers in steam units and big coal units. And  
17 as a result it is subject to incredible pressure. It's  
18 subject to corrosion from the inside.

19                   The water -- you know, everybody says it's water.  
20 It's not just water, this is distilled water. It's very  
21 pure. Any sort of impurities is going to cause problems  
22 inside the HRSG. So from 2003, 2004, we really didn't need  
23 to budget any money.

24                   And, in fact, in the last test year, a split year,  
25 2002-2003, we budgeted almost no money for the HRSG because



1 it was new. We didn't need money for it. Well, we're ten  
2 years down the road now. We've been running water through  
3 this thing for ten years, and like anything, as something  
4 gets older it's going to cost you a little more to maintain  
5 it.

6 We just reached that point where -- and keep in  
7 mind, this is a big piece of equipment. We've just reached  
8 the point where it has to be maintained. We have to start  
9 spending money on it. It's not new anymore.

10 Q Were there any expenses, just to be clear, between  
11 June, 2002 and 2006?

12 A Absolutely there were.

13 Q Tell us about those expenses which were provided  
14 with regard to maintenance.

15 A You're asking me about Smith 3, specifically?  
16 When you say provided --

17 Q Expended.

18 A Okay. I really don't have -- I only have with me,  
19 I think, back to 2006, because that was kind of where my  
20 testimony was based on, six through ten. And I think I did a  
21 five-year historical and I did a five-year projected, so I  
22 have back to six, and I can speak to those.

23 Q We just -- here's where we're going with this. We  
24 see -- you know, we similarly suspect that it went in service  
25 2002-2003. We see no maintenance expenditures from 2000 to

1 2003 to 2006; and then 2006-2007, nothing; 2008-2009, 240 --  
2 420,000, respectively, and then, once again, an uptick.

3 We would like a more complete understanding of what's  
4 causing this and therefore a better understanding of your  
5 estimate of approximately 1,800,000 for maintaining it going  
6 forward.

7 A I can get more details but I don't have any more.  
8 I don't know if it's internal water wall issues or chemistry  
9 issues. I mean, you're kind of getting out of my world.

10 I know that we budgeted this much to maintain the  
11 HRSG, and once again, as I described earlier, this is going  
12 through the same process and competing against every dollar,  
13 just like everything else we have.

14 So the folks at Plant Smith are going to have to  
15 prioritize their dollars; what do they want to do first. And  
16 if this passes, in the plant manager's mind, surfaces to the  
17 top of the ball, then it's going to go first.

18 Q Perhaps the best way of dealing with this -- can  
19 we ask you for a Late Filed Exhibit to obtain information  
20 with respect to 2002-2003, the years that it came in service,  
21 and bringing it all the way through to the 2010 two million  
22 that's reflected in this response?

23 We just need some additional information with  
24 respect to what's causing the need for these maintenance  
25 dollars, where has it been expended, how, with respect to

1 Smith Unit 3.

2 A Sure.

3 Q That would be very helpful. And with respect to  
4 going forward, perhaps you could answer do you believe that  
5 this will continue to need \$2 million of expended maintenance  
6 annually or is this a one-time expenditure which will  
7 dissipate in the future?

8 Perhaps you could give us an idea about that, I  
9 mean, because we're talking about dollars and cents that  
10 you're addressing here, but we just need a better  
11 understanding of it.

12 A Yeah, just off the top, what I have here, I can  
13 tell you that it's somewhere between a million four and a two  
14 million eight.

15 Q And where are those dollars originating? Why?

16 A And I'll have to get you the same information. I  
17 just don't have what the drivers are.

18 Q Fair enough. If you could provide that to us in a  
19 late-filed exhibit, that would be very helpful.

20 MR. GUYTON: That's one?

21 MS. KLANCKE: That's late-filed Exhibit 1. And  
22 that dispenses with the whole series of questions that I  
23 had about that, which benefits everybody. Okay, let's  
24 turn to interrogatory response number 152.

25 (Whereupon, Late Filed Deposition Exhibit No. 1 was

1 marked for identification.)

2 MR. SAYLER: I thought you promised us break after  
3 that series of questions.

4 MS. KLANCKE: There will be a break after a couple  
5 more questions. Let me know when you're there.

6 THE WITNESS: I will. I am there.

7 BY MS. KLANCKE:

8 Q This response addresses some expenditures with  
9 respect to the nose arch contained within Plant Daniel Unit 1  
10 referred to on page 48 of your testimony, and you specify  
11 that this existing nose arch has been in service for 34  
12 years; do you see that?

13 A Yeah, I don't have it, but yes, I recall that MFR.  
14 I'm sorry.

15 Q It's contained on 152, so just for your reference  
16 it's the last line.

17 A Okay.

18 Q And you specify that the anticipated pad weld on  
19 the replacement of the respective damaged tubes is estimated  
20 to cost approximately 3,200,000; is that correct?

21 A I better look at it.

22 Q Sure.

23 A I apologize. I had Citizens 152.

24 Q This is Staff's Thirteenth Set of Interrogatories,  
25 number 152.

1 MR. MA: There's a lot of interrogatories.

2 THE WITNESS: Thank you, Homer. Bingo.

3 BY MS. KLANCKE:

4 Q So with respect to this response if you'd like to  
5 take a moment just to read it, we're discussing the nose arch  
6 with regard to Plant Daniel 1, and this question originates  
7 from a statement in your testimony in which you said that  
8 said nose arch will require, quote, significant work on the  
9 nose arch of the boiler.

10 On page 48 of your testimony you also specify that  
11 the nose arch work will cost approximately \$3,200,000; is  
12 that correct?

13 A That's correct.

14 Q How many times in the 34 years that this nose arch  
15 has been in service has it needed repair, to your knowledge?

16 A I do not know a number as to these repairs.

17 Q You specify in your response that it is a fairly  
18 difficult area of the boiler to repair during outages and  
19 that refurbishing the nose arch requires extensive work; is  
20 that correct?

21 A That's correct.

22 Q With respect to -- so it's reasonable to assume  
23 that in the 34 years it's been in service it hasn't been  
24 repaired repeatedly and a lot; is that correct?

25 A I would not say that's correct. I would say it's

1 not been -- it has been -- there has been work done to it,  
2 but not to this extent.

3 Q Would you explain the extent of the work that is  
4 required in the instant case with respect to this?

5 A I really can't talk -- this is more of a technical  
6 in the boiler kind of thing. I can tell you that they  
7 inspect it every two years and they do what they need to do  
8 every two years.

9 But in terms of what all is occurring here, I  
10 can't really give you any more than -- first of all, I hope  
11 we all understand, this is a portion of the boiler. And to  
12 get to it, what they're describing here, is difficult to get  
13 to. But beyond that, I can't give you much more about the  
14 nose arch.

15 Q Well, we'd like a better understanding of this  
16 \$3,200,000, which is estimated for the pad weld that is going  
17 to be undertaken with respect to the repair of the nose arch.  
18 We would like to know if it is a singular event.

19 Is this all of this \$3,200,000 with respect to a  
20 single work order that is being initiated, or is it a series  
21 and going forward, and all that? We need all that  
22 information.

23 A I would say that -- let me characterize it this  
24 way. This is a singular event, but that's not unlike -- and  
25 when I say singular, we're doing it this time. But that's

1 not like -- unlike any other portion of the boiler that we  
2 might work on.

3 For example, Crist 7, this year -- and I'm just  
4 using an example -- the primary superheater, we might have a  
5 singular event this year for that that may not occur for  
6 another ten years, and you might have next year, or the next  
7 outage, significant work to the primary superheater.

8 It may seem like a singular, we won't do it for  
9 several more years, but every year that you have outages, you  
10 have work that is done this year and it won't be done next or  
11 the next. It may be eight years from now before you do it  
12 again. But every year you need a certain amount of outage  
13 dollars to address all of your outage work.

14 Certainly if you piled it all on top in one place  
15 you could never fund that. And so what you try to do is you  
16 try to segregate it and do a certain amount of outage work  
17 this year, a certain amount next year, and you try to keep  
18 that spaced so that you can fund the work you need to do each  
19 year.

20 In this case Daniel has had other significant  
21 outages in the past, and I suspect that we'll have  
22 significant outages in the future that are, you know, this  
23 much or more. This is just this year, this is their big  
24 thing. Next year, two years from now, it's going to be  
25 something else.

1           Q       But with respect to the nose arch that we're  
2       discussing here, two years from now we don't anticipate  
3       another \$3,200,000 pad weld tear, do we?

4           A       I don't expect another three million dollar repair  
5       but I do expect that each year that Mississippi Power will  
6       bill Gulf Power for six to eight million dollars in outage  
7       work every single year, because they do Unit 1 this year,  
8       Unit 2 next year.

9                       And so every year I'd expect that they're going to  
10      do their outage work and we're going to get billed for it.  
11      It's not suddenly next year it's going to go from a total of  
12      five down to three, or down to two. It's going to be five  
13      this year. It will probably be five or six next year.

14          Q       I think that's sufficient for our understanding,  
15      and I don't think that we'll need a late filed exhibit. I  
16      just wanted to make sure.

17                       I'd like to turn your attention -- and for my  
18      final little bit of questions --

19          A       I don't believe you.

20          Q       -- I'd like to turn your attention to the time  
21      line of purchasing and contracting with respect to the  
22      Perdido facility.

23          A       Sure.

24          Q       As you know, staff has asked a series of -- as you  
25      know, staff has asked a series of questions about these.



1 They're contained in numerous staff interrogatories.

2 A Okay.

3 Q So I'm going to ask you, since the different  
4 iterations all kind of overlap and you had a hand in  
5 responding to all of those, theoretically, so -- or in  
6 actuality, and so I want to make sure we're clear, but I'm  
7 going to go from one interrogatory to another interrogatory.  
8 And if you're not there, or if you need to take a second or  
9 if you need to find some other documents, we're looking for a  
10 complete understanding, so let's go slow, let's make sure we  
11 get all the stuff we need.

12 A Okay.

13 Q Okay, let's turn first to Staff's Sixth Set of  
14 Interrogatories, and in particular, number 97, or 79. Sorry.

15 A Yes.

16 Q Okay, in interrogatory number 79 we asked for  
17 information with respect to the contracting information with  
18 regard to the Perdido facility, and on page two of three you  
19 have provided us with a table containing the comparison of  
20 the projected payments between 2008's standard offer contract  
21 and the Perdido renewable energy project. Do you see that?

22 A I do.

23 Q And on this page, page two of three, in the column  
24 that is column number 11 that's labeled "difference from  
25 contract" at the very bottom it reflects \$12,000 in savings.

