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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Gulf Power Company.	DOCKET NO.: 130140-EI FILED: November 8, 2013

PREHEARING STATEMENT OF THE OFFICE OF PUBLIC COUNSEL

The Citizens of the State of Florida, through the Office of Public Counsel, pursuant to the Order Establishing Procedure in this docket, Order No. PSC-13-0342-PCO-EI, issued July 31, 2013, and Amended Order Granting Motions to Consolidate and to Enlarge Number of Discovery Requests, Order No. PSC-13-0454A-PCO-EI, issued October 24, 2013, hereby submit this Prehearing Statement.

APPEARANCES:

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On behalf of the Citizens of the State of Florida

1. WITNESSES:

The Citizens intend to call the following witnesses, who will address the issues indicated:

NAME	ISSUES
Mark E. Garrett	2-4, 15-17, 22, 30, 31, 42, 44, 45, 48, 50, 51, 55-57, 61-64

Scott Norwood	2 OPC Issues under Transmission Projects, 16, 17, 22, 65
Jacob Pous	8, 8A, 8B, 8C, 8D, 9, 9A, 9B, 10, 10A, 10B, 10C, 56
J. Randall Woolridge	24, 29, 30

2. **EXHIBITS:**

Through Mark E. Garrett, Scott Norwood, Jacob Pous and J. Randall Woolridge, the Citizens intend to introduce the following exhibits, which can be identified on a composite basis for each witness:

Witness	Exhibits	Title
Mark E. Garrett	MEG-1	Qualifications of Mark E. Garrett
Mark E. Garrett	MEG-2	Garrett Group 24-State Incentive Survey
Mark E. Garrett	MEG-3	OPC Revenue Requirement
Scott Norwood	SN-1	Background and Experience of Scott Norwood
Scott Norwood	SN-2	Transmission Upgrade Project Descriptions (CONFIDENTIAL)
Scott Norwood	SN-3	Must-Run Criteria for Plant Crist and Plant Smith (CONFIDENITAL)
Scott Norwood	SN-4	Gulf's Response to Request for Analysis Supporting Must-Run Designations
Scott Norwood	SN-5	Documentation of Historical Must-Run Operating Hours
Scott Norwood	SN-6	October 2012 Plant Smith Retirement Analysis (CONFIDENTIAL)
Jacob Pous	JP-1	Recommended Depreciation Adjustments Summary
Jacob Pous	JP-2	Mass Life Adjustment Summary
Jacob Pous	JP-3	Life-Curve Combination for Account 353
Jacob Pous	JP-4	Life-Curve Combination for Account 356 Full Band
Jacob Pous	JP-5	Life-Curve Combination for Account 356 21-Year Band
Jacob Pous	JP-6	Life-Curve Combination for Account 390
Jacob Pous	JP-7	Calculation of Adjustment for Account 303
Jacob Pous	JP-8	Resume
J. Randall Woolridge	JRW-1	Recommended Return on Equity
J. Randall Woolridge	JRW-2	Interest Rates
J. Randall Woolridge	JRW-3	Public Utility Bond Yields
J. Randall Woolridge	JRW-4	Summary Financial Statistics for Proxy Groups

J. Randall Woolridge	JRW-5	Capital Structure Ratios
J. Randall Woolridge	JRW-6	The Relationship Between Estimated ROE and Market-to-Book Ratios
J. Randall Woolridge	JRW-7	Utility Capital Cost Indicators
J. Randall Woolridge	JRW-8	Industry Average Betas
J. Randall Woolridge	JRW-9	DCF Model
J. Randall Woolridge	JRW-10	DCF Study
J. Randall Woolridge	JRW-11	CAPM Study
J. Randall Woolridge	JRW-12	S&P Bond Ratings
J. Randall Woolridge	JRW-13	Authorized ROEs for Electric Utilities and 10-Year Treasury Yields
J. Randall Woolridge	JRW-14	Summary of Gulf Power Company's ROE Results
J. Randall Woolridge	JRW-15	GDP and S&P Growth Rates
J. Randall Woolridge	JRW-16 APPENDIX A	Qualifications of Dr. J. Randall Woolridge
J. Randall Woolridge	JRW-16 APPENDIX B	The Research on Analysts' Long-Term EPS Growth Rate Forecasts
J. Randall Woolridge	JRW-16 APPENDIX C	Building Blocks Equity Risk Premium
J. Randall Woolridge	JRW-16 APPENDIX D	The Use of Historical Returns to Measure an Expected Risk Premium

3. STATEMENT OF BASIC POSITION:

Only 15 months after the conclusion of Gulf Power Company's (Gulf) last rate case, at which time the Commission approved an increase of $64,101,662 to take effect in 2012 and an additional increase of $4,021,905 to take effect in 2013, Gulf is back for more. In its newest petition, Gulf requests yet another base rate increase for 2014—this time in the amount of $74,393,000. The analyses that OPC's witnesses will sponsor demonstrate that the skepticism that is naturally engendered by the filing of a new rate case so soon after the disposition of the last one is justified in this instance. Gulf has vastly overreached in its requests.

The base rate increase request for January 2014 is the product of a grossly excessive 11.50% proposed return on equity capital, plus unreasonable levels of projected payroll and benefits expense, overstated depreciation and dismantlement expense, and an unwarranted test year storm accrual, among other things.

Gulf also wants its customers to pay separate charges for the projected costs of specific transmission upgrades for Plant Crist and Plant Smith. Gulf wants to collect these projected costs through either of two avenues. First, Gulf contends that the Plant Crist and Plant Smith transmission upgrade projects are part of its federal Mercury and Air Toxics Standards ("MATS") compliance strategy. Based on this contention, Gulf asks for authority to collect the projected costs of the transmission projects through the environmental cost recovery clause ("ECRC"). However, these projects are not required in order for Gulf to comply with any environmental regulations. Thus, they do not satisfy the most basic eligibility criterion that governs costs that may be recovered through the ECRC.

In the event its request to recover the projected costs associated with its Plant Crist and Plant Smith transmission upgrades through the ECRC is not allowed, Gulf alternatively requests authority to recover them through increases in base rates. In this regard, the Company requests that it be allowed to recover $637,000 in base rates for the projected 2014 test year costs of these transmission upgrade projects. The Company further requests a $16,392,000 "step increase" for such transmission upgrades to be placed into effect in July 2015. This amount represents the projected cost of constructing transmission projects to Plant Crist and Plant Smith by 2015, some 5-10 years earlier than Gulf originally planned. Gulf maintains that accelerating the in-service dates of the Plant Crist and Plant Smith transmission projects will enable Gulf to modify the units' operational parameters from their self-designated "must-run" (i.e., necessary for voltage stability and reliability in certain conditions) status to economic dispatch. Gulf asserts that other generators will then displace Plants Crist and Smith sufficiently to produce fuel savings greater than the costs associated with moving construction of the transmission lines forward in time. However, aside from the piecemeal, single issue nature of the request for this increase, Gulf has never adequately supported its "must-run" operating policies that apply to units at Plants Crist

and Smith; nor has it ever established a baseline of operational data from which the fuel cost savings, if any, that would be associated with the alleviation of the alleged "must-run" constraints can be satisfactorily quantified. In addition, with respect to Plant Smith, in its direct case Gulf failed to factor into its analysis an October 2012 study indicating that the cost of complying with additional environmental regulations being developed by the Environmental Protection Agency ("EPA") will likely result in the retirement of the Plant Smith units. In that possible base load generating plant retirement scenario, the transmission upgrade project for Plant Smith described by Gulf would be a wasteful folly for which customers should not pay.

