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January 25, 2017

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

Re: Docket No. 160186-EI Petition for increase in rates by Gulf Power Company

Dear Ms. Stauffer:

Enclosed for filing in the above docket is the redacted Public Version of the prefiled testimony of OPC witness James R. Dauphinais.

On January 13, 2017, the Office of Public Counsel submitted one copy of the prefiled testimony of James R. Dauphinais under Gulf Power Company's (Gulf) claim of confidentiality. That testimony (along with the prefiled testimony of Donna Ramas, which was also filed under a claim of confidentiality by Gulf) was given Document No. 0483-17. This procedure was an interim measure, designed to enable OPC to adhere to the procedural schedule while providing Gulf an opportunity to review the testimony and redact the material that it regards as confidential. The enclosed Public Version reflects Gulf's review. Counsel for Gulf has provided its revised request for confidentiality, including the highlighted confidential material and the accompanying detailed justification, in a separate filing (Document No. 0863-17).

The complete, unredacted original testimony of James R. Dauphinais filed on January 13, 2017 is the evidence that the OPC intends to introduce into evidence at the hearing. We have verified that the confidential version that Gulf filed on January 25, 2017 as Document No. 0863-17 is identical to the original testimony filed on January 13th in all respects except for the yellow highlighting indicating the scope of its claim of confidentiality. The OPC has no objection to the Commission returning the non-highlighted testimony of Mr. Dauphinais to Gulf so long as the highlighted, complete version is retained in the files and treated as timely filed.

The OPC has likewise verified that the public version of Mr. Dauphinais' testimony filed here is identical in all respects except for the redactions and the stamped indications of redaction supplied by Gulf. The public version will be served on all parties and the highlighted, confidential version will be available by request under appropriate arrangements with Gulf and/or OPC. This same method will be followed when Gulf has completed its review of the Ramas testimony.

Please call if you have any questions regarding this process or filing.

Thank you for your assistance.

Sincerely,

Charles J. Rehwinkel
Deputy Public Counsel

cc: Parties of record

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was furnished by e-mail on this 25th day of Janauary, 2017 to:

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REDACTED VERSION

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for rate increase by Gulf Power Company	)))	DOCKET NO. 160186-EI
In Re: Petition for approval of 2016) depreciation and dismantlement studies, approval of proposed depreciation rates and annual dismantlement accruals and Plant Smith Units 1 and 2 regulatory asset amortization, by Gulf Power Company.	)))))))	DOCKET NO. 160170-EI FILED: January 13, 2017

~~**(GULF PRELIMINARY CONFIDENTIAL DESIGNATION)**~~

PUBLIC VERSION

DIRECT TESTIMONY

OF

JAMES R. DAUPHINAIS

ON BEHALF OF THE CITIZENS OF THE STATE OF FLORIDA

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LIST OF EXHIBITS

DIRECT TESTIMONY

OF

JAMES R. DAUPHINAIS

On Behalf of the Office of Public Counsel

Before the

Florida Public Service Commission

Docket No. 160186-EI

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A James R. Dauphinais. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q. WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility regulation and a Managing Principal of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A. I am appearing on behalf of the Florida Office of Public Counsel ("OPC").

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. This information is included in Appendix A to my testimony.

Q. PLEASE ELABORATE ON YOUR EXPERIENCE WITH RESPECT TO RESOURCE PLANNING ISSUES.

A. During my employment with Northeast Utilities Service Company ("Northeast Utilities"), prior to the implementation of FERC Order Nos. 888 and 889, the transmission planning organization I was employed within was integrated with, and part of the same functional organization, as Northeast Utilities' generation planning organization. This integration led to significant involvement by transmission planning, including myself, in resource planning analyses (e.g., the analysis of the potential net benefit of retirement of existing generation resources) and resource planning in transmission planning analyses (e.g., whether to proceed with economic transmission upgrades). In addition, while employed at Northeast Utilities, I made significant usage of the General Electric Company Multi-Area Production Simulator ("MAPS") to analyze the generation production cost associated with various transmission operating and planning alternatives on the Northeast Utilities system.

Subsequently, during my employment with BAI since 1997, I have become further involved with resource planning issues initially in support of my colleagues at BAI and later in a lead position. This work has included the review of electric utility resource plans, the review of proposed certificates of public convenience and necessity for new electric utility generation resources, the forecasting of future market prices, the forecasting of future utility rates and the evaluation of long-term power supply options. I have conducted this work both for intervenors in regulatory proceedings and specific retail end-use customer clients of BAI who were evaluating their future power supply options. I have also been extensively involved in the development of Independent

System Operator ("ISO") and Regional Transmission Organization ("RTO") - administered power markets including, but not limited to, issues related to markets for energy, operating reserves and capacity.

Q. PLEASE IDENTIFY SOME OF THE CASES IN WHICH YOU PROVIDED TESTIMONY WITH RESPECT TO RESOURCE PLANNING ISSUES.

A. In the past 12 years, I have provided testimony on resource planning and/or the prudency issues related to the resource planning in Indiana Utility Regulatory Commission ("IURC") Cause No. 42643, Louisiana Public Service Commission ("LPSC") Docket No. U-30192, IURC Cause No. 43393, IURC Cause No. 43396, Colorado Public Utilities Commission ("CPUC") Docket Nos. 09A-324E and 09A-325E, IURC Cause No. 43956, IURC Cause No. 44012, New Mexico Public Regulatory Commission ("NMPRC") Case No. 13-00390-UT and NMPRC Case No. 15-00261-UT.

In a number of these proceedings, I either had extensive involvement in the review of the utility's Strategist® analysis, or had a Strategist® analysis performed under my direction and supervision based upon data provided by subject utility.[1]

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY HEREIN?

[1]Strategist®, which includes a module called Proview®, is a computer software tool produced by Ventyx that allows resource planners to examine a very large number of alternative resource portfolios with the goal of identifying through an optimization algorithm the most cost effective resource portfolio for an electric utility. It can also be used in a probabilistic mode to test the robustness (i.e., risk) of specific resource portfolios over a wide range of assumption variations. Strategist® is used by Gulf in the development of its annual 10-year site plans. Other commercial software tools that have some or all of the functionality of Strategist® include System Optimizer®, PLEXOS® and Aurora XMP®.

A. I present testimony with respect to the request of Gulf Power Company ("Gulf" or "Company") to assign the cost of its portion of the Scherer Unit 3 generation facility that is not committed to wholesale unit power sales[2] to its retail customers. This includes addressing Gulf's claims regarding the existence of a regulatory compact, whether assignment of Scherer Unit 3 to retail customers is a prudent resource planning decision by Gulf on behalf of its native load customers,[3] and whether the Scherer Unit 3 capacity is used and useful with respect to serving Gulf's native load customers.

The fact that I do not address any other particular issues in my testimony or am silent with respect to any portion of Gulf's direct testimony in this proceeding should not be interpreted as an approval of any position taken by Gulf in direct testimony.

Q. PLEASE DESCRIBE WHAT YOU REVIEWED AND ANALYZED IN PREPARING YOUR DIRECT TESTIMONY.

A. I have reviewed and analyzed: (i) Gulf's application; (ii) the Direct Testimony and Exhibits of its witnesses Xia Liu, Jeffrey Burleson and Terry Deason; (iii) Gulf's response to interrogatories and requests for production documents related to the issues addressed by my testimony; (iv) the deposition transcript of Xia Liu; (v) the Commission's November 22, 2016 Order in Docket No. 160007-EI; and (vi) certain Gulf and The Southern Company ("Southern") filings with the Federal Energy Regulatory Commission ("FERC") and Securities and Exchange Commission

[2]For purposes of this testimony, when using this term, I am referring to the multi-year firm wholesale power sales Gulf has made from its share of Scherer Unit 3.

[3]Gulf's native load customers, as Gulf defines it, consist of both its retail customers and its wholesale requirements customers. They do not include Gulf's wholesale unit power sales customers or any other wholesale customers.

("SEC"). I applied my knowledge and experience in conducting my review and analysis of the foregoing.

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS.

A. I conclude and recommend the following:

- Through its actions over the past 10 to 15 years, Gulf has broken any regulatory compact it believes it entered with the Commission over 35 years ago with respect to Scherer Unit 3 by treating the proposed assignment of Scherer Unit 3 capacity to its retail customers as a revenue source option to support Gulf's earnings rather than as a resource option available to serve Gulf's retail customers;

- Based on Gulf's actions with respect to Scherer Unit 3 over the past 35 years, the Commission's evaluation of whether the cost for Scherer Unit 3 should be assigned to Gulf's retail customers should be conducted in the same manner as any other evaluation of an incremental resource addition by Gulf;

- Specifically, Gulf failed to demonstrate the Scherer Unit 3 capacity is both needed by its retail customers, and is the most cost-effective resource option available to its retail customers, such that the proposed assignment of the capacity to its retail customers is consistent with providing reliable electric service to those customers at the lowest reasonable cost -- Gulf has failed to demonstrate this is the case;

- As a result, Gulf has not met its burden to demonstrate that its proposed assignment of Scherer Unit 3 capacity to serve its retail customers was a prudent decision on behalf of its retail customers, or that the capacity is used and useful with respect to serving those customers; and

- For all of the foregoing reasons, the Commission should reject Gulf's proposal in this proceeding to assign the cost of Scherer Unit 3 capacity to its retail customers.

In her direct testimony, OPC witness Donna Ramas presents specific revenue requirement adjustments to implement my recommendation that the Commission reject Gulf's proposal in this proceeding to assign Scherer Unit 3 capacity to its retail customers.

Q ARE THERE OTHER IMPLICATIONS WITH RESPECT TO YOUR RECOMMENDATION?

A Yes. In its November 22, 2016 Order in Docket No. 160007-EI, the Commission deferred for resolution whether to include in Gulf's Environmental Cost Recovery Clause ("ECRC") certain environmental compliance investments and expenses associated with Gulf's share of Scherer Unit 3 that is not committed to wholesale unit power sales after December 31, 2015. Specifically, the Commission allowed the initial inclusion of the costs in Gulf's ECRC subject to a determination in the current proceeding with respect to whether any of the costs of Scherer Unit 3 are recoverable from Gulf's retail customers. As a result, if my recommendation to the Commission in this current proceeding is accepted, Gulf should not be permitted to recover any Scherer Unit 3 costs in its ECRC and should have to refund any amounts already collected from its retail customers.

II. REGULATORY TREATMENT OF SCHERER UNIT 3 CAPACITY

A. Background

Q. PLEASE DESCRIBE SCHERER UNIT 3.

A. Scherer Unit 3 is an 848 MW Powder River Basin ("PRB") coal-fired steam generation facility located in Georgia that began commercial operation on January 1, 1987. Gulf owns an undivided 25% (approximately 212 MW) share of the generation facility. Except on a very limited basis, Gulf's entire share of Scherer Unit 3 was committed to Gulf's firm wholesale power customers from the beginning of its operation in 1987 until the end of 2015 -- a total of 29 years.