1 Do you see that? It's at the very bottom.

2 A I do.

3 Q And on the next page it contains a comparison of  
4 the projected payments between 2009's standard offer contract  
5 and the Perdido renewable energy contract, page three of  
6 three. Do you see that?

7 A I do.

8 Q And under column 11, difference from contract, it  
9 has two million -- wait, 2.199 million reflected at the  
10 bottom of that column. Do you see that?

11 A I do see that.

12 Q Okay. This 2.199 million reflects additional  
13 costs, does it not?

14 A It reflects the delta between -- the change that  
15 occurred from 2008 to 2009.

16 Q In the amount of --

17 A 2.1 million, 2.2 million. But let me be clear.  
18 Our decision wasn't based on this.

19 Q I think we'll get there, but I just want to make  
20 sure that we have a clear time line in this proceeding --

21 A Sure.

22 Q -- just so that we all understand the context with  
23 respect to this.

24 A Okay.

25 Q Towards that end, could you explain to us when

1 Gulf began negotiating with respect to -- with Escambia  
2 County with respect to the Perdido facility with regard to  
3 the two contracts that were executed on September 4th, 2009.  
4 And we can turn to those interrogatories if you want, but --

5 A I'm assuming we're talking about the gas sale  
6 contract and the land lease contract?

7 Q That is correct.

8 A How about I just walk you through the --

9 Q Walk us through it. Give us --

10 A In 2008, in July of 2008, the county issued an RFP  
11 for the sale of methane gas. And I know you all understand  
12 this, but I'm going to say it. When a landfill gets to a  
13 certain point and has enough methane that is produced, it is  
14 required by law to capture that methane and do something with  
15 it, whether you burn it in a generator or, in my terms, just  
16 stick a big straw in the top and light it on fire and just  
17 burn it.

18 So they had reached the point where they wanted to  
19 do something significant with this. Now, they had a contract  
20 with somebody in the past and they basically were flaring it.  
21 They were paying somebody to flare this gas into the  
22 atmosphere. So here you have methane gas being produced, you  
23 light a match to it, and now you're producing carbon. Not a  
24 good -- not a good decision.

25 So they issued an RFP in 2008. Later that -- I

1 guess August we put together a proposal, and that was based  
2 on this 2008 renewable standard offer contract, how much can  
3 we pay you for this and still cover our operations expense  
4 and the fixed capital portion, and keep our customers  
5 neutral.

6 Because at the center of this, from the very  
7 beginning, it was our desire to not put any additional burden  
8 on our customers. Gulf was selected in November of '08. We  
9 won the bid. I guess around July we signed a contract with  
10 the construction group, with an out. If we wanted to get  
11 out, we could still get out. And then ultimately we signed  
12 those gas contracts in September of '09, and went commercial  
13 on October 7th of 2010.

14 Q And with respect to Gulf's 2008 contract, standard  
15 offer contract, that was filed in April of 2008 with this  
16 Commission in Docket 080194-EQ, correct?

17 A I don't know.

18 Q Let's just say for the purposes of establishing  
19 the time line -- and we could pull the -- you know, I have  
20 the order with me, and we could pull it or whatever. But I  
21 want to get a clear understanding of -- because what we have  
22 is standard offer contract filed by Gulf in Docket 080194-EQ.

23 A It would have been around April of '08.

24 Q Certainly. Reflecting the information that's  
25 contained on page two of three.

1 A Correct.

2 Q Then as you've discussed, you go through a bidding  
3 -- a bidding process with Escambia County and LFG Technology  
4 with regard to the Perdido facility in 2008 and going to  
5 2009. In April of 2009 Gulf filed in Docket 090163-EQ a  
6 subsequent standard offer contract, correct?

7 A In April of '09 we would have filed the '09 RSOC,  
8 that's correct.

9 Q And that is reflected on page three of three in  
10 this response, correct?

11 MR. GUYTON: Objection. I don't think that  
12 contract -- the standard offer information is reflected  
13 on that, but that's not what page three of three  
14 reflects. I want to make sure --

15 MS. KLANCKE: 2009 standard offer contract in  
16 Perdido renewable energy project?

17 MR. GUYTON: It reflects that, but it reflects that  
18 in comparison to Perdido. I just want to make sure that  
19 we're being precise about what this particular page --

20 MS. KLANCKE: Certainly.

21 MR. GUYTON: -- does and does not reflect. That's  
22 the basis of my objection.

23 THE WITNESS: If you can ask your question again.

24 BY MS. KLANCKE:

25 Q The origin of these figures comes from Gulf's

1 filing contained within its annual standard offer contract  
2 filing, does it not?

3 A We used the 2009 renewable standard offer contract  
4 to create this table.

5 Q And similarly you used your standard offer -- your  
6 annual standard offer contract information with respect to  
7 your annual filing in 080194-EQ to create the table that's  
8 reflected on page two of three, correct, with regard to 2008?

9 A We used the 2008 renewable standard offer contract  
10 to create this table.

11 Q So with respect to -- and in interrogatories --  
12 staff's interrogatory number 159, as we have discussed, you  
13 asserted that you executed a sales agreement and the land  
14 lease associated with the Perdido site on September 4th,  
15 2009; is that correct?

16 A Once again, the interrogatory number?

17 Q That is interrogatory number 159 contained in --  
18 MR. GUYTON: It won't help. We just don't have  
19 them arranged that way.

20 BY MS. KLANCKE:

21 Q Oh, well, could you find 159?

22 A I can.

23 Q It's just one page. You'll need 159, 160, 161,  
24 162.

25 MR. SAYLER: Can I ask a question? You're talking

1 renewable standard offer contract and standard offer  
2 contract. I'm assuming they're two different things, is  
3 that right? Okay. I'm --

4 MS. KLANCKE: Yeah.

5 MR. BADDERS: They're two different.

6 THE WITNESS: I have it. Just bear with me. I'm  
7 sorry.

8 BY Ms. KLANCKE:

9 Q No, take your time.

10 A We tried to organize this as best we could so we  
11 could be as efficient as possible, and it's not working out  
12 that way. 159.

13 Q Yes. And you'll see in your response it specifies  
14 that Escambia County executed both agreements with Gulf, gas  
15 sales agreement and lease agreement, on September 4th.

16 A That's correct.

17 Q 2009.

18 A That's correct.

19 Q And on the response to 160, which is on the next  
20 page, it specifies that with regard to the two agreements  
21 with LFG Technologies that both of those agreements were  
22 executed on July 9th of 2009, correct?

23 A Yes, July 9th.

24 Q 2009?

25 A Yes, ma'am.

1           Q       And as we discussed previously, Gulf had updated  
2 its figures with respect to the standard offer contracts with  
3 the Commission in April of 2009 in Docket 090163; is that  
4 correct?

5           A       Repeat the question one more time.

6           Q       As we've previously discussed, Gulf has its annual  
7 filing of April of 2009?

8           A       Yes.

9           Q       In the instant case it was one day before April of  
10 2009, but Gulf updated its figures with respect to the  
11 standard offer contracts in Docket 390163-EQ in April of  
12 2009?

13          A       Is that the docket for the new renewable offer  
14 contract? Yes.

15          Q       Yes, sir. Why staff is having a hard time  
16 understanding, if these contracts were executed in July and  
17 September of 2009, respectively, why they reflect information  
18 from the 2008 standard offer contract as filed with the  
19 Commission and not the 2009 contract as filed with the  
20 Commission.

21          A       When Gulf made the decision to move forward with  
22 the project the 2008 information is what we had available to  
23 us to calculate avoided costs. And as a result, that was how  
24 we submitted our bid. And quite honestly, when we refiled  
25 the 2009, I didn't recalculate my numbers. I used --



1 Q Why not?

2 A At that point I felt that we had committed to the  
3 county that we were going to buy that natural gas, or that  
4 methane gas. And what I had to that point told me it was a  
5 good deal and it just made sense to move forward with the  
6 project.

7 Q Would there have been a detriment to the company  
8 if you had recalculated those figures using the most recent  
9 2009 data?

10 A When you say detriment, would it have hurt our  
11 company?

12 Q You've explained that you just stuck with those  
13 2008 calculations. Why? Why did you not recalculate them to  
14 reflect the most recent information which you had provided to  
15 the Commission?

16 A Because my decision was made to move forward with  
17 the project and my decision -- my offer had been extended to  
18 the county at that point.

19 Q Would the contracts have been significantly  
20 detrimentally impacted if you had recalculated those figures  
21 using the 2009 information?

22 A In terms of if I recalculated and made another  
23 offer? Is that the question?

24 Q Correct.

25 A I would say we couldn't do that.

1 Q Why not?

2 A I would say the county would be required -- if we  
3 were to come back with another bid, the county would have  
4 been required to go back and redo the whole shooting match.

5 Q And is that the basis for your decision not to  
6 recalculate?

7 A No, ma'am. I didn't recalculate because, quite  
8 honestly, we had made our decision and we were going to move  
9 forward with that project. If we're going to make a change  
10 every time -- every time we do a renewable standard offer  
11 contract the big change here that's occurring is fuel prices.  
12 That's the big piece that's going on here is gas prices have  
13 gone much lower.

14 Q Correct.

15 A When we got into this whole shale fracking issue,  
16 you know, before that gas prices were eight, nine dollars.  
17 And I don't know what they are today, but I'm going to guess  
18 they're south of four dollars.

19 And as Gulf is looking for what are the renewable  
20 options available to Gulf, a methane gas landfill, it beats  
21 the pants off anything else that you could do. If you're  
22 going to make a decision, that's the best one to go for.

23 It beats solar by far. It beats wind by far. It  
24 beats biomass by far. It is the best form of renewable  
25 energy available to the state of Florida. And the other

1 options were for somebody else to go out there and stick, you  
2 know, a big straw in there and light it on fire and burn it  
3 off into the atmosphere; a total waste.

4 It's not good for the environment and certainly  
5 it's not good from a -- when you look at it from a macro  
6 standpoint, for the country. I mean, in my opinion, if the  
7 country is going to pursue renewables, they ought to go to  
8 every landfill and they ought to make sure that we're not  
9 doing just what I described: Putting a straw in it and  
10 burning it. Every landfill in the country should be doing  
11 some sort of landfill methane facility to burn this gas and  
12 make electricity.

13 Q Did you consider recalculating given the proximity  
14 of the finalization of these contracts in 2009 with Gulf's  
15 filing, with respect to its renewable standard offer  
16 contracts, did you consider recalculating based on those  
17 additional -- that additional information with regard to the  
18 cost?

19 A I think the first time we considered recalculating  
20 was when the Commission asked us to recalculate at one point  
21 when we were looking at doing this through the fuel clause,  
22 and we had some questions associated with that and we made  
23 those recalculations.