The Commission should limit Gulf's request for a January 1, 2014 increase to no more than $814,000 annually. This amount takes into account only the specific adjustments that OPC's witnesses sponsor in their testimony. The Commission should deny Gulf's request for a subsequent "step increase" because Gulf failed to meet its burden to prove that accelerating the construction of the subject transmission lines would be prudent and economically justified.

4. STATEMENT OF FACTUAL ISSUES AND POSITIONS:

Test Period and Forecasting

Issue 1: Is Gulf's projected test period of the 12 months ending December 31, 2014 appropriate?

OPC: **No position.**

Issue 2: Are Gulf's forecasts of Customers, kWh, and kW by rate class, for the 2014 projected test year appropriate? If not, what adjustments should be made?

OPC: **No. Residential customers and average usage should be based on a standard test year-end annualization for the 2014 test year based upon the Company's projected customer count level for December 2014. The number of forecasted residential customers should be increased by 19,926 and residential kWh should be increased by 19,886,173. (Garrett)**

Issue 3: Are Gulf's forecasts of billing determinants by rate schedule for the 2014 projected test year appropriate? If not, what adjustments should be made?

OPC: **No. Residential customers and average usage should be based on a standard test year-end annualization for the 2014 test year based upon the Company's projected customer count level for December 2014. The number of forecasted residential customers should be increased by 19,926 and residential kWh should be increased by 19,886,173. (Garrett)**

Issue 4: Are Gulf's estimated revenues from sales of electricity by rate class at present rates for the projected 2014 test year appropriate? If not, what adjustments should be made?

OPC: **No. The projected 2014 test year revenues should be increased by at least $1,242,842 to reflect the year-end annualization of customers and usage. (Garrett)**

Issue 5: What are the appropriate inflation, customer growth, and other trend factors for use in forecasting the 2014 projected test year budget?

OPC: **The Commission should utilize inflation, customer growth, and other trend factors that reasonably and accurately reflect the conditions that will prevail in 2014 and beyond.**

Issue 6: Is Gulf's proposed separation of costs and revenues between the wholesale and retail jurisdictions appropriate? If not, what adjustments should be made?

OPC: **No position at this time.**

Quality of Service

Issue 7: Is the quality and reliability of electric service provided by Gulf adequate?

OPC: **No position.**

Depreciation and Dismantlement

Issue 8: Are the depreciation parameters for production plant posed by Gulf appropriate? If not, what adjustments should be made?

OPC: **No, the interim retirements and interim net salvage should be adjusted as discussed in OPC's Issues below. (Pous)**

Issue 8A: Is Gulf's level of estimated interim retirements appropriate? If not, what adjustments should be made?

INSTEAD OF ISSUE 8A ABOVE, OPC WOULD LIKE TO SUBSTITUTE THE FOLLOWING TWO SEPARATE ISSUES AS 8A AND 8B AND RENUMBER ISSUES ACCORDINGLY:

(OPC ISSUE 8A): Is Gulf's quantification of the level of interim ~~requirements~~retirements for Account 312-Steam Production Boiler Plant appropriate? If not, what adjustment should be made?

OPC: **No. The Company's projection of future interim retirements for Account 312-Steam Production Boiler Plant is appreciably overestimated. Given the dynamics of (1) the much higher plant balance for the investment in this account, (2) recognition that several of the retirements recorded during the past decade are associated with major one-time environmental upgrades, and (3) the fact that industry values are typically lower, a significantly lower annual interim retirement rate is appropriate and necessary. The Company's projected 1.0% interim retirement rate should be reduced to 0.65%, which results in a $4,087,401 reduction in annual depreciation expense based on estimated plant as of December 31, 2013. (Pous)**

(OPC ISSUE 8B): Is Gulf's quantification of the level of interim ~~requirements~~retirements for Account 343-Other Production Prime Movers appropriate? If not, what adjustment should be made?

OPC: **No. The Company's projection of future interim retirements for Account 343-Other Production Prime Movers is unreasonably high. The Company's projected 2.0% interim retirement rate should be reduced to 1.0%, which results in a $1,111,513 reduction in annual depreciation expense based on estimated plant as of December 31, 2013. A 1.0% interim retirement level provides the Company with approximately $1.2 million of future expected annual interim retirements at the Smith combined cycle station. This value provides the Company with more than adequate protection as it gains more and representative empirical data for its new combined cycle generation facility. (Pous)**

(OPC ISSUE 8C): What is the appropriate level of interim retirement-related production net salvage?

OPC: **The Company has proposed terminal net salvage values based on dismantlement studies for its fossil generating facilities as well as a -25% net salvage associated with plant retired prior to the retirement of the entire generating unit. A further modification is appropriate, because the likelihood of major system additions due to environmental considerations is no longer expected to be of the same magnitude that occurred during the 2004-2009 period. The Company should continue to use the existing -20% net salvage. This approach results in a $938,853 reduction in annual depreciation expense based on estimated plant as of December 31, 2013. (Pous)**

(OPC ISSUE 8D): Based on the decisions made in OPC Issues 8A, 8B, and 8C, what are the appropriate depreciation rates for production plant?

OPC: **The appropriate depreciation rates are those shown on Exhibit JP-1 attached to the prefiled testimony of OPC witness Jacob Pous, Pages 1–6 of 9. (Pous)**

Issue 9: Are Gulf's proposed depreciation parameters and resulting rates for transmission, distribution, general and intangible plant accounts appropriate? If not, what adjustments should be made?

NOTE: **OPC WILL ADVOCATE THE FOLLOWING SUBISSUES, EACH OF WHICH REFLECTS A SPECIFIC DISPUTE ARISING FROM COMPETING TESTIMONY ADDRESSING A PROPOSED ADJUSTMENT AND EACH OF WHICH PRESENTS AN EXPLICIT DECISION POINT FOR THE COMMISSION**

OPC ISSUE 9A: What are the appropriate average service lives for the following mass property accounts?