Starting on January 1, 2016, Gulf alleges that it began making the uncommitted portions of its Scherer Unit 3 capacity available to its retail customers on a dedicated basis (first 110 MW beginning on January 1, 2016 and then another 50 MW beginning on June 1, 2016). Gulf has termed this a "rededication" of Gulf's share of Scherer Unit 3 to Gulf's retail customers. However, over the operating life of Scherer Unit 3, the Commission has never recognized any more than 19 MW of Scherer Unit 3 being dedicated to serve Gulf's retail customers, and even that 19 MW of capacity was later committed by Gulf to its long-term firm wholesale power sales. Furthermore, this recognition was limited to the determination of a one-time tax refund amount to retail customers, where the effect of the recognition was to reduce the amount of the refund. Scherer Unit 3 has never been included in Gulf's retail rates.

Q HAS GULF EVER SHARED WITH RETAIL CUSTOMERS THE PROFITS FROM WHOLESALE UNIT POWER SALES FROM ITS SHARE OF SCHERER UNIT 3?

A No, it has not. While Gulf's retail customers have never been responsible in rates for any portion of Scherer Unit 3, neither did Gulf's retail customers ever receive the benefit of any portion of Gulf's profits from the wholesale unit power sales from its share of Scherer Unit 3 during the 29-year period that ended in December 2015.

Q DID GULF MAKE ITS WHOLESALE UNIT POWER SALES FROM SCHERER UNIT 3 PURSUANT TO COST-BASED RATES OR MARKET-BASED RATES?

A. The first round of its firm wholesale power sales from its share of Scherer Unit 3, which ended in May 2010, were all made pursuant to cost-based rates set by the FERC (Gulf's response to Citizens' Interrogatory No. 175).[4] However, the second round of firm wholesale power sales, which began in June 2010, were made pursuant to market-based rates authorized by FERC. Under market-based rates, Gulf was allowed to earn whatever price it was able to obtain from its counterparties, which allowed it the opportunity to earn revenues in excess of its cost to provide the sales. Thus, it had the opportunity under market-based rates to earn an implied return on equity in excess of any that might be authorized under retail rates by this Commission or cost-of-service wholesale rates authorized by FERC.

Q IS THERE ANY DATA AVAILABLE WITH RESPECT TO THE REVENUES EARNED BY GULF FROM ITS WHOLESALE UNIT POWER SALES FROM ITS SHARE OF SCHERER UNIT 3 FROM JANUARY 1987 THROUGH MAY 2010 AND FROM JUNE 2010 THROUGH DECEMBER 2015?

A Yes. These sales and other information regarding Gulf's share of Scherer Unit 3 were reported in Gulf's annual FERC Form 1 filings. I have summarized this information below in Table JRD-1.[5]

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[4]In Exhibit No. JRD-1, I have provided a copy of all of Gulf's responses to interrogatories and requests for production of documents that I cite to in my direct testimony.

[5] For some of the years summarized in Table JRD-1, most significantly from 1987 through 1992, the total MWh sold under the wholesale unit power sales agreements exceeded the total reported generation from Gulf's share of Scherer Unit 3. I have assumed this was due to supplemental energy sales under those agreements principally driven by low capacity factor issues with Scherer Unit 3. To estimate the net revenue amounts presented in Table JRD-1, I assumed the per MWh cost of those supplemental energy sales was roughly equal to the per MWh fuel cost of Scherer Unit 3.

TABLE JRD-1

Summary of Gulf Power Company
Wholesale Unit Power Sales from Scherer Unit 3
(1987-2015)

Year	Revenue Earned ($millions)	MWh Sold	Revenue Earned per MWh Sold	Fuel Expense per MWh	Net Revenue per MWh Sold	Total Net Revenue ($millions)	Total kW Sold	Net Revenue per kW Sold
1987	96.34	1,553,013	$ 62.03	$ 31.23	$ 30.80	47.83	185,000	$ 259
1988	91.03	1,444,202	$ 63.03	$ 26.65	$ 36.38	52.53	149,000	$ 353
1989	51.60	1,154,136	$ 44.70	$ 26.21	$ 18.49	21.34	149,000	$ 143
1990	51.88	1,265,359	$ 41.00	$ 22.12	$ 18.88	23.89	149,000	$ 160
1991	47.66	1,103,275	$ 43.19	$ 20.87	$ 22.32	24.63	149,000	$ 165
1992	51.25	1,041,512	$ 49.21	$ 20.75	$ 28.46	29.65	201,000	$ 147
1993	49.40	972,336	$ 50.80	$ 18.85	$ 31.96	31.07	196,000	$ 159
1994	42.70	839,255	$ 50.88	$ 17.65	$ 33.23	27.89	177,000	$ 158
1995	41.55	944,667	$ 43.98	$ 17.02	$ 26.97	25.47	212,000	$ 120
1996	45.22	1,069,000	$ 42.30	$ 17.16	$ 25.15	26.88	212,000	$ 127
1997	43.00	923,406	$ 46.56	$ 18.44	$ 28.13	25.97	212,000	$ 123
1998	36.93	703,031	$ 52.52	$ 17.27	$ 35.25	24.79	212,000	$ 117
1999	40.18	1,044,337	$ 38.47	$ 17.16	$ 21.31	22.26	212,000	$ 105
2000	41.99	1,094,292	$ 38.37	$ 18.51	$ 19.87	21.74	212,000	$ 103
2001	47.08	1,276,557	$ 36.88	$ 18.44	$ 18.44	23.54	212,000	$ 111
2002	48.49	1,286,320	$ 37.70	$ 20.37	$ 17.33	22.30	212,000	$ 105
2003	49.52	1,387,709	$ 35.69	$ 19.96	$ 15.72	21.82	212,000	$ 103
2004	48.17	1,486,600	$ 32.41	$ 17.47	$ 14.94	22.21	212,000	$ 105
2005	54.09	1,668,819	$ 32.41	$ 17.66	$ 14.75	24.61	212,000	$ 116
2006	56.16	1,406,049	$ 39.94	$ 20.55	$ 19.39	27.26	212,000	$ 129
2007	54.35	1,590,360	$ 34.17	$ 20.66	$ 13.52	21.50	212,000	$ 101
2008	55.73	1,296,555	$ 42.99	$ 21.95	$ 21.03	27.27	212,000	$ 129
2009	57.61	1,372,658	$ 41.97	$ 21.37	$ 20.60	28.28	212,000	$ 133
2010	66.18	1,218,055	$ 54.33	$ 23.65	$ 30.69	37.38	212,000	$ 176
2011	97.84	1,605,570	$ 60.94	$ 25.83	$ 35.11	56.37	212,000	$ 266
2012	72.81	556,619	$ 130.80	$ 27.57	$ 103.23	57.46	212,000	$ 271
2013	77.80	767,743	$ 101.34	$ 27.87	$ 73.47	56.40	212,000	$ 266
2014	89.42	1,125,554	$ 79.45	$ 28.98	$ 50.47	56.81	212,000	$ 268
2015	74.89	595,311	$ 125.81	$ 28.23	$ 97.58	58.09	212,000	$ 274

Source: Gulf's FERC Form 1 Filings

Q. WHAT DOES THE "TOTAL NET REVENUE" THAT IS SHOWN IN YOUR TABLE JRD-1 REPRESENT?

A. It represents the total revenue Gulf earned after fuel expenses. It is essentially the contribution made to cover the non-fuel expenses, including non-fuel O&M expenses, depreciation, return and taxes for the portion of the Gulf share of Scherer Unit 3 that has been sold pursuant to the wholesale unit power contracts. Note that on a per kW basis, these net revenues jumped considerably after Gulf's wholesale unit power sale contracts fully migrated to market-based rates in 2011. (The portion of this contribution left after covering Gulf's non-fuel O&M, depreciation, interest and other non-fuel expenses for Scherer Unit 3 would be the pre-tax profit earned by Gulf from sales under the contracts.)

Q. HOW DOES THE NET REVENUE ON A PER KW SOLD BASIS EARNED BY GULF IN 2015 UNDER THE WHOLESALE UNIT POWER SALES CONTRACTS COMPARE WITH THE PER KW NET REVENUE GULF WOULD EARN UNDER RETAIL RATES PURSUANT TO GULF'S PROPOSAL TO ASSIGN 160 MW OF ITS SCHERER UNIT 3 CAPACITY TO ITS RETAIL CUSTOMERS?

A. The net revenue from the wholesale unit power sale contracts was $274 per kW in 2015. Under its proposed base rates, Gulf's non-fuel revenue requirement for 160 MW (160,000 kW) of Scherer Unit 3 would be $19.4 million (Gulf's response to Citizens' Interrogatory No. 177). Adding in the portion of Scherer Unit 3 costs that would be recovered through Gulf's ECRC for the test year would raise this to a total of

$34.9 million of non-fuel clause revenue or $212 per kW during the test year. This is $62 per kW less than the $274 per kW amount Gulf collected under its wholesale unit power sale contracts in 2015. Thus, under market-based rates in 2015, Gulf collected approximately $62 per kW more for Scherer Unit 3 capacity than it presumably would have if the capacity had instead been included in Gulf's retail rates. For the 160 MW of Scherer Unit 3 capacity that Gulf proposes to include in retail rates in the test year for this proceeding, this provided Gulf approximately $10 million of additional annual revenues for Scherer Unit 3 versus what Gulf would have presumably been able to earn under retail rates for Scherer Unit 3.[6] As I have noted, Gulf retained all of its profits over the years from its wholesale unit power sales from Scherer Unit 3 -- none of those profits were ever shared with its retail customers.

Q. WAS GULF REQUIRED BY FERC TO SELL POWER AT MARKET-BASED RATES STARTING IN 2010, OR WAS THAT A CHOICE MADE BY GULF?

A. No, it was a choice made by Gulf. Gulf sought authorization from FERC to sell power at market-based rates. In addition, even when such authorization was obtained from FERC, Gulf still could have chosen to continue to sell power from Scherer Unit 3 pursuant to cost-based rates rather than market-based rates. Instead, Gulf chose to use market-based rates for its wholesale unit power sales contracts starting in June 2010, and appears from its FERC Form 1 filings to have handsomely profited from that choice.

[6] $10 million ≈ 160,000 kW x $62 per kW.