24 Q We would like to -- staff at this time would like  
25 to request a Late Filed Exhibit containing the comparison of

1 the facility projected cost based upon the current 2011  
2 standard offer contract. We'd like, essentially, an updating  
3 of the tables reflected in pages three of four and -- you  
4 know, the tables that we just discussed with respect to the  
5 standard offer contract in the Staff's Sixth Set of  
6 Interrogatories.

7 MR. GUYTON: Can you help us understand why?

8 MS. KLANCKE: Staff just wants a more complete  
9 picture of the impact of the evolving figures with  
10 respect to the standard offer contracts that's current  
11 and up to date. If you'd like a little bit more  
12 clarification, Staff's interrogatory number 79, we would  
13 like -- contained in Staff's Sixth Set of  
14 Interrogatories -- we'd like just up to date, most  
15 current information.

16 MR. GUYTON: Okay.

17 MS. KLANCKE: And that's Late Filed Exhibit 2.

18 MR. GUYTON: We will provide it pursuant to  
19 discovery. We reserve the right to object as to its  
20 relevancy at the hearing.

21 MS. KLANCKE: Certainly. Let me take just a moment  
22 with staff and just make sure that there's nothing else  
23 that we have any questions on. I don't anticipate that  
24 there will be, but let me just make sure.

25 (Whereupon, Late Filed Deposition Exhibit No. 2 was

1 marked for identification.)

2 (Brief recess)

3 MS. KLANCKE: I conferred with staff and with staff  
4 that's listening in on the telephone, and I have to tell  
5 you that this has been very helpful for conceptualizing  
6 your testimony, for clarifying questions that we had,  
7 and I want to thank you very much for taking the time --  
8 hours -- to explain this stuff to us. It has been very  
9 helpful.

10 THE WITNESS: You're welcome.

11 MS. KLANCKE: With that, staff has no further  
12 questions for this witness.

13 MR. SAYLER: I've got questions.

14 MS. KLANCKE: Please. OPC?

15 MR. SAYLER: Well, does anybody else on the phone  
16 have questions?

17 MS. KLANCKE: Hello? Is that someone present on  
18 the telephone -- the question presented is does anyone  
19 on the telephone have any questions for this witness  
20 just to give -- just to give OPC and myself an idea of,  
21 you know, time frame, how to proceed, et cetera.

22 MR. THOMPSON: FEA doesn't have any questions.

23 MS. KLANCKE: Okay, fair enough. Are there any  
24 other parties on the phone that have any questions with  
25 respect to the witness? Excellent. Okay, OPC?

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CROSS EXAMINATION

BY MR. SAYLER:

Q All right, Mr. Grove, my name is Erik Sayler. I'm an attorney with the Office of Public Counsel. We're here on behalf of the citizens of the State of Florida and those customers in your service territory.

I have a number of questions. I'm going to try to avoid repeating several of the questions that the Commission staff asked. Actually most of my questions are kind of off on a different topic.

A Okay.

Q First off, do you remember -- by the way, I'm a little bit soft-spoken or sometimes my wife says I mumble, so if you misunderstand me, just let me know.

UNIDENTIFIED TELEPHONIC SPEAKER: Is Steve Griffin, SRG, at Beggs, Lane? Okay.

MS. KLANCKE: Oh, I'm sorry, perhaps, FEA, you could mute your line. That would be helpful.

UNIDENTIFIED TELEPHONIC SPEAKER: Sorry.

MS. KLANCKE: That's okay.

BY MR. SAYLER:

Q One question: Do you recall earlier when counsel for staff, Ms. Klancke, was asking you about staff interrogatory number 152, but it's also page 48 of your direct testimony? Can you please look at the redirect

1 testimony? It's about the boiler nose arch.

2 A Yes.

3 Q And I believe you testified that this repair is a  
4 one-time repair for this unit, and there may be a similar  
5 repair of the other units, is that right, or do you know?

6 A I don't know, and I don't recall that other repair  
7 has been done to this point. It's possible that they've  
8 already done Unit 2, and now they're doing Unit 1, but I  
9 really don't know the answer.

10 Q But the boiler nose arch is -- should be, knock on  
11 wood, a one-time repair until many years down the road?

12 A Hopefully 34 years.

13 Q Okay, 34 years. Okay. But you also testified --  
14 or I believe you testified that this cost is potentially  
15 representative of future maintenance expenses that you expect  
16 that will be related to Plant Daniel that are Gulf's  
17 obligation, is that right?

18 A There will be other expenses from an outage  
19 perspective each year.

20 Q At a similar level?

21 A Yes. Yes, in fact, I think, in one of my  
22 schedules, Schedule 11, we actually have broken out Plant  
23 Daniel, and you see that in '12 it's six million, in '13 it's  
24 six million, and it drops down to 3.5, but other units are  
25 also changing at the same time.

1           So we're dealing with four units at Crist, three  
2 units at Smith, two units at Scholz, and two units at Daniel.  
3 And every year those things fluctuate, but in total, in  
4 general, it's running between 19 million and \$23 million.

5           Q       For Plant Daniel?

6           A       No, sir, that's for all the units.

7           Q       I was just speaking relating to Plant Daniel. Do  
8 you have any particular studies from Mississippi Power  
9 related to Plant Daniel showing what expected future costs,  
10 maintenance costs, that you expect to have?

11          A       I have the five-year budget for Mississippi.

12          Q       You have Mississippi Power's five-year maintenance  
13 plan budget or budget?

14          A       Yes, sir, for each year that we do the budget  
15 cycle, we include Mississippi Power.

16          Q       Okay.

17          A       And just incidentally we also have an operating  
18 committee with Mississippi where we go to the plant twice a  
19 year and talk about what's going on with the units, what can  
20 we expect, where are we at with budgets. And so we have that  
21 open discussion, and that happens at the highest level of the  
22 company; not the President, the next level down. They meet  
23 together at the plant to talk about all those issues.

24          Q       And is Mississippi Power responsible for all  
25 aspects of the maintenance of that unit?



1           A       They are responsible for all aspects, although we  
2 do have input.

3           Q       So, hypothetically speaking, if they wanted to  
4 gold plate the unit, you couldn't veto that?

5           A       I don't know that that's a true statement. I  
6 would say that when they come over to present their budget to  
7 my boss that he would question everything and have input into  
8 what stays and what does not.

9           Q       Okay. I do have some general questions regarding  
10 the production O&M budgeting process, and hopefully keeping  
11 it at the high level. But first, how long have you been the  
12 rates manager -- excuse me, the Manager of Power Generation  
13 Services at Gulf, in your particular position?

14          A       I'm going to guess. I want to say -- because I'm  
15 old -- maybe 12 years.

16          Q       Twelve years?

17          A       I was there at the turn of the millennium, so --  
18 is that the right term?

19          Q       So you're a millennium.

20          A       Yeah.

21          Q       Now, is this your first rate case with Gulf Power?

22          A       No, sir.

23          Q       How many rate cases have you been through with  
24 Gulf Power?

25          A       Gosh, I want to say this is my fourth, and each

1 one I've had a little more involvement.

2 Q Can you briefly go over your responsibilities  
3 during, say, the last rate case?

4 A Certainly. I was actually the -- I don't know if  
5 the right term is alternate -- for the Senior Production  
6 Officer. And so in the event that he won the lottery -- I  
7 won't say got hit by a bus. But in the event he won the  
8 lottery and left the company, I would have adopted his  
9 testimony.

10 Q And the Senior Production Officer, is that your  
11 boss?

12 A He's the Vice-President of Power Generation, yes,  
13 sir.

14 Q And I believe earlier you mentioned you have a  
15 process where a shift supervisor talks to -- or supervisors  
16 talk to the shift supervisor, he talks to the plant manager,  
17 the plant managers get together and kind of figure out what  
18 projects, and then they come to your table, is that right?  
19 And then it goes from your table up the chain of command for  
20 review and approval of the production O&M budget?

21 A It starts at the very bottom and works through  
22 team leaders, then group leaders, plant managers, and then  
23 ultimately, yes, I would be at the table with the Senior  
24 Production Officer, and he would look to me to ask questions  
25 about is this really needed, or why did this change so much

1 from this year to this year, or why does it cost this much to  
2 do a pulverizer repair at Plant Smith and this much at Plant  
3 Daniel; what's the difference.

4 Q And then when it goes up to the presidency of Gulf  
5 and vice-presidents, that make the ultimate decision to  
6 approve this budget or the production O&M budget, are you in  
7 attendance at that meeting?

8 A I am not.

9 Q You're not. Would it be fair to say that you  
10 supervise the five-year production O&M budget process?

11 A That would be a fair characterization of my job.

12 Q Okay. And if you've been in that position for  
13 about 12 years, that would say that you've been involved in  
14 about five -- or that same process 12 different times, is  
15 that right?

16 A Yes.

17 Q And you may have already covered this question,  
18 but what is your role in the process of developing the  
19 five-year budget?

20 A My role would be I receive the company budget  
21 message and review it. Then I would take that to the plants  
22 and they would have it in their hands and basically it  
23 establishes some guidelines and some assumptions that we want  
24 to make in developing the budget.

25 And as they start to input all this in, it's very

1 common for them to call me specifically and say what does  
2 this apply, you know, do you think we can get this done or  
3 can we not get this done. And generally I try to put the  
4 plant managers together because, at the end of the day, once  
5 again, there's a pot of money, there's not unlimited funds,  
6 and maybe I have to do more work on a bigger unit at Crist  
7 this year, and so the units at Smith might say, well, you  
8 know what, I'm going to do a little less, you take care of  
9 that this year, because that's more critical to the customer  
10 than this.

11 And it's really kind of a -- we manage through it  
12 and we figure out, okay, at the end of the day, how do we  
13 achieve those goals.

14 Q Is the pot of money predetermined before you come  
15 to these meetings?

16 A There's a guideline and certainly if -- and I'm  
17 just going to use numbers. If they said the guideline is a  
18 million dollars, and at the end of the day I said that's just  
19 not going to cut it, then we're going to develop the budget  
20 to be what it needs to be.

21 Q I'm looking at Schedule 7, RWG-1 Schedule 7. Just  
22 for illustrative purposes, in 2006 your actual -- your total  
23 actual budget shows -- is that 79.5 million, approximately?

24 A \$79.5 million, that's correct.

25 Q And was that the budgeted amount or the actual

1 amount?

2 A It was not the budgeted amount. The budgeted  
3 amount in 2006 was \$79.464. They did a good job that year.

4 Q Okay. Now, when you were developing that 2006 --  
5 the budget for 2006, plus the four years after, was that pot  
6 of money already established at right around \$79 million?