- Account 350.2 – Transmission Easements and Rights-of-Way

OPC: **The Company's proposal significantly understates the realistic life expectations for the investment in this account. Almost all the investment in this account is associated with perpetual easements. Therefore, an average life expectancy of well over 100 years, or as long as the Company is providing electric service, is more indicative of the typical nature of the property than the Company's proposed 65-year level. However, a gradual movement in that direction is reasonable, and a 90R5 life-curve combination should be used. This results in an $88,959 decrease in annual depreciation expense based on estimated plant as of December 31, 2013. (Pous)**

- Account 353- Transmission Station Equipment

OPC: **The Company's proposal is not indicative of the results of its actuarial analyses. A 48L0 life-curve combination is a materially better fit to the Observed Life Tables (OLT) and results in a $443,434 reduction in annual depreciation expense, based on estimated plant as of December 31, 2013. (Pous)**

- Account 356 – Transmission Overhead Conductors

OPC: **The Company's proposed life is too short. Given the level of the Average Service Life (ASL) in question, more significance should be given to the longer experience band analyses. A 54- to 55-year life is indicated with a longer band and a 52-year life is indicated for the shorter band. Accordingly, a 53R0.5 is the most appropriate value to be utilized in this**

proceeding. The recommended adjustment results in a $279,212 reduction in annual depreciation expense, based on estimated plant as of December 31, 2013. (Pous)

- Account 364- Distribution Poles and Fixtures

OPC: **The Company's proposal unreasonably shortens the ASL. The trend in the industry, as well as in Florida, has been to adopt longer ASLs than previously utilized. Values in the upper-30 to even mid- or upper-40-year range or longer are being recognized by the industry as better treatment and inspection programs are implemented. Therefore, retention of the existing 34-year ASL is warranted in this proceeding. The recommended adjustment results in a $435,231 reduction in annual depreciation expense, based on estimated plant as of December 31, 2013. (Pous)**

- Account 365 – Distribution Overhead Conductors

OPC: **The Company's proposal results in an artificially short ASL. As more current experience is relied upon, the trend reflects an increase in ASL. In addition, there was a slight increase in ASL indications based on rolling band SPR analyses. Therefore, a conservative estimate would be to increase the ASL by only two years more than what Gulf proposed. A 42R1 life-curve combination should be adopted, which results in a $275,610 reduction in annual depreciation expense, based on estimated plant as of December 31, 2013. (Pous)**

- Account 367 – Distribution Underground Conductors and Devices

OPC: **The Company's proposal for a 34S2 life-curve combination has artificially limited the increase in ASL to only two years. In order to more realistically but gradually recognize the lengthening in ASL, and to be cognizant of the mid-30-year values relied upon by both FPL and PEF, the increase in ASL should be to a 39R2 life-curve combination. The recommended adjustment results in a $854,147 reduction in annual depreciation expense, based on estimated plant as of December 31, 2013. (Pous)**

- Account 368- Distribution Line Transformers

OPC: **The Company's proposal for a 32S0 life-curve combination, a two-year increase from the existing 30-year ASL, represents a step in the right direction, but the step is inadequate. The Company's curve choice is not even in the top five best-fitting curves for all of the various bands analyzed. From a statistical standpoint, an ASL between 33 and 37 years would be more appropriate. In addition, the trend in the data is that life indications are increasing. Thus, the higher end of the statistical indications would be a more appropriate selection. Therefore, a 34R0.5 life-curve combination should be used, which results in a $1,149,526 reduction in annual**

depreciation expense, based on estimated plant as of December 31, 2013. (Pous)

- Account 369.1 - Distribution Overhead Services

OPC: **The Company's proposed 40R1 life-curve combination, a five-year increase over the existing 35-year ASL, represents a step in the right direction. However, it still significantly understates the ASL expectations based on Simulated Property Records (SPR) analyses. The Company's curve choice is not even in the top five best-fitting curves for all of the various bands analyzed. The statistical results of the SPR analyses indicate a longer ASL than the Company proposal. The resulting ASLs for the four bands indicate an ASL range between 45 and 54 years, with a corresponding trend toward longer ASL expectations. Therefore, a 44R1 life-curve combination should be used as a conservative estimate, which results in a $227,445 reduction in annual depreciation expense, based on estimated plant as of December 31, 2013. (Pous)**

- Account 370.1 – Distribution Meters – AMR

OPC: **The Company's proposal for a 15R1 life-curve combination is artificially short. Manufacturers have indicated a 20-year life or greater and other utilities have proposed 20-year or greater periods. Therefore, a 20R1 life-curve combination should be used, which results in a $1,137,609 reduction in annual depreciation expense, based on estimated plant as of December 31, 2013. (Pous)**

- Account 373- Distribution Street Lights

OPC: **A longer ASL than the Company's proposal for a 22L1 life-curve combination is warranted. The historical change out of streetlights due to technological advancements reflected in the Company's data, and the fact that it is unlikely that future technological changes will occur as frequently, would further indicate that a longer ASL is warranted. Therefore, a 24L0.5 life-curve combination should be used, which results in a $433,994 reduction in annual depreciation expense, based on estimated plant as of December 31, 2013. (Pous)**

- Account 390- General Plant Structures and Improvements

OPC: **The Company's proposed 45S1.5 life-curve combination is artificially short. More than two-thirds of the investment in the account is associated with 10 structures owned by the Company; one-third of the entire amount of the account relates to the Company's corporate office, which is its single largest facility. Given that the majority of the investment in this account relates to brick and glass, metal, concrete block and precast concrete buildings, a longer life than that proposed by the Company is warranted. Therefore, a**

minimum increase of five years in the ASL should be adopted. A 50S0.5 life-curve combination should be used, which results in a $325,041 reduction in annual depreciation expense, based on estimated plant as of December 31, 2013. (Pous)

- Account 303 – Intangible Plant- Software

OPC: **The Company's proposal for a seven-year amortization of its investment in intangible software should be increased. The Company failed to provide any basis or identification associated with its software other than total dollar amounts added to the account, by year, since 2010. New software installed subsequent to the Y2K episode has normally been developed on an architectural basis that allows for scalability and modularization. In other words, rather than having to retire an entire software system once necessary modifications are identified or growth in items being addressed in the software have grown significantly, newer software permits continued use of the base software system with updates, modifications, or enhancements. Given that the Company initiated Account 303 – Intangible Software in 2010 with an approximate $13 million investment, it must be presumed that such investment is a major software system capable of lasting more than seven years. Therefore, a 10-year amortization period should be used as an initial step, which results in a $940,535 reduction, based on plant reflected in the Company's depreciation study. Further, the Commission should order the Company to fully identify its various software systems, their respective functions, the vendors, and all basis and support for life expectations, including specific discussions as to the total replacement of systems versus the changing out of components. Gulf should be required to present this information in its next depreciation study. (Pous)**

OPC ISSUE 9B: What is the appropriate net salvage for the following mass property accounts?