Q. HAS GULF PREVIOUSLY ATTEMPTED TO INCLUDE A PORTION OF ITS SHARE OF SCHERER UNIT 3 IN BASE RATES?

A. Yes. As Gulf witness Deason indicates in his direct testimony, Gulf made a previous attempt to assign to its retail customers the cost of its share of Scherer Unit 3 that is not covered by wholesale unit power sales. Specifically, in its base rate proceeding in Docket No. 891345-EI, Gulf proposed to include in its retail rates 63 MW of Scherer Unit 3 capacity that was at the time not covered by its wholesale unit power sales contracts. In Order No. 23573 in that proceeding, the Commission denied Gulf's request. In its decision, the Commission found Gulf, and the Southern electric system as a whole, appeared to be well able to achieve their respective target planning reserve margins without the 63 MW of Scherer Unit 3 capacity. The Commission also noted that, by 1995, the entire 63 MW of Scherer Unit 3 capacity in question would be sold under wholesale unit power sales contracts, and would not be available to retail customers any sooner than 2010. Additionally, the Commission indicated the following:

> Under Southern's contract with Gulf States Utilities, Gulf had committed to sell 44 MW of Scherer 3 to Gulf States Utilities during the test year 1990 through May, 1992. Gulf States Utilities failed to perform its contractual obligations and on July 1, 1988, FERC ruled that Southern no longer had to perform under the contract. It is clear that Gulf would not have requested the 63 MW of Scherer to be put in rate base had Gulf States Utilities not defaulted on their contracts. When Gulf made the decision to purchase 25% of Scherer 3 it was aware of the potential that their contract with Gulf States Utilities might not be honored. Since the profits from the unit power sales go to Gulf's stockholder, they should bear the risk of default, and not Gulf's ratepayers. Therefore, we remove all of Plant Scherer from rate base. All profits and losses derive from unit power sales of Scherer, and any costs or benefits accruing from any settlement with Gulf States Utilities are to go to the stockholders of Gulf Power Company. Gulf's ratepayers, who will not see the profits from Gulf's unit power sales

> contracts, should not be required to pay when such a contract falls through.

(Order No. 23573 at page 13, included as page RC-13 of Mr. Deason's ExhibitJTD-2)

The importance of this last finding is that it shows that the Commission at the time was not going to allow Gulf to use its retail customers as the guarantor of cost recovery with respect to Gulf's losses in the wholesale market associated with its share of Scherer Unit 3, since all the profits from Gulf's wholesale unit power sales from Scherer Unit 3 go to Gulf's stockholder(s), and are not shared with Gulf's retail customers.

Q. IN HIS DIRECT TESTIMONY, MR. DEASON MAKES REFERENCE TO ANOTHER PROCEEDING INVOLVING A DETERMINATION WITH RESPECT TO THIS ISSUE. PLEASE ELABORATE ON THAT PROCEEDING AS WELL.

A. Mr. Deason is referring to the 1998 tax savings refund proceeding in Docket No. 890324-EI. It is important to recognize that Docket No. 890324-EI did not involve the setting of base rates. In that proceeding, for purposes of determining a one-time tax refund, the Commission in Order No. 23536 on September 27, 1990 allowed the imputation of 19 MW of Gulf's share of Scherer Unit 3, which up until that point had never been used to support Gulf's wholesale unit power sales, into rate base as an adjustment that reduced the tax refund due to retail customers. However, this decision did not go to the much more impactful question of whether any portion of Scherer Unit 3 (either the 19 MW or the other 44 MW) should actually be recoverable in Gulf's rates. This latter issue was addressed just six days later in Commission Order No. 23573 on October 3, 1990. As I have discussed above, the Commission in Order No. 23573 rejected the inclusion of any portion of Scherer Unit 3 in retail rates.

Q. DURING THE 29-YEAR PERIOD THAT ENDED IN DECEMBER OF 2015, WAS GULF'S SHARE OF SCHERER UNIT 3 THAT WAS COMMITTED TO ITS WHOLESALE UNIT POWER SALES AVAILABLE TO SERVE GULF'S RETAIL CUSTOMERS?

A. Gulf has indicated that, to the extent wholesale purchasers did not call upon the Scherer Unit 3 capacity committed to them, Scherer Unit 3 capacity was available to Gulf to: (i) serve Gulf's retail customers, (ii) be dispatched to meet other Southern operating company needs or (iii) make wholesale opportunity sales (Gulf's responses to Citizens' Interrogatories Nos. 171, 172 and 175). The extent, if any, to which such availability ever actually benefited Gulf's retail customers was not presented in Gulf's direct case in this proceeding.

Regardless, non-firm, as-available usage of Scherer Unit 3 by Gulf for Gulf's retail customers, by itself, would not justify inclusion of Scherer Unit 3 in Gulf's retail rates anymore than, for example, qualifying facilities under the Public Utility Regulatory Policies Act of 1978 ("PURPA") would be for making as-available energy sales to Gulf. The bottom line is that Gulf's retail customers could not rely on the non-firm, as-available energy actually being made available to them from Scherer Unit 3.

B. Treatment of Scherer Unit 3 in Gulf's Planning

Q. HOW HAS GULF TREATED ITS SHARE OF SCHERER UNIT 3 IN ITS RESOURCE PLANNING?

A. In every ten-year site plan that Gulf prepared from 2000 through 2015, its share of Scherer Unit 3 was included throughout the 10-year forecast period with a matching equal wholesale unit power sale obligation, which had the effect of entirely excluding Gulf's share of Scherer Unit 3 from being available to meet the resource planning needs of Gulf's retail customers. This is shown on Schedules 7.1 and 7.2 of each of these ten-year site plans. Even as late as in the 2015 Ten-Year Site Plan, Gulf was forecasting that its share of Scherer Unit 3 would be committed to Gulf's wholesale unit power sales through at least 2024. In addition, in each of Gulf's annual Ten-Year Site Plans from 2003 through 2015, Gulf consistently made the following statement:

> "Gulf has a 25% ownership in Unit 3 at Georgia Power Company's Scherer Electric Generating Facility which is completely dedicated to wholesale unit power sale contracts."[7]

There is absolutely no evidence in Gulf's annual ten-year site plans from 2000 through 2015 that Gulf ever had any intention of using its share of Scherer Unit 3 to serve or benefit Gulf's retail customers. Serving Gulf's retail customers appears as a new revelation in Gulf's 2016 Ten-Year Site Plan, which replaces the statement with respect to complete, unconditional dedication of Scherer Unit 3 to Gulf's wholesale

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[7]2003 Gulf Ten-Year Site Plan at 3; 2004 Gulf Ten-Year Site Plan at 3; 2005 Gulf Ten-Year Site Plan at 4; 2006 Gulf Ten-Year Site Plan at 4; 2007 Gulf Ten-Year Site Plan at 4; 2008 Gulf Ten-Year Site Plan at 4; 2009 Gulf Ten-Year Site Plan at 5; 2010 Gulf Ten-Year Site Plan at 4; 2011 Gulf Ten-Year Site Plan at 4; 2012 Gulf Ten-Year Site Plan at 5; 2013 Gulf Ten-Year Site Plan at 5; 2014 Gulf Ten-Year Site Plan at 5; and 2015 Gulf Ten-Year Site Plan at 4.

unit power sales contracts with the following new statements that are obviously tailored to the theme of Gulf's filed direct testimony in this proceeding:

> Gulf has a 25% undivided ownership share in Unit 3 and a proportional undivided ownership interest in the associated common facilities at the Scherer Electric Generating Facility located near Macon, Georgia. Gulf's ownership interest in Plant Scherer Unit 3 was acquired as part of its resource planning for meeting the long-term needs of its retail customers. With the encouragement and support of the FPSC, Gulf has historically committed its ownership interest in Plant Scherer to off-system sales through a succession of several wholesale power sales contracts since Unit 3 began commercial operation in 1987.

(Gulf's 2016 Ten-Year Site Plan at 4).

In addition, in its 2016 Ten-Year Site Plan 10-year forecast tables, Schedules 7.1 and 7.2, Gulf for the first time included no wholesale unit power sales obligations beyond the expiration of its latest Scherer Unit 3 wholesale unit power sales contracts in December 2015, May 2016 and December 2019 (Gulf 2016 Ten-Year Site Plan at 89-90).

Q. IS THIS THE ONLY EVIDENCE OF GULF HAVING A SUDDEN CHANGE IN ITS INTENTIONS FOR SCHERER UNIT 3?

A. No, it is not. In Southern's 2014 10-K filing with the SEC, Southern included the following statements with respect to the Scherer Unit 3 wholesale unit power sales contracts:

> Gulf Power serves long-term contracts associated with Gulf Power's co-ownership of a unit with Georgia Power at Plant Scherer, covering 100% of Gulf Power's ownership of that unit in 2015, and 41% for the next five years. These capacity revenues represented 82% of Gulf Power's total wholesale capacity revenues for 2014. Gulf Power is actively pursuing replacement wholesale contracts but the expiration of current contracts could have a material negative impact on Gulf Power's earnings.

(The Southern Company 2014 10-K filing at I-14).

In its 2015 10-K filing, Southern included the following statements:

> Through 2015, capacity revenues represented the majority of Gulf Power's wholesale earnings. Gulf Power had long-term sales contracts to cover 100% of its ownership share of Plant Scherer Unit 3 (205 MWs) and these capacity revenues represented 82% of total wholesale capacity revenues for 2015. Due to the expiration of a wholesale contract at the end of 2015 and future expiration dates of the remaining wholesale contracts for the unit, Gulf Power currently has contracts to cover 34% of the unit for 2016 and 27% of the unit through 2019. Although Gulf Power is actively evaluating alternatives relating to this asset, including replacement wholesale contracts, the expiration of the contract in 2015 and the scheduled future expiration of the remaining contracts will have a material negative impact on Gulf Power's earnings in 2016 and may continue to have a material negative impact in future years. In the event some portion of Gulf Power's ownership of Plant Scherer Unit 3 is not subject to replacement long-term wholesale contract, the proportionate amount of the unit may be sold into the power pool or into the wholesale market."

(The Southern Company 2015 10-K filing at I-14).

What in 2014 had been a "could have a material negative impact on Gulf Power's earnings" became in 2015 a "will have a material negative impact on Gulf Power's earnings in 2016 and may continue to have a material negative impact in future years." In addition, Southern reported in 2015 that an amount of Scherer Unit 3 might be sold into the Southern power pool or into the wholesale power market. There is no indication in either 10-K filing that Gulf might choose to seek to assign cost recovery for Scherer Unit 3 to its retail customers.

However, this all changed when Gulf delivered a letter to the Commission on May 5, 2016 requesting recognition of Gulf's ownership in Scherer Unit 3 as being in-service to retail customers when and as the contracts expire. Shortly thereafter, in its first quarter of 2016 10-Q filing, Southern indicated the following:

> Through 2015, capacity revenues from long-term non-affiliate sales out of Gulf Power's ownership of Plant Scherer Unit 3 (205 MWs) represented the majority of Gulf Power's wholesale earnings. The capacity revenues associated with these contracts covering 100% of Gulf Power's ownership represented 82% of Gulf Power's wholesale capacity revenues in 2015. Due to the expiration of a wholesale contract at the end of 2015 and another wholesale contract at the end of May 2016, Gulf Power's remaining contract in sales from the unit from June 2016 through 2019 will cover approximately 24% of the unit. The expiration of the contract in 2015 and the scheduled future expiration of the remaining contracts are not expected to have a material impact on Southern Company's earnings. The alternatives Gulf Power is actively evaluating include, without limitation, rededication of the asset to serve retail customers for whom it was originally planned and built, replacement long-term wholesale contracts or other sales into the wholesale market, or an asset sale. On May 5, 2016, Gulf Power delivered a letter to the Florida PSC requesting recognition of Gulf Power's ownership of Plant Scherer Unit 3 as being in-service to retail customers when and as the contracts expire. The ultimate outcome of this matter cannot be determined at this time.

