Catherine Potts

From: Carlotta Stauffer
Sent: Thursday, February 23, 2012 4:58 PM
To: Baldwyn English; Roberta Bass; Cayce Hinton; Katherine Fleming; Jon Varian; Ann Cole; Catherine Potts; Carol Purvis; Selena Chambers
Cc: Marshall Willis; Cheryl Bulecza-Banks; Andrew Maurey; John Slemkewicz; Chuck Hill; 'braulio.baez@yahoo.com'
Subject: FW: Gulf Oral Modification

fyi

From: Braulio Baez
Sent: Thursday, February 23, 2012 4:56 PM
To: Marshall Willis
Cc: Chuck Hill; Carlotta Stauffer; Cheryl Bulecza-Banks; Andrew Maurey; John Slemkewicz
Subject: RE: Gulf Oral Modification

Approved

From: Marshall Willis
Sent: Thursday, February 23, 2012 4:19 PM
To: Braulio Baez
Cc: Chuck Hill; Carlotta Stauffer; Cheryl Bulecza-Banks; Andrew Maurey; John Slemkewicz
Subject: FW: Gulf Oral Modification

Staff requests approval to make oral modifications to its post-hearing recommendation on Gulf Power Company's request for a rate increase, scheduled for Monday's Special Agenda Conference. Staff has determined that a modification of Issue 71 is necessary. Subsequent to filing its recommendation, staff determined that it removed the capitalized portion of incentive compensation in both Issues 12 and Issue 71. This modification has the effect of increasing staff's recommended revenue requirement by $27,300. This one correction necessitates changes to 12 fall-out issues as detailed below.

In addition, there is a scrivener's error in Issue 12, but that error has no dollar impact on staff's recommendation.

The changes to the recommendation text are done in the type and strike format. The changes to the Tables and Schedules have been highlighted in yellow. Staff's requested oral modifications are set forth below:

Issue 12:

Page 27, first sentence of the recommendation paragraph:

Recommendation:

The appropriate amount of non-clause and non-CWIP capitalized incentive compensation to be included in rate base is zero ~~$1,191,000 ($1,217,206 system)~~.

Page 29, first sentence:

Staff recommends that zero ~~$1,191,000 ($1,217,206 system)~~ is the appropriate amount of capitalized incentive compensation to be included in rate base.

THE FOLLOWING ISSUES CHANGE AS A RESULT OF THE MODIFICATION TO ISSUES 71.

Issue 18:

Page 37, recommendation paragraph and staff analysis:

Recommendation:

No. Based on staffs' recommendations in other issues, the appropriate level of plant in service for the 2012 projected test year is $2,641,732,052 ($2,699,343,044 system). ~~$2,641,510,416 ($2,699,116,619 system)~~. This is an increase to plant in service of $29,659,052 ($30,818,044 system). ~~$29,437,416 ($30,591,619 system)~~.

Staff Analysis:

This is a fall-out issue. Based on staff's recommendations in other issues, the appropriate level of plant in service for the 2012 projected test year is $2,641,732,052 ($2,699,343,044 system). ~~$2,641,510,416 ($2,699,116,619 system)~~. This is an increase to plant in service of $29,659,052 ($30,818,044 system). ~~$29,437,416 ($30,591,619 system)~~ as shown in Table 18-1 below.

Table 18-1

2012 Projected Test Year – Plant in Service - Jurisdictional		
Description	Gulf	Staff
Plant in Service as filed	$2,612,073,000	$2,612,073,000
Issue 9 Crist Units 6 & 7 Upgrade	61,753,000	29,396,000
Issue 12 Capital Costs - Incentive Compensation	0	(1,191,000)
Issue 14 Transmission Infrastructure Replacements Project	0	0
Issue 15 Stip. Distribution PIS	(803,000)	(803,000)
Issue 16 Wireless Systems subject to SCS work orders	0	0
Issue 17 Southern Link Charges Work Order No. 45LC01	0	0
Issue 22 CWIP issues impact PIS	0	2,470,000
Issue 25 Property Held for Future Use	0	167,847
Issue 44 ECCR Adjustment Error	(59,000)	(59,000)
Issue 71 Incentive Compensation	0	(321,795)
Total Proposed Adjustments	60,891,000	29,659,052
Adjusted Plant in Service	$2,672,964,000	$2,641,732,052

Issue 21:

Page 39, recommendation paragraph and staff analysis:

Recommendation:

No. The appropriate level of Accumulated Depreciation for the 2012 projected test year is $1,181,215,612 ($1,208,954,428 system). ~~$1,181,207,803 ($1,208,946,435 system)~~.

