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May 15, 2015

Ms. Carlotta Stauffer, Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

Re: Docket No. 150112-EI - Request by Gulf Power Company to modify its  
Underground Residential Differential Tariffs

Dear Ms. Stauffer:

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

Sincerely,

A handwritten signature in black ink that reads "Robert L. McGee, Jr." in a cursive style.

Robert L. McGee, Jr.  
Regulatory and Pricing Manager

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Attachments

cc: Beggs & Lane  
Jeffrey A. Stone, Esq.  
Florida Public Service Commission  
Sue Ollila, Division of Economics

1. Referring to Revised Tariff Sheet No. 4.28, legislative format, Section 6.5.3, please explain why the binding cost estimates increased from 2012 to 2015 for each listed category.

**RESPONSE:**

The binding cost for each of the categories listed in Section 6.5.3 were not updated in 2012 as part of Underground Residential Differential filing. The increases in the 2015 filing reflect the current engineering costs that were effective January 1, 2015.

2. Please identify and explain any design changes to the low and high density subdivisions since 2012 and describe their impact on the differential charges.

RESPONSE:

176 Lot Underground:

1. The single phase transformer pad has been replaced with a single phase transformer box pad due to changes in construction standards. The improved design provides more space for installing cable and duct, and lowers the probability of bushing stress if a transformer shifts on pad. This change increases the transformer pad portion of the differential by approximately 1%.

210 Lot Underground:

1. The three phase feed thru cabinet has been replaced with a three phase switch cabinet with box pad due to changes in construction standards. The improved design is used for both 15kV and 25kV systems and optimizes stock efficiency. This change increases the three phase cabinet portion of the differential by less than 0.1%.
2. The single phase transformer pad was also replaced with a single phase transformer box pad due to design changes discussed above with the response on 176 Lot Underground subdivisions and increases the transformer pad portion of the differential by approximately 2%.

3. Are the 2015 charges for labor based on calendar year 2014 values? If not, what is the basis?

RESPONSE:

Yes.

4. Do Gulf's labor rates continue to be based on the actual labor costs negotiated in bargaining unit contracts? If yes, what is the effective beginning and end date of the current contract? If no, please explain the basis.

RESPONSE:

Yes. Gulf's labor rates continue to be based on actual labor charges that are negotiated as part of the bargaining unit contract. The current contract is effective September 15, 2014 through April 14, 2019.

5. Are the 2015 charges for material based on calendar year 2014 values? If not, what is the basis?

RESPONSE:

No. The charges are based on average unit cost effective February 22, 2015.

6. Please explain why the Engineering & Staff adder increased from 42% in 2012 to 48% in 2015 (pages 5,6,11, and 12).

RESPONSE:

The 2015 filing Engineering and Staff "E&S" adder is based on actual 2014 E&S overheads associated with 2014 construction work. The adder increased 6% due to increases in the actual 2014 E&S construction overheads relative to the actual cost of construction for 2014.

7. Does Gulf continue to use contractor labor to perform trenching activities and install duct work for underground facilities as it did in 2012? If not, please explain.

RESPONSE:

Yes.



8. Do Gulf employees continue to perform all overhead activities as in 2012?  
If not, please explain.

RESPONSE:

Yes.

9. What is the basis for the O&M Annual Escalation Percent of 2.92% used on pages 15a – 15c of the current filing?

RESPONSE:

The escalation rate used in the 2015 filing reflects the financial assumptions in effect at the time the 2015 filing was prepared which represents a 5-year average of projected inflation rates.

10. What is the basis for Discount Rate of 6.72% used on pages 15a – 15c of the current filing?

RESPONSE:

The 6.72% discount rate was derived as shown below.

Cost of Capital  
Calculation

	<u>Capital Ratio</u> (A)	<u>Pre Tax Capital Cost</u> (B)	<u>Weighted Cost</u> (C)	<u>After Tax Capital Cost (@ 38.575%)</u> (D)
Debt	50.00%	5.80%	2.90%	1.78%
Preferred Stock	5.00%	6.50%	0.33%	0.33%
Common Equity	45.00%	10.25%	4.61%	4.61%
Total	100.00%		7.84%	6.72%

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

Column D<sub>Debt</sub> = Column (C) x (1-Tax Rate)

11. The following questions refer to the 210 low density lot summary sheets (page 4) of the current filing and the 2012 filing.
  - a. Please explain why the increase of about 12% in the cost of underground labor is greater than the overhead labor increase of about 3% (\$1,480 for 2015 vs. \$1,323 for 2012 for underground and \$1,121 for 2015 vs. \$1,086 for 2012 for overhead).
  - b. Please explain why the decrease of about 12% in the cost of underground material is greater than the overhead material decrease of about 3%.
  - c. Please explain why the operating cost for overhead is increasing at a faster rate (about 23%) than underground's operating cost (about 15%).

RESPONSE:

- a. Underground labor has increased because contract labor has increased approximately 10%. With the increase in Engineering and Supervision (E&S) from 42% to 48%, the total increase is about 12%.  
  
The overhead labor increase is predominantly the increase in E&S, since the net labor cost has slightly decreased.
- b. The decrease in material costs is driven by the volume procurement of transformers. Pad mount transformers realized greater savings than overhead transformers.
- c. The overhead operating cost has increased due to increased operating and maintenance spending on the overhead system, including an increase in vegetation management spending.

12. The following questions refer to the 176 high density lot summary sheets (page 10) of the current filing and the 2012 filing.
  - a. Please explain why the increase of about 11% in the cost of underground labor is greater than the overhead labor increase of about 3%.
  - b. Please explain why the operating cost for overhead is increasing at a faster rate (about 23%) than underground's operating cost (about 15%).

RESPONSE:

See response to Item 11.

13. Please refer to Revised Tariff Sheets Nos. 4.25 – 4.26.2, legislative format, beginning with Section 6.3.2(b).
  - a. Please explain the basis for the increases.
  - b. Please explain why there is no charge per foot for certain two phases and all three phases.

RESPONSE:

- a. The underground – overhead commercial differential calculations compare the presently active unit costs for labor, material and overheads for each of the categories listed on Tariff Sheet Nos. 4.25 – 4.26.2.

The primary drivers for the cost increases with lift station installations inside a typical underground subdivision are due to increases in the associated material, labor, and overhead costs.

- b. The necessary facilities for certain lift station installations are already available due to the typical subdivision design requirements, thus incurring no added conductor costs.

14. Please refer to Revised Tariff Sheet No. 4.25, legislative format, Section 6.3.2(a). To the extent not already answered in Gulf's responses to previous questions, please explain why, for each of the three options, the cost for the low density subdivision has decreased while the cost for the high density subdivision has increased.

RESPONSE:

The primary reason for the decreased low density cost versus the increased high density cost is the physical subdivision lot layout. The layout drives the engineering design requirements for the needed facilities. Due to the design requirements and associated costs for the overhead low density subdivision, the differential is less.