(The Southern Company First Quarter 2016 10-Q filing at 26).

Thus, Gulf in its proposal for Scherer Unit 3 in this proceeding is seeking to solve the earnings problem Southern had identified in its 2014 and 2015 10-K filings by calling upon Gulf's retail customers to assure cost recovery for its shareholders for Scherer Unit 3.

Q. HAS GULF PROVIDED ANY STUDIES OR ANALYSIS SHOWING IT CURRENTLY HAS A NEED FOR ADDITIONAL CAPACITY TO SERVE ITS RETAIL CUSTOMERS?

A. No, it has not. Even after deducting the Scherer Unit 3 capacity not committed to Gulf's remaining wholesale unit power sales from its 2016 Ten-Year Site Plan, Gulf is not forecasting a need for any new capacity additions for its native load customers until June 2023 (Gulf 2016 Ten-Year Site Plan at 3). In addition, in response to

Citizens' Interrogatory No. 174, Gulf indicated it has not performed any analysis, nor had any analysis performed on its behalf, to evaluate utilizing Gulf's ownership share of Scherer Unit 3 to serve retail customers starting in 2016 versus other resource alternatives. Also, for a number of reasons, which I will address later in my direct testimony, Gulf claimed it was unnecessary for such an analysis to be performed.

Regardless, the lack of an analysis, combined with Gulf's statements and assumptions in its annual ten-year site plans from 2000 through 2015, clearly show that Gulf's intention to use its Scherer Unit 3 capacity to serve its retail customers is a very recent development -- not part of a plan that has existed for several years. Moreover, until recently, Gulf's publicly stated intention was to continue to dedicate Scherer Unit 3 to making wholesale unit power sales for the benefit of Gulf's stockholder(s) through at least 2024.

Q. IS THERE ADDITIONAL EVIDENCE SHOWING THIS WAS THE CASE?

A. Yes, there is. Gulf's responses to discovery in this proceeding show that, for at least five years, Gulf has been heavily focused on finding a new source of revenue for its share of Scherer Unit 3 capacity when its latest wholesale unit power sales contracts expire in December 2015, May 2016 and December 2019. In response to Staff's Interrogatory No. 65, Gulf indicated:

> Although the Company had diligently marketed the output of Scherer Unit 3 over the last five years, including responding to formal requests for proposals as well as providing unsolicited offers, it has been unable to find a buyer for the output of the unit.

Gulf, in response to Citizens' Interrogatory No. 130, further detailed its efforts to enter into new long-term contracts for Scherer Unit 3, or to make an asset sale for Scherer Unit 3.

In Citizens' Request for Production of Documents No. 96, Gulf was asked to provide any written studies, cost benefit analysis or evaluations conducted by or for Gulf with regard to its options for its Scherer Unit 3 upon termination of the wholesale unit power sales contracts in December 2015, May 2016 and December 2019. In response, Gulf provided for review a large number of presentations and other documents which include summaries of an extensive amount of analyses that were performed by or on behalf of Gulf, with respect to finding a revenue source for Gulf regarding Scherer Unit 3 upon termination of the wholesale unit power sales contracts in December 2015, May 2016 and December 2019.

From my review of those documents, it is clear Gulf was seeking the highest shareholder-benefitting revenue opportunity available for its Scherer Unit 3 capacity. Furthermore, Gulf's analyses did not examine whether Scherer Unit 3 was needed for Gulf's retail customers or whether Scherer Unit 3 was the most cost-effective resource choice for Gulf's retail customers. The analyses were instead focused on finding a new revenue source for Gulf for Scherer Unit 3. For example, in a **September 16, 2011 presentation titled "Gulf Power Scherer 3 Strategy Update," the focus of the presentation is on identifying potential off-takers for the Scherer Unit 3 capacity and on a pricing strategy to maximize revenues. As outlined on Slide 3 of that presentation, the capacity price guidance from Gulf was to seek a price of [redacted] per kW-month, but not to settle for a price of less than [redacted] per kW-month. In addition, on Slide 4 of that presentation, Gulf Power Retail is identified as one of the other possible off-takers of the Scherer Unit 3 capacity** (Gulf's response to Citizens' Request for Production of Documents No. 96 at 16186-OPC-POD-96-65 through 160186-OPC-POD-96-77).

Even more compelling are the slides from an undated presentation that was also included in the documents provided by Gulf. **In this other presentation, pricing strategies are again discussed. In addition, the sixth slide in it very clearly lays out how Gulf was considering its options. It was weighing marketing the Scherer Unit 3 capacity in the wholesale market at an estimated market price of [redacted] to [redacted] per kW/month, versus leaving Scherer Unit 3 in the Southern Company power pool with a [redacted] to [redacted] per kW/month value, versus pursuing retail rate basing the unit** (*Id.* at 160186-OPC-POD-96-183 through 160186-OPC-POD-96-191). To complete the puzzle, as I have indicated, for the test year in this proceeding, Gulf's proposal to bring 160 MW of Scherer Unit 3 into retail rates would effectively yield it revenues of $212 per kW-year or $17.67 per kW/month between base rates and its ECRC. Clearly, Gulf was not examining what is best for its retail customers; it was examining what was best for its shareholders.

C. Alleged Regulatory Compact for Scherer Unit 3

Q. MR. DEASON IN HIS TESTIMONY ALLEGES A REGULATORY COMPACT SHOULD APPLY TO GULF'S INVESTMENT IN SCHERER UNIT 3 BASED

ON THE CIRCUMSTANCES UNDER WHICH GULF MADE THAT INVESTMENT. HOW DO YOU RESPOND?

A. Based on my review of the relevant orders and transcripts, the scenario presented by Gulf to the Commission during informal workshops on October 9, 1978 (Docket No. 780714-EU) and on February 16, 1981 (undocketed), in which Gulf was supposedly "encouraged" by the Commission in Order No. 9628 in Docket No. 800001-EU, is not the one which Gulf has followed over the intervening 35 years. Any vestige of an informal regulatory compact between the Commission and Gulf that might have existed relating to Gulf's share of Scherer Unit 3 capacity has long been broken by the course of action Gulf actually chose to follow in the ensuing 35 years which followed.

Q PLEASE EXPLAIN THE SCENARIO THAT WAS PRESENTED BY GULF THOSE MANY YEARS AGO.

In the October 9, 1978 workshop, Gulf presented a scenario where it essentially would have to construct expensive capacity at its Caryville site (or elsewhere) if it did not pursue purchasing a portion of the Scherer generating units. Gulf was essentially asking the Commission to be able to recover cancellation costs for its Caryville project so that it could pursue its needed capacity at a much lower cost by purchasing a portion of the Scherer generation units (Mr. Deason's Exhibit No. JTD-2 at RC-93 through RC-103 RC-150). In addition, Gulf left the Commission at the time with the impression that Gulf had to act fairly quickly with respect to the Scherer opportunity (Id. at RC-149 through RC-150).

In Docket No. 800001-EU, Gulf sought actually to recover in rates its Caryville cancellation costs. In its Order No. 9628, the Commission allowed rate recovery of the cancellation costs subject to refund in the event the Scherer transaction was not consummated within one year, or the cancellation was not otherwise justified (Id. at RC-161 through RC-162 and RC-164 through RC-165). The Commission clearly expressed concern that the cancellation cost recovery had been justified by the proposed Scherer transaction to meet a Gulf capacity need at lower cost, but that in the two years since it first approached the Commission about the proposed transaction, Gulf had not acted upon it, potentially to the detriment of its retail customers.

In the February 16, 1981 informal workshop, Gulf updated its Scherer transaction scenario. Essentially, Gulf's load projection had fallen further to the point that if the Caryville capacity were to be constructed it would not be needed until 1993. As a result, pursuing the Scherer capacity in lieu of Caryville would provide the Scherer capacity to Gulf four to six years ahead of Gulf's need for that capacity for its retail customers. However, Gulf had identified an opportunity to sell at least a portion of the output of the Scherer capacity to other utilities until Gulf needed it for its retail customers, and Gulf expressed confidence that it could market the remaining capacity during that period of time as well. As a result, Gulf was seeking informal assurance from the Commission that it would be supportive of Gulf purchasing the out-of-state Scherer capacity even though the capacity would not initially be used by Gulf's retail customers. (Id. at RC-193, RC-194, RC-201 and RC-205). Very shortly thereafter, Gulf proceeded to sign a contract to acquire the Scherer capacity, and executed wholesale unit power sales for delivery through 1993. (Deason Direct at 12). Gulf was then permitted to recover its cancellation cost for Caryville, pursuant to Order No. 9628.

In summary, the scenario under which the alleged informal regulatory compact was made was one in which Scherer's capacity would be utilized to serve Gulf's retail customers within six years of entering service, not 29 years after entering service and not -- as it turned out -- only when Gulf could no longer find a better revenue opportunity for its shareholders in the wholesale market than the revenues it could earn under retail rates for the capacity. Gulf has only sought to serve its retail customers with its Scherer capacity when it has been unable to find better market opportunities for itself, and until now, excluded its share of Scherer Unit 3 from its resource planning for its native load customers by consistently forecasting a wholesale unit power sales obligation equal to its Scherer Unit 3 capacity out to the end of Gulf's ten-year planning horizon.

D. Recommended Regulatory Treatment for Scherer Unit 3

Q. HOW SHOULD THE COMMISSION TREAT ITS REVIEW OF GULF'S PROPOSAL TO BRING SCHERER UNIT 3 INTO RETAIL RATES?

A. In light of how Gulf has actually utilized and planned to utilize its Scherer Unit 3 capacity over the past 29 years to serve its own interest rather than that of its retail customers, I recommend the Commission review Gulf's proposal in the same manner it would review any other Gulf proposal to add a new capacity resource to serve retail customers. Specifically, in order to incorporate the unit into retail rates, Gulf would have needed to demonstrate that the assignment of the Scherer Unit 3 capacity to its retail customers is a prudent decision on behalf of its retail customers and that the capacity is used and useful in serving the needs of its retail customers. To that end, Gulf would have needed to demonstrate that it both needs the Scherer Unit 3 capacity, and that the Scherer Unit 3 capacity is its most cost-effective resource choice for providing reliable electric service to its retail customers. In its direct testimony, Gulf failed to meet its burden of proof on this issue.

III. NEED FOR AND COST-EFFECTIVENESS OF SCHERER UNIT 3

Q. DOES GULF CURRENTLY HAVE ANY NEED FOR ADDITIONAL GENERATION CAPACITY IN ORDER TO MEET ITS PLANNING RESERVE MARGIN TARGETS?