Staff Analysis:

This is a fall-out issue. Based on stipulations and staff's recommendations in other issues, the appropriate level of Accumulated Depreciation for the 2012 projected test year is $1,181,215,612 ($1,208,954,428 system). ~~$1,181,207,803 ($1,208,946,435 system)~~.

Table 21-1

2012 projected Test Year – Accumulated Depreciation – Jurisdictional		
Description	Gulf	Staff
Accumulated Depreciation - MFR B-1	$1,179,823,000	$1,179,823,000
Issue 9: Turbine Upgrade	3,006,000	1,376,000
Issue 12: Capitalized Incentive Compensation	0	(42,049)
Issue 20-S: Non-AMI Meter Amortization	(443,000)	(443,000)
Issue 22: Construction Work in Progress	0	55,000
Issue 44-S: ECCR Adjustment Error	458,000	458,000
Issue 71: Incentive Compensation	0	(11,339)
Total Adjustments	3,021,000	1,392,612
Adjusted Accumulated Depreciation	$1,182,844,000	$1,181,215,612

Issue 31:

Page 68, recommendation paragraph and staff analysis:

Recommendation:

No. Staff recommends that the appropriate 2012 projected test year rate base is $1,673,243,428 ($1,709,406,616 system) ~~$1,673,029,601 ($1,709,188,184 system)~~, which is a reduction of $2,760,572 ($2,618,384 system) ~~$2,974,399 ($2,836,816 system)~~ from Gulf's requested level as originally filed.

Staff Analysis:

This is a fall-out issue. Staff recommends that the appropriate 2012 projected test year rate base is $1,673,243,428 ($1,709,406,616 system) ~~$1,673,029,601 ($1,709,188,184 system)~~, which is a reduction of $2,760,572 ($2,618,384 system) ~~$2,974,399 ($2,836,816 system)~~ from Gulf's original requested level, as shown in Table 31-1.

Table 31-1

2012 Rate Base - Jurisdictional			
	Gulf as Filed	Gulf Revised	Staff
Utility Plant-In-Service	$2,612,073,000	$2,672,964,000	$2,641,732,052
Less: Accumulated Depreciation	1,179,823,000	1,182,844,000	1,181,215,612
Net Plant-In-Service	1,432,250,000	1,490,120,000	1,460,516,440
CWIP	60,912,000	60,912,000	58,449,000
Property Held for Future Use	32,233,000	32,233,000	5,314,153
Net Utility Plant	1,525,395,000	1,583,265,000	1,524,279,593

Working Capital	150,609,000	149,828,000	148,963,835
Total Rate Base	$1,676,004,000	$1,733,093,000	$1,673,243,428

Issue 32:

Page 69, recommendation paragraph:

Recommendation:

The appropriate amount of accumulated deferred taxes to include in the capital structure for the 2012 projected test year is $256,674,530 ~~$256,641,729~~ as shown on Schedule 2. (Springer, Cicchetti)

Page 70, paragraph under the heading CONCLUSION.

Staff recommends that the appropriate amount of accumulated deferred taxes to include in Gulf's capital structure for the 2012 projected test year is $256,674,530. ~~$256,641,729~~.

Issue 33:

Page 71, recommendation paragraph:

Recommendation:

The appropriate amount and cost rate of unamortized investment tax credits to include in the capital structure are $2,924,176 ~~$2,923,802~~ and 7.66 percent, respectively, as shown on Schedule 2. (Springer, Cicchetti)

Page 72, paragraph under the heading ANALYSIS.

Staff believes Gulf's methodology for calculating the balance and cost rate of ITCs is appropriate and is in accordance with IRS requirements and past Commission practice. Staff recalculated the ITC cost rate based on staff's adjustments to rate base and staff's recommended return on equity of 10.25 percent, resulting in an ITC balance of $2,924,176 ~~$2,923,802~~ and a 7.66 percent weighted average cost rate. Staff's weighted average cost rate for ITCs was calculated using long-term investor sources of capital in accordance with current IRS regulations and past Commission practice.