7 A I don't recall the guidelines for those years.

8 Q Okay. But the guidelines establish the pot of  
9 money --

10 A It's kind of a starting point. It's not ironclad,  
11 and once again, it's the total company budget, and so it's  
12 not just the plant managers talking, it's also the operations  
13 folks talking to the generation folks and how do we manage  
14 this whole thing as a company.

15 Q And in your testimony on page 24, line 21 through  
16 23 -- excuse me, 19 through 22, you say each year Gulf  
17 Power's generation organization develops a five-year O&M  
18 budget based upon historical results, projected maintenance,  
19 and outage planning. As we develop the budget request we  
20 then focus on planned outages and baseline expenses. I just  
21 have a few questions about those sentences.

22 A Sure.

23 Q Do you focus on anything else besides those  
24 factors shown in your testimony? Are there other  
25 considerations that you have as it relates to developing the

1 five-year budget?

2 A Yes, I would say that the historical results -- I  
3 want to be clear, when we talk about historical results, what  
4 we're talking about.

5 Q Okay.

6 A And that is, we're reviewing information, GADS  
7 information -- Generation Data -- it's a generation -- it's a  
8 system that basically says every time there's a forced  
9 problem at the plant, we record an event that says, hey, you  
10 lost Unit 7 for 24 hours because of a boiler issue.

11 So when I talk about historical data I'm talking  
12 about we look at that kind of information, and we also look  
13 at what other information have the people at the bottom  
14 recorded in work orders, saying, hey, you know, the boiler  
15 feed pump has got a vibration, or, you know, we're having  
16 problems with Unit 2 pulverizers. Now, all these things are  
17 developing into a set of information that you can use,  
18 ultimately.

19 Q Like a data base of potential maintenance things?

20 A That is used as a discussion point, that's right.

21 Q All right. But when developing the budget request  
22 or I guess it would be -- you develop the budget request and  
23 then you push that up to your boss and then that goes up to  
24 the presidency? I just want to make sure I use the right  
25 terminology.

1 A We develop a budget request, that is correct.

2 Q And in doing the budget request are any external  
3 things considered such as the economy, potential directives  
4 from upper management related to let's keep the costs low  
5 this year, or things of that nature?

6 A I'm sure there are. I'm not part of the  
7 development of that message. So I'm not part of that  
8 conversation. I tend to take the information provided to me  
9 and work with it, and, you know, certainly I've talked to my  
10 boss, but ultimately I'm out in the plants working with those  
11 folks.

12 Q Has there been a time when you were given a kind  
13 of a directive saying, hold on, your budget request is a  
14 little bit too high, you need to lower it, or it's not high  
15 enough, you need to raise it, in your 12 years?

16 A No. And let me preface it by saying I don't think  
17 so. What I'm giving is a guideline, and what conversation  
18 happens on the other side of that to say --

19 Q The other side of what?

20 A The other side of developing the guideline.

21 Q Meaning upper management?

22 A Upper management, the financial group, whoever is  
23 making those determinations, I'm not really part of that  
24 discussion.

25 Q Okay. And when it comes to developing that

1 five-year budget -- we'll just use today as a hypothetical  
2 year. Not the rate case.

3 A Sure.

4 Q You would be developing the budget for 2012 which  
5 you'll have actual costs or actual budgeted costs that you  
6 project, planned outages, things of that nature, to take into  
7 consideration, but then you also have 2013, '14, '15 and '16,  
8 another four years after 2012, right?

9 A A five-year budget cycle.

10 Q Now, do you have costs planned or estimated costs  
11 for 2013 through 2016 already kind of pre-pegged in, or do  
12 you just have a list of, well, we're getting these items,  
13 we're fixing this stuff in 2011 -- or '12, and here are all  
14 the things that we need to fix and they need to be fixed  
15 approximately between the 2013 to 2016 date?

16 What I'm asking, if that's kind of how that works,  
17 and, two, if you have actual costs associated with those  
18 various fixes.

19 MR. GUYTON: Object to the form of that question.

20 It would just be an awful lot simpler to ask him have  
21 you developed for '13 through '16. You've given him two  
22 options and I'm not sure that they're necessarily the  
23 universe of options. And I'm not trying to be  
24 difficult; I'm looking for a clean record.

25 BY MR. SAYLER:



1           Q     As restated by your counsel, have you developed,  
2     you know, budgets for 2013 through '16, in addition to the  
3     2012 when you do this process?

4           A     Yes, and let me say this. We're going through  
5     that process today, developing the budget for '12 through  
6     '16, and the thing that -- one of the main things -- labor,  
7     the labor budget is a little more easy to understand. Some  
8     of the maintenance piece -- in baseline the maintenance piece  
9     is a little more difficult to understand.

10                     But certainly one of the critical issues becomes  
11     outages. And it's critical in that you just can't stack them  
12     all up on top of each other and do them all in one year. It  
13     doesn't work that way. And what we try to do is kind of  
14     schedule them such that you don't drop big outages on top of  
15     each other. Certainly there's going to be years where that  
16     happens, and there have been years where that happens, but in  
17     general you develop a schedule.

18                     Now, next budget cycle, 2013, you come to the  
19     realization, you know, we've got a real problem with Unit 7  
20     and we don't have an outage scheduled next year. That's our  
21     biggest unit, our most efficient unit, our most cost  
22     effective unit. We need to pull that one in and we need to  
23     move another unit out a year.

24                     So that happens every single year, and the dates  
25     change. The dates will -- because you're operating as a big

1 system, you can't do outages between May and September  
2 because that's the peak season and that's when the capacity  
3 is most valuable to our customers. So you're really dealing  
4 with these four months in the fall and four months in the  
5 spring to get all this done.

6 Q Earlier I was going to ask you a question about  
7 historical results. And you answered that in a way that was  
8 -- you look at historical results in the sense that it's data  
9 from your units; those are the historical results?

10 A That's correct. It's not money.

11 Q So you don't look at the money you spent in 2010  
12 as the historical results?

13 A I would say only to the extent that you gain  
14 knowledge -- you know, I've got 12 years. These guys out in  
15 the plants have 30 years. And so over 30 years you recognize  
16 that over a cycle you're going to have to spend some money, a  
17 certain amount of money every year on pulverizers. That's  
18 just going to happen. It's the most -- you know, it's big  
19 rolling equipment with coal going in, wind blowing, and  
20 they're just very corrosive. You're going to have to do that  
21 work every year.

22 So you have those kind of historical results,  
23 also, that you're using to make a determination. And there's  
24 other equipment like that that you're going to work on it  
25 every year, you just don't have a choice.

1           Q       So when looking at historical results then that  
2 does not really involve looking at one or more prior  
3 five-year budget cycles and comparing the budgeted amounts  
4 with the actual amounts; is that correct?

5           A       I would say that we do that, but that's not the  
6 formal piece of it, no.

7           Q       How do you do that comparing of budgeted -- past  
8 budgeted amounts with past actuals?

9           A       I tend not to look back as much as I do forward.  
10 You know, only to the extent where I'm trying to understand;  
11 when we track actual dollars, we track it, as you probably  
12 saw on some of the interrogatories, by system. How much  
13 we're going to spend on the air system, how much we spend on  
14 the boiler system, the turbine, the generator, the condenser  
15 systems.

16                   And you do that at the unit level, you can break  
17 that down even further and say how much -- you're really  
18 developing some history, and that's really what I was trying  
19 to get to with historical data.

20           Q       Okay. And on line 22 of your testimony, the same  
21 page, 24, you discuss baseline expenses. What do you mean by  
22 baseline expenses when you're focusing on baseline expenses?

23           A       In my mind the baseline expenses are the bare  
24 minimum. That is, just to open the gates every day these are  
25 the dollars I have to spend. I have to spend labor dollars,

1 I have to spend a certain amount of money on materials, and I  
2 have to spend a certain amount of money on other contracts.

3 For example, the contract we use to move barges  
4 out in the canal or the contract we have to maintain elevator  
5 services or other things. So those are the baseline, and  
6 everything else becomes really either a special project or a  
7 planned outage.

8 Q And are personnel included in the baseline  
9 expenses or are they a different category of expenses?

10 A Yeah, let me be clear for everybody. Whenever we  
11 give you an outage dollar, it does not include labor. All  
12 labor dollars are included in baseline. And we do that  
13 because we just want -- we want to try to figure out how much  
14 of this is just the outage. These are our people and these  
15 are folks we're going to pay overtime.

16 Q It's fair to say baseline includes the people  
17 plus, you know, your day-to-day non-special projects,  
18 non-outage related expenses?

19 A That's exactly what it is.

20 Q In that process where the plant managers get  
21 together along with, you know, their -- I can't remember the  
22 term -- their cohorts, but also the people below, but when  
23 they get together and they're saying, well, we need to do  
24 this maintenance and that maintenance, and we're projected to  
25 do it here, there, and everywhere, you know, it's probably a

1 very cohesive -- or, excuse me, it's probably a very fluid  
2 process, is that right?

3 A I would say that's a true statement. I imagine  
4 it's a lot of fun in that room.

5 Q A lot of horse trading: Well, hold on, you got  
6 your plant fixed last year.

7 A I wouldn't call it horse trading, but I'm sure  
8 there are some healthy discussions on priorities.

9 Q Okay. And when you're talking about priorities  
10 would it be fair to say that everyone comes to the table with  
11 these are what we have to do this next year, this is  
12 something we'd like to do next year, and here's something,  
13 well, if there's money in the budget we do it next year, but  
14 in reality it will be a couple years down the road; is that  
15 kind of how that process works?

16 A I would imagine you have your priority items,  
17 these are the number one items you have to get done, period,  
18 and those are the ones you debate.

19 Q And when you're doing that debate for the  
20 hypothetical 2012, which you said you're in the process of  
21 doing now, do you also debate for 2013, '14, '15, '16, as  
22 well, or does all the real debate focus on the next year?

23 A I would say it's for all the years.

24 Q For all five years?

25 A Yeah, I would say obviously the big focus is next

1 year, but you're also focused on '13, '14 and '15 and '16. I  
2 mean, you have to -- you cannot not do that. As I said, you  
3 have to do that because otherwise you end up in a situation  
4 like I discussed before, where suddenly I haven't paid  
5 attention and I line up two huge outages, I line up Unit 1  
6 outage at Daniel on top of a Unit 6 or 7 outage at Crist.  
7 That just doesn't work.

8 Q And each year that this five-year budget process  
9 kind of takes place, you and your team continue to refine  
10 that particular five-year budget cycle, so this time next  
11 year you'll be refining the 2013 through 2017 cycle, is that  
12 right?