A. No, it does not. As I indicated earlier in my testimony, with or without the Scherer Unit 3 capacity that is not committed to its remaining wholesale unit power sales, Gulf's own projections show that it will not need additional capacity to meet its planning reserve margin target of 15% until 2023. Gulf presented its planning reserve margin forecast with and without the Scherer Unit 3 capacity by year in its response to Staff Interrogatory No. 64. Not utilizing its uncommitted Scherer Unit 3 capacity to serve what it characterizes as its native load customers will simply increase its forecasted capacity need in 2023 from 654 MW to 866 MW.[8]

[8] Page 89 of Gulf's 2016 Ten-Year Site Plan includes a new capacity addition of 654 MW in 2023 in order to maintain a target planning reserve margin of 15% with Gulf's uncommitted portion of Scherer Unit 3 assigned to native load customers. Removing the uncommitted Scherer Unit 3 capacity would increase the need by 212 MW from 654 MW to 866 MW.

Q. PUTTING ASIDE THAT GULF DOES NOT CURRENTLY NEED CAPACITY TO MEET ITS PLANNING RESERVE MARGIN TARGET, DOES GULF HAVE A NEED FOR ADDITIONAL BASE LOAD CAPACITY?

A. No, it does not. Gulf's FERC Form 1 filings for the past 25 years show that Gulf has been a significant net seller of energy at wholesale to the Southern power pool and to the remainder of the wholesale market. For example, in 2015, according to its FERC Form 1 filing, Gulf sold 2,631,518 MWh at wholesale on a non-requirements basis and purchased 1,916,617 MWh at wholesale (Gulf's 2015 FERC Form 1 at Page 401a). As a result, over the year as a whole, Gulf had net wholesale sales of 714,901 MWh. These levels of wholesale energy sales will not change even with Gulf's uncommitted share of Scherer Unit 3 assigned it its retail customers. Furthermore, on page 74 of Gulf's 2016 Ten-Year Site Plan, Gulf indicates that even after the expiration of its 885 MW Purchased Power Agreement ("PPA") with Shell, which is sourced from a combined cycle generation facility in Alabama, Gulf's capacity need in 2023 that will be driven by that expiration will be for peaking generation in the form of new combustion turbine generation – not new base load capacity.

Q. HAS GULF PERFORMED ANY ANALYSIS TO SHOW THAT ITS NATIVE LOAD CUSTOMERS HAVE A NEED FOR ITS SCHERER UNIT 3 CAPACITY THAT IS NOT COMMITTED TO ITS REMAINING WHOLESALE UNIT POWER SALES, OR THAT THIS CAPACITY IS THE MOST COST-EFFECTIVE RESOURCE ALTERNATIVE FOR ITS NATIVE LOAD CUSTOMERS?

A. No, it has not. As I noted earlier in my testimony, when asked in Citizens' Interrogatory No. 174 to provide any analysis that it has performed of this nature, Gulf indicated that it had not performed, nor had performed on its behalf, any such analysis. Gulf also indicated that it did not believe such an analysis was necessary for three reasons.

Q. WHAT WAS THE FIRST REASON GIVEN?

A. Gulf asserted that it is returning an existing resource to serve its customers consistent with the original purpose for which it was planned, acquired, and ultimately built, and is not evaluating it as a new resource versus other alternatives.

Q. HOW DO YOU RESPOND TO THIS ASSERTION?

A. This is essentially Gulf's informal regulatory compact argument. As I discussed earlier in my testimony, Gulf over the past 29 years has not utilized its Scherer Unit 3 capacity in a manner consistent with the scenario it presented to the Commission over 35 years ago. For 29 years (from the beginning of Scherer Unit 3's commercial operation), the capacity was devoted to providing profits for Gulf and Gulf is only now proposing to assign it to its retail customers because it cannot find a better revenue opportunity for itself in the wholesale market. Therefore, to the extent that any regulatory compact ever existed, it was broken by Gulf long ago. As I have recommended, the Commission should evaluate the proposed assignments of Gulf's Scherer Unit 3 capacity the same way that it would evaluate any other proposed new resource alternative.

Q. WHAT WAS THE SECOND REASON GIVEN BY GULF NOT TO PERFORM AN ANALYSIS?

A. Gulf believes any analysis, if performed, of operating Scherer Unit 3 post-2015 on behalf of its retail customers would show that it is decisively in the retail customers' best interest. Gulf also asserts that Scherer Unit 3 provides capacity value to Gulf Power, as well as energy value, as a resource dispatched on low variable cost Powder River Basin ("PRB") coal. Gulf goes on to indicate it believes those benefits would easily outweigh the costs to continue to operate Scherer Unit 3, given that it is already a well-controlled unit equipped with a baghouse, a selective catalytic reduction system ("SCR"), and a flue gas desulfurization system ("FGD").

Q. HOW DO YOU RESPOND TO THIS SECOND REASON?

A. There are two problems with this argument. First, Gulf would have the Commission only evaluate the value the Scherer Unit 3 capacity might provide against the operating and going forward capital costs of the facility. This ignores the depreciation expense and return on investment that Gulf's retail customers would have to pay through retail rates for the net book value of the capacity of Scherer Unit 3, which is approximately $1,200 per kW (Gulf's response to Citizens' Interrogatory No. 128), largely because of the SCR and FGD investments that Gulf made in the facility in the mid to late 2000s. In its 2016 Assumptions to the Annual Energy Outlook, the Energy Information Agency ("EIA"), has estimated the total overnight capital cost of a new advanced combined cycle generation facility to be only $1,060 per kW and that of a new advanced combustion turbine generation facility to be only $683 per kW (EIA 2016 Assumptions to the Annual Energy Outlook at page 108).

Second, coal-fired generation, even coal-fired generation burning PRB coal, is not the low cost source of energy it once was. As shown in Table JRD-1 earlier in my testimony, Gulf's FERC Form 1 filings report that the average fuel cost of Scherer Unit 3 has been over $28 per MWh from 2013 through 2015. SNL Financial reports that the average spot on-peak market price for energy for trading at Into Southern in 2016 was only $27.20 per MWh. The average around-the-clock market price for energy during this period, which would add in off-peak market prices for energy, was likely even lower. Furthermore, a new advanced combined cycle generation facility is estimated by the EIA to have a heat rate of 6,300 Btu/kWh (Id. at page 107). At that heat rate, natural gas prices would need to exceed $4.44 per MMBtu in order to cause the average fuel cost of a new advanced combined cycle generation facility to exceed $28 per MWh. Current Henry Hub forward annual strips for natural gas are all, as of January 6, 2017, trading below $3.85 per MMBtu for delivery through 2029.

Q. WHAT IS GULF'S THIRD REASON FOR NOT PERFORMING AN ANALYSIS?

A. Gulf believes Scherer Unit 3 provides other, non-quantifiable benefits, such as maintaining a diverse fuel supply, reducing fuel price volatility, providing a hedge against rising gas prices, and not contributing to greenhouse gas emissions in the state of Florida.

Q HOW DO YOU RESPOND TO THIS LAST ARGUMENT?

A Scherer Unit 3 may provide some of these benefits, but it does so at a premium versus other resource choices. The cost of that premium may not outweigh the benefits. This is another reason why a reasonable analysis of Scherer Unit 3 versus other resource options (including the option of not adding any new resources in light of the fact that Gulf does not currently have a capacity need until 2023 with or without the uncommitted Scherer Unit 3 capacity) should have been provided in order for Gulf to have met its burden to demonstrate whether Scherer Unit 3 is a cost-effective choice for Gulf's retail customers. Software tools like Strategist®, which Gulf already used in its integrated resource planning at the Southern electric system level, could have been utilized to examine these questions using probabilistic techniques. Gulf has failed to do so for its proposal for Scherer Unit 3.

Q WHAT DO YOU RECOMMEND TO THE COMMISSION WITH RESPECT TO GULF'S REQUEST TO ASSIGN ITS UNCOMMITTED SCHERER UNIT 3 CAPACITY TO ITS RETAIL CUSTOMERS AND INCORPORATE THAT CAPACITY INTO GULF'S RETAIL RATES?

A I recommend that the Commission reject Gulf's proposal. Gulf's own Ten-Year Site Plan shows that Gulf's native load customers do not currently have a need for capacity until 2023, and even then it is for peaking generation, not for base load generation. In addition, Gulf has failed to meet its burden to produce an analysis in its direct case that reasonably shows that Scherer Unit 3 is the most cost-effective resource alternative available to Gulf to reliably serve its native load customers. Such alternatives would include one of adding no new resource at all, in addition to other resource alternatives, since Gulf's native load customers currently have no need for additional generation capacity.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes, it does.

Qualifications of James R. Dauphinais

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A James R. Dauphinais. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017, USA.

Q PLEASE STATE YOUR OCCUPATION.

A I am a consultant in the field of public utility regulation and a Managing Principal with the firm of Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A I graduated from Hartford State Technical College in 1983 with an Associate's Degree in Electrical Engineering Technology. Subsequent to graduation I was employed by the Transmission Planning Department of the Northeast Utilities Service Company[1] as an Engineering Technician.

While employed as an Engineering Technician, I completed undergraduate studies at the University of Hartford. I graduated in 1990 with a Bachelor's Degree in Electrical Engineering. Subsequent to graduation, I was promoted to the position of Associate Engineer. Between 1993 and 1994, I completed graduate level courses in the study of power system transients and power system protection through the Engineering Outreach Program of the University of Idaho. By 1996 I had been promoted to the position of Senior Engineer.

In the employment of the Northeast Utilities Service Company, I was responsible for conducting thermal, voltage and stability analyses of the Northeast Utilities' transmission

[1] In 2015, Northeast Utilities changed its name to Eversource Energy.

system to support planning and operating decisions. This involved the use of load flow, power system stability and production cost computer simulations. It also involved examination of potential solutions to operational and planning problems including, but not limited to, transmission line solutions and the routes that might be utilized by such transmission line solutions. Among the most notable achievements I had in this area include the solution of a transient stability problem near Millstone Nuclear Power Station, and the solution of a small signal (or dynamic) stability problem near Seabrook Nuclear Power Station. In 1993 I was awarded the Chairman's Award, Northeast Utilities' highest employee award, for my work involving stability analysis in the vicinity of Millstone Nuclear Power Station.

From 1990 to 1996, I represented Northeast Utilities on the New England Power Pool Stability Task Force. I also represented Northeast Utilities on several other technical working groups within the New England Power Pool ("NEPOOL") and the Northeast Power Coordinating Council ("NPCC"), including the 1992-1996 New York-New England Transmission Working Group, the Southeastern Massachusetts/Rhode Island Transmission Working Group, the NPCC CPSS-2 Working Group on Extreme Disturbances and the NPCC SS-38 Working Group on Interarea Dynamic Analysis. This latter working group also included participation from a number of ECAR, PJM and VACAR utilities.