- Account 356- Transmission Overhead Conductors and Devices

OPC: **The Company's proposal to retain the existing -30% net salvage is excessively negative. While trends to less negative net salvage values and indications of economies of scale as exhibited in the historical data indicate a net salvage value in the -5% to -10% range, a conservative estimate at this point in time would result in a reduction in negative net salvage to a -20%. Use of this value results in a $261,960 reduction in annual depreciation expense, based on estimated plant as of December 31, 2013. (Pous)**

- Account 362 – Distribution Station Equipment

OPC: **The Company has shown no adequate basis to change from the existing -5% net salvage to a -8% net salvage. On the other hand, the Company's failure to quantify gross salvage prior to 2006, the intermittent activity associated with transformer retirements, and the much higher scrap price of copper**

support the retention of a -5% net salvage (and possibly even a less negative value). Retaining the -5% net salvage results in a $198,610 reduction in annual depreciation expense, based on estimated plant as of December 31, 2013. (Pous)

- Account 368- Distribution Line Transformers

OPC: **The Company's proposal for a more negative net salvage value of -24% is not warranted. Investigation into the quantity and types of transformers retired during the past 10 years supports retention of the existing -20% value. In addition, line transformers contain copper, and as previously noted the price of scrap copper has escalated by hundreds of percent during the past decade. Therefore, the -20% net salvage should be retained. This results in a $429,037 reduction in annual depreciation expense, based on estimated plant as of December 31, 2013. (Pous)**

- Account 390- General Plant Structures and Improvements

OPC: **A positive 10% net salvage is a first step to a more realistic value than the Company's proposal for a -5% net salvage. For this Company, the vast majority of its investment in this account is associated with offices and warehouses owned by the Company. When brick and steel buildings are sold 40, 50, 70, or even longer years after they are placed into service, they can be expected to yield quite significant levels of positive net salvage. The Commission should order the Company to properly analyze the investment in this account for its next depreciation study, fully taking into account its ownership of offices and warehouses and the likelihood of potential sales of such facilities when they are no longer required for utility service. Using a positive 10% net salvage results in a $392,480 reduction in annual depreciation expense, based on estimated plant as of December 31, 2013. (Pous)**

- Account 392.3 – General Plant Heavy Trucks

OPC: **Retention of the existing positive 15% net salvage instead of Gulf's requested positive 13% net salvage is warranted. The decline in the level of positive net salvage referenced by the Company is driven heavily by a single year. Gulf experienced higher levels of net salvage experienced during the past 20 years. Individual large trucks can be in poorer condition in certain years compared to other years. The existing positive 15% net salvage is indicative of both the 15- and 20-year band analyses performed by the Company. Therefore, the positive 15% net salvage should be retained, which results in a $116,397 reduction in annual depreciation expense, based on estimated plant as of December 31, 2013. (Pous)**

<u>Issue 10</u>: Is Gulf's base cost of dismantlement appropriate? If not, what adjustments should be made?

OPC: **No. The requested dismantlement expense should be reduced on an annual basis by $6,288,508. (Pous)**

Issue 10A: Is Gulf's 10% contingency component for dismantlement appropriate?

OPC: **No. The Company's estimate reflects the worst-case scenario of total dismantlement. It also includes high-side cost estimates corresponding to activities that are not required. Therefore, the Company has already incorporated positive levels of contingency in its estimate. To the extent any contingency is to be considered, a negative contingency is more appropriate. (Pous)**

Issue 10B: Did Gulf properly apply the Commission's methodology as set forth in Rule 25-6.04364, F.A.C., for escalating future costs and discounting those costs to net present value?

OPC: **No. Gulf escalated future gross costs, but did not properly discount consistent net future costs to a net present value and thus has overstated dismantlement costs. (Pous)**

Issue 10C: Based on the decisions in Issues 10 through 10B, what is the appropriate annual accrual for dismantlement?

OPC: **The appropriate annual accrual for dismantlement is $734,828. (Pous)**

Issue 11: What should the implementation date for the recommended depreciation rates, amortizations and dismantlement provisions be?

OPC: **No position at this time.**

Issue 12: What, if any, corrective reserve allocations should be made?

OPC: **No position at this time.**

Transmission Projects

GULF/STAFF ISSUE: Are the following transmission projects related to Plant Crist appropriate and prudent for cost recovery?

a. Pensacola SVC (Alligator Swamp) (in-service date 2015)
b. Alligator Swamp Capacitor Bank (in-service date 2015)
c. North Brewton – Alligator Swamp 230 kV line (in-service date 2015)
d. Alligator Swamp Substation (in-service date 2015)
e. West Pensacola Capacitor Bank (Bellview) (in-service date 2015)
f. Brentwood – Scenic Hills 115 kV Transmission Line Reconductor (in-service date 2017)

g. West Pensacola +/- 100 MVAR Static VAR Compensator (SVC) (in-service date 2018)

NOTE: **AS AGREED BY STAFF AND PARTIES, OPC HAS PROVIDED ITS POSITIONS IN RESPONSE TO THE ALTERNATIVE FORMULATION OF TRANSMISSION PROJECT ISSUES SUPPORTED BY OPC BELOW**

GULF/STAFF ISSUE: If the Commission approves Gulf's request to recover the costs of transmission upgrades for Plant Crist listed in Issue _____ above, should those costs be recovered through the Environmental Cost Recovery Clause (ECRC)?

OPC:

GULF/STAFF ISSUE: Are the following transmission projects related to Plant Smith appropriate and prudent for cost recovery?

a. Rebuild Holmes Creek – Bonifay Tap Section Double Circuit (in-service date 2014)
b. Holmes Creek – Highland City Capacitor New 230 kV – Autobank (in-service date 2014)
c. Holmes Creek – Highland City new 230 kV – Cap Bank (in-service date 2014)
d. Holmes Creek – Highland City New 230 kV Transmission Line (in-service date 2015)
e. Panama City SVC (Highland City) (in-service date 2015)

OPC:

GULF/STAFF ISSUE: If the Commission approves Gulf's request to recover the costs of transmission upgrades for Plant Smith listed in Issue _____ above, should those costs be recovered through the Environmental Cost Recovery Clause (ECRC)?

OPC:

GULF/STAFF ISSUE: Should the Commission approve Gulf's request to recover $637,000 in revenue requirements for the following transmission projects that are projected to go into service during the 2014 projected test year?

a. Rebuild Holmes Creek – Bonifay Tap Section Double Circuit
b. Holmes Creek – Highland City Capacitor new 230 kV – Autobank
c. Holmes Creek – Highland City New 230 kV – Cap Bank

OPC:

OPC ISSUE: With respect to the Plant Crist transmission upgrade project that Gulf has identified, which includes the following components, projected in-service dates, and projected expenditures ("PE"):

a. Pensacola SVC (Alligator Swamp) (in-service date 2015)(PE ____)
b. Alligator Swamp Capacitor Bank (in-service date 2015) (PE ____)
c. North Brewton–Alligator Swamp 230 kV line (in-service date 2015)(PE ____)
d. Alligator Swamp Substation (in-service date 2015) (PE ____)
e. West Pensacola Capacitor Bank (Bellview) (in-service date 2015) (PE ____)

A. Has Gulf Power demonstrated that the above Plant Crist transmission upgrade project components satisfy the eligibility criteria of the Environmental Cost Recovery Clause (ECRC) established in Order No. PSC-94-0044-FOF-EI, such that the Commission should grant Gulf's request for authority to recover the costs of the project through the ECRC as they are incurred?