13 A That's a true statement.

14 Q So it's an ongoing process, you want to get better  
15 and better, is that right?

16 A We do.

17 Q Based on your experience, how close is the  
18 projected budget to the actual budget? I noted that you had  
19 mentioned an actual budgeted amount for 2006.

20 Do you have the numbers for '07, '08, '09 and '10,  
21 as far as what was projected? It may have been provided  
22 elsewhere, but I don't --

23 A I think they were, but I'll be happy to give them  
24 to you. For seven the budget was 84.5 and the actual was  
25 82.4. And for eight the budget was 89.4 and the actual was

1 88.4.

2 Q Okay.

3 A More?

4 Q And 2010?

5 A 2010 -- 2009?

6 Q Hold on, 2008 was 89.4, is that right?

7 A Correct.

8 Q And the actual was 88.4?

9 A Correct.

10 Q '09 was --

11 A 93.4, and the actual was 84.2.

12 Q And '10?

13 A 94.6 and the actuals were 92.9.

14 Q Now, do you have access to -- here at this depo,  
15 if you don't have it -- but do you have access to, you know,  
16 the 2007 five-year budget where you would say here's the 84.5  
17 but here's what we projected for '08, '09, '10, '11 and '12?  
18 Do you happen to have that?

19 A I don't have it with me but --

20 Q But Gulf retains that information?

21 A We do retain that information. In fact, I think  
22 there is an OPC question that focused on nine -- and I  
23 apologize, it may have been a staff question. But they asked  
24 us for the six cycle and the seven cycle for nine and the  
25 eight cycle for nine, and the nine cycle for nine.

1           Q       I do recall that, but if I remember right it was  
2 subject to an objection. I don't know if we got the actual  
3 numbers.

4           MR. GUYTON: You got them.

5           MR. SAYLER: Okay, I'll look for that.

6           MR. MA: You know, it was a staff interrogatory.

7           MR. SAYLER: It was a staff interrogatory? Okay.  
8 Off line I'll get the numbers.

9           THE WITNESS: In fact, I think there's another  
10 interrogatory where we actually provided the cycles for  
11 six, seven, eight, nine, for all years, but I may be  
12 mistaken. I provided a lot of discovery.

13 BY MR. SAYLER:

14          Q       I reviewed all the discovery that had your name on  
15 it last night and I didn't see that come across my plate, so  
16 maybe it was assigned to another witness.

17          A       I understand.

18          MR. GUYTON: If you did it all last night, you had  
19 plenty.

20          MR. BADDERS: It may have been one of their  
21 electronic files attached to a POD.

22          MR. SAYLER: Attached to a POD. Okay.

23          MR. BADDERS: It very well could be a POD, and  
24 there are thousands of electronic documents.

25 BY MR. SAYLER:



1 Q Now, when you're doing these five-year budgets do  
2 you build in any contingency costs for unexpected outages or  
3 things of that nature?

4 A No, we don't build -- we had a long discussion  
5 about this for all of generation within Southern, and we  
6 don't budget for unplanned outages, so we don't budget for  
7 unplanned events. So if you have a problem with a boiler in  
8 July, the first thing you're going to do is you're going to  
9 fix it. The second thing you're going to do is figure out  
10 how you're going to pay for it.

11 Q Okay.

12 A But without a doubt I can promise you that every  
13 decision we make is meant to get the unit back on line first,  
14 never a hesitation.

15 Q And once the five-year budget request has been  
16 developed and it goes up the chain and is approved, then you  
17 turn the corner from developing the budget and now you're --  
18 would the term be implementing or executing that budget?

19 A Yes, I think that's a good characterization.

20 Q So who does the implementation? Do you do that or  
21 do your plant managers do that and then they push it down  
22 themselves and everyone implements their individual piece? I  
23 mean, what is your role in the implementation of the budget?  
24 Sorry for the compound question. I objected to myself.

25 MR. GUYTON: We're going to waive the objection and

1 let him answer.

2 THE WITNESS: It's really -- you know, I see  
3 everything. It all comes through me and the plants get  
4 their approved budget, and then I rely on the plant  
5 managers -- these are senior level folks. I mean,  
6 literally one below a vice-president, that run the power  
7 plants.

8 There's 200-plus people at Crist and 123 people at  
9 Smith, and we don't have a plant manager at Scholz. I  
10 rely on them and then every month I provide them with a  
11 series of reports. I kind of look at where are you at  
12 with ECRC, where are you at with O&M, where are you at  
13 with capital, what's going on with your SES budget, all  
14 that, and my expectations is any variances I'm going to  
15 get them to help me understand what's going on.

16 I'm also going to help understand, okay, I've got  
17 you, we're halfway through the year, and you're running  
18 three million dollars over budget. Have you got a plan  
19 to get back on budget by the end of the year or is this  
20 something I need to communicate to senior management.  
21 And they need to tell me, yeah, I'm going to get there.  
22 So they have to give us a projection for year end, also.

23 And they understand, when they finally give me a  
24 projection of I'm going to be over budget, that that's  
25 going to go to another level and there's going to be a

1           much higher discussion or a much more heated discussion  
2           about how we're going to make this work.

3       BY MR. SAYLER:

4           Q       Okay.  In the Gulf Power hierarchy you have the  
5       plant managers, which you said are one level below the senior  
6       vice-president?

7           A       Correct.

8           Q       And you as the manager of production, are you one  
9       step above them or --

10          A       We are peers.

11          Q       You're peers.  You're kind of on the same level,  
12       you just get to be the spider in the center of the web and --

13          A       I'm the guy they like the most.

14          Q       That they like the most?

15          A       Yes, because if they need to do something, they  
16       need to find money, I'm the guy they're going to come to.

17          Q       Okay.  Would you characterize -- I know you  
18       characterized the budgeting request process as being  
19       rigorous, but would you characterize the oversight of the  
20       actual budget implementation as being very rigorous?

21          A       I would say it's very rigorous, because at the end  
22       of the day we're trying to run a business.  We're trying to  
23       run power plants, but it's also a business, and so I want to  
24       understand what's going on.

25                   And once again, the worst thing that could happen

1 is for my boss to get a surprise that he's got to explain to  
2 the President: Hey, by the way, you know, you're going to be  
3 \$5 million over budget at year end.

4           You know, I want to make sure he is fully informed  
5 and understands, and if we have questions -- if I have any  
6 questions or get any push back, he steps in and we get it  
7 resolved. So it's a -- we are peers, but I would say that  
8 we're a team. The plant managers, myself, and the  
9 Vice-President are a team and work together to resolve those  
10 kinds of issues.

11           Q       And the plant managers are empowered to basically  
12 execute the budget for their plant the best way they see fit,  
13 is that right?

14           A       They're empowered to operate the plant, and if  
15 they need to make an adjustment in their budget -- and when I  
16 say the budget, what they're actually spending. Say, for  
17 example, when they sent me their plan it was they were going  
18 to do X number of dollars of pulverizer work and halfway  
19 through the year they realize they have a serious problem  
20 with the condenser.

21                   The pulverizer, you know, aren't as critical and  
22 so I'm going to address my condenser work. You know, they  
23 have to make those decisions. And I would say if they didn't  
24 do that I would say they were not meeting my expectations,  
25 because at the end of the day I want the plant to run the

1 most efficiently.

2 Q Do they need approval for making that decision or  
3 they just explain it after they've made the decision?

4 A I don't know if you'd call it approval, but they  
5 would inform us.

6 Q Now, is there a flexibility for plant managers to  
7 conserve on budgeted amounts? Say they're allocated 10  
8 million for their plant and they decide, well, maybe I don't  
9 need to spend a quarter of a million. Do they have that  
10 flexibility?

11 A Yes, I would say that just because you have a  
12 budget of 90 million doesn't mean you should spend all the 90  
13 million. What you should do is make sure you do the things  
14 you need to do to keep the plant running efficiently and  
15 reliably.

16 Q Do they need any approval not to spend that money?

17 A It doesn't happen that often, so I'm not really  
18 sure. I would say that if something were going on at Plant  
19 Chris, the plant manager there would come to the senior  
20 production officer and call the plant manager at Smith and  
21 say, hey, you know, I don't think I'm going to do my  
22 pulverizer work this year, they look pretty good. Have you  
23 got any urgent needs at Smith?

24 And they would talk about, okay, what can we do to  
25 reallocate these funds. And if that's not the case and it

1 gets to the senior production officer, he might call the  
2 operations manager and say, hey, I don't know what you've got  
3 going on, but we're getting things done and we're going to  
4 come in a little under budget. Do you have any issues you  
5 need to address on the operations side of the business? They  
6 really do work together.

7 Q So the plant managers work together and say I have  
8 a little extra money, do you need any work done, and vice  
9 versa, your unit talks to the other units in the company?

10 A Yes, but I would generally say that conversation  
11 happens just the opposite. The actual conversation is: I've  
12 got a real need, have you got any extra money.

13 Q So generation's usually asking for extra money?

14 A Things break. There's a lot of unexpected things  
15 that just happen and you're constantly -- and our plant  
16 managers do an incredible job of managing through all that.

17 Q So you would agree that one of the main goals of a  
18 plant manager is to manage the expenditures in such a way not  
19 to exceed their budget, their plant's budget?

20 A I would say first their job is to manage the plant  
21 to ensure it runs efficiently and reliably and secondly to do  
22 that in a manner that meets other goals.

23 Q Okay. Now, is there a goal for them to come in  
24 under budget?

25 A No. And if there is, I don't know about it.

1 Q This is a silly question, but if the plant doesn't  
2 spend all their allocated budget for the year they don't get  
3 to keep that money for the next year, is that right?

4 A Absolutely not.

5 MS. KLANCKE: Hello, FEA, I believe you're off of  
6 mute again.

7 (Off the record)

8 BY MR. SAYLER:

9 Q So for plant managers, when managing the budget,  
10 cutting costs is not really a priority, is that right?

11 A I don't know if I would say that. I would say  
12 that doing things as efficiently as possible is the priority  
13 and not wasting money. We don't want to buy \$90 toilet  
14 seats. We want to do things the right way.

15 Q And you mentioned earlier that you're responsible  
16 for -- well, let me ask you this. As the Manager of Power  
17 Generation are you responsible for managing the entire  
18 production O&M budget or just monitoring it and making sure  
19 that it's on task?

20 A First let me clarify --

21 Q Because there's a difference between managing and  
22 monitoring.

23 A My title is services, Manager of Power Generation  
24 Services, so really I am a service to them. And that's kind  
25 of how I look at it. I would say my job is both. I'm

1 involved and generally anything that's going on is going to  
2 come through me, but at the end of the day it's the plant  
3 managers, myself, and the senior production officer who are  
4 going to discuss everything.