From 1990 to 1995, I also acted as an internal consultant to the Nuclear Electrical Engineering Department of Northeast Utilities. This included interactions with the electrical engineering personnel of the Connecticut Yankee, Millstone and Seabrook nuclear generation stations and inspectors from the Nuclear Regulatory Commission ("NRC").

In addition to my technical responsibilities, from 1995 to 1997, I was also responsible for oversight of the day-to-day administration of Northeast Utilities' Open Access Transmission Tariff. This included the creation of Northeast Utilities' pre-FERC Order No. 889 transmission electronic bulletin board and the coordination of Northeast Utilities' transmission tariff filings prior to and after the issuance of Federal Energy Regulatory Commission ("FERC" or "Commission") FERC Order No. 888. I was also responsible for spearheading the implementation of Northeast Utilities' Open Access Same-Time Information System and Northeast Utilities' Standard of Conduct under FERC Order No. 889. During this time I represented Northeast Utilities on the Federal Energy Regulatory Commission's "What" Working Group on Real-Time Information Networks. Later I served as Vice Chairman of the NEPOOL OASIS Working Group and Co-Chair of the Joint Transmission Services Information Network Functional Process Committee. I also served for a brief time on the Electric Power Research Institute facilitated "How" Working Group on OASIS and the North American Electric Reliability Council facilitated Commercial Practices Working Group.

In 1997 I joined the firm of Brubaker & Associates, Inc. The firm includes consultants with backgrounds in accounting, engineering, economics, mathematics, computer science and business. Since my employment with the firm, I have filed or presented testimony before the Federal Energy Regulatory Commission in Consumers Energy Company, Docket No. OA96-77-000; Midwest Independent Transmission System Operator, Inc., Docket No. ER98-1438-000; Montana Power Company, Docket No. ER98-2382-000; Inquiry Concerning the Commission's Policy on Independent System Operators, Docket No. PL98-5-003; SkyGen Energy LLC v. Southern Company Services, Inc., Docket No. EL00-77-000; Alliance Companies, et al., Docket No. EL02-65-000, et al.; Entergy Services, Inc., Docket No. ER01-2201-000; Remedying Undue Discrimination through Open Access Transmission Service, Standard Electricity Market Design, Docket No. RM01-12-000; Midwest Independent Transmission System Operator, Inc., Docket No. ER10-1791-000; NorthWestern Corporation, Docket No. ER10-1138-001, et al.; Illinois Industrial Energy Consumers v. Midcontinent Independent System Operator, Inc., Docket No. EL15-82-000; and Midcontinent Independent System Operator, Inc., Docket No. ER16-833-000 I have also filed or presented testimony before the Alberta Utilities Commission, Colorado Public Utilities Commission, Connecticut Department of Public Utility Control, Illinois Commerce Commission, the Indiana Utility Regulatory Commission, the Iowa Utilities Board, the Kentucky Public Service Commission, the Louisiana Public Service Commission, the Michigan Public Service Commission, the Missouri Public Service Commission, the Montana Public Service Commission, the New Mexico Public Regulation Commission, the Council of the City of New Orleans, the Oklahoma Corporation Commission, the Public Utility Commission of Texas, the Wisconsin Public Service Commission and various committees of the Missouri State Legislature. This testimony has been given regarding a wide variety of issues including, but not limited to, ancillary service rates, avoided cost calculations, certification of public convenience and necessity, cost allocation, fuel adjustment clauses, fuel costs, generation interconnection, interruptible rates, market power, market structure, off-system sales, prudency, purchased power costs, resource planning, rate design, retail open access, standby rates, transmission losses, transmission planning and transmission line routing.

I have also participated on behalf of clients in the Southwest Power Pool Congestion Management System Working Group, the Alliance Market Development Advisory Group and several committees and working groups of the Midcontinent Independent System Operator, Inc. ("MISO"), including the Congestion Management Working Group, Economic Planning Users Group, Loss of Load Expectation Working Group, Regional Expansion, Criteria and Benefits Working Group and Resource Adequacy Subcommittee (formerly the Supply Adequacy Working Group). I am currently a member of the MISO Advisory Committee in the end-use customer sector on behalf of a group of industrial end-use customers in Illinois and a group of industrial end-use customers in Texas. I am also the past Chairman of the Issues/Solutions Subgroup of the MISO Revenue Sufficiency Guarantee ("RSG") Task Force.

In 2009, I completed the University of Wisconsin-Madison High Voltage Direct Current ("HVDC") Transmission course for Planners that was sponsored by MISO. I am a member of the Power and Energy Society ("PES") of the Institute of Electrical and Electronics Engineers ("IEEE").

In addition to our main office in St. Louis, the firm also has branch offices in Phoenix, Arizona and Corpus Christi, Texas.

REDACTED VERSION

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing (Gulf Preliminary CONFIDENTIAL Designation) of the Direct Testimony and Exhibits of **James R. Dauphinais** has been furnished to the following parties by hand delivery or overnight delivery on this 13th day of January, 2017

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REDACTED VERSION

EXHIBIT JRD-1

OF

JAMES R. DAUPHINAIS

ON BEHALF OF THE CITIZENS OF THE STATE OF Florida Legislature

COMPOSITE EXHIBIT: DISCOVERY RESPONSES

REDACTED VERSION

Index to Composite Exhibit
Discovery and Other References

Reference	Subject	Attachment
Citizens Interrogatory 175	Unit Power Sales: Market vs Cost Based	1
Citizens Interrogatory 177	Net Revenue Impact	2
Citizens Interrogatory 171	Ownership Capacity	3
Citizens Interrogatory 172	Amount Sold at Wholesale	4
Citizens Interrogatory 174	Request for Analyses	5
Staff Interrogatory 65	Possibility of Unit Power Sales (UPS)	6
Citizens Interrogatory 130	Options for Ownership Interest in Scherer	7
Citizens POD 96	Presentations on Scherer Unit 3 (CONFIDENTIAL)	8
Staff Interrogatory 64	Seasonal Reserve Margin	9
Citizens Interrogatory 128	Cost of Capacity	10

ATTACHMENT 1

GULF RESPONSE TO CITIZENS' INTERROGATORY NO. 175

UNIT POWER SALES: MARKET VS COST BASED

REDACTED VERSION

Citizens' Sixth Set of Interrogatories
Docket No. 160186-EI
GULF POWER COMPANY
January 3, 2017
Item No. 175
Page 1 of 1

175. Scherer Unit 3. Please refer to the Direct Testimony of Mr. Burleson, pages 14 and 15 and the Direct Testimony of Mr. Deason, pages 12, 14, 18 and 19. For each of the unit power sales agreements and other purchased power agreements for the sale of capacity and/or energy at wholesale from Gulf's share of Scherer Unit 3 from January 1, 1987 to date, please identify whether the sale of power under that agreement was pursuant to market-based rates or cost-based rates.

ANSWER:

Contract	Effective Period	Cost/Market Based
1982 UPS [A]	01/1987 thru 05/1995	Cost
1988 UPS [B]	06/1993 thru 05/2010	Cost
2004 FPL	06/2010 thru 12/2015	Market
2004/2006 PEF	06/2010 thru 05/2016	Market
2004 Flint	06/2010 thru 12/2019	Market

[A] Counterparties to 1982 UPS agreements are Florida Power & Light Company (FPL) and Jacksonville Electric Authority (JEA)
[B] Counterparties to 1988 UPS agreements are FPL, JEA, and Florida Power Corporation

Note: From 1995 to 2015, Gulf's full ownership of Scherer Unit 3 was committed to wholesale; however, Scherer Unit 3 energy was available to Gulf retail customers when not scheduled by wholesale customers.

ATTACHMENT 2

GULF RESPONSE TO CITIZENS' INTERROGATORY NO. 177

NET REVENUE IMPACT

REDACTED VERSION

177. Scherer Unit 3. Please refer to the Direct Testimony of Ms. Liu, pages 6, and 9-14. Please provide Gulf's best estimate of the net revenue requirement impact during the "prior" year and test year periods if Scherer Unit 3 was removed from providing service to Gulf's retail customers and assigned to Gulf's shareholders.

ANSWER:

This question incorrectly suggests that Scherer Unit 3 can be "removed from providing service to Gulf's retail customers." The portion of Gulf's interest in Scherer 3 that is no longer committed to an off-system sale is currently providing service to retail customers. Regardless of the Commission's decision on retail cost recovery, Scherer Unit 3 will continue to provide service to retail customers unless and until there is some other disposition of Gulf's interest in the unit.

From a retail cost recovery perspective, the jurisdictional revenue requirements associated with the non-clause portion of Scherer Unit 3 that has been rededicated to retail service for the prior year and test year are $13.4 million and $19.4 million, respectively. The amount for the prior year has not been recovered from customers. The amount for the test year is the annualized amount requested for recovery through base rates beginning on the effective date of the rates set in this docket.

If the environmental portion of Scherer Unit 3 that has been rededicated to retail service were to be considered a base rate item, as opposed to an Environmental Cost Recovery Clause item, the total base rate jurisdictional revenue requirement for the prior year and test year would be $25.5 million and $34.9 million, respectively.

REDACTED VERSION

ATTACHMENT 3

GULF RESPONSE TO CITIZENS’ INTERROGATORY NO. 171

OWNERSHIP CAPACITY

REDACTED VERSION

Citizens' Sixth Set of Interrogatories
Docket No. 160186-EI
GULF POWER COMPANY
January 3, 2017
Item No. 171
Page 1 of 2

171. Scherer Unit 3. Please refer to the Direct Testimony of Mr. Burleson, page 14. Please identify the following for each month from January 1987 through December 1995:
   a. The capacity in MW of Gulf's 25% ownership share of Scherer Unit 3.
   b. The portion of Gulf's 25% share of Scherer Unit 3that was sold at wholesale through unit power sales agreements.
   c. The portion of Gulf's 25% share of Scherer Unit 3 that was not sold wholesale and instead used to serve Gulf's retail customers.