OPC: **No. The proposed transmission upgrades for Plant Crist do not meet the criteria established by the Commission to be eligible for recovery through the Commission's ECRC as requested by Gulf. The primary criteria for cost recovery through the ECRC are that costs be prudently incurred and legally required to comply with environmental regulations. The proposed transmission upgrades are not required to comply with any environmental regulation and do not control emissions, and thus are ineligible for the ECRC. (Norwood)**

B. (If the answer to A above is in the negative) In the alternative, has Gulf demonstrated that any portions of the transmission upgrade project for Plant Crist identified in (A) above are reasonable, prudent and will enter into service in 2014, such that the Commission should authorize Gulf to include said portions in rate base and recover related costs through the 2014 base rates established in this proceeding? If the answer is in the affirmative, what is the amount of the project costs that should be included in test year revenue requirements?

OPC: **No. Gulf has neither performed an analysis to support its Must-Run unit designations and operating policies for Plant Crist, nor documented instances in which the plant has been operated primarily for Must-Run (rather than economic) purposes in the past. Due to Gulf's failure to provide support for the Company's Must-Run policies, there is no basis for concluding that the $76 million that the Company proposes to invest for Plant Crist transmission upgrades is prudent and justified by projected fuel savings arising from the elimination of Must-Run operating constraints at Plant Crist. (Norwood)**

C. (If the answer to A is in the negative): Has Gulf demonstrated that any portions of the Plant Crist transmission upgrade project are reasonable, prudent, and will be in service as of June 30, 2015? If the answer is in the affirmative, should the Commission approve now any portion of the $16,392,000 (total) "step increase" sought by Gulf to become effective on July 1, 2015 that is associated with Plant Crist transmission upgrade costs?

OPC: **No. Because of Gulf's failure to establish the prudence of proposed transmission upgrades for Plant Crist in this case and the significant uncertainty which exists in the forecasted level of such costs in 2016, Gulf's alternative request to approve the recovery of the Plant Crist transmission upgrade costs through an initial increase in base rates followed by a July 2015 step increase to base rates should be denied. (Norwood)**

OPC ISSUE: With respect to the Plant Smith transmission upgrade project that Gulf has identified, which includes the following components:

a. Rebuild Holmes Creek – Bonifay Tap Section Double Circuit (in-service date 2014) (PE ____)
b. Holmes Creek – Highland City Capacitor New 230 kV – Autobank (in-service date 2014) (PE ____)
c. Holmes Creek – Highland City new 230 kV – Cap Bank (in-service date 2014) (PE ____)
d. Holmes Creek – Highland City New 230 kV Transmission Line (in-service date 2015) (PE ____)
e. Panama City SVC (Highland City) (in-service date 2015) (PE ____)

A. Has Gulf Power demonstrated that the above Plant Smith transmission upgrade project components satisfy the eligibility requirements of the Environmental Cost Recovery Clause (ECRC) established in Order No. PSC-94-0044-FOF-EI, such that the Commission should grant Gulf's request for authority to recover the costs of the project through the ECRC as they are incurred?

OPC: **No. The proposed transmission upgrades for Plant Smith do not meet the criteria established by the Commission to be eligible for recovery through the Commission's ECRC as requested by Gulf. The primary criteria for cost recovery through the ECRC are that costs be prudently incurred and legally required to comply with environmental regulations. The proposed transmission upgrades are not required for environmental compliance and do not control emissions. The project, therefore, is ineligible for the ECRC. In addition, Gulf's analysis for Plant Smith failed to consider the alternative of retiring the plant, despite the fact that an October 2012 Gulf study indicated that retirement of the Plant Smith coal units could result from additional regulations being developed by the EPA. Gulf's proposed "compliance" plan could result in significant unnecessary stranded investments if the cost of complying with future, additional regulations currently being considered by the EPA ultimately leads to the early retirement of Plant Smith. In addition to the ineligibility based on the fact that the project is not required to comply with an environmental regulation, this deficiency in Gulf's analysis for Plant Smith demonstrates that Gulf has not proven that the project is prudent. (Norwood)**

B. (If the answer to (A) is in the negative) In the alternative, has Gulf demonstrated that portions of the Plant Smith transmission upgrade project identified in (A) above are reasonable, prudent and will enter into service in 2014, such that the

Commission should authorize Gulf to include said portions scheduled for completion in 2014 in rate base and recover the related costs through the 2014 base rates established in this proceeding? If the answer to (B) is yes, what is the amount of project costs that should be included in test year revenue requirements?

OPC: **No. Gulf has neither performed an analysis to support its Must-Run unit designations and operating policies for Plant Smith, nor documented instances in which the plant has been operated primarily for Must-Run (rather than economic) purposes in the past. Due to Gulf's failure to provide support for the Company's Must-Run policies, there is no basis for concluding that the $77 million that the Company proposes to invest for transmission upgrades is prudent and justified by projected fuel savings arising from the elimination of Must-Run operating constraints at these plants. In addition, Gulf's analysis for Plant Smith failed to consider the alternative of retiring the plant, despite the fact that an October 2012 Gulf study indicated that retirement of the Plant Smith coal units could result from additional regulations being developed by the EPA. Gulf's proposed Plant Smith transmission project could result in significant and unnecessary stranded investments if the cost of complying with future, additional regulations currently being considered by the EPA ultimately leads to the early retirement of Plant Smith. This deficiency in Gulf's analysis for Plant Smith is a further indication that Gulf has not met its burden to prove the prudence of its proposal. (Norwood)**

C. (If the answer to (A) is in the negative): Has Gulf demonstrated that portions of the Plant Smith transmission upgrade project are reasonable, prudent, and will be in service as of June 30, 2015? If the answer is in the affirmative, should the Commission approve now any portion of the $16,392,000 (total) "step increase" sought by Gulf to become effective on July 1, 2015 that is associated with the Plant Smith transmission upgrade project costs?