Page 72, paragraph under the heading CONCLUSION.

Staff recommends that the appropriate amount and cost rate of unamortized ITCs to include in Gulf's capital structure for the 2012 projected test year are $2,924,176 ~~$2,923,802~~ and 7.66 percent, respectively.

Issue 38:

Page 96, second paragraph of staff analysis:

Staff Analysis:

As discussed in Issue 32, staff recommends the appropriate balance of ADITs is $256,674,530. ~~$256,641,729~~. As discussed in Issue 33, staff recommends the appropriate amount and cost rate of unamortized ITCs are $2,924,176 ~~$2,923,802~~ and 7.66 percent, respectively. A stipulation between the parties in Issues 34, 35, and 36 has established the appropriate cost rate rates for long-term debt at 5.26 percent, short-term debt at 0.13 percent, and preferred stock at 6.39 percent. As discussed in Issue 37, staff recommends 10.25 percent as the appropriate mid-point return on common equity.

Issue 71:

Page 167, recommendation paragraph:

Recommendation:

If staff's recommendation in Issue 12 is approved, the amount of Gulf's proposed Incentive Compensation expenses that should be included in operating expenses is $10,070,813 ($10,275,377 system), which is $2,301,505 ($2,348,255 system) less than Gulf's requested jurisdictional amount of Incentive Compensation included in O&M expense of $12,372,318 ($12,623,632 system). In addition, O&M expense related to stock based compensation of $1,523,599 ($1,554,547 system) should be removed. Related reductions to plant in service of $321,795 ($328,750 system), accumulated depreciation of $11,339 ($11,605 system), depreciation expense of $11,371 ($11,605 system), and payroll taxes of $9,187 ($9,351 system) should be made.

If staff's recommendation in Issue 12 is denied, the ~~The~~ amount of Gulf's proposed Incentive Compensation expenses that should be included in operating expenses is $10,070,813 ($10,275,377 system), which is $2,301,505 ($2,348,255 system) less than Gulf's requested jurisdictional amount of Incentive Compensation included in O&M expense of $12,372,318 ($12,623,632 system). In addition, O&M expense related to stock based compensation of $1,523,599 ($1,554,547 system) should be removed. Related reductions to plant in service of $543,431 ($555,175 system), accumulated depreciation of $19,148 ($19,598 system), depreciation expense of $19,202 ($19,598 system), and payroll taxes of $9,187 ($9,351 system) should be made. (Wright)

page 177, Table 71-8 and last paragraph:

Table 71-8

Breakdown of Incentive Compensation Adjustment		
Reduction in O&M expense	Issue 12 Approved	Issue 12 Denied
O&M Adjustment to Incentive compensation	$2,348,255	$2,348,255
Jurisdictional Factor	0.9800918	0.9800918
Jurisdictional O&M Adjustment	$2,301,505	$2,301,505
Stock Based Compensation allocated by SCS to O&M	$1,544,547	$1,544,547
Jurisdictional Factor	0.9800918	0.9800918
Jurisdictional O&M Adjustment	$1,523,599	$1,523,599
Total Staff Adjustment to Capital ($554,080 + $49,721)	(In Issue 12)	$603,801
Percentage not Clause related or CWIP	(In Issue 12)	75%
Capital in Plant-in-Service	(In Issue 12)	$452,851
Stock Based compensation allocated from SCS	$657,500	$657,500
Total Adjustment to Capital	$657,500	$1,110,351
Reduction in Plant at 50%	$328,750	$555,175
Jurisdictional Factor	0.9788452	0.9788452
Jurisdictional Plant-in Service Adjustment	$321,795	$543,431

Related Depreciation Expense	$328,750	$555,175
Average Test Year Depreciation rate	3.53%	3.53%
Depreciation expense	$11,605	$19,598
Jurisdictional Factor	0.9798128	0.9798128
Jurisdictional Depreciation Adjustment	$11,371	$19,202
Reduction to Accumulated Depreciation	$11,605	$19,598
Jurisdictional Factor	0.9770686	0.9770686
Jurisdictional Accumulated Depreciation Adjustment	$11,339	$19,148
Reduction in PPP Costs	$122,229	$122,229
FICA Employee Tax Rate	7.65%	7.65%
Reduction in Payroll Taxes	$9,351	$9,351
Jurisdictional Factor	0.9824645	0.9824645
Jurisdictional Payroll Taxes Adjustment	$9,187	$9,187