ANSWER:

a. Capacity for each month in MW of Gulf's 25% ownership share of Scherer Unit 3

Gulf's 25% ownership capacity of Scherer Unit 3 (MW)									
	1987	1988	1989	1990	1991	1992	1993	1994	1995
January	208	212	212	212	212	212	212	213	212
February	208	212	212	212	212	212	212	213	212
March	208	212	212	212	212	212	212	213	212
April	208	212	212	212	212	212	212	213	212
May	208	212	212	212	212	212	212	213	212
June	208	212	212	212	212	212	212	212	212
July	208	212	212	212	212	212	212	212	212
August	208	212	212	212	212	212	212	212	212
September	208	212	212	212	212	212	212	212	212
October	208	212	212	212	212	212	212	212	212
November	208	212	212	212	212	212	212	212	212
December	208	212	212	212	212	212	212	212	212

REDACTED VERSION

Citizens' Sixth Set of Interrogatories
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b. Capacity for each month in MW of Gulf's 25% ownership share of Scherer Unit 3 sold at wholesale

Gulf's 25% ownership capacity of Scherer Unit 3 sold at wholesale (MW)									
	1987	1988	1989	1990	1991	1992	1993	1994	1995
January	185	193	149	149	149	149	175	196	212
February	185	193	163	149	149	149	175	196	212
March	185	193	149	149	149	149	175	196	212
April	185	193	149	149	149	149	175	196	212
May	185	193	149	149	149	149	175	196	212
June	185	193	149	149	149	201	196	177	212
July	185	149	149	149	149	201	196	177	212
August	185	149	149	149	149	201	196	177	212
September	185	149	149	149	149	201	196	177	212
October	185	149	149	149	149	201	196	177	212
November	185	149	149	149	149	201	196	177	212
December	185	149	149	149	149	201	196	177	212

Note: Scherer Unit 3 energy was available to Gulf retail customers during hours when not scheduled by the wholesale customer.

c. Capacity for each month in MW of Gulf's 25% ownership share of Scherer Unit 3 available to retail customers

Gulf's 25% ownership capacity of Scherer Unit 3 available to retail customers (MW)									
	1987	1988	1989	1990	1991	1992	1993	1994	1995
January	23	19	63	63	63	63	37	17	0
February	23	19	49	63	63	63	37	17	0
March	23	19	63	63	63	63	37	17	0
April	23	19	63	63	63	63	37	17	0
May	23	19	63	63	63	63	37	17	0
June	23	19	63	63	63	11	16	35	0
July	23	63	63	63	63	11	16	35	0
August	23	63	63	63	63	11	16	35	0
September	23	63	63	63	63	11	16	35	0
October	23	63	63	63	63	11	16	35	0
November	23	63	63	63	63	11	16	35	0
December	23	63	63	63	63	11	16	35	0

Note: Scherer Unit 3 energy was available to Gulf retail customers during hours when not scheduled by the wholesale customer.

REDACTED VERSION

ATTACHMENT 4

GULF RESPONSE TO CITIZENS' INTERROGATORY NO. 172

AMOUNT SOLD AT WHOLESALE

Citizens' Sixth Set of Interrogatories
Docket No. 160186-EI
GULF POWER COMPANY
January 3, 2017
Item No. 172
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172. Scherer Unit 3. Please confirm that, from January 1996 through December 2015, Gulf's entire share of Scherer Unit 3 was sold at wholesale and not utilized to serve Gulf s retail customers. To the extent not confirmed, please in detail explain why not.

ANSWER:

Gulf's entire share of Scherer Unit 3 capacity was sold at wholesale from January 1996 through December 2015; however, during times when wholesale purchasers do not call on the capacity committed to them, Scherer Unit 3 energy is available to Gulf to serve its retail customers, to be dispatched to meet other Southern operating company needs or to make wholesale opportunity sales.

ATTACHMENT 5

GULF RESPONSE TO CITIZENS' INTERROGATORY NO. 174

REQUEST FOR ANALYSES

REDACTED VERSION

174. Scherer Unit 3. Please refer to the Direct Testimony of Mr. Burleson, pages 19 through 21.
   a. Please explain in detail the analysis, if any, Gulf performed to determine use of its post-2015 unsold capacity from its share of Scherer Unit 3 to serve its retail customers is consistent with providing electric service to those customers at lowest reasonable cost.
   b. Please explain in detail what, if any, Strategist, System Optimizer, Aurora, PROMOD, Plexos or other resource planning analysis that Gulf has performed, or has had performed on its behalf, to evaluate the risk and present value economics to Gulf's retail customers of utilizing Gulf's share of Scherer Unit 3 starting in 2016 versus other resource options available, or potentially available, to serve Gulf's retail customers starting in 2016 in place of Gulf's share of Scherer Unit 3.

ANSWER:

Gulf has not performed, nor had performed on its behalf, an analysis to evaluate utilizing Gulf's ownership share of Scherer Unit 3 to serve retail customers post-2015 versus other alternatives. Gulf does not believe such an analysis is necessary, for three reasons.

1. Gulf is returning an existing resource, Scherer Unit 3, to serve its retail customers consistent with the original purpose for which it was planned, acquired, and ultimately built, and is not evaluating it as a new resource versus other alternatives.
2. Gulf believes any analysis, if performed, of operating Scherer Unit 3 post-2015 on behalf of its retail customers would show that it is decisively in the retail customers' best interest. Scherer Unit 3 provides capacity value to Gulf Power as well as energy value as a resource dispatched on low variable cost Powder River Basin (PRB) coal. Gulf believes those benefits would easily outweigh the costs to continue to operate Scherer Unit 3, given that it is already a well-controlled unit equipped with a baghouse, a selective catalytic reduction system (SCR), and a flue gas desulfurization system (FGD or scrubber).
3. Gulf believes Scherer Unit 3 provides other, non-quantifiable benefits, such as maintaining a diverse fuel supply, reducing fuel price volatility, providing a hedge against rising gas prices, and it doesn't contribute to greenhouse gas emissions in the state of Florida.

REDACTED VERSION

ATTACHMENT 6

GULF RESPONSE TO STAFF'S INTERROGATORY NO. 65

POSSIBILITY OF UNIT POWER SALES (UPS)

Staff's Third Set of Interrogatories
Docket No. 160186-EI
GULF POWER COMPANY
December 12, 2016
Item No. 65
Page 1 of 1

65. Please state whether or not it is possible for Scherer Unit 3 to be included in additional unit power sales (UPS) agreements in order to continue to relieve customers from revenue requirements. If no, please explain why not.

ANSWER:

No, it is not possible at this point in time for Scherer Unit 3 to be included in additional UPS or wholesale power sales agreements in order to relieve customers from revenue requirements. Although the Company has diligently marketed the output of Scherer Unit 3 over the last five years, including responding to formal requests for proposals as well as providing unsolicited offers, it has been unable to find a buyer for the output of the unit.

REDACTED VERSION

ATTACHMENT 7

GULF RESPONSE TO CITIZENS' INTERROGATORY NO. 130

OPTIONS FOR OWNERSHIP INTEREST IN SCHERER

130. Scherer Unit 3. The Southern Company and Subsidiary Companies Form 10-Q for the Quarter Ended June 30, 2016 (provided in MFR Section F, Volume 2), at page 82 in discussing Gulf's ownership interest in Scherer Unit 3, states: "Gulf Power is actively evaluating alternatives, including, without limitation, rededication of the assets to serve retain customers for whom it was originally planned and built, replacement long-term wholesale contracts or other sales into the wholesale market, or asset sale."

a. Please provide a detailed description of the steps taken by Gulf in evaluating each of these various options discussed in the Form 10-Q.
b. Provide a detailed description of the current status of each of the separate options discussed in the Form 10-Q as being considered.

ANSWER:

Scherer Unit 3 was planned, acquired and ultimately built for the purpose of serving Gulf's native load customers. Scherer 3 was found by the Commission to be a cost-effective alternative to construction of a generating unit that had been planned at Gulf's Caryville site to serve those same retail customers. The Commission encouraged Gulf to proceed with the purchase of an interest in Scherer 3 and to enter into long-term wholesale contracts to cover the unit's cost on an interim basis. All parties expected that Scherer 3 would ultimately return to retail service.

As the latest series of wholesale contracts expire, Gulf's Scherer 3 investment is being rededicated to serving those customers for whom it was originally planned, acquired and built. The portion of Scherer 3 no longer subject to wholesale contracts is now used and useful in providing service to Gulf's retail customers.

At the same time, as referenced in the Form 10-Q, Gulf has evaluated, and continues to evaluate, other options for this retail asset that might serve the interests of its retail customers. The following is a description of the steps taken by Gulf to evaluate those options and the current status of such options.

Replacement Long-Term Wholesale Contracts

a. Southern Wholesale Energy (SWE) on behalf of Gulf Power has continuously taken steps to evaluate the option of entering into replacement long-term wholesale contracts for Gulf's portion of Scherer Unit 3. Since 2011, SWE has evaluated the market for any potential long-term wholesale contract opportunities for Scherer 3 to fulfill upcoming base load capacity needs for other entities. These opportunities include both solicited offers in response to an entity's

Requests for Proposals (RFPs) and unsolicited offers to potential counterparties identified by SWE.

Upon identification of any long-term wholesale opportunity by SWE, Gulf management would evaluate each proposal and offer to determine if it would be a suitable option for Gulf's portion of Scherer Unit 3 and would determine the appropriate pricing structure for each proposal that would maintain the financial strength of the Company over the long term. Through these efforts, Gulf and SWE have formally responded to 13 separate RFPs for base load capacity with Scherer Unit 3 as the underlying generating unit. Responses to the RFPs include various capacity amounts and pricing structures as needed by the requesting entity. All submitted RFP responses to this point have been fully evaluated by the entities initiating the RFP.

In addition to the formal RFP responses discussed above, SWE also identified and contacted other potential counterparties for long-term wholesale contracts, and discussions were held with these entities to establish interest in Scherer Unit 3 as a possibility for upcoming capacity and energy needs. All previously established discussions with these potential counterparties have been completed.

b. The RFP responses and unsolicited offers have not resulted in any additional long-term wholesale contracts.

<u>Short-Term Sales into the Wholesale Market</u>

a. Beginning in October 2015, Gulf and Southern Company Services Term Trading (Term Trading) began evaluating additional wholesale opportunities for Gulf's portion of Scherer Unit 3 in external forward markets.

On an ongoing basis, Term Trading performs analyses of unit cost versus value available in external forward markets for both on-peak and off-peak periods. Term Trading constantly monitors market conditions and valuations and provides Gulf with monthly updates of market expectations for the upcoming months. In addition to the monthly updates, Term Trading notifies Gulf when value from forward external market opportunities are expected to exceed the value of retaining Scherer and provides recommendations to Gulf on the months, days, hours and pricing that would meet the valuation threshold. Gulf subsequently reviews all Term Trading recommendations and provides approval to transact on these forward market opportunities to the extent Term Trading is able to successfully identify counterparties in need of energy during this period.

b. The status of all forward market transactions initiated by Term Trading is provided below.

Transaction Dates	**MW**	**Period**	**Status**
July & August 2016	50	On-Peak	Completed
7/18/16-7/31/16	50	On-Peak	Completed
January & February 2017	50	On-Peak	Finalized
January & February 2017	50	On-Peak	Finalized
January & February 2017	100	Off-Peak	Finalized

Asset Sale

a. SWE has also been involved in evaluating asset sale opportunities related to Gulf's portion of Scherer Unit 3. All previously established discussions with potential counterparties have been completed. Separately, in 2015, an informal and high-level analysis of a potential asset sale was performed for Gulf by a third-party investment banking firm for discussion purposes only. No specific opportunities were pursued as a result of this analysis.

b. There do not currently appear to be any economically viable asset sale opportunities.