OPC: **No. Gulf has neither performed an analysis to support its Must-Run unit designations and operating policies for Plant Smith, nor documented instances in which the plant has been operated primarily for Must-Run (rather than economic) purposes in the past. Due to Gulf's failure to provide support for the Company's Must-Run policies, there is no basis for concluding that the $77 million that the Company proposes to invest for Plant Smith transmission upgrades is prudent and justified by projected fuel savings arising from the elimination of Must-Run operating constraints at Plant Smith. In addition, Gulf's analysis for Plant Smith failed to consider the alternative of retiring the plant, despite the fact that an October 2012 Gulf study indicated that retirement of the Plant Smith coal units could result from additional regulations being developed by the EPA. Gulf's proposed "compliance" plan could result in significant unnecessary stranded investments if the cost of complying with future, additional regulations currently being considered by the EPA ultimately leads to the early retirement of Plant Smith. This deficiency in Gulf's environmental compliance analysis for Plant Smith raises additional serious questions**

regarding the prudence of Gulf's proposed environmental compliance plan and transmission upgrade investments for Plant Smith. Because of Gulf's failure to establish the prudence of proposed transmission upgrades for Plant Smith in this case and the significant uncertainty which exists in the forecasted level of such costs in 2016, Gulf's alternative request to approve the recovery of the Plant Smith transmission upgrade costs through an initial increase in base rates followed by a July 2015 step increase to base rates should be denied. (Norwood)

Rate Base

Issue 13: Should capital items currently approved for recovery through the Environmental Cost Recovery Clause be included in rate base for Gulf? If not, what adjustment should be made?

OPC: **No position at this time.**

Issue 14: Has the Company removed all non-utility activities from rate base? If not, what adjustment should be made?

OPC: **No position at this time.**

Issue 15: Is Gulf's requested level of Plant in Service in the amount of $2,944,168,000 ($2,999,897,000 system) for the 2014 projected test year appropriate? If not, what is the appropriate amount?

OPC: **No. Plant in Service should be reduced by at least $2,375,000 to remove the capitalized portion of Incentive Compensation and by $2,319,000 to remove the amount of the transmission projects included in the test year. This results in a jurisdictional balance of $2,939,475,000 for Plant in Service. (Garrett)**

Issue 16: Is Gulf's requested level of Accumulated Depreciation in the amount of $1,243,319,000 ($1,268,049,000 system) for the 2014 projected test year appropriate? If not, what is the appropriate amount?

OPC: **No. Accumulated Depreciation should be reduced by $10,000 to remove the amount related to the transmission projects included in the test year. This results in a jurisdictional balance of $1,243,309,000 for Accumulated Depreciation. (Garrett, Norwood)**

Issue 17: Is Gulf's requested level of Construction Work in Progress in the amount of $26,656,000 ($27,290,000 system) for the 2014 projected test year appropriate? If not, what is the appropriate amount?

OPC: **No. Construction Work in Progress should be reduced by $4,110,000 to**

remove the amount related to the transmission projects included in the test year. This results in a jurisdictional balance of $22,546,000 for Construction Work in Progress. (Garrett, Norwood)

Issue 18: Is Gulf's requested level of Property Held for Future Use in the amount of $5,276,000 ($5,435,000 system) for the 2014 projected test year appropriate? If not, what is the appropriate amount?

OPC: **No position at this time.**

Issue 19: Should any adjustments be made to Gulf's fuel inventories for the projected 2014 test year?

OPC: **No position at this time.**

Issue 20: Should any adjustments be made to the net Prepaid Pension Assets included in the Working Capital Allowance?

OPC: **No position at this time.**

Issue 21: Is Gulf's proposed level of Working Capital for the 2014 projected test year appropriate? If not, what is the appropriate amount?

OPC: **No position at this time.**

Issue 22: Is Gulf's requested rate base in the amount of $1,883,901,000 ($1,919,769,000 system) for the 2014 projected test year appropriate? If not, what is the appropriate amount?

OPC: **No. The appropriate level of rate base for the 2014 projected test year is $1,875,108,000 (jurisdictional). The company's requested level should be reduced by $8,793,000 to remove the capitalized portion of incentive compensation and the amounts related to the transmission projects included in the test year. (Garrett, Norwood)**

Cost of Capital

Issue 23: What is the appropriate amount of accumulated deferred taxes to include in the capital structure for the 2014 projected test year?

OPC: **As stated in the prefiled testimony of OPC witness Woolridge, OPC has not taken issue with the Company's "per books" proposed capital structure which includes accumulated deferred taxes. The proper reconciliation of rate base to capital structure is not, however, addressed by OPC witness Woolridge. The Commission should ensure that customer-provided sources of funds are properly accounted for in the jurisdictional capital structure supporting rate base.**

Issue 24: What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure for the 2014 projected test year?

OPC: **OPC has not taken issue with the Company's "per books" proposed capital structure, which includes unamortized investment tax credits. (Woolridge)**

Issue 25: What is the appropriate cost rate for customer deposits for the 2014 projected test year?

OPC: **OPC does not take issue with the customer deposits cost rate that Gulf has employed in this case.**

Issue 26: What is the appropriate cost rate for short-term debt for the 2014 projected test year?

OPC: **OPC does not take issue with the short-term debt cost rate that Gulf has employed in this case.**

Issue 27: What is the appropriate cost rate for long-term debt for the 2014 projected test year?

OPC: **OPC does not take issue with the long-term debt cost rate that Gulf has employed in this case.**

Issue 28: What is the appropriate cost rate for preference stock for the 2014 projected test year?

OPC: **OPC does not take issue with the cost rate for preference stock that Gulf has employed in this case.**

Issue 29: What is the appropriate return on equity (ROE) to use in establishing Gulf's revenue requirement?

OPC: **Based on OPC witness Dr. Woolridge's analyses, in which he employed the Discounted Cash Flow Model ("DCF") and the Capital Asset Pricing Model ("CAPM"), the appropriate ROE for Gulf Power is 9.00%. Gulf's request of 11.50% is grossly overstated for reasons developed in Dr. Woolridge's testimony. (Woolridge)**

Issue 30: What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure for the 2014 projected test year?

OPC: **Using Gulf's proposed capital structure ratios, and after adjustments for the appropriate ROE, the appropriate weighted average cost of capital is 5.52%. (Woolridge, Garrett)**

Net Operating Income

Issue 31: Is Gulf's projected level of Total Operating Revenues in the amount of $528,651,000 ($544,999,000 system) for the 2014 projected test year appropriate? If not, what is the appropriate amount?

OPC: **No, the projected 2014 test year revenues should be increased by at least $1,242,842 to reflect the year-end annualization of customers and usage. (Garrett)**

Issue 32: Has Gulf made the appropriate test year adjustments to remove fuel revenues and fuel expenses recoverable through the Fuel Cost Recovery Clause?

OPC: **No position at this time.**

Issue 33: Has Gulf made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Energy Conservation Cost Recovery Clause?

OPC: **No position at this time.**

Issue 34: Has Gulf made the appropriate test year adjustments to remove capacity revenues and capacity expenses recoverable through the Capacity Cost Recovery Clause?

OPC: **No position at this time.**

Issue 35: Has Gulf made the appropriate test year adjustments to remove environmental revenues and environmental expenses recoverable through the Environmental Cost Recovery Clause?

OPC: **No position at this time.**

Issue 36: Is Gulf's proposed advertising expense for the 2014 projected test year appropriate? If not, what adjustment should be made?