In summary, staff believes that long-term incentive compensation and a portion of the PPP short-term incentive compensation be removed in the amount of $2,301,505 ($2,348,255 system) which results in $10,070,813 ($10,275,377 system) of incentive compensation being included in operating expenses. In addition, O&M expense related to stock based compensation of $1,523,599 ($1,554,547 system) should be removed. If staff's recommendation in Issue 12 is approved, related reductions to plant in service of $321,795 ($328,750 system), accumulated depreciation of $11,339 ($11,605 system), depreciation expense of $11,371 ($11,605 system), and payroll taxes of $9,187 ($9,351 system) should be made. If staff's recommendation in Issue 12 is denied, capitalized incentive compensation should be included in the calculation. Therefore, related ~~Related~~ reductions to plant in service of $543,431 ($555,175 system), accumulated depreciation of $19,148 ($19,598 system), depreciation expense of $19,202 ($19,598 system), and payroll taxes of $9,187 ($9,351 system) should be made.

On page 178, paragraph under CONCLUSION.

If staff's recommendation in Issue 12 is approved, the amount of Gulf's proposed Incentive Compensation expenses that should be included in operating expenses is $10,070,813 ($10,275,377 system), which is $2,301,505 ($2,348,255 system) less than Gulf's requested jurisdictional amount of Incentive Compensation included in O&M expense of $12,372,318 ($12,623,632 system). In addition, O&M expense related to stock based compensation of $1,523,599 ($1,554,547 system) should be removed. Related reductions to plant in service of $321,795 ($328,750 system), accumulated depreciation of $11,339 ($11,605 system), depreciation expense of $11,371 ($11,605 system), and payroll taxes of $9,187 ($9,351 system) should be made.

If staff's recommendation in Issue 12 is denied, the ~~The~~ amount of Gulf's proposed Incentive Compensation expenses that should be included in operating expenses is $10,070,813 ($10,275,377 system), which is $2,301,505 ($2,348,255 system) less than Gulf's requested jurisdictional amount of Incentive Compensation included in O&M expense of $12,372,318 ($12,623,632 system). In addition, O&M expense related to stock based compensation of $1,523,599 ($1,554,547 system) should be removed. Related reductions to plant in service of $543,431 ($555,175 system), accumulated depreciation of $19,148 ($19,598 system), depreciation expense of $19,202 ($19,598 system), and payroll taxes of $9,187 ($9,351 system) should be made. (Wright)

Issue 91:

Page 208, recommendation paragraph and staff analysis:

Recommendation:

The appropriate amount of depreciation and fossil dismantlement expense for the 2012 projected test year is $95,253,580 ($97,250,428 system). ~~$95,245,749 ($97,242,435 system)~~. (Ollila, Slemkewicz)

Staff Analysis:

Based on stipulations and staff's recommendations in other issues, the appropriate amount of depreciation and fossil dismantlement expense for the 2012 projected test year is $95,253,580 ($97,250,428 system). ~~$95,245,749 ($97,242,435 system)~~, an increase of $73,580 ($109,428). ~~$65,749 ($101,435 system)~~.

Table 91-1

2012 Test Year – Depreciation & Fossil Dismantlement Expense - Jurisdictional		
Description	Gulf	Staff
Depreciation & Fossil Dismantlement Expense	$95,180,000	$95,180,000
Issue 9: Turbine Upgrade	2,161,000	934,000
Issue 12: Capitalized Incentive Compensation	0	(42,049)
Issue 14: Transmission Capital Additions	0	0
Issue 20-S: Non-AMI Meter Amortization	(886,000)	(886,000)
Issue 22: Construction Work in Progress	0	102,000
Issue 44-S: ECCR Revenues and Expenses	(23,000)	(23,000)
Issue 71: Incentive compensation adjustments	0	(11,371)
Total Adjustments	1,252,000	73,580
Adjusted Total	$96,432,000	$95,253,580

Issue 92:

Page 209, recommendation paragraph and staff analysis:

Recommendation:

No. The appropriate level of Depreciation and Amortization Expense for the 2012 projected test year is $95,253,580 ($97,250,428 system). ~~$95,245,749 ($97,242,435 system)~~. (Mouring, Ollila)

Staff Analysis:

This is a fallout issue. Based of staff's recommendations in previous issues, the appropriate level of Depreciation and Amortization Expense for the 2012 projected test year is $95,253,580 ($97,250,428 system) ~~$95,245,749 ($97,242,435 system)~~ as shown in Table 92-1.