ATTACHMENT 8

GULF RESPONSE TO CITIZENS' INTERROGATORY NO. 96

(CONFIDENTIAL)

PRESENTATIONS ON SCHERER UNIT 3 (CONFIDENTIAL)

REDACTED VERSION

Citizens' Third Request to Produce Documents
GULF POWER COMPANY
Docket No. 160186-EI
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96. Scherer Unit 3. The Southern Company and Subsidiary Companies Form 10-Q for the Quarter Ended June 30, 2016 (provided in MFR Section F, Volume 2), at page 82 in discussing Gulf's ownership interest in Scherer Unit 3, states: "Gulf Power is actively evaluating alternatives, including, without limitation, rededication of the assets to serve retail customers for whom it was originally planned and built, replacement long-term wholesale contracts or other sales into the wholesale market, or asset sale." Please provide a copy of any written studies, cost benefit analysis or evaluations conducted by or for the Company with regards to each of the alternatives discussed in the Form 10-Q as being evaluated by the Company.

ANSWER:

Responsive electronic documents that include confidential information are located in the folder named OPC_POD_096 CONF on the DVD labeled Docket No. 160186-EI Citizens' Third Request to Produce Documents (Nos. 88-100) Disk 2-Confidential. Hard copy documents that have been saved in electronic (PDF) format are also saved in this folder and are page numbered 160186-OPC-POD-96-1 through 160186-OPC-POD-96-195

REDACTED VERSION

SOUTHERN COMPANY

Gulf Power Scherer 3 Strategy Update

September 16, 2011

REDACTED VERSION

Scherer 3 Status

- Gulf's capacity share (209 MW) fully covered through 2015
  - 110 MW to FPL thru 12/31/15
  - 49 MW to PEF thru 5/31/16
  - 50 MW to Flint thru 12/31/19
- Relevant GPC capacity
  - 77 MW to FPL/PEF thru 12/31/15, then *back to retail* through 2029
  - 56 MW to Flint – 1/1/2015 thru 12/31/29

SOUTHERN COMPANY

One GREAT Team — Southern Company Generation

Offers Update

- Offers extended to FPL & PEF on June 9
  - [redacted]
- Capacity Pricing guidance from Gulf was [redacted] with floor at [redacted]/kW-mo; offered [redacted]/kW-mo to customers

REDACTED VERSION

SOUTHERN COMPANY

One GREAT Team — Southern Company Generation

Other Possible Off-Takers

- Jackson EMC & GreyStone Power [redacted]
- PowerSouth [redacted]
- Cobb EMC and/or Cobb Group
- Gulf Power Retail

REDACTED VERSION

SOUTHERN COMPANY

One GREAT Team
Southern Company Generation

Jackson EMC / GreyStone Power RFP

- Jointly issued RFP on August 18 requesting:
  - 345 MW of block generation (any combo of base, int, peaking)
  - Start 1/1/2016
  - 1 to 20 year terms
  - Must be able to deliver to GA ITS
- Responses due September 30
- Shortlist notifications November 11
- Negotiations completed December 31

Pricing Strategy

[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]

[redacted]

REDACTED VERSION

Proposal Recommendation

- [redacted]

REDACTED VERSION

One GREAT Team
Southern Company Generation

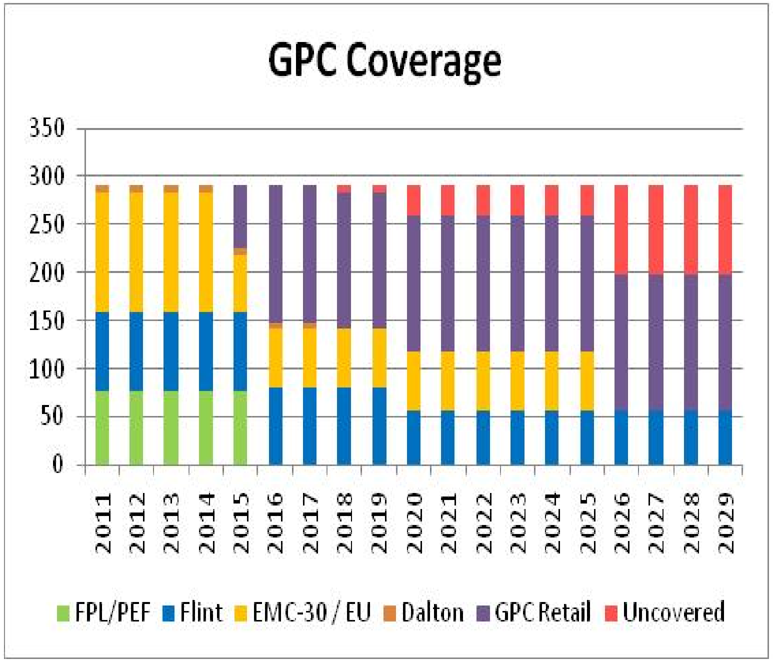
Backup

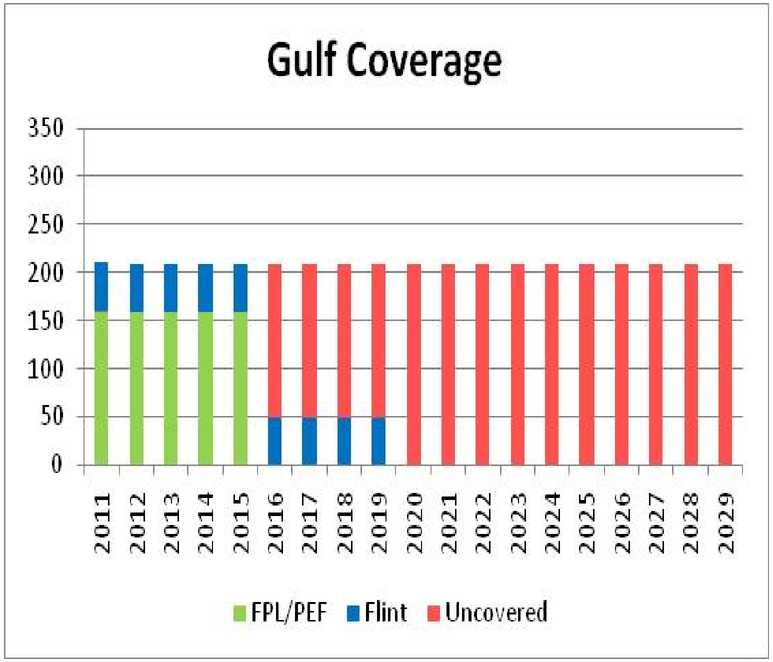
REDACTED VERSION

SOUTHERN COMPANY

One GREAT Team Southern Company Generation

Scherer 3 Coverage





REDACTED VERSION

Market Opportunities
Incremental Needs - Assume 2018 First New Build

[redacted]

REDACTED VERSION

SOUTHERN COMPANY

One GREAT Team
Southern Company Generation

Scherer 3 Summary of Analysis

[redacted]

REDACTED VERSION

MM vs. SGP Fuel Prices

[redacted]

REDACTED VERSION

Total Value – MM Fuels vs. SGP Fuels

[redacted]

REDACTED VERSION

[redacted]

REDACTED VERSION

[redacted]

[redacted]

REDACTED VERSION

[redacted]

	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]

REDACTED VERSION

[redacted]

Options

- [redacted]
- [redacted]
  - [redacted]
  - [redacted]
- [redacted]
- [redacted]

BACKUP

REDACTED VERSION

[redacted]

REDACTED VERSION

Capacity Price Forecast

[redacted]

ATTACHMENT 9

GULF RESPONSE TO STAFF’S INTERROGATORY NO. 64

SEASONAL RESERVE MARGIN

REDACTED VERSION

Staff's Third Set of Interrogatories
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Scherer Unit 3

64. Please provide a projection of Gulf's Seasonal Reserve Margin with and without Scherer Unit 3, for the period 2015 through 2025. As part of your response, please state when Scherer Unit 3 is first required for reserve margin purposes. Please provide the requested calculation data electronically in MS Excel format with all formulas intact.

ANSWER:

As shown in the table below, Scherer Unit 3 is required to meet a portion of Gulf's projected 2023 and beyond reserve margin requirement. Other resources will also be required in addition to Scherer Unit 3 due to the magnitude of the reserve margin requirement that starts in 2023.

The requested projection is provided in the spreadsheet titled "Gulf 2016-2025 RM - with and without Scherer 3.xlsx" included in the folder named Staff_ROG_064 on the DVD labeled Docket No. 160186-EI Staff's Third Set of Interrogatories (No. 39-98) Disc 1.

		Gulf Net Capability (MW)					Gulf Reserve Margin		
Year	**Scherer 3 MW**	**Year**	**Without Scherer 3**	**With Scherer 3**	**Year**	**Gulf Peak Demand**	**Year**	**Without Scherer 3**	**With Scherer 3**
2012	0	**2012**	2,968	2,968	**2012**	2,351	**2012**	26.2%	26.2%
2013	0	**2013**	2,987	2,987	**2013**	2,362	**2013**	26.5%	26.5%
2014	0	**2014**	3,370	3,370	**2014**	2,437	**2014**	38.3%	38.3%
2015	0	**2015**	3,017	3,017	**2015**	2,495	**2015**	20.9%	20.9%
2016	161	**2016**	2,978	3,139	**2016**	2,450	**2016**	21.6%	28.1%
2017	161	**2017**	2,983	3,144	**2017**	2,491	**2017**	19.8%	26.2%
2018	161	**2018**	2,983	3,144	**2018**	2,520	**2018**	18.4%	24.8%
2019	161	**2019**	2,971	3,132	**2019**	2,546	**2019**	16.7%	23.0%
2020	211	**2020**	2,971	3,182	**2020**	2,552	**2020**	16.4%	24.7%
2021	211	**2021**	2,971	3,182	**2021**	2,554	**2021**	16.3%	24.6%
2022	211	**2022**	2,971	3,182	**2022**	2,554	**2022**	16.3%	24.6%
2023	211	**2023**	2,086	2,297	**2023**	2,564	**2023**	-18.6%	-10.4%
2024	211	**2024**	2,086	2,297	**2024**	2,576	**2024**	-19.0%	-10.8%
2025	211	**2025**	2,086	2,297	**2025**	2,586	**2025**	-19.3%	-11.2%

* Scherer 3 (211 MW) was committed to wholesale during the 2012-2015 time period.

ATTACHMENT 10

GULF RESPONSE TO CITIZENS' INTERROGATORY NO. 128

COST OF CAPACITY

Citizens' Third Set of Interrogatories
Docket No. 160186-EI
GULF POWER COMPANY
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128. Scherer Unit 3. Refer to page 13 of Mr. Deason's direct testimony. Please provide the cost of Gulf's Scherer Unit 3 capacity, in dollars/kw, at the time the plant was originally placed into service and as of the present date.

ANSWER:

At the time the plant was placed into service, the cost of Gulf's Scherer Unit 3 capacity was $921/kW (1987$), which is equivalent to $2,271/kW (2016$). Presently, the cost is $1,189/kW.