OPC: **No position at this time.**

Issue 37: Is Gulf's proposed tree trimming expense for the 2014 projected test year appropriate? If not, what adjustment should be made?

OPC: **No position at this time.**

Issue 38: Is Gulf's proposed pole inspection expense for the 2014 projected test year appropriate? If not, what adjustment should be made?

OPC: **No position at this time.**

Issue 39: Is Gulf's proposed production plant O&M expense for the 2014 projected test year appropriate? If not, what adjustment should be made?

OPC: **No position at this time.**

Issue 40: Is Gulf's proposed transmission O&M expense for the 2014 projected test year appropriate? If not, what adjustment should be made?

OPC: **No position at this time.**

Issue 41: Is Gulf's proposed amount of distribution O&M expense for the 2014 projected test year appropriate? If not, what adjustment should be made?

OPC: **No position at this time.**

Issue 42: Is Gulf's proposed Incentive Compensation included in the 2014 projected test year appropriate? If not what adjustment should be made?

OPC: **No. Short-term incentive compensation expense should be reduced by $8,579,000 and long-term incentive compensation should be reduced by $3,160,000. The jurisdictional adjustments should be $8,413,000 and $3,095,000, respectively. The related payroll taxes that should be removed are $656,000 (or $645,000 on a jurisdictional basis). (Garrett)**

Issue 43: Is Gulf's proposed hiring lag adjustment for the 2014 projected test year appropriate? If not, what adjustment should be made?

OPC: **No position at this time.**

Issue 44: Is Gulf's proposed adjustment to the total Payroll Expense for the 2014 projected test year appropriate? If not, what adjustment should be made?

OPC: **No. The Company has considered only limited elements of payroll costs in its projected 2014 test year payroll expense: the budgeted and forecasted pay increases, and the required hiring lag adjustments. The Company failed to consider any offsetting adjustment for productivity. The Company should recognize productivity gains, which would reduce the cost of service by $2,248,000 on a total company basis, or $2,205,000 on a jurisdictional basis. (Garrett)**

Issue 45: Is Gulf's proposed Supplemental Executive Pension Expense for the 2014 projected test year appropriate? If not, what adjustment should be made?

OPC: **No. Shareholders should pay for the costs of the supplemental executive retirement plans, while the ratepayers pay for all of the executive benefits**

included in the Company's <u>regular</u> pension plans (*i.e.*, on salary levels <u>up to</u> $255,000). Shareholders should bear the additional costs associated with supplemental benefits to highly compensated executives, since these costs are not necessary for the provision of utility service, but are instead discretionary costs of the shareholders designed to attract, retain and reward highly compensated executives. This results in a reduction of $2,220,000 on a total company basis, or $2,174,000 on a jurisdictional basis. (Garrett)

<u>Issue 46</u>: Is Gulf's proposed Pension Expense for the 2014 projected test year appropriate? If not, what adjustment should be made?

OPC: **No position at this time.**

<u>Issue 47</u>: Is Gulf's proposed Other Post Employment Benefits Expense for the 2014 projected test year appropriate? If not, what adjustment should be made?

OPC: **No position at this time.**

<u>Issue 48</u>: Is Gulf's proposed reserve target level and annual storm damage accrual of $8,860,586 ($9,000,000 system) for the 2014 projected test year appropriate? If not, what is the appropriate amount?

OPC: **No. The annual storm damage reserve accrual should be eliminated altogether. The storm damage reserve is not intended to cover super storms. Gulf is currently engaged in storm hardening activities that are intended to mitigate storm losses. An accrual for infrequently occurring major storms creates intergenerational inequities, whereby current ratepayers fund recovery costs for future ratepayers' losses. Large storm accruals embedded in base rates create an additional profit center for the Company to the extent that load growth results in higher amounts being collected in rates than the fixed amounts being credited to the reserve account each year. The Commission in recent decisions has authorized the elimination of storm damage accruals for Duke Energy, FPL, and Tampa Electric Company, leaving Gulf Power as the only major electric utility with a storm damage accrual. Based upon these considerations, the Company's requested accrual is unwarranted. The projected 2014 expense of $9,000,000 on a total company basis should be removed. (Garrett)**

<u>Issue 49</u>: Is Gulf's proposed accrual for the Injuries & Damages reserve for the 2014 projected test year appropriate? If not, what adjustment should be made?

OPC: **No position at this time.**

<u>Issue 50</u>: Are Gulf's proposed expenses related to company-owned or affiliate company-owned aircraft and related travel appropriate? If not, what adjustment should be made?

OPC: **No. The Company has not shown that the use of private aircraft is**

reasonable or necessary for the provision of utility service. Travel by private aircraft is a luxury, and if shareholders wish to provide this perquisite for Company employees, the shareholders, rather than the ratepayers, should absorb the associated costs. Therefore, 2014 projected test year expenses should be reduced on a total company basis by $2,244,000, or $2,198,000 on a jurisdictional basis. (Garrett)

Issue 51: Is Gulf's proposed expense related to Directors and Officers Liability Insurance appropriate? If not, what adjustment should be made?

OPC: **No. In the Company's last rate case, the Commission determined that the D&O liability insurance costs should be shared equally between the shareholders and the ratepayers. The $95,000 premium is the amount attributable to Gulf's D&O liability insurance. The fact that Southern Company Services may have additional D&O premiums that are not attributable to Gulf does not mean that Gulf's ratepayers should bear all of its D&O insurance costs. Therefore, 2014 projected test year expenses should be reduced by $48,000 on a total company basis, or $47,000 on a jurisdictional basis. (Garrett)**

Issue 52: Is Gulf's proposed Rate Case Expense for the 2014 projected test year appropriate? If not, what adjustment should be made?

OPC: **No. Given that Gulf filed the current rate case approximately 15 months after the issuance of the order in the last rate case, the Commission should not allow Gulf to "double recover" or "pancake" rate case expense. Gulf should not be allowed to continue deferring and recovering the unamortized rate case expense associated with the prior rate case and the Commission should heavily scrutinize claimed rate case expense, given the proximity in time of the current filing to the previous one.**

Issue 53: Is Gulf's proposed Bad Debt Expense for the 2014 projected test year appropriate? If not, what adjustment should be made?

OPC: **No. Given the improvement in Gulf's collections, the use of a three-year average is appropriate and yields an uncollectible factor of 0.2801%, resulting in a total company reduction in uncollectible expense of $146,000 or $144,000 on a jurisdictional basis.**

Issue 54: What adjustment, if any, should be made to account for affiliated activities/transactions for the 2014 projected test year?

OPC: **Gulf has the burden of demonstrating that all affiliated transactions (including benefits provided to, or costs imposed by, its affiliates and non-regulated operations) are properly accounted for, consistent with the Commission's rules and policies related to such transactions. The absence of a specific adjustment discovered and/or proposed by a party or staff does not**

relieve the Company of its obligation to affirmatively disclose and properly account for such transactions.