5 Q With regard to keeping things on or at the budget,  
6 the budgeted level, I mean, as management are bonuses or  
7 compensation at risk if you don't achieve those goals?

8 A I guess that's part of it, but I can assure you  
9 that when I make my decisions it's not -- I'm aware of those  
10 goals, but at the end of the day my real responsibility to  
11 the customer is to keep the units running efficiently and  
12 reliably. That's my primary goal.

13 Q I can skip some questions based on prior answers.  
14 When you are -- when you or the power generation services is  
15 informed of a pending or impending rate case what do you and  
16 the power generation services do to prepare for that rate  
17 case?

18 A Once again let's go back to the power generation  
19 services group is eight people.

20 Q Okay.

21 A And I'll just give you a flavor for who they are.  
22 I have the Performance Engineer, who has pretty much no  
23 involvement in the rate cases. I have the Planning Engineer,  
24 who is sitting behind me. He's my right-hand person. I have  
25 an accountant. I have one. And I have a Renewable Energies



1 Manager, and her involvement really isn't directly, it's more  
2 of a support. I have a Maintenance Manager who is in the  
3 corporate office, and I have two training people.

4 So the reality is the rate case really falls to me  
5 and I pull them in, but in general I'm providing direction to  
6 them. And in terms of the plants, they have very little  
7 input except to the extent we're helping develop information  
8 and answer questions.

9 Q How much lead time is involved in planning for a  
10 rate case? A month, six months, a year or two?

11 A I couldn't answer that. I would guess a lot of  
12 time.

13 Q I mean, from your perspective.

14 A I've been working on it since before we filed the  
15 test -- you know, the test letter, we've been talking about  
16 it, but certainly since then. I was responsible for, you  
17 know, my testimony and answering I don't know how many  
18 interrogatories and PODs I answered. All of those came  
19 through me, whether they're for me or the other generation  
20 witnesses, I coordinated all that information.

21 Q When did you first start working on that, getting  
22 ready for the rate case?

23 A Sometimes in 2010 -- no, that's not right. What  
24 year are we in today?

25 Q '11.

1 A I'm sorry, it's been a long day.

2 MR. GUYTON: It's been a blur.

3 THE WITNESS: Certainly we've had, you know,  
4 discussions about -- I mean, you have that kind of  
5 thought process every year, I would think. And once  
6 again, as you develop your budget, you know, you're  
7 looking at things and keeping track of what's going on.  
8 But I would say in earnest since March I've been kind of  
9 looking at things, but no firm decision.

10 BY MR. SAYLER:

11 Q March of --

12 A Of '11. But no firm decision had been made, we're  
13 simply what kind of issues would we be dealing with, what's  
14 the thought process.

15 Q Now, when there's a rate case pending do any of  
16 the O&M budgetary planning processes change? Are there any  
17 loosening or tightening?

18 A No. I mean, the direction you give them is we  
19 need you to develop your budget to maintain the fleet between  
20 now and later, and you need to budget it appropriately.

21 Q So when it comes to budgeting for the next year  
22 there's no consideration given to the fact that there's a  
23 pending rate case, or are the people making their budgets  
24 aware that a rate case is pending, or on the horizon?

25 MR. GUYTON: I'm sorry, I'm going to object to the

1 form of the question because it's compounded -- it's  
2 compound. I'm confounded. No, I'm sorry.

3 MS. KLANCKE: Perhaps you can rephrase.

4 BY MR. SAYLER:

5 Q When did you first learn of or hear that Gulf was  
6 planning to file a rate case?

7 A I can't recall. I mean, there was discussions  
8 about this since the first of the year.

9 Q Okay, so --

10 A And at that point the 2011 and '12 budgets had  
11 already been developed and submitted.

12 Q I'm sorry, repeat that. You learned about it the  
13 first of the year and the --

14 A 2011 budget cycle had already been -- we start  
15 that process in May of '10, and around October, November,  
16 now, you're starting to get the first inputs of the -- today  
17 -- 2012 budgets.

18 Q Okay. But also in preparing for this rate case a  
19 projected 2012 budget was also prepared; is that correct?

20 A That's right, in '11.

21 Q In '11.

22 A It was actually in '10 for '11.

23 Q Okay. Was there any kind of projected test year  
24 budget developed the year prior?

25 A I don't understand.

1 Q Okay. But it is your testimony that you first  
2 became aware of the impending rate case in 2011?

3 A Yeah. Now, there were discussions prior to that.

4 Q How far prior to that, 2010, '09?

5 A I would say at the end of year last year we had  
6 some discussions about it. But once again, the budget  
7 process -- and even then I had no idea; are they talking  
8 about 2011, are they talking about 2012? I have no idea.

9 Q When you first heard about it?

10 A Right.

11 Q When preparing the 2012 projected budget for the  
12 rate case did all the same people go through the same process  
13 that they are currently going through for the 2012 budget  
14 that Gulf is going to be using, their actual budget that's  
15 what they have to use for next year?

16 A Yes.

17 MR. GUYTON: Object to the form of the question.  
18 I think it assumes a fact that hasn't been established.  
19 I don't think it's been established that there was a  
20 budget established for the rate case independent of the  
21 budget cycle, which seems to be the premise of your  
22 question.

23 MR. SAYLER: Mr. Grove just testified that when  
24 they went through the 2011 budget process that was done  
25 sometime this time last year, and then when they were

1 preparing for the filing of the rate case they had to  
2 develop a test year budget. And my question was, in  
3 developing the 2012 test year budget did they go through  
4 the same rigorous budgeting process to develop the 2012  
5 test year budget that they do for their actual budgets  
6 that they do every year.

7 MR. GUYTON: And that's the factual premise that I  
8 don't think has been established. I mean, the fact is  
9 that there's not a separate test year budget. There was  
10 a 2011 budget that developed a four-year forecast and  
11 the 2012 forecast of that 2011 budget cycle is what was  
12 used for the test year. It's not a separate budget for  
13 the rate case.

14 MR. SAYLER: So the 2011 budget is identical to the  
15 2012 budget? I'm just trying to --

16 MR. GUYTON: No, it's -- I'm sorry, we might want  
17 to go off the record. I don't want to be testifying  
18 here. I'm just -- I'm trying to make sure that we have  
19 an accurate characterization for the record.

20 MR. BADDERS: Do you want to go off the record?

21 MR. SAYLER: Sure, let's go off the record.

22 (Off the record)

23 THE WITNESS: We used the same process to develop  
24 the '11 through '15 and the '12 through '16 budget  
25 process that we've used every year. It's the same

1 process. The budget message, we talk to the plants, we  
2 go through the process of developing the budget, and we  
3 submit the budget.

4 BY MR. SAYLER:

5 Q Okay. I have a series of questions for you which  
6 I believe the answer will probably be no, but I want to ask  
7 them for the record.

8 So when a rate case is coming necessary O&M  
9 expenses aren't moved up in the queue; is that correct?

10 A No, sir, they are not.

11 Q Future wants are not now added to the list of  
12 necessary budgeted items?

13 A They are not.

14 MR. SAYLER: That ends that line of questioning,  
15 thank you. I'm learning myself. That's what discovery  
16 is about.

17 MR. GUYTON: I'm trying to be helpful.

18 MR. SAYLER: No, I appreciate it.

19 MR. GUYTON: I'm not trying to disrupt.

20 BY MR. SAYLER:

21 Q Would you, if you still -- if you'll return to  
22 Schedule 7 of your direct testimony, RWG -- Schedule 7,  
23 direct.

24 A Yes.

25 Q I have written down the wrong schedule number.

1 Pardon me. No, there it is. For budget 2012 the total  
2 actual-slash-budget is \$110 million; is that correct?

3 A \$110,888,000.

4 Q 888. And would you agree that the projected  
5 amount for 2012 is almost 20 million more than what Gulf  
6 actually expended in 2010?

7 A It's approximately 18 million more.

8 Q If you will look at the outage costs for budget  
9 2012, those costs are roughly 23.1 million; is that correct?

10 A That is correct.

11 Q And if you look at the outage cost actually  
12 occurred in 2010, you have about 10.8 million; is that  
13 correct?

14 A That is correct.

15 Q And doing simple lawyer math that's more than  
16 twice what was two years ago; is that correct?

17 A Yes.

18 Q And on page 27 of your testimony you testified  
19 that going forward that these projected increases are  
20 representative of Gulf's going forward O&M expenses; is that  
21 correct?

22 A That is correct.

23 Q And it's your opinion that the going forward  
24 projected expenses are reasonable; is that correct?

25 A Yes, it is.

1 Q And besides the factors that are addressed well in  
2 your testimony, both direct and rebuttal, did Gulf commission  
3 any internal or external studies that showed that the  
4 production O&M expenses are truly representative of going  
5 forward O&M amounts?

6 A No, sir, we did not.

7 Q Has Gulf ever entertained doing such an internal  
8 or external evaluation?

9 A Internal, yes. Not external.

10 Q All right, if you'll turn to page 30 of your  
11 direct testimony, line 24, you testify that Plant Crist  
12 replaced the lower economizer on Unit 6. What is a lower  
13 economizer?

14 A It's part of the boiler.

15 Q And I believe if you turn to the next page you  
16 talk about how the cost from when it was replaced the first  
17 time is now nearly double when you replaced it in 2010; is  
18 that correct?

19 A That's correct.

20 Q What's the normal expected life of a lower  
21 economizer?

22 A I think it would be different for every unit. I  
23 can't really tell you the expected life, though.

24 Q And is it common for these to only last five  
25 years?



1 A I really couldn't answer that question.

2 Q Do you have with you a copy of OPC interrogatory  
3 225?

4 A I'm sure I do.

5 MR. GUYTON: General subject matter?

6 MR. SAYLER: Plant Smith Unit 3.

7 MR. GUYTON: Thank you.

8 BY MR. SAYLER:

9 Q While you're turning there, we established earlier  
10 that Plant Crist -- excuse me, Smith Unit 3 -- hold on. How  
11 old is Plant Smith Unit 3?

12 A About nine-and-a-half years.

13 Q Okay, I'm getting my Smiths and Crists mixed up.  
14 And Smith is a combined cycle?

15 A It is.

16 Q And other than the Perdido landfill it is the  
17 newest addition to Gulf's fleet, right?

18 A The newest addition of owned bricks and mortar,  
19 yes.

20 Q I'm not talking about purchased power.

21 A Okay.

22 Q If you will look at OPC interrogatory page two of  
23 two.

24 MR. GUYTON: 225?

25 BY MR. SAYLER:

1 Q Yes, OPC 225, page two of two. This is a response  
2 related to: Please provide a supply comparison of  
3 maintenance costs for Smith Unit 3 for the years 2002 through  
4 2010 and 2011 to date on all the projected test year.  
5 Earlier there were discussions of staff interrogatory number  
6 144-C related to the HRSG, H-R-S-G.