Table 92-1

2012 Test Year – Depreciation and Amortization Expense – Jurisdictional

Description	Gulf	Staff
Depreciation & Amortization Expense	$95,180,000	$95,180,000
Amortization of ITCs	(954,000)	(In Issue 95)
Issue 9: Turbine Upgrade	2,161,0000	934,000
Issue 12: Capitalized Incentive Compensation	0	(42,049)
Issue 20-S: Non-AMI Meter Amortization	(886,000)	(886,000)
Issue 22: Construction Work in Progress	0	102,000
Issue 44-S: ECCR Adjustment Error	(23,000)	(23,000)
Issue 71: Incentive Compensation	0	(11,371)
Total Adjustments	298,000	73,580
Adjusted Accumulated Depreciation & Amortization	$95,478,000	$95,253,580

Issue 95:

Page 218, recommendation paragraph and staff analysis:

Recommendation:

The appropriate amount of Total Income Tax expense for the 2012 projected test year is $18,635,233 ($20,769,029 system) ~~$18,640,023 ($20,772,112 system)~~, an increase of $4,355,233 ($3,400,029 system). ~~$4,360,023 ($3,403,112 system)~~. (Mouring, Springer, Cicchetti)

Staff Analysis:

This is a fallout issue based on the outcome of other adjustments made in this case. Adjustments to expenses will increase/decrease the Income Tax expense based on the statutory income tax rate of 38.575 percent. The Income Tax expense for the 2012 projected test year should be $18,635,233 ($20,769,029 system) ~~$18,640,023 ($20,772,112 system)~~, an increase of $4,355,233 ($3,400,029 system). ~~$4,360,023 ($3,403,112 system)~~ to the Company's filed amount of $14,280,000 ($17,369,000). (See Schedule 3) The primary staff recommendation in Issue 94 was used in the calculation of this issue.

Issue 96:

Page 219, recommendation paragraph and staff analysis:

Recommendation:

No. The appropriate level of Total Operating Expenses for the 2012 projected test year is $413,150,756 ($423,416,854 system) ~~$413,147,715 ($423,411,944 system)~~, a decrease of $7,803,244 ($9,032,146 system). ~~$7,806,285 ($9,037,056 system).~~ (Mouring)

Staff Analysis:

This is a fallout issue. Based on staff's recommendations in previous issues, the appropriate level of Total Operating Expenses for the 2012 projected test year is $413,150,756 ($423,416,854 system)

~~$413,147,715 ($423,411,944 system)~~, a decrease of $7,803,244 ($9,032,146 system). ~~$7,806,285 ($9,037,056 system).~~ (See Schedule 3)

Issue 97:

Page 220, recommendation paragraph and staff analysis:

Recommendation:

No. The appropriate Net Operating Income for the 2012 projected test year is $68,758,244 ($75,894,146 system) ~~$68,761,285 ($75,899,056 system)~~, an increase of $7,803,244 ($9,032,146 system). ~~$7,806,285 ($9,037,056 system)~~. (Mouring)

Staff Analysis:

This is a fallout issue. Based on staff's recommendations in previous issues, the appropriate Net Operating Income for the 2012 projected test year is $68,758,244 ($75,894,146 system) ~~$68,761,285 ($75,899,056 system)~~, an increase of $7,803,244 ($9,032,146 system). ~~$7,806,285 ($9,037,056 system)~~. (See Schedule 3)

Issue 99:

Page 222, recommendation paragraph and staff analysis:

Recommendation:

No. The appropriate annual operating revenue increase for the 2012 projected test year is $62,363,558. ~~$62,336,258~~. As discussed in Issue 9, a $4,021,905 step increase, effective January 1, 2013, is also recommended. (Mouring)

Staff Analysis:

This is a fallout issue. Based on staff's recommendations in previous issues, the appropriate annual operating revenue increase for the 2012 projected test year is $62,363,558. ~~$62,336,258~~. Staff has also recommended a $4,021,905 step increase, effective January 2013, in Issue 9. The calculations of the 2012 operating revenue increase and the 2013 step increase are shown on the attached Schedules 5 and 6.