<u>Issue 55</u>: Is Gulf's requested level of O&M Expense in the amount of $290,199,000 ($295,916,000 system) for the 2014 projected test year appropriate? If not, what is the appropriate amount?

OPC: **No. After OPC's recommended adjustments, the appropriate amount is $262,682,000. (Garrett)**

<u>Issue 56</u>: What is the appropriate amount of depreciation and fossil dismantlement expense for the 2014 projected test year?

OPC: **After OPC's recommended adjustments, the appropriate amount is $90,593,000. (Pous, Garrett)**

<u>Issue 57</u>: Should an adjustment be made to Taxes Other Than Income Taxes for the 2014 projected test year?

OPC: **The appropriate amount of taxes other than income should be $31,103,000. This reflects a reduction to Gulf's requested balance of $814,000 for OPC's recommended incentive compensation adjustment and payroll productivity adjustment. (Garrett)**

<u>Issue 58</u>: Should the current amortization of investment tax credits (ITCs) and flow back of excess deferred income taxes (EDITs) be revised to reflect the approved depreciation rates and amortizations?

OPC: **No position at this time.**

<u>Issue 59</u>: Is it appropriate to make a parent debt adjustment per Rule 25-14.004, Florida Administrative Code? If so, what adjustment should be made?

OPC: **No position at this time.**

<u>Issue 60</u>: Should an adjustment be made to Income Tax expense for the 2014 projected test year?

OPC: **Yes. Federal & State Income Taxes should be increased by $16,837,000.**

<u>Issue 61</u>: Is Gulf's requested level of Total Operating Expenses in the amount of $452,292,000 ($463,445,000 system) for the 2014 projected test year appropriate? If not, what is the appropriate amount?

OPC: **No. After OPC's recommended adjustments, the appropriate Total Operating Expenses should be $426,886,000 (jurisdictional). (Garrett)**

Issue 62: Is Gulf's projected Net Operating Income in the amount of $76,359,000 ($81,554,000 system) for the 2014 projected test year appropriate? If not, what is the appropriate amount?

OPC: **No. After OPC's recommended adjustments, the appropriate Net Operating Income should be $103,008,000 (jurisdictional). (Garrett)**

Revenue Requirements

Issue 63: What is the appropriate revenue expansion factor and the appropriate net operating income multiplier, including the appropriate elements and rates for Gulf?

OPC: **The appropriate net operating income multiplier is 1.633760. (Garrett)**

Issue 64: Is Gulf's requested annual operating revenue increase of $74,393,000 for the 2014 projected test year appropriate? If not, what is the appropriate amount?

OPC: **No. OPC's recommended adjustments, including OPC's recommended treatment of the described transmission upgrades, indicate a revenue increase of no more than $814,000 for January 2014 and $0 for July 2015. (Garrett)**

Issue 65: Should the Commission approve Gulf's request to recover a step increase of $16,392,000, effective July 1, 2015, for the Plant Crist and Plant Smith transmission upgrade projects listed in Issues Nos. _____ and ______ above?

OPC: **No. Gulf has neither performed an analysis to support its Must-Run unit designations and operating policies, nor documented instances in which the plants have been operated primarily for Must-Run (rather than economic) purposes in the past. Due to Gulf's failure to provide support for the Company's Must-Run policies, there is no basis for concluding that the $153 million that the Company proposes to invest for transmission upgrades is prudent and justified by projected fuel savings arising from the elimination of Must-Run operating constraints at these plants. In addition, Gulf's analysis for Plant Smith failed to consider the alternative of retiring the plant, despite the fact that an October 2012 Gulf study indicated that additional regulations being considered by the EPA could lead to the retirement of the Plant Smith coal units. In the event of such retirements, Gulf's proposed Plant Smith transmission project could result in significant unnecessary stranded investments. This deficiency in Gulf's analysis for Plant Smith demonstrates further that Gulf has not met its burden to prove the prudence of the Plant Smith transmission project. (Norwood)**

Cost of Service and Rate Design

__Issue 66__: What is the appropriate treatment of distribution costs within the cost of service study?

OPC: **No position.**

__Issue 67__: What is the appropriate Cost of Service Methodology?

OPC: **No position.**

__Issue 68__: How should any change in the revenue requirement approved by the Commission be allocated among the customer classes?

OPC: **No position.**

__Issue 69__: Is Gulf's proposal to restate the residential Base Charge as a daily amount rather than a monthly amount appropriate?

OPC: **No position.**

__Issue 70__: Should Gulf's proposed new experimental Small Business Incentive Rider (SBIR) be approved?

OPC: **No position.**

__Issue 71__: Should Gulf's proposed new experimental Large Business Incentive Rider (LBIR) be approved?

OPC: **No position.**

__Issue 72__: Is Gulf's proposed change in designation of revenues received under the Real Time Pricing (RTP) rate schedule appropriate?

OPC: **No position.**

__Issue 73__: Are Gulf's proposed modifications to Form 4 which contains the Lighting Pricing Methodology appropriate?

OPC: **No position.**

__Issue 74__: What are the appropriate service charges (Non-residential connection of initial and existing service, Restoration Charge, Premise Visit Charge)?

OPC: **No position.**

__Issue 75__: What are the appropriate base charges?

OPC: **No position.**

Issue 76: What are the appropriate demand charges?

OPC: **No position.**

Issue 77: What are the appropriate energy charges?

OPC: **No position.**

Issue 78: What are the appropriate Standby Charges?

OPC: **No position.**

Issue 79: What are the appropriate lighting charges?

OPC: **No position.**

Issue 80: What are the appropriate transformer ownership credits?

OPC: **No position.**

Issue 81: If approved, how should the step increase in revenue requirement effective July 1, 2015, be allocated to the various rate classes?

OPC: **No position at this time.**

Issue 82: What is the appropriate effective date for Gulf's revised rates and charges?

OPC: **No position at this time.**

Other Issues

Issue 83: Should Gulf be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case?

OPC: **Yes.**

Issue 84: Should this docket be closed?

OPC: **No position.**

5. STIPULATED ISSUES:

None at this time.

6. PENDING MOTIONS:

None.

7. STATEMENT OF PARTY'S PENDING REQUESTS OR CLAIMS FOR CONFIDENTIALITY:

None.

8. OBJECTIONS TO QUALIFICATION OF WITNESSES AS AN EXPERT:

None at this time.

9. STATEMENT OF COMPLIANCE WITH ORDER ESTABLISHING PROCEDURE:

There are no requirements of the Order Establishing Procedure with which the Office of Public Counsel cannot comply.

Dated this 8th day of November, 2013

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and foregoing **PREHEARING STATEMENT OF THE OFFICE OF PUBLIC COUNSEL** has been furnished by electronic mail and/or U.S. Mail on this 8th day of November, 2013, to the following:

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