7 A Yes.

8 Q And if I recall in that discussion, in 2008 and  
9 2009 the HRSG maintenance costs were roughly \$420,000, is  
10 that right?

11 MS. KLANCKE: Those were 2006 -2007 -- no, or  
12 2008-2009.

13 THE WITNESS: You'd have to point me back to it  
14 again.

15 BY MR. SAYLER:

16 Q I don't have a copy of that interrogatory. I'm  
17 sorry. While we're looking, would HRSG maintenance fall  
18 under the category of maintenance of equipment?

19 A Now I've lost my place. Let's say it would fall  
20 under -- and once again, I'm not an expert, but I would think  
21 it would fall under 553.

22 Q 553, maintenance of equipment?

23 A That -- the HRSG and other equipment.

24 Q Lots of other things?

25 A Lots of other things.

1 Q Thanks. When you look under maintenance of  
2 equipment, that category, for those years, for 2008 and 2009  
3 when the HRSG was -- the cost of the HRSG was \$420,000 you  
4 show roughly 2.9 and \$2.4 million in maintenance of  
5 equipment.

6 MR. GUYTON: I'm sorry, you just gave us two values  
7 for one year. I'm just having a hard time following.

8 BY MR. SAYLER:

9 Q All right, I'll back up. Would you agree that for  
10 actual 2008 maintenance of equipment expenses it shows  
11 approximately \$2.9 million on OPC interrogatory number 225?

12 A Yes.

13 Q And of that roughly \$420,000 was related to the  
14 maintenance of the HRSG?

15 A I don't have that. Oh, okay.

16 Q And for actual 2009 for Plant Smith or Unit Smith  
17 3, maintenance of equipment was 2.4 million with the same  
18 420,000 for the HRSG, correct?

19 A My schedule says 2.2.

20 Q Sorry, 2.2, actual -- yes, you're correct, 2.2.  
21 And for actual 2010 you show \$6.8 million in maintenance of  
22 equipment, yet maintenance of the HRSG was only two million,  
23 leaving by simple math about \$4.8 million of maintenance of  
24 equipment?

25 A That's right.

1 Q And that is a large number. And then you have  
2 sort of a similar corresponding number through in 2011 and  
3 I'm just wondering what are those main cost drivers, other  
4 than the HRSG, for maintenance of the equipment?

5 MR. GUYTON: In which year?

6 BY MR. SAYLER:

7 Q For 2010-2011.

8 A I may have something that can help us.

9 Q Okay.

10 A In 2009 or '10 -- which year are we focused on?

11 Q 2010 and '11. What's the main maintenance of  
12 equipment expense driver, other than the HRSG?

13 A Well, there's a list this long. There is work on  
14 the fuel system, about \$450,000, which is not dissimilar to  
15 other years. The fuel supply system is up that year by about  
16 500 over the prior year. The generator system is up about  
17 \$200,000 from the prior year. The turbine system is up from  
18 \$1.1 million from the prior year. The general water system  
19 is up 400,000 from the prior year. Of course the HRSG is up  
20 a significant amount.

21 Q Now, was 2010 a planned outage --

22 MR. GUYTON: I'm not sure he was through with his  
23 answer.

24 MR. SAYLER: Oh, sorry.

25 THE WITNESS: I'm through with my answer.

1 MR. GUYTON: I apologize.

2 BY MR. SAYLER:

3 Q Was 2010 a planned outage year for Unit 3?

4 A Let me check. 2010, for Smith Unit 3, we had a  
5 planned outage expenses of 4.3 million.

6 Q And for 2011 was there a planned outage, as well,  
7 or is there a planned outage?

8 A For 2011? I apologize, guys, looking back and  
9 forth between these books. 2011 there is a \$1,037,000 outage  
10 planned. My recollection is that 2010 was our first major  
11 outage on Smith Unit 3.

12 Q Okay. And in your testimony, on page 32, line  
13 four through six, you indicate that the average projected  
14 cost associated with the Smith 3 for the period 2011 through  
15 2015 of 7.3 million is 1.7 million higher than the average  
16 cost of the preceding five-year historical period, 5.6  
17 million. And that \$1.7 million difference, how much of that  
18 is driven by the HRSG and the increased maintenance on that?

19 A I'm sorry, tell me the years one more time.

20 Q For the going forward years 2011 through 2015 your  
21 testimony is that the average is \$1.7 million higher than the  
22 preceding five-year historical period. Of that \$1.7 million  
23 higher cost how much of that is associated with the  
24 maintenance to the HRSG?

25 A The heat recovery steam generator for '11 through

1 '15, I'm going to guess -- without -- I mean, just simple  
2 math in my head, \$2.1 million annually. And that's a range  
3 from about 1.5 to 2.8.

4 Q Do you know whether Gulf has experienced unusual  
5 difficulties with that HRSG in that unit?

6 A I do not.

7 Q Do you know if the maintenance associated with the  
8 HRSG was anticipated to be so much so soon for the life of  
9 the plant?

10 A I do not. I might add, this was our first  
11 experience with the combined cycle unit. It's the only one  
12 that we have on our system, and so when we budgeted the first  
13 year we budgeted what we knew, and now we've had ten years to  
14 learn about what it's going to cost us to keep things going.

15 I would tell you that Smith Unit 3 is one of the  
16 cheapest units in terms of production costs of all the units  
17 on the system -- Southern System, not just Gulf -- on the  
18 Southern System. So as a result, this unit runs -- if it is  
19 available, it is running, and it's producing low cost energy  
20 for our customers.

21 Q Turn to page 51 of your direct. And I do  
22 apologize, I'm going to ask you one last HRSG question. Do  
23 you know what the expected life of the HRSG should be?

24 A You know, I think -- I think -- the answer to your  
25 question is no, I don't.

1 Q That's fine.

2 A Just education, the HRSG is different than a  
3 boiler at another steam plant in that it's -- it's big  
4 sections. It's almost like Legos where there are sections  
5 that drop in and are interconnected. So it's a little  
6 different than a boiler at a plant like Crist, which we have  
7 a lot of experience with and we know -- although I told you I  
8 didn't know -- I don't know -- how long an economizer is  
9 going to last or a heater or reheater or superheater or  
10 primary superheater, we kind of have experience with that.  
11 This is our first venture into a combined cycle world, so I  
12 can't tell you how long one is going to last.

13 Q Now, for Gulf's sister, Southern Company, do they  
14 have experience with combined cycle similar to Crist 3?

15 A They have combined cycle units, but all those  
16 units were constructed around the same time and there may  
17 have been one or two other units that were constructed just  
18 prior to Smith 3, and a bunch afterwards.

19 Q Are they the same model and manufacturer?

20 A Some of them are the same and some of them are not  
21 the same. I will say this about Smith. It is the -- and  
22 maybe I'm wrong, but I'm pretty sure it is the only single  
23 unit site that Southern has for its combined cycle units.

24 So generally, over at Plant Barry in Alabama they  
25 have two. Over at Plant Daniel they have two. Up at Plant

1 Harris they have two. So you can't really make a simple  
2 comparison between Smith 3 and one of those units because the  
3 infrastructure is different, the number of folks is  
4 different.

5 Q I was just wondering if there was any shared  
6 knowledge about experience with HRSG or if they had similar  
7 maintenance issues at plants that are what you would call  
8 sister -- would have sister HRSGs, if there's any experience  
9 with similar maintenance issues.

10 A I would think there is but I don't -- if there is,  
11 I'm not a party to that discussion. That's more of a  
12 technical discussion.

13 Q All right, on page 51 of your testimony you  
14 discuss something called synthetic gypsum that is being  
15 required to be disposed of in a beneficial use and in  
16 agreement between Gulf and the DEP, or FDEP. Is synthetic  
17 gypsum similar to -- what's it called -- ash, or is it  
18 something different from ash?

19 A It's this stuff right here, it's wallboard.  
20 Synthetic gypsum is wallboard.

21 Q In response to citizens interrogatory number 148  
22 you talk about ash disposal and sales, and I was just  
23 wondering if that is something different from --

24 A It is absolutely different.

25 Q Okay. And you indicate in your testimony that



1 you're required to, I believe, sell it or try to find a  
2 beneficial use for it?

3 A Yes, that's true.

4 Q Now, the costs of selling and marketing it exceed  
5 the costs that you're actually able to receive from those  
6 sales, is that right?

7 A I really can't answer that question.

8 Q Okay. I mean, you do testify that on lines 21  
9 through 25 regarding the need to -- additional personnel are  
10 needed to perform the limestone, gypsum management functions  
11 and the labor, overhead and expenses of these new employees  
12 are included in the O&M budget and these expenses will be  
13 264,000 over the benchmark.

14 So there appears to be some cost for the sales and  
15 marketing of it. The line before that, which I should have  
16 read, is Fuel Services. Is that a Gulf company? Who is Fuel  
17 Services?

18 A Fuel Service is Southern Services. It's a portion  
19 of Southern Company Services.

20 Q So they manage the marketing and sales of Gulf's  
21 synthetic gypsum to end users; wall board, cement and  
22 agricultural. But in Fuel Services selling this gypsum for  
23 Gulf, it appears that Gulf is not making any money off of it  
24 and that it's a quarter of a million dollars or more cost to  
25 Gulf.

1           A       Yeah, I think what you asked me first was is that  
2 money all for marketing and sales, and I don't know that. I  
3 don't know how much of that money is for the marketing piece.  
4 If you don't sell it, if you don't get rid of it, the  
5 alternate is --

6           Q       You dispose of it?

7           A       -- the landfill cost, and I'm not an expert but I  
8 think that would be far more expensive than if you could get  
9 someone to haul it away.

10          Q       On page 57 of your testimony, lines four through  
11 six, you testify where possible components -- this is  
12 regarding Smith Unit 3 -- where possible components are being  
13 replaced with stainless steel to increase longevity while  
14 helping to control future costs. Do you see that?

15          A       I do.

16          Q       When Crist Unit 3 was being built why weren't  
17 stainless steel components used to begin with?

18          A       I can't answer that. All I could say is that we  
19 would have built the unit using manufacturing specifications  
20 -- suggested manufacturing specifications. It's the first  
21 unit we've ever built; we're ten years down the road. We've  
22 learned a lot in those ten years about what it takes to  
23 maintain and keep the unit available.

