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February 8, 2017

VIA ELECTRONIC FILING

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

Re: Petition for rate increase by Gulf Power Company, Docket No. 160186-EI

Dear Ms. Stauffer:

Attached is the Rebuttal Testimony of Gulf Power Company Witness
S. W. Connally, Jr.

(Document 2 of 16)

Sincerely,

A handwritten signature in blue ink that reads "Robert L. McGee, Jr.".

Robert L. McGee, Jr.
Regulatory & Pricing Manager

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

DOCKET NO. 160186-EI



Gulf Power

**REBUTTAL TESTIMONY
OF
S. W. CONNALLY, JR.**

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission
3 Rebuttal Testimony of
4 S. W. Connally, Jr.
5 Docket No. 160186-EI
6 In Support of Rate Relief
7 Date of Filing: February 8, 2017

8 Q. Please state your name, business address and occupation.

9 A. My name is Stan Connally. My business address is One Energy Place,
10 Pensacola, Florida, 32520. I am Chairman, President and Chief Executive
11 Officer (CEO) of Gulf Power Company (Gulf or the Company).

12 Q. Have you previously filed testimony in this proceeding?

13 A. Yes.

14 Q. What is the purpose of your rebuttal testimony?

15 A. The purpose of my testimony is to respond to the misguided notion
16 contained in the testimony of Office of Public Counsel (OPC) Witness
17 Dauphinais and Sierra Club Witness Mosenthal suggesting that the
18 Commission should not consider including Gulf's ownership interest in Plant
19 Scherer Unit 3 (Scherer 3) in Gulf's retail rate base until the year of Gulf's
20 next needed capacity addition. Their misguided notion is based on the false
21 assumption that Scherer 3 would still be available for retail customers at
22 such future date if a decision to include Scherer 3 in retail rate base is
23 postponed.

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1 Q. Why is it important for the Commission to decide in this proceeding whether
2 Scherer 3 should be included in retail rate base?

3 A. Quite simply, if Gulf is not allowed retail recovery for Scherer 3 in this case,
4 Gulf will have no choice but to diligently pursue an immediate disposition of
5 its ownership interest in Scherer 3. Such action would be required in order
6 to minimize the adverse economic impacts on Gulf from holding an asset
7 intended to serve retail customers that is not fully supported by revenues
8 from those customers. As discussed in both the direct and rebuttal
9 testimonies of Gulf's other witnesses, Gulf's ownership interest in Scherer 3
10 was planned, acquired, and built to serve Gulf's customers in Northwest
11 Florida. Gulf's acquisition of a 25 percent interest in Scherer 3 in 1981 was
12 discussed with and approved by the Florida Public Service Commission as
13 the cost-effective replacement for the larger, more expensive generating
14 unit then under development at Caryville. The Caryville unit was being
15 developed pursuant to certification by the Governor and Cabinet under the
16 Power Plant Siting Act based on the Commission's finding of a need for the
17 unit.

18
19 When the Commission first approved Gulf's planned acquisition of Scherer
20 3 as the alternative for the certified Caryville unit, the Commission was
21 aware that Gulf would be relieving retail customers of immediate cost
22 responsibility by temporarily committing the Scherer 3 generating resource
23 to other utilities through off-system wholesale contracts. This temporary
24 commitment did not change the fundamental nature of Gulf's acquisition of
25 Scherer 3 from its intended purpose to ultimately serve retail customers.

1 Gulf did not plan, acquire and build Scherer 3 to serve off-system sales.
2 Such sales were made in order to temporarily mitigate the impact on retail
3 customers. Gulf did not choose and would not have chosen to participate in
4 the ownership of Scherer 3 as a merchant generating plant.

5

6 Q. Why is that history important today?

7 A. It unequivocally demonstrates that Gulf's role as a Florida public utility
8 providing retail electric service to customers in Florida is paramount.
9 Investing in merchant power plants would have been a fundamental
10 departure from that role and would have significantly altered the risk profile
11 of the Company.

12

13 Q. How do those circumstances affect the matter of Scherer 3 today?

14 A. Starting in January 2016, for the first time since Scherer 3 began
15 commercial operations in January 1987, a majority of Gulf's ownership
16 interest in Scherer 3 is no longer committed to or supported by long-term
17 off-system sales. Since January 2016, the portions of Scherer 3 previously
18 committed to long-term off-system sales have been serving and are
19 continuing to serve Gulf's retail customers. As a result, Gulf's retail
20 customers are directly benefiting from its operation as part of Gulf's retail
21 fleet in economic dispatch. In order to fulfill the original intent behind Gulf's
22 acquisition of Scherer 3, the time has come for the customers for whom the
23 unit was planned, acquired and built and is now operated to assume
24 responsibility for its revenue requirements.

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1 Q. If the Commission were to decline to include Scherer 3 in rate base in this
2 case, would Scherer 3 be available to serve Gulf's retail customers in the
3 future?

4 A. No. As Gulf's CEO, I am here to advise the Commission that Gulf cannot
5 hold this asset without current recovery in retail rates. As discussed by Gulf
6 Witness Liu in her direct and rebuttal testimonies, holding an asset of this
7 magnitude without adequate revenues to support it would have a significant
8 and material adverse impact on Gulf's financial integrity and would thereby
9 jeopardize our ability to raise funds needed to maintain adequate and
10 reliable service to our customers.

11
12 A decision by the Commission in this case to exclude Scherer 3 from retail
13 rates must be made with the understanding that Gulf cannot and will not
14 hold the asset for the future benefit of Gulf's retail customers. Gulf's
15 divestiture of ownership under these circumstances will likely mean that
16 another entity would acquire the asset at a substantial discount below Gulf's
17 net book value. The new owner will therefore be able to achieve the
18 benefits of a highly-efficient, coal-fired generating unit that has a robust set
19 of air emission controls for the remaining 30-35 years of its economic life.
20 The difference between what Gulf has invested in the unit and what it is
21 able to achieve through such a forced sale would be stranded costs that are
22 properly borne by and should be recovered from Gulf's retail customers.

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1 Q. Does the Commission have a better alternative?

2 A. Absolutely. The Commission can and should honor the regulatory compact
3 by allowing retail cost recovery of Scherer 3 in this case. In this manner,
4 Gulf's retail customers will continue to receive the benefits of Gulf's newest
5 and most cost-effective coal-fired resource as part of Gulf's increasingly
6 diversified mix of generating resources. Gulf's financial integrity will thereby
7 be preserved, allowing Gulf to continue to make reasonable and timely
8 investments, including additions of renewable and other generating
9 resources, in order to continue to provide reasonable and adequate service
10 to our retail customers in Northwest Florida in the manner they both expect
11 and deserve.

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13 Q. Does this conclude your testimony?

14 A. Yes.
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AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 160186-EI

Before me the undersigned authority, personally appeared S. W. Connally, Jr., who being first duly sworn, deposes, and says that he is the Chairman, President and Chief Executive Officer of Gulf Power Company, a Florida corporation, and that the foregoing is true and correct to the best of his knowledge, information, and belief. He is personally known to me.

s/ 
S. W. Connally, Jr.
Chairman, President and Chief Executive Officer

Sworn to and subscribed before me this 3rd day of February, 2017.


Notary Public, State of Florida at Large

Commission No. FF 941451

My Commission Expires 04/07/2020