24                   Once again, the availability is the critical  
25 thing. Because at the end of the day, when it's not

1 available, it costs our customers.

2 Q Were you involved with the planning and the  
3 building of Unit 3?

4 A No.

5 Q Do you know if any -- your testimony says that  
6 replacing it will help control future costs. Has there been  
7 a cost study associated with replacing the stainless steel --  
8 or replacing them with stainless steel to show future cost  
9 savings?

10 A I do not know that.

11 Q We're hitting the home stretch. If you'll turn to  
12 your rebuttal, please, page 10, line 12 -- actually, that  
13 paragraph starting line 11 through 22. Generally you agree  
14 it's a discussion about the difference between costs from  
15 2006 to the 2010 period and the future projected costs for  
16 2011 and 2015, is that right? Actually let me strike that  
17 question. Let me just go back here.

18 Line 11 you say as shown on Schedule 2 the average  
19 outage dollars between 2006 and 2010 was \$3.9 million.  
20 During this period Gulf was intentionally holding down  
21 expenses to delay the need to ask for rate relief. Do you  
22 see that?

23 A I do.

24 Q And was avoiding a rate case Gulf's main reason  
25 for trying to keep outage costs lower for that period?

1           A       I don't know that I can say it was the only reason  
2 we held down costs but certainly that was -- we were aware of  
3 what was going on financially, and had we continued down the  
4 same path we would have been asking for this rate relief  
5 sooner.

6           Q       And in 2006 and 2007 at the beginning of this  
7 period when the economy anecdotally was growing, there was no  
8 great recession looming on the horizon, my question is, was  
9 Gulf trying to forestall a rate case in those years when the  
10 outage maintenance expense was a little bit lower?

11          A       I think we were holding down costs, but I don't  
12 know if that was the only reason.

13          Q       Okay.

14          A       And if I can be clear, on schedule -- my Schedule  
15 2 --

16          Q       Of your direct or rebuttal?

17          A       -- of my rebuttal, this is for the entire plant,  
18 not just -- when they talk about Smith here, it's for the  
19 entire plant, not just Smith 3.

20          Q       Well, my question earlier was just about outage  
21 dollars related to all of Gulf's units, not just Smith. I  
22 was just wondering was Gulf trying to forestall a rate case  
23 back in 2006 and 2007 when the economy was going great.

24          A       Okay.

25          Q       And the answer you said was --

1           A       I don't know that that was the only reason.

2           Q       These are my catch-all questions, and we'll be  
3 nearly finished. On page 51 of your direct testimony  
4 Ms. Klancke asked several questions about resource planning,  
5 the resource planning organization, which is -- is that part  
6 of Southern Company Services?

7           A       It is.

8           Q       Now, you testified that costs are increasing there  
9 because Gulf is essentially using it more often, therefore  
10 they're allocating more costs back down to you, is that  
11 right?

12          A       That's correct.

13          Q       And that's in response really to, you testified,  
14 that uncertainty about future environmental regulations and  
15 things of that nature, is that right?

16          A       That's correct.

17          Q       Now, if Gulf is using the resource planning  
18 organization more as a result of uncertainties about  
19 environmental planning, what about Gulf's other sister  
20 companies, Mississippi, Alabama, Georgia? Wouldn't they be  
21 using that resource planning organization similarly?

22          A       They would. And what I would say is this isn't  
23 just going to be personnel but it's also expenses. So you  
24 would have, I'm certain, the resource planning people engage  
25 other experts to help with analysis and developing

1 information. It's the overall cost of that allocation, how  
2 it's allocated.

3 Q Here's just kind of a general question about the  
4 O&M budgeting process. You testified or your prefiled  
5 testimony indicated Gulf worked in 2009 to keep costs lower  
6 and then they tried to do that in 2010 but they weren't  
7 necessarily as successful. And not just increasing costs  
8 here but throughout Gulf is one of the reasons for the rate  
9 case, is that right, or as you understand it?

10 A As I understand it.

11 Q When it comes to delaying an O&M cost, if it's  
12 something that needs to be done but you push it off into the  
13 future, that still means that those costs still have to be  
14 taken care of in the future, is that right? If you don't do  
15 it today, you have to do it tomorrow?

16 A What I was going to say is what we tried to  
17 explain is we're expanding -- we're increasing our  
18 maintenance cycles as opposed to just pushing all the stuff  
19 out and piling it up. What we do is we skip things and  
20 instead of doing them every two years we might do them every  
21 three years. Instead of doing it every outage, you might do  
22 it every other outage.

23 Q So instead of pushing them off in the future  
24 you're doing them at an increased interval?

25 A That's right.

1 Q So then you're not -- okay, so your testimony is  
2 that you're not pushing it into the future, you're just doing  
3 it less frequently?

4 A We have done it less frequently but in the future  
5 we'll go back on the normal cycle.

6 Q I have an interrogatory response number 109 that  
7 lists Grove, Alexander and Burroughs as being the persons  
8 that could respond to it. It's related to the new nuclear or  
9 proposed nuclear site.

10 MR. GUYTON: North Escambia?

11 BY MR. SAYLER:

12 Q North Escambia.

13 A I don't have it, but you can ask me a question.  
14 Oh, I do. I do, I'm sorry.

15 Q If you can take a moment and just review the  
16 response pages and let me know if you can answer any  
17 questions related to Gulf's plan to secure land for that  
18 North Escambia County for future nuclear use.

19 Well, actually, I'll just ask you my question.  
20 Were you involved in the decision to secure the land in North  
21 Escambia for the site?

22 A The decision?

23 Q The decision.

24 A I did not make that decision.

25 Q Were you involved in the planning process? I

1 mean, were you aware of it?

2 A Certainly I was aware of it.

3 Q But the questions about the substance of the plan  
4 or the reasons would probably be better submitted to  
5 Burroughs or Alexander?

6 A It would be better answered by them.

7 MR. GUYTON: Probably Alexander.

8 MR. SAYLER: Alexander? Okay. Mr. Grove, thank  
9 you very much for your time. We appreciate you coming  
10 and answering all my hopefully really tough questions.  
11 No, thank you, I appreciate the education. I learned  
12 quite a bit today.

13 THE WITNESS: You're welcome. I appreciate the way  
14 you all have dealt with this. It was very pleasant and  
15 straightforward and asked questions that I would have  
16 asked myself.

17 MS. KLANCKE: I believe there's some redirect?

18 MR. GUYTON: No, he probably won't tell me the same  
19 thing. I don't have much, Mr. Grove. Just a few.

20 CROSS EXAMINATION

21 BY MR. GUYTON:

22 Q Staff counsel was asking you about changes in the  
23 FTE count for 2012. Now, let me go back and put it in  
24 context. There was a net increase of FTEs between the end of  
25 2010 and 2012 in the production budget of 52 FTEs, correct?



1           A       That is correct.

2           Q       And staff counsel was asking you if that had  
3 changed to a net increase of 42 FTEs in the 2012 budget  
4 cycle. Do you recall that line of questions?

5           A       I do.

6           Q       Would you explain why Gulf made the decision to  
7 fill ten of those positions with contract labor rather than  
8 Gulf labor?

9           A       Yes. As we started having discussions with the  
10 plant managers about what's really going to happen or is this  
11 really what we think is going to happen, are you going to  
12 hire all these people, and particularly at Scholz, we started  
13 having some discussions, you know what, we really probably  
14 won't hire some of those positions at Scholz and we're going  
15 to fill them. And I said, well, that's not what you told me  
16 the first time, so we need to correct that issue. And the  
17 same thing at the other plants.

18                   As we got closer and understood really what do you  
19 want to do, we made the decision, okay, we're not going to  
20 fill those positions right now and we're going to just  
21 supplement that work with either contract or overtime labor.

22           Q       And how does that decision relate to the  
23 uncertainty associated with environmental regulations that  
24 you mentioned in your testimony, if at all?

25           A       It does. I mean, gosh, I can't think of a worse

1 thing to do than to -- and let's use Plant Scholz as an  
2 example. If I hire these six people, or however many people  
3 they are, and they come in expecting a long-term career with  
4 Gulf Power Company and a year from now we have a change in  
5 environmental regulations that accelerates the retirement of  
6 that unit and I have to tell them all to go home now, that's  
7 just a difficult decision.

8 We're in a better position to fill that work with  
9 either contract or overtime and let things flesh out like  
10 they're going to flesh out and get some more certainty to  
11 what's going to happen in the future.

12 Q How, if at all, does the change in planning to add  
13 42 instead of 52 employees for 2012 affect total production  
14 O&M cost?

15 A It doesn't. We have the same dollars budgeted for  
16 '12 in the current budget cycle, or will have, that we did in  
17 the prior budget cycle '11 through '15.

18 Q So where do the ten dollars for the Gulf -- or the  
19 dollars for the ten Gulf employees go if you had the same  
20 amount budgeted?

21 A It's budgeted to a different cost type. Instead  
22 of a labor cost type it would be budgeted to either an  
23 overtime or a contract labor cost type.

24 Q You were asked specifically -- and I believe this  
25 was by staff counsel -- if you had undertaken any initiatives

1 to limit labor costs in 2009. Do you recall that line of  
2 inquiry?

3 A I do.

4 Q And what if any base pay increases did Gulf give  
5 to its employees in 2009?

6 A There were no base increases in 2009.

7 Q And how does that compare with other years over  
8 the last decade?

9 A I'm fairly sure there were base increases in every  
10 year prior to that.

11 MR. GUYTON: I think we're done. Thank you, sir.

12 We will read and sign.

13 (Whereupon, the deposition was concluded at 5:05 p.m.)

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CERTIFICATE OF OATH

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STATE OF FLORIDA )  
COUNTY OF LEON )

I, the undersigned authority, certify that the witness  
in this matter personally appeared before me and was duly  
sworn.

WITNESS my hand and official seal this 18th day of  
November, 2011.

*Laura Mountain*  
LAURA MOUNTAIN, RPR  
Notary Public - State of Florida  
My Commission No. EE021779  
Expires: September 23, 2014



CERTIFICATE OF REPORTER

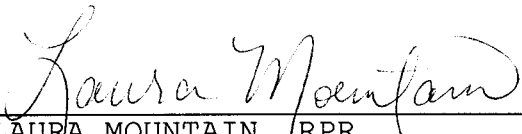
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STATE OF FLORIDA )  
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I, LAURA MOUNTAIN, Court Reporter, do hereby certify that I was authorized to and did stenographically report the foregoing deposition; and that the transcript is a true record of the testimony given by the witness.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

Dated this 18th day of November, 2011.

  
\_\_\_\_\_  
LAURA MOUNTAIN, RPR  
Post Office Box 13461  
Tallahassee, Florida 32317